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# CHALLENGES FOR NONPROFIT ORGANIZATIONS

## Introduction: A Theoretical Framework

## Civil Society and Challenges Faced by Nonprofits

*Amnon Reichman*

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**T**his introduction will tackle two issues. The first is theoretical: a framework will be proposed with which to approach the activity of nonprofit organizations within civil society in modern democracies. Whereas the traditional approach posits three sectors in a triangular setting (the top corner occupied by the government, the bottom-right corner occupied by the market, and the bottom-left corner by the “third sector”), a better conceptualization defines civil society as a social space between the state (located above) and the individual or the private sphere (located below). This space is where for-profit organizations (usually clustered in one side of the space), nonprofit organizations (usually grouped in the other), and organizations that share characteristics of both (situated in the middle) reside and develop modes of coexistence (sometimes in tension and sometimes in partnership). This spatial model enables better understanding of the dynamics that occur when the state removes itself from segments of civil society by “ascending” (as is the case when the state stops providing some services and deregulates the services it has outsourced), or conversely, when the state interjects itself into segments of the civil society by “descending,” either via direct provision of services or by tight regulation of such provision. Moreover, this spatial conceptualization allows us to better understand the interaction of nonprofit organizations with state agencies, with for-profit organizations, and with individual members of the society, who are the potential volunteers in the nonprofit organization, the audience for their call for social change or the recipients of their services.

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The second issue addressed by this introduction is more practical: the dilemmas faced by nonprofit organizations operating within the social space defined above will be outlined (in a stylized manner). These dilemmas will be organized along five axes: those pertaining to the relationship with the state and state agencies; those pertaining to the relationship with other nonprofit organizations; those pertaining to the relationship with for-profit organizations; those pertaining to the relations with the private sphere; and those pertaining to the relationship with organizations in other countries. With respect to each axis, it will be shown that rather than approaching the relationship as tri-polar, a fuller appreciation of the social space, or environment, is of value.

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### **Civil Society as a Social Space**

Civil society in Western democracies witnessed important changes toward the end of the twentieth century. Whereas previously civil society, and civil society organizations, were seen as a “third sector” vis-à-vis the governmental sector and the market, it became evident that this conceptualization is deficient, for it fails to adequately capture the nuances of modern social experience. The old tri-sectors approach assumes clear boundaries between the market and the nonprofit. In reality, for-profit organizations developed social-responsibility divisions, which agenda, even if motivated solely or primarily by corporate public relations, was, nonetheless, similar to that of traditional nonprofit organizations. Similarly, nonprofit organizations adopted, in various degrees, for-profit strategies for negotiating with market forces. Organizations ranging from social-services provision to social change and those with a main focus that ranged from fostering arts and culture (such as orchestras, museums, and faith-based organizations) to providing essential necessities (such as food banks and shelters) decided to operate in modes similar to for-profit corporations except that they do not generate monetary dividends to their shareholders. Moreover, the old tri-sector model posits civil society in a clear adversarial stance vis-à-vis government. The end of the twentieth century saw partnerships emerging among the government, the market, and nonprofit organizations. Furthermore, sociologists have identified the dynamic nature of the civil society in relation to both government and the market, a feature not well depicted by the static tri-sector model. A better definition of the term “civil society” was therefore required, one that would more accurately capture the relationship between the for-profit organizations, the nonprofit organizations, and the state.

The first move toward a better understanding of the term civil society required decoupling the actors — the organizations, including governmental organizations — from the field of social activity within which they operate. The second move required defining the relevant fields of social activity, that is, the social spaces where the activity takes place. Three such social spaces emerge. In the private sphere individuals



Civil Society: the Social Space between the State and the Individual

form familial relations and live their “private” lives. Imagine this space at the bottom, as a foundation of sorts. The state, where the official power of the sovereign resides, is organized in bureaucratic form. Imagine this space at the top. In civil society — the social space between the state and the private sphere — for-profit and nonprofit organizations pursue their goals.

Understanding civil society as the space where both the for-profit and nonprofit reside allows us to understand the continuum between the two ideal types of these organizations. The ideal type of a nonprofit organization is composed of a group of people whose relations are less formalized; the organizations need not necessarily be a distinct legal entity (let alone an entity with limited liability), its relations with its members and others are usually based on faith and trust rather than formal contracts, and its main capital is social esteem and the sense among its members of “doing something right.” An ideal-type of nonprofit organization relies on a core-base of volunteers or on people who are there “for the cause.” In the ideal-type of for-profit organization, people join or leave for economic reasons, the organization is hierarchically designed with clear, formal rules of duties and responsibilities, the preferred mode of interaction is the formal contract, and the core-base of the personnel is paid staff, acting to maximize the wealth of the stockholders. While these may be the ideal-types, real-life organizations may be situated in between: they may not act to maximize the profit of the stockholders, but they nonetheless adopt a for-profit mode of management. Or they may act for-profit but instill in their workforce a sense that the work is not just about the money. In short, the social space between the state and the individual allows for a range of organizations to operate: some organizations would gravitate toward the for-profit pole situated to the right of the social space, while other organizations would locate themselves toward the nonprofit

side (where other forms of capital, such as social esteem, carry the day; imagine this pole to the left). Other organizations may reside in between them.

Moreover, understanding civil society as a social space between the individual and the state allows us to understand the possible patterns within that space: the state may “descend in” and saturate the space by occupying all the functions performed by organizations in civil society; the polity would thus become a totalitarian society. Alternatively, the state may “ascend” or “withdraw” from the civil society altogether. It may outsource the provision of services it used to provide to organizations and it may deregulate their provision by removing bureaucratic modes of control or supervision. Similarly, this spatial model enables us to realize the importance of the “private” domain and the interaction between it and civil society. Individuals may either withdraw from participation in civil society by turning their attention to the “private” relationships with friends and family, or they may decide to spend most of their time and energy pursuing activities and relationships within civil society. Some may even decide to merge elements of the private sphere with civil society by living their lives more “publicly,” as new technology now offers. Finally, the spatial model reveals the ability of nonprofits to “move” within that space by changing some of their characteristics (such as by running some for-profit activities or by forming partnerships with for-profit organizations or with governmental bodies). Such partnerships may be project-by-project or on a broader basis; they may be for a limited time or for an extended period; they may be formed in order to promote some transformation or in order to resist proposed changes.

Understanding civil society as a social space also allows us to appreciate that processes may transcend state/national boundaries. Governments, for-profit, and nonprofit organizations partner with their counterparts in other states/nations, and people, goods, services, information, and ideas cross national boundaries. Therefore, patterns occurring in the space between the individual and the state in one polity may be affected by, and may affect, patterns in neighboring — or even distant — spaces. For example, if a government “withdraws” from civil society (or conversely, decides to strengthen its hold by increasing its presence) in one country, this may create pressures — ripple effects — that will be felt in civil societies in other countries. Similarly, if certain policies are adopted by organizations — for-profit or nonprofit — within one polity, organizations in other polities may face some of the consequences (intended or unintended) given the transnational dimension of modern civil society.

Turning from theory to practice, the state has, in several Western democracies, withdrawn (or partially withdrawn) from providing services directly and turned to models of outsourcing by purchasing these services from for-profit corporations or by partnering with nonprofits (through partially funding their activities or through devising tax schemes that benefit their activities). At the same time, such withdrawal was sometimes accompanied, and not necessarily in a systematic manner, with

the adoption of some form of regulation meant to govern the provision of services (or the eligibility to these partially funded services). Furthermore, the end of the twentieth century has seen greater cooperation not only among states and for-profit organizations, but also among nonprofit organizations, in tandem with globalization processes relying on newly available digital technologies, on the relative ease of transnational transportation, and on the emerging awareness that organizations operating within the society in Western democracy share some similar challenges and causes (while acknowledging their culturally specific differences).

The upshot of these changes was that the gaps between the haves and have-nots (which have widened at the end of the twentieth century as a result of privatization and deregulation policies) were met with privatization of social services. The challenges faced by both service providers and advocacy organizations have thus increased. Furthermore, gaps between strong and established organizations and less structured ones have widened, in part since the government preferred to partner with the well-established organizations — a preference shared by foundations and by some private philanthropists as well. Third, the state's role as partial "funder" (or "buyer") of services and as regulator and policy maker has placed the organizations working with (or in opposition to) the state on less familiar grounds. It is therefore useful to examine a little more closely the challenges faced by nonprofit organizations in modern civil societies. The challenges listed below are based on the experiences of organizations in Haifa and in Boston. As revealed by contributions to this volume, organizations on both sides of the ocean face similar dilemmas, but their approaches to such dilemmas may differ. Furthermore, the contributions to this volume reveal that the very process of learning from the experiences of organizations in other countries (a component of the transnational dimension of civil society) is, in itself, capacity-building.

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## **Challenges to Nonprofits in the Civil-Society Space**

### **Nonprofit-State Axis**

The first set of challenges faced by nonprofits pertains to the relationship with the state and state agencies. Given the patterns of state withdrawal briefly sketched above, should organizations seek to replace it, at least partially, by providing social services seen, traditionally, as within the duties of "the public" to provide? Or should organizations advocate for the return of state agencies, while taking on the "extra burden" caused by the state withdrawal only as a temporary measure? Or should service-provision organizations rejoice at the withdrawal of the state, since such withdrawal usually entails greater freedom for the organizations to pursue their mission? Striking a balance between advocacy for social change and the provision of services is a tough call even when the state and its agencies remain static (that is, neither elevate the upper boundary of the civil society nor push it down). When

amendments are made to the social contract that defines the responsibilities of the state, the organizations operating within civil society face a clear and concrete dilemma: whether to challenge these amendments or adapt to the new terms.

Yet as mentioned, the state has not simply withdrawn from civil society. Rather, the state and state agencies, whether national or municipal, outsourced some services by providing partial funding to nonprofit organizations and/or regulated the eligibility to services the provision of which is partially funded by the state. Alternatively, if a service that the state deemed important was not provided by state agencies, rather than developing the capacity to offer such service independently, the state offered to partner with the nonprofit currently providing a similar service. From the perspective of the state, this policy saves money (by leveraging public funds with the funds the nonprofits acquire through fundraising or via their volunteer core). It also allows the state to harness the know-how and devotion of the nonprofits, while deflecting responsibility for mismanagement if it occurs. At the same time, such a policy results in a less hierarchical command-and-control structure and leaves the state partially dependent on nonprofits. This was evident when state agencies (national and municipal) in Israel were confronted with the need to provide assistance to residents during the war between Israel and Lebanon in the summer of 2006. Lacking the capacity to provide all the necessary services, the state had to rely on the cooperation of nonprofits, which entailed managing a less-structured coalition of organizations.

From the perspective of the nonprofits, the dilemma is clear: Should organizations join forces with the state (or the municipal government) to pursue an important social goal and thereby risk losing (or at least diminishing) their independence? Or should they resist being co-opted by rejecting public funding and a seat at the public-policy-making table? Moreover, as will be elaborated below, the state has a preference for working with larger, established organizations, with presence in many localities. This puts pressure on distinctly local, relatively small nonprofits to join others and form a national organization (or a federation), thereby losing some of their uniqueness (and independence). As contributions to this volume reveal, these are not easy dilemmas to handle.

### **Nonprofit and For-profit Axis**

Raising money is important, and for-profit corporations are a great source, but on occasion it is precisely the policy of privatization and deregulation, favored the for-profit corporations, that the nonprofit organizations view as problematic. Furthermore, it is sometimes the policy of for-profit organizations that the nonprofits see as irresponsible. Examples range from pollution to failing to provide adequate labor standards, or failing to provide adequate opportunities for minorities. Should nonprofits refuse “tainted” money from corporations? If this sounds a bit simplistic, life presents variations with multiple shades of gray. For example, when approached

by the social-responsibility arm of a corporation to conduct a joint campaign, should the nonprofits resist, knowing that it is being used at least in part to promote a certain social image desired by the corporation? For after all, not only will its image rub off on the corporation and thereby grant it an air of social respectability, but the corporation's image may rub off on it, which may detract from the latter's noncommercial nature (or its reputation). Assume now that the corporation asks that the nonprofit refrain from running a similar campaign with the corporation's competitor. Should it take a utilitarian stance, seeking to maximize its ability to promote the social good it seeks to promote by agreeing to work with the highest bidder? Or should it resist such market tactics?

Furthermore, when corporate funding is present, corporations may wish to achieve greater control by establishing a new entity in which they call the shots. Alternatively, they may push to place their members on the boards of the nonprofit they support. Some may welcome such a move. It signifies the commitment of the for-profit to the cause (which may translate into cash or other corporate resources and know-how). But the risk is clear: loss of independence.

### **Relationship among Nonprofits**

Joining forces with other nonprofits could strengthen the ability of each organization to pursue its goals. It would also make attracting grant money easier, as foundations usually prefer funding bigger players whose proven ability to make a change is evident, rather than splitting their support among various factions in the same field. On the other hand, joining forces with others may lead to loss of independence and loss of the ability to pursue the specific mission of the individual organization as understood by its members. It may also lead to loss of motivation by the volunteer core. There is also the risk of exposing the fundraising "secrets" of each to its competitors. Put in market terms, a merger of two or more organizations, and even a joint venture, may lead to the loss of the relative advantage of each, as its social capital may be transferred to another organization.

A related dilemma is whether, or to what extent, to cooperate with "umbrella organizations" — a coalition of organizations created in order to facilitate cooperation, enrich the tools available to each organization, and present a united front on some issues. Umbrella organizations may build the capacity of their member organizations by providing access to knowledge and other resources and may serve as a neutral platform for exchanging ideas and forming a joint policy among like-minded organizations. But such umbrella organizations may end up restricting the freedom of each organization to chart its own course and/or may end up competing with the individual nonprofit by stealing its thunder or by directly appealing to its funders. The umbrella organization may thus pose a threat of sorts to the independence of each member. From the perspective of the umbrella organization, the tension is also



clear: on the one hand, in order to maintain trust with the members' organizations, it should stay above the fray and concentrate on providing tools and a neutral platform. It should not step into the shoes of an individual organization, for by doing so not only does the umbrella organization compete with its member, it also thwarts the member's organic development. Yet not leading some concrete activities on the ground also has a price: an umbrella organization is expected to take the front line — in advocacy or service provision — in order to maintain its social capital. For if it is taken to be only a "bureaucratic" agency, its mission may fade and it may lose its momentum and the support of its key constituencies, including its volunteer core.

### **Relationship between the Nonprofits and the Private Sphere**

Recall: the private domain is "below" the civil society; it is where individuals lead their familial lives, pursue their individual hobbies, and spend time on their own. Nonprofit organizations seek to draw the commitment of members of the society engaged in their "private" lives. Recruiting their support and involvement requires appealing to their sense of solidarity or otherwise convincing them of the importance of the goal promoted by the nonprofit. As mentioned above, a nonprofit is usually a less structured organization and even its paid personnel are part of the organization not only for the monetary remuneration. Running it therefore requires a unique approach toward human resources. Should it adopt managerial tools developed by for-profit organizations to attract and manage its human capital, and thus perhaps increase its efficiency, but also risk losing its grassroots support and enthusiasm? The for-profits who donate money would certainly like to see the nonprofits operating according to the for-profit mold, but is this the right course of action, given the unique characteristics of the human capital upon which they thrive? Consequently, should nonprofits attempt to recruit successful business people to their boards, seeking their expertise in running business, or should they steer away from the for-profit way of doing business?

Nonprofit organizations in the United States have, by and large, taken the position that the structure the market offers, and the business administration models prevalent therein, need only moderate modifications in order to suit the nonprofits operating within civil society. Nonprofits in the U.S. are consequently more professional and efficient. The small and medium size nonprofits in Israel are less structured and rely more heavily on the spirit of volunteerism and lay-people's participation. Examining the dialogue between nonprofits from Israel and from the U.S. may therefore shed some light on the trade-offs.

### **Nonprofits Beyond National Boundaries**

As mentioned, the twenty-first century provides nonprofits with opportunities to expand their reach beyond the polity within which they are situated. Transnational cooperations ensue, and multinational organizations emerge. Transnational

organizations or other forms of partnerships may provide local nonprofits with access to know-how, energize their core human capital, and assist in fundraising. Moreover, as part of the exchange, organizations may decide to adopt specific campaigns or join forces in concrete activities. An international frame may be helpful in generating public support or, in case the campaign is adversarial, in providing cover from the opposing forces (including the government or powerful corporations). At the same time, spending time with international partners may consume time and resources and thereby divert nonprofits' attention from their local base. Nonprofit organizations may also need to consider whether experiences gained by organizations in other localities are relevant to them, given possible political, economic and cultural differences. For example, the organizational culture of nonprofits in the U.S., as mentioned above, follows some corporate patterns, whereas the culture in Israel is more grassroots oriented. Are the experiences of U.S. nonprofits relevant to the Israeli counterpart? Furthermore, international involvement may subject nonprofits to critiques launched against partners abroad and may raise concerns regarding "external" interventions. The reports of the nonprofits from Haifa and Boston thus may also shed important light on this dimension.

## **Conclusion**

It is perhaps trite to note that civil society — understood as the social space between the individual and the state, where for-profit and nonprofit organizations pursue their goals — is inherently political. Within this space values and beliefs are translated into social action, policies are formed and implemented, and players — organizations and office-holders within organizations — have to engage with other players (that is, with other organizations and other office holders). As the contributions to this section reveal, we cannot understand governance in the twenty-first century without understanding the dynamics and pattern characteristics of the civil society in any given polity. Our traditional focus on the state as the sole source of public policy has long been questioned and, as leaders of organizations report here, is difficult to maintain. Organizations and their volunteer core view it as their responsibility to strive toward social transformation, hopefully with, but also without (or contrary to the policies of) state agencies. This is not to say, of course, that the state's role is not meaningful; it is mainly vis-à-vis the state and its agencies that the players operating with the civil society form their strategies. But strategies are also formed with respect to other organizations, whether for-profit or nonprofit, and more specifically, the question of collaboration with other organizations appears to be of special importance.

It should be recognized, in this respect, that the political activity (and the organizational politics) of nonprofits raises another question, not directly addressed here: How can nonprofits effectively deal with political parties? After all, such parties are a vital part of civil society. But collaboration with political parties is a risky business. While it may yield access to the state-based policy-making table, it may also risk

alienating the core of the volunteer base, who may find other aspects of the particular political party problematic, or who would like to remain unaffiliated. Collaborating with political parties (and the log-rolling inherent in such collaboration) may also complicate the prospects of building a coalition of nonprofits, since any organization affiliated with a given party may be seen as “tinted” by other organizations in the sense that it has become the long arm of the party or that it has crossed the invisible line that separates grassroots activism and professional politics. This is true especially when deep political divides on issues other than social justice plague a given polity, as is the case in Israel. It is, perhaps, not accidental that leaders of organizations chose not to express themselves on this issue in this volume.

From a different perspective, it is interesting to note how transnational collaboration may influence the decision of organizations to collaborate locally, namely with organizations of the same domicile. The essays in this volume favor, sometimes enthusiastically, the strategy of coalition-building. Yet when the Haifa–Boston Learning Exchange Network project reported in this volume began, this was not necessarily the case. It was not easy to convince organizations to collaborate with neighboring organizations; in fact, several organizations expressed concern regarding the loss of independence and turf. It could be that the transnational dimension of the project has convinced leaders of at least some organizations that “networking” is important. Perhaps the presence of organizations from across the ocean demonstrated the potential gains from successful collaboration, particularly in terms of know-how and perhaps potential future joint-fundraising. It could also be the case that changing the focus from the local to the global also changed the attitude of key office holders within each locale by highlighting the common objectives shared by nonprofit organizations and by generating a sense of expanded community where solidarity matters, thereby energizing the core leadership of the organizations. Or it could simply be the case that since this project was primarily about learning and not about concrete social action, differences and tensions between organizations have become muted, and therefore there was no real reason not to coalesce. Time will tell whether long-lasting partnerships will emerge from the project, or whether the attitudes toward collaboration with neighboring organizations reported in this volume will endure the pressures of the mundane. But be that as it may, this project has opened an interesting window into the structure and operation of civil society in Israel and in Boston and, equally important, it has demonstrated the potential of translational ventures. Consequently, it has contributed to our understanding not only of the concept of civil society — i.e., what it means — but also how key players operate within that space in dealing with systemic dilemmas.

