

During these troubled times, what lies in store for the nonprofit sector, and what do we need to do about it? Along with every family in America, the nonprofit sector is wondering about its future. Will we miraculously survive as we largely do today? Will we starve our organizations to the core or emerge from the current economic calamity mostly intact? Will we fight the prevailing downturn on behalf of our individual institutions and leave others to defend themselves, or instead will we join forces to shore up the sector as a whole? In the aftermath of this financial crisis, will we have real options and choices?

The answers are not yet clear, but it appears that an intensifying struggle for ownership of the sector and how it is structured, governed, and deployed is under way. When boiled down to its fundamentals, the question is whether nonprofits are “owned” by their institutional funders (governmental and philanthropic) or whether a broader community of stakeholders should make the choice about the future nonprofits pursue. The search for an answer may yet produce a struggle for the identity and soul of the sector. Traditionally the sector belongs to this country’s citizens who have exercised their right to associate through civil society, but there is, of course, pressure from those who have the resources on which the sector depends.

In the midst of this struggle, larger “brand name” nonprofits may seek greater market share through muscular fundraising machinery and carve up territory that will in some cases undermine the self-direction and survival of smaller, community-based entities. Words like *scale*, *efficiency*, and *metrics* may come to dominate conversation in the sector, overshadowing concepts like civic engagement and democracy—ideas renowned for their messiness in practice. And indeed, the recession may convert an implicit agenda into a much more explicit goal: to reduce the number of nonprofits—or more precisely, the amount of philanthropic demand—where such winnowing perhaps works to the advantage of brand-name nonprofits. In this institutional melée, citizens may be left out of the equation, even though they have a legitimate claim to involvement because they subsidize the sector’s tax status.

Let’s now consider four different futures that will shape this debate.

The rescue fantasy. The first future scenario is based on the “kindness of strangers” and is likely to leave the nonprofit sector in the same position as poor, homeless Blanche DuBois. The idea is that Americans are a generous people and will continue giving, perhaps rising to the

challenge and giving more from their strained budgets. In some ways, the American psyche expects an increase in generosity, but the sector is no longer dependent on just individual contributions. It has grown accustomed to a huge share of revenue from government and marginal dollars from philanthropy. But when you consider the amount of dollars from government and philanthropy that might have to be replaced, it is reasonable to assume that individual givers cannot fill the gaps, however much we hope they will.

And even if it did occur, this rescue would likely help some nonprofits, but not others. The public is used to supporting certain kinds of groups but not others. There are whole fields of work that receive little in public donations because they have traditionally been subsidized so heavily by government. They are often virtually unseen by the public and many also work with the most vulnerable, and sometimes marginalized, populations: the chronically mentally ill, the developmentally disabled, and substance abusers, for example. Some of these programs are quite intensive and, in some cases, residential and therefore quite expensive. Many such programs are funded by the state and will be subject to the trickle-down effect of reduced federal budgets, combined with reduced tax income at the state level. The public is unlikely to pick up the tab in small private donations.

So what about a nonprofit bailout? Some well-connected and well-known nonprofits will no doubt be congressionally pardoned even if already economically stressed individuals do not give at higher levels. Last October, in the first of what could signal several visible bailouts, the Red Cross received a \$100 million no-strings-attached grant from Congress to cover a shortfall in fundraising following hurricanes Gustav and Ivan. Other large national nonprofits could line up for funding as well, but many smaller nonprofits would be left behind. Rescues tend to favor single organizations or relatively small slices of an industry.

And as for community service as the answer to our current situation, it is not clear that a service nation could do enough to produce a rescue. A community service-oriented solution may well be this administration's version of the Bush faith-based proposal: a good but inadequate response. Although an expansion of AmeriCorps and the creation of a new Serve America fellowship may draw as many as 300,000 to 500,000 new recruits to the sector, the numbers of such "voluntary stipended" recruits are just too small to fix a frayed social safety net.

A withering winterland. This second future is more probable. This scenario has every nonprofit in the sector suffering. Most nonprofits, even the nationally known brand names, now feel the pinch of the downturn. Fall galas have fallen well short of past highs, even as once-steady gifts shrink. Several major corporate foundations have stopped giving entirely, particularly in the beleaguered financial sector, and many have trimmed back to near zero.

Government also expects deep deficits and will adjust nonprofit contracts accordingly.

Depending on the length of the economic downturn, many nonprofits will starve themselves into a weakened organizational state through hiring freezes, pay freezes, layoffs, and deferred organizational maintenance. Although they may not be immune to these cuts, large nonprofits have more fat to trim, but trim they will, perhaps to the point of becoming predatory on their weaker brethren. How ironic that organizations created in part to help the needy may well contribute hundreds of thousands to the ranks of the nation's unemployed. With roughly 20 million Americans now looking for work, federal job centers are already overwhelmed by demand. How many of those cast aside will be from the ranks of the nonprofit sector?

An arbitrary winnowing. This is the most likely scenario and would result in rebalancing the sector toward larger, richer, and fewer organizations. In this scenario, some nonprofits will fold, while others will prosper as contributions flow to the most visible and largest organizations as well as to those most connected to and influential with their donors. Marketing budgets and levels of community engagement may be the best predictors of survival. Well-known organizations will survive through more aggressive fundraising appeals, while some small nonprofits will survive through sheer will or because their communities are used to supporting them. Others will merge, be acquired, or simply melt away.

Midsized organizations with little immediate capacity to replace lost funds will falter and cut to the bone. This winnowing would effectively eliminate the middle class, leaving the sector with fewer but bigger nonprofits and a lot of smaller nonprofits that already live hand to mouth. Overall employment will decline somewhat, though not in most universities and hospitals, but the total number of nonprofits could drop by 10 percent. As with the withering scenario, a winnowing scenario would seriously undermine the sector's ability to meet increasing demand.

Transformation. This fourth scenario is hopeful but different, and it is likely only if nonprofits make it so. As has been noted in several of this issue's articles, nonprofits could use the faltering economy and its impact on the sector as an opportunity to reinvent themselves. But this approach requires examining all possible options quickly and creatively. In state budgets, should certain services be saved over others? Are there ways to redesign organizations to achieve greater synergy between community players? Are there ways to involve communities in rethinking and reenergizing our work? A transformation-oriented approach requires deliberate and collective action by the sector's stakeholders: communities, philanthropists, governments, intermediaries, constituents, nonprofit associations, and boards.

Whether small or large, every organization will make its own decisions, and the sector's infrastructure is left with several tasks to help aggregate these decisions into a best possible future. What should these tasks be?

- **Ensuring a voice for the less powerful.** It's imperative to ensure that the less connected and powerful have a say in the future of this sector, which is, after all, meant to facilitate our ability to self-organize. In states with well-organized state associations, these venues can act as a convening point to consider priorities and collaborative strategy and as a conduit for advocacy, public education, and, yes, even lobbying. State associations of nonprofits could lead this effort by providing training, aggregating concerns, and expressing a clear call to action. Associations such as the Minnesota Council of Nonprofits have already proven that advocacy works, if not to prevent cuts entirely, then at least to reduce them.

- **Advocacy.** Generally, advocacy must be seen as a necessary capacity for nonprofits—and one that should be funded well during times of political upheaval. There is no way to recover quickly from a government retrenchment that has already happened. The sector needs to weigh in loudly on where the trenches have been dug.

- **Dialogue on philanthropy.** Since philanthropy is a private allocation of funds to be held in public trust, in times of such serious upheaval there should be a more public conversation about philanthropy. This doesn't mean that philanthropy needs to coordinate better among itself but that it should be more responsive and responsible to its community partners.

- **Flexibility.** Whatever happens, the sector needs to innovate and mobilize more flexibly to keep pace with a new era.

Moving Ahead

Bringing flexibility, innovation, and responsiveness to the sector, however, requires several changes within it.

- **Resisting funding restrictions.** Philanthropy should not predetermine what is needed by restricting funding too tightly. Providing more core support allows nonprofits to seek out new ways of making things happen at an administrative and a programmatic level. Instead of exerting too much control, philanthropists may want—as has been suggested by Margaret Wheatley—to ensure that each organization has an active learning process in place and that there are methods for sharing learning among organizations.

- **Collaboration.** Nonprofits must seek new ways to collaborate with other organizations and with the people in their communities. It is in the friction between unlike bodies that brilliant breakthroughs are made. Philanthropy should support but not direct these efforts.

- **Effective research.** Researchers should more closely coordinate their work to help the sector learn more quickly about what works well and under what conditions. This learning should be broadly, rapidly, and effectively shared.

- **Rejecting the hype.** Philanthropy should avoid overdependence on predetermined metrics as a method for encouraging effectiveness. Such dependence slows innovation in all but the best-funded organizations. Of course, measurement is not a negative—nonprofits should be rigorous in determining what constitutes success. But fixed measures of efficiency and fundraising effectiveness are not a substitute for a deeper understanding of the social return on investment, which may involve both quantitative and qualitative assessment.
- **Enlisting the young.** Nonprofits must focus more on integrating young people into leadership. The nonprofit sector tends to operate in the present tense and on immediate need. As a result, it often misses key trends that alter futures. The alternative gives young people a voice in determining the future of the nonprofit sector.
- **Broad based use of technology.** The sector needs to ensure that management and technological aids for nonprofit work are spread evenly across the country and particularly to rural and marginalized populations. The Obama administration has promised to help do so but needs to support the have-nots in the effort. The nonprofit sector belongs to society as a whole, not just the brand-name nonprofits and philanthropists that receive the greatest media coverage.
- **Social entrepreneurship.** Nonprofits must also embrace the spirit of social entrepreneurship and claim it. The Obama administration has included social entrepreneurship as part of its language. But do not believe that this is a new phenomenon whose spirit and processes are owned by a talented and well-educated few. This sector has always focused on social entrepreneurship. Social entrepreneurship is what many nonprofits already do and what more should do. Although there are talented social entrepreneurs within the sector, organizations' social entrepreneurship often goes unrecognized for its focus, creativity, energy, skill, and instinct that easily rivals that in the business sector.

The nonprofit sector can always let the future take its course by failing to choose among these competing scenarios. But in doing so, it would almost surely experience either the withering of organizations that comes from inaction or a random winnowing based on influence and ready cash, not performance. It can reap the benefits of transformation only by deliberate choice.