

NONPROFIT ORGANIZATIONS

The U.S. economy is comprised of three broad sectors, with distinctive sources and types of revenues. Their estimated percentages of national income & labor force:

SECTOR	REVENUE SOURCES	TYPES of REVENUE	% NAT'L INCOME	% LABOR FORCE
For-Profit	Customers	Purchases	80%	70%
Public (Gov't)	Taxpayers, Users	Taxes, Fees	14%	23%
Nonprofit	Donors, Clientele	Donations, Gov't Grants, Dues & Fees	6%	7%

The nonprofit sector grew most rapidly in past 30 years. More than 1.5 million NPOs were operating in 2007.

Nonprofit Legal Form

Nonprofit organization primary goal is to support issues of private or public interest, without concern for monetary profit

NPOs may apply for tax exempt status, for itself & donors

IRS Code 501(c) lists 27 org types exempt from Federal income tax



501(c)(3) Various charitable, nonprofit, religious, and educational organizations; such as:

Any community chest, fund, or foundation for religious, charitable, scientific, testing for public safety, literary, or amateur sports competition, or for the prevention of cruelty to children or animals

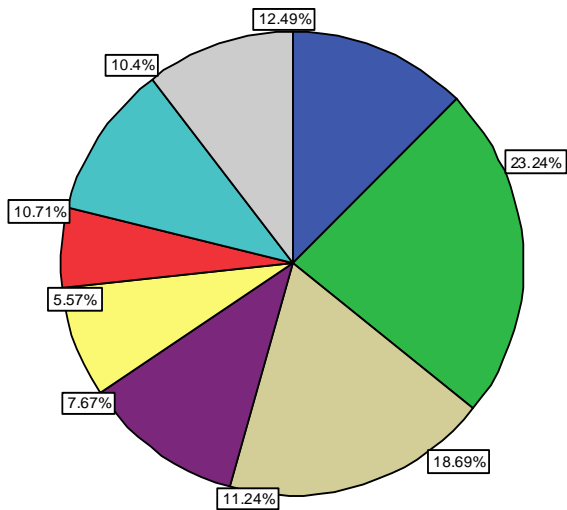
501(c)(4) is for civic leagues, or orgs operated exclusively for social welfare promotion, or local employee associations. These NPOs are permitted to lobby for legislation, but donations are not tax deductible.

National Rifle Assn, Sierra Club, AARP, MoveOn.org, NAACP, ...

IRS Tax-Exempt Organizations

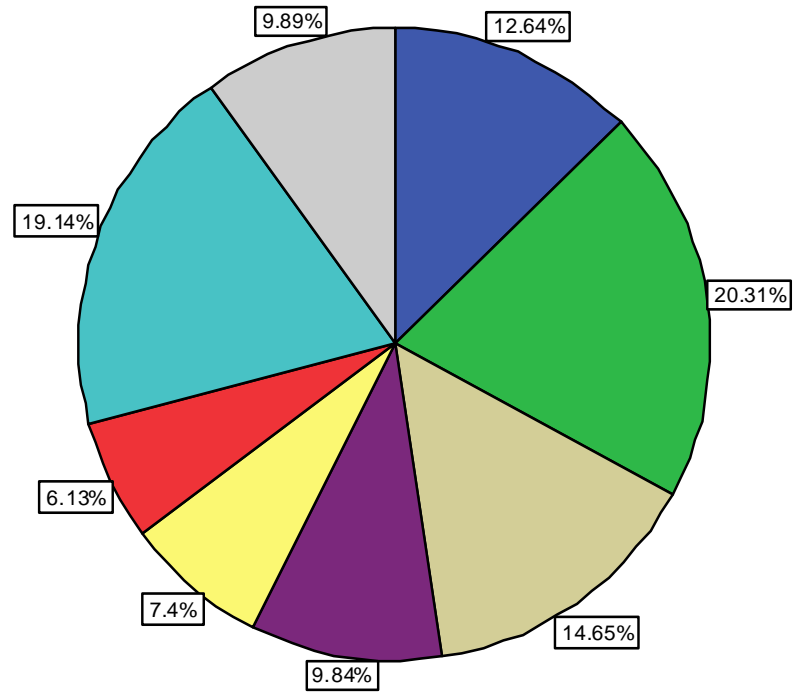
501(c) nonprofits increased from 1.08 to 1.48 million from 1996 to 2006. Public charities were 49% and 61% of totals. Distribution of 501(c) orgs:

1996



- Business leagues, chambers of commerce
- chambers of commerce
- Civic leagues, social welfare
- Fraternal beneficiary
- Labor, agricultural
- Other NPOs
- Post or war veterans
- Private foundations
- Social, recreational clubs

2006



Charitable Orgs

Charitable orgs comprise the majority of the NPO sector. They are classified as 501(2)(3) orgs under two broad categories:



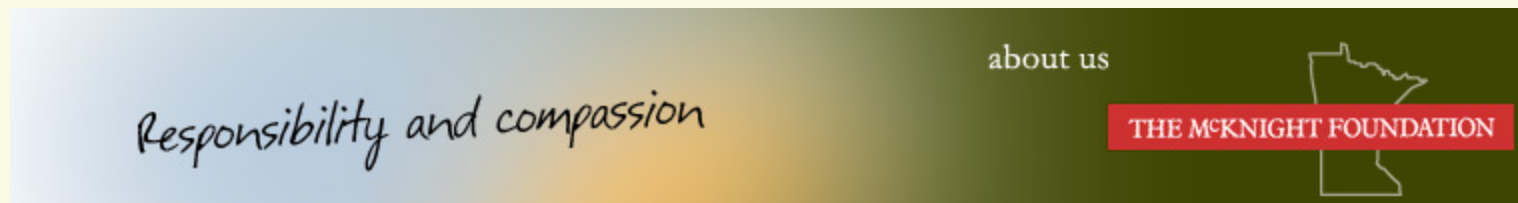
Public charities: (1) are churches, hospitals, medical research organizations affiliated with hospitals, schools, colleges and universities; (2) raise funds & receive contributions from many sources, e.g., general public, governmental agencies, corporations, private foundations; (3) receive income from activities to further org's exempt purposes; or (4) support relationship to existing public charities.

Private foundations: typically have a single major source of funding (usually gifts from one family or corporation rather than funding from many sources). The primary activity of most private foundations is to **make grants to other charitable organizations** and to individuals, rather than directly operating their own charitable programs.



Foundation Giving

In 2006, the 71,000 U.S. foundations with total assets of \$551 billion gave \$40.7B – an increase of 11.7% over 2005, which in turn was an increase of 14.3% over 2004.



Rank by Assets	Assets '05	Giving '05
1. Gates Fdn	\$29.2 B	\$1,356 M
2. Ford Fdn	\$11.6 B	\$ 517 M
3. Getty Trust	\$ 9.6 B	\$ 23 M
25. McKnight	\$ 2.1 B	\$ 91 M

Foundation Center. 2007. *Foundation Growth & Giving Estimates.*

The Grants Economy

Many nonprofit orgs obtain financing by charges to users – college tuition, hospital fees, opera tickets – identical to their for-profit competitors. But, NPOs also raise funds from individuals, corporate donors & government agencies. They then provide services either directly to clients or by making grants to other nonprofit organizations.



Various orgs specialize in fund-raising and brokering partnerships between NPOs & donors

Foundation Center's short course on effective proposal writing:

- Gather background information on concept, program & expenses
- Statement of Need: why this proposed project is necessary
- Description: nuts and bolts of project implementation & evaluation
- Budget: financial description of the project plus explanatory notes
- NPO Info: history & governing structure; primary activities & services, emphasizing its capacity to carry out this proposal

<http://fdncenter.org/learn/shortcourse/prop1.html>

Funding Decisions

The Campus Anti-Violence Task Force has a small budget to support projects that might reduce a recent upswing in verbal and physical assaults on university students. As grants committee members, what criteria should apply in choosing which one of these proposals to fund?

1. Campus Coalition Against Hate Crimes requests \$2,500 for a year-long series of focus groups to examine intolerance towards racial, religious, sexual minorities. An experienced faculty facilitator will lead 20 group discussions, then create a toolkit of recommended prevention actions.
2. Women Against Violence proposes \$2,700 to run a volunteer hotline and campus escort service. Women students who feel unsafe or threatened can call to report suspicious activity or request that another student accompany them from campus to dorms or nearby housing.
3. Tolerance Alliance asks for \$3,000 to launch a marketing campaign. Variety of posters, newspaper ads, radio spots & Website will challenge students to “Become an Ally: Learn about people, cultures, groups different from you. Use your skills to end oppression on campus.”

Origins of the NPO Sector

Various explanations of the origins and growth of the NPO sector emphasize the differential impact of economic, social, cultural, and political factors.



ECONOMICS EXPLANATION:

Both government agencies & NPOs arise after **market failure**, where for-profit businesses cannot make profits (e.g., hospitals for the poor)

SOCIOLOGICAL EXPLANATIONS (DiMaggio & Anheier 1990):

- *Institutional theories* require detailed knowledge about institutions and history from cross-national studies of specific NPO industries

Why are hospitals and colleges found in both the public & nonprofit sectors of U.S., but in Western Europe and the U.K. almost all are run by the government?

- *Org'l ecology theories* explain typical S-shape growth pattern as interplay of legitimation & competition dynamics as new NPO forms are created by entrepreneurs and accepted by the public

Who's Behind the Nonprofit Expansion?

Many social actors have agendas pushing nonprofit sector expansion



“Giving is greatest where wealth is greatest, rather than where need is greatest. What is more, much of private giving ... functions with a significant ‘amenity’ value to the givers (e.g., education, culture).”

Lester Salamon (2001)

Upper classes try to dominate culture & civil society through charitable giving

Racial, ethnic, religious groups seek greater prestige, cultural preservation

- ❖ History museums, welfare-social services, chowder-and-marching societies

Professionals working in NPOs hold ideologies of greater work autonomy

- ❖ Private school teachers; NPO research lab scientists; missionary physicians

The State (national, state, local gov'ts) shapes NPO growth by policies on charitable tax deductions, grants and subsidies, nonprofit regulations

- ❖ LBJ's "war on poverty" favored government welfare services to deprived groups
- ❖ Bush's "faith based initiatives" channeled tax funds through religious groups

U.S. Civic Culture Supports NPOs

A core theme of U.S. civic culture is that **self-reliance & private giving** are often the best ways to run many social institutions.

- o Conservatives assert: “Government should stay out of private lives!”
- o Many leftists & libertarians distrust Big Government: “Small is beautiful!”
- o Moderate centrists are main backers of government-provided services



The **school choice movement** wants students to choose to attend any private or public school, using public-funded vouchers, tax credits, or scholarships. Goal is more competition to improve the quality of instruction. Opponents claim choice would benefit only middle-class kids, hurt the poor by draining away public funds.

DEBATE OPPOSING SIDES:

- (1) Vouchers to pay for a private school of choice will improve the education of all U.S. children.
- (2) School choice helps relatively few children, at cost of low-quality education for majority of poor kids.



Nonprofits Face Many Dangers

Lester Salamon (2004) saw big risks to 21st century NPOs in imbalance between “distinctiveness” and “survival” imperatives.



As NPO services grow more market-based “...successful adaptation to the prevailing market pressures requires effective access to advanced technology, professional marketing, corporate partners, sophisticated fund raising, and complex government reimbursement systems.”

- Identity crisis: private hospitals, universities behave like public ones
- Performance pressures on nonprofit managers lead to burnout
- Fees & charges make sticking to nonprofit service goals difficult
- Small charities disadvantaged, unable to sustain NPO diversity
- Erosion of public trust that NPOs really offer disinterested services

“Nonprofits are increasingly being seen not as public-spirited philanthropies but as self-serving entities that pursue the interests of their top officials and board members.” Burton Weisbrod (1997)

Two Ideal Types of NPOs

Brainard and Siplon detected recent shift away from an emphasis on business-like economic model back toward older voluntary spirit model.

Economic Model

- All orgs basically similar, rational
- NPO mission is to deal with market failures in most efficient manner
- Material & purposive incentives to induce individuals' participation
- Professional staff in a hierarchy
- Marketing & org'l competition in fund-raising, service to "customers"

Voluntary Spirit Model

- NPO are distinct from other orgs
- Mission: religious charitable giving & rights-based approaches
- Public-spirited & other-regarding motives; solidary incentives
- Participatory forum for debating democratic ideas & values
- Service beneficiaries as "citizens"

What Internet strategies are/should two types of NPOs use?

What are differences among the DES, HIV, MD disease-fighting professional NPOs & their informal "cyberorg" counterparts?

Cyberorgs face what kinds of survival and growth problems?

How to Measure NPO Performance?

“The research literature is vast and inconclusive” about nonprofit organizational performance criteria. (DiMaggio and Anheier 1990)

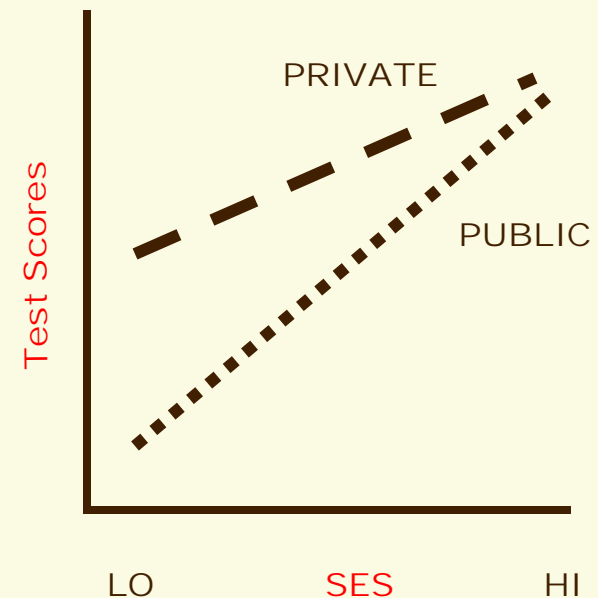
Should business principles apply – maximize revenues, minimize costs? Or more efficient fundraising? Or client satisfaction with services?

NPO sector is probably too heterogeneous to draw any solid conclusions beyond specific “industries” (art museums, hospitals, schools, ...)

Do private or public schools have better student achievement?

Coleman’s study of high schools (1982) showed that private (mostly Catholic) schools raise the test scores of lower SES students, narrowing the greater social class gap in public schools

What does research imply for public policy? Support for access to private schools by school-choice vouchers?



Shorter Writing #2

Salamon (2004) and Brainard & Siplon (2004) discuss some dangers to nonprofit organizations in applying business management principles.



Identify one important recent threat to professional charities that makes sticking to their traditional missions difficult. Explain why.

Discuss two specific reforms – by the NPOs or by the political system – that might help them to recapture their voluntary spirit.

What information technology & communication strategies could improve the chances for the success of such revitalization efforts? How?

DUE in class Thursday, September 27

PAPER SPECS: **Word limit = 500**, typed double-spaced with one-inch margins, 12-point Times Roman font. Include your name & student ID, Assignment #, and “Word Count = 000”

References

Brainard, Lori A. and Patricia D. Siplon. 2004. "Toward Nonprofit Organization Reform in the Voluntary Spirit: Lessons from the Internet." *Nonprofit and Voluntary Sector Quarterly* 33:435-457.

Coleman, James S., Thomas Hoffer and Sally Kilgore. 1982. *High School Achievement: Public, Catholic and Private Schools Compared*. New York: Basic Books.

DiMaggio, Paul and Helmut K. Anheier. 1990. "The Sociology of Nonprofit Organizations and Sectors." *Annual Review of Sociology* 16:137-159.

Salamon, Lester M.. 2001. "The Current Crisis." P. 423 in *The Nature of the Nonprofit Sector*, edited by J. Steven Ott. Boulder, CO: Westview.

Salamon, Lester M. 2004. "Nonprofit World Faces Many Dangers." *Chronicle of Philanthropy* 16(6):49-51.

Weisbrod, Burton. 1997. "The Future of the Nonprofit Sector." *Journal of Policy Analysis and Management* 16:541-555 .