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## Nonprofit-State Relations in Ireland: Contexts, Issues and Alternatives

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# Nonprofit-State Relations in Ireland: Contexts, Issues and Alternatives

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## **Abstract**

The purpose of this paper is to present and discuss the major nonprofit policy issues in Ireland from the perspectives of government, nonprofits themselves and society generally. We have identified the key areas for examination as: economic, legislative, political and cultural contexts of nonprofit-state interaction. We have taken these dimensions as the template for the paper. We commence each section with a context setting overview of the factors relevant to a discussion of the policy issues. We then detail the major policy issues and available options. To conclude, we review the alternatives facing nonprofits.

**KEYWORDS:** nonprofit-state relations, economic crisis, austerity, advocacy, service delivery, nonprofit organizations

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## **Introduction**

The purpose of this paper is to present and discuss the major nonprofit policy issues in Ireland from the perspectives of government, nonprofits themselves and society generally. At time of writing, there are few certainties in the public policy landscape. Precipitous economic collapse and political turmoil since 2009 have interrupted the existing policy framework and the underlying nonprofit-state relations. Current turmoil aside, Ireland has consistently been difficult to categorize, whether using regime theory (Esping-Anderson, 1990) or models of nonprofit-state relations (such as Young, 2000).

We have identified the key areas for examination as: economic, legislative, political and cultural contexts of nonprofit-state interaction. We have taken these dimensions as the template for the paper. We commence each section with a context setting overview of the factors relevant to a discussion of the policy issues. We then detail the major policy issues and available options. To conclude, we review the alternatives facing nonprofits.

## **Economic Perspectives on Irish Nonprofit-State Relations**

### **Context**

Nonprofit-state relations are an important concern to the Irish government, as this relationship is central to the major policy fields. Nonprofit organizations are often the main providers of many state-funded services such as education, disability supports, social provision, including housing, hospital-delivered health care. Many community services are delivered by nonprofit providers using state funding. The state is also the major funder for the arts, culture and heritage, for environmental organizations and for nonprofit-provided youth services. On the basis of those extensive funding and service delivery relationships, it would be impossible to consider government-nonprofit relations in Ireland without reference to the impact of the economy.

Ireland's fall from economic grace has been as steep as it was sudden. Figures from the Irish Central Statistics Office show that the Irish economy, which had grown every year since 1983, declined by 5.2 percent in GDP terms in 2008. It went on to fall by 10.8 percent in 2009 and a further 2.9 percent in 2010 (CSO, 2011a: 3). This fall in economic output precipitated large-scale layoffs in the labor market, particularly in the once vibrant construction sector. The rate of unemployment in Ireland has grown from an average of 4.5 percent in 2007 to 17.3 percent in the first quarter of 2011 (CSO, 2011b: 10).

A consequence of the current economic difficulties in Ireland is a fiscal crisis, prompted by a precipitate fall in tax revenue that had previously been buoyed by strong receipts from taxes on property sales (O’Callaghan, 2011:1). The exchequer deficit grew from 25 percent of GDP in 2007 to 66 percent of GDP in 2010 (Department of Finance, 2010:16). The imperative for budget cuts has grown since Ireland entered into a borrowing agreement with the International Monetary Fund (IMF), the Commission of the European Communities (CEC) and the European Central Bank (ECB) - the so-called ‘Troika’ - in November 2010. In order to comply with the terms of the IMF-EU Programme<sup>1</sup>, Ireland had to reduce government spending by €2 billion<sup>2</sup> (approximately \$2.6 billion USD) in 2011, with further cuts and taxation increases planned for subsequent years (IMF / EU Memorandum of Understanding, 2011). Currently, the Irish government has very limited scope for economic maneuver outside the IMF-EU approved framework.

The overall level of income in the nonprofit sector in Ireland was estimated in 2006 to be €2.564 billion (\$3.326 billion USD) (Donoghue et al., 2006). In 2005, there were over 40,000 people in paid employment in nonprofit organizations in Ireland (Donoghue et al., 2006:54). However, recent cuts in public expenditure have had a strong impact on the nonprofit sector, given that almost 60 percent of the sector’s funding comes from State sources (Donoghue et al., 2006:47). In addition, as consumer income falls, unemployment rises and businesses struggle, the pool of other income available to the sector has also become more limited – in 2009 the level of income in Irish nonprofits generated through fundraising fell by almost 13 percent (Kelleher and O’Connor, 2010)<sup>3</sup>. Historically, during periods of economic downturn, the nonprofit sector in Ireland has faced economic marginalization (Donoghue, 1998) and it would appear that this is even more the case in 2012.

### **Issues and Alternatives**

Changing economic circumstances have had a profound impact on nonprofit-state relations and are by far the overriding factor shaping this relationship. In the past, the most secure funding line for nonprofits has been the state (and for many, the majority source), but it has now become one of the most precarious. Boards are increasingly concerned with taking steps to secure organizational survival (Donnelly-Cox and Cannon, 2010). For organizations now seeking funding elsewhere, the tumultuous state of the Irish economy has also led donors to be

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<sup>1</sup> The Commission of the European Communities is more frequently called simply the “EU”. The agreement with the Troika is referred to as the EU-IMF Programme.

<sup>2</sup> One billion here, and throughout this paper, refers to one thousand million.

<sup>3</sup> The authors noted some improvement in fundraising returns in their second report published in 2011 (Kelleher and O’Connor, 2011).

increasingly cautious in making long-term commitments (Donnelly-Cox and McGee, 2011). In this environment, nonprofits are seeking to diversify their funding streams (Donnelly-Cox and Cannon, 2010).

The effects of this economic crisis also include increased internal tension in nonprofits struggling to fulfill their advocacy commitments and also their service delivery roles with shrinking resources (Donnelly-Cox and Cannon 2010). In the case of advocacy, shrinking resources are likely to inevitably weaken the voice of the nonprofit organization in this role compared to bigger and better resourced stakeholders. Nonprofit organizations must carefully consider how to balance their state funding relationships, and the concerns about how they will remain viable, with their advocacy role. Nonprofits must deftly balance relationships with their major funder and, at the same time, retain an authentic advocacy voice and commitment.

It is worth noting that there is debate around the capacity of the nonprofit sector to simultaneously develop its role as an advocate and its role as a service provider. Providing services generates logistical inertia and makes advocacy-oriented interaction and consultation with the state a low priority for individual nonprofits. Many of these organizations are under pressure to maintain stable, quality services with diminished resources, thus making it difficult for them to be an energetic authentic advocate in the political process. The question of whether both roles can effectively discharged must therefore be considered.

In order to maintain service levels, nonprofits must develop their fundraising capabilities and seek new sources of income from the private sector, but they must adapt to the requirements and expectations of new funders. They are finding that donors are increasingly focused on objective measures of effectiveness and efficiency (Maier and Meyer, 2011). As a result of the increased scrutiny of nonprofit performance and the associated funding conditionality, nonprofits are likely to be required to provide a significantly greater amount of information to donors than was previously the case (Hwang and Powell, 2009). A major effect of economic retrenchment is likely to be additional pressure on nonprofits to become more managerialist (Marion 2006) in their orientation, and an increasing incentive for organizations to hybridize to reflect the structures and processes required by stakeholders.

Three factors would seem to come into play here. First, the state requires the same, if not expanded services, from the nonprofit organizations which provide services on its behalf. It therefore increasingly seeks value-for-money savings from these organizations. Second, private funders seek to demonstrate that they can generate a 'social return on investment' (SROI) from the organizations they fund, or invest in. And third, in response to these developments, Irish nonprofit organizations are reflecting the international trend for them to move towards more concrete performance evaluation (Hwang and

Powell 2009) including the use of performance metrics and quantitative program evaluation (2009). At the same time, they are concerned that their important but less tangible goals may not be captured accurately by traditional financial metrics (Maier and Meyer, 2011). Thus, many questions arise: What metrics are appropriate to give a full and holistic picture of performance? How should performance in meeting these criteria and conditions be measured? What is the best way to balance the use of basic financial metrics with other performance indicators which capture the more intangible elements of nonprofit performance, such as service quality, adherence to recognized international benchmarks and good advocacy?

For policy makers and the government, these trends also raise significant questions. Metrics selected by the government to evaluate performance and determine state funding levels will mould and shape the nature of the services delivered by Irish nonprofits. What services and service levels should the government incentivize the provision of? What services and service levels do the target groups require? How can nonprofit organizations cultivate and satisfy new funding sources? These questions draw into focus the multiple conflicting pressures, expectations and orientations influencing nonprofit decision-making and behavior in the current economic context.

Nonprofit organizations are responding to the economic context by economizing – doing more with less (Donnelly-Cox and Cannon 2010). This changes their relationship with the state and their exchanges with the state. Across the spectrum of policy domains and state-supported activities, nonprofit organizations are looking outside their relationship with the state for additional sources of support (Donnelly-Cox and Cannon 2010). Gradually, this may loosen the close but resource-linked ties between the sector and the state. Furthermore, difficult economic circumstances throw into even clearer relief some of the challenges of maintaining advocacy and service delivery roles within the same state-supported nonprofit organization.

One option for nonprofits facing the expanding range of private and state pressures is to respond strategically by organizational hybridization. Hybridization is promoted as a mechanism for incorporating, within NPOs, selected strengths from both the public and private domains (Goodin, 2003: 392). Hybrid organizations comprise heterogeneous elements (Brandsen et al 2005), drawn from or reflecting the typical structures, processes and mechanisms of public, private and nonprofit sectors. While writers diverge on the extent to which nonprofit organizations are, by their very nature, hybridized (Brandsen et al 2005), Smith (2010) argues convincingly for nonprofits to use hybridization to expand their choices in an increasingly challenging environment. Adapting structural configuration, modifying governance mechanisms or revising delivery processes to reflect the practices or norms of public or private sector organizations

may aid in creating more sustainable organizations with a greater capacity to serve their missions (Smith, 2010: 227).

We therefore argue that hybridization is an option for nonprofit organizations struggling to manage resource dependency under conditions of financial uncertainty in their relationship with the state. Hybridization can facilitate an organization to manage its relationship with the state while also moving closer to other stakeholders from whom it can draw support. Hybridization can also assist in managing the sometimes contradictory demands of multiple roles.

While the economic context is a critical factor to consider in state-nonprofit relations, it is not the only one impacting policy decisions. The legislative context is very relevant, in particular since the enactment of comprehensive charity legislation in 2009. We turn to this next.

## **Legislation, Nonprofit Organizations and the State**

### **Context**

The legislative context has been dominated for well over a decade by the declared need for, and the promise of a more comprehensive legislative framework to define sector-state relations. The legislation arrived in the form of the Charities Act 2009, a regulatory framework for charitable organizations in Ireland. This represented a key development in Irish nonprofit legislation. It provided a legal definition of a charity as an organization that has exclusively charitable purposes and provides public benefit (Charities Act, 2009:s.2, 3). It provided for the establishment of a Charities Regulatory Authority and a Charity Appeal Tribunal. Furthermore, the Act created a Registrar of Charities, to whom applications for charitable status must be made. As of date of writing, however, none of these bodies have been established due to the shortage of statutory funding. Although the publication of the Act has helped to clarify charitable status of nonprofit organizations and supported the development of fundraising principles, it has not addressed calls for sector-level representation of Irish nonprofits or consolidation of the sector. Further, the failure to bring the new regulatory bodies into existence remains a source of frustration for sector actors.

While the impetus for charity legislation is long-standing within Ireland, the regulatory emphasis of the Act reflected growing international concerns about the possibility that under-regulated sectors could become a conduit for money-laundering operations, channeling funds to unscrupulous causes. Thus, the February 2009 Act prioritizes regulation of bodies that have been granted charitable status. The Act closely mirrors similar regulatory structures enacted in

Scotland (in 2005) and England and Wales (in 2006) (Breen et al., 2009). As in the Irish case, British legislation is characterized by a clear focus on the need to update the legal definition of a charitable organization and for charities to officially register, as well as on accountability in the financial accounting and auditing of charities (Breen et al., 2009).

As in England and Wales, other aspects of fund-raising (operational or administrative issues, etc.) are not provided for in legislation. Rather, a *Statement of Guiding Principles for Fundraising* has been developed (ICTR 2008). Developed by an Irish membership organization, the Irish Charities Tax Reform Group and signed up to by many of the larger fundraising organizations, the voluntary code combines demonstrating a commitment to practicing regulation-compliant fundraising methods and to practicing in ways consistent with tenets of professional fundraising practice. There has been some disagreement amongst organizations about adoption of the code, which may more reflect competition amongst sector actors than it does any fundamental disagreement with the principles of the code itself.

A further, very interesting development in the field has been the establishment and pilot activities of INKEx (Irish Nonprofit Knowledge Exchange), an organization consciously modeled on the Guidestar web portal. Funded at start-up by funds from the government and the Atlantic Philanthropies, INKEx has produced an initial report on data gathered from 12,027 incorporated charitable organizations that demonstrates how easy access to the published accounts of Irish charities can raise public confidence in fundraising organizations (INKEx 2012). Through increasing the transparency of organizational operations, INKEx hopes to facilitate organizations in their fundraising and be an incentive for organizations to illustrate, in their published accounts, their efficiency and effectiveness in serving their mission.

### **Issues and Alternatives**

The failure of the state to establish the regulatory bodies mandated in the Charities Act is an ongoing concern for Irish nonprofits. However, one alternative for addressing the resulting regulatory void could be a move to greater self-regulation within the Irish nonprofit sector. The trend towards promotion of self-regulation models can be observed across Europe (Gugerty and Prakash 2010; Ortmann and Svítková 2010; Potoski and Prakash 2009). Gugerty et al. (2010) note self-regulation is perceived as an indicator of strong organizational management and governance systems, and as a practice that will both attract funders and keep additional government regulation at bay (Gugerty et al., 2010:2). It is also significantly cheaper to implement and could lead to fewer conflicts

arising from strict government regulation that is too onerous (Potoski and Prakash, 2009:2).

If self-regulation of the nonprofit sector were to be more widely employed in Ireland, what issues might arise? While there is much support for the concept of self-regulation, and there are clear indications that the ICTRG's voluntary Code of Fundraising Practice is of value, where self-regulation has been employed, it has not always been successful in practice. Indeed, the most democratically developed sets of principles and guidelines (including those of the Accountable Nonprofit Organization and the Donor Bill of Rights) have "failed miserably" according to Bothwell (2001:7) (cited in Tschirhart, 2010:85). Voluntary "accountability clubs" have been shown to be undermined by the free-riding of non-participants and by moral hazard, bringing only superficial compliance with quality standards (Tschirhart, 2010:86). For example, Prakash and Gugerty state that self-regulation can often lead to the development of information asymmetries and principal-agent problems (2010). They argue that there is a large variation in the quality of voluntary clubs and that they are as frequently used to obscure information ("charity-wash") as they are to provide it (Prakash and Gugerty, 2010). Brody (2002) notes that nonprofit organizations are under increasing pressure to provide tangible evidence that they are creating value (Brody, 2002: 472). Thus, public attitudes to the nonprofit sector could be significantly impacted by the effectiveness (or otherwise) of any form of voluntary self-regulation.

Baron (2010) defends self-regulation and argues that morally-motivated self-regulation of nonprofits (as opposed to free-riding and charity washing) is common. He concedes that it appears there are incentives for some nonprofits to free-ride on the efforts of other nonprofits to increase public perception of the sector through increased transparency and accountability. However, he asserts that in reality, many nonprofits do not free-ride, and instead, make genuine attempts to improve the quality of their organizations in this regard. This often stems from altruistic motives (Baron, 2010). Furthermore, while some criticize self-regulation, many also concede that accountability clubs remain useful to the nonprofit sector, improving public perceptions of the sector and its legitimacy (essential for fundraising), and strengthening their collective voice in lobbying and collaborating with the government (Tschirhart, 2010). Despite the drawbacks, self-regulation and certification by third parties may still represent a realistic option for nonprofits in the absence of fully implemented legislation.

What alternatives exist in Ireland at this time? While it would seem to be desirable that legislation is implemented fully, the failure to fully implement legislation is also seen in other policy areas (for example, Health) where the sector is active. The economic context remains a dominant factor in the legislative domain. Given that initiatives such as self-regulation are especially important in

the environment of diminishing resources, it is clearly in the interest of the sector to organize itself to deliver such initiatives. Also, the development of information portals such as INKEx enhances the accountability of the sector. However, INKEx itself is not immune from the prevailing economic environment – it is unclear how the INKEx initiative will develop beyond the current pilot phase without the funding that brought it into being. As of April 2012, INKEx has suspended publication of its information website [www.irishnonprofits.ie](http://www.irishnonprofits.ie) pending discussions with funders.

While the legislative context provides much insight into the nature of government-nonprofit relations, it does not throw light on the political dimensions of the relationship. We turn next to the changing nature of Irish politics and how this is impacting the state-sector relationship.

## **Irish Politics and the Nonprofit Sector**

### **Context**

Ireland has witnessed the most profound re-configuration of its party political system since the foundation of the state. The domain of Irish politics has traditionally been dominated by two political parties, Fianna Fáil and Fine Gael. These parties differ minimally in terms of ideology or position on the left-right political spectrum (Coakley and Gallagher, 2009) (O'Malley and McGrath, 2007). Party loyalty is high and voting behavior has (up to 2011) remained fairly consistent for decades. Set in a context of deep economic recession, the 2011 general election represented the most fundamental shift away from this historical pattern seen since the foundation of the state, with the previously dominant Fianna Fáil party experiencing an unprecedented collapse in support (Kirby, 2011), with its first ever comprehensive defeat at the polls - and loss of all but one of its seats in Dublin. The elections brought in a coalition government of Fine Gael and Labour, and saw the increasing strength of Sinn Féin, the party political wing of the Republican movement in Ireland. This latter party continues to do well in opinion polls and very recently has polled as the second most popular party in the state. The political context in Ireland is now tumultuous and uncertain (Moran, 2011). However, little has changed in the substance of nonprofit-state relations. The new government has not developed any significant legislation in the area (Oireachtas, 2011). Therefore, it is difficult to tell how formal relations between the nonprofit sector and the state will develop.

Irish political culture is dominated by localism, while at the same time, formal politics and policy are highly centralized. TDs (Irish members of parliament) often spend a significant portion of their time working in their

constituency, leaving less time to deal with national issues (Coakley and Gallagher, 2006). This has led to a fascinating context for nonprofit-state relations. Thus, decisions made based on intangible factors such as local concerns, personal associations etc. are fraught with the risk of being short-sighted, undeveloped and devoid of a plurality of perspectives (Coakley and Gallagher, 2010). At the same time, formal decision making power to shape policy is highly centralized (Coakley and Gallagher, 2006). The challenge for the nonprofit sector seems to be to both negotiate enough influence to directly affect centralized national decision processes, and to operate at a local level in order to more subtly shape the attitudes of constituents and politicians alike (Coakley and Gallagher 2010).

Sector engagement at national level could, until very recently, be clearly seen in the role of the nonprofit sector in national social partnership. During the period 1987 to 2009, Ireland used a system of social partnership to achieve consensus between the government, trade unions and employers' bodies on pay levels for workers. Initially a tripartite system, the social partnership forum developed to include a fourth bloc, known as the Community and Voluntary Pillar, in which representatives of the nonprofit sector were included (by government). Some scholars are dismissive of the role the pillar held during social partnership agreements (Larragy, 2006). However, the process was deemed effective by many (Hardiman, 2006). Social partnership agreements collapsed in 2009 when the employers' union IBEC formally withdrew from negotiations. No formal negotiating mechanism has been devised to replace the collapsed social partnership structure. The current political-economic reality is that international institutions, such as the ECB, CEC and IMF, play the dominant role in shaping policy in Ireland (Brunet, 2011). In this negotiating vacuum where the erstwhile main actors are effectively excluded, there is little scope for the Irish nonprofit sector to make an impact. Despite the apparent success of the partnership process, the resulting policies agreed produced effects on the Irish economy that were far from successful. During the era of social partnership agreements, relations between the Irish state and the nonprofit sector became increasingly "inclusive and strategic" (House and McGrath 2004:1) but it is far from clear how they will develop in present circumstances.

The upheavals in the political landscape renew questions surrounding sector representation and representative structures. At a nonprofit summer school in 2008, a paper on representative structures (Keenan 2008) opened up a big debate on how the nonprofit sector should engage with the state. The paper's argument that sector representation in Ireland was woefully underdeveloped was rejected at the time – after all, key sector organizations were engaged in the social partnership talks. The collapse of social partnership illustrated the unerring and uncomfortable accuracy of Keenan's analysis.

In the absence of national partnership and representative structures, what stands out are two cross-sectoral membership organizations: the Wheel and the Irish Charities Tax Reform Group. The mission of the Wheel ([www.wheel.ie](http://www.wheel.ie)), established in 1999, is to support and represent Irish nonprofit organizations. Its strategic goals include capacity-building of the sector, sector representation and the development of the Wheel as a resource to the sector ([www.wheel.ie/about/strategic-plan](http://www.wheel.ie/about/strategic-plan)). The Wheel provides information and support to nonprofits of varying sizes and in many diverse areas. However, it itself does not engage in the policy making process.

A different approach has been taken by the Irish Charities Tax Reform Group. Its focus has been on impacting the policy environment for the benefit of nonprofit organizations, specifically taxation and regulation (ICTRG, 2011). In 2001, the ICTRG successfully lobbied to introduce a comprehensive system of tax relief for donations over €250 in value, which was extended to gifts of publicly quoted shares in 2006. The ICTRG was also heavily involved in the development of the Charities Act (2009) and is now concentrating on ensuring the implementation of the Act.

### **Issues and Alternatives**

So far, the state has enacted legislation (but failed to fully implement it) which focuses on the regulation of charities and fundraising regulation (Breen et al., 2009). However, it has largely ignored calls for the recognition of the nonprofit sector as an entity with which the state could consult and interact with, and which could play a role throughout the policy-making process.

During the period of social partnership in Ireland (1987-2009), research indicated that social partnership agreements did in fact begin to incorporate the views of civil society, particularly through the Community and Voluntary Pillar (Larragy 2006; Hardiman, 2006). These developments were widely perceived as positive and the impact of consultation of the nonprofit sector on agreements was significant (Larragy, 2006). While being consulted tended to have an invigorating effect on the sector as a whole, it gave rise to some internecine disputes which were somewhat destructive as there was no representative structure through which they could be resolved – the nonprofits consulted were selected by government. So now, in the absence of a social partnership structure, the creation of a clear channel for nonprofit-state relations remains a prime concern which has thus far been left unaddressed (Breen et al., 2009). Instead, the state continues to deal with nonprofit setor organizations on a case-by-case basis (Donnelly-Cox and McGee, 2011). Sectoral-level recognition of nonprofits would enable the sector to organize and lobby more effectively, and the state to consult more efficiently with the sector in the complex policy making process. Organizations such as the Wheel

have voiced their support for sectoral-level representation in recent months. Many believe that these interactions must be structured to enable a wider sample of groups and organizations for participation and consultation. To achieve this, the creation of a dynamic, mutually beneficial relationship between the nonprofit sector and government must be prioritized. The necessity for representative structures to underpin effective representation remains obvious.

Baumgartner and Jones' Punctuated Equilibrium Theory proposes that policy change is incremental and slow until an important event acts as a catalyst and precipitates more radical changes (Parsons, 1996). Perhaps the economic downturn will be the catalyst for Irish nonprofit-state relations. Punctuated Equilibrium Theory would also emphasize the need for the nonprofit sector to actively foster its advocacy role, given that in times of crisis, the state will frequently push through a wide range of policies with which the nonprofit sector may not be happy. Following this logic, there are challenges ahead for the nonprofit sector if its collective advocacy capacity remains undeveloped. The most pressing question for nonprofit-state relations is the creation of a procedure to ensure that communication, interaction and collaboration potential is maximized.

While the nonprofit sector has no mechanisms for negotiating with government, it also lacks good links into political party structures at local and national levels, given recent political upheavals. In this apparently bleak environment, what are the options? First, sector actors might return to the Keenan paper (2008) to reconsider the recommendations for sector representative structures. If the sector is to engage in the political environment, then it requires representative structures of its own to underpin that engagement. Currently, sector actors face fundamental challenges in gaining and holding the attention of political representatives, who are entirely caught up with implementing increasingly unpopular decisions mandated by the Troika. The nonprofit sector may have the upper hand in terms of public perceptions of legitimacy and capability, especially when compared to an unpopular and distrusted political system, yet it lacks the capacity to organize itself and exploit the opportunity.

While the political context provides much insight into the challenges of developing government-nonprofit relations, we have not yet addressed the cultural dimensions of the relationship that may make Irish state-nonprofit relations particularly distinctive. We turn now to culture, cultural change and the impact on the state-sector relationship.

## **Culture and the Nonprofit Sector in Ireland**

### **Context**

While economic, legislative and political contexts strongly influence the Irish nonprofit sector, culture represents a subtle but powerful shaper of much activity in Ireland. Culture provides another lens through which to view the sector and its role. Formal action within Irish civil society and the nonprofit sector is weakened substantially by a cultural tendency towards interactions which are *ad hoc*, informal and fragmented in nature (Donnelly-Cox and McGee, 2011:162). Whereas the sector scores well, at least in comparison with the state, on measures of trust (Edelman, 2012), the close relationship with the state in many policy domains may reduce sector legitimacy. Indeed, an Irish NGO, Transparency Ireland asserts that, “Ireland is regarded by domestic and international observers as suffering high levels of ‘legal corruption’. While no laws may be broken, personal relationships, patronage, political favors and political donations are believed to influence political decisions and policy to a considerable degree” (Transparency Ireland, 2009:8).

An important cultural influence, well embedded in institutional life in the nonprofit sector, has been the Roman Catholic Church. For many decades after the foundation of the state, the Church was the most significant provider of health, educational and community services (Fahey, 1998). More recently however, a study of over 4,000 nonprofit organizations in Ireland found that 62.3% of respondents asserted that religion or faith were not important or not applicable to their organization (Donoghue et al., 2006:75). This decline in the influence of religion in the nonprofit sector is also manifest in recent calls to transfer the patronage of primary schools in Ireland to other religious denominations, or to remove religious affiliation altogether. Although the Roman Catholic Church (and religion in general) has declined significantly in terms of institutional influence in recent years, the 2006 census showed that 86% of the population identified as Roman Catholic in faith, while just 6% identified as non-religious or chose not to state their religious affiliation. The figure would seem to indicate that while the institutional dominance of the Roman Catholic Church has waned, it retains a significant influence in shaping the value set of many Irish citizens. The institutional Church still retains a significant role in the delivery of education, health and social services in the nonprofit sector.

## Issues and Alternatives

Despite the limited political engagement by the Irish nonprofit sector, if we apply a cultural lens to the analysis, we will see factors indicative of impending change. The cultural issues impacting the nonprofit sector's relationship with the state are multifaceted and deeply embedded. From very early on in the economic crisis, commentators have argued that there is evidence of significant desire for change in Ireland, which culminates in a resurgent civil society (Daly, 2008:157). The Irish public appears to be re-evaluating the political system, particularly with regard to issues of political culture, such as localism, adhocism and tolerance of corruption (Daly, 2008).

The waning institutional capacity of the Roman Catholic Church illuminates interesting cultural issues for the nonprofit sector. This decline in influence resulted, in part, from cultural shifts towards reduced deference and increased individualism in Irish society, but also from public disgust at the church's handling of incidents of sexual abuse of children. Decreased deference has also led to increased expectations of the state, with diminished tolerance of deviant behavior among state officials (Daly, 2008). Many Irish nonprofits are attempting to augment their institutional processes for transparency and accountability to ensure that future funding support (both from the public and from corporations) is forthcoming, and that public perceptions of legitimacy remain intact. These trends influence the shape and direction of civil society and present challenges for the nonprofit sector.

One implication of these cultural shifts is the recently increased emphasis placed on transparency in organizational operations. This represents a significant issue for Irish nonprofit organizations, especially due to the centrality of public perceptions of the sector's legitimacy and the impact of these perceptions on the sector's ability to function. Culture is perhaps the most difficult area in which to effect change as organizational culture is deeply embedded – and nonprofit organizations are no exception. In addition, this type of change is difficult to pin down, quantify or analyze.

Increased dissemination of information about the operations of specific individual nonprofit organizations, such as INKEx is attempting to provide, could help promote transparency in the sector. Public confidence could be augmented by the introduction of requirements on all nonprofits to publish full accounts and generally to make more information available about their operations. This could be implemented using a legal requirement, or be voluntarily taken on by individual nonprofit organizations. By going above and beyond legal requirements for disclosure, the nonprofit organizations that do provide detailed information about their activities can instill confidence in the public that they are

operating in a fair and effective manner, boosting their legitimacy and improving their funding prospects.

## **Conclusion**

The Irish nonprofit sector is facing significant challenges on many different fronts. It must grapple with an empty legislative shell and the undetermined value of self-regulation. Nonprofits face a difficult fundraising environment and must find a way to balance their immediate need for funds against their desire to control how these funds should be allocated. They must also ensure that valued intangible outputs are not lost among indicators that are easily measured by traditional financial metrics or in the accompanying tendency towards managerialist influences. Another way in which Irish nonprofits could enhance their legitimacy is to develop their own sector-level representative structures and thus speak with a more united, cohesive legitimate voice. Then, nonprofits must navigate the political sphere and lobby for sector-level recognition and representation, securing a role in the policy making process. Crucially, the culture of the nonprofit sector must change, retaining public confidence in the nonprofit sector and protecting perhaps its most important asset: public perceptions of the nonprofit sector's legitimacy.

Looking across our discussion of the economic, legislative, political and cultural domains, there are a number of over-arching themes that characterize the Irish context for state-nonprofit relations. The first is the all-pervasive economic context. It would appear that austerity is eating its way into the mechanisms of legislation and the roots of political structures. The second is the near-complete disruption of existing relations, networks and underpinning assumptions for state-nonprofit relations that have been made largely irrelevant as policy decisions are made by more powerful external entities. Accustomed to a cultural context in which informality and personal connections were effective in the past, Irish nonprofits appear ill-equipped to negotiate the current realities. However, we can see signs of growing determination by Irish nonprofits to operate in a more formal, transparent and accountable way. If anything, it would seem that the current context favors organizations that can function in a more explicit manner, making strategic decisions about organizational configuration, engaging in moves towards self-regulation and re-energizing the debate on sector representation. Taken in isolation, these individual steps are modest. For the nonprofit organization who understands them and who has the vision to carve out its role and place in the new landscape, and the confidence to make the strides required, their future may well be brighter than they ever imagined.

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