

COVID-19 and nonprofit organizations in South Korea
: Impact on service provision, financial sustainability and essential need and
concerns

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I. Introduction

Unlike anything most of us have experienced in our lifetimes, the COVID-19 pandemic has affected all parts of the world without any exception. The first COVID-19 infection case was confirmed in late January in South Korea (hereafter Korea) and Korea had the most COVID-19 infection cases and fatalities of any country outside China by the end of February (Shim et al., 2020). However, Korea has significantly slowed down the number of new cases and succeeded in constraining the spread of coronavirus without a nationwide lockdown (Moon, 2020). Numerous leading studies highlighted the Korean model—characterized by strict measures, widespread testing, and monitoring—as one of the most effective models to contain the COVID-19 epidemic (Beaubien, 2020; Moon, 2020; Shim et al., 2020).

Although the Korean model successfully controlled the COVID-19 epidemic, the damage has been striking not only in severe human casualties but also in its economic and social fallout. The Korea Development Institute reported that the Korean economy was seriously contracting as consumption and exports had rapidly decreased due to the negative impact of COVID-19 (Kirk, May 2020).

Besides financial pressure, the unfolding COVID-19 epidemic has thoroughly affected the nonprofit sector. The nonprofit sector is the first sector impacted by a crisis (Panzirer, 2020) and nonprofits serve as “second responders” in providing crucial social services at a crisis (Deitrick et al., 2020). The Nonprofit Institute at the University of San Diego reported that nonprofits are facing unprecedented disruptions in their ability to deliver crucial services under this COVID-19 epidemic in San Diego Bay areas in the United States (Deitrick et al., 2020). Similar to this, nonprofits in Korea have experienced profound organizational challenges since February 2020 (Center for the Public Interest Management, 2020).

While the government's proactive measures and citizens' cooperative efforts have been in the spotlight in numerous news media and scholarly articles, how this virus affected the nonprofit sector has not been sufficiently investigated. This study aims to examine the effect of the COVID-19 pandemic on nonprofit organizations in terms of their service delivery, financial sustainability, and essential needs and concerns. This study conducted a nation-wide retrospective survey with nonprofit organizations in Korea. First, this study briefly reviews the contextual information of the COVID-19 epidemic in Korea as well as the nonprofit sector. Second, this study's research methods and findings are described. Finally, implications of the findings are discussed regarding Korean nonprofits and their stakeholders.

II. COVID 19 and the nonprofit sector in Korea

After the first confirmed cases reported on January 20, 2020, Korea witnessed a steep spike in case numbers the following weeks. With the peak of the new confirmed cases of 909 on February 19, Korea became the second most infected country after China by early March (Shim et al., 2020). Korean government stepped up the 3-T (test, trace, and treat) policy to contain the spread of COVID-19 (Ministry of Economy and Finance of Korea, 2020), leading to remarkable success in controlling the spread of the virus within a month. This notable success was partly contributed by learning from previous nation-wide virus infection crises, such as the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 and Middle East Respiratory Syndrome (MERS) outbreak in 2012 (Park et al., 2020).

Korea is characterized by its strong state and strong civil society tradition (Oh, 2012). Korean government utilized full-scale epidemiological intervention and comprehensive cooperation with civil society. Extensive government-driven contact-tracing measures might have been extended from its strong state tradition, noted in the developmental state model

(Armstrong, 2012; Jeong, 2015). Equally, abundant research has drawn attention to the Korean civil society's leading roles in the country's democratization and social movement (Cho, 2007; Cho & Kim, 2007; Jeong, 2013). The Korean nonprofit sector is evaluated to have contributed to the advancement of the overall well-being of the society, in partnership with the government and the market (Kim & Jung, 2020). The COVID-19 crisis has showcased the effective measure and responses led by its central government in Korea. Korea's central government has taken agile-adaptive and transparent action to mitigate the spread of the virus (Moon, 2020). At the same time, citizens' voluntary cooperation was noted as another critical factor to this success (Moon, 2020).

III. Research method

To understand the impact of the COVID-19 outbreak on nonprofit organizations in Korea, this study initiated an online survey with nonprofit leaders and staff from May 11 to May 30, 2020. The survey was distributed through the Beautiful Foundation and its partner networks. The survey used convenience sampling, and the respondents were asked about an array of COVID-19 impacts on their organization. The respondents answered the survey on behalf of their organization. The questionnaire was developed, benchmarking the COVID-19 and Nonprofits Study from the Nonprofit Institute at The University of San Diego (Deitrick et al., 2020). The survey contained questions on COVID-19 impacts on the service provision, financial sustainability, and operational needs and concerns.

A total of 245 nonprofits were contacted and 147 nonprofits completed the survey. Of the 147 responding nonprofits, human service organizations ($n = 43$; 36.4%), civil society organizations ($n = 29$; 24.6%), and educational organizations ($n = 15$; 12.7%) took up the largest portion. The remained 26.5% ($n = 31$) include arts and culture, environment organization, and

association. 64.5% ($n=76$) were small organizations with less than five staff members. 68.6% ($n=81$) were aged 20 years or older. 68.1% ($n=79$) were located in the Metropolitan Area¹. In terms of budget size, 11% ($n=13$) were small organizations with annual revenue of KRW 100 million (USD 83,200) or less, and approximately 60% ($n=70$) were with annual revenue of KRW 500 million (USD 442,000) or more.

IV. Results

1. Service disruption by the COVID-19 outbreak

The survey results indicate that the majority of the nonprofits had to reduce or cease all of the operating services since the COVID-19 outbreak has claimed in February in Korea. As shown in Table 1, 78.2% of the responding nonprofits experienced service disruption after the first confirmed case in January. 25.9% reported complete suspension of their service provision. Nonprofits in non-metropolitan areas, with more staff, with a large budget, experienced a higher level of service disruption. Regardless of the types of nonprofits, most of the nonprofits (more than 75%) reported service disruption, except for educational organizations (46.7%, 7 out of 15 cases). Nonprofits commonly experienced a higher level of service disruption, regardless of their main revenue sources. 86.5% of government fund-dominating nonprofits and 75% of individual donation-dominating nonprofits reported service disruption.

[Table 1] Service disruptions experiences by COVID-19 outbreak

	Category	% (n)
Service disruption experience	Overall	78.2% (115)
by region	Metropolitan areas*	73.4% (58)
	Non-metropolitan areas	81.1% (30)
by age	Less than 5 years	71.4% (10)
	5 years – 10 years	60.9% (14)
	More than 10 years	81.5% (66)

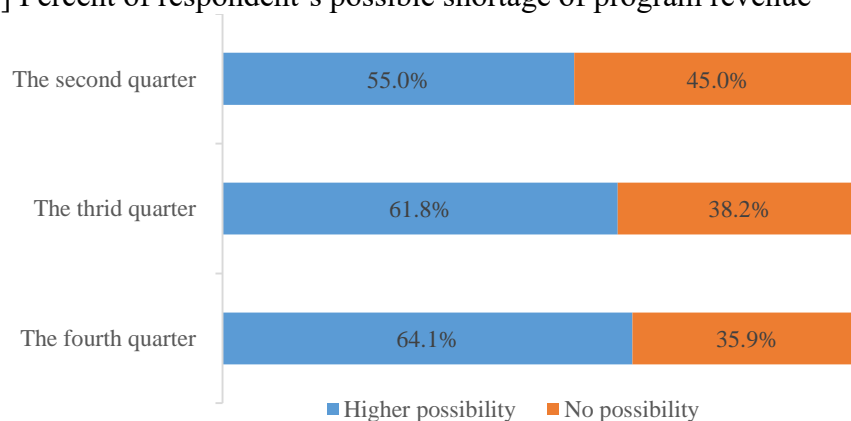
¹ Note: * Metropolitan areas include Seoul, Incheon, and Gyeonggi province. Non-metropolitan areas include the rest of the country.

by number of staff	Less than 5 employees	73.7% (56)
	5 employees or more	80.5% (33)
by budget size	Less than KRW 100 million	78.6% (55)
	KRW 100 million to less than KRW 500 million	77.1% (27)
	KRW500 million or more	61.5% (8)
by revenue dependency	60% or more rely on individual donations	75% (18)
	60% or more rely on government funds	86.5% (32)
by subsector	Civil society	75.9% (22)
	Human service organization	79.1% (34)
	Education	46.7% (7)
	Others	87.1% (27)

2. Financial hardships

This study documented the immediate and short-term financial hardships by the COVID-19 pandemic in Korea in terms of program budget and payroll sustainability for nonprofits. As Figure 1 shows, the majority of nonprofits expected an extensive revenue shortage in the second quarter (55%) and the percentage of the expected revenue shortage increased for the third and fourth quarters (61.8% and 64.1%, respectively).

[Figure 1] Percent of respondent's possible shortage of program revenue



Nonprofits in non-metropolitan areas expected a higher level of revenue shortage than nonprofits in metropolitan areas during the next three quarters of 2020 (an average of 64.0% in non-metropolitan areas versus an average of 61.1% in metropolitan areas). The gap would increase for the year 2020 (70.3% versus 62%).

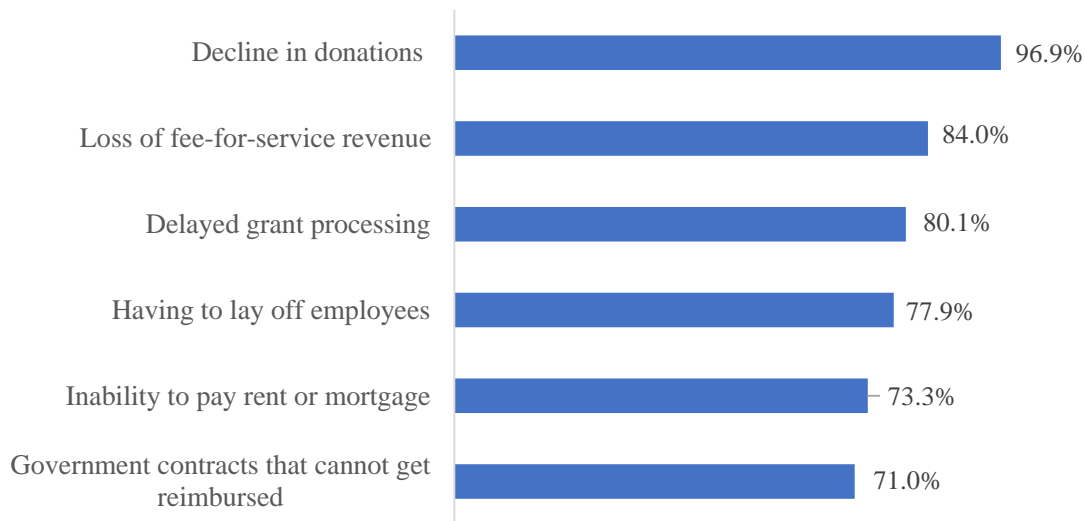
Organizations with any revenue size expect program revenue shortage during the rest of the quarters of this year (66.7%) Particularly, nonprofits with small revenue expect more severe revenue shortage than the other nonprofits in the fourth quarter (76.9% vs. 71.4% for middle size and 58.6% for large size). Nonprofits with a large number of staff members expected a more severe revenue shortage than nonprofits with small staff members during all three quarters of this year.

Beside of the COVID-19 impact on program revenue, we examined the COVID-19 impact on payroll sustainability for the nonprofits. Surprisingly, respondents reported an optimistic projection for their payroll sustainability during the next three quarters this year. More than 60% of responding nonprofits are expected to be able to pay their staff's salary during the next three quarters this year. Only 37.4% or less of the respondents reported insecure payroll sustainability. In detail, the organizations with large revenues reported more serious concern of payroll sustainability than the organizations with smaller revenues (38.6% vs. 22.9%). Government-support-dominating nonprofits reported having higher sustainability of payroll than individual-giving-dominating nonprofits (32.4% vs. 20.8% in the second quarter; 32.4% vs. 20.8% in the third quarter).

3. Organizational concerns and need

As for nonprofits' concerns shown in Figure 2, the decline in individual donations was the biggest concern (96.9%), followed by loss of fee-for-service revenue (84%) and delayed grant procession (80.1%). Concern levels in all of the issues were higher than those in the San Diego study (Deitrick et al., 2020).

[Figure 2] Percent of respondents' concerns for the next six months

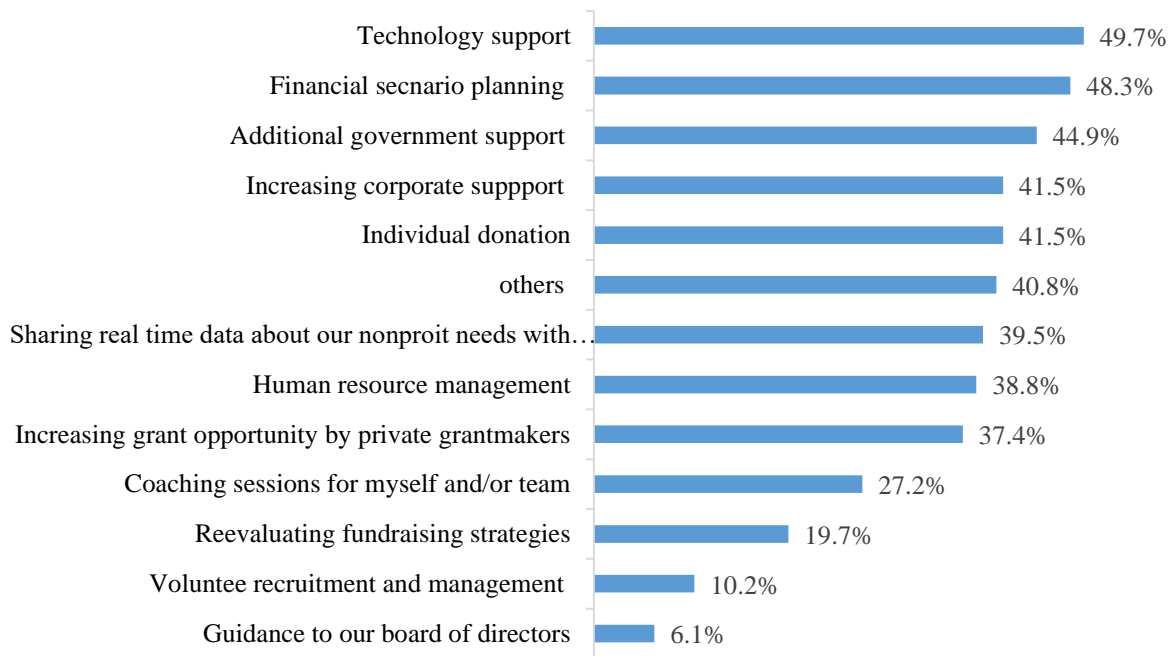


Nonprofits in metropolitan areas expressed concerns about the decline in private donations (98.7%) and loss of service fees (88.6%), whereas nonprofits in non-metropolitan areas showed concerns in layoffs (81.1%) and delayed government contracts (78.4%). Younger nonprofits expressed high concerns about a decline in giving and delayed government support. Nonprofits with large revenue reported a higher level of concerns about delayed government support (84.3%) and layoffs (82.9%). Small-revenue-based nonprofits are mostly concerned about a decline in private giving. By types, civil society organizations expressed the highest level of concerns about loss of service fees (93.1%) and delayed government support (86.2%), whereas social welfare organizations were highly concerned about delayed government contacts (74.4%). All of the individual-donation-dominant nonprofits expected a decline in private giving, revealing a higher vulnerability under this crisis.

As for organizational needs shown in Figure 3, the top three needs were technology support, financial scenario plan, and additional government support. 49.7% of the respondents reported that technology support (e.g., moving programs online, virtual event) is most needed, followed by a financial scenario plan (48.3%) and additional government support (44.9%). In contrast, internal managerial needs were expressed less tangibly, as seen in the need for guidance

to the board of directors (6.1%) and volunteering recruitment and management (10.2%). Surprisingly, none of the respondents stressed wellness and self-care for his/herself.

[Figure 3] Percent of respondents' top needs (Respondent-selected top five)



Nonprofits in metropolitan areas emphasize needs in technical support (54.4%), whereas nonprofits in non-metropolitan areas indicated the guidance to our board of directors (81.1%) as its top need. Younger nonprofits prioritized a higher level of additional government support (71.4%) and individual donations (64.3%), whereas the older ones chose guidance to board of directors (61.7%) and financial scenario plan (58.2%).

V. Discussion

Nonprofit organizations in Korea are facing unprecedented disruptions across multiple dimensions due to the unfolding COVID-19 outbreak.

First, nonprofits are facing severe disruptions in their service provision and delivery. Nonprofits with more age, revenue, staff, and located in non-metropolitan areas experienced

essential service disruptions in Korea. Nonprofits with age and large revenue size seem to be vulnerable in this unprecedented crisis because of complex revenue structure and extra volume of services. The complexity in financial resources, operating programs, and sizable clients creates organizational slack (Bowman et al., 2005) beyond the minimal-level capacity run by essential level financial and non-financial resources. Nonprofits in non-metropolitan areas in Korea may seem to face hardships on service delivery because of the lack of resources and weakness of financial health in the areas.

Second, responding nonprofits were expecting a significant shortage in the operating budget, with a more pessimistic view for the future prediction. Revenue shortages will be more critical for nonprofits in non-metropolitan areas because of a lack of revenue diversity and financial weakness. Older organizations were facing a more severe operating budget shortage than younger organizations due to the heavier size of services and the volume of clients. Organizations with smaller budget sizes were expecting higher levels of operating budget shortage because of instability in financial resources. Besides, all of the nonprofits reported a positive prospect for payroll sustainability, not because of a secured payroll budget, but because of the small portion of the payroll in the expense structure. Jang (2018) pointed out that nonprofit employees' compensation is close to the national minimum wage level in Korea. In addition, the nonprofit staff tends to dedicate themselves to their work and not for compensation, but the organizational mission and personal belief, characterizing Korean nonprofits' organizational culture.

Lastly, regarding concerns and needs of nonprofits under the COVID-19 outbreak, the high level of uncertainty dooms the future of the sector. Particularly, the decline in individual donations was a greater concern for the nonprofits in Korea. In general, individual giving

declined during the economic downturn (Wu & Brown, 2010), even though the charitable donation slightly increased during the 2008 economic recession in Korea (Kim et al., 2017). Notwithstanding, the philanthropic culture is not mature in Korea and the volume of charitable donations is substantially lower than in western countries (Lee, 2018). The unstable philanthropic culture in Korea makes nonprofits more concerned about the decline in philanthropic giving. Loss of fee-for-service was one of the biggest concerns for nonprofits because more than two-thirds of nonprofits experienced service disruptions. Notably, none of the respondents expressed concerns about self-health care. Not only might it be because of the successful quarantine system by the Korean government but also because of the self-sacrificing nonprofit staff, compared to their for-profit counterparts.

In conclusion, nonprofits in Korea are facing unprecedented disruptions in their ability to deliver crucial and essential services for the community. Notwithstanding the identified difficulties, nonprofits in Korea strive to find alternative ways to maintain their services for the community. Nonprofit leaders are requested to provide an active financial scenario plan and to engage short- and long- term fundraising strategies to sustain revenue sources. Nonprofits also seek to upgrade their technical capacity to deliver their services. Simultaneously, the government will face increased requests for funding commitment to support nonprofits under this unparalleled crisis, as well as relaxing restrictions on current grants and contracting obligations.

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