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## **MSOs and the Economy: Survey Results**

### **Demand for MSO Services is Up; Earned Income is Up, Amid Reductions in Grant Income for MSOs**

Washington, June 12, 2003. *Alliance*-member management support organizations (MSOs) report that revenue from services to nonprofits, including workshops, consulting and membership fees, has increased over the past three years, despite a general trend of reduced grant income. Furthermore, MSOs report that demand for consulting services and workshop attendance has increased over the past three years.

The Alliance for Nonprofit Management conducted a survey of its member management support organizations as a result of questions raised on the *Alliance* member e-mail forum, TALK. The purpose of the survey was to gauge the impact of the present economic climate on the income budgets of MSOs.

The results of the survey were somewhat surprising, given all the news of reduced nonprofit budgets. Although quite a few survey respondents are seeing reductions in earned income, 57% of respondents report that consulting fees have increased, 57% report that membership fees have increased, and 44% report that workshop fees have increased. A whopping 71% of respondents report that demand for consulting has increased, and 52% report that workshop attendance has increased.

These positive trends coincide with reductions in grant revenue of all kinds, as well as corporate underwriting. Corporate grants top the list in reductions, with 52% reporting slight or significant reductions. Grants from local foundations have decreased significantly, with 38% reporting reductions. Corporate grants also fell significantly, with 40% of respondents reporting reductions, and corporate underwriting is down as well, with 33% reporting reductions. National foundation funding was not applicable for the majority of respondents. Of those who have received national foundation funding, 41% reported reductions, 32% reported no change, and 14% reported increases. For those who did report individual donor income, “no change” received the greatest number of responses at 31%.

It should be noted that the reported reductions in grant income are significant for many, still others are seeing increases or stable levels in grant income. While 39% report reductions overall, 30% report increases overall, and 27% reported no change. In the open-ended questions, however, several MSOs report significant worries that may not immediately turn up in today’s balance sheet. One respondent wrote, “I now write more grant proposals that yield fewer dollars than the handful of proposals I used to write three years ago.” Another wrote, “currently we are on target, but I am greatly concerned for the future.” These points were echoed by a number of other respondents.

**Table: MSO responses to the question: Which areas of funding have shifted and to what extent?**

	A ↓	B ↓	C ↔	D ↑	E ↑	F ↓	G ↑
Corporate grants	21%	30%	21%	16%	5%	<b>52%</b>	21%
Local foundation	23%	20%	18%	20%	14%	<b>43%</b>	35%
Corporate underwriting	9%	33%	21%	26%	2%	<b>42%</b>	28%
National foundation	32%	9%	32%	7%	7%	<b>41%</b>	14%
State government	10%	29%	29%	9%	5%	<b>38%</b>	14%
Local/county government	4%	33%	33%	16%	0%	<b>37%</b>	16%
Regional foundation	7%	27%	40%	11%	7%	<b>33%</b>	18%
Donations	7%	17%	31%	14%	0%	<b>24%</b>	14%
<i>Total Grant and Underwriting:</i>	<b>14%</b>	<b>25%</b>	<b>27%</b>	<b>22%</b>	<b>8%</b>	<b>39%</b>	<b>30%</b>
Consulting fees	5%	14%	24%	38%	19%	19%	<b>57%</b>
Membership fees	4%	4%	35%	48%	9%	9%	<b>57%</b>
Workshop fees	7%	12%	37%	34%	10%	20%	<b>44%</b>
<i>Total Earned Income</i>	<b>6%</b>	<b>11%</b>	<b>32%</b>	<b>39%</b>	<b>13%</b>	<b>17%</b>	<b>51%</b>

A=Significantly Lower

B=Somewhat Lower

C=No Change

D=Somewhat Higher

E=Significantly Higher

F=Un-weighted totals of Significantly Lower and Somewhat Lower

G=Un-weighted totals of Significantly Higher and Somewhat Higher

Note: The response of ‘not applicable’ is not included in the above table.

**Growing Demand for MSO Services:** The survey results indicate that demand for MSO services has increased over the past three years. Seventy-one percent of respondents indicated that demand for consulting has increased. Of that number, 42% indicated that demand has increased somewhat and 29% reported that demand has increased significantly. Fifty-four percent have increased program offerings and 65% report that they have increased consulting services. Several respondents wrote that the increasing demand for consulting services coincides with increased needs for more *specialized services* and *long-term relationships* with nonprofits.

**MSOs “Walk their Talk!”** Management support organizations are nonprofits that provide management assistance to nonprofits in areas such as marketing, board governance, fundraising, and staff development. The fact that MSOs are seeing increases in earned income suggests that they are

exemplary nonprofits in themselves with diverse revenue streams. They are succeeding in the business side of their work, offering services that are in demand in their markets. While getting hit with reductions in grant funding, MSOs are adapting and surviving in the best ways possible – through sustainable, mission-centered earned-income activities.

**When the Going Gets Tough:** While the survey did reveal some positive trends, the challenges facing MSOs in this economic climate are significant. Although earned income has increased, many report that earned income is a smaller proportion of their overall operating budget. Grants remain very important for MSOs, especially as many provide low-cost and free services for small and mid-sized nonprofits.

MSOs are also responding to economic challenges in several different ways. Some are focusing more intensively on fundraising (major gifts programs, board development, turning to long-time supporters). Others are developing new programs and services to meet changing needs of nonprofits. Some are raising fees or restructuring fees to eliminate subsidies, or moving toward grant-sponsored scholarships for nonprofits that cannot afford fees.

**The Role of the Alliance for Nonprofit Management:** A large number of respondents would like to see the *Alliance* work toward increasing funders' awareness of the importance of investing in MSOs, and to articulate the ways in which MSOs improve the sector and enhance the philanthropic investments of grantmakers. Many suggested enhanced knowledge sharing and convening of forums of MSOs to provide analysis, observations, and recommendations for action.

**Other Findings:** One other finding of note was in the area of staff retention. Among responding MSOs, 61% report no change in the level of staff turnover over the past three years, while 18% report increased turnover and 16% reporting a decrease. In response to feedback from several respondents, we followed up the survey with some additional questions about the last six months. Unfortunately, we did not receive enough responses to those questions for the results to be statistically significant, so they are not included in this analysis.

The survey was sent to 141 MSOs and received 57 responses, for a response rate of 36%. A summary of open-ended responses is included below. For more information, contact Heather Iliff at [heather@allianceonline.org](mailto:heather@allianceonline.org).

## **MSOs and the Economy: Survey of Alliance for Nonprofit Management member Management Support Organizations**

### **Excerpts from Open-Ended Survey Responses**

#### The Current Funding Environment for MSOs

- Funding is much more precarious. Key funders have made it clear that they are going out of this funding area.
- Funding is exceptionally challenging in the field – the impact will come for us in earned income and later when we're not so new.
- A few of our existing funders have changed strategic direction and we have lost their support. It is very difficult to initiate new relationships with funders, even with direct referrals.
- While we are seeing an increasing demand for our services, the reduced funding is making it difficult to keep these services affordable to small and medium-sized nonprofits organizations.
- Currently we are on target, but I am greatly concerned for the future.
- We have lost several hundred thousand dollars of state, foundation and corporate giving. As a result, over the last two years we have had to curtail overall expenses and cut staff by more than 50%.
- Fortunately, we're within a United Way that has been successful with fundraising, so we have felt reasonably stable. However, continuation of this economy may necessitate more tightening next year.
- We are OK for one more year with our local foundation support, but from other foundations we are going to get less, compete more.
- I now write more grant proposals that yield fewer dollars than the handful of proposals I used to write three years ago.

#### MSO Responses to Economic Challenges

- Developed new products and services that focus on both long term planning and short-term impact.
- Board matching program.
- Articulate products and services more clearly to community-based organizations.
- Initiating a major gifts program.
- More leadership education in partnership with leading business schools.
- Stronger earned-income through providing *customized training services* on a fee basis. This response was echoed four others – increased demand for customized or field-related training and sustained relationships with nonprofits.
- Raising fees, although not this year.
- Increasingly turned to volunteers to help with internal administrative functions as staff and financial resources have been curtailed.
- Building membership base.
- Use actual costs in setting fees (rather than costs less subsidy) and obtaining scholarship funds from foundations to offset those fees on a sliding scale based on budget.
- Increased product sales and fee-for-service work. However, that income is much smaller than our current grants.

- More outreach within the state/region.
- We have looked to our long-time supporters to help fill the gap, and have created structured approaches for new and existing funders to contribute restricted funds that support populations we want to serve, and in some cases to help us recruit them to the programs. In this way we have kept both funding and enrollment constant through these difficult times.

### The Role of the Alliance for Nonprofit Management

- Continue to show the impact of proper management.
- I would like to see Foundations and Government funders recognize the value in organizational and employee development – echoed by many respondents.
- Host forums of interested MSOs to provide analysis, observations, and recommendations for action.
- Increase awareness by funders and donors that now is the time to invest in MSOs and to develop a clear simple rationale for that message. To speak with a uniform, national voice. To articulate ways in which MSOs improve the sector and protect the investments of funders in the providers. – Echoed by many respondents.
- Sharing of ideas and information. We all have to create our own responses, but the more we can share things that are working the more we can all adapt and tailor innovations to match our emerging realities.
- Some meta-theorizing about the nature of nonprofit support in the next 10 years as we cope with devolution, stock downturns, corporate scandals... what's next?
- I'd like to learn more about Alliance members' marketing and fund development strategies.