

Prepared by:

Jennifer Alexander  
Assistant Professor  
Maxine Goodman Levin  
College of Urban Affairs  
Cleveland State University

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Survival  
Strategies for  
Nonprofit  
Social Service  
Organizations

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The Maxine  
Goodman Levin  
College of  
Urban Affairs at  
Cleveland State  
University  
1737 Euclid Avenue  
Cleveland, Ohio 44115



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## EXECUTIVE SUMMARY

This monograph reviews the results of a multi-phase study of nonprofit social service organizations serving children and youth in Cuyahoga County, Ohio. The purpose of the study was to assess the impact of devolution and related efforts to introduce the new public management to the nonprofit sector. The article begins with a discussion of the purpose of the study, followed by a brief elaboration of how devolution is affecting nonprofit organizations. The article then turns to a discussion of the methodology and a profile of organizations that completed the survey instrument. The survey addressed changes in funding sources, demand for services, changes in client base, and coping strategies if organizations indicated that they were under fiscal stress. A subsequent section entitled "Themes from Focus Groups and Surveys" highlights the impacts of devolution that were identified through three series of focus groups, analysis of survey data, interviews with county agency personnel, and participant observation at various community forums over the course of late 1996 and 1997.

The research concludes with a discussion of the most effective strategies for maintaining organizational viability based on the literature search of best practices and feedback from focus group discussions. Included with the discussion of each strategy are comments regarding the applicability of these strategies in the current context, as well as the challenges to implementation. This feedback was provided in a workshop with nonprofit providers and other participants in the nonprofit community of Cuyahoga County.

## INTRODUCTION

Recent efforts to devolve or downsize the federal government by pushing responsibilities out to the state and local level will have profound impacts on nonprofit social service delivery in Northeast Ohio. Nonprofits have comprised the backbone of government funded social services since the early 1970s (Salamon, 1995). This sector, alternately described as “independent, charitable, and voluntary,” forms a critical link between government, communities, and citizens in need. In the context of devolution, nonprofits are last in a line of social service organizations that depend on government dollars to provide public services. For the most vulnerable populations, they comprise the last public safety net. At this time, nonprofits are confronting a number of distinct challenges that threaten the character of the sector; many will be required to fundamentally alter the way they function in order to survive.

Based on current predictions, social welfare programs are expected to bear a disproportionate burden of federal funding cuts. Moreover, devolution of government services will allow states to exercise more authority over social welfare programs as federal funding takes the form of block grants. States may reshape goals and expectations as they assume responsibility for designing and implementing programs. Existing nonprofits and county administered systems should anticipate a reconfiguration of their government relationships as well as funding challenges. The ability of these nonprofits to weather program and funding changes and respond to community needs will be directly related to their capacity to adapt to a rapidly changing environment.

The Urban Center at Cleveland State University was funded by The Cleveland Foundation to identify challenges to nonprofits as well as strategies for maintaining the viability of the sector. The results of that study—including how nonprofits in Cuyahoga County are being impacted by devolution and what strategies they might employ in order to maintain their viability in this new environment—are contained in this document.

## BACKGROUND

The purpose of this study was to develop an understanding of how devolution is impacting nonprofits in Cuyahoga County that serve children. The study focuses on organizations that serve children because this population may be among the most profoundly affected in the future. As income maintenance programs such as welfare are converted to block grants, children will be among the most vulnerable populations. Fully three-quarters of the people who receive Aid to Families with Dependent Children (AFDC), now known as TANF, are children. Furthermore, this subset of nonprofits is a good indicator of the health of all social service nonprofits, as these particular nonprofits cut across a broad spectrum of services, including arts and cultural organizations, emergency shelters and food pantries, hospitals, churches, libraries, and schools.

## METHODOLOGY

The project began with the development of a database of all the nonprofits (designated as 501(c)3s by the government) in the county that serve youth and children, either because they serve families in general, or children in particular. Organizations were identified through the use of the Federation for Community Planning's Health and Human Services Directory, the Jewish Community Guide, and the rosters for United Way of Cleveland and Greater Cleveland Community Shares. Approximately 239 organizations were initially identified. Each of them was contacted by phone or fax, or both. One hundred thirty-two, or about 50 percent, responded to the survey. In terms of type of organization and service delivery, the returns were representative of the sector. The purpose of the survey was to determine the extent to which the nonprofit provider community in Cuyahoga County was affected by recent changes confronting the sector, and whether particular service groups or organizational types were impacted differently. Data were collected regarding organizational mission, age, budget size, service delivery, clientele, sources of income, changes in income, fiscal stresses, and how organizations were responding. Based on the survey results, organizations were classified based on a core set of characteristics. The purpose of creating classifications was to identify differences in challenges or responses to current environmental stresses.

### ORGANIZATIONAL PROFILE

The organizational types listed below are profiled based on the survey results:

#### **Traditional, established organizations**

Forty percent of the organizations (39.5 percent; N=49) fit this category. These organizations included large, professionalized, often nationally established nonprofits with local satellite offices. The average age of these organizations was 65 years. The average annual budgets were between one and three million dollars, although fully a third (N=44) of them were above

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three million dollars. These traditional, established organizations rely on large, permanent staff (an average of 70 full-time staff members) as well as the help of volunteers (an average of 199 per organization). These organizations reported a 31 percent increase in their reliance on volunteers over the past year. Participating organizations in this category included Easter Seals, Juvenile Diabetes Foundation, Planned Parenthood, and The Salvation Army.

### **Community/grassroots organizations**

These organizations comprise 31.5 percent (N=39) of the data base and most often provide a broad range of services (largely in the area of education and family services) for a small locale or neighborhood. Thirty-six percent of the organizations classified as community/grassroots had budgets between \$100,000 - \$500,000 per year. These organizations were young, with an average age of 20 years. The average number of full-time staff (12) was substantially smaller than the traditional/established organizations, as was the average number of volunteers (50 per organization). More than a third (36 percent) of these organizations indicated an increased reliance on volunteers. In focus groups, community/grassroots representatives expressed a strong commitment to maintaining community members as a part of the governing body and a strong attachment to meeting the needs of their communities. Typical organizations include East Cleveland Straight Talk, The May Dugan Multi-Service Center, Neighborhood Counseling Service, the Spanish-American Committee, and the Free Clinic of Greater Cleveland.

### **Faith-based nonprofits**

Comprising 17 percent (N=21) of the data base, these organizations represent both of the organizational types described above. Some were consistent with the traditional, established organizations (e.g., Bellefaire Jewish Children's Bureau or parochial schools), while others more closely resembled community/grassroots organizations in terms of size, budget, and organizational structure (e.g., Lakewood Christian Service Center). Although faith-based nonprofits represented a small percentage of the population among organizational types included in this study, they were responsible for providing 59 percent of the services

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categorized in the database as survival/emergency. We took this fact as an indication that faith-based organizations may well be a fundamental part of the local safety net. Their missions often included a religious commitment to serving people with deep-seated problems and/or the indigent. Services focused on basic needs, such as hospitality centers, shelters, and food pantries.

Faith-based organizations were the most inclusive in terms of the population they served. Based on focus group discussions, these organizations also appeared to have little bureaucratic structure, in part, because government funding has been a very small source of organizational income until of late. The average age is 59 years. Budget data indicated that 50 percent of the budgets fell between \$1,000,000-5,000,000 and twenty-five percent of the budgets fell between \$100,000-\$499,999. The average number of full-time employees was 52, with a substantially greater reliance on volunteers than the other organizational types. The average number of volunteers per organization was 358.

### **Semi-public organizations**

These organizations comprise 12 percent of survey respondents (N=15). These organizations had 501(c)3 status but received more than 70 percent of their funding from government. Semi-public organizations had the largest permanent staff size (an average of 253 full-time employees per organization), and they reported no increase in reliance on volunteers. Semi-public organizations provide services to a broad spectrum of the population and often have direct connections with the county. Examples include: Educational Service Center of Cuyahoga County, the Public Libraries of various communities, and the Cuyahoga County Board of Mental Retardation and Developmental Disabilities.

Overall, statistics on nonprofits in the data base revealed that the ages of the organizations ranged from three to 200 years. The oldest organizations were in the category of traditional, established, followed by faith-based and community-based organizations. Median age for all

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nonprofits surveyed was 31.5 years. Data on budgets indicated that most were constant. Only ten percent of the respondents reported a budget decrease over the past five years and 31 percent reported increases greater than 15 percent. Organizations that experienced the greatest amount of budget fluctuation were those with specialized services (indicating two or fewer service types on the survey) and community/grass-roots organizations. Among community grass-roots organizations, 42 percent had experienced a budget increase of greater than 15 percent; fifteen percent had experienced some decrease in funding; and 43 percent indicated no significant change. In comparison, traditional, established organizations exhibited more budget stability on average; 64 percent had experienced no significant change; 30 percent had experienced an increase of greater than 15 percent; and 6 percent indicated a decrease. Among the organizations categorized as faith-based, 39 percent experienced an increase of greater than 15 percent; 10 percent experienced a decrease; and 51 percent remained the same. (See Figure 2.)

### **FOCUS GROUPS**

In addition to the survey instrument, three series of focus groups were conducted with nonprofit providers. The focus groups were held between July 1996 and March 1997. A literature search as well as conversations during the first two series of focus groups. Participants had asserted that horizontal linkages with other organizations were unduly stressed by competition for county funding. In order to examine these issues further, the third series of focus groups specifically addressed the question of whether participants believed that devolution was influencing their organization's authority linkages, horizontal ties, and client relationships.

In order to assess whether the increase in need for services from unsubsidized clients was felt by all nonprofits equally, we generated the following service categories:

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Emergency/crisis intervention organizations provide food and emergency clothing, temporary shelter for teens suffering from physical abuse, homeless shelters, abortion counseling and services, and emergency health care.

Intervention/coping organizations provide adoption and foster care, substance abuse treatment and interventions, and include neighborhood centers that provide an array of services such as parenting and GED classes.

Human development organizations included schools, teaching hospitals, libraries, well-baby clinics, and support services for children with developmental disabilities or special needs.

Life enhancing organizations included theater groups, recreational groups, and recreational clubs such as Girl Scouts, Boy Scouts, and the Sierra Club Outings for Urban Children.

Transcripts of the focus groups were analyzed using a combination of ethnographic and content analysis. Topics that repeatedly occurred were identified through a review of the transcripts by four research participants. Each research participant identified recurrent themes, which were then systematically coded and collapsed under larger themes until the following eight topical themes emerged.

## THEMES THAT EMERGED FROM FOCUS GROUPS, SURVEY DATA, AND INTERVIEWS

### BIFURCATION OF THE SECTOR

Nonprofits have been pushed to engage in more business-oriented practices in recent years, due primarily to fiscal pressures and demands for greater programmatic accountability. As a result, some organizations, particularly the quasi-public and large, established organizations, have become more sophisticated in their fundraising and marketing efforts, developing fees for services and revenue generating programs.

Community and faith-based organizations, however, have not always been able to step up to the challenge. As a result, a number of them are in serious distress. It was not uncommon for smaller nonprofits to offer in focus groups the thought that: “we probably won’t be around in five years.”

Analysis of the survey data revealed that at least half of the community-based nonprofits had experienced financial difficulties over the past year. When asked about changes in their budgets, either increases or decreases (of greater than 15 percent), community grassroots organizations experienced the greatest fluctuations.

### THE CHANGING PUBLIC SERVICE CHARACTER OF NONPROFITS

Nonprofits have been respected for their tradition of fostering citizen participation in civic life. Nonprofits traditionally arose as a community response to collective needs that were ignored by the public and private sectors. Because of their historic role in generating innovative responses and building civic community, conservatives and liberals alike have argued that social problems should devolve down to the “the voluntary sector.” Unfortunately, this image fails to convey the degree of interdependence that has developed between nonprofits and

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government over the past 25 years. An increasingly market-driven approach and competition with the private sector are causing nonprofits to lose such traditional public service roles, as serving the indigent and populations with multi-dimensional needs, supporting research and teaching, and acting as client advocates.

Some participants from larger nonprofits noted the limitations of a market model for improving the quality of social services delivered by nonprofits. First, nonprofits have most often responded to collective needs rather than private demand fueled by financial resources. Second, prices for goods are set by insurance companies and government rates of reimbursement rather than by the organization's cost of service delivery. Moreover, government is often the primary customer, acting as a proxy for citizens.

### **Funding traditionally used to cover conventional public service responsibilities is shrinking**

Nonprofits in the study indicated that they are facing tough choices in terms of services and programs. Many said they can no longer afford to serve lower-income clients or maintain expensive programs that do not draw down funding. Traditionally, nonprofits have a mission to serve populations that suffer from intransigent social problems. In contrast, private organizations entering into service areas previously dominated by nonprofits recognize the limited opportunity for profit and select clients with more limited needs.

### **Nonprofits are losing advocacy roles**

As nonprofits have strengthened their ties with government over the past 20 years, they have lost a great deal of autonomy and, with it, their ability to act on the basis of their expertise or as advocates for their clients. Nonprofits have a large number of "dependency linkages" with state agencies that result in closer relationships with state government than nonprofits have held with the federal government. State agencies provide information on revenues, technical assistance, political support, and legitimacy through licensure and state contracts. These close linkages can mitigate against strong advocacy on the part of clients or missions.

**Serving the indigent and populations with multi-dimensional needs raises particular challenges**

This theme came through most clearly from organizations that had a mission to deliver services based on need and that were simultaneously struggling with financial limitations or funding requirements. The best examples were given by community based or neighborhood organizations that believed they were beginning to absorb the costs of welfare reform and recognized that there are limits as to how long they could continue to provide unreimbursed services.

**THE INCREASED DEMAND FOR SERVICES FROM LOWER INCOME CLIENTELE AND CLIENTS IN DISTRESS**

Responses from both public agencies and nonprofits indicated that a number of providers are experiencing an increase in demand for services from lower income clientele. In focus group discussions, agency representatives from early childhood and health related organizations indicated that they are facing greater demand for acute care rather than chronic—due in part to changes in Medicaid regulations that limit services for chronic cases. County agencies that serve children described the sharp increase in need for services for children in distress as an “epidemic.” One particular organization that provides abortion counseling and abortions indicated that the number of indigent clients increased by 60 percent in 1997.

Most human service providers anticipate that the numbers will continue to increase over the next five years as government funding for various government block grant programs is expected to diminish.

**THE LOSS OF SKILLED WORKERS**

One of the biggest challenges for nonprofits in the current environment involves holding on to “knowledge workers.” Today, people with portable skills, often in the form of credentials or licensure, frequently develop a stronger allegiance to their profession than to the

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organizations for which they work. Traditionally, the public and nonprofit sectors have paid a lower wage than what could be earned in the private sector. In turn, there has been a tendency for knowledge workers to seek better salaries and benefits in the private sector after gaining the necessary training and expertise. In the current environment, the “bubble up” of knowledge workers from smaller to larger nonprofits, and then to the private sector has become particularly pronounced in service areas where nonprofits are competing with private providers and where licensure or credentials are required for service delivery. Conversely, there is a “dumbing down” of the labor force in areas where nonprofits have been able to hire part-time and fewer licensed employees. The result, of course, is a reduction in service quality.

### **THE DIFFICULTY IN COMMUNICATING WITH COUNTY AGENCIES**

As mentioned previously, nonprofit organizations are losing their advocacy role. This problem is consistent across all organizational types, although community- and neighborhood-based organizations are probably the most affected.

One of the arguments for devolution has been that state and local government processes are more accessible than federal processes. Although this is true in the main, many organizations, especially those at the grassroots level, expressed frustration at their inability to be heard by local government. Those organizations with links to county boards seem to have an advantage, attributable in part to the fact that the county is fulfilling state policies. Some organizations did, however, complain of a lack of clear direction from the county.

In addition, growth areas such as job training, child care, education, and parenting classes are defined by state and county initiatives. In focus groups, the areas of nonprofit growth strongly mirrored county initiatives. These were the areas in which the county was interested in new contracts, largely due to changes in welfare policy.

#### THE IMPACT OF DEVOLUTION AND WELFARE REFORM ON AUTONOMOUS ORGANIZATIONS

The increase in demand from unsubsidized clients and the restricted funding pool is affecting nonprofits that have functioned at some remove from government. Nonprofits with a broad funding base and politically supported services are finding themselves shaped not only by a tighter funding environment but also through changes in service delivery. Examples of how service delivery is being altered in response to welfare reform include well baby clinics at hospitals changing their hours of service in order to be available to Ohio Works First (OWF) recipients now required to work, and a battered women's shelter working to determine how OWF recipients who need protection will meet the 30 hour-a-week work requirement.

#### THE NECESSITY OF COHESIVE NETWORKS FOR ORGANIZATIONAL SURVIVAL

The literature indicates that inter-organizational networks are an important means of securing and stabilizing resources as well as buffering an organization from environmental turbulence (Terryberry, 1968; Oliver, 1991). The current organizational environment is turbulent for a number of previously stated reasons: changing expectations of donor and contracting agencies, intense competition among providers, a shrinking pool of resources, and increasing demand from clients.

Organizations found that the high degree of competition among providers worked against strengthening horizontal networks because it generated distrust and lack of agreement regarding domains among providers. However, they recognized the value of horizontal linkages when they formed them; participation in councils and federations aided in information access, access to skill development, and client advocacy. Providers in focus groups repeatedly identified horizontal linkages with complementary organizations as critical to their survival. These linkages were used to expand organizational capacity and resources. For example, one women's health clinic trains health care workers for another clinic. Residents from teaching hospitals provide free medical services for the Free Clinic. In another

instance, a day care center partnered with a nearby job training program to secure a county Department of Employment and Entitlement Services (DEES) contract. Through horizontal linkages, organizations were able to share resources and, thereby, appear more attractive to county agencies when seeking contracts.

In spite of the growing degree of “mutual dependence” or interdependence between nonprofit providers and county agencies described in the literature (Nathan, 1996; O’Toole, 1997, Nevin-Gattle, 1996), nonprofits included in this study did not find this concept reflected their experience. Community/grassroots organizations appeared the most disaffected in focus groups. They repeatedly indicated that they felt left out of discussions and were pulled to the table to “rubber stamp” decisions. The quality of communication between nonprofits and authority connections with the county differed from agency to agency. Organizations found that, as the number of authority connections increased, administration became more complex—particularly when there were different measures of accountability required by different donors. Through participant observation at community forums, research participants found that conversations between county agencies and providers have generated frank discussion as to how to best serve the client community. In other cases, the absence of communication between community/grassroots providers and the county appeared palpable, notably around planning for welfare reform, which the county intends to be “neighborhood-based.”

#### **SPECTRUM OF VULNERABILITY**

To briefly review, nonprofit organizations revealed through surveys and focus groups that they are struggling to hold on to their public service character as they look for ways to meet the needs of their clients. As policy making responsibilities devolve, nonprofits need to redirect their political energies to the state legislature and agencies, often under protection of coalitions. Service sectors competing with for-profit organizations are experiencing high attrition rates as credentialed staff migrate to organizations offering better salaries and benefits.

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As need for particular services and fungibility diverge, organizations must identify new resources to meet community needs— either through revenue generating programs or complementary linkages with other organizations. Based on focus group discussions and survey analysis, the following sets of criteria for future success, for access to county funds, and for at-risk organizations were generated.

Organizations in the best position to weather changes have a combination of the following:

- established relationships with county agencies and state government
- complementary linkages with other organizations that draw resources
- autonomy due to a diversified funding base
- revenue generating programs or paying clients
- an active client base both for funding and advocacy
- an appealing client group (e.g., abandoned children)

Organizations in the best position to access county funds:

- are large and multi-service
- have a proven track record
- can deliver services in lower income neighborhoods
- \* can provide services in new growth areas, such as day care, head start, transportation, education, job training and job creation, and alcohol and drug abuse treatment programs.

The current environment is favorable to nonprofits that are, or can become, multi-service organizations. Barr offers the example of YMCAs which now offer transitional housing, child care centers, and health screening (1992). There is also substantial financial support available for child care providers accessible to lower-income families in the form of tax credits and subsidies.<sup>1</sup>

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<sup>1</sup>The State of Ohio has created a new tax credit that allows facilities to claim up to 25 percent of the expenses for operating a child care facility, starting a new child care facility, or providing a child care subsidy to employees. There is also increased funding for after school programs.

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Organizations at greatest risk have some combination of the following traits. They:

- serve clients who are unsubsidized and/or cannot pay
- lack Medicaid licensure for reimbursement
- compete with private providers
- lack a track record with major funders and county agencies
- have narrowly defined missions
- lack established linkages with complementary organizations
- have a conflict between their mission and funding demands
- provide services that require credentialed staff

The most vulnerable nonprofits are those required to substantially alter their service delivery. Typical organizations include substance abuse treatment programs, organizations serving unpopular clientele, social movement agencies, such as self-help associations, and faith-based organizations.

## STRATEGIC RESPONSES FOR MAINTAINING VIABILITY

During the early 1980s, nonprofits experienced challenges similar to those identified in this study. The Reagan administration cut federal funding and a number of social programs were consolidated into block grants, as is presently occurring. As the federal government retreated from social services, there was a call to return to mutual help and volunteerism (Salamon, 1997:35). States and localities found, however, they were unable to shoulder the costs of continuing the programs. In response to budget cuts, they decreased their participation in federal programs by cutting services and passing on costs to citizens. Nonprofits sought commercial income and redirected their efforts to state and local sources of funding. For nonprofits, “marketization” became the trend of the decade (Salamon, 1997).

Studies of how nonprofits responded to the cuts of the 1980's revealed the following trends. A national study of community mental health centers found that professional staff was reduced, caseloads were increased, and fewer services were available to children, adolescents, the elderly, and the uninsured (Hadley and Culhane, 1993). Organizations sought to offset the decline in federal funds through state funds and fees for services (Hadley and Culhane, 1993:97; Liebschutz, 1992).

Another frequently cited study examined the impact of federal cutbacks on six social service organizations active in family services and the antipoverty movement in Rochester, New York (Liebschutz, 1992). All six had relied heavily on government and The United Way for income. Similar to other findings, nonprofits relied on revenue-generating programs and diversified funding streams in order to continue support services that lacked sufficient funding (Liebschutz, 1992). Nonprofits in the study also reoriented themselves to local and state government agencies and the funding opportunities they afforded.

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Consistent with what respondents found viable in this study, nonprofit social service organizations reoriented their energies from service provision to finances and administration. They recruited board members who brought fund-raising abilities and skills to the organization; they became businesslike in their administration of programs; they introduced more realistic budgeting practices with respect to assessing costs to particular programs; and they identified the indirect and hidden costs that accompanied various programs and populations.

In taking account of how nonprofits survived the 1980s, it appears that changes in government-nonprofit partnership during the Reagan era mark the beginning of an organizational character transformation coming to a head in devolution.

## ADVICE AND CAVEATS FOR THE CURRENT ENVIRONMENT

In the following section, the four strategies that evolved from a literature search and a content analysis of the focus group discussions are identified. Each strategy is followed by a list of strengths and caveats offered by the nonprofit participants at the forum.

### **STRATEGY #1: STRATEGIC EXPANSION**

As organizations confront a tight funding environment, one of the most common responses is to expand to include new services and populations. However, this strategy can prove destructive to organizational survival. Short-term grant seeking causes goal displacement, resource diffusion, unreimbursed expenditures, and cash flow problems (Netting and Williams, 1997:292). Apart from the financial troubles short term ventures generate, there can be long term damage to agency legitimacy and client relationships when services are suddenly discontinued (Dattalo and Schwartz, 1992, in Netting and Williams 1997:292). In the interest of long term survival, organizations need to cultivate and maintain a clear concept of the nonprofit's core expertise and they need to understand how accountability around that expertise is assessed by key stakeholders—county agencies, clients, and funders (for an in-depth discussion, see Salipante and Golden-Biddle, 1995). This is the touchstone for organizational expansion and program repackaging.

Focus group participants pointed out that expansion can be unpopular with individual donors if it appears erratic or inconsistent with the organization's mission. Also, in a tight funding environment, funders are averse to unnecessary duplication of services. Participants had noted a self-weeding process occurring as several organizations had terminated services that were peripheral to the focus of the organization and which they believed were being delivered more effectively by another agency.

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Because nonprofit organizations are inherently value-driven, the maintenance of trust with established constituencies is central to their survival. Accordingly, organizations need to take on expansions with a clear understanding of their core expertise and how accountability is assessed around it by key stakeholders (Salipante and Golden-Biddle, 1995). Organizations also need to identify whether stakeholders assess accountability in distinct or conflicting ways, and then work to identify resolutions. While business-oriented managers have a tendency to connect organizational survival with the capacity to change, their accountability is more simply assessed. Nonprofits produce goods that yield both public and private benefits. Because of their political mission, their survival requires a reputation for reliability and accountability to clients and resource providers. (Hannan and Freeman, 1977). Rapid change can jeopardize relationships with organizational stakeholders.

Consider the following example offered by the staff member of a mental retardation/developmental disabilities (MR/DD) facility: The Board of Mental Retardation and Development Disability has several vocational education facilities that could be used for job training of Ohio Works First (OWF) recipients as the county implements welfare reform. With a 3-mill tax levy, MR/DD also has a considerable amount of revenue to support this county initiative. Training OWF recipients, however, presents a conflict with MR/DD stakeholders. By taking on this new service population, an agency would ultimately compromise placement and retention of MR/DD adults who would then “compete” with OWF recipients for entry level jobs. While there may be political or financial incentives for expanding to include this new client group, such a move would threaten the trust relationship between MR/DD and core constituencies. Hence, organizations need to take on new initiatives with the understanding that all survival is not related to finances.

With an eye on core expertise, the organization can strategically expand programs and services, moving from particular to general. Consider the March of Dimes which began fighting polio, then birth defects, and now dedicates its energies to an even broader

spectrum—"healthy babies." The organization has expanded its mission along a predictable continuum and in accordance with environmental change.

### **Advice**

Participants believed that organizational expansion grounded in core expertise builds stronger external support for the organization (especially with foundations). It requires the organization to have a crystal clear mission and work toward creating one if they do not. In turn, mission clarification strengthens the organization in other respects. Expansion driven by core expertise will require strategic thinking and SWOT analysis (Strengths, Weaknesses, Opportunities, Threats). In turn, strategic thinking will improve the chances of long term organizational survival. A SWOT analysis of how expansion derives from core expertise can also be used to evaluate how well current programs fit with the organizational mission and direction. Participants claim that "The fastest way to fail is to do what you don't know. Give up territoriality and do not hesitate to collaborate."

### **Caveats**

Participants argued that when an organizational board and staff understand core expertise and how accountability is derived from that, they will have a clearer vision of client community needs and how the organization currently meets them. A strategic analysis of organizational services and community needs can identify gaps in the continuum of care. Organizational expansions that are directed to "gaps" in services are then a natural extension of core expertise. In the best of circumstances, this strategy also allows the organization to avoid some competition and duplication of services. Strategic expansion enables the organization to have a more positive impact on the community.

When the organization's core expertise does not mesh with current initiatives, the director and staff can attempt to ride out the change by repackaging. Participants suggest that nonprofits identify their existing programs that will meet funding expectations with the least amount of change. Holding on to core expertise and strategically expanding may sometimes require an

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organization to consider mergers or even closing. Organizations that are challenged to stretch beyond their established expertise in search of funding should consider making their organization more attractive to funders through partnerships.

An additional problem of expanding around core expertise concerns the role of founding members. Founders who are active in an organization can make it difficult to take on new directions if these direction don't conform to the original organizational image, even when they are natural extensions of the current mission and expertise. This caveat is especially important for organizations that are less than 20 years old.

### **STRATEGY #2: BUSINESS MANAGEMENT TECHNIQUES REQUIRED**

The literature on survival of nonprofits presently takes a strong business management approach (See, for example, Steckel, 1992). However, not all business techniques are equally applicable in the nonprofit context. Fundamental differences between private and nonprofits related to their markets, authority structures, accountability, and mission make certain business techniques more risky than beneficial (Salipante and Golden-Biddle, 1995). There exist within the world of nonprofits profound differences in organizational structure that can limit the effectiveness of generic management techniques. However, under the broad umbrella of nonprofit professionalization there are a number of management issues that can be of benefit when taking on the challenges of the current environment: strategic planning, technological capacity building, marketing, fundraising, and new management practices.

Strategic planning is a highly popular management tool that moves nonprofits into a proactive stance with respect to managing change. In the best of circumstances, strategic planning encourages management to consider a range of possible futures for the organization in light of current trends in the environment as well as within the organization. It is considered the ideal tool for shifting the organization's direction or focus (Bryson, 1988:4). Strategic

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planning does, however, have some limitations for nonprofits that are important to consider (Liebschutz, 1992; Salipante and Golden-Biddle, 1995; Bryson, 1988).

A strategic plan may take months to create and can quickly become obsolete. The plan may also blind management to chance opportunities that were not anticipated. Furthermore, successful organizations do not point to the plan as the method for managing change. A study by Liebschutz (1992) found that organizations which survived the 1980s did not direct choices through a strategic planning process so much as through a “creative and principled pragmatism.” Strategic planning works best for nonprofits when applied with a heavy emphasis on assessment—organizational strengths, weaknesses, opportunity, and threats—now and then as a lens to interpret the value of pursuing various opportunities in the current environment.

A second area of professionalized management concerns the organization’s technological capacity. Technology is crucial to running the new leaner organizations in which there are fewer people on the payroll, yet sophisticated record keeping is required for fiscal and programmatic accountability. Technology aids in building links with related organizations. Recent federal legislation (The Government Results and Performance Act) and donor agencies such as The United Way require that organizations document outcome measures. In the future, nonprofits’ capacity to maintain funding will be tied to measurable outcomes.

Electronic communication also facilitates rapid access to information and the development of collaborative partnerships. Electronic communication allows organizations to consult and coordinate activities more quickly. Research indicates that E-mail, the Internet, and community electronic bulletin boards are all venues that organizations are using to accomplish these tasks.

The third strategy nonprofits are pursuing with vigor as they take on a business oriented approach is the marketing of nonprofit services. The objective of marketing is to foster and

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promote better service delivery and to enable the nonprofit organization to compete more effectively. Marketization is a major trend that has accompanied the move to fees for services and commercial income to offset losses of federal funding. A key to nonprofit survival has become the identification of paying clients. Research indicates that nonprofits most able to identify paying clients (e.g., health agencies) have done the best in response to budget cuts. Accordingly, nonprofits whose primary clientele is unsubsidized or lower income have suffered the greatest losses in income.<sup>2</sup>

Nonprofit marketing requires that organizations target selected groups for fund raising and newsletters. Instead of the traditional cold calls, form letters, and purchased mailing lists, organizations are researching to identify the best donors for their particular organization and devise strategies to reach these donors most effectively. In the best of circumstances, nonprofits have coordinated their marketing plan, fund raising, and strategic plan to complement each other.

A final area of nonprofit expertise relates to the organizational management style. A review of recent literature on nonprofit management indicates a strong preference for the “corporate model” of leadership (see Bradshaw and Padanyi, 1997). While this model may be effective for larger organizations, it is problematic for smaller community, grassroots, and faith-based organizations. Nonprofits are difficult to manage using a business approach because the leadership has a weaker authority bond than in the private sector. Consider the composition of employees—largely knowledge workers (highly mobile) and volunteers. In addition, “success is often ill-defined and nonprofits can be resistant to change: (Powell, 1995 cited in Bradshaw and Padanyi, 1997:328). While the traditional, established nonprofits may find

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<sup>2</sup> For example, nonprofits in Chicago lost an average of six percent of organization income during the early 1980s. Those involved in employment training, income support, housing and community development, and legal and advocacy groups experienced closer to 12 percent loss in income. (Gronjsberg, et al. 1995).

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success in moving toward a corporate model, the ideal management style for the smaller, flatter organizations is distinctly different.

Organizations that do not fit a business structure may find that effective managers require strong bargaining and facilitation skills. Managers need to be able to identify and bridge organizational factions to create shared meaning, particularly in times of stress. The leadership needs to focus on building commitment among staff to the mission, strong team development, and a high degree of cohesion and morale for the organization to be effective. In an environment where change is imminent, if not occurring, leadership must deal with problems of differences around future direction, challenges to organizational purpose, and false starts as the organization embarks on new ventures.

Management in an organization that must rapidly adapt also requires a great deal of attention to communication. A key to organizational survival is to create and foster self-learning organizations. Total quality management (TQM) is one of the more popular management tools for cultivating adaptive, learning organizations. It allows organizations to build in assessment of what is working and what is not and move on. TQM fosters bottom up and interdepartmental communication necessary for feedback about performance and teamwork.

### **Advice**

Participants believed management techniques could offer powerful benefits for a number of reasons: they can improve the quality and efficiency of service delivery, improve cost effectiveness, make services more consistent, save time through routinization and planning, and improve images of accountability and credibility to funders. With the increasing attention to outcome measures, management information systems are becoming critical for tracking funds and programs.

### **Caveats**

With respect to strategic management, the development of a comprehensive strategic plan requires an extensive investment of time and energy. In the best of circumstances, this plan should maintain a logical connection to the organization's core expertise and project out a minimum of three years in order to address future funding for new programs. Board and staff leadership must be able to think, plan, and act strategically. However, strategic planning does not predict all of the changes that can present themselves and it should be a continuous process. The organization's strategic plan must be a touchstone that is constantly reviewed.

Taking on business-oriented practices requires special attention to mission and community roots because they can be at risk in this venture. Organizations need to evaluate how they might be threatened by any given management practice. As a nonprofit's orientation shifts, the organization can lose its community base and services can become depersonalized. Changes in administration can also require a considerable amount of time and expense to become implemented and institutionalized. Some providers argued that business practices can actually lengthen the service delivery process, making it more costly and difficult to measure progress. Moving to a management-oriented approach can be very expensive, and often involves hiring expensive consultants.

One of the risks of professionalizing is losing internal stakeholders as they see the organizational mission and vision shifting. The existing staff is there because they are dedicated to the purpose of the organization and they may feel disaffected. They may not conform with the new character of the organization. Existing staff may be the heart and memory of the organization and they may not be able to remain active on a volunteer- only basis.

**STRATEGY #3: STEPPING UP BOUNDARY SPANNING ACTIVITIES**

As stated in the discussion of networks, organizational survival is tied not only to what happens within the organization, but also to the interorganizational linkages that the organization maintains. Organizational networks bring resources, political support, clients, and increased power to advocate on the part of client communities.

Linkages are built by clients and staff, as well as by board members. Organizations must cultivate board members who bring resources to the organization in terms of funding and skills, networks, and political ties. Board members can connect the organization to funding opportunities, donors, and political officials who, in turn, can buffer or support the organization.

Networking can also draw technical resources and skills to the organization as complementary organizations exchange expertise. Consider that teaching hospitals send residents to nonprofit clinics and a women's health center trains free clinic staff in women's health issues. Local universities provide the services of graduate students for much-needed tasks such as grant writing, research, and information management. Through use of in-service training in internship programs and exit projects, organizations can minimize personnel costs and receive short term services.

As nonprofits become active in networks, they are able to advocate for their organization and clients through coalitions and federations—which are far more powerful in their effect than discrete organizations. These coalitions will become increasingly important as the linkages between state government and nonprofits intensify with devolution.

**Advice**

Respondents noted that when organizational directors and staff build outside linkages, the organization gains information necessary to respond to community needs. Active networking helps the organization assert its core expertise and develop some consensus about its domain

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with respect to other organizations. Networking allows the organization to engage in advocacy by creating proximity to government officials and expanding opportunities for communication. Through such external relationships, organizations discover resource sharing opportunities.

Focus group participants stated that cultivating relationships with local public officials is vitally important, as is publicly recognizing government officials who are cooperative and helpful to the organization and those who are concerned about the quality of service. In addition, cultivating informed voters and keeping all organizational stakeholders informed about the support you receive from representatives is also crucial.

### **Caveats**

Challenges to expanding networks include the fact that it is difficult to identify other organizations with similar and complementary missions. During the early years, networking can be terribly time consuming, yet it is critical to survival.

Nonprofits may lose some degree of control as they become embedded in networks because there is a tendency toward conformity. Organizational networks can temper advocacy and require nonprofit leadership to engage in external negotiation, which in turn could compromise the mission of the nonprofit.

Interorganizational networks can also lock organizations into particular funding circles and patterns of response to problems that are not always conducive to long-term viability.

Respondents warned that organizational directors and staff should not be allowed to become too complacent about organizational networks—older organizations have established networks that may make them slower to change. The continual formation of new networks and links was also encouraged, as that is a consistent means of bringing new resources and opportunities to the organization.

**STRATEGY #4: MAINTAINING PUBLIC SERVICE CHARACTER THROUGH REVENUE-GENERATING PROGRAMS AND A DIVERSIFIED CLIENT BASE**

Survival of nonprofits in the current environment presents a paradox. When nonprofits behave more like businesses by generating revenues through programs and clientele, they are able to develop the autonomy necessary to continue their public service mission. Financial independence allows the organization to offer unfunded programs that meet client needs. However, there are many challenges to independence. Revenue-generating programs can conflict with the organization's mission and ultimately leave an organization without a relationship with their most important stakeholder—clients.

Health-related organizations have partially resolved the problem of a paying clientele through Medicaid licensure. However, Medicaid reimbursement is not always a viable alternative for smaller organizations because the amount of paperwork is overwhelming. Even larger public organizations, such as the Department of Children and Family Services and the Cleveland City Schools, have lost substantial income in past years because they were unable to keep up with the paper work for Medicaid.

**Advice**

According to study participants, revenue-generating programs can allow an organization the autonomy necessary to develop according to client needs and demand for programs and services. With some financial freedom, an organization can stop careening from one financial crisis to another and engage in long range planning and evaluation of services. Financial independence allows the organization to exercise more control over the long term professionalization of the organization and to develop public/private partnerships.

**Caveats**

One of the toughest challenges to selecting organizational initiatives on the basis of demand for services is that this requires a completely different perspective as to the purpose of the organization. A mission/market conflict can generate tension internally, as well as externally,

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with stakeholders. The logic of the market assumes that important organizational stakeholders/clients will weigh in with their revenues. Nonprofits have developed established relationships with stakeholders who do not exert monetary pressures on the organization, *per se*. How the organization maintains some commitment to these clients or client communities and generates new stakeholders and programs that are dollar driven can be a difficult and dangerous endeavor.

## CONCLUSION

This study has reviewed the many ways in which the nonprofit sector of Cuyahoga County is under pressure to alter its traditional character. Global trends to introduce private sector practices in both the public and nonprofit sector and to reduce the size and role of government have changed the long standing partnerships between nonprofits and government. Although the nonprofit sector is central to devolution because of the integral role of these organizations in the delivery of health and human services, organizations have been under considerable fiscal stress for the past twenty years. In 1977, the typical nonprofit had 25 percent of its annual budget in reserve at the end of the year. In 1997, most ended with less than one percent.

This research project sought to identify how nonprofits were being affected by devolution. It appears from both focus groups and survey data collected in this study that the impacts are just beginning to occur. Even staff in county agencies noted that they are just getting a glimmer of what is to come. One of the most notable impacts that appeared through this study is a division of the sector. Traditional, established organizations are expanding and continuing along a trajectory of business-oriented practices. These organizations are reshaping services and programs to serve clients who are either able to pay or who are funded by the government. The current environment also favors the multi-service organization that can offer revenue-generating programs to offset unreimbursed costs in other service areas. Organizations that are younger and have a strong commitment to serving the indigent and unreimbursed (often community-based and faith-based organizations) are finding their survival more threatened. These groups are dependent on government and charitable funding to continue serving unsubsidized populations, thus their capacity to compete with the larger, multi-service organizations is limited.

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Organizations of all types found their public service character threatened by the marketization of the sector, specifically, public services that nonprofits have provided in the areas of research, education, advocacy, and serving the indigent. Devolution occurs as a progressive bumping down of responsibility and risk as each level of government seeks to minimize costs until the last provider in the continuum absorbs the difference. In keeping with a private sector model, the current environment encourages nonprofits to provide reimbursable services to individuals, such as substance abuse funded by Medicaid. The current environment financially discourages an organization from educating community groups about substance abuse.

The study sought to identify whether emergency/crisis and coping/support oriented nonprofits were more strongly affected by devolutionary forces. The results did not indicate as much. While all organizational types included in the study spoke of strong increases in need for their services, based on discussions among focus group participants, there did not appear to be disproportionate pressure falling on any particular service sector. Organizations most pivotal to the county's efforts to implement devolution were neighborhood centers and neighborhood organizations. Perhaps in the future, as sanctions take effect, the crisis and coping oriented organizations will find that the need for their services increases, as occurred in Milwaukee after welfare reform when there was a sharp increase in need for shelters.

Organizations in the study indicated that methods for maintaining viability were similar to what organizations found effective in the 1980s with federal budget cuts under Reagan. Fiscal pressures are not new to the sector and much of what was effective during the 1980s is still a viable alternative. The new challenge that this current environment presents is the introduction of competition and private sector practices and, correspondingly, the requirement that nonprofits demonstrate their effectiveness through outcome measures. Nonprofits will have to take on a more business-oriented approach to meet needs, but they must select among business practices very carefully. While business management methods

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are a boon to the nonprofit sector with a small bit of adjustment, others have the capacity to destroy organizations from the inside out.

In order for nonprofits to continue providing quality services, the relationships between nonprofits and local governments need to become interdependent in practice. As nonprofits will need to become more fiscally and programmatically accountable, state and local governments would do well to acknowledge the expertise that nonprofit professionals have developed in particular service areas. Organizations in the study repeatedly noted that, at some point, it is not possible to do more with less, and to assume that it is possible jeopardizes the quality of care. State and local governments will need to find a way to support quality services as well as fiscal accountability in the human service sector—and work in partnership with them to serve citizen needs.

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## ABOUT THE AUTHOR

Jennifer Alexander teaches ethics and management courses in the Master of Public Administration program in the Maxine Goodman Levin College of Urban Affairs at Cleveland State University. She has written on the topics of administrative responsibility in public administration and the survival of nonprofit organizations. Her present research examines the relationships between nonprofit social service agencies and government. She has a Ph.D. in public administration and policy from Virginia Tech (1993), a M.S. in geography from Virginia Tech, and a Bachelors of Science in Foreign Service (BSFS) from Georgetown University.

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