



THE THIRD SECTOR: REFLECTIONS ON POLICY DEVELOPMENTS AND THE CURRENT ECONOMIC CRISIS

May 2009

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Structure


- Facts and trends
 - Debates and third sector roles
 - Current fiscal / economic crisis
 - Implications and scenarios
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Facts

- 5-7% of total employment in OECD
- Significant growth in economic importance of third sector, with 5% growth rates annually in some countries (90's)
- Increase in associational density
- Increase in number of foundations, assets
- Greater policy recognition
- Heightened expectations



Trends

- Demand for nonprofit services likely to increase, but also greater presence of for-profits and income-maximizing nonprofits
 - Public revenue shortfalls and budget cuts will challenge nonprofit business model
 - Demand for nonprofits in public governance to increase, but also greater internal demands for more accountability and transparency
 - Demand for new forms of associability to increase social capital generation, but old forms declining
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But also greater scrutiny,
more uncertainty,
institutional weaknesses in
governance.


- Complex politics, legal debates
 - Pressures on nonprofits (reduction in public budgets, commercialization, competition)
 - Hybrids are emerging
 - Nonprofit– business border, “new business model needed”
 - Is legal framework still adequate?
 - Transnational issues

Three main arguments / policy approaches (domestic, international)

- New Public Management
- Neo Tocquevillian ideas / initiatives
- Social Accountability



The rise of nonprofit organisations as service-providers as part of public-private partnerships and under the rubric of new public management and the rise of markets and quasi-markets in areas that have hitherto been part of the welfare state plus new needs.



(NHS in UK, reframing subsidiarity, US welfare reform, CEE, WB – NGO relations, Singapore)

A simple equation:

less government =
less 'bureaucracy' =
more flexibility =
greater incentives =
greater efficiency

(and perhaps greater effectiveness as well).

Whatever happened to equity?


The (re)discovery of civil society, and the growing awareness among policymakers that the very social fabric of society is changing.


(Call for civic renewal at national level / Active Citizen Unit, UK; civil society commission in Germany; UN/WB/EU stress civil society, civic engagement)



A simple equation:

more engagement =
more trust =
makes good citizens =
makes for better economy
and increases social cohesion
Whatever happened to 'class
society?'





The role of nonprofits in governance as part of a wider social accountability perspective that sees them as instruments of greater transparency, heightened accountability and improved governance of public institutions.

(party system seen as inadequate; NGOs watchdogs & whistle-blowers;

A simple equation:


citizens demand of accountability =
more public accountability and
transparency =
better public sector performance =
good economy, social self-
organization

Whatever happened to government
reform?



Key Policy Question

How can nonprofit organisations be efficient providers of quasi-public goods, neo-Tocquevillian generators of social trust and accountability enforcers -- 'be all' -- at one and the same time; how can they serve such functions beyond a certain threshold?



Does emphasis on one, e.g., service provision under new public management, come at the expense of the other, e.g., creating a sense of belonging and social trust, or can both be combined, and if so, how?



Central Answer


- Nonprofits can rarely perform all three functions in a sustainable way, but they can certainly achieve one and perhaps two.
- However, we can encourage:
 - specialization (service providers, sociability/connectivity, watchdog) and cooperation
 - Value affirmation, emphasis on value base
 - form evolution from nonprofits to forprofits and vice versa
 - Hybridity and innovation around business models
 - PPP targeting specific fields/topics involving all three sectors



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The Current Crises

- Of interest is less why crisis occurred (as it did not originate in the nonprofit sector), rather:
 - How to deal with the crises in the short term; how to develop strategies for the medium to long term; and how to explore what nonprofits can do to prevent such a crisis from happening again
 - It is also important to separate what would have happened anyway, and what happened additionally, sooner/later or more/less forefully because of the crisis
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What would have happened anyway

- Greater demand for nonprofit services
- Less or more competitive public funding
- More competition in several fields already under pressure (health, social services, education)
- Search for new business models
- Professionalization of finance and delivery
- Emphasis on civic engagement
- Calls for more transparency

Organizational Behavior and Impact

A. What is special about nonprofit organizations? Three major aspects:

1. Values (religious, political, humanitarian, moral) are a distinct feature of some nonprofits, not all. How far they influence organizational behavior varies, but the significant presence of values implies at the very least a more complex means-goal relationship between operational and ultimate objectives.
 - complex characteristics and influences of values (enabling or restraining; protecting or stifling; leading or misleading; invigorating or distracting).
2. The presence of multiple stakeholders (trustees, staff, volunteers, users / clients, state agencies, etc). Makes nonprofits inherently political organizations.
 - managing nonprofits is managing multiple organizational components.
3. Multiple revenue sources (market, quasi-markets, membership, various forms of transfers from government, various forms of donations, contracts, etc); at the same time price mechanisms, the best indicators of performance, are absent.
 - multiple revenue streams under performance uncertainty.

What that would have meant


- **Substitutability** processes nonprofit/forprofit in regulated quasimarkets (health, social services), i.e., form transitions
- Questions about **value base** of nonprofits relative to substitutability based on supply and demand conditions
- Debate about **revenue structure** and right mix of earned income, public funds and donations
- Debate about **asset management** and barriers of exit and (re)entry
- Debate about **stakeholder** involvement (consumer, client, member, funder, staff etc)

What is the additional problem now?

- Societal level: loss of trust in ‚system‘ and general sense of insecurity
- Government: short termism in dealing with current budget shortfalls – cutting budgets for nonprofits, often indirectly
- Forprofits: short termism in calming shareholders – cutting CSR, looking for government handouts, subsidies etc
- Foundations: drop in asset values, reduction in payout, concerned about asset protection
- Households: greater uncertainty; drop in donations, less engagement



Additional problems for nonprofits

- Fewer resources
 - Greater financial instability
 - More uncertainty for staff
 - Higher demand for services
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- Unfulfilled contracts, obligations
 - Unmet demand
 - Over-reaction vs do-nothing approaches as failure modes
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What can be done? Short term

- **Consolidate** resources around mission critical, resource attractive programs
- **Pruning** less mission critical, less resource attractive activities, cross subsidize
- **Cooperation** around mission central programs
- **Merger** when all fails, explore franchise model
- **Spreading risk** in income streams by diversifying (earned income, sliding fees, charging above marginal costs, using assets, cross subsidizing etc)

Value-Return Matrix

SOCIAL VALUE OF PROGRAM

Low

High

<i>PRUNE</i> <i>'No redeeming features'</i>	<i>COOPERATE</i> <i>'Common good'</i>
<i>SUSTAIN</i> <i>'Necessary evil'</i>	<i>BUILD</i> <i>'Best of all worlds'</i>

Low

High


FINANCIAL RETURN / RESOURCE EFFECTIVENESS OF PROGRAM

Medium to Long Term

- Strategic plan, visioning, asking tough questions
- Specialize and network along economies of scope
- Franchise models for scale economies
- Engage members, users (activate value base)
- Institutional innovations for field: e.g., Bank for Nonprofit Sector / Insurance Fund
- Smart PPPs with profit/reserve options
- Lobbying, advocacy, be heard, voice concerns
- Demand government funding when appropriate



Preventive measures

- Public Trust Fund for nonprofits to smooth over fiscal uncertainties, shortfalls
 - Explore different ways of how Trust Fund could be built (tax-based, community foundation model) and run
 - Develop membership base that can be mobilized politically, economically
 - Nonprofit liaison in key government areas, listening posts
 - Greater nonprofit advocacy and strengthened watch-dog function, value base critical
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On to more basic questions

- Any crisis offers opportunities (for some)...
- Crisis at a time when the numerous government policy initiatives suggest a more fundamental policy shift whose ultimate objective is however not clear

Key Issue:

- What kind of 'society' and what kind of 'community' does Europe, the new US administration, New Labour or the Tories etc want?




WHAT KIND OF NONPROFITS FOR WHAT KIND OF FUTURE

... SOCIETY?

... WELFARE REGIME?


... POLITICAL SYSTEM?



Irrespective of the current crises and perhaps because of it, we need to explore these basic issues...



FOUR SCENARIOS

- Here: European Union
 - But similar diagnosis at country level
 - 'Caricatures'—but indicative
 - Not either or, but clear tendencies
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NPM-Scenario

- Nonprofits as a set of well-organised, corporate entities to take on tasks and functions previously part of national state administrations, but now delivered through competitive bidding processes and contractual arrangements that try to maximise the competitive advantages of non-profit providers in complex, Europe-wide social markets under some form of EU oversight.

Social Capital Scenario

- Nonprofits as the self-organising , quasi-stateless society of the 21st century, with a benign civil society, high levels of individualism, participation and 'connectivity' that together prevent social ills, detects and corrects them before they become 'social problems;' society is well-co-ordinated, the state at arm's length, with and by a technocratic EU regime of minimalist national states



Social Accountability Scenario

- Nonprofits as a source of dissent, challenge and innovation, a counter-veiling force to some form of European government ('super state') and the power of TNCs—a sector that serves as a social, cultural and political watchdog keeping both global market and state powers in check, a sector that creates and reflects the diversity and pluralism and dynamism of modern, European, even global society.



The Muddling Through Scenario:

Nonprofits are encouraged to operate in areas or problem fields that politicians find either too costly relative to payoffs (actual, opportunity costs) or inopportune to tackle themselves, which allows them to pretend that 'something is being done.' Nonprofits are the fig leaf for a political world unwilling to solve social problems in a serious way. Nonprofits under mild EU/state tutelage.



Which shall it be ...?