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# The State of Not-for-Profit & Higher Education in 2022

Eleventh annual report

“The partnership with Grant Thornton extends well beyond our annual audit and tax reporting support. Through our engagement, we have gained important insights from Grant Thornton’s counsel, ranging from NFP board DE&I best practices to new product development and associated rollout strategies, and peer roundtable discussions. They take a unique position to understand our business and align their resources to advance our work.”

**Joe Vanyo**
Chief Operating Officer, Autism Speaks

“World Bicycle Relief is a fast-growing, innovative and complex organization, operating different types of entities around the world and dealing with global challenges. Grant Thornton professionals work with us to solve those challenges and I appreciate their open and honest communications. They are a sounding board for ideas, sitting down with us to learn about our issues, looking at the big picture and helping us think through the options. I value Grant Thornton’s not-for-profit expertise and being provided with the answers and support we need in breaking new ground.”

**Jeff Bosken**
Director of Finance and Administration, World Bicycle Relief

# Contents



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# Introduction

Let's go on a journey back in time…to a pre-pandemic world. Terms such as COVID-19, lockdowns, Delta, Omicron and shelter in place, and acronyms like PPE, PCR, PPP and CARES were not commonly used. In that world, people commuted every day — sometimes for hours — and waited in dense traffic to go to a place to work, with no need to toggle between their work and keeping school-age children focused on classwork delivered online. Life as we knew it changed in March 2020 when we started experiencing the profound effects of the pandemic. That time frame coincided with the Ides of March — March 15 — when Julius Caesar was assassinated, leaving an indelible mark on Roman history. Similarly, the pandemic will leave indelible marks on our personal psyche, on the world and on our history.

The pandemic disrupted almost every aspect of our lives — the way we do business, the way we travel, how we shop, and the way we gather with family and friends to celebrate holidays and birthdays and perpetuate traditions. But the tides are changing.

As I pen this letter, I am optimistic that better times lie ahead. No doubt, what we have endured will reverberate through a protracted period, but the healing process has begun, and our wounded world will recover.

I could not help but wonder what my cover letter would have spoken to or what articles we would have chronicled in this year's publication if not for the pandemic and its far-reaching effects on the not-for-profit and higher education communities. Maybe we would have marveled at new technologies or revolutionary cures or structural changes to the design of not-for-profits. When we reflect on the collective energies expended in response to the innumerable challenges presented by the pandemic, how might those same energies and resources have been used differently to solve persistent issues, improve our quality of life or the environment, or further social justice? It's an intriguing thought. In time, the pandemic's effects will lessen. While the scars of the scourge will remain, we will stay resilient and continue the good work, dedication and commitment that the not-for-profit community has exhibited during this time of extraordinary need.

While I am excited to promote this year's report, I also want to sincerely thank the not-for-profit community of hundreds of thousands of dedicated, caring individuals who brought a relentless focus to serving their constituents. You have provided treatments and supports that have helped us get through these difficult times. Again, I want to reiterate my optimism that we will achieve control over COVID and all of its pernicious qualities in the months ahead. Let's start planning for post-pandemic healing and success.

This year's publication reflects the broad thinking of our professionals and explores many nascent topics and trends that we believe should be top-of-mind for organizational leadership and those involved in governance. I am certain you will benefit from the depth of thought articulated in these articles and how well they reflect the current challenges confronting your organization, as well as the opportunities and strategies that should now be considered.

Lastly, we have added a new feature. We've provided a link on each article that enables you to share your thoughts and perspectives directly with our authors and engage in a discussion about how our articles resonate with your organization.

Warm wishes to you all for a better 2022.

Sincerely,

**Dennis Morrone**

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# Workforce strategies for the new age

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Forty percent of the global workforce is considering leaving their current employers this year, according to the 2021 Work Trend Index Survey conducted by Edelman Data & Intelligence. The Great Resignation is a phenomenon characterized by pervasive talent shortages, and a persistent and changed mindset in workers. This development presents a unique opportunity for not-for-profit organizations, inclusive of higher education institutions, to secure highly skilled talent — people who are searching for a career that aligns with their personal interests and leads to greater fulfillment.

While attracting and retaining talent is difficult for all industries, not-for-profits and higher education institutions have a competitive advantage because they offer employees an opportunity to advance the greater good. These organizations and institutions should consider redirecting their recruiting efforts by creating a workplace that will attract candidates who are more focused on the following attributes when seeking out a new employer:

1. **Culture** is what people in an organization experience. Look at your values and what your organization stands for to determine if they need to be refreshed. One opportunity, according to McKinsey & Company, is to do away with bureaucracy, such as meetings or protocols that don't add value to the goods or services delivered to the customer. Value the contribution and not the hours punched on the clock.

2. **Mission** has never been more important in the war for talent. Not-for-profits and higher education institutions provide an opportunity for employees to connect to both a mission and to gratifying work each day. The Harvard Business Review, partnered with The Energy Project, a training and consulting company, to conduct a survey that found that employees who derive meaning and significance from their work are more than three times as likely to stay with their employers. With millennials representing the largest generation in the workforce, this goal has become even more strategic. In a survey conducted by Olivet Nazarene University, 90% of millennials said it is somewhat or very important for their work to have a positive impact on the world.

3. **Flexibility** is now essential, in addition to the opportunity for autonomy and creativity. A study by Robert Half found that one-third of professionals currently working from home because of the COVID-19 pandemic would quit if they were required to be in the office full time. The question is no longer whether you will offer flexibility but rather how you will leverage it to attract and retain talent, and be more competitive. Focus on the quality of work to be performed and value provided, not the number of full-time positions or where they are located.

4. **Rewards that matter**, or nontraditional benefits, are front and center. Consider conducting "stay interviews" with your employees across all levels to better understand what is important to them, such as days off; recognition programs; flexibility; mental well-being; diversity, equity and inclusion (DE&I) programs; or access to expanded learning opportunities. Providing employees with a concrete total rewards statement will provide a holistic view of benefits and compensation, and visually magnify the commitment to a happy, healthy workforce. For more information, read "Strategies for hiring and retaining talent" within this report.

5. **Remote and hybrid workforce models** are paramount in attracting and retaining talent, and remaining competitive in business. Colleges and universities have delivered in-person instruction for decades with rigid paths for students to earn degrees. The higher education industry reimagined itself during the pandemic and created new paths to deliver education and learning for both faculty and students, validating that remote and hybrid solutions can be successful and yield positive results.

6. **Professional development** is no longer about sitting through hours of in-person training. Microlearning and learning management systems have made classes more accessible, as well as less costly, for employees as they balance work, family and professional development. Virtual presentations also offer more potential interaction with subject matter experts. Learning should still be tied to performance and development, while allowing time for exploration and personal enrichment.

7. **DE&I** continues to be a key recruiting driver, especially as the workforce is churning retirements of many baby boomers and Gen Xers. Not-for-profits exemplify this competitive advantage as Gen Zers and millennials find a deeper connection with social, racial and economic justice, often linked to the organization's mission.

8. **Metrics** exemplify that what gets measured gets done. Tying retention to a strategic, metrics-backed goal can provide accountability. In creating a sense of accountability, not-for-profit employers can demonstrate how well they have lived up to their core focus of delivering programs, instruction and community engagement, particularly in relation to environmental, social and governance (ESG) and DE&I goals. While not-for-profits have no universal ESG disclosure, reporting or accountability requirements, organizations can stay accountable by using metrics and reporting. The not-for-profit industry is often under a higher powered microscope of public expectations. Donors, regulators, lenders, students and constituents have come to expect that ESG and DE&I will be woven into their fabric. The way not-for-profits behave in this arena can provide a competitive advantage.

Attracting and retaining talent can certainly present a challenge for many not-for-profits. But meeting that challenge is also a great opportunity to lead by example in establishing practices that are both people-oriented and mission-driven.

# Strategies for hiring and retaining talent

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In the war for talent, not-for-profit organizations and higher education institutions are having some of the same skirmishes as businesses in other industries. Like most employers, they're dealing with high turnover, staff and faculty desires for flexibility, and varying preferences caused by generational differences.

In a Grant Thornton survey of 1,500 U.S. employees across all industries (see "Assessing the state of American workers"), last year one-third of respondents were actively looking for a new job at a different organization. Even though the survey didn't single out not-for-profits, the results can readily be extrapolated to them. For example, colleges and universities have said that if they could retain staff for about two years, those employees would come to appreciate the more balanced quality of life and pace offered by their institution and would stay. However, more chief HR officers in higher education settings now say they are increasingly challenged to retain their people for even two years.

The Grant Thornton survey also found that 79% of employees across virtually all industries want flexibility in deciding where and when they work. In fact, they want it so much that 48% would give up 10-20% of a future salary increase for that flexibility.

Metaphorically speaking, younger workers might want their benefits served up as iced tea, and older workers, hot tea. In response, employers, including not-for-profits and higher education institutions, may be blending their offerings. As a result, their workers are getting lukewarm tea, and practically no one is satisfied.

Often organizations and institutions have constrained budgets, making these challenges even more difficult. However, they also may have a unique advantage — their focus on a meaningful mission, which appeals to workers, especially the millennial and Generation Z populations. Those two groups now comprise 50% of most sectors.

In this environment, knowing the lay of the land is the first step in getting an action plan initiated.

## Start by listening to employees

Not-for-profits and higher education institutions have the opportunity to deeply understand their employees' unmet needs and pain points. They should begin by stepping back and asking "What is our situation? Do we need to improve recruitment or retention results?" The answer today is almost always yes — if they want to hire and retain the right talent.

Start the process by listening intently to your employees by way of surveys or discussions with them — preferably both. If you choose discussions, decide whether to have them conducted by managers or by an external resource.

Once you have identified what workers want and have evaluated your total rewards strategy and supporting benefits, you can then determine what may need to be done and how to get there. If leaders can brainstorm and apply a cost-effective, on-brand solution that reduces employees' pain while meeting their needs and concerns more effectively, they will differentiate their organization to their employees. And that will improve worker "stickiness."

## Consider these pros and cons for surveys and discussions

**Surveys** – Employee surveys can be effective if employees, faculty and staff answer them honestly, and organizations and institutions act on the results. Every time you conduct a survey, send a summary to respondents thanking them for participating, stating the findings and outlining specific corresponding actions, even if they're at the 40,000-foot level. Surveys are only as good as the options employees have for responding, and their managers' follow-up communication and actions.

**Discussions** – If workers believe their manager is looking out for their best interests, they may be honest when discussing their compensation and benefits needs and preferences with their manager. But they may think it's safer to say only what they think the manager wants to hear. One solution is to have an external organization conduct those individual discussions and provide the results anonymously.

## Personalize benefits based on workers' priorities

Many employees believe the benefits or total rewards from their current employer are no different from what they could find elsewhere. So, they may conclude they have no compelling reason to stay. And if everything is the same, the difference becomes compensation. To counter that belief, work toward a personalized approach that offers relevant, meaningful benefits to meet individual needs. The following are a few ideas:

**Scholarships for employees' children or strong tuition remission/reimbursement programs.** Corporations are considering offering scholarships for workers' children, an approach that some not-for-profits could adopt or expand. A $2,000 scholarship, for example, would be a tax-free benefit that could motivate employees to stay with their employer for additional years while their children are in school.

**Student loan debt assistance.** Employers traditionally have focused on providing "normal" healthcare and wellness benefits. However, because of the significant debt burden many students face at graduation, many new workers are especially concerned about financial health and wellness. In addition, debt concerns may extend to mid-career job changers who have personally invested in resources to retool for their new career or role.

Emerging research suggests that many employees with significant college debt would rather defer investment in their 403(b) or 401(k) for five years if an employer would pay, for example, an extra $3,000 per year toward that debt. We believe this option could support and enhance a benefits structure that would help retain staff for those important first two or three years, after which employees might have adjusted to and come to appreciate the unique value of not-for-profit and higher education work/life cultures.

**Professional growth.** Workers, especially Gen Zers, often value growth and learning experiences over short-term monetary rewards. They want rapid progress in their work lives and professional development. Not-for-profits, colleges and universities could sell their mission to candidates more effectively by preparing to offer concrete answers to questions from candidates and workers, such as:

- How will you support my professional growth or career path?
- I want to be promoted. Would you give me a scholarship to apply toward a degree or certification?
- How would you support my belief and desire that we should do social good in our community?
- What sort of service opportunities do I have?

## Factor in the perceived value of benefits

The current reality is that many not-for-profits and higher education institutions have constrained budgets, which can make them less competitive in the struggle for talent. Even if you can't continually increase or even modify your benefits offerings, you may want to consider repositioning some funds and reinvesting in meeting employees' needs or resolving their frustrations. The value of a benefit is in the eye of the beholder. A properly designed and implemented employee preference optimization analysis can often demonstrate that a particular benefit may cost $1,000 for your organization or institution but offer $2,000 or more in perceived value to your employees.

For example, a not-for-profit hospital found that nurses with three to five years of experience were providing world-class care to their patients but were not able to care for their aging parents at home the way they wanted to. The hospital asked, "What if we offered your parents free access to a specialist in the system a couple of times a year as part of your benefits package?" The nurses believed this advantage — even if available only once per year — offered them the same value as a 25% salary increase. Turnover decreased from 30% to 15-19% when this was implemented.

## What is most important

Especially during our current struggle to hire and retain talent, begin by listening carefully to understand the needs of your most critical asset — your employees. Think like a marketer and understand what they want but aren't getting today. You then have the opportunity to create a customized plan to offer benefits and development options you know your workers will value. This will differentiate you from those competing with you in the war for talent, which is likely to continue for years to come.

# Learning from life sciences companies

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Many not-for-profit organizations across the country are struggling to survive because of the impact of the COVID-19 pandemic. A study shows more than one of every three may have to shut down within two years because of the financial and operational strain the pandemic has caused.

To reach their goals, not-for-profit organizations need to challenge their institutional norms and operating styles.

They can do that by looking across industries to modify and implement practices that increase productivity and improve service delivery and constituent satisfaction.

## Borrowing from life sciences

In particular, not-for-profit organizations can learn from life sciences companies, which have garnered significant attention and investment in today's pandemic-laden world. They have innovated, manufactured and maneuvered in a labyrinth of government regulation to solve problems in record time. Organizations that harness and direct intellect, modify infrastructure and produce products despite complex delivery channels have a competitive advantage. Any industry and its members would appreciate knowing their constituents described them in this way.

The comparison of not-for-profit organizations to life sciences companies is especially relevant because of the nexus between them. Many types of life sciences companies focus on areas similar to those of not-for-profits. For example, life sciences companies may concentrate on zoology, virology, forestry and behavioral sciences, which are analogous to not-for-profits with similar focal points, such as zoos, hospitals, environment-focused organizations and social service providers.

## Life sciences lessons in operations

Like life sciences companies, not-for-profits have had to shore up supply chains and contain costs to maintain margins and ensure sustainability. Organizations in both industries have needed to innovate and invest more than ever and more quickly, and race to meet market demands, all while dealing with the Great Resignation and facing daunting operational risks. If not thoughtfully managed, any one of these factors could lead to the collapse of an organization.

Life sciences companies have struggled to translate their accumulated terabytes of data so that they can make informed business and strategic decisions. Not-for-profits have similarly struggled to track and interpret operating data regarding service delivery, and constituent needs and satisfaction levels. Life sciences companies have begun to partner with Amazon and Google to synthesize and organize data. Not-for-profits may benefit from similar arrangements.

Producers of medications and vaccines face increasing scrutiny to distribute their products globally, ensuring equitable distribution. Not-for-profits are also being asked to act globally or to expand capacity locally by scaling operations and increasing throughput — which, in their case, may mean handling the influx of people who need their services. Through broadening operations and distribution channels, life sciences companies and not-for-profits are taking and accepting risks they would have considered unacceptable only three years ago. But growth presents challenges. Keeping delivery consistent while maintaining a standard of performance and compliance is costly and requires more oversight and expanded controls. Not-for-profits need to proportionally scale all aspects of their mission-critical operations and suppliers to achieve greater scale.

Also, suppliers and producers are realizing that more is involved than process, people and technology. Another consideration is establishing visceral links connecting those in need with supports, services and products. Not-for-profits need to understand and contextualize their role and placement in the market, and connections that allow them to optimize the delivery of their mission.

Think about a not-for-profit that focuses on sheltering and feeding homeless children and adults in a big city. Such an organization likely provides these individuals with a dependable source of daily food and a sense of security. The pandemic has exacerbated these needs. This type of organization likely saw a profound increase in the volume of people seeking its services, increasing the challenge to ensure a steady and sturdy supply of food to serve its constituents.

Life sciences companies shifted certain behaviors during the pandemic. Rather than broadening investments across a spectrum of new research and technologies, they focused their energies and efforts on projects that were most likely to succeed and provide market differentiation. Likewise, not-for-profits began to sharpen their outreach efforts to pool resources and talents — perhaps with a reduced workforce — to achieve the greatest result. This is a learning and operational imperative that will likely endure in a post-pandemic world.

## Meeting the Great Resignation challenge

The Great Resignation has caused problems for all industries. Workforce ebbs and flows have been more pronounced in this current period than in the last two decades, and not-for-profits, which have traditionally offered lower compensation than their for-profit counterparts, are beginning to lag even further behind. Coupled with constrained resources, the not-for-profit industry might end up lagging in the recovery in more than just compensation. On the other hand, with inflation taking effect, people who have voluntarily left the workforce may, out of financial necessity, need to rejoin the workforce, and they may choose a not-for-profit because of its lofty goals.

The saying that we're all in this together applies to the themes and challenges experienced by not-for-profits and many, if not all, industries. Not-for-profits would do well to explore solutions they can adapt and apply from others. All industries, including not-for-profit, need to innovate to challenge operational norms, scale operations, and understand and manage risks more holistically to fulfill their mission during and beyond these trying times, and life sciences companies can serve as a prime example.

# The case for a customer-centric approach

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Contact

Who is your customer? The answer typically comes more easily to for-profit businesses than not-for-profit organizations. The latter often struggle not only with the answer, but more importantly, with determining if an exceptional customer experience is critical for their donors, volunteers and program beneficiaries.

In an age of competing distractions, not-for-profits must continually fight to maintain customer focus so they can:

- Stand out among similarly focused organizations
- Retain and increase donors and volunteers
- Grow the number of program constituents by scaling up operations

While the type of your organization, its sector focus and time frame will shape your strategies, one imperative is clear — Continue to deliver value to your customers or risk losing them. As expectations rise and options proliferate, delivering exceptional customer experiences will be the key to achieving your organization's mission and vision.

## The case for customer experience

Dimension Data reports that 84% of for-profit organizations that worked to improve customer service reported an increase in revenue. Similarly, a Rosetta study found that market-leading brands provide high-value consumer experiences. Consumers of these brands purchase 90% more often and spend 60% more per transaction.

If your constituents are happy, they are more likely to engage with your organization more frequently, more deeply and more generously. They will probably re-engage more often and advocate your mission ardently. While it's more difficult for customers to switch their cable provider or bank, a donor can easily stop giving and a volunteer can stop contributing. Keep in mind that once they start donating or contributing their time elsewhere, they may be gone forever.

## Who is your customer?

Not-for-profit customers fall into three groups — donors, volunteers and beneficiaries — each with a distinct set of needs.

1. **Donors** – Ranging from foundations awarding seven-figure grants to a visitor dropping cash into a clear acrylic display, donors have at least one thing in common: they require effective communication. Whether through recognition, success stories or a simple thank you, donors need to feel heard, appreciated and reminded of your mission and its impact.
2. **Volunteers** – Although they are the backbone of not-for-profits, their numbers are declining and engagement is weakening. A 2018 University of Maryland study reported that in 2015 the rate of people volunteering to an organization in the United States at least once per year fell to a 15-year low of 24.9%, while the percentage of Americans giving to nonprofits annually from 2004 to 2014 declined from 66.8% to 55.5%.

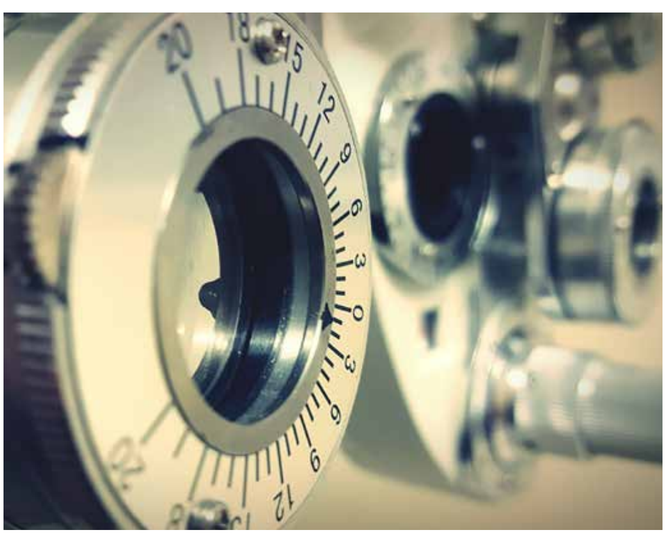
   Volunteers make clear and consequential choices. Over 71% choose to work with only one organization per year, and volunteers are nearly twice as likely to donate to a charity than those who don't volunteer. Yet only 55% of nonprofits assess volunteer impact and satisfaction. By studying your volunteer base, you can understand who they are and what they value. A good place to start is to improve your communications; let them know their responsibilities and your expectations, and how they are positively impacting the organization's mission.
3. **Beneficiaries** – Not-for-profits compete for program beneficiaries. If the people you could help choose not to engage with you, your mission suffers. Seek to understand your beneficiaries' issues. Look for signs of subpar communication, poor customer service and supplier indifference. You will quickly learn your strengths and weaknesses, and how you differ from similar organizations.

## Case study: How the Los Angeles Philharmonic increased donations

The onset of COVID-19 hit the Los Angeles Philharmonic hard. In-person performances were halted, taking ticket sales with them. This led the organization to make a concerted effort to better understand its customers and design new experiences aligned with customer needs in a radically new and challenging environment.

According to Norah Brady, vice president of communications and marketing, this effort identified touchpoints that would affect audience members: "When we were in their homes, there was a more intimate, familial, natural feeling that brought up words like 'open,' 'diverse,' and 'innovative,' that really helped to communicate our brand."

The organization optimized its in-home experience, creating new feedback loops and opportunities for personalized communication. "Whether it was through social media or emails updating our audiences on offerings, on when we were coming back to our stages, or on what the experience would be like with COVID protocols, it created a natural feedback loop to bring our audience forward and along with us," Brady said.



## Where to begin?

Your organization can take several actions to enhance the customer experience for your donors, volunteers and beneficiaries:

- **Gather customer intelligence and develop customer personas.** Seek to understand who your customers are, what they want and need, and how they interact with your organization.
- **Map the customer journey and define onboarding and usage strategies.** How can you elevate their experience? How can you get them from interested to invested? What new experiences might prompt greater volunteer engagement leading to larger donations?
- **Adopt customer success technology.** Given your customers and their journey, where can technology assist? Give them ways to communicate with you or personalize their experience.
- **Track key customer metrics.** Identify measurable touchpoints across the customer engagement lifecycle. Determine where you can differentiate yourself from peers. Define baseline measures and assess your experience to determine areas for improvement across the customer journey.
- **Align your daily operations with your larger objectives.** Connect sales, marketing, service, and success with shared data and goals.

Thinking of your donors, volunteers and beneficiaries as customers may take a while. But once you view them as individuals with choice, you can better understand their needs, elevate their experience and more effectively realize the mission and vision of your organization.

# Embracing a holistic ESG strategy

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As environmental, social, and governance (ESG) standards continue to gain momentum, organizations in the not-for-profit and higher education sectors are reassessing their commitments to these goals.

Although organizations and institutions are often perceived as leaders in corporate social responsibility and purpose-driven programming, stakeholder scrutiny has revealed their ESG challenges. Today, they are grappling with creating greater transparency in ESG initiatives, pivoting toward greener physical spaces and more-inclusive investment vehicles, and facing the need to sustain inclusive cultures for employees and students, among other constituents.

## Stakeholder pressure and innovative financing accelerate the move toward net-zero

**Greening the built environment.** From an environmental perspective, not-for-profits and higher education institutions have begun to move en masse toward net-zero operations. More than 1,000 universities globally made net-zero pledges in the wake of the 2021 United Nations Climate Change Conference, or COP26, in Glasgow. Many institutions are making this shift by first reexamining physical assets and their real estate. Pressure to reduce their environmental footprints is nudging organizations to adopt energy innovations, such as LEED-certified structures and on-campus solar farms that generate clean energy.

**Moving toward innovative funding sources, such as social and green bonds.** At the end of COP26, large banks and financiers globally committed $130 trillion in capital to help economies transition toward net-zero. This, combined with a drop in charitable funding, as well as lower international demand for higher education due to the COVID-19 pandemic, has gradually yet inevitably transitioned not-for-profits toward more-innovative sources of funding. Consequently, social and green bonds with climate and sustainability designations are gaining popularity. This is especially true in North America, as not-for-profit organizations and higher education institutions follow Stanford University's example of raising sustainable funding.

**Response to a stakeholder-led push.** In addition to making infrastructure updates and responding to a call for more-sustainable funding options, nonprofits and universities are responding to a broader, stakeholder-led push to divest entirely from fossil fuels. In perhaps the most visible example, Harvard University announced in 2021 that it is ending investment in fossil fuels in its $53.2 billion endowment fund after years of pressure from civic activist groups. The increase in environmentally concerned students and parents helped motivate the decision. This prominent case is indicative of a wider trend, as a global coalition of individuals and organizations continues to pressure investors to divest from fossil fuels. As of October 2021, 192 philanthropic organizations globally had committed to divesting some part of their combined $125 billion in assets from fossil fuels.

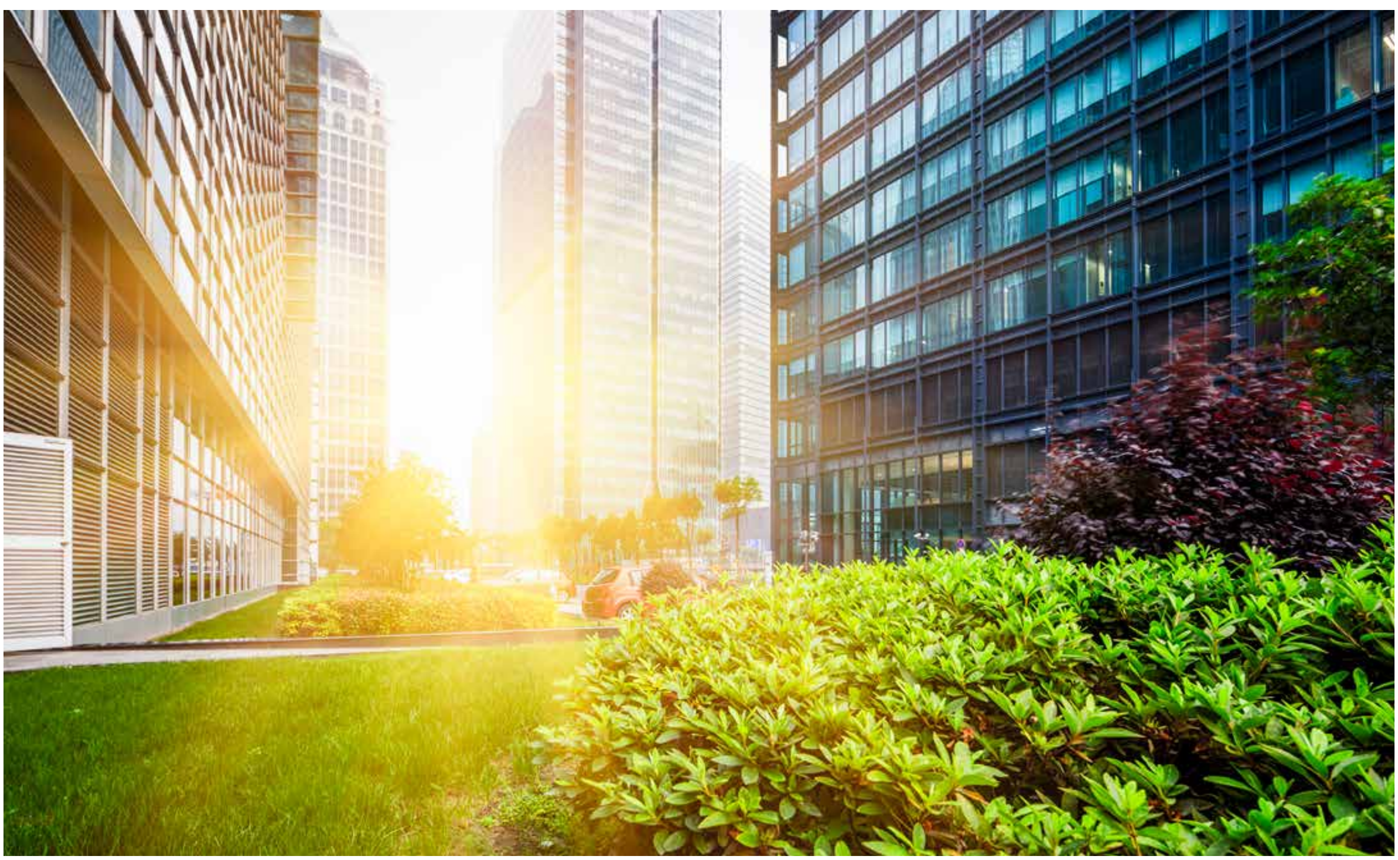
Accountability is also cascading through industries that look to foundations and university endowments for major sources of funding. In turn, asset managers and private equity firms are being directed toward socially responsible investing by limited partners, who comprise a significant portion of nonprofit and higher education donors.

## Forthcoming changes require sound governance

**North American progression toward mandatory disclosures.** Accountability is also solidifying for not-for-profit organizations and higher education institutions because North America is moving from a voluntary to a mandatory ESG disclosure environment. Regulatory bodies, led by the SEC, are increasing their rules related to standardized ESG reporting, which will accelerate the public demand for transparency by corporations. Those expectations could be extended to the nonprofit sector in the near future.

**Pressure from younger generations to disclose on responsible leadership.** Increasingly rigorous ESG standards will likely manifest in a push for responsible leadership through increased data transparency and diversity at all levels. As employees and students, millennials and Gen Zers are looking to affiliate with workplaces and educational institutions that embody a holistic and inclusive culture, an externally mission-driven approach is no longer enough. Nonprofit and university leaders should look to embrace diversity, equity and inclusion in their ranks and beyond, assessing policies and practices to attract younger talent and ensure sustained accountability. The sectors will have to take quick and meaningful action to make this new mission a reality and create lasting support among the new generation and constituent base.

Looking ahead, not-for-profit organizations and higher education institutions should strengthen their ESG commitments by establishing governance systems that implement, measure and sustain goals across each ESG pillar. This is especially true because as millennials and Gen Zers come to dominate the workforce, beneficiaries and donors want to see organizations embody fundamental ESG principles in their practices. Successful nonprofits must move beyond their organizational purpose toward a holistic ESG strategy and public commitment to meaningful actions to stay ahead of this wave, as well as to drive the capital markets through the funding levers that will build resilience, long-term wealth and sustainable impact.



# DE&I, ESG and the compliance function

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Not-for-profit organizations and higher education institutions should start thinking in broader terms about the concept of compliance.

With increasing stakeholder demands, organizations and institutions need to consider what we call the "little c's" of compliance (i.e., items related to emerging regulations, or those in response to trending stakeholder expectations) instead of limiting their focus to regulatory and contractual requirements. The little c's include issues related to diversity, equity and inclusion (DE&I) and environmental, social and governance (ESG). Donors, granting agencies and governments are increasingly asking not-for-profits and universities how well they are measuring up. In addition, organizations and institutions must consider reputational and market pressures, as the competition for students and donors is expected to continue or increase.

Often, compliance concerns have focused on an expansive array of regulatory and contractual requirements including donor and funding agency guidelines, Title IX, the Family Educational Rights and Privacy Act (FERPA), research administration, and state and local regulations. Although DE&I and ESG disclosures are currently voluntary, organizations that define, develop and deploy strategies for those issues will be more successful in meeting the growing demands of the public and private sectors.

## Publicly traded companies exemplify changes

Regulatory bodies and state lawmakers have passed measures in recent years calling for increased action and accountability in matters relating to DE&I and ESG. For example, publicly traded companies have been required or encouraged to increase diversity on their boards of directors. In August 2021, the SEC approved the Nasdaq Stock Market's rule requiring most Nasdaq-listed companies to have at least two diverse board members — defined as one female and one underrepresented minority or LGBTQ+ — and to provide the data on its Board Diversity Matrix or explain why the company does not comply.

Some states are issuing similar disclosure rules. For example, Illinois law requires publicly traded companies headquartered in Illinois to annually report the gender, racial and ethnic diversity of their boards. The University of Illinois establishes a rating system, assesses each company for the diversity of its board and publishes the results. Due to the pressures of the markets and constituents for greater focus on DE&I and ESG, similar reporting requirements will likely be forthcoming for not-for-profit organizations and higher education institutions.

## How to prepare for DE&I and ESG changes

To stay ahead of those changes, employees who track compliance issues can bring their broad organizational perspectives to the table. Chief diversity officers, HR leaders, executive leadership team members, advocacy/government affairs representatives and institutional research staff can collaborate to help advance DE&I and ESG strategies with tactics such as these:

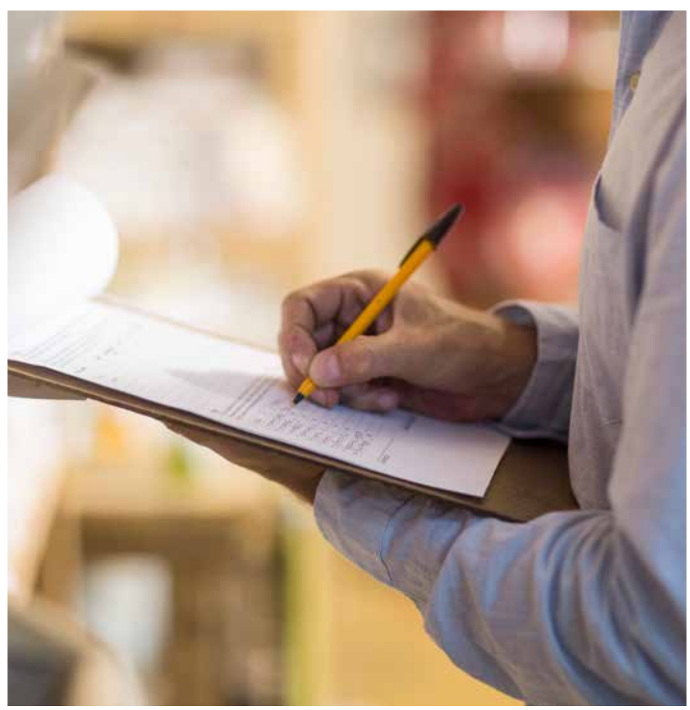
- **Collect and report on DE&I and ESG metrics to the board and executive leadership team.** The ability to maneuver among all the departments allows compliance staff to collect and monitor information such as sustainability and diversity metrics for the board, management, staff, faculty and vendors. This information will be essential in meeting future little-c compliance requirements.

- **Ensure that the organization documents, monitors and follows DE&I and ESG related policies, goals and requirements.** This includes related areas that reinforce a culture of compliance, such as training and eliminating biases in curriculum and hiring practices.

- **Report on the organization's DE&I goals and metrics to interested constituents.** Collaborate with your advocacy or government affairs staff to monitor the regulatory landscape to ensure that the compliance program incorporates new and emerging requirements.

Although we expect DE&I and ESG related requirements to become increasingly mandatory, organizations and institutions will likely feel pressured to focus on these issues even without mandates. That pressure will drive stronger and broader compliance efforts at many organizations for years to come.

The compliance function is uniquely positioned to support an organization's achievement of DE&I and ESG related goals, as well as to promote adherence to emerging disclosure requirements. The compliance function regularly collaborates and serves as a point of integration with key leaders across the institution to drive accountability and can extend that service to support the emerging DE&I and ESG environment. This not only helps fulfill the function's charge to promote a culture of accountability for and adherence to these key initiatives, but presents an opportunity to support, as leaders, the achievement of little-c compliance with key aspects of the strategic objectives and mission.



# Leveraging your mission to succeed

**Michael Monahan**, National Managing Principal, People and Community
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Contact

Not-for-profit organizations have experienced many of the same staff shortages as other industries, and most have managed to survive.

Their greatest strength in competing with for-profit entities for employees has been the power of their mission and the link between mission delivery and employee culture.

Making mission a top priority, and indeed empowering the mission for everyone, can help employees find meaning in their work and strengthen their bond with their not-for-profit employer.

The concept of “mission empowerment” comes from the formal integration of an organization’s culture and its approach to day-to-day operations with a reminder of the importance of its mission. The larger impact statement that so many for-profit entities seek to demonstrate and weave into the employee experience is something that not-for-profit organizations have already inherently built into their employee experience.

## Three ways to work toward mission empowerment in your organization’s culture journey

### 1. Create sight lines to your organization’s goals

Not-for-profits have missions with undeniable heft — and clear, compelling, morally forthright and understandable goals. They include feeding the poor, healing the sick, educating the young, righting injustice, promoting artistic expression and many other noble causes. Not-for-profit organizations are tackling challenges that matter in an enduring and often permanent sense.

Whatever your organization’s mission, be intentional about promoting it to your staff. Create sight lines to the changes your organization is making in the world and to its accomplishments.

One way to do this is by giving your employees front-line access to mission-related activities. Their direct experience with the organization’s mission will energize and focus employees, and serve as a distinctive asset. Below are a few examples:

- Develop employee appreciation days related to the people you serve, and take your employees to the front line where the service happens, such as soup kitchens, food pantries, shelters and warehouses.
- For institutions of higher education, consider relocating administrative offices to the center of campus or setting aside specific days for employees to sit in and observe university classes.
- Museums can provide backstage passes to the art that they feature.
- Health services organizations can train administrators to take blood pressure readings, and allow them to participate in inner-city health fairs.

### 2. Recognize the value of your employees' time

The COVID-19 pandemic taught us the value of time through the reality of working at home. At first, liberated from our commutes, we were more productive and found value in our free time. Some added second jobs, spiking incomes but prompting us to ask, "Why am I working so hard?" Others reverted to full schedules by squeezing in more meetings. So, the small breaks that existed in our pre-pandemic work lives — a few hours on a plane, a few minutes in a taxi, a brief walk to the next meeting — disappeared.

The perceived value of work-life balance was clarified emphatically because it was personalized for everyone.

Not-for-profit organizations ask their employees to work hard, but organizations also tend to value life away from work more than their for-profit counterparts do. And, many are positioned to continue — and promote — this flexibility going forward. To help retain people, especially when you can't compete directly on salary, recognize the value of time. If possible, give your employees more time off. In addition, highlight the time off you do give them.

### 3. Create reasons for employees to return to the office

Employees have been asking, "Why do I need to work in an office?" The past two years have certainly proved it's possible to work from home successfully. But the past months have also produced social isolation, straining mental health.

Employers, including not-for-profits, have responded to dissatisfaction with office life by using two strategies. Some simply gave employees what they asked for, while others took a more coercive approach, forcing employees to return to the office.

Fortunately, there's a third strategy. Create compelling reasons for employees to come back to the office by emphasizing the mission, creating meaningful social interactions, and providing tangible benefits and experiences in which they can actively participate. The key is to be compelling, not compulsory; or, more pragmatically, to be a mix of the two.

Remind your employees that your mission is most alive when it is shared with others and that they are part of an engaged community. Create real reasons to come into the office, and facilitate robust social interactions, such as lunches, talks, group activities or brainstorming sessions. People will accept a commute and time in the office if they find that they create valuable connections with their colleagues as a result.

As not-for-profits try to attract and retain talent, they face real challenges. But they have clear strengths that are rooted in their powerful sense of mission. They can provide more than a paycheck, by infusing work with heightened meaning. By intentionally developing these strengths, they can gain a real advantage in acquiring and retaining valued employees.

# Supporting mission through technology

**Enzo Santilli**, Managing Partner, Transformation Services
Contact

Not-for-profit organizations are accelerating digital transformation of their operations in the wake of the pandemic.

The need to handle business processes more nimbly, coupled with technological advances, is causing not-for-profits to modernize faster than ever before.

A significant area of transformation has been back-office automation. Not-for-profits have lagged their for-profit counterparts for various reasons, including avoidance of overinvestment in areas not seen as directly benefiting their mission. For this and other reasons, modernization often took a back seat. However, today's realities, such as the necessity of supporting a remote workforce and opportunities for contactless customer or client interaction have prompted not-for-profits to rethink their digital transformation strategy.

Given their outdated back-office automation, many not-for-profits were poorly prepared when the full force of the pandemic hit. For example, some could pay their vendors only if a staff member went into the office weekly to manually process checks.

Such shortcomings highlighted technology's opportunities. Not-for-profits realized they needed to digitize back-office operations and move process automation from the background to the forefront.

## How technology supports the mission

Even though technology may seem to be a low priority in achieving one's mission, in fact it plays a critical role. A good example is donor engagement. Donors want to know their dollars are being used wisely, and their digital experiences with a not-for-profit can enable them to obtain answers to their questions like "How did the organization acknowledge my contribution?" and "What kind of report did they send about the efficacy of my contribution?"

If donors have a negative impression of an organization's technological sophistication, they may wonder if they have invested unwisely in an organization that uses archaic processes that require intensive, uneconomical levels of back-office staff to operate. On the other hand, not-for-profits can instill donor confidence by providing digital experiences that are as up-to-date as donors' experiences in other areas of their lives.

Patrons are also important constituents. When not-for-profits focus on the user experience of their technology — for example, by connecting a patron's digital interactions — the patron often has a stronger connection to the organization's mission. That connection, in turn, causes patrons to be more engaged with the not-for-profit and can increase revenue for the organization. Investing in the underlying technology can create that connectivity. Take for example patrons who want to buy tickets to a museum exhibit and also donate to the museum. They go online and purchase tickets, entering their name, address and payment method. They will have a better experience and will be more likely to donate if they don't have to log in a second time and re-enter the information to make the donation and receive a receipt for tax purposes.

## The value of a road map

Fostering effective communication among all systems — from back-office to customer-facing — requires outlining interdependencies. In addition, obsolete technology must be identified and a determination made regarding how best to improve experiences. A solid road map will help you identify paths and roadblocks: such as why certain processes are conducted, how much funding and HR is needed, and how to sequence your initiatives. In addition, the map can shed light on priorities, capital budgeting requirements and structural deficits that affect ongoing system maintenance.

However, allowing individual functions to select and maintain their own set of tools is difficult and inefficient. It can lead to a patchwork of small investments and activities rather than an organized, effective plan that operates harmoniously across the enterprise.

## The cloud Is encouraging progress

Some not-for-profits are still underinvesting in functions that tie together their ledgers and their financial reporting packages. The solution is to transition to a platform that enables acceptance of online transactions, such as donor contributions and payments for goods or services, to more efficiently capture revenue.

Not-for-profits that are updating technology often ask us how to get to the latest version of software when they are already several versions behind. We encourage them to leapfrog to the cloud offerings, which may entail skipping past their current outdated tools to arrive at the latest platform. That way, they can pay just one subscription price and remove old versions from their platform rather than manage each one individually.

Another benefit of the cloud is better management of security risks, reducing vulnerability from running technology on servers or in data centers.

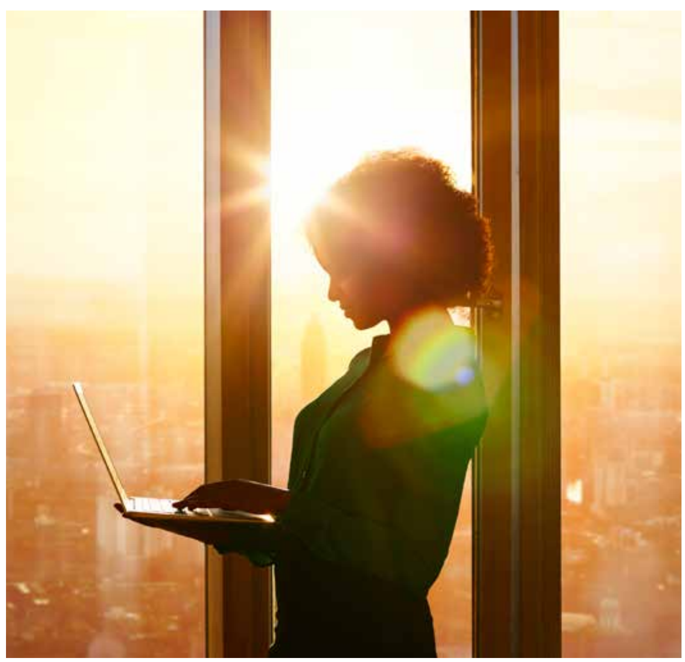
## Training builds staff skills

When organizations implement new technology, they should pay special attention to training and skill development. Not-for-profits may have to contend with skepticism from employees who fear that new technology may replace them, or from those who lack technological skills. The situation requires budgeting for training and change management.

## Planning could include:

- Allowing for significant training time, perhaps using small pilot projects before rolling out a major technology project.
- Recognizing that workers who did not grow up with technology will likely need more time and training than younger digital natives who grew up with a smartphone in their hand.
- Exploring a train-the-trainer approach to develop cost-saving in-house expertise.

In a world of competing priorities, technology is critical as it supports financial stewardship and your mission. Advances in technology and data management can ultimately help you better serve your donors and patrons, enhance your programs, build stronger relationships and capture more revenue.



# Leadership strategies in a virtual world

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Contact

Leaders inspire, empower and work to elevate others over an extended period of time.

In our current virtual work environment, effective leadership skills and strategies are more important than ever. The following are behaviors that have helped leaders guide their not-for-profit organizations forward while working remotely.

## Evoke trust and respect

To be an effective leader, show your trust and respect for the people you manage. Your team members should know that you have complete confidence in their ability to fulfill their responsibilities. Go out of your way to show confidence through positive reinforcement. In addition, respect your team's personal time and circumstances. Being flexible and understanding your staff members' personal needs demonstrates your trust and your respect for them and their situations.

## Foster intentional communication

One of the biggest challenges of working in a remote environment is the inability to walk the halls and spontaneously check in with your team. Maintain your visibility and ensure your team members know you are there to support them. Set up a consistent communication cadence, even if the meetings are brief, to stay connected and gauge the temperature of your team. In addition, proactively and frequently reach out to individuals and simply ask, "How are you doing?" or "How can I help you?" This can go a long way in solidifying trust and ensuring your team members that you are there for them.

## Set clear goals and expectations

Emphasize setting clear goals and expectations to keep your team on track and maintain consistent productivity while working outside of the office. Clarity is essential. Each team member should understand the desired outcome of their individual responsibilities, as well as the entire team's, and a clear way to measure progress toward the goal. To keep your team motivated, goals should be achievable and challenging. In addition, establish a mutually agreed-upon time frame for completion.

## Be transparent

We have all encountered many personal and professional challenges since the pandemic began. As a leader, you must set the right tone for your team. Show your human side, introduce humor and talk about what interests you personally. Being transparent and open to your team members helps to relieve their stress and uncertainty. Also, emphasize the importance of taking breaks and prioritizing mental health. It's critical to show your team — especially your less experienced staff members — that no one needs to be in front of a computer all the time. Show them how you have embraced working remotely and have taken advantage of the flexibility it can provide. Furthermore, working at home has introduced new challenges such as technology issues, children crying and dogs barking. Expect that things will not always run smoothly. It's especially important that leaders maintain their composure when things go sideways. Being patient, empathetic and kind toward your team is paramount for each member's well-being, productivity and success.

## Recognize and celebrate accomplishments

Expressing gratitude and appreciation for individual and team accomplishments can boost your team's morale. Doing this effectively requires knowing the preferences of each team member. This is all about building and fostering personal connections. By proactively reaching out to your staff members, you get to know them on a personal level and better understand what is important to them. As an example, a person who is introverted may prefer an acknowledgement of a job well done privately rather than in public. In celebrating success appropriately, you are more likely to increase confidence and motivation. However, if you rarely acknowledge your team's accomplishments or celebrate in a generic way that appears forced or disingenuous, you risk decreasing your team's morale and productivity.

There is no one-size-fits-all in leadership, especially in a virtual environment. However, by showing trust in and respect for your team, communicating proactively and consistently, setting clear and measurable objectives, being transparent, setting a positive tone, and recognizing and celebrating success, leaders can keep their teams productive, connected and feeling successful in a virtual setting. The impact of strong leadership during turbulent times can help your organization not only maintain stability, but can also position your organization to thrive.

# The future of the corporate foundation

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Contact

Large corporations are facing more pressure from stakeholders to increase support for positive social outcomes.

Stakeholders — including consumers, employees, shareholders and the communities where corporations and their suppliers operate — are asking companies to lead the charge for creating positive change on environmental, social and governance issues. Corporate philanthropy is considered an important part of the equation. Although it may seem as though this is the right time to elevate the corporate foundation, many businesses are instead asking if a corporate foundation should be part of the solution at all.

## Perceptions of foundations have changed

Corporations have been establishing and running their own foundations since the mid-20th century to support their philanthropic efforts including grantmaking, employee matching gifts, and scholarships. The corporate foundation offers parent companies a transparent structure for giving that provides a tax benefit and relies on clear IRS rules to prevent self-dealing between the corporation's for-profit interests and its charitable giving. Yet these foundations have come to be seen by some as barriers to advancing and operating a company's philanthropic agenda. As the demands for corporate giving have grown and become more complex, many companies view the rules that govern their foundations as too limiting.

For example, international grantmaking by a U.S. foundation is fraught with complexities. Further, self-dealing prohibitions can complicate tax matters and limit corporate objectives to more closely engage employees with giving from the corporate foundation. Ultimately, the legal, tax and accounting rules that govern a corporate foundation add administrative burdens that may lessen the value proposition of the foundation. As a result, many corporations are investing philanthropic dollars in donor-advised funds, partnerships with public charities and utilizing company-established disaster relief funds, as well as making contributions directly from the corporate coffers. Accordingly, an ever-increasing population of corporations are shrinking or closing an existing foundation or opting not to form one at all.

Nonetheless, there are good reasons that foundations can be a key component in a company's charitable strategy. Corporate foundations provide unique tools that can signal and achieve a company's goals for social impact. Foundations can allow corporations to make investments that provide philanthropic support to socially driven for-profit efforts, advancing objectives that align with the company's mission, vision and values. For example, the foundation can invest in minority-owned business startups that carry high risk but don't have the primary objective of an immediate return on investment.

Additionally, a corporate foundation allows individual employees to receive a tax deduction if they contribute to it, supporting employee involvement in the foundation's mission. During COVID-19, companies have used their foundations as vehicles for their employees to bolster the corporations' efforts to provide relief to their colleagues. A prime example is financial support to those suffering an unexpected burden.

For many corporations, the tax benefit of having its own foundation carries important weight. Corporations that endow their foundation benefit from a 1.39% tax rate on returns, versus the corporate rates they pay if funds are left in the companies' own portfolios.

As corporations navigate the new realities of their roles in creating positive social change, determining the right philanthropic structures to facilitate giving is critical. In the recent past, the decision to create or use a corporate foundation to make contributions to worthwhile causes was a clear choice. With that choice more clouded by evolving demands for corporate philanthropy and increased options for delivering philanthropic impact, the foundation decision is no longer straightforward. Still, a properly leveraged corporate foundation could have a place in the philanthropic strategy of some companies. Determining what that place is requires ongoing planning and assessment to ensure the foundation supports the objectives of the corporation's philanthropic mission.

# A framework for educational equity

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**Manya Aggarwal**, Manager, Advisory Services, Not-for-Profit and Higher Education Practices
Contact

Despite progress that has been made to reverse educational inequity, it continues to be a persistent issue. Remaining opportunities for improvement lie within institutions themselves ("micro"), and at a more categorical level ("macro") within governments, funders and other supporting mechanisms. Leading institutions are leveraging the framework summarized in this article to identify current inequities, and to catalog current and remaining investment areas.

## Access is not equity

While the higher education industry had been largely focused on the concept of "access" for decades, many now focus on "equity" — a very different concept, according to the Postsecondary Value Commission. Equity is closely linked to value received, and ensuring that value is delivered and outcomes achieved in a manner independent of systemic barriers (e.g., race, ethnicity, income, gender, sexual orientation).

## An unserved/underserved "customer" base

Despite progress that has been made over the years (e.g., 1862 Morrill Act, 1890 Morrill Act, 1944 GI Bill, 1972 Title IX, 1978 Regents v. Bakke), efforts toward access and equity have hardly scratched the surface of what needs to be done. Further, COVID-19 has already sharpened concerns about the value of education for all and resolving inequities that the pandemic has exacerbated.[1]

Within the U.S., only 37% of 18-24 year olds enroll in college, and only 57% of those who enroll actually graduate within six years, reported NCES. **While attending college is not essential for all, providing the opportunity for everyone to realize their potential is**.

While college enrollment has become more representative of the U.S. population, younger generations are themselves more ethnically diverse, raising the importance of focusing on equity especially as enrollment remains uneven across various groups.[2] Further, when dissecting enrollment across institution types, we see further inequities,[3] and similar issues exist when examining which students complete their education and earn a degree.[4] Finally, while progress has been made in certain areas (e.g., women's share of postsecondary degrees[5]), there is a continued gap in post-graduate earnings across a variety of lenses, including gender[6] and race,[7] which cannot be explained away by choice of major alone, as reported by the Federal Reserve Bank of Cleveland.

Given higher education's financial challenges due to COVID-19 and concerns about the upcoming enrollment cliff and other trends (e.g., movement online and value of a degree), better serving the total potential customer base doesn't just improve mission delivery and enhance equity, it also makes good business sense for those institutions that need to fill seats or are seizing the opportunity to focus on growth.

## A framework for the future

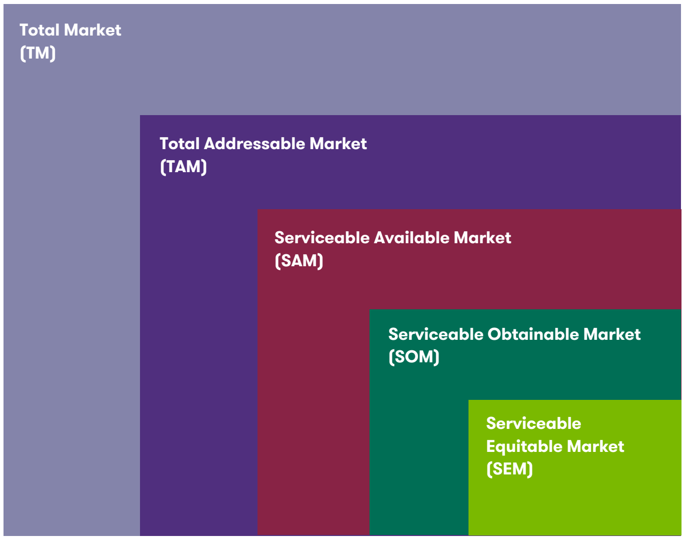
Grant Thornton's Framework for Educational Equity (see the graphic) extends the well-established TAM SAM SOM framework commonly utilized in commercial industries. By tailoring this tool to higher education, we are able to identify various levels of inequity, ranging from who is even considered eligible for postsecondary education (TM), those who apply (TAM), those who are accepted/enroll (SAM), those who achieve credentials/degree (SOM) and those who do so equitably with their peers (SEM). By taking this lens, we can more easily see a significant population that is unserved or underserved today. Unfortunately, many are not even given a shot (TM, TAM, SAM), many are left behind (SOM) and only a subset of those who graduate do so equitably (SEM).

The Framework for Educational Equity seeks to demonstrate that a subset of students are left out at every step. Not all eligible students access and enroll in postsecondary education, and even the ones who do may drop out prior to graduation without a degree. Further, even among students who graduate with degrees/credentials, outcomes differ significantly based on race, gender and income. Graduating is not a binary achievement from an equity perspective.

The Framework enables institutions to see where they have traditionally placed their bets, e.g., a sizable investment in financial aid (SOM) and a lesser investment in wrap-around services for admitted students to enable completion (SOM). Further, higher education institutions and macro players can use this Framework to explore a series of questions (see the following list) about where they can shift policies to improve future outcomes.

The good news is that given the total market potential (it's the rare industry that leaves 63% of the population unserved and over 43% of its actual customers underserved), opportunities to expand product offerings and services abound to simultaneously achieve financial sustainability and mission delivery. Further, both micro and macro efforts can help to improve SEM and TM, and vice versa. Macro changes/investments support equity success within

## Grant Thornton's Framework for Educational Equity




**Total Market (TM)** includes all individuals who are eligible for post-secondary education

**Total Addressable Market (TAM)** includes individuals who apply to post-secondary education

**Serviceable Available Market (SAM)** includes individuals who are accepted and enrolled into post-secondary institutions

**Serviceable Obtainable Market (SOM)** includes individuals who persist and complete post-secondary education

**Serviceable Equitable Market (SEM)** includes individuals who equitably complete their credentials, paving the way for an equitable future

colleges and universities, and institutional programs collectively transform the macro industry's equity achievement. Whether this is due to creating new programmatic offerings that appeal to and/or are available to new populations (TM/TAM), investing in student support services to enable equitable degree completion (SOM/SEM) or focusing on post-graduate success (SEM), there are many opportunities to deliver equitable value within the industry.

### The many benefits of educational equity

Inequity exists at several points in the overall higher education system. They include whether to apply, choice of institution, ability to persist and obtain credentials, graduating with equitable outcomes and post-graduate achievement.

Enhancing equity not only benefits an institution's current students and community, it is also good business. Over the last 100 years, the higher education pie has become more equitable, though we are not there yet. However, to grow the economy and to increase attainment in the overall population, we will have to grow the size of the pie — and do so in an equitable manner.

Perpetuating the current model will lead to an industry with declining enrollment. But there is a significant opportunity to serve a sizable population, enabling us to better deliver on our missions, enhance equity and to achieve sustainability as institutions.

Social shifts, the impact of COVID-19 and the upcoming enrollment cliff have generated an inflection point. What are we willing to do as an industry to alter the trajectory of higher education, and how can we deliver equity?

When companies/organizations attempt to alter/optimize their TAM/SAM/SOM framework, typical questions they tend to ask are as follows. All of these questions can be applied to the higher education industry (TM through SEM)

1. Is our market growing or shrinking? Is there opportunity to grow our total market? What is its upside potential?
2. What market share can we reasonably capture? How can we grow and capitalize on our true potential in the market?
3. Who are our preferred customer segments? Are we focused on the right market? Should we extend into additional segments?
4. Are all potential customers currently served? Are there pockets that we can penetrate to achieve scale?
5. How are we perceived as compared to our competitors? Are we appropriately positioned in the overall market?
6. Are we efficient and effective in our current external messaging? Is our outreach to potential customers clear?
7. What is our true operational capacity? Are we currently at capacity and/or are positioned to scale?
8. Do our product offerings resonate with our customer segments? Do we need to modify our existing products or offer additional ones?
9. Do we need to offer complementary products/support to enable potential (or actual) customers to engage with us and our products?
10. Are our customers satisfied with us and our products? Would they use us again or recommend us over our competitors?

[1] Office for Civil Rights. As an example, 34% of Black and 32% of Latinx households cancelled college plans for Fall 2020 compared to 28% White and 20% Asian households.

[2] NCES 2016. As an example, while the Latinx population has seen the steadiest increases in its college enrollment from 21% in 2000 to 39% in 2016, it continues to trail others – e.g., White at 42% and Asian at 59%.

[3] Columbia University CCRC; AACC; NCES; APA. For example, students from families making less than $50,000 a year account for over two-thirds of two-year college students, as opposed to ~45% of the four-year college population. Similar inequities are seen when comparing two-year and four-year institutions based on ethnicity, e.g., 57% of the four-year college population is White as compared to 45% of the two-year college population. These numbers reverse for Latinx students; they comprise 17% of the four-year population and 25% of the two-year population.

[4] Business Insider. Approximately 66% and 56% of Black male and female students, respectively, as well as 50% and 42% of Latinx male and female students, respectively, drop out without completing their degrees. In comparison, 65% of White and 75% of Asian students, regardless of gender, successfully complete their degrees.

[5] NCES 2021. In 1970, only ~10% of doctoral degrees, 38% of master's degrees and 42% of associate and bachelor's degrees were granted to women. These numbers are projected to increase to 54%, 56%, 58% and 66%, respectively, by 2026.

[6] AMCAD. In 2017, mean annual earnings between women and men differed for each educational level; as an example, $61K vs. $87K for BA graduates and $83K vs. $121K for MA+ graduates. This trend has continued since 2017.

[7] Bureau of Labor Statistics 2015. On average, Asian and White college graduates make ~$15,000 more upon graduation (BA or higher) as compared to Black and Latinx students.

# Student preferences help drive change

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**Sara D'Agostino**, Partner, Audit Services, Not-for-Profit and Higher Education Practices
Contact

College-bound students consider more than academics, athletics, geography and availability of remote courses when they decide where to continue their education.

Students today believe higher education should develop and benefit the whole self.

Historically, students may have been attracted to a university because of its career-oriented courses, academic prestige, religious affiliation, or due to a family member being an alumni.

As higher education has evolved, so have student preferences and expectations. Their decisions are now based on a wider range of factors such as growth in sports programs, specialized licensing programs, tailored interdisciplinary studies programs, research and development options, and opportunities for corporate internships.

But even that is not enough for some students. They are looking for — and expecting — personalized support and life skills training to help them grow as individuals. Institutions are taking note and are dedicating resources to develop or enhance mentoring programs, customized education, mental health programs, and a strong social and support structure on campus. These types of programs have been implemented by some institutions to meet the evolving expectations of students.

## Mentors

For both recent high school graduates and working adults who are juggling demands and responsibilities of work and school, a mentor can be a lifeline for navigating the college landscape and making career decisions. A September 2021 Student Voice survey from *Inside Higher Ed and College Pulse* found that three-quarters of students needed or wanted career advice from a mentor. College professors and academic advisers are natural fits for this role. The University of Central Florida offers numerous mentoring and academic coaching programs — including its Research and Mentoring Program and Alliance Mentoring Program — that connect students with mentors who have similar backgrounds, interests and demographics. Navigating student life is one of the key benefits provided by mentors, according to the Student Voice survey.

## Customized education

According to a report from the Association of Public and Land-grant Universities and the Coalition of Urban Serving Universities, Building A Future Workforce for All Learners, institutions must embrace flexibility. For example, Virginia State University's Bachelor of Individualized Studies program allows students to earn a degree through nontraditional methods that include gaining credits by means of exams, educational experiences in the armed forces and work-life learning opportunities. Micro-credentialing is also rising in popularity. The State University of New York at Albany offers a collection of courses and experiences to teach industry-aligned skills that help make students more marketable to employers in select fields.

## Mental health

The seclusion and isolation caused by the COVID-19 pandemic and the increased pressures of our fast-paced society have profoundly affected many students. To address these needs, students expect institutions to offer resources and programs like the ones at Barnard College. Barnard has committed to a holistic education that focuses on linking health and wellness to successful student outcomes. Its resources include health care and mental health services; fitness programs to boost energy and relieve stress; and therapy, support groups and other offerings at its Furman Counseling Center.

## Support structure

The campus environment has long been a factor in students' college decisions, but it has evolved beyond athletics and Greek life. As community and social justice have become more important, students have come to value a strong social and support structure on campus. A recent Eduventures Research survey showed that "the feeling that I would fit in" was one of the most important considerations for students as they chose which college to attend. Colleges can demonstrate that social impact matters by supporting peer groups that align with students' values and beliefs, community outreach and volunteer work, and family involvement. For example, Fordham University's Center for Community Engaged Learning's mission is to bridge the university with its "neighboring communities and global partners through experiential learning, research and civic engagement."

Life today is more complex than ever — in both the home and the workplace. Studies have shown that workers whose employers support aspects of their lives outside the workplace report better physical, emotional and mental health. In addition, the workers experience a corresponding improvement in job performance and financial stability. Recognizing the importance and benefits of employee well-being, more employers are offering wellness programs and providing tools and services for their workforce that address more than direct job competencies. Candidly, investing in these areas is not only in the best interests of students and employees, but the marketplace has signaled that they are operating imperatives that institutions must embrace.

The advanced pace of society will only accelerate. It won't be enough for individuals to learn how to connect with others, to be forward-looking, to serve their communities and to network with colleagues and mentors after they enter the workforce. For individuals to have lifelong professional and — more importantly — personal success, these skills will need to be developed much sooner. With that lens, students are now making enrollment choices based not only on their chosen major, but also on where they will learn life skills to support successful careers and to lead healthy and fulfilling lives.

# Rethinking facilities and workforce expenses

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Higher education institutions have recently experienced almost as many twists and turns as a mystery tale could spin. They went from expecting strong financial performance for fiscal 2020 to having the COVID-19 pandemic throw those predictions into doubt. Projections for fiscal 2021 were again anticipating challenges, yet some were tempered by unexpected, positive financial developments. Now, the question is: What should be done with the cost cuts of the past two years? Were they temporary, to weather the pandemic storm, or do they signal the need for a new operating approach? One thing is certain — The disruption to the delivery model has accelerated the need for universities to reimagine themselves.

The fate of many higher education institutions rests with two main strategic cost areas — facilities and workforce.

## How did we get here?

In spring 2020, higher education institutions expected a grim financial performance as they gave refunds for room and board, and made unplanned investments to provide remote instruction. That prediction didn't come to fruition, primarily because of prudent and swift cost cuts, combined with significant federal funding intended to assist not just the students directly, but also institutions. Many institutions actually experienced financial results that were close to breakeven, and some even generated a surplus, in fiscal 2020.

Then in fiscal 2021, enrollment dropped as many potential students decided to take a gap year in hopes that by fall 2021 living and learning on campus would once again be available. So again, institutions expected financial challenges. That prediction didn't materialize. Enrollment numbers were certainly lower, as were auxiliary revenues such as housing income. Costs associated with regular COVID testing, along with "de-densification" of living space, also had an impact. However, investment portfolios unexpectedly performed well. In addition, continued aggressive cost savings in travel, supplies and compensation, combined with two more rounds of federal funding, masked underlying structural deficits of many institutions.

Before the pandemic, colleges and universities had gone on a decades-long construction spending spree. A recent study shows that square footage has been steadily increasing each year since 2007, rising 16% in 2020, compared to flat or declining enrollment through the same year. In the past, the needs of a physical campus were based on synchronous student-to-teacher interactions, preference to study in a particular geographic location, face-to-face connections, books and paper, and a traditional eight-semester undergraduate timetable leading to graduation. As the learning model has morphed, how can universities continue to focus on cost savings while still maintaining the college experience and their differentiated brand? One way is to repurpose existing campus space rather than build more.

## The future: How do we get there?

Campus planning is a perennial focus for senior leadership and boards of higher education institutions. Some have wondered, "What is the purpose of a hybrid model, and do colleges even need a campus anymore?" The answer is emphatically YES. "The pandemic has made college frail, but it has strengthened Americans' awareness of their attachment to the college experience," wrote Ian Bogost, American academic and video game designer, in The Atlantic. As leadership reexamines campus planning for the future, here are some ways to create cost savings while providing the experience students still crave:

- Rethink the use of space to focus on what is truly important to experience in person versus what can be experienced remotely. Classroom learning, especially lecture halls and unmovable class/lab space, are probably not high on the list.

- Adapt existing single-use classrooms to support the hybrid model.

- Accept that libraries will still be needed, but their use should change to focus on community interaction, and access to and use of information in all media formats.

- Repurpose existing space for the future. Remodel administrative offices into single-occupant dorm rooms and convert lecture halls into performance auditoriums.

- Embrace the concept of hoteling for administrative staff; corporate America has done this for years.

- Consider leasing space rather than building and owning facilities, another concept corporate America has used effectively.

## Is compensation untouchable?

Compensation is the largest cost of any higher education institution. As the chart shows below, head count plummeted in 2020. Note that salary is just one component of personnel costs, as today inflation and demand for labor are causing those expenses to skyrocket.

Management should look at other options to maintain the savings experienced in 2020 and 2021. Here are a few possibilities:

- Consider that future employees will often not commit to a single employer for the long haul; therefore, don't always see value in traditional pension plans like those offered by many higher education institutions.

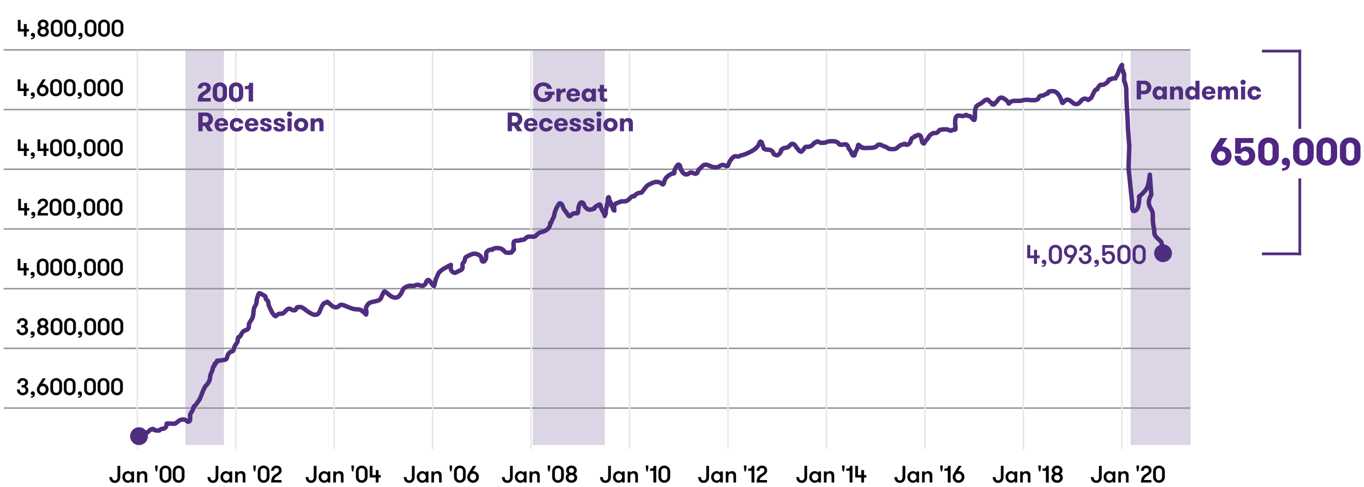
- Transfer recent and future savings in compensation into investments in technology to permanently replace compensation costs.

- Revisit the organizational structure to flatten unnecessary layers. (A study conducted by the American Association of University Professors found that from fiscal 2012 to fiscal 2019, the number of staff classified as management increased 12% per full-time-equivalent student.)

## Building on what we've learned

The pandemic brought challenges but also produced benefits that should be sustained. Higher education institutions exercised the muscles of rapid decision-making significantly during that time. Regular use will keep them in shape for a future full of challenges that demand brave new ideas. This isn't the first period of change, and it won't be the last. But the past has shown that higher education is resilient, can adapt and will survive.

### Estimated number of workers employed by institutions of higher education




Source: U.S. Bureau of Labor Statistics

# M&A activity accelerates in higher education

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Many higher education institutions are financially stressed by declining enrollment, higher operating expenses and increasing competition.

In particular, smaller tuition-dependent, private schools are struggling to compete with larger, better-endowed institutions. Recent research suggests that more than 700 colleges and universities in the United States are at a high risk of closure due to insolvency, or have the potential of takeover by a more stable institution. To survive, universities need to continually stress-test and refine their strategies, value proposition, market positioning and differentiators, delivery methods, and post-graduation opportunities for students. Their leaders should also consider an alternative that many higher education "lifers" have often disregarded — strategic partnerships with other higher education institutions.

## The pandemic is spurring proactivity

Long before the COVID-19 pandemic emerged, merger activity in the higher education sector was limited but on the rise. After only 32 higher education combinations from 2000 through 2009, 94 combinations occurred between 2010 and 2019. Two recent examples are Boston University's 2018 acquisition of Wheelock College of Education & Human Development, and Thomas Jefferson University's merger with Philadelphia University in 2017. And because of the continued challenges facing smaller, private institutions, we anticipate the consolidation wave will build across the higher education sector and grow substantially in the years ahead.

Fifty percent of Fortune 500 companies have ceased to exist over the past decade, and academia will likely follow the same paradigm. It should be noted that as business consultant Jason Jennings stated in his 2002 book title, *It's Not the Big That Eat the Small … It's the Fast That Eat the Slow.*

Historically, many transactions in the higher education sector resulted from an institution's urgent financial challenges. The options were often to close or to be acquired. We are starting to see a more proactive approach in which financially stable institutions are considering or pursuing affiliations to better equip and position themselves to not just survive but also thrive in an increasingly competitive academic landscape. Without question, the pandemic complicates the situation and will likely accelerate the consolidation trajectory for many institutions. The trend results from numerous compounding factors that cause prospective students to elect alternative career pathways. Also driving this surge in consolidations are financial stressors resulting from declining enrollment, higher operating expenses and increasing competition.

## Drivers of the surge

**Declining enrollment**

- Pre-pandemic, from 2010 through 2019, total undergraduate enrollment declined from 18.1 million to 16.6 million, or 8.4%, as reported by the Integrated Postsecondary Education Data System.

- During the pandemic, total undergraduate enrollment declined 7.8% in just the two-year period between November 2019 and November 2021, as reported by the National Student Clearinghouse Research Center. Freshman enrollment experienced the greatest decline, 13.1%, during this period. Public institutions are faring better than their private peers, with a total enrollment decline of 4.1% for public universities

compared to 11.1% among private colleges between November 2019 and November 2021. Regardless of the impact of the pandemic, broader declines in the number of U.S. high school graduates are expected to begin in 2026 due to a drop in the birth rate during the 2008 financial crisis, according to the Harvard Business Review. For example, the number of public high school graduates in the U.S. is expected to fall from 3.9 million to 3.5 million, or 10.2%, between 2026 and 2037, as reported by the Western Interstate Commission for Higher Education.

- Not surprisingly, the pandemic negatively impacted the level of enrollment of international students in U.S. institutions. In the 2019–2020 academic year, there were 1,075,496 international students attending U.S. colleges and universities; that number dropped 15% to 914,095 for the 2020–2021 academic year, as reported by the Institute of International Education. The decline in international student enrollment has an oversized impact on financial performance, because these students tend to pay higher net tuition rates. Further, the outlook for the timing of a rebound in international student enrollment is challenging, given the uncertainty caused by the pandemic.

**Higher operating expenses**

For public higher education institutions, total operating expenses increased 33% between 2010 and 2018 — from $295 billion to $397 billion. Although the increasing salary expense for professors continues to trend at 25% to 30% of total operating costs, other categories of expenses that are not directly related to instruction also significantly contribute to the increase in operating expenses. For example, student services and academic support are more than three times (66% versus 21%) the total operating expense at private universities than at public universities. According to a recent Vanderbilt University study, the total cost of compliance across a sample of 13 institutions was found to vary between 3% and 11% of each institution's expenditures, with a median value of 6.4%.

The pandemic has also required institutions to invest more heavily in personal protective equipment and technology solutions, and only institutions with greater resources can more readily address those needs.

**Increasing competition**

Prospective students are wondering: Is a college education and the potential doors it opens worth the student debt to obtain it? The return on investment of a college education has diminished over time. In fact, the average cost of a four-year college education increased 497% from 1985 to 2018, while average starting salaries for four-year college graduates increased only 41% ($36,200 to $50,900) during the same period.

A generation ago, college was perceived as a means to an end. Attaining a college degree was not just a path to success and a higher quality of life; it was viewed as "the" path. That is no longer a widely accepted axiom. Today, the pool of prospective students is shrinking, and students have more options than ever. As a result, smaller, tuition-dependent, private institutions are squeezed. On one hand, opportunities abound — at a much lower price point — at large public universities. On the other, high-quality alternatives to private school education are available; they include online programs, community college, career-specific microlearning, or even forgoing formal higher education.

Given all of these challenges, the status quo is not sustainable for many higher education institutions. Costs are out of line with returns, and merely cutting costs to achieve solvency has often proved to be a recipe for failure.

As a result, like their corporate counterparts, the “fast” innovators in higher education will seize an opportunity to identify and collaborate with potential partners. Proactive leaders, in consultation with their stakeholders — students, faculty, staff, alumni, donors and others — will pursue strategic partnerships, acquisitions and coalitions as mechanisms to better compete in this transforming landscape.

# About Grant Thornton's services to not-for-profit organizations and higher education institutions

Grant Thornton LLP has a well-earned reputation for understanding the needs of not-for-profit organizations and higher education institutions, providing them with in-depth knowledge to improve their operations, seize opportunities, address challenges and mitigate risks. When we assist them to become more effective at what they do, the benefits cascade through all the communities they serve.

More than 700 Grant Thornton industry professionals serve the audit, tax and advisory needs of more than 800 not-for-profit organizations and higher education institutions. While we take pride in the number of clients we serve, what is more important is the prestige of our nonprofit clientele; we serve a noteworthy 60% of the top 10 organizations listed in The NonProfitTimes' Top 100, 50% of the top 100 organizations listed as America's Favorite Charities in The Chronicle of Philanthropy, and 60% of the top 10 organizations in Forbes' America's Top 100 Charities list.

The not-for-profit and higher education industries are a strategic focus for our firm. Our commitment to these industries is reflected not only in the number of clients we serve, but also in our active support of and leadership in key industry associations and conferences aimed at strengthening not-for-profit organizational effectiveness and execution. We also demonstrate our industry leadership through our dedication to giving back to this community, and by sharing our best-practice experience via forward-looking thought leadership, including publications, articles, presentations, webcasts and training.

**KEEPING YOU INFORMED ABOUT INDUSTRY TRENDS**

We are committed to helping you stay up to date on industry developments. Visit gt.com/subscribe to join our Board and Executive Institute and regularly receive invitations to our latest educational forums and speaking engagements, articles and webcasts on current and emerging issues of interest to not-for-profit leaders. Explore gt.com/nfp to access our industry resources and thought leadership.

Our clients rely on us, and we respond to that trust by making continuous investments in our people so that we can provide our not-for-profit clients with the highest level of service. We are proud to have fully dedicated professionals — from staff to partners — who work exclusively with our not-for-profit and higher education clients. Our not-for-profit professionals provide our clients with information about relevant industry trends; accounting and regulatory pronouncements; practical insights and value-added recommendations; personal attention with timely, authoritative feedback and quick responses; and high-quality service with measurable results. When we support our clients to deliver on their missions, we deliver on ours.

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In order to best serve the unique needs of our not-for-profit and higher education clients, Grant Thornton has organized our industry practice into seven key sectors — associations and membership organizations, higher education, religious organizations, Jewish and Israeli organizations, foundations, social services, and museums and cultural institutions. This sector structure allows our professionals to develop deep knowledge specific to our clients' individual business models and enables us to provide sector-specific best practices, trends and technical updates.

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# Webcast series

Each year, leaders from Grant Thornton's Not-for-Profit and Higher Education practices provide learning opportunities through our webcast series. These sessions cover a wide variety of trending topics and regulatory updates relevant to not-for-profit and higher education executives and board members.

We welcome you to visit gt.com/nfp for more information about upcoming webcasts or to access past webcasts, which are archived for one year.

## Upcoming webcasts

The state of the not-for-profit and higher education sectors

**MAR 24**

Not-for-profit accounting, regulatory and Uniform Guidance update

**SEPT 14**

The race for talent: Attracting and retaining your nonprofit workforce

**JUN 15**

Evolving role of a not-for-profit's chief diversity officer

**DEC 7**

All webcasts are 2–3:30 p.m. ET.

## Webcast replays

The future of ERM in not-for-profit organizations

Applying a customer lens to measure your nonprofit's performance

The future of ESG practices for the not-for-profit industry

# PURPLE PALADINS

## Grant Thornton in the community

Grant Thornton's Purple Paladin program invests in, recognizes and celebrates early-stage nonprofit social entrepreneurs who tackle challenges like accessibility, hunger and inequality. Our firm supports these innovators and the nonprofits they lead by providing funding, volunteerism and business guidance, and by leveraging our platform and relationships to accelerate their work helping take these emerging organizations from startup to unstoppable.

## Nominate a Purple Paladin

Do you know an organization that is changing its community? We constantly seek nominations for up-and-coming nonprofit organizations. To learn more about the criteria and to nominate, please visit **gt.com/PurplePaladins**

## Some of our Purple Paladins

**Weird Enough Productions** creates comics that help combat media misrepresentations of minority communities. The organization's mission inspires kids to embrace a new cast of superheroes based on the idea that being yourself is powerful.

**Hope in a Box** seeks to help every student feel safe and included at school — regardless of their sexual orientation or gender identity. The organization gives schools books and curriculum that feature LGBTQ+ protagonists, and it coaches educators on themes of inclusivity.

**Foster Nation** supports and empowers foster youth aging out of the system to become self-sufficient. They focus on providing the community support and resources former foster youth need to graduate college and succeed as young adults.

**Find Your Anchor**

Find Your Anchor is a grassroots movement aimed at suicide prevention through awareness and education. It offers hope, resources and inspiration to those thinking about or impacted by suicide — and it helps all of us to see the anchors in our world.

**Go Team Therapy Dogs**

The Go Team is a rapidly growing nationwide organization with hundreds of dogs and handlers trained, plus groups overseas. Their mission is to produce well-trained, certified handler-dog teams and place these real-life heroes in programs and spaces where they offer comfort, caring and assistance to those in need, in the way only a dog can.

**Warrior Reunion Foundation**

Warrior Reunion Foundation supports combat veterans in their post-military journeys by reconnecting military units via life-changing reunion experiences. All Warrior Reunion Foundation events welcome Gold Star Families of those killed in action as part of the community and are always provided at no cost to those who attend.

**WeaveTales**

WeaveTales is dedicated to amplifying refugee voices and creating more inclusive communities through the power of storytelling. WeaveTales invites refugees of all kinds, from across the country and around the world, to participate in their programs — helping them learn how to use their voice to share their stories in unexpected ways.

Learn about the rest of the Purple Paladins at GrantThornton.com/PurplePaladins

Coming Up Rosies · Sneakers for Soldiers · pal · Invisible Hands

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**About Grant Thornton LLP**

Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world's leading organizations of independent audit, tax and advisory firms. Grant Thornton, which has revenues in excess of $2.08 billion and operates 51 offices, works with a broad range of dynamic not-for-profit, public sector, privately owned and publicly listed clients.