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The Changing and Challenging Environment of Nonprofit Human Services: Implications for Governance and Program Implementation

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Abstract: Nonprofit human service agencies are an essential part of the social safety net and their role in many policy fields such as community care, work-force development, and disability services is growing. The funding, delivery and entire configuration of human services systems is in transition in the US, as in many other countries, albeit with great variation depending upon local and regional circumstances. Consequently, nonprofit human service agencies need to develop sustainable program and business models that are also responsive to the heightened expectations on transparency and accountability. In addition, policymakers and government officials will need to work closely with nonprofit human service agencies in order to ensure effective and efficient service delivery. Drawing on evidence from the policy and nonprofit literatures, this brief offers a set of hypotheses about the implications, and possible paradoxes, for the nonprofit sector that are likely to emerge from the increasingly competitive environment among service providers and corresponding pressure by public and private funders for more collaboration among agencies. We explore both public policy for nonprofits in human services and strategic responses by this sector, considering the first order effects designed to enable nonprofits to adapt to a reconfigured model, and the second order effects in which governments and nonprofits address the consequences of the first round. These effects are likely to vary by organizational size and by service field, resulting in quite different outcomes and relationships with government for large multi-service agencies and those in highly regulated fields such as

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child protection versus small nonprofits, particularly in fields such as community care with closer connections to the informal sector.

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Reconfiguring Human Services

The delivery of human services bears the legacy of New Public Management (NPM) overlain by several waves of fiscal restraint. Public funding remains scarce and competition for grants and contracts continues to increase, accentuated by the entry of more for-profit providers into human service markets especially community programs funded by Medicaid and Medicare. In 2012, approximately 50% of social service providers were for-profits, up from 45% a decade earlier (US Census Bureau 2012). Government program responsibilities are fractured across different levels, institutions and budgets, and services are fragmented among multiple providers at the local level, although rural areas typically have relatively few providers. The evolving financing and contracting regimes tend to reward competition, not collaboration among nonprofits (Boris et al. 2010), and the shift away from income support to greater reliance on services to address social needs places greater responsibility on local agencies to meet the often complicated needs of service users.

Further, nonprofits need to cope with enhanced levels of administrative and programmatic regulation, a consequence at least in part of the NPM type management reforms (Phillips and Smith 2011). In several states, government-nonprofit task forces are seeking to improve efficiencies amidst this fragmentation by streamlining reporting on contracting (National Nonprofit Council 2015), and several have reorganized their human services departments to break down silos and make better use of technology for one-stop shopping for users (Harvard Summit 2010). Although these positive steps are promoting improved information and access, four factors are converging to inspire more fundamental change in human services (KPMG 2013; Reference Group and Australia 2015):

- The growth of human services agencies and resulting service fragmentation is prompting calls for more integration of services and collaboration among different agencies. The lack of coordination is a particular problem for certain vulnerable groups such as the chronic mentally ill, poor children, and people with serious health conditions.
- Demand for many types of community services such as home care, home health, and various types of social housing is rising, partly fueled by the aging of the population, creating competitive, capacity and infrastructure challenges for human service agencies, especially smaller community

agencies. The Affordable Care Act (ACA), often called Obamacare, has also created much higher service demand at community health centers and clinics, albeit with great variation across the states and localities.

- Public expectations, influenced to some extent by personal experiences of collaborative consumption, are changing: rather than administrative mandates as the primary organizing principle, users and the public expect delivery to be user-centered and outcome-focused. This includes “co-production” that involves citizens and users in “planning, designing, delivering and evaluating public services” (OECD 2011; Osborne, Radnor and Nasi 2012; Bovaird et al. 2013) as well as greater personalization of care with increased client control over spending decisions and choice of service providers, with such choices facilitated by technology and resource allocations guided by assessment of impact (KPMG 2013). In addition, many public and private funders are worried about the duplication of services and are very supportive of more collaboration among human service agencies, particularly at the local level.
- The interest in “social investment” intended to produce both social and financial returns and in social innovation and collective impact is producing a variety of new hybrid organizations such as social enterprises and low-profit limited liability companies. Indeed, social innovation and social enterprise now attract widespread interest from public and private funders in the US and elsewhere although many nonprofit human service agencies have had great difficulty adapting their existing program models due to a difficulty in raising earned income and a lack of adequate capital and infrastructure. Nonetheless, the enthusiasm for social innovation and social enterprise is encouraging risk taking, new business models, “going to scale” of local pilot projects or start-ups experiments, and the creation of new hybrid organizations with mixed public, private and nonprofit characteristics. This hybridization of nonprofit human services also presents nettlesome regulatory challenges for government administrators who are trying to adapt to this new organizational universe.

Collectively, these factors point to the potential for major restructuring of human service delivery systems, although degrees of change will be uneven across locales and service fields. Two trends are likely to be universal. First, in a context of continuing financial restraint, government (and many private funders) will strive to identify priority versus secondary needs and services, leading possibly to local service restructuring with the attendant winners and losers. Thus, human service providers will exist in an inherently more competitive environment for public and private funds. Given this shift, many human service agencies who may lose funding are likely to resist this restructuring through advocacy and political action. Second, and relatedly, performance and outcome measurement will continue to

more extensive, supported in some regions and localities by big, open data and technology. Outcomes and evaluation will need to be more transparent and providers will need the capacity to undertake evaluation and ongoing program monitoring. The current interest in pay for performance (social impact) bonds is one manifestation of the marriage of outcomes and funding, but other methods and fashions can be expected (Social Finance 2010). Reflective of the collaborative economy, user and peer-to-peer ratings akin to platforms such as Uber and Airbnb may make ratings of performance more immediate and transparent, enabling anyone with a smartphone to provide “expert” feedback.

Somewhat paradoxically, another likely and less predictable change is toward more collaborative, integrated and *systems*-based approaches – which have been attempted, with limited success for several decades, but have a renewed imperative. Service “integration” refers to joined-up funding, administration, organizations, delivery and governance for the benefit of interconnected user outcomes (Kodner and Spreeuwenberg 2002; Harvard Summit 2010; Richardson and Patana 2012). It may occur vertically (across different levels of care) and/or horizontally (joining related but previously separate services). Some degree of integration is already occurring particularly in health and social services, for instance through co-location of services, coordinated case management or integrated eligibility for social as well as health services under the Affordable Care Act. The barriers to such integration have proven to be high, however, including: jurisdictional differences; the need for major upfront financial investment while results may not be evident for a long period; professional differences; legal limitations on and a reluctance to share data; and lack of measurement tools (Mowat Centre/KPMG 2013; Sandfort and Milward 2008). In addition, the ingrained principle of user choice of service provider has promoted continued fragmentation over collaboration, as have the political challenges of government funding of specialized agencies. Many nonprofit agencies may also face difficulty in creating collaborative relationships due to a lack of resources or personal negotiation skill.

Evidence of the cost effectiveness and improved quality of more integrated systems is beginning to overcome some of these historical barriers, and we argue will accelerate experimentation in integration and place-based delivery models, potentially with a greater role for local governments. Indeed, many government initiatives in areas such as early childhood education, homelessness, substance abuse and mental illness have required collaboration among different service providers (such as housing and support services).

Importantly, the related interest in customization of services and co-production in which users actively contribute along with professionals in not only design but point of delivery (Bovaird et al. 2013; Fledderus, Brandesen and

Honingh 2015) is promoting use of a variety of policy instruments such as personal budgets, vouchers and compliance agreements between providers and service users in managing agreed upon solutions. Examples include: the co-creation of a new integrated service system for youth by local officials, citizens, and youth; and a clubhouse program where the staff and mentally ill individuals work together to administer the clubhouse program and promote greater independence of the mentally ill citizens in the program (Bovaird et al. 2013).

The trend toward co-production tends to push local human service agencies toward more individual and organizational connections and toward differentiation – by user and by place. However, greater fragmentation by place or by co-production may impair efficiencies of scale and the ability to integrate different types of services in any consistent manner. While the push for more integrated services reflects an effort to reduce or eliminate perceived inefficiencies in local service systems, the interest in more place-based integration may reinforce such inefficiencies, or at least the perceptions of them. Whether more localized institutions have the financial and leadership capacities to navigate the complexity of new models of service delivery remains to be determined (Gazley 2010). The challenge for public policy then is to create the incentives or requirements for collaboration, co-production and integration – among both government departments and nonprofits – and to do so in a manner that aligns with financial constraint agendas given that service integration likely involves significant upfront costs and may lead to significant disruption in the local service system (Richardson and Patana 2012). What are the consequences for nonprofits as public policy attempts to square such competing imperatives in human service delivery?

First Order Implications for Nonprofits and Public Policy

Attempts to produce more integrated human services are by no means new, and the literature has identified the steps necessary for governments to facilitate movement in this direction including: establishment of coordinating or governance mechanisms and requirements or incentives for providers to collaborate; blended or braided funding across programs and jurisdictions with appropriate payment methods for providers; upfront investment in technology platforms and other shared infrastructure; removing barriers to data sharing; and systems to track performance (Munday 2007; McGinnis, Crawford and Somers 2014; Crawford and Houston 2015). However, the likely effects on nonprofit providers

(including their strategic responses and relationships with governments) has been under-studied.

If we approach human services as a policy field, certain implications for nonprofits, even across different sub-fields, are likely to be evident (Grønbjerg and Smith 2015). Large nonprofit (and for-profit) multi-service agencies that can more readily integrate across their own services or effectively diversify into new areas and that are invested in data analytics and performance measurement will undoubtedly have a strong advantage. In order to build adequate capacity and compete in the current era for funding, nonprofit providers may need to raise substantial capital either from government (through bonds), private philanthropy (through capital campaigns, loans from foundations, and individual fundraising) or private markets. Pressure by larger public and private funders for local nonprofits to go to scale will continue, although this trend is limited by the decentralized focus of local service systems. Smaller nonprofits may increasingly be forced into niche services or population subgroups, subcontracting to multi-service agencies, or will operate more on the periphery, being absorbed into the informal sector particularly in fields that are not highly regulated. Increased funding through Medicaid and integration into health-based services suggests that human service agencies will be required to adopt policies and practices characteristic of health care organizations, especially in competitive local markets.

An important means of integration will occur via technology, but to the extent that agencies which already have large physical facilities that can serve multiple purposes – for example, low income housing, schools, child care centers and nursing and assisted living homes – may have an initial place-based advantage. Because for-profit providers have a strong presence in service delivery, dominating child, home and nursing home care (US Census Bureau 2012; Henry Kaiser Foundation 2013), the successful nonprofit collaborator will have to be prepared to work closely with for-profits. To be sure, a role will remain for small providers such as soup kitchens and homeless shelters, especially providers with ties to the informal and/or the faith community, but these providers may increasingly be a relatively small segment of the local service system; they are also likely to be unstable since they will not have access to the capital, political connections, and resources of larger providers.

The overall effects, we suggest, will be to create more sharply differentiated power relationships among nonprofits and accentuate the value of umbrella associations such as provider associations in providing the connective tissue for collective action. Knowledge of and connection to, as well as support from, “community” will serve as a critical advantage for nonprofits, particularly when collaborating with very large for-profits that as licensees of very large chains may not be rooted in the locale.

Integrated and co-produced services can be expected to give rise to new types of specialist professionals and staff who work in more than one sector – another classic feature of a policy field. Capable professionals will increasingly be highly mobile, with organizational and sector jumping more common and accepted, making wages more competitive for some, and probably depressed for those less adaptable. This development also places smaller providers at a disadvantage in the competition for talent, especially since many smaller providers do not have a lot of upward mobility for staff. To the extent that professionalization and sector hopping becomes more frequent, staff turnover could also increase, particularly among smaller providers, thus negatively affecting the quality of services and the ability of providers to develop long-term community networks and support. New “professions” may emerge and be accredited, especially given the widespread interest in “evidence-based practice” in social work and related fields (Metz, Blasé and Bowie 2007; Johnson and Austin 2008) – even as interest in co-production remains on the policy agenda. Governments will need to work closely with state and local nonprofit associations and with professional bodies to anticipate and support relevant training programs, especially for smaller providers. In the competition for talent, smaller providers may be able to leverage their attractiveness, however, as organizations in which to develop and grow professionally.

A lesson from successful experiments at service integration indicates that governments need to make initial investments in the capacity and infrastructure to support the transition to a new model, but most will be seeking alternative, private sources to supplement operational costs. Only 19% of philanthropy in the US goes to human services (GivingUSA 2014); thus, many local nonprofit human service agencies struggle to attract private philanthropy. Given the difficulty of raising significant private philanthropy, some are succeeding by linking funding to specific performance targets, and many are investigating non-philanthropic funding, including earned income from fees and corporate partnerships (on social investing see Thümmler, forthcoming).

With integrated and co-produced services, though, outcome evaluation and performance-based funding systems are much more complex than the early social impact experiments such as the pilot project to reduce recidivism among returning prisoners in Peterborough, UK (Social Finance 2014) or the number of children in foster care. The potential risk to investors is also much greater than in single service situations (Liebman 2013). These social investment schemes also require substantial scale to make them financially and programatically viable; since many human service agency programs are relatively modest in size, the expectations of public and private funders may need to be adjusted. Indeed, the challenge of making success-based and other social financing

mechanisms work for this context in which the success of collaborators depends on the effectiveness of their partners is likely to generate greater self-regulation and peer-to-peer scrutiny, and may also require support from public and private funders and intermediary bodies to reduce the accentuated risks and support quality, collective evaluations of outcomes.

This changing and turbulent environment for human service agencies is generating new and significant governance challenges. First, the ability of the board to exercise its strategic and oversight function will be critical given scarce and competitive funding as well as the greater pressure for more collaboration among public and nonprofit stakeholders and providers. Governance structures need to be flexible and promote responsiveness on the part of the board to emergent developments in the environment including changes in funding and public policy and they need to ensure organizational decision making is very attentive to succession planning and human resource development. Such governance needs to include a diverse set of individuals who have the skills and capabilities to oversee the operations of their organizations and support active resource development. Being connected to and knowledgeable about users, volunteers and local community members will be an important factor in success. This effort can include providing user and community feedback, engaging them in service impact, community participation in the governance of the agency such as board service, and helping with fundraising and resource development. Given that High Net Worth philanthropists are increasingly seeking to volunteer and be engaged with the organizations they are thinking of supporting, volunteer management has new saliency for both service delivery and private investment.

While many nonprofit human service agencies were initially established to be responsive to local community needs (Smith and Lipsky 1993), many tended over time to look upward toward their funders, especially as funding was rising. However, the more austere funding and political environment of recent years has pushed many, particularly local nonprofits, toward a concern with financial sustainability, and many are at the point in the organizational life cycle where they need to develop a more diversified revenue base and more professional staff and boards. Thus, the evolving service model will require many nonprofit human service agencies to realign their focus back to community, including attention to the diversity of boards and their performance, engagement of volunteers and memberships, and other means of learning from users and the public at large. In addition, agency leadership needs to be able to compete effectively for scarce program funding but also develop collaborative relationships in support of agency programs.

A second major factor separating the successful agency from the struggling one is the competency at data gathering, analytics, impact evaluation and

communication of results. Human service agencies need to build a performance management plan that balances their ability to improve programming with the expectations of funders and regulatory bodies for accountability and transparency, and they need to invest in such infrastructure and use it to publicly demonstrate impact and value. Agencies should also go beyond the sometimes narrow expectations of funders and strive to assay impact broadly, seeking the input of users and community members. The notion which has been a leading criterion for comparing and rating nonprofits – that effectiveness depends on low “overhead” ratios – is not only fundamentally misleading but has led to chronic under-investment in infrastructure by nonprofits and their funders.

Finally, human service agencies need to consider themselves as part of a complex policy system, comprised of government, private donors, community members, and other nonprofit and for-profit service agencies. The ability to engage with governments in sharing knowledge of what works and in advocacy will be essential, although this relationship will vary by field. For nonprofits working in multi-jurisdictional program areas, national-state-local relations will affect their work to a significant degree. In supporting services with extensive reliance on vouchers and personal budgets rather than direct services, the relationship with government may be more arm’s length, creating a need to develop new spaces for information sharing about the service delivery supply chain which may have multiple links between payment methods to actual outcomes. Agency leadership needs to build adequate capacity to undertake advocacy but also engage with other nonprofit human service agencies and coalitions to support broader policy goals (Pekkanen, Smith and Tsujinaka 2014), and foundations and other donors need to demonstrate a greater willingness to support advocacy activities as a constructive aspect of service delivery oriented to improved systems.

Second Order Implications

The turbulence and uncertainty of the nonprofit human service field can be expected to continue. In particular, many smaller nonprofits will continue to be created in part due to the enthusiasm for social innovation and social enterprise. Yet, many of these agencies will also very quickly need to develop sustainable business models amidst a competitive and austere funding context. As the universe of social enterprises, social purposes businesses and other hybrids grows and as an even wider range of experimentation with higher levels of risk occurs with social financing, the suitability and adaptability of federal and state regulatory oversight and enabling programs will be tested, and would thus

benefit from periodic review. Several responses may be anticipated from governments to address this shifting landscape.

First, government regulatory bodies are likely to increase their oversight of nonprofit governance and financial management, particularly through calls for greater transparency. The IRS has already signalled that it regards good governance as an aspect of compliance, and thus within its purview, and with the recent inquiry into the management of its endowment by a prestigious New York college, the state's attorney general has indicated that "the laissez-faire approach to nonprofit governance is over" and the office will be "stress testing" nonprofits that show signs of potential trouble" (Stewart 2015).

Second, government officials are also likely to support expanded self-regulation and an approach of "responsive regulation" in which the greatest efforts are devoted to education and promotion of good practices. For example, the evidence-based practice movement is spurring agencies to adopt certain professional practice standards that are also embedded in government program regulations and expectations. Many nonprofits will be pushed to have higher levels of professional standards in order to compete with other providers, even as they face pressure to tap community volunteers to help support or even participate actively in the delivery of their programs.

Finally, under ongoing budget constraints, governments will continue to face pressure to increase their emphasis on performance management regimes. The complexity of effective performance management in human services will also increase the pressure on governments to work collaboratively with local human service providers to negotiate programmatic targets. Governments may also expand their support for social investment which has been relatively limited except for widely publicized pilot projects in New York and elsewhere. Faced with scarce funding, governments may steer human service agencies to service the most vulnerable populations through regulation, funding priorities, and the structure of tax benefits. For example, while donor choice is firmly entrenched in current philanthropy policy (Frumkin 2006), several states have opened the door to enhanced incentives for donation directed to poverty alleviation or hunger relief and may be prepared to more audaciously enter this contested debate.

Conclusion

The hypothesis of this policy brief is that human service agencies are facing increasing turbulence over the next few years due to continuing shifts in the funding, regulatory and program environment. To an extent, current trends are

contradictory: funding is more competitive but government and private foundations are expecting more collaboration; new regulatory and programmatic demands require more professionalization while at the same time, funders are interested in innovative co-production programs tapping community residents and volunteers; and interest in service integration may necessitate more standardization and substantial infrastructure, even though funders extol the virtues of community based agencies. More service integration could be quite positive for service users but it may not be good for some agencies who risk absorption into larger systems. With greater involvement of users with professionals at the point of service delivery, users may be empowered but nonprofits may not have the staff or financial resources to effectively respond (or the supply of quality human service agencies may be so limited that users are not really empowered). Further, more collaboration entails more individual and organizational networks, and perhaps more disconnection from the services outside its ambit; the resultant periphery is more fragile and less easily managed or regulated.

Consequently, the future on the ground in the community will be messy and unpredictable, although human service agencies also have a tremendous opportunity: the population is rapidly aging, creating new demand for an array of community services; health care is expanding offering new opportunities for expanded care especially through community-based programs; and a growing recognition exists of the value of workforce training and development for many disadvantaged individuals. Thus, the role and importance of human service agencies to social policy and the citizenry will only increase in the coming years, despite the environmental uncertainty. Thus, policymakers, scholars, and practitioners will need to critically assess the potential implications and avenues for constructive outcomes of the political, economic and political challenges facing human service agencies given the centrality of human services to the social safety net and their vital role in the life chances of many of our most vulnerable children and adults.

The Authors

In addition to their individual publishing records on public policy and nonprofit management, Smith and Phillips have collaborated over several years to provide comparative analyses of public policy governing nonprofits, philanthropy, and most recently nonprofit roles in human service delivery. Their joint publications include the 2011 edited book, *Governance and Regulation in the Third Sector: International Perspectives*; “A Dawn of Policy Convergence? Third Sector Policy and Regulatory Change among the ‘Anglo-Saxon’ Cluster,” *Public Management*

Review, 2014; and “Public Policy for Philanthropy: Catching the Wave or Creating a Backwater?” in the *Routledge Companion to Philanthropy* to be published in 2015.

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