Are Nonprofits Obsolete?

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Can the nonprofit sector survive the barrage of government regulations, the fast changing environment, the changing priorities of donors and beneficiaries, the democratized nature of fundraising and a host of other internal and external factors? The nonprofit sector is threatened by its very nature, which is complex and seems to go against the established principles of successful organizations. At the same time the larger outer environment has continued to wreak havoc on a sector that is already internally weak. Can the nonprofit sector, as organized, continue to exist? This paper discusses the internal weaknesses inherent to the nonprofit sector including funding, legal organization, nature of nonprofit work, workers and clients, as well as the external threats to the sector including inter-sectoral competition, regulations and the changing global economic landscape. To stay relevant, nonprofits must adapt to the changing outer environment by evolving internally.

Key Words: Nonprofit organizations, astroturfs, foundations, non-governmental organizations, benefit corporations, nonprofit boards, social welfare organizations, development aid

The Nonprofit Sector: Unnatural in Organization and Practice

The nonprofit sector is almost unnatural. The nonprofit organization is organized and operates in ways that defy established principles and practices of successful organizations. The nonprofit sector faces internal challenges relating to: a) its funding and organization, and, b) the nature of nonprofit work, nonprofit clients and nonprofit employees.

Funding and Organization

Funding

The major proportion of funding for the nonprofit sector comes from foundations, business, government, and donations from individuals. The parasitic nature of the sector makes it difficult for nonprofit managers to make decisions based on their mission. Instead, decisions may be based on funding, and may cater to the goals of the funder rather than the organization (Rose, 2013). The distribution of type of nonprofits across the sector may be influenced by the sector’s resource dependency rather than need (Stater, 2010). Sometimes nonprofits accept funding from sources whose missions may be in conflict with the nonprofits’ missions. Gray and Bishop (2009), for example, found that nonprofits sometime “self-censor,” adjusting their missions so as to be acceptable to funders. Nonprofits also spend a sizeable amount of their limited time and resources writing grants and pursuing other funding opportunities, which takes them away from their core missions (Thompson and Williams, 2014; Gray & Bishop, 2009).

Additionally, funding for the sector is affected by the business cycle (Elmquist, 2012). The technology industry, for example, has had a great impact on nonprofits, both negatively and positively. In San Francisco particularly, but also in other cities with sizeable technology firms, real estate values have skyrocketed and nonprofits have been squeezed out due to high rents (Montgomery, 2014; Sabatini, 2013; Prowler, 2014). At the same time, the high tech industry has been a major source of donations to nonprofits (Moretti, 2013).

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Often, nonprofit funding is inversely related to need for many nonprofits, particularly those related to human services. During times of economic downturn and high unemployment, the need for nonprofit services rises. At the same time, funding goes down as governments collect less taxes, corporations make less profits and lose value, foundations suffer stock market losses, and individuals who might donate to causes save their disposable income to safeguard their financial security.

The underfunded nature of the sector makes managing the nonprofit organization a challenging fit even for the most talented of managers. Constantly operating in a crisis mode, small and medium nonprofits have little time for strategic planning or big picture thinking. Due to lowly paid jobs, the sector is unable to attract top talent, experiences high employee turnover, and relies on part-time employees and volunteers, all of which impact management. Additionally, the nonprofit manager is unable to rely on traditional financial motivators for employees.

**Organization**

**Governance**

A major challenge in nonprofits is their board governance.

Nonprofits are governed by (mainly) volunteer boards. In some cases, board members are obligated to fundraise for the organization. It is therefore not surprising that nonprofit boards have been found to be weak and lax (Alexander, J. A. et al., 2008). Kerwin (2011), for example, found that board members downplayed conflict within the board because they viewed it as negative. The weakness of nonprofit boards may be attributed to the fact that the board members volunteer (are expected to volunteer) their time and may not be as invested in the organizations or competent in their work as they might be if they were recruited due to their expertise and compensated for their time. Chait et al. (2004) suggest that the best nonprofit boards combine intelligence, technical expertise, a sound reputation, and political leverage. Board recruitment, particularly in small nonprofits, tends to be haphazard, with the nonprofit executive director playing a major role. A conflict of interest is likely to occur since the board members are well known to the executive director and they are torn between their loyalty to him/her and their obligation to oversee his/her work.

A major difficulty in nonprofit board governance is how to measure their performance. While the board in for-profits is accountable to shareholders and measured through profit and stock performance, measurement of nonprofit board performance is more gray (Modern Healthcare, 2006). How should benefit to society be quantified? Should it even be quantified?

Alexander et al. (2008), contend that nonprofit hospital boards, for example, have not always served the interests of society and have been engaged in practices such as restricting free care and overbilling patients. Yet, their hospitals are financially successful and therefore continue to benefit society – which they would be unable to do if they were financially insolvent.

All these issues with governance threaten the ability of the sector to thrive, particularly in the face of outer environmental pressure.

**Competition**

Since it is not profit-driven, it is easy to think that the nonprofit sector does not have to contend with competition, and that its altruistic nature renders the sector to cooperation rather than competition. But competition is real and fierce, and comes from unlikely and unpredictable sources. Nonprofit organizations provide services that are also provided by the government and by business, and is therefore, in some cases in direct competition with these sectors. Not being self-sustaining, the sector is an underdog when faced with inter-sectoral competition. Within the sector, competition is exacerbated by the fact that nonprofits compete for funding from the same limited sources. Local nonprofits in particular also compete for the same clients. In addition, competition comes not only from nonprofits with similar missions, but nonprofits with opposing missions. For most nonprofit causes, there exists causes which are in direct opposition. The People for the Ethical Treatment of Animals (PETA), for example, has to contend with the People Eating Tasty Animals, an organization that encourages fishing, hunting, eating meat and wearing fur. Organizations fighting obesity are facing increasing competition from “fat acceptance” organizations. The recent outbreak in measles in the United States underscores this issue. While immunization has generally been accepted in the country, a growing movement of parents that oppose vaccinations is threatening the cause and chipping away at the gains already made.

**Measuring performance**

The ability to objectively evaluate the performance of an organization is crucial to the continued growth of the organization. While for-profit organizations can easily measure their success based on quarterly profits, the case of nonprofits is much more complex. The nature of the services provided by nonprofits as well
the underfunded nature of the sector make it difficult to collect hard data with which to measure performance. Quantifying human services is difficult as productivity does not always translate to the number of people served, but also how well they are served. The long-term (and even short-term) benefits of many causes are impossible to measure – for example, how do we know the extent to which our particular anti-smoking campaign or after-school program impacted participants’ lives in the long term?

**Nonprofit Work, Employees & “Clients”**

**Nonprofit Work: The worst jobs ever?**

Partly due to sector funding issues, nonprofit jobs are lowly paid and hence unattractive. But even more perverse, nonprofit work is often treated like charity work, with highly educated and trained employees involved in nonprofit work having low salary caps. While nonprofit work is usually for the benefit of the poor, the existing mindset that nonprofit work should also pay poorly, (to avoid self-enrichment on the backs of poor people) is clearly detrimental to the growth of the sector. Yet, the mindset has gained roots among many people. Indeed, several states including New York, New Jersey, New Hampshire, Massachusetts, Florida and Illinois have instituted or proposed to institute curbs on the pay of nonprofit executives (Gose, 2012).

Money aside, nonprofit work, with perhaps a few exceptions such as museums and art galleries is difficult, unglamorous, sensitive, and even dangerous as is evident in the human services industry. Dealing mainly with vulnerable people, the sector is heavily regulated and nonprofit employees are held at a higher standard of behavior and reporting at work. Outside work, employees are expected to exhibit unnatural saint-like behavior. A 24-year old teacher, Ashley Payne, for example, was fired for posting a picture of herself holding a cup of what appeared to beer on Facebook (Sullivan, 2011). Perhaps even worse, nonprofit work tends to have a “housekeeping” flavor to it. It is about “cleaning up” the messes of society – rehabilitating drug addicts, sex workers, street gangs. And like housekeeping, society tends to complain when these problems are evident, but does not seem to notice when these issues have been resolved through the hard work of nonprofits. Consequently, nonprofit work tends to be tedious and not gratifying to employees. Some nonprofit jobs, funded through grants and often temporary and part-time, do not provide an opportunity for upward mobility for employees. According to McCroskey (2005), “ambivalent” and “indifferent” orientations towards the organization by employees are negatively correlated to job satisfaction and motivation, while an “upward mobility” orientation is positively correlated to these organizational-relevant factors.

Additionally, a study by Mook et al. (2014) indicates that there is interchangeability between paid workers and volunteers across sectors. In their study, 10.8% of volunteers reported replacing a paid staff member, 31.1% permanently, while 7.6% of paid staff reported being replaced by volunteers, 21% permanently. Working in a sector that regularly relies on volunteers may make paid workers further insecure in their already insecure jobs.

**Who is the nonprofit “client”?**

Defining the client in the nonprofit sector is more complex than in other sectors. Nonprofits must deal with both benefactors and beneficiaries. These two groups require diametrically different types of client services. While seeking to maintain donor relationships through such activities as newsletters, recognition and appreciation awards, benefit galas and the like, the nonprofit manager must also think about relationships with those who access the nonprofit services. At the same time, nonprofit beneficiaries may be referrals from government agencies such as juvenile justice, mental health, disability, and children services. This adds a new layer of client relationship building required of the nonprofit leader. Clients who receive services from nonprofits come with a host of complications for the nonprofit leader and workers. Lacking autonomy and agency, some of those referred to the nonprofit from government agencies as in the case of court-mandated participation may be unwilling clients for the nonprofit services. The fact that these clients do not pay for their services may lead to moral hazard issues. Clients are negatively socially constructed and have little political power, which leads to the manifestation of problems such as the Not-In-My-Backyard (NIMBY) phenomenon for the nonprofit. In many respects, nonprofits are seen as doing good things for “bad” people.

**Nature of nonprofit employees**

The nature of those who work for nonprofits makes it challenging for the nonprofit manager and the sustainability of the nonprofit sector. Due to the difficult and poorly paid work, nonprofit employment tends not to be the first choice for many people who end up working within the sector. Instead, the sector may attract people who are unable to get jobs elsewhere, those who have experienced burn-out in the business sector, retirees who go into the sector for second careers, and volunteers and part-time employees who
necessarily must have, due to low pay, other jobs on the side. Those who join the nonprofit sector as a first choice career usually do so because they have passion about a particular cause. The challenge for nonprofits from this type of workers is that they tend to believe that doing good is all that is required and that passion can replace professionalism (Phalen, 2013).

**Under Attack: External Threats to the Nonprofit Sector**

Outside of the nonprofit sector itself, there are many threats to the sector that have arisen due to the changing nature of global and local political, economic, technological and social-cultural environments.

**Politization, New Designations, and Fake Nonprofits**

*Partisan politics and nonprofits*

The tax-exempt nature of the nonprofit sector and the difficulty in defining political versus nonpolitical “social welfare” activities predisposes the sector to excessive scrutiny and over-regulation. In 2010, for example, the liberal Association of Community Organizations for Reform Now (ACORN) was disband due to a widely publicized controversy where a YouTube video showed ACORN workers giving advice on how to get round the law to two conservative activists posing as a pimp and a prostitute (Reuters, 2010). ACORN, which was a national organization that had been in operation since 1970, saw its funding sources dry up when, following the scandal, the U.S. Congress voted to prohibit the organization from receiving federal funding, and the U.S. Census Bureau ended its partnership with the group. The video was shot in the heat of the 2008 presidential campaigns. The disbanding of ACORN illustrates the vulnerability of nonprofit organizations, which are not self-sustaining, and the numerous sometimes unseen publics that have the potential to affect and threaten the existence of a nonprofit. In 2010, another controversy over the applications for tax-exempt status by political organizations associated with the “Tea Party” erupted. It was reported that the IRS had flagged organizations that had “tea party,” “patriots,” and “9/12” in their titles, and was requesting additional information before approving them as 501 (c) (4) (Kroll, 2013). This controversy further highlighted the increased politicization of the nonprofit sector, leading to increased distrust and greater scrutiny of the sector.

Internationally, Non-Governmental Organizations (NGOs) have also been seen to be partisan, particularly during presidential elections. In a post-election interview with NBC’s Andrea Mitchell (*Andrea Mitchell Reports*) on March 19, 2015, for example, Israeli Prime Minister, Benjamin Netanyahu, claimed that a lot of foreign money had been taken into Israel through NGOs to influence the [contentious] election.

**New designations**

As the nonprofit organization has become untenable, some state legislatures have introduced the Benefit Corporation (B Corporation), a new form of legal designation that caters for organizations that have social missions, but which prefer to operate as businesses. Accord to www.bcorporation.net, there are currently 27 U.S. states with the Benefit Corporation designation and 14 where legislation is underway. Change.org, an organization that provides a platform for the creation of public petitions is perhaps one of the most successful and well known Benefit Corporations.

The new designation has seen the increase of commercialization of services previously provided by nonprofits. Some colleges and universities, hospitals, government-subsidized housing programs and even prisons, now operate on a for-profit basis, all claiming efficiency as their major strength over nonprofits.

Another trend involves nonprofits engaging in commercial ventures (Moeller, 2012). While commercial ventures help to stabilize the nonprofits’ revenue streams, they may take nonprofits away from their core missions.

**Astroturfs**

One of the greatest threats to the nonprofit sector is the proliferation of “astroturf” organizations. An Astroturf organization is a “group that lends a veneer of moral legitimacy to a cause,” which “allows a group to present its position as a grass roots campaign, regardless of the actual degree of public concern” (Young 2009). These fake grassroots are sponsored by large corporations to help influence or shape public policy. A reality that nonprofit organizations or cause movements have always had to deal with is that for many causes there exists counter causes – and organizations or movements that have not just divergent, but opposing missions. If those organizations are grassroots organizations, organized and funded by citizen groups, the playing field is fair and the message that the majority of the citizenry agrees with tends to win. Astroturf organizations, however, are virtually impossible to compete with. Unencumbered by funding and often facts, astroturfs have a much louder voice and have more influence than grassroots
nonprofits could ever hope for. Further, astroturf organizations confuse the public both with regard to message as well as who they represent and reduce the public trust of legitimate nonprofits. Even more insidious, one of the key astroturf personalities, Richard Berman, for example, has been quoted as saying that his aim is to “shoot the messenger” (consumerdeception.com). In other words, rather than simply oppose a cause, astroturfs sometimes attack real nonprofits, thus destroying the trust that the public may have of those nonprofits. Astroturfs also use research that they sponsor in order to support their position and provide some seeming legitimacy. Barnes and Bello (1996), for example, cite the case of the Center for Indoor Air Research (CIAR), which was created by tobacco companies to fund “high-quality” research related to indoor air. The authors found that tobacco companies, through CIAR, were funding “special-reviewed” projects to develop data for use in legal and legislative settings. Notably, astroturf organizations have access to policy makers and have become a strong voice in setting policy agendas on behalf of their clients, without ever disclosing who their real clients are, but while posing as citizens groups.

**Terrorism**

The terrorist attack of September 11, 2001 has had effects on the nonprofit sector over the subsequent years. The U.S. Patriot Act and the resulting collection of metadata by the National Security Agency (NSA) have affected the sector both directly and indirectly. To stem terrorism, the U.S. government in conjunction with other nations has instituted measures to track the flow of money to terrorist organizations. Like the astroturfs funded by business, terrorist organizations have also traditionally posed as welfare organizations.

The U.S. Department of the Treasury, through the Office of Foreign Assets Control (OFAC), keeps a list of individuals and organizations that the government suspects to have ties to terrorism. Assets of those individuals and organizations are frozen temporarily, or permanently if the person or organization is ultimately declared a Specially Designated National (SDN) or Specially Designated Global Terrorist (SDGT). Following such a declaration, the IRS revokes the organization’s 501(c)(3) status. Nonprofits that have been declared SDGT include Al Haramain Islamic Foundation Inc., Benevolence International Foundation, Global Relief Foundation, Holy Land Foundation for Relief and Development, and Islamic American Relief Agency (GuideStar, 2006).

The Treasury Department also has developed recommendations for “Voluntary Best Practice for U.S.-based Charities,” which call for more “transparency about nonprofit governance and visibility and accountability in all financial practices, including the compensation of officers and employees (GuideStar, 2006).”

The increased scrutiny to prevent the flow of money to organizations tied to terrorism has likely had an adverse effect on legitimate welfare organizations that are not associated with terrorist activities. Individuals and other organizations have become cautious in contributing to welfare or cause organizations that they fear might be suspected of terrorist activities, to avoid being labelled terrorist sympathizers.

Another way that terrorism has affected nonprofit organizations, particularly internationally, is that development aid has been refocused to fight terrorism. Development aid to developing countries is partly done through Non-Governmental Organizations (NGOs). According to Chatham House, “the post-9/11 aid policy was reoriented with a new emphasis placed on assisting US allies and antiterrorism work. The US Agency for International Development (USAID) was merged into the State Department to facilitate its use as a foreign policy (rather than broader assistance) tool (Dormandy, 2012). The U.S. military has also expanded its involvement in humanitarian and development activities which, according to InterAction, has compromised the security of NGO workers (InterAction, 2013).

In its intelligence gathering process, the government has sometimes used nonprofits, with Central Intelligence Agency (CIA) agents posing as development aid workers. The capture of Osama bin Laden, which involved the running of a fake Hepatitis B vaccination drive in the neighborhood where bin Laden was suspected to be living, brought this issue to light. People in poor countries have always been suspicious of foreigners’ motives in bringing them aid. In poor areas of Nigeria, for example, polio vaccines had been rejected as a Western plot to sterilize girls (Scientific American, 2013). Following the revelation about the fake vaccination drive, polio vaccination health workers in Pakistan and Afghanistan were attacked and accused of spying for the CIA (Aljazeera, 2015). (In the fallout that followed, the CIA pledged to never use a vaccination drive as a tool for intelligence gathering) (Sun, 2014).

Whitlock (2012) reports that the U.S. has expanded secret intelligence operations in Africa. The operation involves flying unmarked planes on spy missions in various parts of Africa. Fictionalized dramas like Homeland and Madam Secretary continue to expose the government “astroturfing” of international NGOs. This has in turn eroded the public
trust of NGOs within the countries that those organizations operate.

**The Global Economic Landscape**

Beginning 2007, the Great Recession saw an unprecedented number of people out of employment. In 2008 and 2009, the U.S. labor market lost 8.3 million jobs, which represented 6.1% of all payroll employment. (Economic Policy Institute, 2015). Family income dropped and poverty rose.

As pointed out earlier, the nonprofit sector’s needs are inversely correlated with its funding. While nonprofits had a bigger pool of candidates for paid jobs and volunteer positions, they were also under pressure to do more with less as funding from the government, business, foundations and individuals dwindled.

Globally, previously poor countries have experienced economic growth that has resulted in their reclassification as middle-income and even high middle-income by the World Bank. The world’s fastest growing economies are in Africa and Asia (Kawa, 2012; Robinson, 2015). Non-Governmental Organizations in these countries have become less relevant. Botswana, for example, one of the countries reclassified as upper middle-income, has seen some NGOs pull out altogether.

As developing countries continue to grow, there is increased dissatisfaction with the concept of NGOs as a whole. Many citizens in these countries have observed NGOs operate in their countries for decades, with little progress to show for it. There is a new yearning to be self-sustaining, and social enterprises are now favored over NGOs. Indeed, U.S. President Barack Obama himself has deemphasized relief aid and called for partnerships. In his speeches relating to Africa, Obama reiterates that he has a new approach to Africa’s problems that involves helping African countries to develop self-reliance as opposed to merely providing them with aid. The term NGO is conspicuously absent in the president’s speeches. In his July 2009 speech to the Ghanaian parliament, the president actually implied that the current aid model does not always benefit the intended recipients, but instead ends up with Western “consultants and administration”: By cutting costs that go to Western consultants and administration, we want to put more resources in the hands of those who need it, while training people to do more for themselves. The president often ties this new approach to dignity: The whole purpose of development is to create the conditions where assistance is no longer needed, where people have the dignity and the pride of being self-sufficient (Symposium on Global Agri-

**Culture and Food Security in Washington DC, May 18, 2012).**

**Technology**

The Internet (and in particular social media) is now intricately woven into the cultural fabric of society. Inevitably, the nonprofit sector has been reshaped by this technological revolution. Technology has been mainly positive for nonprofits, making them more efficient with many services, fundraising, volunteer recruitment and other operational activities now being conducted online.

At the same time, technology has threatened those nonprofits that have been unable to manage this change effectively. The democratization of fundraising, for example, has led to a proliferation of nonprofits serving the same constituents and competing for the same resources. This has produced a sector characterized by small nonprofits that are ineffective due to size, and inefficient in the duplicate services that they offer.

Through innovations such as crowd funding, technology has also improved the ability to monetize social causes, which has led to new social enterprises – companies that would otherwise have been organized as nonprofits, but are now able to raise money as business enterprises.

Social media and the phenomenon of viral stories have increased personalized “foundations,” where celebrities and other individuals enjoy the limelight and raise large amounts of money within a short time. The ALS Association’s ice-bucket challenge of 2014, for example, which attracted such famous personalities as Oprah, Bill Gates, Mark Zuckerberg and LeBron James, raised $115 million. The story of a Detroit man, James Robertson, who was reportedly walking 20 miles to and from work, resulted in a crowd-funding campaign that raised over $350K. While these stories are usually temporary and have very specialized causes and often limited reach, they tend to take up all the oxygen in publicity and money, and threaten long-running nonprofits with less sexy causes, approaches and name recognition.

**Implications**

Clearly, the nonprofit sector operates under difficult and often unsustainable conditions. And while there is no disagreement regarding the important role of nonprofits locally and around the world, it is apparent that the positive rhetoric is not backed by supportive action for the sector. For sustainability, changes must come both from within and from outside the sector:
Governments can support nonprofits by easing regulations and streamlining the rules that make it difficult for them to operate. The ability for organizations to adapt to their environments is crucial for survival. Government regulations tend to limit the actions of nonprofits, particularly with regard to the definition of primary mission and taxable activities. The IRS, for example, could define and review taxable activities for individual nonprofits less stringently, with considerations of not just how revenue is generated, but how it is utilized. The current IRS Form 1023 - Application for Recognition of Exemption, is long, complicated and burdensome to nonprofits. On the other hand, one of the problems facing the nonprofit sector is the proliferation of small ineffective and inefficient nonprofits. The registration of a nonprofit should take into account not just the mission of the organization, but its long-term viability. The current tax-exemption requirements do not include a requirement for nonprofits to demonstrate their viability, or that the need they seek to fill is not already being met by an existing nonprofit. The inclusion of such requirements might stem the proliferation of duplicate organizations and thus allow existing nonprofits to thrive.

Governments could also support nonprofits by allocating tax dollars to the sector. Currently, government funds to nonprofits flow through competitive grants and contracts. Automatic allocation of monies to nonprofits would help ease the need for nonprofits to always operate in a crisis mode, and thus help them to concentrate on achieving their missions.

Historically, public charities obtained their money from the upper class and were mainly operated by religious orders and people who had taken a vow of poverty. The modern nonprofit has retained vestiges of the earlier public charity. In particular, the public continues to hold the attitude that nonprofit workers should be self-sacrificing. This attitude has manifested itself in the low wages that nonprofit workers receive. This orientation needs to change. Governments and the public need to recognize nonprofit work as a career and not a vocation. Nonprofit direct care workers should be paid at least a living wage and nonprofit managers should be paid competitive salaries. This would help attract and retain qualified and motivated people into the sector.

Individual nonprofits should seek to diversify their income streams by engaging in activities such as business ventures and charging fees for services, rather than relying primarily on donations. Supportive government regulations would help nonprofits to adapt much easier in terms of the income-generating activities in which the organization can engage.

Conclusion

So, are nonprofits obsolete? Not yet. For the foreseeable future, the nonprofit sector will continue to play the role of filling the gaps left by government and the business sector. Ultimately, however, the way nonprofits are organized is untenable in the long run. Nonprofits will have to continue to evolve internally so as to survive the external revolutions taking place around them.

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