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Upfront

Growing Pains

The fate of new nonprofits is often linked to public funding

By Chris McGarry

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START-UP FUNDING

Growing Pains

The fate of new nonprofits is often linked to public funding



New organizations have a tough road to hoe. The early months and years at most organizations are filled with strain and uncertainty as a nonprofit's staff seeks to secure resources, develop internal infrastructure, and execute mission-oriented goals. Organizational theorists have dubbed this "the liability of newness," and researchers have been poking and prodding the concept for nearly four decades, looking at

what makes start-ups so vulnerable.

The latest of these studies, by Susan Chambre and Naomi Fatt and published in the December 2002 issue of the *Nonprofit and Voluntary Sector Quarterly*, suggests that the fate of start-up organizations is "highly dependent on their acquisition of stable funding sources, particularly public funds."

Internal organizational problems, such as inexperienced leadership, weak

board development, or the stresses of rapid growth, have little impact on a new nonprofit's chances of survival, especially when the organization has public funding, the authors wrote. The study analyzed the experiences of 162 organizations founded between 1981 and 2002 in response to the AIDS crisis. They found that only 39 percent of nonprofits that relied on private donors were still operating last year; meanwhile, 82 percent of the organizations that had secured public funds were still going strong.

"This gets to the very heart of social innovation," Chambre said. "How do you give organizations the best chance for long-term survival?"

The authors trace the rise of AIDS-specific nonprofits, starting in the early 1980s, months after the first cases of the disease were reported. At the time, gay men began raising funds for research into what was then known as "gay cancer."

The new AIDS organizations shared typical growing pains – undercapitalization, lack of established traditions, contacts, and financial systems; inexperienced leadership and interpersonal conflicts. Initial volunteers at the Gay Men's Health Crisis, the world's first AIDS organization, for instance, say they were "making it up as we went along" – raising money, building staff, and creating a board, at a time when the disease was still poorly understood.

The bulk of the organizations, 66 percent, sprung up between 1986 and 1990 as alarm about the scope of AIDS spread and AIDS organizations received major infusions of public

funding. The rate at which new organizations were founded began to decline in the early 1990s. By mid-2002, 13 of the original groups had merged, and only 54 percent of the AIDS organizations were still operating.

Chambre and Fatt argue that “ties to the state as a customer were critical” to the survival of the AIDS nonprofits. In fact, argue the authors, public agencies continued to support organizations, even those that are not functioning well, for political reasons. “One minority-controlled organization with enormous support from the

“How do you give organizations the best chance for long-term survival?”

city’s AIDS community was able to reverse the city’s decision to cancel its contract despite serious organizational and fiscal problems,” notes the study. Poor performing nonprofits continue to be publicly funded because the pub-

lic agencies want to be seen as responsive to important social ills.

Seven organizations that received public funding did close, but in three of those cases, the reason was fiscal mismanagement, according to the study.

“As organizations moved into adolescence, tensions and interpersonal conflicts became major obstacles to growth and optimal performance, but they were not reasons for closure,” the authors write. “The major reason why new and adolescent groups closed was their inability to raise adequate resources.”

—Chris McGarry

FOUNDING DATES OF AIDS ORGANIZATIONS IN NEW YORK CITY

Years	Nature of Epidemic	Social Policy Stage	Number of Newly Founded Organizations
1981-1985	Uncertainty about the nature of the disease, its transmission, and the scope of the epidemic	Reactive policies	18
1986-1990	Fear and alarm about the potential impact but greater awareness of the kinds of services and prevention efforts that needed to be undertaken	Emergence of policy strategies and funding streams	66
1991-1996	Recognition of the long-term nature of the epidemic and the need for extensive funding	Greater involvement of the federal government in shaping and funding AIDS services and prevention	48
1997-2002	AIDS becomes a long-term illness with the introduction of more effective medications	Institutionalization of AIDS policies and continued expansion of funding	16
Unknown year			14
TOTAL			162

SOURCE: Chambre, Susan M. and Fatt, Naomi. “Beyond the Liability of Newness: Nonprofit Organizations in an Emerging Policy Domain.” *Nonprofit and Voluntary Sector Quarterly*, vol. 31, no. 4 (Dec. 2002): 502-524.