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# Nonprofits in a Time of Turbulence: Challenges and Opportunities

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**Abstract:** We have entered a period of turbulent economic and political change. Internationally, slower growth coupled with youth unemployment and rising inequality have driven a renewed interest in social policy. In the US, the preferred policy approach since the 1990s has been to move away from cash assistance to direct service provision spurring demand for nonprofit services at the local level (Smith 2015, “Managing Human Service Organizations in the 21<sup>st</sup> Century.” *Human Service Organizations: Management, Leadership, & Governance* 39 (5):407–411). Recently, however, we have observed a power backlash against trade, immigration and economic insecurity that is reshaping politics and bringing about significant cuts in social service programs and health care at a time when the need is high. Fiscal scarcity will no doubt create an additional burden for nonprofits working with communities in need. In Canada, the federal government is moving in the opposite direction with greater investment in the social policy fields, including healthcare, childcare, housing and poverty reduction initiative. These investments will mean a greater flow of resources to the nonprofit sector, but the government has been clear that in exchange they want to tie funding to results and performance.

**Keywords:** Nonprofits, public policy, contracting, financing

While seemingly paradoxical in nature, the policy environment in both the US and in Canada is evolving in the same direction. Policy choices are being made in a constrained fiscal environment which inevitably has translated into a reduction in contributions to the nonprofit sector over time – both from governments and from individual donors. The 2008 economic crisis hit the sector hard as charitable donations shrank and foundations suspended grants to protect their endowments. In the US, the average rates of change for total giving in the US was significantly lower between 2007 and 2017 at 1.2% than it was in the previous four decades no doubt as a result of the recession (Marts and Lundy 2017).<sup>1</sup> In Canada, a survey

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<sup>1</sup> For comparison, the ten-year average growth rate in the US between 1997 and 2007 was 4.8 %.

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from Imagine Canada – a key umbrella organization for nonprofits – showed that at the height of the recession almost half of organizations reported having difficulty fulfilling their mission and more than one in five reported that their existence was at risk (Imagine Canada 2010).

The increased competition for public resources is driving pressure for innovation, performance and accountability. Social service delivery systems already rely on a complex mix of networks and providers from the public, private and nonprofit sectors (Hofstad and Torfing 2016). In both countries, we're seeing some contradictory shifts such as a tightening of the contracting regime, a push towards mergers to overcome fragmentation, a push to more collaboration and services integration, and more flexible place-based approaches. Indeed, in order to secure greater efficiency, governments are restructuring the funding and regulatory conditions of collaborative arrangement by formalizing accountability and monitoring procedures in hopes of better tracking outcomes and performance (Peters 2011; Pierre, Røiseland, and Gustavesen 2014). The nonprofit sector's ability to navigate these policy changes matters for the quality of our public services and safety nets.

This special issue explores the important impact of these public policy dynamics on nonprofit operations. It brings together five articles that provide insight into how nonprofit organizations are managing these complex governance systems in new and contradictory ways, ultimately compounding policy capacity issues. The goal of the issue is to extend knowledge translation from research into areas that may be directly relevant to nonprofit operations. As the articles illustrate, nonprofits face dual, and at times contradictory, pressures to collaborate in order to enhance efficiency and to compete for contracts. Nevertheless, they are striving strategically to adapt to these new governance environments.

The first article by Saidel provides a dynamic conceptual map for understanding the range of ways that nonprofit organizations engage in collaboration in response to this changing policy environment. It reminds us that government-nonprofit relationships are not static and nonprofit managers need to develop their capacity to strategically adapt over time. Reflecting the highly variable nature of these relationships, Saidel's model centers on "smart contracting" practices and provides tools to identify the institutional imperatives and expectations facing nonprofit managers, thus promoting a more responsive and effective relationship.

In a similar vein, the paper by Carboni, Siddiki, Koski and Sadiq focuses on how nonprofits strategically engage in collaborative arrangements. The article reminds us that great variability exists in the approaches employed by nonprofits as they undertake collaboration. Using network analysis to examine food policy councils, they differentiate between descriptive and

substantive representation among nonprofits in collaborative governance process. The analysis assesses measures of attendance and active participation across meetings, concluding that nonprofit often operate on the periphery of the collaborative network – attending but not significantly engaging in deliberation. If collaboration is to truly be inclusive, we need to be cautious and pay special attention to power asymmetries that continue to exist within cross-sectoral initiatives.

Never and Westberg, in their paper, examine the impact of contracting on service provider location. In a context of increased competition for funds, they argue that proximity to users in need has become a strategic feature of nonprofit adaptation. Competition for funds incentivizes groups to move into particular neighborhoods in greater need. This proximity allows nonprofit service providers to offer place-based interventions and to be more flexible in their adaptation to the needs of the local community. Focusing on the recent recession period, the authors are able to show that nonprofits relocate over time into areas of greater need. These strategic adaptations have an important impact on nonprofit operations and their ties to community.

Berlin, Masaoka and Schumann also discuss the evolution of nonprofit contracting relationships over time. They argue that contracts have increasingly been reduced to transactional business relationships. As such, overhead rates have become an indicator of nonprofit worthiness. It is also evident that nonprofits often receive funding from multiple sources, greatly complicating the calculation of overhead costs. Moreover, many of the contracting and grant agreements between nonprofits and governments inhibit the recovery of reasonable administrative and infrastructure costs; instead, nonprofits are only allowed to pay for direct program expenditures. Indeed, even private donors are now wary of funding overhead and infrastructure expenses. Nonprofits are therefore very conscious that they need to find ways to reduce overhead costs and have adopted a number of compensating strategies in order to keep overhead low, such as raising earned income, understaffing, or underinvesting in infrastructure and technology. As demonstrated by the authors, though, it is very evident that these compensation strategies by nonprofits have serious limitations. The lack of core operational support has forced nonprofits to make difficult internal choices. As Berlin, Masaoka and Schumann conclude, nonprofits are implementing strategies to keep overhead costs low which are adversely influencing decisions around staffing, program quality and program expansion.

The final article by Barber, Lott, Dietz and Shelly examines the regulation of fundraising in the 50 US states. The unique contribution of the article is the development of a regulatory index based on registration and reporting requirements and oversight in each state. The article also provides unique insights on

nonprofit fundraising performance, demonstrating a link between regulatory breadth and fundraising performance. In those states with stronger registration and reporting requirements, nonprofits raised lower dollar amounts and also had fewer people donating to their organization. While substantial variability in terms of the types of regulatory frameworks exists across states, the article concludes that regulatory regimes directly influence the overall success of fundraising in the nonprofit sector.

All the papers are creative in their methodological approaches including the use of human geography and network analysis. Collectively they illustrate that the public policy and regulatory environment is especially important to nonprofit operation. Nonprofits also play important advocacy roles in shaping public policy, although this effort can be hampered by a lack of resources and inadequate strategy. How nonprofit organizations adapt to the current turbulent policy environment will matter greatly. Hopefully, this series of articles can provide practical and strategic insight for current leaders in the sector.

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