

# Funding America's Nonprofits: The Nonprofit Industrial Complex's Hold on Social Justice

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*Private nonprofits are increasingly relied upon to provide social services in the United States. As these nonprofits professionalize and look to the government and foundations to fund their work, communities may be deprived of services they need in order for the agendas of funders to be carried out. By examining the rise of the nonprofit as an institution in the United States, this article examines how social justice has been separated from social service provision by the system that has come to be known as the Nonprofit Industrial Complex.*

People working for social justice<sup>1</sup> in the United States today are limited by the dysfunctional funding system that sustains most nonprofits. A significant number of people who believe in and work for social justice are employed in the nonprofit sector: an industry that requires organizations to compete for government and foundation funding. Known as the Nonprofit Industrial Complex (NPIC), this system forces nonprofits to professionalize, wherein they must focus on maintaining their funding sources rather than fulfilling their mission.

When organizations participate in the NPIC and perpetuate this cycle of sacrificing mission for funding, they disenfranchise their constituents. Such organizations become more concerned with remaining in business, and goals rooted in social justice become of secondary importance. Though lesser known, alternatives to this system do exist, whereby social justice need not be sacrificed for funding. It is important to examine these alternatives and to use them to evaluate the current nonprofit funding system.

## Funding versus Social Justice

The latter part of the 20<sup>th</sup> century saw the American government devolving as it transferred its traditional responsibilities and processes for service provision to other levels of government, private companies, and nonprofit organizations (Kettl, 2000). The government no longer was the primary provider of social services in America. At the same time, community groups increased their capacity in the service provision domain. However, in order to receive funds from the government or private foundations to provide these services, these groups today are required to legally incorporate as nonprofits.

When funders have agendas that are inconsistent with the mission of the organizations that they support, organizations then risk becoming predisposed to *mission drift*. Mission drift is a term used to describe instances where an organization moves away from its mission, which in turn leads to a loss of the original reasons for their organizational establishment (Moore,

2000). The concept of mission drift questions whether the organization maintains its original values and goals, exposing it to a potential compromise of its contribution to the community it serves.

Mission drift has the potential to result in tensions between staff and others involved in the organization, wasted resources, and loss of revenue (Moore, 2000; Dees & Anderson, 2003). The possibility of mission drift directly challenges nonprofits to find a balance between seeking social justice and seeking funding. Understanding how nonprofits developed in America is important in illustrating the establishment of the NPIC, and subsequently realizing how the NPIC resulted in the divergence of service provision and social justice.

### **Nonprofit Organizations and Social Justice: A Brief History**

In the United States today, social service delivery is commonly associated with nonprofit organizations; a relationship that originated during the country's colonial period. In *Making the Nonprofit Sector in the United States: A Reader*, David C. Hammack (2000) outlines how religious groups during colonial times espoused a doctrine that "required assistance to be offered to those in need" (p. 19). The colonists implemented the British Poor Laws, which established a distinction between those who were unable to work due to their age or physical health and those who were able-bodied but unemployed. Those who were deemed unable to work were assisted with cash or other forms of assistance from the Colonial government. Those deemed able to work were sent to workhouses (Axinn & Stern, 2008). This concept of a "deserving poor" informed the development of service provision.

The Puritans established Harvard College as a place to educate ministers in 1643. In doing so, the religious group issued what was probably the first American fundraising appeal of its kind (Hammack, 2000). As the foundation of the social service industry began to establish its roots in religion against the backdrop of colonialism, the link to funding was also established. However, the idea of social justice, with a focus on the poor, was the target of service provision. Colonial notions of social justice were explicitly pursued by, and related to, the needs of the white settlers in America.

With the American Revolution came the constitutional separation of church and state. The newly established American nation state increased rights for white male citizens, as well as property rights for organizations (Hammack, 2002). These factors, along with a rise in egalitarianism, resulted in increased civic participation of citizens. With this growing social equality came the phenomenon of nonprofit schools, libraries, orphanages, and clinics in seeking out private sponsorship (Hammack, 2002; McCarthy, 2003).

Until 1800, no organization existed that fit today's concept of a nonprofit. Over the next 100 years, most nonprofit work occurred within religious contexts as religious groups and churches played a central role in American community life. By 1900, schools and religious institutions were the largest

nonprofit employers. However, even with the addition of individuals employed by private colleges, orphanages, old age homes, publishing houses, museums, and other nonprofit organizations, the total was still estimated at less than 1% of the labor force (Hammack, 2002).

Throughout the 19<sup>th</sup> century there was no federal system for recognizing nonprofits, and it was at the discretion of local authorities to allow groups legal status. States had the permission of, and were often encouraged by, the federal government to reject requests from groups seeking nonprofit status. Minority groups that sought to change the existing power structure and establish social justice for their communities were often denied permission to form nonprofits by the government in an effort to maintain religious, racial, and gender norms. The established missions of many groups that did manage to achieve nonprofit status were likewise limited by the political stronghold on accepted forms of social leadership (Smith, 1997). Catholics, for example, were prevented from obtaining charters in many states due to a perception that upon their formal establishment, these organizations would be subsequently controlled by the pope (Carey, 1987).

Stifled by the governance of the strict system that limited access to financial support that might be available to contemporary nonprofits, early American nonprofits were only able to increase their income when local authorities allowed resources to be accessed. States were able to undermine access to resources by denying requests for charters, which also denied minorities the ability to challenge the status quo. Thus, as service providers continued to define themselves as a group, social justice advocacy efforts were limited because certain populations were excluded from access to resources through nonprofit fundraising. From 1900 until the 1960's, nonprofit employment grew to about 3.7 percent of the labor force, which was in part due to the establishment of nonprofit nonsectarian universities and medical centers, which were not affiliated with religious institutions (Hammack, 2002).

Further growth of the nonprofit industry was limited during the first half of the 20<sup>th</sup> century for several reasons. The formation of New Deal programs, which were designed to employ citizens directly by the government through government agencies, did not provide funding for private welfare agencies (Brown & McKeown, 1997). The New Deal dramatically expanded the government's role in the provision of services, including the establishment of unemployment compensation and Aid to Families with Dependent Children; two programs that still exist today (Axinn & Stern, 2008).

In addition to limiting the funding of existing organizations, many people were not allowed to establish nonprofits due to prejudice and restrictive traditions, for instance, existing religious discrimination in the north and segregation in the south. Additionally, some Americans faced political and financial constraints; for example, women were not able to gain control of these types of funding resources despite having gained the right to vote (Anderson, 1988; Gamble, 1995; McCarthy, 1990; Scott, 1992).

The devolution of the federal government has resulted in the government's reliance on for-profits and nonprofits to provide a variety of goods and

services, including welfare services (Kettl, 2000). The transition of social welfare provision from the public sector to the private has led the government to develop and utilize a complicated system that consists of contracting inter-governmental funding through grants and loans, other funding regulations, and a series of mandated bureaucratic administrative methods (Mosher, 1980). Today, most domestic programs and agencies to which Congress allocates specific budgets, are managed through an indirect relationship between the federal government, for-profits, and nonprofits (Kettl, 1993).

### **The Imposition of the NPIC on the Pursuit of Social Justice**

While there is no single definition of a nonprofit organization, a framework for understanding American nonprofits throughout history is evident by an agency's possession of six organizational characteristics: nonprofits are formal organizations, they are private entities, they do not distribute profits, they are self-governing, they are voluntary, and they provide a public benefit (Hammack, 2002). Nonprofits are fundamentally different from corporations in two major ways; their funds are donated, not "earned," and they are assumed to meet a need that serves the public good (Internal Revenue Service, 2008). Nonprofits also operate under a mission statement, which serves to formally establish the goals and functions of an organization by defining what it does, whom it serves, how they do it, and where it does its work (Meshanko, 1996).

In 2005, there were over one million nonprofits in the United States, and as of 2010 nonprofits are the seventh largest economy in the world (Cohen, 2005; National Council of Nonprofits, 2010). Nonprofits today include organizations that represent diverse causes and groups. Private hospitals, theater spaces, environmental organizations, human rights groups, advocacy groups, think tanks, and professional associations are all examples of nonprofits. For nonprofits to receive donated funds they must register as 501(c)(3) organizations (Internal Revenue Service, 2009). Recognition as a 501(c)(3) allows nonprofits to access grant money from foundations, corporations, and the government without paying income tax.

When government funding is not enough for programs to respond to community needs and provide services, nonprofits often rely on foundations for funding their activities. However, foundations are complicit in the development of the NPIC and nonprofits' divergence from social justice. Today there are over 75,000 foundations in the United States, who provided an estimated total of over 45.6 billion dollars in 2008 alone (Foundation Center, 2009).

While foundation funding could represent an alternative to government funding so that social justice aims could be achieved without limitations, grants from foundations also come with an unfavorable set of requirements that must be met. Particular grant requirements may fit with the mission and work of the organization; however, an organization may feel compelled to modify its programs, and sometimes even its mission statement, in order to fit into the requirements of the grant application.

Paul Kivel, a social justice educator, activist, and writer, examines the consequences of the nonprofit system through the lens of his work with domestic violence and abuse survivors in his essay "Social Service or Social Change" (2000). Kivel writes about how funding bodies have power over community leaders, stating that "the ruling class co-opts leaders from our communities by providing them with jobs in non-profits and government agencies, consequently realigning their interests with maintaining the system" (p. 21). Kivel's depiction is of a society that prevents community leaders from confronting the root causes of social inequities while struggling to provide services to those who are exploited and oppressed by institutions. He asks, "Do our efforts to provide human services maintain or even strengthen social inequality?" (p. 2).

While service delivery alone holds merit, an unfortunate consequence of this system and its funding structure is its failure to recognize social justice (Kivel, 2000). Kivel writes "When temporary shelter becomes a substitute for permanent housing, emergency food a substitute for a decent job... we have shifted our attention from the redistribution of wealth to the temporary provision of social services to keep people alive" (p. 12). Unfortunately, this is the typical evaluation of nonprofits as band-aid services that are unable to exact real change focused on justice for all.

Kivel describes his idea of a "buffer zone" created by the rich to "prevent people at the bottom [of the economic ladder] from organizing to maintain the power, the control, and, most important, the wealth they have accumulated" (p. 13). The buffer zone provides three functions: to avoid chaos by "taking care" of people at the bottom [of the economic ladder]; to keep hope alive among the poor; and to control those who want to make change. The buffer zone and its functions are a result of an over-reliance of nonprofits on government and foundations as funding sources.

Kivel's buffer zone is a depiction of the NPIC. This system is built on a series of relationships between the State, owning classes, foundations, non-profit organizations, social service organizations, and social justice organizations.<sup>2</sup> Unlike nonprofits, grassroots movements like those described below do not rely on traditional funding sources, and thus do not operate within the NPIC framework. As a result, these grassroots movements become best equipped to more seamlessly promote social justice, as well as to address the structural causes at the root of social service provision.

### **Alternatives to the NPIC**

In the article "On Our Own Terms...10 Years of Radical Community Building with Sista II Sista" four representatives of Sista II Sista, an organization that works with young women in New York, discuss the implications of avoiding foundation funding and what that meant for their ten-year existence (Burrowes, Cousins, Rojas, & Ude, 2007). Sista II Sista facilitated a group process that led to the decision to do away with paid staff and only engage in grassroots fundraising techniques. Sista II Sista concluded from their discus-

sions that there are ways for social justice to be realized through nonprofit work. “We are not saying that all foundations are bad....We are also not of the belief that 501(c)(3)s are bad....We are trying to figure out different ways to live our values and model our vision” (p. 39). When groups challenge the NPIC, the question shifts the focus from whether or not it is possible to realize social justice within the current system to an examination of how the system can be adjusted so that it might work for everyone.

The Grassroots Institute for Fundraising Training (GIFT) is one resource for people seeking to reconcile working within nonprofits and believing in social justice. GIFT seeks to “promote the connection between fundraising, social justice and movement-building” (Grassroots Institute for Fundraising Training, 2010). GIFT trains people working for social justice how to sustain their organizations in a way that they depend on the financial support of their community, not outside funders or government grants. They encourage organizations to build a large donor base that will invest not only financially in an organization but that the organization will be held accountable in providing services that the community needs. Organizations like GIFT offer practical solutions for moving away from and toward a systematic shift in the way social justice organizations are funded.

### **Conclusion**

People working for social justice today bear the burden of carrying on past social movements while working within the NPIC, a system that necessitates taking on managerial structures that force services and fundraising apart. Nonprofits in the US are rooted in origins of colonization and oppression. Social justice focused community-based initiatives would be possible if funding sources did not compromise their mission. Broad, public dialogue regarding the nonprofit structure and the 501(c)(3) in particular, is lacking, and the priorities of philanthropy need to be questioned. Without prioritization of social justice, new leaders will be forced to take on the contradictions and dilemmas regarding how funding restricts organizational activities, how nonprofit governance relates to the working class people at the heart of the organization, and how hiring and promotion policies can result in individualistic competition (Tang, 2007).

The NPIC’s separation of social justice and social service provisions has silenced the people most directly affected by issues of injustice, and it privileges educated employees and board members of nonprofits. Constituents should be more than just the recipients of service delivery “products.” They should invest in the sustainability of the organization, not leaving funders to determine the organizational agenda. When nonprofits internalize the locus of control, they are less likely to participate in mission drift and are more accountable to their constituents. Diversified funding allows an organization to retain the autonomy necessary to maintain the control of the organization within the community, ensuring that avenues to work towards social justice remain open.

### Notes

1 In this paper, the term social justice refers to a concept that is concerned with ensuring equal rights and opportunities for all people. Both nonprofit organizations and efforts extended by individuals and groups in pursuit of social justice will be examined and referenced.

2 This definition is paraphrased from the website of Incite! Women of Color Against Violence. The full definition can be found at <http://www.incite-national.org/index.php?s=100>

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