

CHAPTER HIGHLIGHTS

# THE STATE OF NONPROFIT AMERICA

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LESTER M. SALAMON *editor*

## **Chapter 4 Highlights** **SOCIAL SERVICES**

Steven Rathgeb Smith

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# SOCIAL SERVICES \*

Steven Rathgeb Smith

Social service agencies represent, in many respects, the core of the nonprofit sector. But these organizations have faced a series of political, organizational, and economic challenges in recent years that have transformed them in fundamental ways. According to University of Washington scholar Steven Rathgeb Smith, nonprofit social service agencies have greatly increased in number and the diversity of their programs. But many of these organizations also face complex organizational dilemmas related to mission, financing, and strategy that have tremendous implications for the quality and access of social services to the citizenry.

Smith's analysis is part of a broader assessment of *The State of Nonprofit America* coordinated by Dr. Lester M. Salamon of the Johns Hopkins University and published by the Brookings Institution Press in collaboration with the Aspen Institute.

**Expanded Demand.** One of the most significant developments affecting nonprofit social service agencies is increased demand for their services. This growth in service demand is due to several recent social and demographic changes such as the graying of the population, welfare reform, and the changing labor force participation of women. As a result, social services are increasingly in demand from a far broader part of the population.

**The Transformation of Government Involvement.** At the same time, government support for these organizations, which figured prominently in their development in the 1960s, has itself been transformed. In the last 20 years, federal support of social services has increased substantially through new grant and contract programs and expanded access to public health insurance programs such as Medicare and Medicaid. To secure such support, however, nonprofits have had to master complex reimbursement systems and compete in the market with other nonprofits and, depending upon the service, with for-profit firms. In addition, government support for social services increasingly comes from a much more diverse set of agencies, including health care, criminal justice, and housing. Consequently, nonprofit agencies are under growing pressure to improve their management capabilities to adequately monitor their programs.

**Intensified For-profit Competition.** Because of the increased demand and expanded government funding, for-profit firms entered many service fields previously dominated by nonprofit organizations including child care, home care, mental health, drug and alcohol treatment, and job training. In some fields such as daycare and home care, for-profit firms now predominate in terms of employment and the number of organizations.

**Growing Accountability Demands.** Side by side with the increased funding and expanded competition is a growing demand for improved performance on the part of social service providers. Today, government agencies and private funders often require nonprofit agencies to meet specific performance targets as a condition of funding. This accountability environment puts special pressures on agency management, especially when issues of confidentiality, cost, and the difficulty of client

tracking seriously complicate the task of program evaluation and accountability. In the current tight funding environment, these new accountability pressures – while certainly needed – can create difficult tradeoffs for nonprofits as they contemplate the allocation of scarce resources between direct program services and the need for evaluation.

**Nonprofit Responses.** These altered funding and political environments for nonprofit social service agencies has encouraged them to develop new organizational strategies including: direct marketing of their services, entrepreneurial initiatives such as fee-based service provision and for-profit subsidiaries, and the creation of endowments to increase their revenue flexibility and reserves. Increasingly, nonprofit executive directors need to be able to undertake extensive fundraising and be comfortable with an entrepreneurial approach to program management. Boards of directors are also now expected to be integrally involved with fundraising and seeking support for new government revenues. Small nonprofit agencies are at a particular disadvantage in this new climate because they often do not have an adequate management infrastructure to support extensive fundraising or rigorous program assessment.

**Recommendations.** To help nonprofit social service agencies cope with this new environment without losing touch with their central missions, Smith calls for the creation of new funding models that would include foundation funding of operating expenses, access to tax-exempt bonds for capital expenses, greater attention to the mission-critical functions that nonprofit social service agencies perform, and performance-based contracts that offer nonprofit agencies greater flexibility in keeping surplus revenues. Moreover, government needs to recognize that the health and sustainability of nonprofit social service agencies hinges on supportive government policy that includes adequate funding and incentives within grants and contracts for reasonable accountability and sound program management.

\* Adapted from “Social Services” by Steven Rathgeb Smith in Lester M. Salamon, editor. *The State of Nonprofit America*. Washington: The Brookings Institutions Press, 2002. Published in cooperation with the Aspen Institute.

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– Peter B. Goldberg, President and CEO, Alliance for Children and Families

Chapter highlights are from “Social Services” by Steven Rathgeb Smith, a chapter in *The State of Nonprofit America*, edited by Lester M. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

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