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Nonprofit Growth and Decline During Economic Uncertainty
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ABSTRACT
During times of economic uncertainty, why are some human service organizations able to grow while others fail? In this paper, we present qualitative data on differences in the institutional logics adopted and managerial strategies used by child and youth-serving organizations during the 2008–2012 recession. We compare organizations that grew with those that experienced decline, looking particularly at those organizations with increased versus decreased dependency on government funds. We find differences in service population allowed some organizations to remain successful within a government-partnership logic; others faced decline if they did not entrepreneurially adopt a market logic.

KEYWORDS
Children and youth; government funding; human services; nonprofit organizations; organizational growth and decline

The economic downturn that began in 2008 created an enormously challenging funding environment for human service organizations (HSOs) in the United States. Declines in foundation assets and individual giving were accompanied by severe state-funding cutbacks in many regions. At the same time, many HSOs saw increased demand for their services. However, despite the economic difficulties experienced by the field in general, not all HSOs struggled. While many HSOs discontinued services and downsized, others were able to grow over the same period (Boris, Leon, Roeger, & Nikolova, 2010). This paper is organized around this puzzle: Why are some HSOs able to grow during an economic crisis while others fail?

There exists a substantial body of literature on approaches nonprofit managers take to navigate fiscally challenging situations. One strategy commonly discussed is to move toward revenue-generating platforms by increasing fee-based services or adopting social enterprise models (Gidron & Hasenfeld, 2012). This theoretically allows managers to reduce dependency on the external environment (Pfeffer & Salancik, 1978), but is challenging for human service organizations for a variety of reasons (Carroll & Stater, 2009; Froelich, 1999). Other managers may focus on gaining more control over their environment, for example, by engaging in advocacy to attempt to secure the flow of resources and maintain connections with funders (Mosley, 2012). Still other managers may focus on building organizational legitimacy, which, given the institutional nature of human services, may lead to increased success with funders (DiMaggio & Powell, 1983; Oliver, 1991). This can take the form of competitive strategies, such as adopting business management techniques to enhance operational efficiency and demonstrate accountability (Alexander, 2000). It can also take the form of cooperative strategies, such as building stronger relationships in a specific community or constituents (Walker & McCarthy, 2010).

None of these choices are mutually exclusive and, of course, managers do not make these choices completely freely. Institutional norms and logics guide managers’ thinking, and capacity limitations constrain action for small organizations. Scholars have argued that the dominant logics found in human service fields are in flux due to market pressures and changes in government-funding arrangements (Binder, 2007; Kirkpatrick, 2007; Skelcher & Smith, 2015; Thornton & Ocasio, 2008; Tucker, Baum, & Singh, 2010). This paper investigates how managers think about strategic choices, given the logic they are operating under.
and presents data on why managers pursued a particular path in response to the 2008 recession. It then compares organizations with various levels of success in weathering the recession to see if commonalities emerge.

One aspect of that success is how they manage dependence on government funding. Scholars have long warned of the dire consequences of becoming too dependent on one source of income (Hasenfeld, 2010; Pfeffer & Salancik, 1978). These include loss of control over what services are offered and population served and catastrophe if that funding is lost. Yet, government grants and contracts are an essential-business-model component for many human service nonprofits and can be sizable and sustainable revenue sources. A national study of nonprofit HSOs showed that government funding accounted for approximately two-thirds of total revenue in 2010 (Boris et al., 2010). Unfortunately, research has also shown that government funding comes with significant drawbacks, such as late payments, administrative burdens, and low payment rates (Garrow, 2011; Kerlin & Pollak, 2011). We also know that the flow of government funding is unstable and sharply affected by changing national and local economic conditions (Boris et al., 2010). Thus, HSO directors need to balance the costs and benefits of government funding strategically, to the extent they are able. This paper provides information for managers about those costs and benefits by uncovering what decisions and outcomes are associated with growing an organization through increased dependence, versus decreased dependence, on government funds.

In this paper we investigate variability in how organizations respond to financial constraints by addressing three research questions: (1) How did the financial profiles of one field of organizations—children and youth-serving nonprofits in the Chicago metropolitan area—change from 2008 to 2012? (2) How did the strategies of organizations that grew their revenue during that period differ from organizations that experienced revenue decline? (3) For those organizations that grew, what are the associations and implications of having that growth come from increased or decreased dependency on government?

To address these questions, we first determined the population of child and youth-serving HSOs in Chicago (n = 83) and the revenue profiles of each, using publically available 990 data. We found that 22 agencies had a clear positive or negative trend in their revenue profile from 2008 to 2012, which we defined as a more than 10% change in revenue in either direction. We then sorted those organizations into three groups: (1) increased revenue with decreased dependence on government funding, (2) increased revenue with increased dependence on government funding, and (3) decreased revenue. We then interviewed directors from organizations in each group to learn about their strategies and decision-making over the time period in question.

This paper adds to the literature on how and why human service nonprofits in the same field respond differently to environmental changes in resource availability. By studying HSOs with clear funding trends (both positive and negative), we are able to explore how different strategic choices are assessed and implemented by organizations with different starting points, potentially resulting in distinct outcomes.

**Child and youth-serving organizations in context**

In order to explore the role of government funding while controlling for differences in policy and funding environments, this study investigates the practices of one specific type of nonprofit HSO in a single metropolitan area: children and youth-serving nonprofits in the Chicago region. The field of children and youth-serving organizations focuses on improving the circumstances of at-risk children and youth and provides a wide range of services—such as early education, trauma treatment, violence prevention, and foster care. One overarching characteristic of the field is a heavy reliance on public funding (Collins-Camargo, McBeath, & Ensign, 2011; Karski & Barth, 2000). State and local governments often possess great discretion over what types of children and youth services to fund and who is eligible for them under the devolved and privatized welfare state (Geen, Boots, & Tumlin, 1999; Smith & Lipsky, 1995). However, some mandated programs receive funding through secured streams or by
court order. Out of this complex political process, public funding is often allocated unevenly to the range of child and youth services, which undoubtedly affects managerial decision-making in the field.

In order to hold the external environment relatively constant, this study draws the sample from a single location. The Chicago region accounts for more than half of Illinois’s child and youth–related service provision, serving a wide range of populations and needs (Powell, 2010). The state of Illinois has a long history of relying on private providers to deliver important child and youth services through a complex public-funding network (Grønbjerg, 1993) that includes the Illinois Department of Children and Family Services, Illinois Department of Human Services, and the City of Chicago Family and Support Services. However, government funding has been notoriously unstable in Illinois over the past decade due to state budget shortfalls (Eldeib, 2016; Garcia & Bott, 2016). Thus, child and youth–serving nonprofits in the Chicago area have been under constant threat of reduced public funding even before the 2008 recession, positioning this arena as an optimal place to observe diverse patterns within an organizational field under economic uncertainty.

**Environmental changes in the HSO field**

The HSO field has experienced major environmental changes over recent decades. With the growth of devolution and privatization, a significant proportion of public social service responsibilities are now allocated to local private HSOs (Salamon, 1994). Increased public spending precipitated the growth of HSO population and has made the field both more competitive and more dependent on government funds (Smith & Lipsky, 1995). As New Public Management has become a dominant paradigm for public resource allocation, HSOs are required to satisfy increasingly rigorous performance and accountability requirements (Benjamin, 2008). Many organizations also saw increased demand for their services during the most recent recession, which was difficult for them to meet given decreases in funding from private institutions and individuals (Boris et al., 2010).

How should we best understand the varied responses of HSO managers in this changing environment? Two bodies of literature provide different but perhaps complementary lenses on why managers act the way they do. First, the resource dependence perspective focuses on the political and economic aspects of organizations, highlighting the power imbalances in HSOs’ relationships with external stakeholders and managers’ attempts to gain control over their environment (Pfeffer & Salancik, 1978). Second, the institutional logics perspective highlights the social and cultural aspects of environments that shape managers’ beliefs about appropriate courses of action (Scott, 2001). From this perspective, dominant logics exist in any given institutional field about the “correct” way to carry out business. In times of turmoil, new, competing logics may emerge, and research has shown that organizations do not fare well if they do not respond entrepreneurially (Rao & Giorgi, 2006; Thornton & Ocasio, 2008).

**Resource dependence**

From a resource-dependence perspective, organizations need to secure the flow of critical economic and political resources (i.e., revenue and legitimacy) from their task environments to survive, and they often rely on external actors to gain access to unevenly distributed resources. When organizations possess little control over the flow of critical resources and cannot find alternative channels, they can become dependent on external resource holders. This dependence often leads to a loss in organizational autonomy because dependence leads to diminished power in these relationships. As a result, organizational behaviors and practices can be influenced or bounded by the preferences and constraints imposed by the external resource holders on which they are dependent (Emerson, 1962; Pfeffer & Salancik, 1978).

The resource-dependence perspective is a good fit for the study of human service organizations because of their structural dependence on external stakeholders—usually government—for critical resources (Garrow & Hasenfeld, 2010). The HSO field comprises mostly nonprofits with limited means of internally generating revenue. Therefore, private funding (i.e., contributions from
foundations and individuals) and public support (i.e., government grants and contracts) are the primary revenue channels for most HSOs (Smith & Grønbjerg, 2006). In addition, because of indeterminate service technology and the moral basis of their work, HSOs are constantly seeking to prove their legitimacy and worth (Hasenfeld, 2010). In the contemporary U.S. welfare state, HSOs rely primarily on funders, professional associations, and accreditors for such operational legitimacy. In sum, HSOs are particularly vulnerable to power imbalances with providers of financial resources, which threatens the HSOs’ operational autonomy and influences their behaviors and practices.

The 2008–2012 financial downturn offers an opportunity to observe how environmental changes influence HSOs’ relationships with influential stakeholders. Competition for economic resources and increased service needs should have incentivized managers to take steps to gain influence in their task environment. For example, HSOs might have adopted practices and behaviors perceived to be more appropriate and legitimate by public and private funders, such as professionalization, accountability tracking, and bureaucratization (Alexander, 2000; Hasenfeld, 2010). That said, although adopting those practices could help them in funding competitions, as these adoptions accumulate, reproduce, and are reinforced, scholars have worried that the HSO field might lose essential features, such as a focus on local needs, delivering customized services, and advocating for the underrepresented (Benjamin, 2008; Eikenberry & Kluver, 2004).

Institutional logics

The institutional-logic perspective argues that organizations reside in multiple institutional environments, where multiple and competing institutional orders (and their central logics) coexist (Skelcher & Smith, 2015). The agency of managers to make specific decisions is both enabled and constrained by the available institutional logics in the field (Binder, 2007).

The roots of most HSOs are in a mission-focused logic, with reliance on private donations being the dominant funding norm. This logic emphasizes close community connections, local funders, and responsiveness to a clear service population (Garrow & Hasenfeld, 2012; Spitzmueller, 2016). In the last 30 years of the 20th century, however, as the welfare state expanded and privatized, a “government partnership logic” emerged (Salamon, 1995). Organizations that partnered with government by providing services through contracts grew rapidly, and the field grew in response to these new opportunities. Under this logic, to exhibit themselves as legitimate contractors, many HSOs adopted hierarchical organizational structures and replaced lay volunteers and paraprofessionals with specialized workforces (Smith & Lipsky, 1995), decreasing a commitment to meeting idiosyncratic community needs (Hasenfeld & Garrow, 2012).

With the growth of New Public Management in the 1980s and 1990s a market logic entered the HSO field (Skelcher & Smith, 2015). During this time funders and other stakeholders pressured HSOs to internalize the values of market, such as efficiency and performance measurement (Benjamin, 2008; Denhardt & Denhardt, 2000; Eikenberry & Kluver, 2004). The market logic emphasizes results over community connections and deemphasizes the partnership aspect many HSOs saw in their relationship with government funders. Under this logic, organizations must compete for funders and clients. Turnover in both is expected as the organization optimizes to meet changing conditions. This logic has led many managers to recruit staff and board members with connections and experience in the business sector (Backman & Smith, 2000; Binder, 2007; Maier, Meyer, & Steinbereithner, 2016).

Combining perspectives: Strategic decision-making in a time of economic uncertainty

A growing literature on human service nonprofits’ survival in economically challenging times shed light on how the resource dependency and institutional logic perspectives could jointly help our understanding of organizational change in the HSO field. First, research has shown that institutional pressures to conform to dominant logics are strong. Tucker and Parker (2013) show
how human service nonprofits often implement diverse business techniques, including performance measurement and quality assurance initiatives to respond to changing institutional pressures. Likewise, Mitchell (2015) shows how organizations often mimic the attributes of highly regarded organizations in order to convey their effectiveness and improve their reputation. These efforts to comply with institutional expectations could be important for accessing both public and private funding streams.

However, research also shows that, while striving to comply with institutional expectations, human service nonprofits take both pragmatic and strategic approaches in periods of economic uncertainty. Several studies have shown that in times of economic uncertainty, managers take greater control over organizational strategy and operations (Mason, 2016; Shea & Hamilton, 2015). This type of strategic action is consistent with a resource dependence perspective but could also reflect managers operating as institutional entrepreneurs, taking advantage of contradictions in the existing field-level logics to promote change that benefits their organization (Battilana, Leca, & Boxenbaum, 2009). However, not all managers are positioned to act as institutional entrepreneurs. Battilana (2006) argues that individuals with high levels of interorganizational mobility and those working within higher status organizations are more likely to play this role.

Thus, organizational and individual characteristics both enable and constrain the ability of managers to make or promote change. Smaller HSOs may not have resources to explore alternative funding options or hire professional staff members, thus their ability to pursue market approaches might be limited, even if they wanted to entrepreneurially adopt a market logic (Mosley, Maronick, & Katz, 2012). For organizations with limited capacity, initiating new or managing multiple funding relationships might not seem possible during economically uncertain times, especially considering multifold accountability demands from funders and the associated investments in external affairs (Lin & Wang, 2016). Finally, some managers may be invested enough in a particular logic that they cannot see the value in changing or believe changing would violate their mission.

Methods

Using publically accessible Form 990 databases from the National Center for Charitable Statistics and GuideStar, we began by identifying the population of child and youth-serving organizations in the Chicago region. We included organizations with the following five National Taxonomy of Exempt Entities codes: P30 (Children & Youth Services), P31 (Adoption), P32 (Foster Care), I21 (Delinquency Prevention), and I72 (Child Abuse Prevention). We found 111 organizations fitting these criteria that were in business in 2012. Of those 111, 28 organizations were excluded from the sample because they either did not file the Form 990 or filed a simplified form (990-EZ) in fiscal year (FY) 2008 and/or 2012, which does not reveal the size of government funding. Based on the financial information of the remaining 83 organizations, we then calculated percent revenue growth or decline and percent change in dependency on government funding for each organization.

Among the 83 organizations, 22 experienced more than a 10% change in both revenue and dependence on government funding over the 5 fiscal years between 2008 and 2012. We calculated the degree of dependency by dividing the total government funding by the total (or gross) revenue. Those organizations comprised the initial sampling frame for the qualitative portion of the study and
were assigned to three groups: (1) increased revenue, decreased dependence on government funding, (2) increased revenue, increased dependence on government funding, and (3) decreased revenue with changes in government dependency. However, since their 2012 filing, two organizations were later found to have gone out of business and another underwent a merger (all experienced sharp drops in both revenue and dependency). Therefore, the final sample for qualitative interviews include 19 organizations of three types: six organizations that had increased revenue and decreased dependence on government funding, eight organizations with increased revenue and increased dependence on government funding, and five organizations that had decreased revenue with changes in government dependency.

The executive director of each organization was sent a letter or an email informing the person of the study and asking her or him to participate in an hour-long qualitative interview. Ultimately, 15 managers agreed to participate—five from each category—and interviews were conducted between February and July 2014. The interviews were held at the organization itself, digitally recorded and transcribed. Data were analyzed using a grounded-theory approach. Initially, interviews were reviewed using open coding, and then identified concepts were connected through axial coding (Strauss & Corbin, 1990). Each of the three groups was initially analyzed separately by both authors to look for trends among organizations with similar trajectories. We then compared across groups to look for both commonality and difference.

Table 1 shows descriptive statistics for the 15 organizations we interviewed. These organizations had significant changes in total revenue and government funding dependency between FY 2008 and FY 2012. In FY 2012, total revenue ranges from less than a million dollars to 63 million dollars. Although the average revenue size is different across groups, two to four organizations in each group had an operating budget of three to five million dollars in FY 2008. In other words, organizational size does not fully explain the diverging financial trajectories and most organizations in the sample relied on public funding for more than half of their revenue.

**Results**

In this section, we present findings from each of the three research questions separately. First we provide both a quantitative overview of the financial changes experienced by the field and qualitative findings regarding some of the field level challenges that all organizations have...
faced. Then, using organizations with quantitatively different financial profiles as determined in the first analysis, we present findings from qualitative interviews regarding the managerial actions associated with revenue growth versus decline and those associated with growth through increasing versus decreasing dependence on government funds.

**Financial changes in the field, 2008–2012**

Based on IRS Form 990 data, we find that the field overall experienced a modest decrease in revenue and a modest decrease in government dependency between FY 2008 and FY 2012. Individual organizations experienced a median decrease in government funding of about $272,000, partially compensated by a median increase of $84,000 in private funding. This likely represents an attempt across the field to make up for loss of government funds with private funding. The loss of government funding is likely due to significant spending cuts made in this field over the period and increased competition for those limited resources.

Although the field-level finding in itself is important, the diverse trajectories within the children and youth–serving organization field is observed by segmenting the field according to different financial profiles. Table 2 shows the number of organizations that experienced more than a 10% change in revenue and/or dependency from 2008 to 2012. It reveals that about 42% of organizations in the sample experienced more than 10% revenue growth over the period, while another 36% stayed the same and 22% had declines of more than 10% of their revenue. In terms of the proportion of government funding, more than 60% of organizations maintained the same dependency level, while 25% decreased their dependency and 13% increased their reliance on government funding. Thus, we see that despite organizational efforts to alter their reliance, government funding is still an essential resource source for most children and youth–serving organizations, regardless of organizational size.

Our analysis shows that the recent recession affected the children and youth–serving field primarily through the decrease in public funding. Yet the field is still vulnerable to public spending reductions. As children and youth–serving organizations continually face such funding threats, understanding how managers responded to economic uncertainty during the recent recession provides insight into what the future may hold for this field.

Table 2. Median changes in revenue and government dependency among Chicago area children and youth–serving organizations between 2008 and 2012.

<table>
<thead>
<tr>
<th>Government-funding dependency change</th>
<th>Decreased more than 10%</th>
<th>No change (within ±10% change)</th>
<th>Increased more than 10%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased more than 10%</td>
<td>8 organizations</td>
<td>21 organizations</td>
<td>6 organizations</td>
<td>35 organizations</td>
</tr>
<tr>
<td>No change (within +/- 10% change)</td>
<td>7 organizations</td>
<td>20 organizations</td>
<td>3 organizations</td>
<td>30 organizations</td>
</tr>
<tr>
<td>Decreased more than 10%</td>
<td>6 organizations</td>
<td>10 organizations</td>
<td>2 organizations</td>
<td>18 organizations</td>
</tr>
<tr>
<td>Total</td>
<td>21 organizations</td>
<td>51 organizations</td>
<td>11 organizations</td>
<td>83 organizations</td>
</tr>
<tr>
<td>$3.7M → $3.3M</td>
<td>66% → 41%</td>
<td>$2.1M → $1.9M</td>
<td>49% → 79%</td>
<td></td>
</tr>
</tbody>
</table>

*Note. Among six organizations, two went out of business and one underwent a merger according to their 2012 filing, leaving only three organizations for the interview sampling.*

*M = millions*
Qualitative findings

We carried out qualitative interviews with managers of organizations with diverse financial trajectories, but in those interviews, we found that managers across the field reported experiencing similar challenges around reductions in public funding (particularly for nonmandated programs), frozen service payment rates, and the need to rely more on private funding sources. Thus, as field-level context, we will talk about each of these issues briefly.

First, while managers talked about government-funding cutbacks for children and youth services across the board, they also mentioned disproportionate political support for specific subfields. In Illinois, a significant portion of the state’s social service budget is mandated either by legislation or by a court order, such as the Early Childhood Block Grant that funds birth-to-3 and preschool education programs for at-risk children from low-income households. Although the level of support for specific programs varies, public funding is virtually guaranteed for those subfields at some level and thus they are relatively less vulnerable to the extreme funding cuts that organizations focusing on programs with less political support worried about (e.g., programs for homeless youth or teenage parents). As one manager noted, “[President Obama], the mayor of the city, the governor past and present all continue to support this investment in early childhood, the long term economic gains. As opposed to a social service agency that’s serving homeless, or foster kids, or mentally ill, it’s rough, it’s really rough, and it’s rough for us as a community.” This supports our claim that managers of different types of programs—even among the same basic population—may face a very different calculus when it comes to how much dependence on government funding is a worry for them. Political preferences regarding service ideologies affect the pool of strategies that managers of different organizations can pursue.

Second, all managers reported great frustration with the way that government funds are administered. In addition to late payments and increased competition, many managers reported that rates had not increased in more than a decade, making it hard for agencies to cover expenses without supplementing state money with private money. As one director said, “Child welfare’s been frozen out for a long time . . . in 15 years we’ve gotten 2 rate increases, a two percent raise in residential and five percent in foster care . . . So a lot of organizations have gone under.” Another manager gave a thought-provoking analogy, saying, “It’d be like [telling] your local road paving company, ‘Well we’re not giving you any raises this year. You’re gonna have to use your own money to keep building roads.’ Of course, we’re in the non-profit [field] so we keep doing the service anyway, cutback our staff, our income. So it’s a struggling industry right now.”

Third, as a result, managers across the board reported trying hard to secure alternative funding sources to supplement government funding. Although foundation and corporate funding were mentioned, directors primarily saw individual contributions as a key potential area of growth. Respondents overwhelmingly reported that foundation funding had become a less attractive and sustainable source of revenue because of increased competition, emphasis on program-specific funding, and increased accountability requirements. This was true also of government funding, but given the smaller dollar amounts usually associated with foundation funding, it was seen as less “worth it” in that context. Informants also reported that foundations seem to be looking primarily for “the sweet spot for public relations” and their “taste for investment” changed frequently.

By contrast, the mostly unrestricted nature of individual giving provided essential resources to fund administrative costs and infrastructure improvements. As one director said, “There’s not a lot of future in corporate giving. It still comes more to individuals. Develop your relationship with individuals and having planned gifts.” However, nurturing a donor base requires a long-term investment in relationship building, and not many organizations were able to manage those resource-intensive activities. Notably, across revenue profiles and organizational size, agencies with the history of religious affiliations tended to have more-robust individual giving bases and donor-management practices.
**Strategies associated with growth versus decline**

To answer the second research question, regarding what led some organizations to grow during this period of difficulty for the field in general, while others faced economic decline, we compare those organizations that fared poorly (defined as a 10% or more decline in annual revenue between 2008 and 2012) with those that fared well (10% or more increase in annual revenue between 2008 and 2012). We found substantial differences in both strategies used and the logics managers operated under. Organizations that experienced revenue growth typically had diversified their program offerings to cover an increasingly wide range of populations and made substantial investments in political advocacy and accountability efforts. Meanwhile, those that experienced revenue decline commonly focused on maintaining services and the needs of their core constituents without a long-term strategy for change. They also had a more reserved approach to advocacy, external affairs, and performance measurement efforts.

**Diversification versus specialization/customization**

Revenue-increasing organizations were commonly focused on program diversification, with the intention to distribute the risks of funding cuts to any single program or population. For example, one agency that had historically focused on child welfare opened a charter school, and a youth development agency launched a transitional housing project. By serving an ever-wider range of population needs, these organizations reported being able to capitalize on both public and private funding opportunities more frequently and efficiently. One manager put it clearly, saying, "In a way the strategic reposition for us has been an attempt to broaden our funding base … If you are just [focusing on one issue] there’s only so many government buckets available, there are only so many corporations interested in that."

On the other hand, organizations that had lost revenue over time reported reducing the number of programs they provided and trying to customize their services to the needs of core-service populations. The reasons given for such a strategy were diverse. For example, after losing significant funding from both the state and United Way, a youth development agency decided to focus its resources on the programs it felt were most valued by the suburban community the agency was located in. A different, faith-based, organization, lost its state foster-care contract because it refused to work with LGBTQ foster parents—based on the belief that “our strength is to work with the Evangelical community.” As these organizations focused on more-localized and segmented services, they found themselves dependent on one or two contracts, which put them at a disadvantage, and community-level resources were not sufficient to make up the losses of state or federal-level funds.

**Advocacy and external affairs**

Growing and declining organizations also had very different approaches to advocacy and networking. Revenue-increasing organizations invested heavily in advocacy as a strategy to ward off budget cuts for their state-funded programs and influence legislators on behalf of their service population. These managers also commonly participated in associations and coalitions meant to provide a collective voice in support of their field and often took leadership roles in those groups, believing that this activity helped connect them to resources and information. One director explained, “Those relationships are critical for us because we get information that is important for the field and we also are in the conversation about what is needed in the field—in order to as much as possible influence some of the direction of the research and advocacy strategies. I’m very serious about that.” These agencies also allocated a significant amount of administrators’ time to build and maintain individual relationships with public officials and private funders.

On the contrary, most revenue-decreasing organizations had reduced their advocacy efforts over this time, or had never done much in the first place. None of these agencies had external affairs staff and with limited time, knowledge, and small networks, advocacy was not easy for these directors. One director refused to even discuss political advocacy, reporting it was “taboo talk” for nonprofits.
Even directors who recognized the importance of advocacy, though, often took a backseat when participating in advocacy efforts through associations. This is partially related to their generally smaller scope of services—they frequently found the associations concerned about issues they thought were irrelevant.

**Performance measurement and accountability**

While all managers reported increased demand by both public and private funders for more frequent and comprehensive accountability assessments, meaningful differences were found in how managers responded. Notably, managers of revenue-increasing organizations saw performance and accountability demands as an opportunity to demonstrate competitiveness and to differentiate themselves in a field with relatively uniform offerings. Building performance-measurement capacity required a significant investment, but most revenue-increasing managers reported that these costs paid off over time. For example, organizations that were able to demonstrate improved client outcomes sometimes received higher reimbursement rates. Others were selected to take over state contracts when state administrators re-assigned contracts from closing agencies to perceived high performers. One manager proudly mentioned, “We were able to be one of the first folks—really pioneers—in this area of outcomes and measurable impact. [As] we were able to show our funders, government and otherwise, our impact, we got additional opportunities to get government funding. If there’s money available to expand Head Start, then they’re like, ‘Okay, [this agency] has a proven track record, they have the infrastructure, we’ll give them the expansion dollars.’”

On the other hand, most leaders of revenue-decreasing organizations perceived performance measurement as a burden to be managed. They recognized the importance of performance measurement and the value of evaluation and accountability but simply could not bear the cost associated with purchasing data-analysis platforms and hiring personnel to manage or analyze data. As one revenue-decreasing-agency director put it, “That huge trend and all this demand for data and evidence is there and it’s required but you’ve got to be able to invest in the capacity to do that or you’re going to see what you’re seeing.” While many revenue-increasing organizations secured resources to build capacity in this area through private foundations’ special grants or by dipping into reserve pools, revenue-decreasing managers were unable or unwilling to make those investments, which then led to spiraling declines in revenue capacity.

**Organizational leadership**

Another sharp difference between revenue-growing and revenue-declining agencies was the background of their leaders. Most directors of revenue-increasing organizations had strong management or advocacy backgrounds, and a clear mindset that “running a nonprofit is no different from running a business.” They had a set of plans to prepare for anticipated government funding cuts and were able to adjust their strategies accordingly. Those directors also utilized their expertise and networks to interpret field-level changes and to pursue funding opportunities. For example, two directors mentioned that their previous experience in politics and advocacy helped them to nurture and strengthen relationships with city and state officials, which helped them to obtain further funding.

On the contrary, directors at revenue-decreasing organizations had limited experience beyond community organizing or social services. Although most organizations recognized the shifting political and economic environment, these managers had limited strategies to prepare or compensate for funding cuts. One director said, “Again I think we just became stagnant and we just became too comfortable with those funding sources that historically have come in.” To turn around the situation, the boards of two revenue-declining organizations had recently hired new executive directors with administrative experience to replace retiring founding directors. However, once an organization downsized significantly, it became very difficult to reverse course and limited its strategic options. While those new directors came in with plans to adopt many of the revenue-growing organizations’ strategies, they were often limited by the already devastating financial situation and reduced organizational capacity.
The decline of the mission-focused logic

The differences seen between revenue-increasing and revenue-declining organizations reflect the heterogeneous but changing institutional order in the child and youth-serving field. We see diminishing returns for those organizations still operating under a mission-focused logic. Managers who believed in their mission above all else were often unwilling to make tough sacrifices, hoping that they could “muddle through” until the storm was over. The increasingly competitive funding environment, however, required their passions to be balanced with managerial skills and a pragmatic perspective that they did not always have. They did not anticipate the decline of a mission logic and were not equipped to adopt a different logic. On the other hand, revenue-increasing organizations often had managers with diverse backgrounds—not necessarily in human services—that saw their commitment more to organizational sustainability than to their organizational mission. They saw changes in the political and economic environment and responded by proactively investing in advocacy and performance measurement efforts. Their efforts to position themselves and their organizations as opinion and performance leaders resulted in meaningful financial returns.

Two pathways to growth: Government dependence versus increased diversification

While there were many commonalities within the revenue-increasing group, there were some notable differences in regard to their evolving degree of dependence on government funding. In particular, one subset of organizations pursued growth through becoming more dependent while the other subset pursued a strategy of diversification. In this section we turn our analytical attention to addressing the strategic thinking and action related to having a more diversified portfolio versus having more dependence on government funding. Overall, we find that these two groups differed in three main ways: (1) the relationship between their programmatic offerings and government mandates, (2) different strategies around external relations, both with government and with other service providers, and (3) their relationship with and strategy for soliciting private funding.

The importance of government mandates

Perhaps not surprisingly, pursuing multiple mandated government contracts was the primary strategy for the dependency-increasing organizations. This was made easier for them because the core programs of those agencies tended to be politically popular and/or relatively well-protected ones—such as early childhood education and child welfare. Over the course of the economic recovery period, dependency-increasing organizations grew by opening new facilities to expand geographic coverage and/or by merging with similar agencies to achieve economy of scale. For example, one director whose agency aggressively pursued both strategies took efforts to portray the agency as an attractive partner to government. When discussing a particular merger, she mentioned that “it was strategically important to us, because we closed an entire region [of the state in an earlier strategic re-organizing process] . . . They had [more than 100] foster kids, so there were some operating contract acquisition. [The building] was sold as a $6 million piece of property . . . Practically speaking every time we’ve been able to do M&A, I think we raise the bar. We are able to do more . . . We have doubled operational scale, [which enables us to have] a marvelous mission measurement capability; we call it best results.”

These managers also saw pursuing funding from multiple government agencies and a variety of jurisdictions (federal, county, state, etc.) as wise diversification, even as their funding stayed primarily public in nature. For example, early education organizations often pursued both federally funded Head Start and state-funded early childhood education contracts. Others pursued funding in new service areas they saw as growing—branching into violence reduction funding or opening charter schools, for example.

On the other hand, organizations that had decreased their dependence over this period had typically already started that process before the 2008 recession. The particularly volatile public-funding environment in Illinois served as a motivational factor as these organizations generally provided programs that were not politically mandated, such as youth homeless outreach or trauma
treatment. One director discussed his struggle with state politics by saying, “In a state like Illinois, that’s politicized geography, you know there are winners and losers … why do you want to be that vulnerable?” Focusing on the risks that came with reliance on government funding, organizations in this group not only shifted their focus to other revenue sources early on, but also become more strategic around funding portfolio diversification generally.

Despite a greater emphasis on private funding, dependency-decreasing agencies still did collect some government funding and often provided multiple government-funded programs. One director who characterized state funding as a “mess” and “shaky” also said, “Don’t get me wrong. We’d miss it if we did not have it … we are [just] very lucky that it is not a large percentage of our budget.” Finally, some dependency-decreasing organizations used public funding as leverage for collaboration with local stakeholders or to raise private funders’ interest and induce contributions. For example, one agency used low-income–rent-subsidy payments to raise developers’ interest in building a community center with low-income housing units.

**Relationships with government officials and other collaborations**

With their heavy and increasing reliance on state funding, maintaining relationships with state policymakers was important for dependency-increasing organizations. Thus, out of all the organizations we interviewed, this group was the most heavily invested in external and government affairs activities, like advocacy around the state budget. Most of these agencies had designated staff members participating in state-level advisory efforts or collaborative activities with government agencies. Executive directors also actively engaged in coalitions and often took a leadership role in order to gain extra face time with public officials. They attempted to position themselves as “go-to organizations” in the case that new funding opportunities became available. As one director put it, “It’s really meeting with government officials at all levels, either going there or getting them to come here, and developing those relationships so that when there are opportunities in the future … we can’t stay in this state of crisis forever.”

Organizations that decreased government dependence still engaged in associational and individual advocacy efforts with government officials but were more selective in their targets and engaged in a more opportunistic way with less investment in long-term relationships. This transactional mindset may also have been partially shaped by managers’ frustration with government officials, often depicted as “unrighteous partners” who “stop on a dime.” Instead, these managers strongly emphasized the value of more-localized collaborative relationships, such as peer organizations, hospitals, churches, schools, and police, hoping for mutually beneficial opportunities. This is contrary to the dependency-increasing group, which often had ambivalent relationships with its peers. Foremost in the minds of managers of more-dependent organizations was the fierce competition for limited and declining public resources. Thus, although they espoused valuing collaborations, most were conducted at arm’s length due to “coopetition” relationships (Osborne & Murray, 2000; Provan, Milward, & Isett, 2002).

**Relationships with private philanthropy and individual donors**

With their long history of reliance on public funding, directors of organizations with increasing reliance on government funding had limited confidence in their organization’s ability to acquire and maintain private contributions and doubted that type of funding was worth the effort. For example, one manager spoke for many when she said, “I recognize that even when we are making every effort to get private funding, there is also a ceiling as to how much private funding you can get.” While these organizations were relatively successful with private foundations based on their established skill in measuring results, most had no clear strategy for building relationships with individual donors. As one director mentioned, “Individual giving is the biggest potential area [for growth], but we have no strong answer on how to grow.” With limited experience in that area, some dependency-increasing organizations had hired consultants to help them reach out to individual donors. Others identified board reconfiguration (i.e., increasing members connected to private philanthropy or with personal wealth) as a need.
By contrast, the dependency-decreasing group had developed significant infrastructure to solicit and sustain private donations. They reported that private donors often wanted different kinds of communication and outreach, such as heartwarming stories, volunteer opportunities, and language like “return on investment.” Thus, these organizations recruited good marketers who could articulate personalized messages. Managers also emphasized their diverse programming because they felt that having multiple programs allowed them to engage with a wide range of private audiences with a “holistic” message and to “have something for everybody.” For service areas where government support was scarce, managers reported that messages such as “there is no public support behind this” were helpful for soliciting private funding.

Dependency-decreasing organizations relied heavily on their boards to draw private funding, and many directors emphasized that their boards were intentionally drawn to be more valuable around fundraising and networking than they were around actual governance. For example, many of these organizations solicited special donations directly from board members or their personal networks for conducting strategic planning or purchasing strategic assets (e.g., a property for future facility or a client-transporting van). It was also common for organizations to maintain multiple boards as means of raising money from different populations or to develop specific networks, while also maintaining a different board for governance purposes. One particularly enthusiastic manager said, “I mean I will have 60 people. I will take 70 people on the board. What will it take for me to raise [target amount] a year? How can I double again?” To sustain this approach, executive directors of dependency-decreasing organizations allocated a significant amount of their time to board maintenance and recruitment, keeping members interested through engagements with clients or committee activities.

Core program-driven logic divergence

The above analysis clearly demonstrates the differences between the actions taken by organizations that successfully maintained a government partnership logic versus those that fully adopted a market logic. Both of these logics were able to work but only under the right conditions. Agencies that serve politically popular populations and provide well-protected services were able to grow under a government partnership logic. This logic is associated with strategies such as efforts to demonstrate legitimacy and trustworthiness to government and a high degree of advocacy involvement aimed at influencing and securing future public resource flows. On the other hand, organizations that grew despite the fact that they offered services with less public-funding protection entrepreneurially shifted to organizational strategies that would appeal to the private sector and individual donors, thus, more completely embodying a market logic. However, only those organizations with managers strategically able to serve as institutional entrepreneurs were able to make the required investments in private fundraising and navigate the different models of interaction required to be successful in this model.

Discussion

Focusing on children and youth–serving nonprofits that demonstrated clear trends in total revenue and dependence on government funding over time, this paper identifies the strategies a diverse group of managers took as they weathered serious challenges in the funding environment. While the field lost public funding overall, agencies with various revenue profile trajectories had very different responses and experiences. This was owing to the different logics they followed and to their ability to strategically position their organization in the field.

We found that the major differences between organizations that grew their revenue over this time period versus those that contracted were scope of services (those with a more narrow scope suffered) and degree of investment in external affairs and performance measurements. By not making such investments and focusing narrowly on “what they did best,” organizations with declining revenue ended up with limited options for changing course and were effectively unable to keep up with environmental changes. From a theoretical perspective, we argue that their continued commitment to a mission logic left them unable to effectively respond to pressures in their task environment.
Those managers that were able to embrace at least some features of a government partnership logic or a market logic seemed to be able to steer their organizations in ways that opened up opportunities.

In regard to differences between organizations that grew through increasing their dependence on government funds and those that grew while diversifying, we found that organizations that provided politically well-protected services were overrepresented in the category of organizations that increased dependency. They did this largely by taking a variety of steps that proactively positioned them as governments’ “go-to organizations.” On the other hand, organizations whose main service populations were not so well protected and whose managers invested deeply in building legitimacy among a diverse array of potential supporters were the ones that were able to most effectively solicit private funders and partners. In other words, managers that could be unusually confident in the security of their contracts tended to stay with a government partnership logic. Meanwhile, those that did not have that security were still able to do well if they were positioned as an institutional entrepreneur and embraced the principles of a market logic.

Our results come with limitations. First, in terms of sampling, the reliance on Form 990s limited the scope of our sample because the smallest organizations (under $25,000 in revenue) are not required to file those forms. That said, given our focus on government funding changes and the fact that organizations that small are very unlikely to have government funding, we do not expect that these factors would influence our findings, rather, simply the scope of our research. Second, as mentioned earlier, the difficulty in reliably estimating the full scope of government funding is another limitation of our paper (Froelich et al., 2000). Third, our sample only includes organizations that were active throughout the period, excluding newly emerged organizations and those that ceased operations. Fourth, the innate recall bias that is endemic to a retrospective study design is another limitation of our study. Finally, the study is based on a single organizational field in a geographical region, which limits the generalizability of our findings.

Despite these limitations, this study provides important information on how organizations with diverse revenue-profile trends adapted to changes in field-level trends differently, in accordance with three different institutional logics at play in the field. In service areas with relatively robust political support, managers confidently invested in a government-partnership logic and the behaviors associated with that, such as building stronger collaborative relationships with government officials as means to secure resource flows (Mosley, 2012; Pfeffer & Salancik, 1978). On the other hand, in service domains where public funding was less secure, it was very challenging to sustain an organization using a mission logic alone. Responding to the increasingly competitive service environment, managers who were well positioned to act as institutional entrepreneurs more fully embraced a market logic. These managers perceived themselves as “outsiders” to government and worked to develop alternative funding streams in the private sector. We found that those human service directors who did not move toward a market logic at any level ended up downsizing their services, potentially compromising the mission they intended to preserve.

Thus, an important remaining question is how human service nonprofits can maintain operations in this competitive environment and in their social values. Both the government partnership logic and market logics put the social mission of human service nonprofits at risk, even as it may lead to greater sustainability. For example, the tendency for revenue-growing/dependency-decreasing organizations to see their boards primarily as fundraising vehicles may assist in securing flexible financing, but it is a move away from important civic engagement and community governance values in the nonprofit sector. Fundraising boards leave little room for ordinary beneficiaries and volunteers to influence organizational processes, which threatens the downward accountability of nonprofits. Furthermore, we see the lack of advocacy engagement by those who are outside the typical government funding streams as a potential problem for the sector as it may further diminish public understanding and support for politically marginalized citizens.

Individual nonprofits have little influence over the dominant logics in the environment, and are dependent on funders for their resources. As we see in this study, holding onto a logic that does not
align with funders’ priorities was not a successful strategy. Thus, human service nonprofits in that position may be more successful in approaching funders collectively. Our findings point to the need for collective approaches to emerge at the field level that reinforce public responsibility and support not only for the well-being of specific populations but for a diverse range of needs and the organizational capacity and autonomy to meet them.

Notes
1. Defined as Cook, DuPage, Kane, Lake, and Will counties in Illinois.
2. Including “government grants (contributions)” (from Part VIII, column (A), line 1e) and “program service revenue” (i.e., Medicaid/Medicare reimbursements, government contract payments) (from Part VIII, column (A), line 2).
3. Based on information gleaned from the interviews, such as significant endowment incomes and a sharp increase in “flow-through” government subsidy, we made additional corrections on some organizations’ revenue and government funding figures. The adjustment resulted in moving two organizations into different groups and reducing three organizations’ change in dependency on government funds lower than a threshold of 10%.
4. For this estimation, we considered and decided not to use net revenue (gross revenue minus direct and indirect costs associated with fundraising) for two reasons. First, the fundraising cost data on the Form 990s are not particularly reliable. Secondly, there are no standard accounting practices in reporting fundraising costs (Froelich et al., 2000).
5. This finding is particularly concerning as the Trump Administration proposed the FY 2018 budget with significant cuts to the departments that administer and fund essential services for at-risk children and youth, including Health and Human Services (18%, or $15.1 billion, cut) and Education (14%, or $9.2 billion, cut) (Aisch & Parlapiano, 2017).
6. Only required when organization has gross receipts of more than $200,000, or total assets at the end of tax year greater than $500,000. Any organizations with smaller gross receipts or total assets can choose more-simplified versions of forms, such as Form 900-EX or Form 900-N.

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