

Change and Churn in the Social Sector

Philanthropy and Nonprofit Trends

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“The 21st century will be the century of the social sector organization. The more economy, money, and information become global, the more community will matter. And only the social sector organization performs in the community, exploits its opportunities, mobilizes its local resources, solves its problems. The leadership, competence, and management of the social sector nonprofit organization will thus largely determine the values, the vision, the cohesion, and the performance of 21st century society.”

Peter F. Drucker

Promising Trends

There are many promising, evolutionary trends developing in the sector that have been gathering momentum over the last couple of decades. What follows is not an exhaustive research driven analysis, but basic reflections by a consultant in the field based on observation and practice.

Civil society continues to take hold around the world. Global NGOs are becoming ever more powerful forces for change. New nonprofits are constantly forming to address social and environmental problems. Social entrepreneurship is all the rage. Market based solutions to social problems are blurring sector lines, and innovative approaches to complex challenges are enough to make one hopeful.

Among these positive changes are increased professionalization, due in part to the influence of the private sector. Nonprofits are becoming more effective and efficient, focused on outcomes and evidence based practices.

Salaries and benefits—though not equal to those in the private sector—are rising. Sound organizational practices continue to develop, including stronger management and new positions like the Chief Operating Officer.

Executive education and leadership training programs are offering professional development opportunities for nonprofit managers. MBA grads are entering the sector, and bringing stronger management practices to the nonprofit world, another positive development.

Nonprofits and foundations are starting new partnerships with governments and businesses. New network approaches to social change are being explored, with the Packard Foundation and Monitor Institute playing key roles.

Resources, programs, and backroom operations are being shared. Large cross sector networks bringing together business, government, and nonprofit actors are forming to address critical community, regional, national, and global problems. The Environmental Defense Fund has been a leader in this area, ruffling a few feathers with its innovative partnership with Walmart.

Entrepreneurial strategies are diversifying and stabilizing the resource base for nonprofits. The development of social enterprise, promoting business savvy and earned income streams in the sector, has become commonplace. Think of the clever “Cocktail Collection” series of men’s neckties from MADD, Mothers Against Drunk Driving. The Salesforce Foundation’s model of an embedded social enterprise is a solid example of how a nonprofit can “grow its own food” in support of an important mission.

Another key trend is the expanding emphasis being placed by both nonprofits and foundations on “capacity building”. Capacity building means strengthening processes, procedures, and practices within organizations (both hard and soft), making them both more effective and efficient.

Typically, foundations have focused on supporting “programs”—the delivery of direct service to target populations. The private sector realized long ago that “knowledge” workers need up to date tools and work environments that foster creativity and high performance. By contrast, working conditions and basic organizational processes may be quite undeveloped in smaller nonprofits, as every available resource is targeted for programs and direct service. This is understandable given resource constraints, but remains problematic for organizations that strive for excellence in all dimensions of performance. Even so, the sector as a whole is evolving in this regard.

Improving technological infrastructure is a prime example of a capacity building effort that many foundations are beginning to support more frequently. Helping nonprofits become more effective in reaching members, engaging donors, managing websites, sharpening communications, and educating the public is a prime example of successful organizational capacity building. The sector is also utilizing new social media and Web 2.0 tools in innovative and effective ways to raise money, educate the public, and mobilize advocacy initiatives.

Foundations—recognizing that their investments largely fail to “solve” social problems—are becoming increasingly strategic in their giving, aiming more at “root causes” and less on “band aid” efforts. Within the philanthropic community, there are many new trends, such as venture and “engaged” philanthropy, web based approaches (think Kiva and Global Giving), small affinity foundations focused on specific causes (such as AIDS), to name just a few.

Foundations are experimenting with mission related investments, and also beginning to partner more with governments and with each other to address social concerns. New wealth and new wealthy philanthropists have brought new vigor and innovation into the sector—think Bill Gates, Pierre Omidyar, and Jeff Skoll. Capital markets in the sector are evolving too, and the realization of the necessity for “mezzanine” and expansion funding is finally allowing many high performing nonprofits to scale appropriately. Teach for America is raising 50m dollars in a current national expansion.

Generally speaking, although none of these trends are without difficulties (and detractors), I believe they are positive and evolutionary trends for the sector as a whole. Social entrepreneur/nonprofit expert Greg Dees of Duke sounded a cautionary note after reviewing this paper. He rightly notes that positive trends can also be double edged swords. As foundations and social investors grapple with strategic and venture philanthropy, many nonprofits doing noble work have found themselves without a consistent funding partner. The pendulum could easily swing too far in the direction of professionalization, earned income or capacity building. It would not be positive for nonprofits to lose sight of their critical missions in a well intentioned effort to adopt sharper private sector practices.

The effort to develop performance and impact measurements might make nonprofits focus on what it is possible or relatively easy to quantify, when many things that matter are not so easy to develop solid metrics around. How does an environmental organization working globally on climate change accurately determine its impact? Or a children’s advocacy organization working with many partners to pass legislation for kids measure its success? The ancient Chinese had a saying: *“It is easy to go too far in the right direction”*.

Challenging Trends

In the Fall 2009 issue of Stanford Social Innovation Review, Lester Salamon of the Center for Civil Society at Johns Hopkins University wrote that after surveying 1400 nonprofits, he and his colleagues learned that 83% reported being in a financial pinch, and 40% in a severe or very

sever financial pinch. Why? Salamon said the sector is in a “perfect storm of declining revenues, increased costs, shrinking endowments, and reduced cash flow.”

Mark Kramer, of the Foundation Strategy Group, noted in the same issue of SSIR that there are 1.4 million nonprofits in the US, and that 90 % of them have annual budgets under 500,000. Only 1% of nonprofits have budgets over 10m, and most of these are hospitals, universities, and cultural/arts organizations. These large nonprofits are struggling in the current economic environment right along with smaller and midsize organizations.

Governments—local, statewide, and national—are “outsourcing” more health and human service delivery directly to nonprofits. 31% of the budget of charitable nonprofits comes from government sources—taxpayer dollars. For health and human service nonprofits, the number is 50%. It is not uncommon for 90 % of human service nonprofit funding to come from government sources, through contracts. One could argue that is far superior to riding the ups and downs of dependence on foundation funding, since it is—in a sense—earned income. But with governments cutting back on social service funding and facing huge budget deficits, this can be a risky proposition.

A 5 trillion dollar deficit has been projected for federal, state, and local governments over the next 10 years, and that was the figure floated before the recent economic meltdown. Foundations also have less money to give away, as endowments have declined along with the economy. Meanwhile, as population grows, resources decline, and the economy staggers, social and environmental problems continue to escalate while more and more nonprofits compete for limited funds. Perfect storm indeed.

Staff and talent shortages are also looming on the horizon as boomers—many of whom are nonprofit founders—retire. Bridgespan Group, the nonprofit consulting practice of Bain and Co, has done significant research into this area, and note that the problem is exacerbated by low salaries and fewer advancement opportunities for more junior staff.

There is also greater government scrutiny in the sector. Scandals, some would say unreasonably high salaries, and the general blurring of lines between sectors have raised concerns at the IRS and among other government officials about the nonprofit world.

The long and short of all this? Some are predicting that as many as 25% of nonprofit organizations could be extinct in the next five years. Mergers, downsizing, and new strategic alliances have already begun to accelerate in the sector much as they have in the private sector over the next few decades.

Drucker is hopeful about the power of the social sector for improving life in the 21st century. But change is rapid, and the churn is real. A decade from now perhaps only the most resilient and adaptive organizations, and (some fear) the largest, will survive.

I too am hopeful. I think we will see great innovation in the sector (and across sectors) in the next decade. Clearly we must find better and better ways to address the critical challenges that both the human and natural worlds are facing as the century unfolds.

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