

BEST PRACTICE BRIEFS



PUTTING THE PIECES TOGETHER

NONPROFITS FACE
SUBSTANTIAL CHANGE IN

- demographics
- competition
- demand for accountability

RESULTS will be reinvention
and change:

- emphasis on outcomes and strengths
- more collaboration
- more use of technology
- more efficient operation
- larger organizations



OUTREACH
PARTNERSHIPS

MICHIGAN STATE
UNIVERSITY

TRENDS AFFECTING HUMAN SERVICES NONPROFIT ORGANIZATIONS

*Human services nonprofit organizations are facing overwhelming changes that they must learn to manage if they are to remain a vital component of the community system. This **BRIEF** explores the implication for human services nonprofits resulting from demographic changes; globalization in the business sector; downsizing of government and privatization; demand for greater accountability for the use of charitable and public funds; and blurring of distinctions among the public, for-profit, and nonprofit sectors.*

WHAT IS THE HUMAN SERVICES NONPROFIT SECTOR?



The human services nonprofits are among the agencies defined by the Internal Revenue Service as “Charities”—501(c)(3) organizations formed “for religious, charitable, scientific or educational purposes.”¹

Human services organizations are the largest group of charitable nonprofit organizations (37% of all 501(c)(3) charities). They provide a broad range of human services, including child care, residential care, job training, vocational rehabilitation, foster care, individual and family support, counseling, and social services.² This **BEST PRACTICE BRIEF** focuses on demographic, economic, technological, and organizational trends affecting these nonprofit organizations.

¹ Under section 501(c)(3) of the federal tax code, charities that receive significant public support enable donors to deduct contributions from their federal taxable income. Organizations qualifying for 501(c)(3) tax status are not permitted to influence legislation as a substantial part of their activities and may not participate in political campaigns. Foundations—endowed tax-exempt charitable organizations that provide grants—are also 501(c)(3) nonprofit organizations. Nonprofit organizations under other sections of the federal tax code are (1) Advocacy organizations, under 501(c)(4), that participate in legislative advocacy, lobbying, and political campaigns, and may provide some services; contributions to these organizations are not tax-deductible; and (2) Professional and trade associations, under 501(c)6, that promote the business or professional interests of a community, industry, or profession; contributions are not tax-deductible but members’ dues may be deductible as a business expense.

² Carol J. De Vita, (1997), Viewing Nonprofits across the States, *Charting Civil Society*, Center on Nonprofits and Philanthropy, The Urban Institute, Washington, D.C.



HUMAN SERVICES NONPROFITS IN MICHIGAN:

EXAMPLES:

- Big Brothers/Big Sisters—youth development
- Focus Hope—training for self-sufficiency and related functions
- Goodwill Industries—basic needs, employment training
- Ele's Place—bereavement services for children
- Lutheran Social Services—child welfare services, youth development
- Starr Commonwealth—residential treatment for delinquents

FACTS:

- Approximately 2,200 human services nonprofit organizations in Michigan in 1997, with incomes over \$25,000 reported assets of \$2.8 billion.³
- While the majority of funds come from charitable donations, they have become dependent on governmental support—public grants or contracts—for over 40 percent of revenue.
- Average annual wage is low—\$18,853, 30 percent below the average annual wage of all non-profits in 1997.⁴ This may reflect a larger number of part-time workers.

WHAT TRENDS AFFECT NONPROFIT HUMAN SERVICES ORGANIZATIONS?

DEMOGRAPHIC AND INCOME CHANGES ARE ALTERING THE MARKET

Demographic trends already evident will affect the services needed, as well as the allocation of community resources and the availability of volunteers.

TREND: The population is aging

The fastest growing age group is over the age of 90. People are living longer and more remain healthy. Many are pushing back the age of retirement. Others are looking for volunteer opportunities or avocations after retirement. The oldest “Baby Boomers” will reach retirement age in the next decade and may want a different mix of services.

Impact: *Increased demand for the very old will result in more limited allocation of funds and volunteers for children and adult services.*

Implications: *Intergenerational programming—utilizing elders to work with children, or children to work with elders—may provide access to needed funding for services to children.*

Impact: *There may be changes in the availability of senior citizens for volunteering. A unique characteristic of nonprofit organizations is their reliance on volunteers. While the pool of potential senior vol-*

unteers may grow, many seniors are staying in the workforce longer and are not as available for volunteering.

Implications: *Alternative approaches for recruiting younger volunteers, such as Service-Learning, should be explored (see **BEST PRACTICE BRIEFS NOS. 11, 12**).*

TREND: More children are living in poverty.

A single parent heads more than one of every four families in Michigan and one-third of all children are born to single parents. Despite low unemployment and a strong economy, more Michigan children lived in poverty in 1995 than in 1989. Over half a million Michigan children live in poverty, and poverty is increasing more rapidly among very young children. In 1995, nearly one in four children under the age of five was poor—up from one in five in 1989. Federal and state welfare reforms that require parents to work have moved women into the low wage market generally without benefits beyond a transition period.

³ Based on data of the National Center for Charitable Statistics, Washington, D.C. with calculations by Public Sector Consultants, Inc. Excludes an estimated 1300 organizations that are not required to file tax returns because of annual income below \$25,000 and an estimated 3500 with annual incomes under \$5,000 that do not have to apply for tax exemption.

⁴ Robert J. Kleine and Nick A. Khouri, (April 1999), *Economic Benefits of Michigan's Nonprofit Sector: Description and Analysis*, Michigan Non Profit Research Program, Nonprofit Sector Research Program, The Aspen Institute, Washington, D.C.

Impact: Under welfare reform, human services nonprofits and faith-based organizations are expected to play a bigger role in providing a safety net for poor children and families. This is a throwback to the years when nonprofits and faith-based organizations were the primary providers—before the complexity and scope of problems resulted in governmentally funded social security, child welfare, protective services, and community mental health services. Many nonprofit and religious leaders question whether their organizations have the capacity to meet increased demand for services.

Implications: In response to pressures to expand services, nonprofits may find themselves overextended.

TREND: The family is changing.

An increasing number of single parents and dual wage-earner families juggle children and work. By the mid-1990s, almost two-thirds of Michigan's young children (under age 6) lived in families where a single parent or both parents worked outside the home. Most of these parents (70%) worked more than 30 hours per week.⁵ Even in those families with adequate incomes, there are fewer opportunities in the home and in the neighborhood to learn from adults.

Impact: The demand for quality child care, after-school programs, and other family support services, for all children, will continue to grow.

Implications: Nonprofits and faith-based organizations will rethink their missions and reallocate their funds to new services, building relationships for children that promote youth development.

"MORE CHILDREN
are living in poverty;
more children are very well off—
they can all benefit from relationships
and opportunities."
—Nonprofit executive

Impact: Working parents generally cannot keep appointments during working hours.

Implications: Nonprofits will become more creative and flexible for services involving the participation of parents, offering services during evenings and weekends, or at the worksite as part of employee assistance.

Impact: Fewer parents may be available to volunteer.

Implications: Nonprofit organizations will become more creative in attracting parents who have less time to devote to outside activity; for example, offering opportunities for parents and children to volunteer together.

TREND: The population is becoming more ethnically diverse.

By 2015, more than one-third of the country's population is projected to be minority—up from 28 percent in 1997. The fastest growing population group has been Hispanic. By 2015, Hispanics are expected to be the largest single minority group overall, although not in all regions.⁶

Impact:

- Children and adults who are missed in the census count are disproportionately black and Hispanic, resulting in a loss of federal funds allocated to geographic areas of need.
- Disparities in well-being and health status in minority groups may affect the demand for services and the types of services needed.
- Acceptability of services and community support will be affected by the responsiveness of nonprofits to language barriers and cultural practices, and their openness to participation of minorities.

Implications: Nonprofits should review all aspects of operation—board membership, recruitment of staff and volunteers, training, interventions, and evaluation processes, and sources of funding—in the light of cultural diversity issues.

ECONOMIC CHANGES ARE CREATING NEW CHALLENGES

TREND: For-profit businesses are merging into larger corporations that extend across state and national boundaries.

Impact: Formerly family-owned businesses and locally based corporations lose their local identity. Decisions for merged organizations are made centrally; large corporations are more strategic and less local in their charitable giving.

⁵ Kids Count in Michigan 1999 Data Book, Michigan League for Human Services, Lansing, MI.

⁶ J. del Pinal and A. Singer, (1997), *Generations of Diversity: Lation in the United States*. Bulletin 52(3), Population Reference Bureau. www.prb.org

Implications: *Nonprofits will develop new approaches and responses to corporations.*

- *Global companies may seek out nonprofits as a way of addressing social problems affecting their businesses.*
- *Global companies may be interested in partnerships that help to sell corporate products and improve their reputations in the local marketplace.*

TREND: **Funding pressures are blurring the boundaries between nonprofits and for-profits. For-profit businesses are competing with nonprofits.**

For-profit businesses will continue to seek new markets in areas that were once the purview of nonprofit organizations or government and may form nonprofit arms for these enterprises. For-profit businesses, for example, are moving into franchised child care and juvenile justice residential care.

HUMAN SERVICES NONPROFITS

in Ourtown run the gambit from very small organizations that are operating the way they always have to organizations that have begun to swim in the mainstream of modern management and service delivery. A quick review of the landscape identifies some members of the vanguard.

Downtown, **three independent Youth Development Organizations** are meeting regularly as a consortium for strategic planning.

- They have agreed to offer services in different sectors of town so that they are not competing for participants.
- They are sharing asset-building service models and strategies, including use of computers and ways to involve youth as members of boards and committees.
- As a consortium, they are negotiating with the schools to initiate and run after-school services in the elementary and middle schools.
- They are exploring whether some management and public relations functions can be shared. Their publicity emphasizes their competence in asset building and their attractiveness for volunteers.
- A foundation grant is underwriting a partnership with the University to evaluate their outcomes.

On the north side, **Ourtown Industries is an entrepreneurial nonprofit “business”** engaging in moving people toward self-sufficiency. Ourtown Industries has moved away from its initial recycling and furniture repair into manufacturing, bidding for contracts with an automobile supplier for netting and with the army for clothing. Starting with physically handicapped persons, Ourtown Industries has developed contracts with a

variety of governmental agencies to work with non-English speaking immigrants, juvenile delinquents, hard-to-place women moving from welfare to work, and consumers of mental health services. Ourtown Industries provides skill assessment, design of job accommodations, training, paid employment, job search, and support for placement in the private sector. To accommodate trainees’ unmet needs, Ourtown Industries provides training in English as a second language, recreational opportunities, and an assisted living residence.

Ourtown Industries has used the technical expertise of their board members to fine-tune all aspects of the operation. Ourtown Industries also has a partnership with the university medical school to develop rehabilitation approaches for persons with severe injuries.

The CEO of Ourtown Industries is thinking about franchising or providing technical assistance to other communities to replicate their successful model.

Children’s Services used to run a residential facility for children diagnosed as severely emotionally disturbed who were ejected by families and communities. Funders began to question escalating costs and a high rate of readmissions. Facing competition from a for-profit organization who said they could do it cheaper and better, Children’s Services rethought their mission and their approach. Now they focus on outcomes—maintaining children in their natural environment—using home-based services and the strength-based wraparound model⁷. They are also seeking funding for interventions with pre-school and elementary age children who are high risk, exhibiting initial behavioral symptoms. Children’s Services is thinking about changing its name to one that more explicitly represents their current focus.

⁷ See **BEST PRACTICE BRIEF NO. 2** for the assets/strength-based approach and No. 14 for an example of the wraparound model.

Impact: *Competition forces change in management practices.*

Implications: *Nonprofits will become more entrepreneurial, seeking out related but different functions and new funding sources.*

- *Under economic pressures, nonprofits may be tempted to respond to available funding or potential markets, rather than hold to their missions.*
- *Nonprofits may add money-making activities.*

Implications: *To remain competitive, nonprofits will improve their management practices and find administrative efficiencies, by*

- *increasing the professionalism of their staff, particularly in areas related to management, finance, planning, and evaluation; this will mean increasing salaries.*
- *developing scale⁸ by expanding their operations and organizations through*
 - *interagency consortia for purchasing*
 - *adding related functions*
 - *expanding the areas or populations served*
 - *acquisitions and mergers*
- *affiliating with a national organization that can provide information, training, technical assistance, advocacy, and access to similar operations*

Impact: *Competition forces change in marketing practices.*

Implications: *Nonprofits will distinguish themselves from their for-profit competitors by building on their unique characteristics.*

- *Nonprofits will reinforce their community ties, their base of support, and their contribution to the quality of community life.* Human services nonprofits are positioned to have a strong footing in the community and an ability to be responsive to the public. For-profit businesses frequently lack the community linkages required to understand the climate of the community and to involve consumers in assessing need and decision-making.
- *Nonprofit organizations will improve their public image by publicizing their accomplishments, including their effective utilization of donations.*
- *Nonprofits must continue to be innovators.* Innovation should be part of the organizational culture and encouraged by funders. Nonprofits should recognize the potential in the current interest in building assets for

children and youth.

- *Nonprofit organizations will hire or develop professional skills in public relations, media relations, and marketing.*

A STUDY OF NONPROFIT AND FOR-PROFIT CHILD CARE CENTERS⁹

in Atlanta, Georgia, found that:

- directors of nonprofit centers had higher levels of education and were more likely to have training in child development than in management.
- nonprofit directors value quality of services above all other factors.
- for-profit directors were more likely to incorporate cost/benefit factors into their decision making.
- for-profit centers tended to pay their employees less and have higher staff to child ratios.
- parents of children in for-profit centers tend to be less involved in the operations of the center than parents in nonprofit centers.

TREND: *The number of nonprofits is increasing.*

Between 1988 and 1994, the number of public charities reporting to the Internal Revenue Service grew by 6.3 percent annually.

As existing nonprofits change, they may become more bureaucratic and less responsive to community concerns. If some sectors of the community feel overlooked, new nonprofits will spring up to provide a more personal response. This increases the opportunities for charitable giving, but donations have not increased.

Impact: *Nonprofits are competing with nonprofits.*

TREND: *Funding pressures are blurring the line between government, nonprofits, and faith-based organizations.*

⁸ More than a third of nonprofit agencies that fail indicate being “too small” was one of the top factors leading to agency closure. Joseph Galaskiewicz, (August 1999), What Went Wrong? A Study of Nonprofit Mortality, *Nonprofit Relations with Business*, Nonprofit Sector Research Fund, The Aspen Institute.

⁹ Erna Gelles, (July 1999), Administrative Attitudes Versus Practices in For-Profit and Nonprofit Child Care: A Social Judgment Theory Analysis, *Nonprofit Relations with Business*, Nonprofit Sector Research Fund, The Aspen Institute.

Services that have been delivered by government agencies are now being privatized through purchase of services contracts.

Impact: *Involvement with governmental funding requires more sophisticated money management.*

Implications:

- *Nonprofits will need to ensure a balance between government funding activities and community-based support.*
- *Nonprofits will need larger reserves to accommodate cash flow problems if governmental reimbursements are delayed.*
- *Nonprofits may want to identify the true costs of providing services and rethink their funding structure.*

TREND: *Inherent in policy shifts is an expectation that nonprofits and faith-based organizations can and should assume more responsibility for serving the poor and providing human services—being asked to do more with less.*

Impact: *Federal funds for programs of interest to human services nonprofits have been reduced.* The percentage of the gross domestic product devoted to federal spending in areas of interest to human services nonprofits declined some 40 percent between FY 1980 and FY 1997.¹⁰ Government support of nonprofits has increasingly moved through the channels of Medicare and Medicaid. Those nonprofits outside the health care system actually received less support in 1997 than they did in 1980.

Implications:

- *Nonprofits will have difficulty making up lost federal funds.* The overall thrust of tax policy in the 1980s and 1990s appears to have weakened financial incentives for charitable giving. As of 1995, increased private giving had failed to compensate for overall federal spending cuts in areas of concern to human services nonprofits.¹¹
- *Without sufficient funding or capacity in the nonprofit sector to fill the gap of decreased federal responsibility, it is likely that low income households will have more limited access to services.*¹²
- *Reduction of salaries as a survival strategy will be counterproductive.*
- *Nonprofit organizations may have to engage in increased public policy advocacy in order to ensure their survival and growth.* As nonprofit organizations become more dependent on public dollars and assume increased responsibility for services, there will be a need for

greater involvement in public policy decision making, within allowable limits for advocacy.

"You can't solve poverty by volunteerism."

-Community activist

TREND: *Cross-sector and agency collaborations will become one approach to improved services delivery.* Community systems of care will develop, i.e., interconnections of agencies involved with services for the same or parallel populations (see **BEST PRACTICE BRIEFS NOS. 9 AND 10**).

Implications:

- *Nonprofits will benefit from becoming more effective at working with each other and with local and state government agencies.* *Involvement with the workgroups of single- and multi-purpose collaborative bodies will be expected of the human services community.*
- *Because public and philanthropic dollars are limited, nonprofits will be required by funders to view competitors as partners.*
- *Nonprofit organizations will hire staff who can work in a collaborative culture.*

COMMUNICATION TECHNOLOGIES CREATE OPPORTUNITIES AND COSTS

TREND: *New technology creates competitive pressures for more efficient and larger organizations.*

Impact: *Technology requires rethinking all aspects of nonprofit operations.* Opportunities include the potential in use of computers, e-mail, and web sites. Costs include the management and staff investment necessary to make the best use of the technology.

Implications:

- *E-mail will facilitate communication with volunteers, donors, and persons receiving services.*
- *Asset- and skill-building services can include training in use of computers and design of web sites.*
- *Educational and self-help services can be offered through the Internet.*

¹⁰ The Federal Budget and the Nonprofit Sector, (October 1999), *Snapshots- Research Highlights*, Nonprofit Sector Research Fund, The Aspen Institute, No. 7.

¹¹ Deborah Sturdevant, (February 2000), *Spectator or Participant? A Survey of Charitable Nonprofits' Political Advocacy*, Michigan Nonprofit Sector Research Fund, The Aspen Institute.

¹² Julian Wolpert, (February 2000), *How Federal Cutbacks Affect the Charitable Sector, Nonprofit Relations with Government*, Nonprofit Sector Research Fund, The Aspen Institute.

- *Compatible computers, software, and networking will facilitate interagency communication and collaboration and the development of community systems of care.*
- *Computer software facilitates the processing and analysis of services data for quality control and the documentation of outcomes.*
- *Web sites will inform the public concerning the availability of services, accomplishments, and fiscal responsibility in the use of funds.*
- *Web sites provide a resource for recruiting volunteers and donors.*
- *The Internet will provide access to information about grant possibilities and best practice models.*
- *Nonprofits will need to engage technologically competent staff through training and new hires, or obtain contractual or volunteer technical assistance.*
- *Accepting gifts of outmoded equipment will not facilitate effective use of technology.*

EXAMPLES

- Some Internet businesses, as a way to differentiate themselves, will assign 10% of profits to the charity of your choice.
- Web sites can list volunteer needs by community and agency.
- Virtual volunteers are being recruited through a web site: *www.serviceleader.org*.
- The Anchor System, from the U.S. Department of Health and Human Services, provides a common intake process, enabling agencies to develop, share, and map hitherto unavailable information about neighborhoods.

DEMANDS FOR GREATER ACCOUNTABILITY

TREND: Governmental and philanthropic funders are exploring alternatives to practices.¹³

Impact: Donors are becoming interested in venture philanthropy, directed at systems change (see web site: *www.supeattle.org/home*). There is a shift toward funding community-wide culture change initiatives and assets-oriented, strength-based approaches.

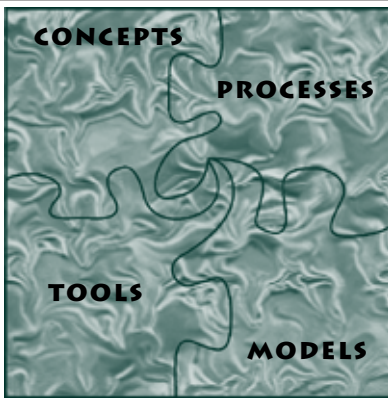
Implications: Deficit-oriented organizations need to rethink their strategies.

Impact: Nonprofits will be expected to show a relationship between their investments and identifiable benefits to society. Funders and the public will stress outcomes rather than service activity (see **BEST PRACTICE BRIEF NO. 5**).

Implications: Nonprofit staff and boards of directors will be pushed to make accountability a strategic priority, installing outcome-based strategies and continuous quality improvement.

- *Nonprofits will monitor the effectiveness of replicated models and innovations.*
- *Collaborations involving funders, universities, and nonprofits will develop for the purpose of evaluating human services programs and improving nonprofit management.*
- *Nonprofits will affiliate with umbrella or professional associations that establish baseline standards for accountability and enhance professional reputation.*
- *Accountability will be facilitated by “watchdog” organizations. For example, Philanthropic Research Inc. provides prospective donors with Internal Revenue Service reports (see web site: *www.guidestar.org*).*
- *Offices of state attorneys-general have 800-numbers for information about state-licensed agencies.*
- *Nonprofit staff will increasingly be required to become specialists in the areas of management, finance, planning, and evaluation.*
- *Very small “shoestring” agencies, forced to redirect staff time to administration at the expense of direct services, will not survive.*

¹³ **BEST PRACTICE BRIEF NO. 1** outlines these shifts in values and practice.



BEST PRACTICE BRIEFS are a product of **OUTREACH PARTNERSHIPS @ Michigan State University**, connecting university resources to the community. **BRIEFS** are reviewed by participating faculty, **OUTREACH PARTNERSHIPS** staff, and an Advisory Group of potential users. Responsibility is assumed by Betty Tableman, Editor, at 517-432-7138, or e-mail: tableman@msu.edu. **BEST PRACTICE BRIEFS** may be copied within the subscribing office and may be quoted with citation of the source. Copyright © 2000 Board of Trustees of Michigan State University.

WRITE **OUTREACH PARTNERSHIPS**, MICHIGAN STATE UNIVERSITY, ROOM 6, KELLOGG CENTER, EAST LANSING 48824 OR CALL 517-432-2500 FOR BROCHURES ON TRAINING OR INFORMATION ON PAST ISSUES @ \$2.50 EACH.

A SUMMING UP

While this **BRIEF** has focused on the sometimes contradictory trends changing the landscape for human services nonprofits, there are some broader issues. There is as yet no societal or community consensus on social policy that would comprehensively address the maintenance of the safety net and the promotion of healthy people and functioning communities. Within this blurred context, human services nonprofits face substantial change. The future of these organizations will depend upon how well the agency can navigate the shifts ahead.

ACKNOWLEDGEMENTS

This **BEST PRACTICE BRIEF** was developed with the assistance of SAM SINGH, Michigan Nonprofit Association, and Michigan State University faculty and staff MARK WILSON, Institute for Public Policy and Social Research; BOB BROWN, Outreach Partnerships, DAVID KNAGGS, School of Social Work and Outreach Partnerships; CELESTE STURDEVANT REED, Outreach Partnerships and Institute for Children Youth and Families; L. ANNETTE ABRAMS, Outreach Partnerships.

ADVISORY GROUP: MARGUERITE BARRATT, Institute for Children, Youth and Families; BECKY BEAUCHAMP, United Way of Northwest Michigan; ROB COLLIER, Council of Michigan Foundations; DEANNA DEPREE, Life Services System of Ottawa County; MARCIA KREUTCHER, Region II Community Action Agency; JOHN MELCHER, Urban Affairs Center, Michigan State University; DEBORAH STRONG, Children's Trust Fund.

STAFF: BETTY TABLEMAN: Editor and Writer; PAT SORENSON, Writer; Student Assistants ELIZABETH BETHARD, ANDREW HAHN, and CHRISTA ROBINSON; KASMIN ERQUHART, Clerical Support; KATHY BLACK, Designer.

REFERENCES

INDEPENDENT SECTOR. www.indepsec.org

THE ASPEN INSTITUTE. NONPROFIT SECTOR RESEARCH FUND. www.nonprofitresearch.org

THE URBAN INSTITUTE. CENTER ON NONPROFITS AND PHILANTHROPY. www.urban.org/PERIODCL/cnp.

JOHNSON, Spencer. (1998). *Who Moved My Cheese?* New York: G.P. Putnam's Sons.

STEVENS, Susan Kenny. (1998). *Becoming Tomorrow's Nonprofit: Seven Strategies for Managing Your Nonprofit's Future*. The Stevens Group.



BEST PRACTICE BRIEFS—FOR FUNDERS, POLICY MAKERS, PLANNERS, MANAGERS

MSU is an affirmative-action, equal-opportunity institution.