and maintain some kind of programmatic independence. At the same time, service organizations are encountering new competition from large business corporations seeking to enter new markets. The value-and-faith dimension of nonprofit activity is equally rife with possible inter-sector frictions, since ethical, religious, and social justice commitments can be wedges that create division and factionalism. Finally, the entrepreneurial character of nonprofits, when taken too far, makes nonprofits look like unfair competitors with business and appear to be more sensitive to the bottom line than to meeting the needs of the most disadvantaged. As intersection tensions rise, understanding and responding to these issues is critical to the long-term advancement of nonprofit and voluntary organizations.

As a starting point for thinking about where the universe of nonprofit organizations is headed and how these organizations might best respond to future challenges, it may be useful to return to the functional distinctions presented earlier in the book. The four functions of nonprofit organizations—civic and political engagement, service delivery, values expression, and social entrepreneurship—are permeable and interconnected. As nonprofits become one-sided in their work, they expose themselves to difficult questions about why they deserve their special tax-privileged position and identity. Returning to Figure 1.1 and developing it further, we can sketch a new table that highlights the principal challenges confronting the sector. Just like the functions, these challenges blur the borders of the table and interact with one another (see Figure 6.1).

This concluding chapter returns to the main analytic distinctions informing the book and summarizes the logic of each of the four functions of nonprofit and voluntary action. In the process, it will become clear how each function, when taken to an extreme or pursued in isolation from the other functions, can lead to significant problems. The complexity of the policy issues facing the nonprofit and voluntary organizations is ultimately a product of the divergent roles and responsibilities that the sector has assumed. Dissecting and diagramming these functions, and clarifying the challenges that are raised by one-sided nonprofit activity, are critical first steps toward defining an integrated vision of how nonprofit and voluntary organizations might operate most successfully in the years ahead.

6.1 Problems and issues in the nonprofit and voluntary sector.

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Civic and Political Engagement and the Problem of Polarization

The first role of nonprofits centers on the civic-and-political-engagement model described in Chapter 2 and depicted in Figure 6.2. It starts with the claim that nonprofit and voluntary action is a response to important social and political demands, which are translated through ac-
tion into engagement and participation. By opening the public sphere to people whose interests have been underrepresented or ignored, nonprofit and voluntary civic and political action aims at generating change. An important part of this political work is aimed at channeling more public resources to particular social issues and, often as a consequence, at obtaining more funding for certain nonprofit organizations. The political work of nonprofits drives toward change, both by bringing pressure to bear on government and by mobilizing grassroots action at the local, state, and national levels. Although much of the local political work of nonprofits is aimed at empowering and engaging populations that have not always had their voices heard, entrenched interest groups, industry trade associations, and business lobbies have devoted substantial resources to advocacy efforts. It is important to remember that all of the trade and professional associations in Washington, D.C., are taxexempt, not just those associations pursuing social justice or empowerment agendas. Because the resources of nonprofit organizations are limited, acting through politics is seen as a potent form of leverage. The civic and political engagement work of nonprofit and voluntary organizations can thus be understood as an attempt to use limited resources in a way that catalyzes action by others.

Although encouraging civic and political engagement is desirable, clearly it is sometimes possible to have too much of a good thing. If civic and political engagement becomes so dominant that it overwhelms the other three functions, nonprofits run the risk of being perceived as excessively partisan and polarizing. Community groups have the ability to bring people together around common concerns, and this process can be exhilarating and empowering. But when the political activity of nonprofits moves from grassroots organizing to advocacy and lobbying, challenges to their tax-exempt status are raised. Recent efforts in Congress to limit the lobbying activities of nonprofits that receive public funds are the most recent example of this suspicion of excess partisanship. Over the past decade, lawmakers have proposed a series of bills aimed at curtailing the political activity of nonprofits, particularly when these organizations receive federal funds.

Legislative action—such as the famous Istook Amendment—targeting the political advocacy work of nonprofits has at times been supported by the argument that it is unclear whom some nonprofits speak for and why the tax code should grant their voices special support. In the case of union political activity, Congress has also considered limiting the ability of unions to use membership dues to fund political advertising without first seeking the approval of members. Outside the Beltway, the growing political power of membership organizations representing the elderly, advocacy groups working on behalf of children, coalitions of religious believers, and unions representing teachers have contributed to the public perception that the national interest has been reduced at times to a mere aggregation of interest group positions.

While it is critical that the political voices of nonprofits be heard, it would be wrong to believe that political work by itself could serve as the basis for a strong nonprofit and voluntary sector. Nonprofit political advocacy and lobbying, especially when these activities are polarizing or based on narrow interest group agendas, all too often do not speak to broad public needs or to the necessity for coalition building and consensus. Only when nonprofits expand the reach of their political work and combine it with other kinds of activities will these organizations garner the support they need both within and beyond their ranks.

Service Delivery and the Problem of Vendorism

Beyond shaping the political realm through action and ideas, nonprofit and voluntary organizations provide a range of concrete services to the public and to their members. The service delivery role of nonprofits has one important thing in common with their civic-and-political-engagement role: it, too, starts as a response to demand, this time for goods and services (see Figure 6.3). While the government may attempt to respond

6.2 Model of civic and political engagement in the nonprofit and voluntary sector.
to this demand—particularly if mobilized constituencies press for action—there will often be areas that are underserved by the market and the state. When such shortfalls occur, nonprofit and voluntary organizations can do enter the picture, sometimes even before government acts, by providing needed services to those who lack the ability to pay or who seek specialized services.

Nonprofit organizations must strive, however, to be more than mere engines of service production if they are to claim a compelling rationale for the sector. After all, government is more than capable of delivering a great range of critical human services. Thus, nonprofits run some risk when they fail to differentiate themselves and simply vend services on behalf of the public sector. If nonprofits are merely obedient vessels for the execution of narrowly defined public purposes, they will have considerable difficulty developing and sustaining innovative approaches and programs. The threat of vendorism is augmented by the growing role that government funds play in the human services. Combating the loss of autonomy that accompanies narrow service delivery activity on behalf of government requires both the definition of distinctive missions and the pursuit of creative funding strategies. Some nonprofits have sought to avoid vendorism by acquiring greater financial independence from public funders, principally by developing commercial sources of revenue. Yet this move has turned out to be fraught with its own challenges. Nonprofit fee-for-service work will continue to be challenged by for-profit firms, which have greater incentives to be efficient. When non-

profits fail to produce goods and services in ways and at prices different from those elsewhere in the market, they invite challenge for being redundant and less efficient than for-profit ventures. Given the proliferation of business firms capable of fulfilling many human service and education needs, nonprofit providers need to be perceived as more than well-meaning vendors of services if they are to make a compelling argument for their privileged tax-exempt status.

While delivering services will always remain central to the sector's identity, nonprofit organizations must be understood and used as more than tools of production. When nonprofit organizations become nothing more than tools of government action or efficient private producers, they lose the middle ground between the public and private that defines the character of nonprofit and voluntary action. Today, nonprofits are increasingly being pressured to produce only goods and services for which there is a demand. Competition has pushed many agencies in this direction. It is a trend, however, that must be resisted if nonprofit and voluntary organizations are to achieve their full potential.

Values and Faith and the Problem of Particularism

Clearly, it is possible to take an entirely different approach to the explanation of nonprofit and voluntary action—one that starts with the impetus of donors, volunteers, and staff (see Figure 6.4). There are large parts of the nonprofit and voluntary sector that cannot be understood as a strategic response to unmet demand, but rather must be seen as an ex-
pression of belief and faith on the part of individuals. Indeed, many voluntary and nonprofit efforts draw attention to issues and opportunities which have long been overlooked, for which no clear constituency exists, or for which no demand is present. Nonprofits can and do give voice to the beliefs and values of individuals. In the vast realm of faith or religiously based activity, it would be useless to interpret action strictly as a result of demand and instrumental concerns. The impulse to help and to serve often has its roots in private convictions, personal values, and religious faith. For this reason, the value-and-faith model of nonprofit activity starts and ends with the commitments of donors, volunteers, and staff. Nonprofit and voluntary action is about their experience, even though, in the long run, social benefits are achieved as well.

The very virtue of expressive action constitutes the basis of its perceived weakness. Critics of value-and-faith-based nonprofits see these organizations as exclusionary or excessively particularistic because their missions speak for only a subset of the population—a group that has a common outlook or set of beliefs. This is especially problematic if the nonprofits adhere to exclusionary membership criteria or espouse divisive views. The sectarian tendencies of faith- and value-driven nonprofits also raise concerns about a narrowing or closing of the sector. Particularism can affect the services offered by nonprofits or the flow of charitable funds within the sector. The rise of a new class of mega-donors capable of using private funds to shape the public agenda has made some observers even more suspicious of the increasing ability of private individuals to use their wealth to project their views into the public sphere and bypass public policy. When a privately funded voucher program is started or a donor provides substantial backing to a ballot initiative on altering drug control policy, the private values and beliefs of some individuals are clearly able to carry more sway than others. For this reason, the expressive character of nonprofit and voluntary action contains within it a threat of balkanization and particularism that can appear less than democratic.

The risks of excessive particularism inherent in a values-and-faith-driven sector are worth shouldering, however, given the importance of having a plurality of voices on the full range of major public issues. The private values and commitments that get aired through nonprofit activity may not always please everyone. Nevertheless, when enough voices and perspectives are brought into the public sphere, it is likely the resulting cacophony will embody some wisdom. Just as with the other functions of nonprofit and voluntary action, however, the value-expressing rationale must not and should not overwhelm the other roles of nonprofit organizations. It must be pursued in support of and in balance with the other functions of nonprofit and voluntary action.

Entrepreneurship and the Problem of Commercialism

The social entrepreneurship model of nonprofit action starts with the drive and creativity that private individuals bring into the public realm (see Figure 6.5). Social entrepreneurs of all kinds start nonprofit organizations—not just because demand and need beckon, but because there are entrepreneurial opportunities to develop programs and supportive streams of revenue. The entrepreneurship model is also clearly oriented toward the supply side, and sees the production of nonprofit goods and services from the perspective of innovation and income-seeking activity by individual social entrepreneurs. This approach is different from both the civic engagement and service delivery models in that it does not point to the state and to public funding as a critical driver for nonprofit and voluntary action. While many nonprofit organizations do at some point secure public funding, many of the new social entrepreneurs are seeking ways to support their work through commercial ventures and fees for service. These revenues, which have few or no strings attached to them in terms of how they may be spent, can be used inside the organization to subsidize programs and activities that lack their own revenue streams.

The entrepreneurial character of the nonprofit and voluntary sector

![Diagram](image)

6.5 Model of nonprofit dynamics, based on entrepreneurship.
should not be seen as entirely altruistic, however. Organizations driven by membership dues and fees often deliver services to affluent communities and operate in ways that increasingly resemble the methods of aggressive for-profit businesses, focusing as much on marketing, sales, and margins as would any profit-making operation. When an enterprise appears to be either narrowly targeted at exclusive membership groups or when its primary function appears to be the expansion of staff salaries and organizational resources, the case for public support of nonprofits becomes harder to make. In this sense, an aggressive entrepreneurial agenda risks exposing nonprofits to charges of crass commercialism.

Nonprofit organizations are turning “profits” at record levels. The revenues generated by commercial activities of all kinds raise difficult questions about the coherence and identity of the sector as a whole. The growing commercialism of nonprofit organizations—seen in the charging of fees, the operation of fundraising businesses, and the generation of revenue through licensing and sponsorship agreements—raises important questions about mission coherence. The issue of mission distortion or drift is one that has been raised repeatedly. After all, when a youth service organization decides to operate a thrift store or when a museum commits to developing and marketing a line of furniture, the staff time and energy expended can be substantial. Nonprofits need to weigh whether the financial benefits of commercial activity outweigh the headaches that these activities can often cause. As the range of commercial activities becomes broader and broader, new kinds of business staff will be needed—ones that may not be attuned to the organization’s mission.

Since nonprofits pay no taxes on related business activity and because they have shown themselves to be fairly agile in shifting program costs to cover profits from commercial activity (so that they pay little or no unrelated business income tax), cries of unfair competition have become more pronounced. Nonprofits are particularly vulnerable to such charges when their services are aimed at middle-class clientele and when there is little apparent cross-subsidization. More importantly, the question of commercialism is relevant because it may well end up shaping public perception and support for nonprofit tax exemption. At a time when public scrutiny is being trained on large commercially oriented nonprofits, the devotion of nonprofits to the sale of goods and services can raise questions about why special tax treatment is extended to nonprofits. After all, one national organization (the American Association of Retired Persons) recently had to set up a for-profit subsidiary to assuage concerns that its commercialism—as evidenced in its sale of life insurance, travel, and other services to its members—had made it too big and politically powerful. Other nonprofits with aggressive commercial orientations, such as fitness clubs that operate in affluent neighborhoods and cater primarily to young professionals, have encountered criticism for not really having a charitable mission that is worthy of favorable tax treatment.

In many ways, the rising commercialism of the nonprofit sector is a product of the increasing focus on the entrepreneurial function within the sector. Many organizations are focused less on their mission than on the marketing and sale of their products and services. To the extent that a nonprofit organization is narrowly focused on instrumental goals and the advancement of the social entrepreneur behind it, commercialism and its rewards will be an attraction—one that may have a steep price attached to it in the long run if pursued in excess and to the exclusion of other ends.

The Limits of Growth

Over the past half-century, as nonprofits have sought to balance their multiple and competing roles, the nonprofit and voluntary sector has grown at a tremendous rate, both in terms of the number of organizations delivering services and the resources devoted to these organizations. One of the most difficult and painful questions today, however, is whether these two trends have proceeded in alignment with each other or whether the expansion of the sector is beginning to outstrip society’s ability to support these endeavors adequately. While private philanthropy has increased steadily over the years, the sheer number of causes and organizations competing for philanthropic resources has exploded. It is thus possible to view the growth of the sector from two quite different perspectives.

On the one hand, the increasing number of nonprofits—each seeking to deliver services and each with its own identity and mission—can be seen as a very positive development for the field. The fact that there are a great many organizations is an affirmation of pluralism and diversity. A large and diverse nonprofit sector, it can also be argued, is likely to pro-