
The Effects of Government Funding on Management Practices in Faith-based Organizations: Propositions for Future Research

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Abstract

The Bush Administration has taken steps to help religiously oriented organizations compete for federal grants and contracts to delivery social services to their communities. A composite case study is used as a literary device to illustrate propositions about the possible effects that increased federal funding will have on the management structure, practices, and culture of a small faith-based organization. The paper speculates that the President's so-called "faith-based initiative" could have some unintended negative consequences for the organizations it is designed to help.

THE POLICY CONTEXT

The Bush Administration has shown its determination to provide direct government assistance to faith-based social service organizations, which the President believes are discriminated against in their efforts to obtain federal grants and contracts for the delivery of social services. Shortly after taking office, George W. Bush created the White House Office of Faith-based And Community Initiatives to identify and remove perceived barriers to federal funding of small religiously oriented and community based social service agencies. By Executive Order he has directed seven cabinet-level agencies to engage in proactive efforts to assist faith-based organizations obtain federal grants and contracts. Also he vigorously promoted the Charity Aid Relief and Empowerment (CARE) Act (S. 476), which the Senate passed on April 9, 2003 by a vote of 95-5. The final version of the CARE Act, which now moves to the House of Representatives, fell somewhat short of the Administration's original aspirations, but still contains some important provisions designed to enhance the ability of small faith-based organizations to compete for federal grants and contracts. The President has shown that he is willing to use Executive Orders, in addition to legislative initiatives, to accomplish his vision of greater participation by religious organizations in the delivery of social services.

The Bush Administration is particularly interested in fully implementing and even expanding the so-called Charitable Choice provisions contained in Section 104 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, commonly known as the Welfare Reform Law enacted during the Clinton Administration. Charitable Choice allows religious organizations to use federal money to supply various social services without altering their fundamental religious character.

Advocates say that religious organizations provide important services to people in need and should have a place at the table with secular organizations. Critics argue that Charitable Choice in combination with the President's faith-based agenda has created a "slippery slope" that will lead to the use of government funds to endorse and promote religious activities and services.

THE MANAGEMENT DILEMMA

Aside from the very significant Constitutional and policy issues associated with the Bush agenda, the faith-based initiative poses a management dilemma for leaders of small religiously oriented organizations that want to enhance their social services. On the one hand, the lure of federal funding is tempting. Charities of all types, but especially small organizations, have been financially challenged by the persistent economic downturn and the uncertainty of the post-September 11 philanthropic environment. For many of these organizations, the additional funding from the federal government would be welcome. On the other hand, many religious organizations, including some conservatives who typically support the Bush domestic agenda, are wary of taking government funds. They fear that federal funding carries strings that will eventually diminish their pervasively sectarian values and organizational missions. Interestingly, some of the strongest support for the faith-based initiative appears to come from constituencies that are not usually aligned with the Bush Administration, including urban African American ministries.

A BRIEF REVIEW OF LITERATURE

There are at least four bodies of literature that are useful in developing hypotheses about the possible impact of federal funding on the structure and culture of faith-based organizations. Rather than an exhaustive literature review, several prominent examples from each major category are summarized below.

1. The Literature on Partnerships Between Government and Nonprofit Organizations

There is an extensive literature cataloguing the history of government – nonprofit relations and the sometimes stormy relations between the two (e.g., Dobkin Hall, 1994). Beginning in the Carter Administration and proceeding through the early 1990s, this literature focused on the potential for constructive partnerships and strategic alliances between government and nonprofit organizations, with special emphasis on the role of nonprofits as mediating structures between citizens and large impersonal government bureaucracies (Berger and Neuhaus, 1977). During the Reagan years the literature focused on the emerging role of nonprofits as providers of public goods in an era of public sector devolution, decentralization, and retrenchment (e.g., Salamon, 1981; 1985; 1987). For the most part, this literature portrays a cautiously hopeful scenario wherein government contracting with nonprofit organizations produces a happy outcome for everyone, including citizens who will benefit from the innovativeness and responsiveness of the nonprofit sector, and government agencies that can divest themselves from the burdens of direct service delivery. In this early literature there is little if any speculation on the potential negative impacts on the nonprofit sector of growing dependence on government funding.

2. The Literature Outlining the Challenges for Both Sectors

Beginning in the early and mid-1990s we begin to see growing concern about the potential pathologies of mutual interdependence between government and the nonprofit sector. For government, there is the gradual evolution of a “hollow state” (Milward and Provan, 1993) in which fundamentally “public” responsibilities are delegated to the private nonprofit sector where performance is sometime suspect and accountability is difficult to trace (Gaul and Borowski, 1993). For nonprofits, research began to show a recurring pattern of negative outcomes associated with growing reliance on government contracts including increased bureaucratization, loss of autonomy, mission creep, and the inability of nonprofit boards to exercise appropriate control over the increasingly complex task of administering government contracts (Smith and Lipsky, 1993; Smith, 1994; Gronjberg, 1993; Bernstein, 1991; Salamon, 1994; Boris and Steuerle, 1999). This literature, much of which is based on high quality empirical research, posits that resource dependence often alters the fundamental character of nonprofit organizations, transforming them into quasi-governmental agencies that resemble the government contractors that support them. This body of literature is perhaps most relevant to our discussion.

3. The Literature on Organizational Culture, Design, and Transformation

A third body of literature, which emerged in the 1970s, focuses on the collection of values, beliefs, and assumptions that comprise an organization's unique *culture* (e.g., Geertz, 1973; Ouchi, 1981; Deal and Kennedy, 1982). Cultural theorists have explored the subtleties of organizational behavior embedded in implicit belief systems and expectations of behavior that often are shaped by external forces on the organization. A related body of literature deals with the process of organizational change, offering descriptive and normative frameworks for helping organizations "learn" (Senge, 1990) and successfully adapt to changing circumstances (Deetz, Tracy, and Simpson, 2000) as well as their natural evolutionary life cycle (Stevens, 2001). The impact of external forces on organizational structure have been explored by Lawrence and Lorsch (1967) and many others (e.g., Mintzberg, 1979). A useful summary of all of these theoretical approaches and their practical implications is provided by Bolman and Deal (1997). These literatures combined suggest useful templates for examining plausible impacts on faith-based organizations as a result of access to federal funding support.

4. Studies of Faith-based Organizations

Finally, there is an emerging literature that is focusing specifically on small faith-based organizations and their response to the new public policy environment that seems to be encouraging a partnership with them. Ram Cnaan (1999), Mark Chaves (1999), Amy Sherman (2000), and Steven Monsma (n.d) have conducted large scale surveys to explore the types of services provided by small faith-based organizations and their aspirations for growth and partnership with government contractors. But large scale surveys are not capable of capturing rich details about gradual changes in organizational behavior that might be attributable to increased funding from the federal government. A promising approach for developing sophisticated hypotheses is to conduct in-depth case studies in one or several organizations, tracing behavior and structural changes over time (e.g., Yankoski, forthcoming)

Toward that end, as a literary device, let's examine a fictitious case study representing a composite of congregations that are currently providing social services and might be contemplating applications for federal funding.

A FICTITIOUS CASE¹

Let's consider the fictitious case of Holy Cross Catholic Church, a small parish (150 families) in an industrial mid-western city. Holy Cross is 125 years old. In its early years it served the pastoral needs of immigrant families, primarily from Eastern and Central Europe, who had come to the city to take jobs in the local steel mills and other manufacturing plants. Then, Holy Cross Church was surrounded by modest but tidy row houses, nestled in the shadow of the steel mill. Over the years, and especially in the past twenty years, the socio-economic structure of the neighborhood has changed dramatically. The steel mill stopped operating 20 years ago and has been demolished. Most of the young families have moved away. The remaining population consists of retired mill workers, service workers, and unskilled laborers. The neighborhood has high rates of substance abuse, crime, and domestic violence. The population has become increasingly diverse. Now, 35 percent of the parishioners in Holy Cross are African American and a small but rapidly growing number are Asian. They are fiercely loyal to the parish and to its pastor, Rev. Andrew Healy.

Healy has been a social activist and has encouraged the Catholic Diocese to take a greater role in issues of social justice, anti-poverty, crime prevention, and economic revitalization. When the steel mills closed down, Rev. Healy led an interfaith coalition of religious leaders who pressured the large corporations to do more to relieve the pain and suffering caused by the economic dislocation.

¹ This is a fictitious case, based on a composite of 276 congregations in Pittsburgh that responded to a survey regarding their involvement in social service delivery (Tropman Report, 2002). Any resemblance to actual organizations or people is purely coincidental. The author does not wish to suggest that there exists a "prototypical" faith-based organization. In fact, he agrees with Thomas Jeavons (2003) who argues that the current policy debate on funding for faith-based organizations pay too little attention to the vast variety and idiosyncrasies of organizations that may qualify for federal funding under the faith-based initiative of the Bush Administration. This fictitious case is presented only as a literary device to illustrate and enliven the propositions made in this paper.

Although, Rev. Healy has “mellowed” somewhat, he continues to be blunt and sometimes confrontational on issues such as economic development, job training, environmental justice, welfare reform, healthcare financing, and human rights. His style alienates some people, especially those in positions of authority, who are the targets of his passionate sermons.

The Diocese maintains only superficial ties with Holy Cross and, in fact, has cut it off financially. The Bishop tried to close Holy Cross in a “consolidation” move several years ago, but backed down in the face of vigorous protests from parishioners and neighborhood advocates.

Under Rev. Healy’s vision, but with programmatic leadership from dozens of volunteers, Holy Cross offers a modest portfolio of social services. It operates a food and clothing pantry that is open three mornings a week. It also provides a bi-weekly parent education and parental support program, an after school mentoring program for youth, and a very modest emergency loan program for families in financial distress. These services are offered free of charge to anyone in need. Less than one-fourth of the clients in these programs are Holy Cross parishioners. All of the programs are modest in scope, with a combined budget of less than \$20,000. Holy Cross relies on a dedicated corps of over 50 volunteers who work 20-40 hours per month.

The management culture is fluid and informal. These programs are run by the parishioners, not under a separate 501c3 corporation. There is a paid (part-time) volunteer coordinator and a parish advisory council that plans and approves new social programs. The advisory council is chaired by Rev. Healy but decision making is remarkably democratic, and always involves direct input from the volunteers. A “faith” component per se is not readily apparent in the social service programs (i.e., there is no evangelizing), but Rev. Healy says that “all of the volunteers are motivated by a shared passion for social justice as derived from the Gospel and the life of Jesus Christ.” Some of the service volunteers are more religiously oriented than others. Therefore, the way any particular client is treated with respect to the faith-component of the programs can vary significantly depending on what volunteers are working at the time. Staff meetings and advisory board meetings always begin and end with a prayer. Volunteers sometimes encourage clients to improve their spiritual condition. Training sessions for volunteers include theological teachings and reading materials, but they are not mandated to use them in their interactions with clients. There is a high level of collaboration with other churches and religious organizations in the community. Holy Cross often refers clients to other organizations and

congregations when it cannot meet their needs.

Funding, of course, is a continuing problem. All of the programs are funded primarily from the donations of parishioners, collected every Sunday. Rev. Healy has a good relationship with a local grocery store chain and several restaurants, which provide food and in-kind services for the pantry. Clothing donations come from a variety of sources. Occasionally, a “large” gift of several hundred dollars will come from the estate of a deceased parishioner or as an unsolicited and often anonymous donation; there are no formal fundraising strategies or activities other than an occasional bake sale or raffle. Expenses sometimes fluctuate, especially when needs are great or when professionals are brought in for consulting for the mentoring, parenting, and parental support programs. There have been several financial crises, but as Rev. Healy says, “The Lord seems to provide for us, just when our hope is about to run out. We operate on faith, not cash flows.”

Nonetheless, Healy has been intrigued by the notion of securing government funding to support some new social programming at Holy Cross. He thinks that there might be a good chance of securing a contract from the U.S. Department of Housing and Urban Development (HUD) for transitional housing for single mothers and their children. Many of these women suffer from substance abuse, domestic violence, and severe poverty. To operate such a program, Holy Cross would need to buy and renovate a nearby abandoned apartment building, with ten units. Healy has been approached by the local Housing Authority regarding a partnership on the proposed project. The director of the Housing Authority wants Holy Cross to act as the fiscal agent and prime contractor on the project because she believes that, in the current political climate, there will be a better chance of getting the federal money if a faith-based organization submits the proposal and takes the lead.

There are some obvious benefits to the transitional housing project, but some potential hazards as well. Rev. Healy thinks carefully about the project, and especially how federal funding will affect Holy Cross Church and its social service mission. Healy is confident that government funding will not affect the “faith component” of his services. But he wonders if there are broader managerial and cultural effects that are likely to result from a government contract.

SOME PROPOSITIONS

The proposed partnership with the federal government and the local Housing Authority will result in a higher level of resource dependence, which in turn could have effects on the management infrastructure and culture of Holy Cross Church. Here are a few propositions for consideration by Rev. Healy and other leaders of faith-based organizations.

1. As Federal Funding Increases, Faith-based Organizations Will Experience a Shift From *Expressive* to *Instrumental* Cultures

At the most fundamental level, the federal contract for transitional housing may begin to transform Holy Cross Church from an *expressive* to an *instrumental* organization. Lester Salamon (2002, p. 10) reminds us that many types of organizations in the nonprofit sector, including churches, exist *not* to provide goods or services but to give their members a vehicle for collective expression of beliefs and values. Simply stated, the *primary mission* of Holy Cross Church is to provide its members with a vehicle for the expression of their faith, not to provide social services to the community. Because the social services now offered at Holy Cross are staffed almost exclusively by volunteers, one could argue that these services provide a vehicle for the collective expression of faith and an opportunity to practice their theological belief system. In that sense, these services may be a central ingredient in the expressive culture of the parish.

On the other hand, the scope and scale of the transitional housing program will very likely require a high level of professional expertise (see discussion below) and a concentration of resources that could conceivably transform the expressive culture of Holy Cross into the *instrumental* culture of a housing and social service agency.

What types of changes in norms, language, and behavior might indicate that this organization is transitioning from an expressive to an instrumental culture? Here are a few specific propositions:

- From process oriented to outcome oriented: At present, the process of delivering the modest social services of Holy Cross is as important as the outcomes they achieve. In fact, the volunteers of Holy Cross have never been asked to identify and quantify the outcomes of their programs. Rev. Healy is fond of saying, “We measure our success by the smiles of our clients.” Such an approach to program evaluation, while touching, is not likely to meet the specifications of the federal funders or the local Housing

Authority. A kind of “bottom line” mentality is likely to creep into the deliberations driven by factors such as occupancy rates in the housing facility, job placement rates for mothers, school attendance of the children, and ultimately successful transition to permanent housing. Moreover, the federal contract is likely to come with other strings as well, including perhaps provisions for broader community participation in planning and decision making.

Suddenly, a new group of constituencies and decision making processes will augment, if not replace, the current informal “all in the family” mode of deliberation. As outputs and outcomes begin to dominate, there will be less tolerance for the deliberative processes and volunteer engagement that currently characterize the social service program at Holy Cross.

- From core values to negotiation and compromise: At present, Rev. Healy and his volunteers are driven by a set of core values, primarily theological and spiritual in nature, which apply to all of their social programs. The Bush faith-based initiative will, no doubt, take great pains to protect the religious character of the Holy Cross program. But, the federal funding and the partnership with the local Housing Authority will inevitably introduce another set of values that will likely compete with those currently in place. Healy will need to make difficult choices among competing objectives. For example, neighboring residents may demand that certain features be built into the design and operation of the transitional housing facility in order to “protect their property values” and the safety of their children. But if one of the objectives of the program is to fully re-integrate mothers and their children into the community then Rev. Healy will need to trade off the federal guidelines (and perhaps his own values) against those of some of his neighbors. Neighborhood reactions could, in turn, have a negative impact on the existing social services of Holy Cross, again forcing Rev. Healy to make trade-offs between his current portfolio of programs and the new transitional housing project.
- From a private to a public culture: Until now, the social programs of Holy Cross Church have had the luxury of operating without any public scrutiny whatsoever. Their modest scale has allowed

them to operate below the radar of the media and other public stakeholders. Such circumstances have encouraged the evolution of a very informal culture among the staff and volunteers. They are accountable to no one except themselves and their clients. But that environment will soon give way to high public visibility and expectations. The transitional housing program will operate very much in the public eye and with a great deal of public oversight. The federal contract contains many stipulations in return for the funding including independent audits of financial transactions, separate accounting systems, public advisory committees, and mandated program evaluations. The local newspaper has already called Rev. Healy to inquire about rumors that he intends to apply for the federal funds. Operating in the glare of public scrutiny will likely have at least a subtle effect on everything from dress codes to governance and policy making.

2. As Federal Funding Increases, Faith-based Organizations Will Experience a Shift From *Volunteer* to *Professional* Cultures

The transitional housing program will likely begin to transform Holy Cross from a *volunteer* culture to a *professional* culture. Rev. Healy will need to hire professionals to write the grant application, conduct community needs assessments, and do feasibility studies and cost analysis with respect to renovating the abandoned apartment building. He will need professional assistance with financing, legal issues, architectural design, and perhaps even public relations since some neighborhood residents apparently object to the transitional housing project. If the project is ever completed, he will need to hire professionals to staff the transitional housing facility and to design and deliver so-called “wrap-around” support services to the mothers and their children. As the project progresses, he will need professional assistance in monitoring and evaluating the success of the project according to governmental goals and objectives.

Here are a few specific propositions regarding change in norms, values, and behavior that might be observed if indeed there is a shift from a volunteer culture to a professional culture:

- From theocracy to technocracy: Rev. Healy’s vision for conveying religious values to his parishioners through their volunteer service may give way to an increasingly technocratic

culture as the sheer size of the transitional housing program, and its accompanying government standards, begins to dominate the social program agenda at Holy Cross. Healy's symbolic and spiritual leadership may also take a back seat to the technical expertise of the staff of the local housing authority who will partner with Holy Cross on the project (see, for example, Mintzberg, 1979, p. 355).

- From unified action to professional silos: There will almost certainly be a growing division of labor and specialization as the housing project unfolds. In its mission and scope it is both qualitatively and quantitatively distinct from the other social programs in the Holy Cross portfolio. At present, it is easy for the parish advisory council and the volunteers to exchange information and ideas on how to integrate and improve services. The current unified model of decision making may begin to give way to a divisional model of planning and implementation with specialized concepts, models of service delivery, and professional vocabulary that will make it increasingly difficult for volunteers to participate on an equal footing with the professionals.
- From idiosyncratic practice to "best practice": Thomas Jeavons (2003) reminds us that faith-based organizations represent a remarkable menagerie of organizations displaying almost infinite variety in their theological foundations as well as their community outreach and their modes for delivering community services. Holy Cross Church fits this description perfectly. For example, the mentoring and parent support programs are based on principles developed by the volunteers during a weekend spiritual retreat. These programs are not based on scholarly research or national "best practice" models, but on a process of "spiritual renewal" espoused by Rev. Healy and other theologians. Most of the volunteers who designed and managed these programs grew up on the streets around Holy Cross. They based their program designs on their intimate knowledge of the neighborhood and its needs. The proposed housing program, however, will very likely introduce a dramatic change to that idiosyncratic model of design and delivery. The federal standards will require

that services be made available to mothers and their children (e.g., counseling, parenting, support groups for substance abuse) that are based on nationally proven best practice models. By definition, this will introduce service modalities that are not currently used by the Holy Cross volunteers and that are not based on unique neighborhood circumstances and needs. It will also introduce a process of program design and implementation that is quite foreign to Rev. Healy and his volunteers.

- From spontaneous services to planned services: At present, the volunteers of Holy Cross respond whenever and wherever the need is greatest. They don't have a strategic plan. They don't even have a "firm" annual budget. They pride themselves on responding quickly at the point of greatest need. The transitional housing project will likely change much of that. There will be huge sunk costs that will commit Holy Cross to this project for years. The federal contract will require a strategic plan, a business plan, a plan for generating local matching funds, and an implementation and evaluation plan. The spontaneous and opportunistic culture on which Holy Cross has thrived may gradually give way to one driven by prescribed goals and formalized plans to meet those goals.

3. As Federal Funding Increases, Faith-based Organizations Will Develop Management Cultures Driven By Cash Flows, Not "Divine Providence"

As noted above, the social programs at Holy Cross have occasionally encountered financial crises, but Healy and his volunteers have faith that "Divine Providence" will always intervene. This type of belief system, whether literal or not, creates a kind of laissez-faire management culture with steady-state features. That is, the flow (or lack of flow) of resources is presumed to be somewhat random and, accordingly, organizational activities and initiatives follow no particular pattern or cycle. With outside funding from the federal government and the Housing Authority, Holy Cross will immediately enter a new environment that will be heavily dependent on a regular cycle of cash flows with administrative and programmatic activities (planning, budgeting, staffing, implementation, billing, accounting, evaluation, etc.) that correspond to that cycle. Interruptions of that cash flow, for whatever reason, will be far more disruptive for the transitional housing program that they ever would have for the old volunteer-driven programs (Smith, 1994, p. 329)

Here are some issues that Holy Cross may need to prepare for if it is to thrive in this new fiscal environment.

- From steady state funding to uncertainty: At first glance, this proposition may seem counter-intuitive. After all, a large contract from the federal government would seem to give far more *certainty* to the fiscal condition of Holy Cross than its current hand-to-mouth existence. But in a curious way the current revenue streams, although modest, are perhaps more predictable than the hundreds of thousands of dollars contemplated under the proposed government contract. First, government contracts typically are not guaranteed beyond one year. Second, government priorities can change swiftly with a change in political regime. And, third, government contracts are notoriously underfunded, thereby forcing Holy Cross to seek local funds to supplement the federal grant. This high level of uncertainty can create a culture that minimizes risk and innovation, gravitating instead toward conformity as a way to reduce uncertainty. In other words, once Holy Cross obtains the federal contract, it will become *imperative* to keep it. Rev. Healy will quickly discover that the best way to keep the contract will be to scrupulously adhere to the contract specifications.
- From catalyst to vendor: Holy Cross, especially under the leadership of Rev. Healy, has always been a catalyst for change in the community. The financial independence of Holy Cross has given it the autonomy it needs to challenge policies and the authorities who make and enforce them. The federal contract, however, will gradually transform Holy Cross into a vendor of a highly complex and expensive program. In turn, Holy Cross will become increasingly dependent on the cash flows from the government sponsor. In this purchaser-vendor relationship, the power balance is very heavily in favor of the purchaser. There is a chance that the advocacy role of Holy Cross will gradually give way to supplication as it tries to build a foundation for a steady, predictable relationship with the federal government and the cash flows that accompany that relationship.

- From collaborative to competitive culture: No significant new federal funding has been allocated for the Bush administration's faith-based initiative. This new federal program has, in effect, established a "zero sum game" in which secular and faith-based organizations will be pitted in competition with each other for federal contracts. Formerly, Holy Cross worked collaboratively with a wide variety of both secular and faith-based organizations, knowing that its modest programs could not meet all community needs. Surely such collaboration may continue, especially in the unfunded program areas. But the fact is that Holy Cross will enter an intensely competitive arena the moment Rev. Healy decides to apply for the federal contract. Soon he and his staff will begin to think in traditional business terms like of *market niches*, *competitive advantages*, *pricing strategies*, *market penetration*, and *competitive threats*. If that happens, the environment of free and open exchange of information, and referral of clients, will soon give way to various command and control systems to ensure that competitive intelligence is protected.

Obviously, none of this is to suggest that there is anything inherently wrong with the transitional housing program. In fact Rev. Healy and his followers could easily make the case that this federally funded program would enrich and enlarge their spiritual mission. There is even some evidence that the religious character of services offered by faith-based organizations has not been compromised by government grants and contracts (Green and Sherman, 2002). But, from a management perspective, it is at least plausible that the transitional housing program will transform Holy Cross Church and its many volunteers into an *instrument* to achieve the social service goals and objectives of the federal government in addition to being a vehicle for the *expression* of theological beliefs and values. Also, it is reasonable to predict that the new transitional housing program and the partnership with the government agencies will introduce a higher level of *professionalism* to the existing volunteer culture of the Holy Cross social service program. Where professionals and volunteers work side-by-side, there often develops two cultures that are not always in harmony. Lastly, the financial flows associated with the transitional housing program will create a higher level of *resource dependency* that may alter the internal and external relationships of the organization.

MANAGEMENT IMPLICATIONS FOR HOLY CROSS CHURCH AND OTHER FAITH-BASED ORGANIZATIONS

Rev. Healy and his counterparts in other churches and faith-based organizations would be well-advised to carefully consider the non-financial baggage that may accompany federal grants and contracts. One is reminded of the old saw, “Be careful what you wish for, because you just might get it.” Here are a few suggestions for faith-based organizations considering such a strategy.

1. Recognize that transformational change will be difficult

Even if only a few of the effects speculated above occur, Rev. Healy and his volunteers will need to embrace the notion of *transformational* change, which will affect not only programmatic agendas, but the core principles and operating philosophies of the organization. This type of change is likely to be traumatic for the organization on many levels, and may take years to accomplish.

2. Religious leaders may need to develop high-level managerial skills to deal with transformational change

Most religious leaders are not likely to possess the substantial managerial skill to lead their organizations through the types of transformational change described above. After all, they are spiritual leaders, not managers. Using a framework developed by Bolman and Deal (1997), transformation change will require a mix of skills including: a) mastery of the design and implementation of complex organizational structures, flows, and procedures; b) brilliant insights into worker motivation and human resource management; c) a keen sense of political management and the role of power in organizational transformation; and d) a theatrical understanding of the importance of symbolism and how to focus the attention of workers and volunteers on the values and philosophies that are the core of the organization.

3. Religious organizations would be wise to set up separate organizational structures for their government-financed activities

Many, though not all, government-funded programs require grantees and contractors to be formally recognized by the Internal Revenue Service as tax-exempt organizations under Section 501c3 of the Internal Revenue Code. The Bush Administration seems to be ambivalent at best about this requirement, and in

fact has urged federal agencies to reexamine their statutory and regulatory practices to allow unincorporated churches and community organizations to compete for federal funds.

Despite the apparent ideological motivations of the Bush administration, there are good reasons to formally and legally separate the religious and charitable activities of faith-based organizations. Rev. Healy should seriously consider establishing a 501c3 organization to run the transitional housing project. A separate incorporation of the housing project might allow Healy to “insulate” his informal volunteer programs from the professionalized and highly public housing project. Such a move would address many aspects of accountability beyond mere compliance with the law (see Kearns, 1996).

CONCLUSIONS: POLICY AND RESEARCH IMPLICATIONS

From a policy perspective, the Bush faith-based initiative poses serious questions regarding the separation of church and state. Although faith-based organizations like Catholic Charities and United Jewish Federation have received various types of government funding for many years, there have been protections against the use of government funding for explicitly religious activities. The Charitable Choice provisions of the 1996 Welfare Reform Law put a crack in the wall between religiously-oriented and secular social services. Now, the Bush initiative is trying to pry that crack open to, in his words, “level the playing field” for faith-based and secular agencies competing for federal funds.

The constitutional issues are substantial, and well beyond the scope of this paper. But the managerial issues are equally important and, in the long term, could have a huge impact on the landscape of social services and charitable activity in the United States. The stakes are high and the risks may outweigh the benefits. In the long run, the faith-based initiative of the Bush Administration may have effects that are quite the opposite of those intended by its designers and proponents, including the following:

- The gradual erosion of a rich mosaic of community-based religious organizations that provide needed services to their communities, replaced by a homogenized group of government-funded agencies that may end up behaving much the same as their secular counterparts. The diversity that the Bush agenda purports to promote may actually yield to a creeping conformity of structures, missions, and values.

- The gradual devaluation of grassroots volunteer activity in favor of professionalized social services. The community investments and volunteerism that the Bush Administration seems to covet may actually give way to a creeping professionalism and bureaucratization within churches and other small faith-based organizations that obtain federal contracts to deliver social services.
- The proliferation of 501c3 organizations with all the administrative and regulatory complications that accompany them. There are already nearly 1 million 501c3 organizations in the nation and some estimates suggest that over 25,000 new 501c3s are formed every year (Gaul and Borowski, 1993). The IRS cannot possibly regulate these organizations with any real rigor and large donors in the philanthropic community are already complaining that there is redundancy and counter-productive competition within the nonprofit sector.

But these, as well as the other propositions contained in this paper, are speculative. To date, research on these issues has taken one of two forms: 1.) large surveys of faith-based organizations, which are methodologically incapable of capturing the complex and sometimes subtle changes in organizational culture and character that may accompany federal funding, and 2) studies conducted by researchers and institutions that are ideologically aligned with the Bush agenda and, therefore, potentially suspect in terms of objectivity.

What is needed are in-depth case studies and careful longitudinal research designs to assess over time whether the propositions expressed above have any merit. Only then will all of us be able to get beyond the ideology and the political rhetoric to explore the real impacts of federal funding on our grass roots religious organizations. I propose that the propositions stated above provide the preliminary hypotheses for such a research design.

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