

Nonprofits, Funders, and the Effectiveness of the Local Social Safety Net

Reading Assignment:

- A.O. Hirschman: Exit, Voice and Loyalty (Chapters 1-3)
- Dennis R. Young and Richard Steinberg: Economics for Nonprofit Managers (Chapter 5 (pp. 79-88); Chapter 10 (pp. 211-218))

This project focuses on a particular segment of a local nonprofit community—the organizations that provide human services to clients free of charge. I have in mind here a community like Washtenaw County, which I'll use as an illustration. These organizations make up the local social safety net; they do their best to address the gap in unmet human needs in a community after state and federal programs have been implemented. I am interested in the individual and organizational forces that keep this system of nonprofit organizations on their toes and working effectively to serve the needs of their clients.

The project draws its inspiration from A. O. Hirschman's Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States (1970). He provided an eloquent account of how organizations in decline might be rescued by customers/members/constituents appropriately exercising "exit" (voting with your feet) and "voice" (speaking up about your dissatisfactions). These are the basic forces underlying economics and politics and Hirschman was interested in how well they worked as restorative forces in various circumstances. Where Hirschman focuses on organizational decline, I'm also interested in how these forces might enable nonprofit organizations to be responsive to change (in their clients' needs, in best practices, in funders' desires) and to external shocks that impact their clients.

This is an interesting problem because the community members whose needs are at the heart of this enterprise tend to have very weak leverage on the nature and quality of services they receive. Their exit options are very restricted: they can't avail themselves of services through the market because they lack the ability to pay that is prerequisite for having an effective demand in the market and within a small community there may not be available nonprofit options. On the voice front, these citizens are often limited in their involvements in networks within the community, in their sense of self efficacy, and burdened by personal and family issues that leave little time for the time-consuming exercise of voice.

This places nonprofit managers in a critical position. They have to understand clients' needs and develop and implement programs that address them and maintain their successes over time. They also have to raise money to support the programs, since they are distributed without cost to clients. This brings into the picture individuals and organizations that provide funding to these nonprofits. Locally, this list includes the City of Ann Arbor and Washtenaw County (through their Community Development Block Grants, among others), the United Way, the Ann Arbor Area Community Foundation, service organizations (e.g., Rotary, Kiwanis), individual donors, and corporate donors. These actors have something like a demand curve for donating (a "willingness to donate") and an effective nonprofit manager needs to be as good at understanding this willingness to donate as a manager of a successful firm has to be in understanding the desires of her paying customers. One final complication: some of these funders (e.g., United

Way and AAACF) are themselves nonprofits that work year-round to attract donations, so they share the same pressures felt by managers of nonprofit service providers—they can only carry out their mission if they can attract the funds that make it possible.

The story begins with community members with significant needs that can only be met with the help of other community members. This help is delivered through nonprofit organizations that constitute the local safety net. And the nonprofits raise the necessary funding from a wide array of donors. I'm interested in a Hirschman-like inquiry into where the critical points are in this community-wide system of organizations and individuals. What characteristics of individuals, organizations, or combinations of organizations might inhibit this system from meeting its goal—to meet the needs of the most vulnerable members of the community? Where and by whom might leverage be exerted to respond to declines in performance or shifting needs? How can the community's aggregate "willingness to donate" become better aligned with the community's assessment of its greatest needs?