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Nonprofit Human Services Agencies and Reliance upon Government Funding: Implications for Organizational Development

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Nonprofit Human Services Agencies and Reliance upon Government Funding:
Implications for Organizational Development

A THESIS SUBMITTED

By

Leon D. Winston

In Partial Fulfillment of the Requirements

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Nonprofit Human Services Agencies and Reliance upon Government Funding:
Implications for Organizational Development

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ABSTRACT

Based on interviews with the executive directors of twenty human service agencies from San Francisco, CA, which received 60% or more of their funding from government sources, this study explores what organizational and operational benefits and challenges these executives attribute to reliance on government for funding support.

The theoretical framework for the study relies on resource dependency theory within a natural or open systems model of organizational development. This illuminates the relationships between nonprofit human services agencies and the government agencies that fund them. The dependency relationship is seen as being of mutual benefit, although power distribution within these relationships is not equal. Due to their dependence on funding, nonprofit agencies may be pressured to develop or operate in ways that are not self-determinant. This study explores this influence from an organizational perspective, seeking to determine what effect, if any, this funding dependency has on organizational structure, internal systems, allocation of resources, targeting of consumers, and program (product) choice and delivery. Specific inquiry concerns the adequacy of government support for the operations of the programs and the indirect costs associated with their operation.

This study finds reliance on government funding has considerable influence on the organizational infrastructure and internal systems of the recipient agencies, both in response to the demands placed on them by virtue of this funding relationship and in passive consideration of resource allocation and the support of activities and structures that could reduce their level of dependency. Respondents note serious consequences for agency infrastructure and human resource practices, particularly occurring over time, as most government contracted funding fails to keep pace with wage inflation and increases in the general costs of doing business. An impression of a service delivery system in decline develops, largely attributed to these non-compensated inflationary factors.

Conclusions seed recommendations for the reexamination of funding and contracting policies of government agencies to improve the health and well-being of the service delivery systems they fund, including steps local government could consider to help ensure service delivery-system health. The study questions the strategic decisions of nonprofit operators and the resistance of many to attempt balancing government support with private and foundation fundraising. It recommends the adoption of -- and investment in -- diversified funding strategies.

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INTRODUCTION

The prevalence of government funding for nonprofit human services agencies represents a shift in public policy that began in earnest in the 1960s through the programs and legislation of the federal government. Prior to that time, the majority of government-funded human services, where they existed, were carried out directly by agencies of the government. Becoming policy in 1960s and thereafter, purchase of service contracting — or the creation of contractual relationships between government agencies and groups in the private and voluntary sector for the provision of government-funded services — has been significant. For those agencies that contract with the government for the provision of services, government revenue is often their largest funding source (Froelich, 1999). This role of government, and government's relationship with the agencies it funds, can influence an organization's development in multiple ways. Government influence includes 1) the choices the funded agency makes in the composition of Boards of Directors, 2) the infrastructure it requires to operate effectively, 3) the programs it operates, 4) its ability to hire and retain quality staff, 5) the clients it serves, and 6) its role in advocacy.

The present study confirmed the existence of dependency relationships between San Francisco human services agencies and their government funding agencies and looked into the nature of the relationships that existed between this sub-sector of San Francisco nonprofits and government from the perspective of the nonprofit Executive Director. A cross-section of data was obtained to gauge the effects attributable to this relationship upon the development of the organizations studied.

Background of the Issue

During the second half of the twentieth century, federal, state, and local governments became the largest single source of funding of human service agencies, purchasing the provision of a wide array of services and programs. One reason for this shift in funding was addressed by Smith and Lipsky (1993), who stated that “[d]uring the 1960s and 1970s the federal government undertook to overcome the historical limits of state and local governments and private charity in meeting social service needs. Nonprofit agencies became agents of government in the expansion of the American welfare state” (p. 71). The nonprofit human service agency became the government’s proxy in the provision of services to the needy public.

Government funding of service-delivery through a mechanism commonly referred to as Purchase of Service Contracting (POSC) began with the “War on Poverty” and “Great Society” programs of the 1960s. This shifting of responsibility for carrying out the service-delivery function of government was initiated through explicit provisions of legislation that included the Economic Opportunity Act of 1964, the Model Cities Act of 1966, and the Public Assistance Amendments of 1962 and 1967. The 1970s saw the creation of federal revenue sharing, a mechanism for providing federal revenues to state and local governments for the provision of services and the development of facilities. Title I of the Housing and Community Development Act of 1974 was modeled under this revenue sharing schema, creating the Community Development Block Grant program that provides federal funds for community development activities. The 1975 passage of Title XX of the Social Security Act further cemented POSC as a vehicle for services funding by changing the manner in which human services programs were planned and

implemented at the state level. Another example of federal special revenue-sharing programs is the Joint Training Partnership Act of 1981, which provided local funding for job training and job retention programs (Kettner & Martin, 1987). Subsequent legislation, including the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, or “welfare reform,” has continued to affect the manner in which government funds programs and services in the communities (O’Neill, 2002).

As the legislative activity would indicate, this “government by proxy” conversion to the nonprofit and private sector gained considerable favor from the 1960s onward and has been identified as benefiting government and society through a variety of factors, including: improved results, the lowering of cost of services, increasing service outputs, improving services to clients, and the improved targeting of resources to meet specific needs (Kettner & Martin, 1987; O’Neill, 2002). Understandably, this influx of funding had a huge impact on the nonprofit human services sub-sector through the expansion of programs, through the creation of wholly new organizations, and through the long-term influence this relationship with government has had upon the organizations themselves (Smith & Lipsky, 1993; Smith, 2002).

Effect on Organizational Development in the Nonprofit Human Services Agency

Such significant changes in funding have had an equally significant effect on the recipient agencies. A longitudinal study cited by Gronbjerg (2001) showed that the percentage of Chicago area United Way-affiliated agencies receiving half or more of their income from government sources increased from 0% in 1950 to 64% in the 1990s. Conversely, for those agencies receiving 50% or more of their income from private donations in the 1950s, revenue from donations decreased from 86% to 19% over this

same period. Salamon (2002) cited various data indicating that government funding accounted for 52% of all Social Services funding in 1997. O'Neill (2002) stated that the "[g]overnment is by far the dominant source of nonprofit social service revenue. Sixty percent of social service revenues come directly or indirectly from government, under grants, performance contracts, and fee-for-service agreements" (p. 77). This shift in funding has had an effect on the organizational development of those nonprofit agencies that have become the aforementioned "agents of government," particularly where such factors as resource dependence, human resources, goal displacement, structures and systems, and organizational stability are concerned.

Organizational Development

Distinction is rightly made between organizational development paradigms in nonprofit organizations and those in for-profit corporations. An agency that is solely organized in the pursuit of a charitable mission would and should be quite different in many respects from one that has been formed in the pursuit of profit for its owners. A nonprofit, founded and organized around a mission statement, is limited in the scope of its enterprise by that mission statement. The for-profit organization has no such constraints and can respond to market and opportunity in ways that are simply not available to, and are not indicative of the nature of, the nonprofit organization. Commonality, however, exists. It has been argued that, in nearly all organizational settings, innovation

is a crucial element of organizational effectiveness because it addresses the organization's potential to meet future demands, to take advantage of opportunities and resources within the environment, and to use resources (both human and

material) to generate new products and services. (Kanter & Summers, 1987, pp. 162-163)

Once they become established, however, most organizations suffer from inertia and resist change. As a result, most of the choices they make are limited to selecting options within the limits of existing routines (Powell & Friedkin 1987). The maintenance of existing sources of revenue is similarly governed by this scenario and, in the case of those organizations taking part in this study, the limits of existing routines are often those associated with the maintenance of their government funding.

Resource Dependence

Reliance upon government funding can be viewed from the perspective of resource dependency theory. The resource dependence model (Pfeffer & Salancik, 1978) is understood within the theoretical framework of the open systems model, which describes organizations as open systems transforming inputs (in this instance, funding) into outputs (services). Because they are open, they are influenced and limited by environmental factors such as the funding environment (Katz & Kahn, 1961). Within the context of the open systems view, resource dependence theory describes the general tendency of all organizations to alter their structures and goals to obtain those resources necessary for their survival. Powell and Friedkin (1987) write,

The core of resource-dependence theory is the view that organizations will (and should) respond to the demands of those groups in the environment that control critical resources. Because organizations are not internally self-sufficient, they require resources from the environment; hence, they become dependent upon those elements that provide the most needed forms of support. (p. 182)

Researchers describe nonprofit organizational development in terms of this model, for example in explaining the behavior of United Way agencies, the allocation of university budgets, the composition of hospital boards of trustees, and the development and behaviors of nonprofit organizations in general (Powell & Friedkin, 1987; Froelich, 1999). Powell and Friedkin summarize the effect of resource dependence upon the reliant nonprofit organization, stating that “when a few funding sources provided the bulk of the money, the staff lost its room to maneuver and the funders gained much greater say in the program content” (p. 182).

Human Resources

Beyond loss of maneuverability, there are other consequences of dependency on government funding. Smith and Lipsky (1993) observed that nonprofits “cannot rely on government to maintain funding levels or [to] provide increases consistent with reasonable expectations for cost of living and price index inflation” (p. 71). Flat funding, or multi-year funding without increases for inflation, may have a detrimental effect on human resource practices of the funded agencies. If augmenting funding sources are not available, the result of flat revenues must be to confront agencies with the choice of either not providing pay increases to employees or of reducing staffing levels to keep up with inflation. At the same time, contractual outputs such as “units of service” provided to clients cannot readily be reduced in response to decreased staffing without jeopardizing the contractual funding. Either scenario is unhealthy for staff morale and can be problematic for the attraction and retention of quality employees.

Potentially aggravating this situation is the trend for flat funding to occur during times of economic hardship, when generally there is a corresponding increase in the

demand for services. Smith and Lipsky (1993) observed that “[m]eanwhile the demand for services seems to expand to meet the capacity of the society to provide services, and this puts pressure on government to seek slack funds for improvements or expansion of current activities” (p. 159). In times of increased demand, the pressure on government is to expand services, not to increase the cost to the taxpayer for those that already exist. Times of economic hardship find most human services leaders anxiously eyeing the development of local, state, and federal government budgets, attempting to ascertain advance notice of potential or probable funding reductions for their programs and agencies.

Goal Displacement

Examples of goal displacement in the nonprofit human services organization would include changing the service delivery system or the demographics of the agency’s target population for a reason other than mission. Studies show that factors other than client need strongly influence service delivery among human service organizations. The interests of major benefactors have been identified as a major force responsible for goal displacement (Powell & Friedkin, 1987). More specifically, organizational “[d]ependence upon government grants and contracts has been associated with various expressions of goal displacement as well as marked process and structure constraints” (Froelich, 1999).

Structure and Systems

Government funding requires the recipient agency to have relatively high bookkeeping and accounting standards, and also tends to require a significant amount of data collection and reporting. These requirements necessitate devoting considerable

resources to structuring and staffing fiscal and administrative functions, and to the development and maintenance of management information systems. Rarely do government contracts allow the recipient agency to fund sufficient infrastructure through the proceeds of their contracts. This state of affairs can create a monster devouring its own tail. When contracts allocate insufficient funds for administrative expenses, nonprofit executives may seek further contracts, hoping the additional increment in administrative funding will allow the hiring of the administrative staff necessary to meet the total administrative needs. Adding more contracts, all with insufficient funding of administrative expenses, can backfire by increasing the complexity of the task at hand, requiring even more attention. The staffing and systems the added contracts allow often cannot keep up the pace (Smith & Lipsky, 1993).

Stability

Reliance upon government funding has its advantages as well. Studies have been cited (Froelich, 1999) that found organizations were able to achieve financial predictability through their reliance on government funding. In most instances government funding is considered earned income, which tends to be viewed as a stronger revenue source than income derived from donations. With most government funding a contractual funding relationship exists, providing the recipient agency with sufficient certainty of income to allow meaningful business planning, at least for the term of the current contract. Most of the growth in the size of the human services sub-sector over the past five decades has been a result of government funding, as has been the growth in overall revenues (Salamon, 1995, 2002; O'Neill, 2002).

Statement of the Issue

Although the relationships between nonprofit human services agencies and the government agencies that fund them are of mutual benefit, power distribution within the relationships are not equal. Due to the dependence on funding, nonprofit agencies may be pressured to develop or operate in ways that are not self-determined. The intent of this study was to explore this interaction from an organizational perspective, seeking to determine what effect, if any, this funding dependency has on organizational structure, internal systems, allocation of resources, targeting of consumers, and program (product) choice and delivery.

Importance of the Study

As an integral and substantial aspect of the so-called “safety net” for American society, the health and well being of the nonprofit human services agency is in and of itself important for all concerned. As the study of nonprofit organizations expands, our increased understanding of the formative and operational challenges this sub-sector experiences will be of benefit both to the sector itself and to the public administrator, who depends on nonprofits for the operation of the programs they are charged with putting forth. If problems are inherent in this funding relationship, those problems should be explored and solutions sought to strengthen the service delivery system.

Nonprofit and public administrators and elected officials should be concerned with establishing healthy relationships and with organizing themselves in a manner that facilitates cooperation and optimum functioning. Too little attention appears to be paid to the health and wellbeing of the recipient agency when government promulgates policies and procedures that are of great consequence to its welfare. If government will not

commit to funding nonprofit service providers at a level that promotes their organizational integrity and ability to function effectively, then greater effort may be called for in reducing the level of reliance upon government funding in a way that does not equate to a reduction of services.

This study set out to describe practitioner-identified benefits and to detail the organizational and operational challenges the leaders of human services agencies attributed to this funding paradigm. Hopefully, these findings may shine sufficient light onto those challenges to promote improvements where needed and, in so doing, to strengthen the service delivery function that this public/nonprofit partnership has performed for American society for the past half century.

CHAPTER ONE

REVIEW OF LITERATURE AND DELINEATION OF PROBLEM

Review of Literature

This survey was drawn from an array of source materials and from two main disciplines, nonprofit administration and organizational development. Historical data describing the development of the current funding relationship between government and nonprofit service providers set the context for this study. Beyond context, the relationship between resource reliance and organizational development, at the heart of the study, required a theoretical framework, which was explored by means of a review of the Open Systems and Resource Dependence models of organizational behavior and of how these models apply to nonprofit organizations.

Nonprofit scholars have studied, written books, and published articles relevant to the topic of government funding of nonprofit human services agencies. Such sources were heavily relied upon to fully address this organizational development paradigm, with particular emphasis on the areas of nonprofit governance, human resources, infrastructure, goal displacement, and organizational growth.

Historical Context

For much of this nation's history, the provision of human services to the needy public was largely accomplished through charitable organizations and churches, without much in the way of government assistance. "Since the early decades of the American republic, nonprofit organizations have played a critical role in helping people in need by providing education, training, residences, counseling, and in-kind cash and support" (Lipsky & Smith, 1989-1990, p. 625). As early as the 1820s, the government was

contracting for the provision of some basic human services. Adult indigents, or “paupers,” were farmed out or otherwise entrusted to individuals who, in exchange for an agreed-upon sum of money to be paid by the town, would provide the pauper with shelter and other basic needs. Multiple examples exist of local governments paying fixed fees to individuals for the care of the poor in the early 1820s and later (Kettner & Martin, 1987).

It really was not until the New Deal of the 1930s that the U.S. government began to lay stress on direct government assistance to the poor and needy. Nonprofits were largely left out as New Deal services were provided directly by the government without intermediaries. In fact, it was stressed by Harry Hopkins, head of the Federal Emergency Relief Administration from 1933 until 1935, that *no* government funds were to go to private welfare agencies (O’Neill, 2002; emphasis added). This prohibition continued for the next decade. It was not until the end of World War II that the paradigm shifted, and the nonprofit sector reemerged as a partner of government in the provision of services to the needy. Of this entire period, Hall (1987) wrote:

Overall, the growth of the welfare state after 1936 appears to have stimulated rather than discouraged the growth of private nonprofit sector, but the direction of its growth changed markedly. Before the second New Deal, its major thrust was in the direction of a comprehensive associational system of private for-profit and nonprofit sectors working with encouragement from government to deliver basic social, cultural, and welfare services. After World War II, the thrust veered in the direction of a public-private partnership, with the private sector assisting the government in the delivery of services. (p. 17)

The American nonprofit landscape changed dramatically during the period between 1950 and 1980, when massive growth took place in the sector's size and scope. This growth occurred concurrently with an accelerated extension of the American welfare state (Salamon, 1995). The Great Society programs of President Lyndon Johnson served to open the gates to government funding of private nonprofits for the provision of services to the needy, accomplished through funding of health, education, welfare, and other services (Lipsky & Smith, 1989-1990). Kettner and Martin (1987) wrote, "As the federal government began putting together many of the programs of the 'War on Poverty' and the 'Great Society' of the 1960s, the purchase of service contract was discovered. A large number of the [federal] programs initiated during this period contained explicit provisions for purchase of service contracting" (p. 24). These programs, many carrying provisions that mandated services be contracted out to non-governmental organizations, included the Demonstration (Model) Cities Act of 1966, the Economic Opportunity Act of 1964, and the Public Assistance Amendments of 1962 and 1967, among others. The advent of the Medicaid and Medicare programs especially stimulated nonprofit growth in areas of healthcare and social services. Purchase of service contracting, and the enactment of legislation supporting third-party service provision, continued fairly unabated into the 1970s and 1980s. The Comprehensive Employment and Training Act (CETA) of 1973 funded many community programs (Kettner & Martin, 1987; O'Neill, 2002; Salamon, 1995).

Federal revenue sharing, through which the federal government provided federal revenues to state and local governments for the provision of services, became popular in

the 1970s. Title I of the Housing and Community Development Act of 1974 created the Community Development Block Grant program, providing federal funds to localities for community development activities. The passage of Title XX of the Social Security Act in 1975 created additional avenues for service purchase, and changed the manner in which human services programs were planned and implemented by the States. Federal revenue sharing was again enhanced in 1981 with the Joint Training Partnership Act (JTPA). Replacing CETA, the JTPA provided local funding for job training and employment retention programs (Kettner & Martin, 1987).

Heimovics, Herman, & Coughlin (1993) summarized the modern nonprofit-government relationship from the vantage point of the public administrator by stating that “[t]he partnership between nonprofit organizations and government has grown in complexity and interdependence. In fact, without a clear understanding of the nonprofit sector, it is impossible to comprehend public policy in America” (p. 419).

Organizational Behavior: Open Systems and Resource Dependency Models

Open Systems theory is a departure from classical and neo-classical organizational theory. The open systems perspective describes organizations from a conceptual perspective, which relies very little on the basic considerations of classic and neo-classic organizational theory, such as name, place, intent, or the original goals of the organization and its founders. Instead, from the open systems perspective, theoretical concepts of the organization begin with the input, output, and functioning of the organization as a system and not with the rational purposes of its leaders. [The open systems] theoretical model for the understanding of

organizations is that of an energetic input-output system in which the energetic return from the output regenerates the system. (Katz, 1966, p. 258)

Also referred to as a natural-systems approach to understanding the dynamics of organizations, the organization as an open system is seen as a “unit in interaction with its environment” (Thompson, 1967, p. 270). This natural-systems approach posits organizations as similar to life forms, organized in such a manner that they require inputs (sustenance) to create the energy (throughputs) needed to do those things (outputs) they need to do to survive (obtain sustenance).

This model is readily understandable as it relates to a manufacturing company that takes materials, transforms them into a product, sells the product, and uses the proceeds of the sale to buy more materials and regenerate the cycle anew. One can see from this example the manner in which the environment, from which the company obtains materials necessary for its function, can and will shape the behavior of the organization through having an effect upon the lengths to which it must go to obtain the resources required for survival. The open systems model also describes organizations that do not depend on cycles of buying and selling. Referring to nonprofit and public sector organizations, Katz and Kahn (1966) stated, “Universities and public agencies depend on bequests and legislative appropriations [for inputs], and in so-called voluntary organizations the output reenergizes the activity of the organization” (p. 259).

Describing an organization as an open system not only implies that it engages in interchange with its environment, but also that this interchange is vital to the organization’s viability (Froelich, 1999).

Froelich (1999) observed that the act of “acquiring and maintaining adequate resources requires an organization to interact with individuals and groups that control resources” (p. 247). This external control of resources is significant.

Organizational dependence upon the resources from which it derives necessary inputs is the basis for the Resource Dependency model of organizational behavior. Simplified, this model states that an organization has two basic choices if it is to maintain itself through the acquisition of required resources. These are either to comply with its environment or to modify or reduce dependency through finding other resources (Pfeffer & Salancik, 1978).

Froelich, (1999) describes the dependency relationship existing between the organization and its source(s) of funding:

Organizations, then, are not totally autonomous entities pursuing desired ends at their own discretion. Rather, they are constrained by the environment as a consequence of their resource needs. The degree of dependence experienced by an organization is determined by the importance and concentration of resources provided. Organizations that rely on few sources for vital inputs become highly dependent on and beholden to those providers for survival. (pp. 247–248)

Within the framework of the dependency model, funding structures create the context within which much nonprofit organizational decision-making occurs (Gronbjerg, 2001). The management of funding dependencies becomes a critical function of the organization.

Accordingly, a critical organizational function becomes the management of [these] dependencies. Major approaches to dependence management include complying

with the demands of important resource providers, avoiding controlling demands via co-optation or acquisition of countervailing power, and avoiding dependence by maintaining alternative sources of key inputs. Effective organizations identify and appropriately respond to the criteria for continued resource acquisition from each key provider. (Froelich, 1999, p. 248)

In *Understanding Nonprofit Funding*, Kirsten Gronbjerg (1993) concurs:

In general, organizations attempt to reduce their dependency on, or increase control over, specific funding sources. Such resource strategies increase the predictability and continuity in funding and improve the organization's ability to plan the allocation of resources, staff, space, and activities – all issues of concern for managers. However, the effectiveness of resource strategies depends on the environment in which the organization operates and on the institutional patterns of funding relationships in which it participates. (p. 32)

Gronbjerg ultimately differentiates certain aspects of resource dependency in social service agencies from those nonprofits of other types, noting that the former tend to experience stable public funding, which allows them to routinize management tasks and predict available resources. They encounter much greater volatility in donations [compared to other types of nonprofits]. Their donations usually do not involve ongoing and reciprocal relationships, but their government grants do. (p. 32)

Public funding, although often stable and predictable, has been associated with what are perceived to be negative consequences as well as positive for the recipient agency.

Government Funding and Organizational Development

Reliance upon government funding has been linked to organizational development challenges in recipient agencies (Lipsky & Smith, 1989-1990; Powell, 1987; Salamon, 1995; Smith & Lipsky, 1993; Stone, Hager, & Griffen, 2001). Although the government as a source of funds is generally considered reliable and predictable, this reliance is not without difficulties. These difficulties include insufficient increases to keep pace with inflation, insufficient support for administrative expenses, often coupled with increases in administrative burden due to contract management requirements, increased demands for fiscal and programmatic accountability, and changing government preferences resulting in pressures to alter or change organizational mission in order to maintain funding (Smith & Lipsky, 1993; Salamon, 1995).

In their study of a population of United Way agencies, Stone et al. (2001) noted that causality studies found links between characteristics of nonprofit organizations and incidence of government funding: “that is, greater dependence on government funding prompts certain characteristics of nonprofit organizations to change. This argument is in line with mainstream organization theory, which maintains that external environments influence organizations’ structural and strategic decisions” (p. 4).

Dependence upon government funding has been associated with various effects on the development of recipient organizations, including accelerating the process of organizational development itself (Smith & Lipsky, 1993). These effects can be witnessed in the areas of agency governance, infrastructure, human resources, impact upon mission or goals, and organizational growth.

Governance

Reliance upon government funding impacts the governance of recipient organizations. Smith and Lipsky (1993) suggested such a relationship could influence the composition of the board of directors of the recipient agency. With regard to the experience of traditional New England nonprofit agencies that dated their existence as far back as the late 19th century, they wrote:

In 1960, prior to the major expansion of federal funding of nonprofit agencies, governance of the secular traditional agencies was distinctive in several ways. They had large boards: 30 to 40 members was not uncommon. Most members were wealthy; in this respect they were not representative of the community. Boards tended to be self-perpetuating: new members were generally selected by the board, with support of the executive director, from the ranks of the same social class. Board members tended to take an active part in governing their organizations. (p. 75)

Of the shift of funding sources from individual donations to government funding, they wrote, “In the 1970s the wealthy board members who had provided the bulk of financial support throughout [agency] history resigned; they were succeeded by individuals more comfortable with the substantial dependence on government funding” (p. 59).

Changes or differences in board size and composition, tied to reliance upon government funding, have been noted (Gronbjerg, 1993; Stone et al., 2001). Specifically identified were smaller boards — attributed to the reduced fundraising role and reduced necessity for linkages to multiple constituencies and many donors — and greater

diversity of race and class among board members, making boards more representative of their community and of the clients that they served.

As the funding paradigm shifts from a dependency relationship with many donors to one of managing one or more relationship with government agencies, the role of the board of directors also changes, along with its composition. The relationship between the board and the executive director changes as well. “Government contracting tends to shift control in the traditional agencies from the board to the executive director and within the board from the old type of elite to younger corporate executives and political leaders” (Smith & Lipsky, 1993, p. 97). Relationships with key funding sources are the most vital to any nonprofit organization, and with the shift to government funding it becomes the executive director — and not the board of directors — who maintains the most vital relationships for the agency.

Human Resources

Heimovics et al. (1993) noted that within a resource dependence environment, the role of the effective executive director must be of multiple frame orientation. This included attention to the political frame and managing the “ongoing conflict or tension over the allocation of scarce resources” (p. 423), the structural framework of the agency, and the human resource frame, striking “an important balance between the goals of the organization and the hopes and aspiration of its members” (p. 424).

The agency that relies upon government funding can face significant challenges maintaining adequate staffing levels and the level of remuneration necessary for a productive and stable workforce.

In spite of the increased demands upon the agency they often create, “[m]any contracts, especially in today’s strained budgetary climate, allocate insufficient money for administrative expenses” (Smith & Lipsky, 1993, p. 161). One may hypothesize that the under-funding of administrative infrastructure, as described, creates downward pressure on salaries at all levels of the agency. Hypotheses aside, the nature of government funding and the behavior of government itself have had some direct effects on the remuneration of nonprofit employees. Lipsky and Smith (1993) noted that budgetary cutbacks, including those of the Reagan and first Bush presidencies of the 1980s and early 1990s are often “absorbed by nonprofit workers whose salaries declined” in real terms (p. 71).

They continued:

Nonprofit organizations cannot rely on government to maintain funding levels or provide increases consistent with reasonable expectations for cost of living and price inflation. Moreover, government seeks to achieve higher and higher degrees of equity and public accountability, which translates into seeking to spread resources as much as possible to deserving or needy groups. The desire to secure additional increments of service leads to systematic efforts to hold the line on contract costs. Politically, this objective is modestly supported by inflation. An agency that receives the same amount of money today as in the previous year actually is receiving less in real terms (159).

Government funding also brings an impetus towards increased professionalism on the part of staff. “Nonprofit agencies often welcome professionals in the service mix, but it may take the government contract to permit them to realize this objective. Increased

demand for professional staff costs more, and these amounts cannot be obtained through marginal increases in [non-governmental sources of revenue]" (Smith & Lipsky, 1993, p. 104). Accepting government contracts can also require professional staffing levels, changing the staff dynamics of the agency through new, professional requirements for service delivery and a bureaucratization of administration. This may also create a perceived or real disparity between the salaries of professional and traditional staff, creating additional management challenges (Smith & Lipsky, 1993; Salamon, 1993, 1995).

Greater accountability standards and reporting requirements often translate to greater burden and skill requirements for the fiscal and accounting functions of the organizations, requiring the hiring of more highly skilled, and highly paid, staff. (Salamon, 1993, 1995).

Infrastructure

Understandably and appropriately, with government funding come accountability standards that are generally higher than those for non-recipient organizations, creating increased administrative expenses for the recipient agency. In Salamon (2002), Smith wrote:

The growing complexity of the nonprofit social service agency environment and the escalating expectations of public and private funders for accountability and outcome evaluation have placed vastly increased demands on the management infrastructure of nonprofit service providers. In particular, nonprofit social service agencies are pressed to invest in systems and technology to be able to respond to greater demands for accountability. Performance contracts require a lot of data on

clients and programs. New accounting standards impose new record-keeping requirements on nonprofits. The challenge for nonprofit social service agencies is that the expertise and resources necessary to invest adequately in new information systems is often in short supply. (p. 175)

“Fiscal demands on contract organizations have increased. A service provider may have multiple funding sources, each with its own, non-compatible billing requirements. These several contracts require that shared and central costs be properly allocated” (Smith & Lipsky, 1993, p. 80).

Salamon (1993) concurs: A major issue surrounding government support for nonprofits is the production of “an undesirable degree of bureaucratization.” In contracting with nonprofits for the provision of services, the government must “guarantee standards [of] effective financial management and accounting, minimum quality standards, [and] adherence to national policy goals. To cope with the accountability standards of government programs, the agency has to develop internal management processes that reduce the agency’s flexibility and often threaten its informal character”(p. 107). Illuminating the issue further, Froelich (1999) noted that “the most pronounced effects of government funding involve changes in internal processes and ultimately the structures of nonprofit organizations. Overwhelmingly evidence points to government-driven professionalization, bureaucratization, and loss of administrative autonomy” (p. 256).

Summarizing the effects of government funding upon the development of the recipient agency, Froelich (1999) draws an association between the bureaucratization process and goal displacement:

The process and structure transformations eventually impinge on the mission and goals, mainly through changing the character of service delivery. Responsiveness to the needs of the clients is subordinated to equitable treatment of the public, effectiveness is superseded by accountability, program and method variety are lost to standardization, and the nonprofit's discretion is tightly constrained by government contract expectations (p. 257).

Goal Displacement

The question of reliance on government funding as a cause of goal displacement within recipient organizations has been subject to debate. Powell and Friedkin (1987) supported the opinion that causality exists between sources of funding and the displacement of organizational goals, including those in the nonprofit organization. They pointed out that

[t]he difficulty with [reliance upon] external sources of finances is that it can lead organizations to change in unanticipated ways. Goals that are favored by weak constituencies are likely to yield to those favored by stronger ones. When financial resources are in short supply or controlled by a small number of supporters, nonprofits will be more inclined to change confrontational tactics or controversial programs into more mainstream and acceptable approaches. (p. 181)

Specifically referring to the relationship between government as funding source and the nonprofit service provider, Smith and Lipsky (1993) acknowledged the role a funding-seeking nonprofit had in its own goal displacement or, to use their terminology, in goal succession. They offered the view that “there may be some truth to the charge that nonprofit service organizations are opportunistic [in going after funding]. But it is an

opportunism that arises in part from the position in which they find themselves in the contracting regime” (p. 163). Elaborating that view, they continued:

It is not a far reach from this conclusion to recognize that today a critical source of goal succession in voluntary organizations is the preferences and behavior of government. If, in general, the goals are determined by the structure of opportunities available to an organization as it seeks to maintain itself, in the era of contracting goal displacement of otherwise autonomous organizations is attributable to the choices made by government about what will or will not be funded (p. 163-164).

Salamon (1995), citing a United Way study of New York nonprofits and his own research, offers a countervailing view. He stated that the United Way study

found little evidence that government funding had distorted agency missions. To the contrary, most agencies reported that government funding enabled them to carry out their existing missions better. Similarly, our survey of over 3,400 nonprofit agencies in sixteen local areas across the country turned up little evidence of agency concern that government had distorted agency missions. In only one significant respect did the agencies we surveyed report a change in their mission in response to receipt of government funds: they credited government with inducing them to focus more of their services on the poor. (p. 106)

Held by some as responsible for mission and policy changes within recipient agencies, government funding has also been seen as a vehicle for agency growth. Smith and Lipsky (1993) observed that “government funding through contracting permitted rapid growth and the introduction of new services which sometimes represented

substantial policy departures. But innovativeness and quick growth were to show their shortcomings during later periods of government contraction” (p. 59).

Growth

The aforementioned nonprofit opportunism and the availability of government funding can, in combination, provide fertile ground for agency growth. Smith and Lipsky (1993) noted that the existence of a sole means of support for a new program or service, as represented by government purchase of service contracting, might free the agency from the slower, incremental growth experienced with reliance upon donated support. With government funding, new programs could be launched without requiring the level of deficit spending such an expansion would otherwise require.

James (1983), explaining nonprofit growth paradigms from the viewpoint of public policy analysis, described nonprofit decisions on service mix as motivated by distinctive factors, noting that a chronic shortage of funds was often among them. Furthermore, she observed that nonprofit managers were chosen less for their ability to raise money than for their ability to provide services. She continued:

Given the incentive system under which the managers work, we would hypothesize that most nonprofit organizations will face a perpetual shortage of funds, a hypothesis that seems supported by the facts. The root of this situation is not that these are labor-intensive service industries with a chronic productivity lag. More simply and fundamentally, nonprofit organizations should be regarded as consumption-oriented institutions; and consumers never have “enough” income. So long as the marginal utility of any good exceeds zero, there is always a “need” for more, a pressure for the organization to expand some of its activities, and a

consequent pressure to expand its resources to finance those desired activities (p. 354).

This combination represented by government funding of the opportunity for growth, on the one hand, and the potentially associated and often-chronic need for additional funding, on the other, creates a paradigm for agency growth but not necessarily agency health. Hence Smith and Lipsky's (1993) observation:

Many contracts allocate insufficient money for administrative expenses.

Consequently, a nonprofit executive may seek a new contract in the hope that the additional increment for administrative expenses may be enough to hire the bookkeeper, the assistant director, or the new program coordinator. Frequently, the new contract may allow the new staff but the demands on the agency have increased as well, so the agency has not substantially improved its financial position; or the agency finds that even with the addition of the new contract it still cannot fund its needed administrative expenses (p. 161).

Summary of Literature and Implications for the Research Question

In the United States there is a long history of government providing financial support to intermediary organizations and individuals for the provision of an array of human services to the needy. During the second half of the 20th century, this practice blossomed to create a substantial system of service delivery to the needy, performed and accomplished through a myriad of government-nonprofit relationships at federal, state, and local levels. One consequence of this dynamic has been the development of

dependency relationships, where many nonprofit service providers now depend on government sources for the majority of their resources.

Resource dependency has implications, of both positive and negative consequence, for the recipient organizations. These implications have been described and generally pertain to areas of organizational control or autonomy and organizational development. For the nonprofit human service agency, reliance upon government funding has been described as providing stability in some areas of their funding relationships and volatility in others.

A shift in the governance structures of nonprofits has been attributed to a transition from reliance upon donated income to the reliance on government income. It has been observed that the boards of directors of government-funded nonprofits have become smaller, more diverse, and more representative of the community in which the agency operates than was the case when these same agencies relied upon individual donations and foundation support. As a result, they are also less prepared to raise funds from traditional sources of support.

The relationship between the board of directors and the executive director of recipient agencies has also shifted, giving more control to the executive as s/he has a greater role in maintaining critical funding relationships with government agencies than was the case when many important donor relationships were maintained by board members.

A shift to government funding has also brought about increased bureaucratization and professionalism within the recipient agencies, while creating human resources challenges associated with internal and external equity in remuneration. Higher staffing levels for agency administration may place downward pressure on salaries throughout the

agency. It has been noted that government funding sources may not adequately provide increases from year to year that will support cost of living and merit increases for staff.

Infrastructure demands upon recipient agencies generally increase with the acceptance of government funding. These demands are not always offset by an ability to meet the associated expense with government revenues, creating a potential problem for nonprofit managers. Although there is little in the way of empirical evidence to support the concern, another potential problem associated with reliance upon the government as a funding source is goal displacement and possible pressure on nonprofits to change agency mission to align its programs with shifting governmental priorities and the availability of funding. Government funding has also been associated with improved opportunities for agency growth through the addition of new programs. The concern remains, however, that the growth model being employed may not only result in goal displacement but also in increased stress on already overburdened systems within the recipient agency that the acceptance of government funding exacerbates.

Statement of Research Questions

This study was intended to examine the effects of reliance upon government as a source of funding upon the organizational development of recipient organizations. Prior studies, as cited in Gronbjerg (2001), Salamon (1995), Smith and Lipsky (1993), and Stone et al. (2001), had indicated a correlation between the acceptance of government funding and specific behaviors or patterns of development within recipient nonprofit agencies. Looking specifically at agencies that relied upon government funding for a majority of their funding, this study attempted to see if the findings of prior research were replicated in this sample and if additional light could be shed in the areas of agency

infrastructure, staffing and remuneration, and organizational growth. Drawing on earlier studies and this researcher's own observations, the following research questions were developed:

- 1) How does the percentage of total funding that comes from the government affect respondents' opinions about the amount of dependency they have upon this source?
- 2) What was the etiology of the resource dependency relationship? Was it intentional?
- 3) Was involvement in fundraising activity seen as highly characteristic of their boards of directors?
- 4) Had government funding resulted in an increased need for agency infrastructure and, if so, had this source adequately covered any added expense associated with the increase?
- 5) Had government funding met inflationary demands upon the agency budget for personnel costs?
- 6) Were program decisions, including demographics of clients served, directly influenced by the availability of government funding?
- 7) Had the availability of government funding been a significant factor in agency growth?

The study explored four key hypotheses: 1) That becoming reliant upon government funding is not a conscious decision of recipient human service agency leadership, but that it occurs through the normal development of the organization in attempting to meet its mission; 2) That reliance upon government funding reduces the

fundraising activity of boards of directors yet puts demands upon agency infrastructure that are not adequately funded from government funding sources; 3) That reliance upon government funding contributes to downward pressure on employee remuneration through insufficient funding increases tied to inflation and the need to use other resources for funding infrastructure demands that are increased by acceptance of government funds; and 4) That organizational growth and program selection are significantly influenced by the availability of government funding.

How the Research Will Contribute to the Field

It is in the best interests of government and the general public for the delivery of human services to be both an effective and efficient use of public funds. These interests can be best served by the fullest possible understanding on the parts of both funding and recipient agencies of the potential consequences of policy decisions. It is hoped that this research will contribute to the understanding of nonprofit managerial challenges associated with the dependency paradigm that exists in government-nonprofit human services agency relationships. By understanding the implications that reliance upon government funding has for the development of the recipient agency, nonprofit leaders can take steps necessary to counter any expected negative impact, improving the health and wellbeing of the recipient organization through sound decision making and planning.

An understanding of unintended consequences of their funding policies can be of use to public officials who administer funding and to those in government involved in establishing public policy and the use of public funds. Greater understanding of this dynamic can also be of use to foundations and other private sources of funds concerned

about the welfare of the nonprofit sector, in establishing guidelines and targeting for their funding policies and decisions.

CHAPTER II: METHODOLOGY

Design

The research design was qualitative and ideographic. It included subject identification through predetermined criteria, the administration of interviews to a sample of identified subjects, and analysis of the information obtained. The agencies included in the study represented a cross-section of similar organizations and were prescreened for level of government funding (60% or more of annual income as determined through a review of filed IRS form 990) and as to whether they met the operational definition of a human services agency. Final determination of the agencies interviewed was determined through telephone or other personal contact with the executive directors of prescreened agencies to ascertain their amenability to participate.

An interview schedule was developed and interviews were administered by telephone (17) or in person (3) to agency executive directors. Interviews were recorded and transcribed.

The study is cross-sectional and did not look for changes over time. Through the interviews trends or consistencies emerged across agencies, revealing the effects reliance upon government funding was perceived to have had upon specific aspects of organizational development. The organizational development aspects of this relationship were uncovered through specific inquiry into: 1) the composition and activity of boards of directors, 2) the adequacy of general agency infrastructure and staffing, 3) employee remuneration practices, 4) agency size and program growth, and 5) program selection, including goal displacement. Inquiries were designed to capture further information not fully anticipated in the Interview Schedule.

Subjects/Respondents

To examine the impact reliance upon government funding had on organizational development in nonprofit human service agencies, semi-structured interviews were held with the executive leadership of 20 San Francisco nonprofit human service agencies that received no less than 60 % of their revenues from government sources. Given the small size of this study, so as to capture as thorough as possible of an understanding of the nature of the relationships between the nonprofit service providers and the government agencies they contracted with, this study used a qualitative method. It drew upon respondents' experiences and insights into these relationships and the role they attributed to agency reliance upon government funding and the effects, if any, upon the organizational development of their agencies.

Data were collected from the executive directors of the respondent agencies, reviewing their relationship with government funders over time and any subjective effect it had had on the composition and role of the agencies' boards of directors, administrative burden, staffing levels, their ability to increase salaries over time, and the operation and growth of programs, including program selection or de-selection.

A list of potential subject agencies was created through a multi-step process. These were San Francisco human services agencies selected from multiple sources, including the San Francisco Human Services HELPLINK directory, as published by the Northern California Council for the Community, and voluntary selection for study participation through the San Francisco Human Services Network. The organizations selected represented an array of sizes as measured by the size of annual budget, ranging from approximately \$500,000 to in excess of \$15,000,000. Many of the respondent agencies

were largely reliant upon one local, state, or federal governmental funding source, others were funded through an array of government sources, including local, state, and federal agencies.

After meeting the operating definition as a human services agency through identified program activities, each agency was screened for meeting the government funding criteria. This was conducted through a review of the most recent IRS form 990 as published on Guidestar (<http://www.guidestar.org>). From these published data, an agency's declared government-derived revenues for the given year were divided by total declared revenue, to arrive at a percentage of revenue attributable to government funding. Only those agencies whose government-derived revenue exceeded 60% of total revenue were found to be eligible for study participation.

Operationalization of Concepts/Variables

The interview schedule included both open- and closed-ended questions intended a) to elicit the respondent's experience and subjective understanding of the relationship within their organizations between organizational development and government funding sources and b) to obtain important quantitative data intended to permit comparison of variables and consistencies between and across multiple agencies.

All respondents were interviewed using the same interview schedule. The interview schedule was administered consistently, although the degree of probing for responses varied depending upon responsiveness of the individual respondent and the open-ended nature of the information initially provided. Linked to specific questions, this probing sought to uncover agency practices and limitations in the areas of interest in this study, including a) perceptions of the benefits and negative aspects associated with

reliance upon government funding, b) issues of governance as may have been indicated by the scope and composition of boards of directors, c) the subject-identified adequacy of infrastructure and of staffing levels, and d) the funding-related challenges these individuals identified and what they viewed as the root of such challenges.

Procedures

A list was developed of potential respondents meeting the basic level of criteria: San Francisco nonprofit human services agencies receiving a majority of their funding for the provision of services from government sources. For the purposes of this study, “nonprofit human service agency” was defined as being organized as a charity under section 501(c) 3 of the Internal Revenue Code to conduct an organized activity that advanced human welfare and improved the condition of disadvantaged people in society. Excluded from this study were organizations that may have met the above definition but whose primary purpose was to provide primary medical care, education, arts, or recreation programs. A review of known program activities for each agency was utilized to determine correspondence with the operational definition of agency type. Those that met the human services criterion were screened for level of government funding through a review of IRS form 990. An initial list of 27 agencies was compiled that met these combined predetermination criteria, and a letter sent to their executive directors informing them of the study, requesting that they consider participation, and advising them that the researcher would be placing a telephone call to them within approximately one week of their receipt of the letter to answer any questions that they might have and to set an appointment for an interview if they were amenable.

Simultaneously, a notice to interested agencies was distributed by the San Francisco Human Services Network, a trade association of San Francisco nonprofits, to its members via that organization's bi-monthly email newsletter. From this source one respondent interested in taking part in the study contacted this researcher by telephone, was qualified to participate, and an interview was scheduled.

As established in the earlier letter, an attempt was made to contact the executive directors of the agencies on the compiled list by telephone to inquire as to their amenability to participate in the study. In some cases a follow-up phone contact was made, generally at the request of the potential participant. Inquiries were made until such time as 20 agencies had agreed to participate. Response was very positive and it proved unnecessary to expand the initial list of agencies.

To the extent possible, confidentiality of respondents and their agencies was assured throughout the process.

Interviews were held, three in person and the remaining seventeen via telephone. Written consent was obtained from those individuals interviewed in person and verbal consent was obtained from those interviewed over the telephone. All interviews were recorded electronically with the participants' consent and subsequently transcribed.

Copies of study results were offered to and requested by all respondents.

Operational Definitions of Relevant Variables

Board of Directors Composition. Profession, extent of civic and personal connections, wealth, status.

Board of Directors Function. Fundraising, stewardship, governance, management.

Growth. Expansion in the size of the agency through growth of size or scope of existing programs, or the addition of new programs, resulting in an increase in total budget size and number of employees over time.

Indirect costs. Expenses associated with operating the organization but which could not be attributed or allocated directly to programs.

Infrastructure. The non-program functions of the agency including administrative and fiscal staffing, business systems, and the facilities to house these functions.

Reliance. The portion of an organization's income derived from that class of source; for example, from government contract(s).

Remuneration. Compensation, including salary or other wages and benefits offered to employees.

Size. The size of the annual operating budget and the number of employees.

Treatment of Data

Interviews were recorded and transcribed. Basic coding was established prior to the interviews for key themes and concepts that were anticipated by the researcher and for those derived from the literature review. Due to the qualitative nature of the study, it was anticipated that themes and shared concepts would also emerge from the interview data, and this held true, with additional coding established as a result. Once all interviews had been conducted and transcribed, a coding manual was developed and a coding schedule was created to capture the data in spreadsheet format for ready reference and comparison.

Traditional content analysis was employed to analyze the data. Preliminarily, these were organized around the major topics of the study: that is, around questions inquiring

into governance; the effects of dependency, including issues related to infrastructure, staff, and workload; intentionality, growth, and remuneration. Segmentation of the semi-structured interview schedule was used as a basis for organizing the data. Sets of codes were developed corresponding to the distinct theme present in each segment.

Data of a quantitative nature were also captured to establish baseline comparisons. Where appropriate, quantitative data were coded and all coded data entered into the coding schedule.

Limitations of the Study

The limitations included the small size of the study and, consequently, the question whether its findings were generalizable to larger samples. The study was limited to San Francisco nonprofit agencies, and may not be generalizable to similar organizations in other areas, where factors such as the cost of living, the cost of facilities, and local government policy may be substantially different and which may have a bearing on study outcomes.

Another limitation was the lack of comparative data from similar organizations that did not rely upon government funding. This may call into question the validity of causal relationships inferred by respondents. Additionally, the information obtained through self-report is subjective in nature, largely unverifiable, and may be subject to dramatization, embellishment, memory error, and/or misreporting by the respondents.

The level of familiarity with the subject matter varied considerably with some agencies (15% of respondents), whose responding executive was recently established in that position. This could be of consequence to the quality and accuracy of the data obtained from these individuals.

Additionally, the knowledge and experience of the interviewer in this area raised the question of potential bias, as did the self-selection of one respondent.

CHAPTER III: RESULTS

Characteristics of the Sample

The respondent agencies had a variety of missions, generally targeting specific populations or interventions within the spectrum of human services delivery. These included focus on HIV/AIDS services and prevention, adult education, employment services, services to homeless adults and children, substance abuse treatment, mental health treatment, geriatric services, supportive housing, programs for persons with disabilities, and transition programs for individuals exiting the criminal justice system. The range of programs respondent agencies operated ranged from as few as one to as many as twenty. Fully half of the respondents reported operating five or six programs

The agencies had been in business for periods ranging from 10 to 97 years (Table 3.1). Consistent with historical data (O'Neill, 2002), fully half of these agencies were created during the nonprofit boom of the 1960s and 1970s, and two of the remaining ten were among the many agencies that were formed in the late 1980s and early 1990s in direct response to the AIDS crisis.

Table 3.1 Respondent agencies— Years in Operation

Years	Agencies
10 - 19	6
20 - 29	2
30 - 39	4
40 - 49	6
> 49	2
Total	20

The annual operating budgets for these agencies ranged from slightly more than \$500,000 to more than \$14,000,000. As indicated in table 3.2, half of the sample had budgets between \$1,000,000 and \$2,500,000.

Table 3.2 Annual Operating Budget

Budget Range	
\$500,000 – \$1,000,000	1
\$1,000,001 – \$2,500,000	10
\$2,500,001 – \$5,000,000	3
\$5,000,001 – \$10,000,000	2
\$10,000,00 – \$15,000,000	4
	20

When viewed as a percentage of budgets, government funding represented from 60% to 91% of agency funding. Table 3.3 sets out the range represented in the sample.

Table 3.3 Government funding as a percentage of budget

60 – 69%	4
70 – 79%	5
80 – 89%	9
90% and above	2
Total	20

Table 3.4 illustrates the sources of those funds to be local, state, or federal agencies funding respondent's programs. A majority (60%) of agencies relied upon a combination of local and state and/or federal funds. Two agencies, or 10% of the sample, used no local funding, while 25% of the sample reported being solely reliant upon local government as the source for public funds. A disclaimer is that much local funding was likely derived through state and/or federal subventions to local government, and this

study did not trace the actual origin of funds. The local label then indicates a participant’s affirmation that these funds were fully administered locally. The same is to be said for state funds that possibly have federal origins, but which are fully administered by the state.

Table 3.4 Sources of public funds

Local only	5
State only	1
Local and State	1
Local and Federal	3
Local, State, and Federal	8
State and Federal	2
Total	20

The respondent agencies’ staffing headcount ranged from 5.5 full time equivalent to 220. The program to administrative staff ratios ranged from 18:1 (5.5%) to 2.25:1 (44%). The mean program to administrative staff ratio was 6.86:1, or 14.6%.

Findings

Attitudes towards Reliance upon Government Funding

When asked if they believed their agencies were too reliant upon government funding, six, or 30% of the sample, reported they were not overly-reliant and one individual answered “Yes and No.” The remaining thirteen executives responded with an unqualified and often emphatic “Yes.” Notably, the seven who were comfortable with their agency’s reliance on public funding (“No” or “Yes and No”), all received a significant portion of their funding from local sources, including four of the five agencies in the study that received the entirety of their government funding from the City and County of San Francisco.

Somewhat surprisingly, there appeared to be minimal relationship within this sample between the degree of an agency's reliance on government funding and its executive's perceptions of excessive reliance. Of interest, however, was that the size of an agency's budget did appear to correlate more closely with such perceptions. Eight of fourteen (57%) of those with annual budgets below \$5,000,000 stated they were too reliant upon government funding. For those agencies with budgets of \$5,000,000 or more, five out of six (83%) expressed this opinion.

The attitudes of those answering "No" to this question were split between the belief that their current level of government funding was the correct amount for their agency (some of them had worked to reduce it to the current level) and the belief that their agency should not have to look elsewhere for funding. Among the former, one respondent expressed it thus: "No, not now. We feel the majority of our funding coming from government is appropriate for the type of work that we do. Nine years ago, this amounted to between 95% and 98% of our budget, which was way too high. We set a goal to reduce that to 75%, and have succeeded. Today, it is about 68% of our budget, and we are comfortable with that."

One executive director elaborated on the government/nonprofit relationship and the issue of private fundraising:

We negotiated contracts with the City and County to provide services, services that the City wanted to pay for to address the public health population in one of a number of different ways. While some organizations raise a lot of money, or raise a share of their budget, we believe that it is appropriate for government to fund these programs and that it does lead to a different kind of relationship with

government if you are totally dependent upon them compared to if you weren't, in terms of how you might manage those relationships.

Within the sample, this point of view — that it was the role of government to act as sole support for specific programs — appeared most manifest in those agencies that were formed in direct response to two specific public health events, both of which received significant local attention and support. These events were the deinstitutionalization of the mentally ill in the late 1960s to early 1970s, and the response to the AIDS crisis in the 1980s. As the executive director of one AIDS service organization stated, “the work that we do is considered by society to be funded from tax dollars.” None of the twenty agencies surveyed expressed anything contrary to these statements, but none were so adamant about the role of government as were the five agencies that had originated in direct response to these two public health events.

Funding Relationship as a Conscious Decision

Seventeen of the twenty respondents were able to answer the question “Was it a conscious decision for government funding to comprise such a large portion of your revenue, or did it just happen (develop over time)?” The three who did not respond had not been with their agencies during the period in which the reliance relationship had developed, so were unable to answer. Of those responding, ten stated that it was a conscious decision to do so; the remaining seven described it as an incremental, largely unintentional development. Of those answering in the affirmative, several stated that from inception their agencies had looked to the government for funding as they had then been (and largely continued to be) of the opinion that the government should fully fund these services. They generally saw their nonprofits as an extension of government for

this purpose, providing services that would otherwise be provided directly by a government agency.

Of those that saw their reliance relationship as developmental, some cited government funding as “the path of least resistance” and as being “where the money is.” One executive put it this way:

The only major, conscious decision was to take our first government contract, around which there was a lot of discussion and controversy because we knew that it would have an effect on our mission. There was concern about being heavily dependent upon government contracts, which are more restrictive. Once the first federal contract was taken, other contracts were taken to fund specific needs and provide services for the community.

Positive Results Attributed to the Funding Relationship

From the invitation to list key benefits associated with being a recipient of government funding, several themes emerged. Two nominated by a majority of respondents were 1) the experience of funding reliability and what that meant for agency and program stability and 2) the sense of legitimacy conferred on the agency by being a recipient of public funding. Several of the executives listing these as benefits expressed themselves as follows: “The ability to provide an extreme amount of credibility and stability, allowing us to maintain a core staff for a long time.” “Multi-year flow of funds; there is a certain seal of approval that comes with government funding. Legitimacy.” “More stable and long-term than foundation support. The government provides funds for needed services.” “Legitimacy, reliability, or likelihood as to annual renewal has a positive effect on reliability and the dependability of services, and on being able to

maintain staffing.” “Government acknowledgment to the agency as being part of a safety net. The dollars can be more efficiently used toward providing more services.”

Another common theme was an acknowledgement of the comparatively large sums generally available from government sources. Those respondents who listed this first stated: “First, there are sufficient dollars for operations and secondly for developing programs” and “Well, basically it is large sums, so it really is a help.” Another, related benefit was expressed as follows:

[Reliance on government funding] minimizes the amount of time the ED has to spend bringing in money. We’re not spending a great deal of our time doing fund development, so that’s a major advantage. It is also an advantage to have the same funding stream for multiple programs, because it’s easier to negotiate contracts because you are essentially dealing with the same people and talking the same language.

Three respondents acknowledged the positive role being a recipient of government funding had in establishing or influencing public policy relative to their agency’s mission. As one executive stated, “If you have a social mission of serving clients, it puts you at the table where policy is covered. [You are] in the conversation on how to spend the public dollars.” Another stated: “Funding partners at the local level ‘get’ the funding, they understand how it plays out and our role in that.”

Eighteen of twenty respondents also attributed the leveraging of other income to their government funding. Sources of leveraged income included foundation grants (8), rents (7), and fees (4).

Negative Perceptions of the Funding Relationship

When asked to list any negative aspects associated with their funding relationships, three main themes emerged without prompting. These were 1) the amount of paperwork and reporting required, often coupled with a perceived lack of coordination between agencies resulting in duplicative and inconsistent requirements; 2) the effect that changing priorities/shifting public policy and politicization of issues had on funding; and 3) the very nature of the funding relationship and its implications for cash flow.

Of the paperwork and reporting requirements, none of the respondents reported a problem with having to provide evidence of accountability; the difficulty was, rather, with the amount of reporting and other paperwork involved, especially where its production was largely unfunded. As one Executive Director stated,

Government contracts require a lot of bureaucratic, repetitive accountability, making sure they are being funded correctly. Overall, [these require] more scrutiny and not being very open. Tight government resources and unfunded mandates from the City and County are required but when funds are decreased, an expectation exists that services are to remain the same.

Echoing and adding to these concerns, others stated, “A tremendous amount of reporting [is] required. Some sources do not compensate the agency for the administrative requirements of accepting their funding.” “The paperwork. The red-tape that one goes through.” “Bureaucracy, in terms of the amount of staff time necessary to comply with requirements, with more dollars going to regulation compliance; multiple funders with multiple procedures leading to a lack of coordination.” “Bureaucracy; too many requests for proposals and for qualifications; endless negotiations; multiple monitors for the same

program; a lack of coordination.” “The tremendous amount of paperwork and the lack of flexibility. The ways that we are required to be accountable keep getting added on. We need to look at the regulations that have been passed in the past ten years without removing the old burden.”

Of perceptions of shifting priorities and politicization, one executive stated, “We are pushed by changing priorities of public policy, driven by changes in administration at a federal and state level and by legislative trends.” Others observed, “We are constantly caught up on the politics of shifting public policy.” “[A negative is the] interpretation of policy, depending on who is leading the administration at the current time.” “Funding is too often tied to political whims of the administration.” “Our funding is politicized and has strings attached to it.” “The political climate puts programs at risk; it can be severely detrimental to your programs.” “The other negative is that you are really trapped with whatever the politics and attitude of the City & County happen to be at the time.” “It’s always under some threat.”

Concerns about the effect of government funding upon agency cashflow were expressed by several executives, taking issue with cost reimbursement arrangements many government agencies had with service providers. Delays in payment from government sources were cited as very problematic. Specifically, “the policies of cost reimbursement are putting a strain on the agency.” One Executive Director expressed the problems as follows: “It is an extremely stressful strain on cashflow. As an example, in the City and County of San Francisco, when a nonprofit receives a grant from a public agency, they are viewed as a consultant and need to render services before [getting] paid.” Another summed it up by stating that “[g]overnment funding is getting much

more difficult; the mechanics of government funding, the contracts, and the reimbursement process are reaching a breaking point.”

Other results identified as negative included the belief that public funding encouraged dependency, and that it “never grows with program growth, with demand.” One executive stressed that some foundations penalized agencies that received a large portion of their funding from government sources, and would not consider their requests for other funding. Finally, the effect of the local economy on agency funding was also mentioned as a negative by several respondents, although this specific issue would seem to translate to all funding during times of economic downturn, whether public or private.

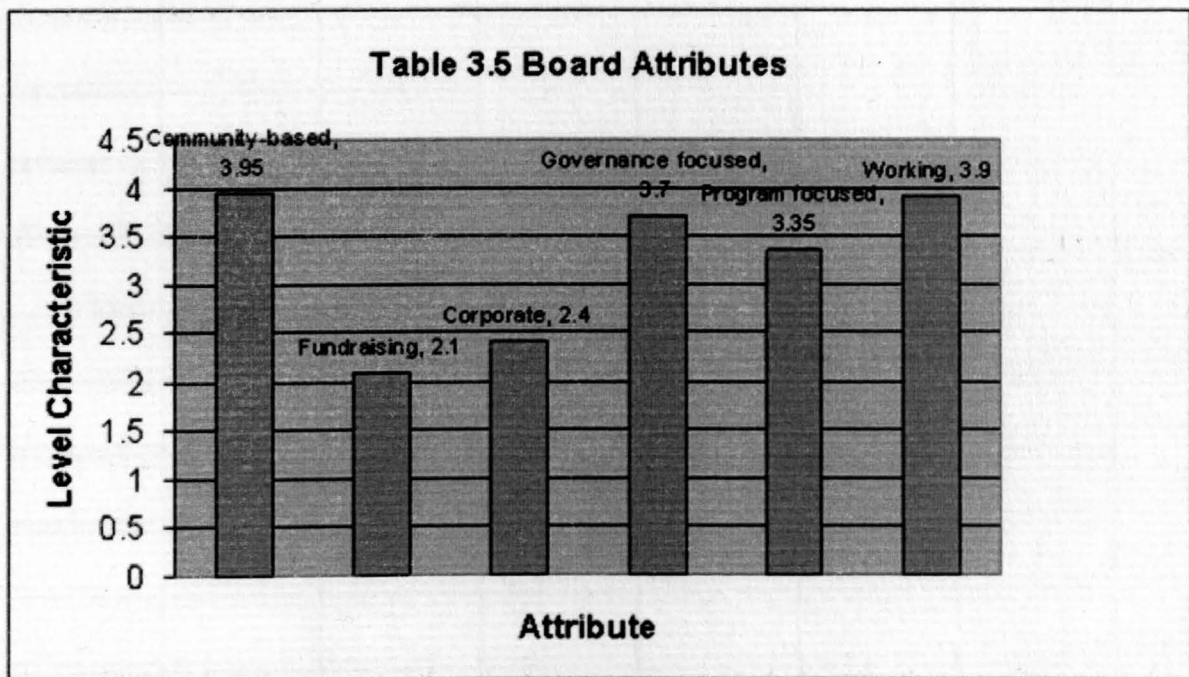
Board Composition, Fundraising, and Decision-Making

Smith and Lipsky (1993), Gronbjerg (1993), and Stone et al. (2001) pointed out that the size, function, and composition of nonprofit boards of directors changed significantly when their agencies became reliant on government funding. Specifically noted were significant decreases in the size of these boards, reductions in their fundraising capacity and function, and increased diversity and community representation. Smith and Lipsky (1993) also noted that this shift in funding reduced the significance of the board, with greater agency control moving to the executive director.

Respondents were asked several questions connected to these earlier findings. They were asked the size of their board of directors, requested to rate their boards as to specific attributes, asked if they thought their boards would be any different as to size, make-up, or activities were they not reliant upon government funding; and queried as to the role of their boards in funding and program decisions.

The boards of directors of the sample agencies ranged in size from ten to twenty members, with the average number of seats being thirteen.

Respondents were asked to rate their boards on the basis of six attributes or functions generally characteristic of nonprofit boards. These were 1) Community-based, 2) Fundraising, 3) Corporate, 4) Governance-focused, 5) Program-focused, and 6) Working. A Likert scale of 0 – 5 was used, with 0 indicating “Not at all characteristic” and 5 indicating “Highly characteristic.” All respondents participated and, consistent with the findings or observations noted above, these executives rated their boards of directors highest for the characteristic of being “Community-based,” and lowest in the area of “Fundraising” (See Table 3.5).



When asked “Do you believe the size, make-up, and/or activities of your Board of Directors would be any different if you were not reliant upon government funding, and, if so, please explain?” the responses were perhaps less predictable. Seven of the twenty did

not believe there would have been any difference. Of the thirteen who answered in the affirmative, nine indicated they would need to increase fundraising activities. Related to this were the responses of seven who indicated there would be a change in board composition, generally for increased fundraising capability. Four indicated a foreseeable increase in board size. One indicated a smaller body would be envisioned.

Some individual responses to the question of changes in their boards were as follows: “If we were more reliant on something else it could affect the make-up of the board. Reliance on more fundraising; the Board might not have to expand but would have to participate more.” “Yes, the Board would spend more time, do more strategic planning activities and program development.” “Yes, we would need to be larger, have more corporate participation and would be able to draw from a younger age group [less representative of client demographic].” “Yes, because of the government funding restrictions and cash flow problems, it is assumed individual fundraising would increase. We would become more dependent on the board.”

These opinions generally appeared to be consistent with earlier research and observations indicating that board structure and function relative to fundraising were impacted by reliance upon government funding. It would follow that researchers should also look at the internal fundraising functions of the dependent agencies to ascertain the level of emphasis these agencies placed upon fund development activities that could offset identified inadequacies in government funding and Board fundraising capacity or function.

To delve into this question of internal fundraising, all respondents were asked if their agency had a fund development department and if so, what was its size, as measured

by dedicated employees in terms of full time equivalency (FTE). In those instances where no fund development department existed, the executives were asked why this was the case.

Eleven of the twenty agencies had a fund development department. The size of these departments ranged from one to three FTE's with five agencies reporting 1.0 FTE, three reporting 1.5 FTEs, one reporting 2.5 FTEs, and two reporting a staff of 3.0 FTEs devoted to development.

Seven of the agencies that stated they felt they were too dependent on government funding had no fund development department. Of these, four stated that they could not afford this function. Of note here, two of these four had budgets in excess of \$9,000,000. In total, five agencies reported they could not afford the department, two stated that was not important to the agency, one described their agency as too small to accommodate it, and one cited as the reason for not investing in development the anticipation of a meager return due to a perceived small constituency.

Four of the nine agencies that reported no fundraising function as represented by a fund development department were among the largest agencies taking part in this study, both as determined by size of budget and by FTEs. The executive director of one of these agencies maintained it was never in the agency's plan to do private fundraising, so there was no need for one. This agency was among those mentioned above that were organized to be fully dependent on government for their funding. Another of the largest agencies referred to the question of a fund development department as follows:

No. We're paid on our indirect rate that is established by the City & County of San Francisco that's probably about 10%. That pays for our administration. We don't

have enough money to pay for the kind of accounting one does in an organization the size of ours and now pay for a development department [as well]. That might have been more possible a few years ago, but today we simply dedicate the personnel that are working here to managing the books, getting our invoices paid and out, and providing services.

Within the five agencies that reported an inability to afford a fund development department, it was widely acknowledged that a “chicken and egg” paradigm existed where their situation would not improve until they raised more money from private sources, yet they either were unable, or chose not, to make the investment of funds required to give effect to such a decision.

In addition to the question whether reliance upon government funding had an effect on the diversity and fundraising capacity of boards of directors, previous studies on this topic had reported a consequent change in the relationship between board of directors and their executive directors. The observations indicated that when organizations became reliant upon public funds, the executive director gained significant power and decision making authority vis-à-vis the board of directors regarding funding and the overall direction of the agency. To test this hypothesis, executives were asked if their boards had an active role in decision-making regarding government funding opportunities. They were also asked, in instances where the agency had expanded or added programs based upon the availability of government funding, who had made the decision to accept that funding.

Responses to the question regarding the role of boards of directors in decisions on government funding were largely split 50/50, with half of the executives stating that their

boards did in fact take an active role in decision making regarding government funding opportunities. The majority of those stating their boards were active in this regard described strategic or other planning processes in which the board had been fully engaged and which charted funding direction for the future of the organization. On further inquiry, it emerged that only three of these cases entailed full and ongoing board engagement in decisions on government funding of the agency as opposed to periodic planning activities. The majority of those indicating that their boards were not active described them as having a consent role, largely in response to recommendations by the executive director.

Of the thirteen agencies that reported adding or expanding programs based upon government funding over the previous five years, nine reported that the decision to do so was made by the executive director and board, often with the involvement of other staff. The remaining four stated that the executive director alone made the decision.

The following observations by one respondent aptly summed up the general responses to this question of board makeup, size, activity, and the corresponding role of the executive director:

Our board would have to change entirely. I would be much more dependent on my board of directors for pushing the agency in certain directions, because the membership of a fundraising board tends to feel much more ownership of the product that the organization actually produces, and so if you have a funding or development board, they have much more say in the direction of the agency. I think the direction of the agency would change. It would also get larger. They would

have to do a whole lot more fundraising and we would have to bring more people on to our board. If it wasn't government funding, it would be very different.

Agency Infrastructure

To uncover any infrastructure consequences that nonprofit executives attributed to their reliance upon government funding, the question was approached from several angles. First of all, it was posed directly: "Are demands on agency infrastructure, in the form of non-program staffing and information and management systems, in any way affected by your government funding?" Additional information was then sought through inquiry into the adequacy of non-program staff levels to fully support programs; the adequacy of their government funding to fully fund the indirect costs associated with operating the programs it supported; and the adequacy of these funds to fully fund the programs themselves. In those instances where staffing or funding were said to be inadequate, further questioning was conducted to ascertain what consequence, if any, this situation had on their agency as a whole.

In response to the direct question, 16 respondents answered affirmatively, stating that their infrastructure demands were affected by having government funding. The individual responses were quite varied. For example, "Yes. This was originally a free [service] but government required a sliding scale system, changing the nature of our business." "Of course. For instance, we own our building but we can't charge rent to our contracts." "Yes. We have had to eliminate positions due to government funding not being secure." "Yes. Today [our infrastructure] is becoming stretched with more demands on government reporting. We have not grown administratively, with our administrative overhead around 8.9%, which is low among most nonprofits." "You need

more administrative staff in order to manage the contracts — financial reporting and billing is increased due to monthly financial requirements and increased program reporting requirements.” “Yes, by limited indirect costs [and increased] reporting requirements, accountability, and data collection to meet the funding requirements.” “Yes, we’ve had to hire more non-program staff.” “Government funding creates more staff work.” “[Due to being almost entirely funded by government sources and losing some of that funding] ... it was tight already, but we had to retain the same number of [administrative] staff [to manage remaining funding]. Whatever padding was there that stopped bone from hitting bone is just about gone as a result of various cuts. It makes it much more difficult to run the organization.” “Yes. I think it is in the sense that we are so starved for money. I mean no one wants to fund management and administration. We can’t upgrade computers or even really become computerized.”

When asked if their current level of non-program staffing was sufficient to adequately support their programs, almost all (90%) responded that it was not. When asked if government funding fully funded the indirect costs associated with operating their programs, 95% reported that it did not. When asked whether government funding fully supported the contracted program activities, fourteen of the twenty reported that government program funding was insufficient, with one executive reporting that it varied from program to program within his agency.

When asked to elaborate, many of the executive directors reporting insufficient non-program staff responded in detail: “We had to restructure to maintain current program activities and have given up some services; administrative has been downgraded.” “Funding sources don’t fund a support staff. There isn’t a data entry clerk

yet the contracts have extensive data entry requirements that direct service staff is providing.” “We are significantly strapped in finance, human resources, and fund development. There is a lack of sufficient program administration staff.” “We are spread so thin. I think most nonprofits are at that point: we try to keep our services going. In fact, I recently went without an assistant, someone to do my typing and filing, for seven months as a result of this. We’re way too thin. And I need more in development.”

In response to this same question, one executive elaborated on a funding-related staffing and systems paradigm that imposed a significant indirect burden on agencies reliant upon government funds. This agency was among the largest in the survey and had no fund development department:

It would be helpful to have some development people here now as we struggle for enough dollars to run the organization. When an organization grows or gets smaller, for example a couple of years ago we received a cut to one of our programs that amounted to almost two million dollars. Well we also lose the indirect money off of that money, so that’s approximately another \$200,000 of money that we were [previously] able to use for non-program activities such as bookkeeping and accounting. So you lose that too, even though the activity level, the degree to which you still need the same number of staff to complete the job doesn’t change with that, so the result is that I think that we could use more staff in bookkeeping, accounting, and technical assistance that we need for our infrastructure, and we can’t afford to do that.

A common occurrence among respondents was for program staff, those paid as direct service employees under the funding contracts, to perform administrative functions

in addition to program functions. Seventeen of the twenty agencies reported using staff in dual roles. In very small agencies, the number of program staff performing management and general functions was as high as 44%. The mean for all agencies was slightly more than 7% of program staff performing administrative functions within the agency. When asked, many of the executives stated the reason for this occurrence was that the contracts did not fund administration sufficiently, so program staff were required to perform dual roles — even if these activities were sometimes considered as “unallowable costs” under their contracts

Although some of the agencies, particularly those funded largely or solely by the City and County of San Francisco, had a reimbursed indirect cost rate of between 10% and 12%, (which is higher than that received by many agencies with high levels of funding from state and federal government.), 95% of respondents reported insufficient indirect cost reimbursement. The consequences of this are described as follows: “It is light. We operate with [a] 12% indirect costs [reimbursement rate]. We could benefit with 13--14%. The need for HR and data entry staff is based on need but not the money. We have lived within the indirect costs.” “No, not as much administrative support as needed. We are having to increase fundraising to support these functions instead of for increasing programs. Any portion not covered by government funding is paid for by fundraising and/or cutting staff.” “No, and this has an adverse impact on reliability and viability of programs due to inadequate resources.” “No. It stresses the agency vital functions, which can’t be performed adequately. Administration people are working extra hours. The portion not covered is covered by private fund raising. Otherwise, we do without adequate staffing.” “Not really, no. Generally speaking our indirect rates vary

from 9% for HIV related programs to 12% for [City and County] General Fund types of programs, so that works out to about 10½%, and that's just not enough money these days to really support the programs in terms of the indirect dollars that you really need to operate. We're not as efficient as we otherwise would be in terms of the speed which we complete tasks associated with fiscal performance. Things of that nature are impacted . . . by not having enough money. All of that has downward pressure on wages. We've really, over the last four or five years, had some significant problems associated with wages. The wage issue is also really related to another funding issue [which] is that the City tends to not increase funding from year to year." "No, it does not fund our administrative overhead, period. It's that bad. We raise money basically to pay for all of our support staff. It forces us to do more and more fundraising every year. It's a difficult and onerous thing. At the same time we're utilizing resources to raise the money to pay any support staff at all and to pay management. It's a never-ending cycle — treadmill type of thing. Everybody wants us to have low overhead and in some cases we haven't had any rate increases in over a decade. That's what's happened: there's enough there to pay the direct service staff but nothing left to pay the rent — that sort of thing."

Nine executives reported that insufficient indirect reimbursement from government funds resulted in overburdening the agency financially and laid a heavy burden on existing staff, with eight reporting that they did not have sufficient infrastructure as a result. Four executives identified this condition as putting downward pressure on wages within their agencies.

In addition to the unfunded indirect costs burden, 14 executives reported their government funding did not even fully support the programs it funded. Eight of these

stated that programs suffered as a result. One executive provided an example of the consequence of this dynamic:

You can't provide the kind of services that you want to. If you don't have any increases in funding year after year after year, and you are increasing wages on your own because you have to, there's a tension that happens, so maybe you stop doing things that you used to do. For example, in a residential substance abuse program something that is useful to do is transport clients to medical appointments. If you don't transport them and they go out on their own, sometimes they never come back, or they cop drugs, or a whole variety of other ills. So I'm in the situation now where, a year ago, we were doing a lot more transportation of people and we had less[ened] relapse rates as a result of that — it was a direct corollary, and the County doesn't pick up that responsibility because they don't see it as a priority relative to its other priorities, and I understand that. That's the way: little by little you eat away at the quality and integrity of the program over time. Little by little the quality of the program begins to wither as a result of not infusing it with fresh dollars.

When asked how their agencies paid for these unfunded or under-funded indirect and program expenses, the majority of respondents listed fundraising, cost-cutting measures, or a combination of the two. The cost-cutting measures included delaying facility costs, reduction in program and general operating expenditures, reductions in personnel expenses by delayed hiring, lay-offs, or the collapsing of positions.

Related to the question of unfunded activities is that of how the agency copes with unanticipated or unfunded increases in the cost of doing business, such as rising costs of

benefits, workers' compensation insurance, etc. Responses to the question of how agencies paid for these costs were similar to those mentioned above. One departure was that six executives spoke of using assets such as reserves, of the refinancing of real property and, in one instance, of having endowment interest to draw upon. Beyond that, seven described paying for unfunded increases in the cost of doing business through fundraising efforts, eight had been forced to perform lay-offs, twelve had delayed hires, five cited delaying facility and maintenance costs, four to shifting costs within their budgets, and three reported reducing employee benefits or increasing the employee burden in paying for benefits.

Some of the specific responses: "I have to raise it on the side, it's very difficult. And we delay hires — we have two right now, that is we're only able to get through because I'm not hiring for two key positions. I've only laid off staff once." "We eat them. We aren't able to give raises or we have a need for staff reduction in order to pay them." "Staff reduction by eliminating vacant positions, hiring freezes. In some cases we've gone to reserves if it is property management related." "When we can, they are negotiated into contracts on year to year basis. A small program was closed last year to retain some resources. We have asked our funding agency for help on some extraordinary costs" "We have had to dip into reserves. We've cut back on health benefits and eliminated positions. We've lost six FTEs in the last year" (20% of staff). "If costs go up, we make cuts in other areas such as leaving positions vacant; professional staff would have to pick up additional burden." "We cut expenses in other areas, staff reduction, delaying payment on billing." "Shrinking program size. Staff attrition." "Each year, up until five years ago, workers comp. and healthcare costs weren't

exploding as they are now. Five years ago things changed, and the universe began moving with a different rhythm than it had before. My workers comp. costs have gone up more than 200% over four years, and it's very difficult to keep pace. You throw in healthcare and the costs of rents and things of that nature and you end up in a situation where revenues are exceeded by expenses, and you have to do something else. We've had to make decisions about holdings, refinancing property and doing things of that nature just to bring dollars in, just to meet our costs. The problem with that is it's a band-aid, not a permanent solution." "We had to reorganize last July: collapsed positions, laid some people off."

Employee Remuneration: Adequacy of Funding to Meet Wage Inflation

When asked if it was the practice of their agencies to give cost of living adjustments (COLA) to their staff, the response was mixed. Six responded in the affirmative without much qualification. Half of the remaining fourteen responded "No," most stating they could not afford to do so. The remaining seven stated it was their practice to do so when the funding agency provided an increase for this purpose. Several executives stated it had been several years since the last increase. One of the larger agencies responded: "No, not unless we receive it for them in the contract. We have received 1.5% from the City and County government in the past nine years." Seven of the agencies that provided COLAs to their staff stated that their government contracts paid for adjustments. Two stated only some of their contracts did allow for the increase.

Fewer agencies, five of twenty, provided merit increases to staff. Of these, none reported their contracts covering this cost unless they reallocated flat funding to cover increased personnel costs, reducing funding to another part of the agency.

Several agencies reported being unionized, with labor contracts requiring time-on-job-based increases to union employees. The executive directors of these agencies reported that their contracts did not fund these increases without such reallocation of resources as mentioned above. People noted that this placed pressure on the agency to increase salaries to non-union staff in an attempt to maintain parity. As one executive remarked: “You can’t have your line staff making more than your managers, not for very long anyway.”

These factors — personnel attrition, wage and benefit-related consequences attributed to insufficient funding for indirect and program costs, and increases in the cost of doing business in general — combined to create a very difficult situation for agencies as they attempted to attract and maintain quality employees through competitive salaries and benefits and favorable working conditions.

Consequences for Growth and Program Selection

To attempt a determination of the effect the availability of government funding had on agency growth and program selection, several questions were developed. These asked about changes in agency size in the preceding five years, the addition or expansion of programs during that same period, and, whether these additions or expansions were due to the availability of government funding. Inquiry was also made into agencies’ practices related to investigating the availability of government funding through tracking Notices of Funding Availability and Requests for Proposals as issued by various government agencies.

When asked if their agencies had changed in size during the previous five years, 13 agencies reported an increase and six a decrease; one reported remaining the same size

over this period. When asked if they had added or expanded programs during this same period, eighteen of twenty reported doing so. Of these, twelve acknowledged that their decision to add or expand programs had been based upon the availability of government funding. To quote one Executive Director:

Yes of course. [Either that or] the City and County asking us to do this thing.

Because you see yourself as, well, you dedicated the mission of your agency to the public health sector, so when the County says “Can you do this?,” you want to say “Yes” because you believe in it, so sound business decisions and the desire to do good sometimes are in conflict with one another.

One of the six who stated that the decision had not been dependent on this availability did say it was facilitated by the availability of government funds.

Seventeen of the twenty subjects reported that it was the practice of their agency to keep track of Notices of Funding Availability and Requests for Proposals from government agencies. Of these, nine gave their reason for doing so as looking for opportunities to expand services and twelve stated that they did so to seek opportunities to fund or enhance existing programs. One of the eleven who answered “No” to this question elaborated fully:

It had been [our practice], but not anymore — I don’t want to expand. The problem with expansion is that you have an increase in liabilities, an increase in expenses. And as little money as you had before because all of the new money that you have coming in is going to the new program, so some of it goes to indirect. That’s what organizations end up doing: they end up expanding to bring in indirect dollars.”

[Interviewer comment: “And that can be like a snake eating its own tail?”]

Yes, in ways, and I have to admit that there have been times that we've been guilty of that and I regret it. You make those decisions because they seem to make sense at the time. But what really drives it more than dollars is a desire to continue to do what the mission of the organization says. One more chance to do something for the people we serve — you end up doing things because you think that it's a better reach for your target population, then you turn around one day and realize that you've actually complicated the ways in which you receive funds . . . and there's more people to support. It can become an endless cycle and becomes very difficult to change it.

Most respondents made it clear the funding they sought would have to be in keeping with their mission and would have to address an otherwise unmet need for services.

When approached from the perspective of the effect on programs were they to lose specific government funding, the response was close to unanimous. Depending upon the size of the cut, the nature of the program, and its specific funding matrix, universally the effect would be to close the program or resize to the loss. Several executives stated that certain core programs would continue with or without government funding, and one stated that certain programs were popular enough with other funding sources to possibly allow for their continuation even with a loss of government support.

Effect on Client Demographic

Respondents were asked if government funding had any role in their decision of what client demographic they served or did not serve. Nine of twenty said it did have a role in dictating client base, but for all but a few providers the restrictions were fully in keeping with their mission, such as serving the poor, or individuals with a specific

diagnosis. As one respondent stated, “We have had some success in defining what the client demographic should be. Our client demographics and funding are pretty much the same.”

One critical comment made concerned a perceived gender inequity in funding for substance abuse services: “Our funding sources have impacted [on] the number of men versus the women we service. The City puts out more dollars and programs for men, rather than women, and we see an unmet need for services to women in our programs.”

Goal Displacement

When asked if the availability of government funding ever produced goal displacement within their agencies, a drifting of their mission in pursuit of additional funding, four executives acknowledged that it had occurred at some point in their agencies’ development. Nearly all stated they were aware of the lure available funding held and how vigilance was required on the part of the executive and board to prevent goal displacement from occurring. Several respondents credited strategic planning and strong adherence to mission as safeguards against this occurrence.

Other Issues Raised by Respondents

To close these interviews, respondents were asked the following question: “Is there anything concerning the effect had by government funding upon the organizational development of your agency that I have not covered here, but perhaps should have?” Affirmative responses were as follows: “Regarding fundraising and development activities, there is a public perception that mental health is government’s responsibility for the people we serve and a private responsibility for families that can afford it. For the low income population, there has always been a bias from the general public that mental

health is not their responsibility.” “Yes, new policies of cost reimbursements are putting a strain on the agency as [funding agencies] are moving into service referral policies. This is reducing our ability to pay staff.” “Regarding net assets, capital formation in agencies that are driven by government funding, [we] have a problem accumulating unrestricted net assets. This has an impact on working capital and cash flow and borrowing money.” (An example would be not being allowed to pay mortgage payments on facilities with contract revenue, but being permitted to use these same funds to pay rent to a for-profit landlord.) “The cost of doing business . . . government funding is so restricted, it does have an effect on the agency as a whole; it’s inflexible. I think that with benefits, health care . . . I wish that the City would take us as nonprofits and offer us bargaining power in obtaining health insurance.” “I think that the other thing that is happening politically with the services that we provide being called an entitlement in California: during the last budget cycle there were very strong attempts made to change the law that states that people with developmental disabilities have a right to these services under state law. [From an organizational development perspective, this] places an increased demand on the [unfunded] advocacy role of the agency.” “[The positive and negative consequences of the] involvement of constituents in securing and saving funding. We ask clients to participate and they are an extremely effective voice when you are attempting to save a program that is in danger of being cut, or in advocating for new funding to meet a community need. We need to be aware that this can take a toll on these clients, who tend not to be very stable in many ways. The anxiety that this produces can be damaging; it’s not good.” “Contract reform legislation is needed.” “Explicitly, that it is incumbent for an agency to establish as diverse a source of revenue

as possible in order for the agency to have greater control over the character of the programs that are being provided.”

CHAPTER IV: SUMMARY AND CONCLUSIONS

Review of the Problem

Through legislative action and the adoption of public policy, the United States government has, since the 1960s, looked to and funded this nation's nonprofit sector for the provision of many services to our neediest individuals and families. During the intervening years, this government/nonprofit relationship has grown at federal, state, and local levels. Credited with improving service delivery to the needy and with reducing the costs of providing those services, this relationship has been credited with facilitating significant growth in the nonprofit sector and with providing stability in the form of ongoing funding to the organizations that contract with government agencies for the delivery of needed services.

This funding relationship has been blamed for creating a variety of ills afflicting the nonprofit service provider, including the fostering of resource dependency. The effects of this dependency paradigm are often difficult for the nonprofit agency to manage and can have a negative effect upon the development of the recipient organization. The stability this funding provides, and its potential for facilitating and encouraging agency growth based upon increasing or changing community need, appears to put into play an often degenerative dynamic for some recipient organizations. Here the service-providing agency develops and adds programs to meet those needs while, at the same time, it diminishes its ability to maintain the infrastructure sufficient to adequately support and sustain the growing program burden.

This situation appears to be exacerbated by increases in the administrative burden the act of accepting public funding places on the organization, insufficient funding for the

management and general expenses of the recipient organization, and multi-year periods of flat or minimally increased funding. Further, without correction, this fails to keep up with wage inflation or increases in the cost of doing business and providing services.

Discussion of Findings

Prior to conducting this research, seven research questions were posed to help form four hypotheses. This study, although of limited scope, was intended to test these hypotheses.

(H1) Becoming *reliant* upon government funding is not a conscious decision of recipient human service agency leadership. Rather it occurs through the normal development of the organization in attempting to meet its mission.

(H2) Reliance upon government funding reduces fundraising activities of boards of directors yet puts demands upon agency infrastructure that are not adequately funded from government sources.

(H3) Reliance upon government funding contributes to downward pressure on employee remuneration through insufficient funding increases tied to inflation and the need to use other resources for funding infrastructure demands that are increased by acceptance of government funds.

(H4) Organizational growth and program selection are significantly influenced by the availability of government funding.

The findings of this study are presented and discussed in response to each hypothesis.

(H1) Becoming reliant upon government funding is not a conscious decision of recipient human service agency leadership. Rather it occurs through the normal development of the organization in attempting to meet its mission.

The findings here did not support the hypothesis as a generalization, and appeared to be significantly influenced by etiological factors related to organization origination. Seventeen of twenty subjects were able to respond to this question. This information could not be determined for the remaining three agencies due to the short and recent tenure of current leadership. Contrary to the hypothesis, ten of seventeen respondents indicated that reliance upon government funding was, in fact, a conscious decision for their organizations. The remaining seven supported the hypothesis, indicating that their level of reliance upon government funding evolved and increased with time in service of their meeting the organizations' mission.

One circumstance was not taken into account when the hypothesis was formulated. As noted in Chapter Three, agencies which were formed in direct response to an immediately emergent public health event or crisis (such as the deinstitutionalization of the mentally ill and the AIDS crisis) had not been considered. Five of the agencies in this study (25% of the sample) originated in this way and the leadership of these organizations largely expected to rely on government for their initial and ongoing operations. One organization described forming a partnership with its funding agency for the specific purpose of addressing an emergent public health event. These agencies were also far less likely to consider themselves as overly dependent upon government revenue, with 20% as compared to 70% of the entire sample answering that question positively. The distinction tended to end here, however, as all five of these executives expressed

similar sentiments regarding the challenges and perceived inadequacies associated with their government funding relationships along with the executive directors of the remaining fifteen agencies in the sample group.

(H2) Reliance upon government funding reduces fundraising activities of Boards of Directors yet puts demands upon agency infrastructure that are not adequately funded from government sources.

Hypothesis two, which actually contained two associated hypotheses, was supported by the findings. H2a was: reliance upon government funding reduces fundraising activities of Boards of Directors. H2b was: reliance upon government funding puts demands upon agency infrastructures that are not adequately funded from government sources.

In testing hypothesis 2a, an attempt was made to capture the respondents' assessment of their boards of directors as fundraising bodies. A Likert scale was used to test "Fundraising" as one of six adjectives presented as descriptive attributes of many nonprofit boards of directors. The others were "community-based," "corporate," "governance-focused," "program-focused," and "working." Respondents were asked to rate their Boards on each of these attributes on a scale of 0 to 5, with 0 representing "Not at all characteristic" and 5 representing "Highly characteristic." "Fundraising" received the lowest combined score and was not rated higher than second-lowest score for all attributes by the entire sample. The ranking is represented in Table 4.1.

Table 4.1 Board Attributes - Ranking

Rank	Attribute	Score
1	Community Based	3.95
2	Working	3.9
3	Governance Focused	3.7
4	Program Focused	3.35
5	Corporate	2.4
6	Fundraising	2.1

Four of the six agencies that considered themselves as not being overly dependent on government funding rated the fundraising capacity of their boards at 3 or higher. When these agencies were removed from the sample, the average “Fundraising” rating for the remaining agencies dropped to 1.8.

These data are of limited value in testing H2a, as they only represent a snapshot and lack comparison data from agencies not reliant upon government funding. Also lacking were change data for agencies that had become reliant over a period of time. These additional data, if available, would help establish if an actual reduction of fundraising activity was apparent due to the receipt of government funds. The results were consistent, however, with change data garnered from United Way agencies (Smith and Lipsky, 1993) which became reliant on government funds over time, and whose boards of directors’ fundraising function and capacity were greatly diminished.

In further testing of hypothesis H2a, respondents were asked if the size, makeup, function, and/or activities of their boards of directors would be any different were they not reliant upon government funding. Nine of thirteen executives (69%) who anticipated there would be changes in their Boards under such a circumstance stated that the fundraising function and/or capacity would have to be increased.

Consistent with hypothesis H2b, increased, unfunded infrastructure demands resulting from accepting government funding were widely cited by respondents throughout the interviews. Sixteen respondents (80%) stated that acceptance of government funding increased infrastructure demands at their agencies. Nine cited increased reporting requirements, eight cited increased need for management information systems and data collection efforts, and eight cited a need for increased administrative staff. Conclusively, when asked if government funding paid its share of the indirect costs associated with operating the programs it supported, nineteen respondents (95%) stated that it did not.

(H3) Reliance upon government funding contributes to downward pressure on employee remuneration through insufficient funding increases tied to inflation and the need to use other resources for funding infrastructure demands that are increased by acceptance of government funds.

Although four respondents spoke directly of downward pressure on employee remuneration as a result of the pressures of government funding, the interview schedule itself was perhaps flawed in that it did not ask this question directly. The questions probed issues of insufficient funding for agency infrastructure, program support, increases in the general costs of doing business, and increases in, or maintenance of, employee remuneration. Although data from these sets of inquiry are rich and tend to support the hypothesis, combined data do not necessarily support the hypothesis.

That stated, most respondents cited insufficient reimbursement rates for indirect costs, and the realities of flat or near flat funding in the face of rising costs of doing business. These result in one or more of the following practices within the human

resources function of their agencies: delayed hiring, collapsed positions, benefit reduction, and staff reduction through attrition or layoff. Unionized agencies reported providing pay increases to union employees consistent with their labor agreements, but corresponding increases in contract funding to offset these increases was not reported.

Of the thirteen agencies that gave their employees cost of living increases, eleven (85%) stated that they only did so sporadically, due to a combination flat funding and increasing costs. Nine of thirteen (69%) reported doing so only when contract funding increased to support the adjustments. Five agencies reported providing merit increases or pay increases based upon seniority, however, none of these reported that their government funding sources covered the cost of doing so.

Nineteen agencies reported that government funding sources provided insufficient reimbursement for indirect expenses associated with operating their funded programs. Administrative staffing, other than program staff performing administrative functions, is generally considered an indirect expense. Nearly 15% of agency staff, on average and, again, exclusive of dual functioning program staff, were reported by respondents as non-program or administrative (and therefore likely to be an indirect expense).

Excluding unexplored additional indirect expenses, such as administrative facility and operating expenses, and the tendency for administrative staff to include those of higher salary, on average, than program personnel, these administrative personnel costs alone could be anticipated to fully exhaust the 9% – 12% overall reimbursement for indirect expenses reported by respondents.

Given these observations, it is quite difficult to describe reliance upon government funding as being wage-neutral in its effect on remuneration practices of the recipient

agencies. It is far more difficult still to describe it as promoting wage increases capable of keeping abreast of overall wage inflation. The argument that the dynamics associated with reliance on government funding actually place downward pressure on wages is supported by the direct statements of 20% of respondents, and appears to be supported by the general findings of this study and the experiences described by study participants.

(H4) Organizational growth and program selection are significantly influenced by the availability of government funding.

The findings of this study appeared to fully support this hypothesis. To test it, respondents were asked if their agencies had changed in size during the preceding five years and, if so, was this change due to an increase in or loss of government funding. Probed, too, was whether or not they had experienced any program growth over the same period and, if so, if this growth had been due to the availability of government funding.

Thirteen agencies (65%) experienced overall growth during the preceding five years. During the same period, six agencies reported reductions in size. Sixteen of the nineteen agencies (84%) that changed in size did so due to an increase in, or loss of, government funding.

Eighteen agencies were reported to have added or expanded programs during the preceding five years. Of these, the decision in twelve cases (67%) to add or expand programs was based upon the availability of government funding. In one of the remaining six agencies with program growth, the decision to increase program activity had not been dependent upon the availability of funding, but was facilitated by that availability. All of these findings appeared to be fully consistent with the hypothesis.

Of related interest (but not addressed within the hypothetical framework) was the question of whether or not the availability of government funding had resulted in goal displacement among recipient organizations. All respondents were asked if this was, or had ever been, the case on the part of their organizations. All (100%) answered that it was not the case at that point in time; however, four executives (20%) acknowledged that there had been examples in their organizations in the past, either during or before the tenure of the current leadership. This finding was in keeping with earlier observations by Powell and Friedkin (1987), Froelich (1999), and Smith and Lipsky (1993), all of whom reported an association among some recipient agencies between goal displacement and reliance upon government funding. Salamon (1995), however, offered a countervailing view from his extensive research with over 3,000 nonprofits, stating that there was little evidence of government funding resulting in distortions of agency missions. Four individuals in the present study reported that goal displacement on the part of their agencies caused program expansion inconsistent with their mission. “Mission creep” in these instances may or may not have met Salamon’s unascertained criteria for “mission distortion.”

In general, this study appeared to be describing a system heading into decline. This system has seen changes in public policy for 50 years that impact on how it operates, and it has faced increased layers of accountability and reporting requirements for unfunded mandates. Nearly every agency represented in this study was playing a part in a system that failed to reimburse them adequately for the costs of operating programs. There was a real sense of decline entailed in the practices of flat funding, increased accountability burdens, and the consequences of inflation. It points to inefficiencies and inequities in the

government/nonprofit relationship that appear to be increasing, rather than being resolved, which erodes the capacity of the nonprofit agencies to meet their mission and weakens the service delivery system they represent.

Implications for the Literature

Very little scholarly attention was found, in reviewing the literature for this study, on the topic of government's indirect cost reimbursement practices or policies and their effects on the organizational development of nonprofit organizations. Yet this issue appears to be of considerable consequence to the organizational health and wellbeing of that portion of the nonprofit sector that provides services in behalf of government to needy Americans, and therefore is worthy of interest and notice by nonprofit researchers. Furthermore, the health and well being of this nation's service delivery system ought to be of interest to researchers concerned with issues of public administration and public policy. Literature on this topic is presently lacking from each of these perspectives.

Implications for Practice

This study revealed the need for specific practice considerations on the part of the leadership of nonprofit human service agencies and charitable foundations, and of public administrators and policy makers.

Nonprofit agencies can safeguard and promote their own health by investing in fund development capacity targeted at reducing reliance on government funding. The efficacy of this approach was demonstrated by the sole agency within this study that had once considered itself too reliant on government funding. It found success in setting a strategic course of action intended to mitigate this, and has achieved a near-optimum balance of public and private funding. Accomplished by sustained effort over a multi-

year period, through the combination of increased internal fund development activity and greater board of directors involvement, this transformation was achieved without compromising programs. In approximately nine years this agency reduced government support from more than 95% of its budget to below 70%. This was a conscious and deliberate decision designed to bring the agency to a level of public support the organization determined to be appropriate and sustainable.

Acknowledging that human service providers have a variety of different constituencies relative to their missions and, as a result, often uncertain appeal for attracting private and corporate donations, it may be unrealistic to believe that prescribing this approach to fund development would achieve the same result in all cases. Some degree of positive net effect would likely result, however, if any of the subject organizations were to adopt this as a strategic direction.

Agencies fully funded by government for service delivery, and — as reported in this study — happy with that arrangement, are still at risk of budget cuts due to government revenue shortfalls. Internal fund development capacity could shield much of that exposure. This brings to the fore the question of what level of dependency is appropriate within this government/nonprofit relationship. If a determination can be made in that regard, should there be attempts to establish standards and consistencies?

This research also points to the need for charitable foundations to continue recent efforts at furthering nonprofit capacity building activities. Developing and implementing programs specifically designed to assist these agencies with fund development capacity would constitute meaningful investments into the future health and sustainability of the nonprofit service delivery subsector. Additional consideration should also be given to

funding general operating support grants to help these agencies meet infrastructure shortfalls. Such support could be incorporated with capacity building activities as described, and be tapered back as the self-sufficiency of the recipient organizations improved.

These findings also imply that nonprofit practitioners and advocates need to continue engaging public administrators, legislators, and other public policy makers towards achieving meaningful reforms in the contracting and funding relationships. Needed reforms would include realistic and consistent indirect rates across agencies, contract funding tied to increases in the cost of doing business and to regional wage inflation, cost reimbursement policies that do not place unnecessary strain on recipient cash flow, streamlined reporting requirements, and revisiting federal regulations that interfere with the ability of government funded nonprofit agencies to acquire real property and build capital.

Of concern to several respondents was contract reform at the local level. A matter worthy of local policy consideration, although unexpressed, did become apparent during this research. It concerns the inequities due to inconsistencies in the indirect cost rates applying to service providers operating in the City and County of San Francisco. Agencies that contract directly with the City and County have a negotiated indirect rate, the adequacy of which may be subject to debate. Many of the human services agencies operating in the City are funded by state and federal agencies. This brings considerable revenues into the City and County for the provision of needed services. These agencies do not enjoy consistent indirect cost reimbursement from the state and federal funding agencies, and many receive overall indirect cost reimbursement well below the rate

provided to locally funded agencies. As these agencies and the locally funded organizations together represent the acknowledged system of care for the citizens of the City and County, the continued health and wellbeing of all agencies is of local concern. To alleviate the discrepancies and improve the wellbeing of the service delivery system, local government could guarantee and fund an indirect rate for all programs operating under its authority.

Recommendations for Further Research

Nonprofit human service agencies may need to reassess organizational structures and activities and determine both the optimal ways of functioning at peak efficiency within their environment and the degree to which government should be involved in that equation.

As already noted, this limited study appears to portray a service delivery system in decline. This should be studied on a much larger scale to determine the validity of such a conclusion and to understand whether these findings are generalizable to the nonprofit subsector as a whole.

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APPENDIX A: INTERVIEW SCHEDULE

- 1) How long has the agency been operating?
- 2) How many programs do you operate?
- 3) What is your annual operating budget?
 - < \$500,000
 - \$500,000 – \$1,000,000
 - \$1,000,001 - \$2,500,000
 - \$2,500,001 - \$5,000,000
 - \$5,000,001 - \$10,000.000
 - > \$10,000.000
- 4) What are the sources of your government funding? Local, state, federal, combinations thereof?
- 5) What percentage of your total operating budget does government funding represent?
- 6) Does government funding directly leverage other income, such as fees for services or rental income?

If so, please explain:
- 7) Has government funding always represented such a significant percentage of your budget?

If No: For how many years?
- 8) Given the percentage of your budget that government funding represents, do you consider your agency too dependent upon this source of funding? (IF NO, obtain explanation)
- 9) Was it a conscious decision for government funding to comprise such a large portion of your revenue, or did it just happen?
- 10) What would you list as the positive aspects of accepting government funding? (Explore each)
- 11) What would you list as the negative aspects of accepting government funding? (Explore each)
- 12) What is the size of your Board of Directors?

13) How would you characterize your Board of Directors using the following adjectives, on a scale of 0 – 5; with 0 being Not at all Characteristic and 5 being Highly Characteristic?

Community-based	_____
Fundraising	_____
Corporate	_____
Governance-focused	_____
Program-focused	_____
Working	_____

14) Does your board take an active role in decision-making regarding government funding opportunities? Please explain

15) Do you believe the size, make-up, and/or activities of your Board of Directors would be any different were you not reliant upon government funding?

If so, please explain:

16) Does your agency have a Development department?

If so, what size?

If not, what are your reasons for not having one?

17) How many FTE's do you employ?

18) How many of these are non-program staff?

19) Do any of your staff perform programmatic as well as non-programmatic functions? If so, how many and describe?

20) Is the level on non-program staffing that you presently have sufficient to adequately support your programs?

If not, please explain:

21) Are demands on agency infrastructure, in the form of non-program staffing and information and management systems, in any way affected by your government funding?

If so, please explain:

22) Does your government funding fully fund the indirect costs associated with operating the programs that it funds?

If not, please explain, including what consequence, if any, this has on the agency as a whole:

How do you pay for any portion not covered by government funding?

23) Does your government funding fully fund the programs that it supports?

If not, please explain, including what consequence, if any, this has on the agency as a whole:

How do you pay for the any portion not covered by government funding?

24) Is it your practice to give Cost of Living Adjustments (COLA) to your staff?

If so, does your government funding pay its share of COLA adjustments? Please explain:

25) Is it your practice to give merit increases to your staff?

If so, does your government funding pay its share of these increases? Please explain:

26) How does your agency pay for unforeseen or unavoidable increases in costs, such as rising costs of health benefits and workers compensation coverage?

27) Has your agency changed in size over the past five years?

If yes, in what manner?

Was the change the result of a loss or increase in government funding?

28) Does your agency keep track of Notices of Funding Availability (NOFA) and Requests for Proposals (RFP) from any government agencies?

If yes, why?

29) Some literature suggests reliance upon government funding can result in goal displacement, a situation where the agency delivers programs that may not be fully consistent with their initial goals, but for which funding is available. Have you found this to be the case with your agency?

If so, probe:

30) Have you added programs or expanded any of your existing programs in the past 5 years?

If so, was the decision based upon the availability of government funding?

If programs were added, how was this decision made and by whom?

31) If government funding for a specific program were to be discontinued, what would be the likely effect on your program?

32) Does government funding have any role in your decisions of what client demographic you serve or do not serve?

If yes, please explain:

33) Is there anything concerning the effect had by government funding upon the organizational development of your agency that I have not covered, but perhaps should have?

If so, what would that be?

APPENDIX B: APPROACH LETTER

Leon D. Winston
122-C Hancock Street
San Francisco, CA 94114-2531

Date

Mr/s J. Doe, Executive Director
XYZ Agency
San Francisco, CA 941 - -

Dear -----,

I am writing you today to solicit your participation in a research project. As a graduate student at the University of San Francisco, I am conducting a study of nonprofit human service agencies and the effects that these organizations attribute to their reliance upon government funding. This funding relationship that is so prevalent in our sector has been acclaimed for benefits to and blamed for difficulties within recipient agencies. In my ten years working for Swords to Plowshares, and in my present capacity as its Deputy Director, I experience these funding relationships with multiple government sources on a regular basis. That experience is the genesis of this study, and it is hoped that the results will be of benefit to the sector and to the public administrators whom we contract with.

Succinctly stated, the specific intent of this study is to uncover what role reliance on government funding may have on the organizational development of local recipient organizations. Through use of public records, specifically IRS form 990 as made available on www.guidestar.org, a list was developed of San Francisco agencies that receive 60% or more of their revenue from government sources. That preliminary research indicates _____ meets that criteria and, as Executive Director of the agency, your voice will be a valuable contribution to the study. I hope that you will seriously consider participating. Study participation amounts to an interview of approximately 30 minutes duration, to take place in your office or other appropriate venue of your choosing. Participants will be provided with a copy of the study results.

I would like to call you in approximately one week from the date of this letter to address any questions that you may have and, hopefully, to schedule a time for an interview. Should you wish to contact me prior to that time for any reason, please feel free to do so. I will be happy to address any questions or concerns that you may have.

Thank you for your time and for considering this request.

Sincerely,

Leon Winston
(415) 505-5608

APPENDIX C: WRITTEN CONSENT

University of San Francisco Consent to Be a Research Subject

Purpose and Background

Mr. Leon Winston, a graduate student in the College of Professional Studies at the University of San Francisco, is doing a study of nonprofit human services agencies and reliance upon government funding. The researchers are interested in understanding this funding relationship from the perspective of the Executive Director of the recipient organization, with specific interest in any consequences to organizational development that these leaders attribute to reliance upon government for the majority of their agency's revenue.

I am being asked to participate because I am the Executive Director of a nonprofit human service agency that derives no less than 60% of its revenue from government sources.

Procedures

If I agree to be a participant in this study, the following will happen:

- 1) I will participate in an interview with the researcher, during which I will be asked about various aspects of my agency's finances, organizational structure, and history.

The interview will take place at my office or other agreeable site.

Risks and/or Discomforts

1. It is possible that some of the interview questions may make me feel uncomfortable, but I am free to decline to answer any questions I do not wish to answer or to stop my participation at any time.

2. Participation in research may mean a loss of confidentiality. Study records will be kept as confidential as is possible. No individual or organization identities will be used in any reports or publications resulting from this study. Study information will be coded and kept in locked files at all times. Only study personnel will have access to the files and recordings.
3. Because the time required to my participation may be up to 1 hour, I may become tired and bored.

Benefits

There will be no direct benefit to me from participating in this study. The anticipated benefit of this study is a better understanding of the effect of government funding upon human service agencies that rely upon this funding for a majority of their revenue.

Cost/Financial Considerations

There will be no financial costs to me as a result of taking part in this study.

Payment/Reimbursement

I will receive no payment or reimbursement for my participation in this study.

Questions

I have talked to Mr. Winston about this study and have had my questions answered. If I have further questions about the study, I may call him at (415) 505-5608 or Dr. Donna Hamlin at (510) 647-5243.

If I have any questions or comments about participation in this study, I should first talk with the researchers. If for some reason I do not wish to do this, I may contact IRBPHS,

which is concerned with protection of volunteers in research projects. I may reach the IRBPHS office by calling (415) 422-6091 and leaving a voicemail message, by e-mailing IRBPHS@usfca.edu, or by writing to the IRBPHS, Department of Psychology, University of San Francisco, 2130 Fulton Street, San Francisco, CA 94117-1080.

Consent

I have been given a copy of the “Research Subject’s Bill of Rights” and I have been given a copy of this consent form to keep.

PARTICIPATION IN RESEARCH IS VOLUNTARY. I AM FREE TO DECLINE TO BE IN THIS STUDY, OR TO WITHDRAW FROM IT AT ANY POINT. My decision as to whether or not to participate in this study will have no influence on my present or future status as a student or employee at USF.

My signature below indicates that I agree to participate in this study.

Subject’s signature Date of Signature

Signature of Person Obtaining Consent Date of Signature

APPENDIX D: VERBAL CONSENT SCRIPT

My name is Leon Winston and I am a graduate student at the University of San Francisco. I am conducting a study of San Francisco nonprofit human services agencies that receive 60% or more of their funding from government sources. I am interested in learning the consequences that this funding relationship has on the organizational development of recipient agencies. You are being asked to participate in this study because of your role as the Executive Director of an organization that meets the study parameters. If you participate in the study you will be asked a number of questions concerning your experience with and views on the subject matter. Anticipated length of the interview is 25 to 40 minutes.

It is possible that some of the questions I ask may make you feel uncomfortable. You are free to decline answering any questions or to cease participation at any time. Although none of what you say will be attributed to you in the work product once the interview is transcribed, full confidentiality cannot be guaranteed. Study records will be kept as confidential as possible. No individual identities will be used in any reports or publications resulting from the study. Study information will be coded and kept in locked files at all times. Only study personnel will have access to the files.

While there is no direct benefit to you from participating, it is hoped that the study is ultimately of benefit to the nonprofit sector.

There will be no cost to you as a result of taking part in the study, nor will you be reimbursed for your participation.

If you have any questions about the research, you may contact me at 415.505.5608. If you have further questions about the study, you may contact the IRBPHS at the

University of San Francisco, which is concerned with protection of volunteers in research projects. You may reach the IRBPHS office by calling 415.422.6091 and leaving a voicemail message.

PARTICIPATION IN RESEARCH IS VOLUNTARY. You are free to decline to be in the study, or to withdraw from it at any point. Do you consent to participate?