

# Exploring the Nonprofit Motive (or: What's in it for You?)

Ulf Zimmermann, Kennesaw State University

Brilliant, Eleanor L. *The United Way: Dilemmas of Organized Charity*. (New York: Columbia University Press, 1990). 382 pp. \$47.00 hardback, \$17.50 paper.

Clofelter, Charles T., ed. *Who Benefits from the Nonprofit Sector?* (Chicago: University of Chicago Press, 1992). 286 pp. \$22.95 hard back.

Gidron, Benjamin, Ralph M. Kramer, and Lester M. Salamon, eds. *Government and the Third Sector: Emerging Relationships in Welfare States*. (San Francisco: Jossey-Bass, 1992). 246 pp., \$36.95 hardback.

Gies, David L., J. Steven Ott, and Jay M. Shafritz eds. *The Nonprofit Organization: Essential Readings*. (Pacific Grove, CA: Brooks/Cole, 1990). 402 pp., \$21.95 hardback.

Hodgkinson, Virginia A., Murray S. Weitzman; Christopher M. Toppe, and Stephen M. Noga. *Nonprofit Almanac 1992-1993: Dimensions of the Independent Sector*. 4th ed. (San Francisco: Jossey-Bass, 1992). 628 pp., \$49.95 paper.

O'Neill, Michael. *The Third America: The Emergence of the Nonprofit Sector in the United States*. (San Francisco: Jossey-Bass, 1989). 216 pp., \$29.95 hardback.

Salamon, Lester M. *America's Nonprofit Sector: A Primer*. (New York: The Foundation Center, 1992). 110 pp., \$14.95 paper.

Nonprofit organizations have become increasingly prominent in the delivery of public services in the United States in recent times. While grounded in deep-rooted traditions, nonprofit service provision has also been furthered by the complementary demands for less government and more privatization. Many individuals in public service today, therefore, are not laboring in traditional government agencies but in nonprofit organizations, and many public administrators who are in government agen-

cies now are no longer providing public services themselves but seeing to their delivery through such nonprofits.

In practical terms this means that a growing number of public administrators are, in fact, nonprofit administrators—the independent sector already comprises a work force nearly three times the size of the federal civilian workforce—and, in response to this trend, programs to train professional public administrators are increasingly adding nonprofit concentrations. While these political and professional demands are being met, we must also assess what some of the further ramifications of this trend are. Now that a body of literature on nonprofits has begun to emerge, we can, for example, see how and why this sector has grown so in prominence; we can evaluate whether a shift from governmental to nonprofit service delivery produces a more diversified and hence more equitable treatment of different groups, as often claimed, or whether, in fact, it signifies a shift from broadly public goals to more particularistic private ones. And perhaps we can assess to what extent individual and institutional philanthropic initiatives will satisfy common public needs and to what extent government incentives will be required beyond that to meet those broader needs fully.

Where do all these nonprofits come from?

Animal studies suggest that altruism may be an innate quality. Human history, however, documents that active philanthropy seems to require some governmental or divine exhortation, as Stephen R. Block's "History of the Discipline" in *The Nonprofit Organization: Essential Readings* suggests. The Code of Hammurabi, also an administrative first in many ways, instructs people to take care of the less fortunate, and the Bible recommends

tithing for the same purpose as well as tax exemption for charitable purposes. As Christianity developed, the body's care came to be viewed as important as the soul's, and Christian organizations began their long tradition of providing hostels and health services, as Merle Curti points out in a later chapter in this collection.

Modern forms of "associational" sharing only emerged, according to the editors of the *Essential Readings*, in the wake of the Renaissance and Reformation. Greater freedom of association and the decreased self-sufficiency resulting from the Industrial Revolution subsequently both contributed to the rise of nonprofit organizations.

In the wake of those movements, too, charitable thought and practice bifurcated sharply. In countries that remained Catholic, the church maintained its primary role in this area, while in those overtaken by the various forms of Protestantism, charity became increasingly a secular and public concern, as perhaps best documented by the 1601 Elizabethan Statute of Charitable Uses.

Religions nonetheless continued to play a major role in "The Emergence of the Nonprofit Sector in the United States," as Michael O'Neill argues in *The Third America*, referring to religion as the "godmother of the nonprofit sector." As he presents it, nearly all private education and most health care agencies, and such organizations as the YMCA and the Salvation Army, have religious origins. The Denver prototype of the United Way was founded by a fittingly ecumenical foursome of one Catholic priest, two Protestant ministers, and one Jewish lay leader. Religion's role in philanthropy is also illustrated by the Quakers' leadership in forming an anti-slavery society in 1775 and by the Kellogg brothers, who developed and produced health food for their Seventh-Day Adventist coreligionists and eventually established the Kellogg Foundation. Except for the Quakers (and the churches of the disenfranchised black population itself, of course), O'Neill acknowledges that religion hasn't done much for such social causes as civil rights or women's rights.

From this "godmother" of nonprofits O'Neill proceeds to a fairly exhaustive survey

of its godchildren: education; health care; arts and culture; social services; advocacy and legal services; international assistance; foundations; and mutual benefit organizations. He assesses each sector in terms of its "scope and impact," "historical development," and, finally, "policy issues." While these sectors are portrayed more or less similarly in other volumes, O'Neill's book stands out for its extensive historical treatments.

One particularly illuminating feature of this historical approach was O'Neill's discussion of how nonprofit organizations came to be defined as private rather than public. Whether education in the United States was a public or a private matter, for example, was not entirely clear in the nation's early years. An 1819 Supreme Court decision involving Dartmouth College probably did most to establish the distinction. From the state's point of view, since Dartmouth had been chartered by the state, it was a department or other administrative agency of the state. The winning argument for Dartmouth's independent status was made by an oratorically gifted alumnus whose five-hour presentation culminated in the sweeping statement that "every eleemosynary institution throughout our country" should have such independence. With this argument, Dartmouth's Daniel Webster laid some of the legal groundwork for nonprofits.

Another strength of the O'Neill book is that it describes the geographic origins and distribution of nonprofits. In education, for example, private institutions were more prevalent in the east, while public ones thrived in the midwest and west (though he fails to mention the Morrill Act as a pivotal factor in that); health care for profit seems to have started in the west; and, finally, social services were confined to the north because providing social services to the needy in the south would have been tantamount to supporting abolition since the needy there were predominantly among the black population.

In connection with social services O'Neill makes the important point, which some others make as well, that every rehabilitation of a criminal or drug addict not only restores that individual's self-sufficiency but also makes the society as a whole that much safer and more productive (an almost inestimable version of the multiplier effect).

#### Why do nonprofits thrive in the United States?

While O'Neill's volume excels at chronicling the "emergence" of this sector, Salamon

on's "primer" on *America's Nonprofit Sector* gives us a more contemporary overview. He begins by extricating us from a terminological tangle: To distinguish between philanthropy and the nonprofit sector, he defines the latter as "a set of organizations that is privately incorporated but serving some public purpose, such as the advancement of health, education, scientific progress, social welfare, or pluralism" (p. 5).

To explain why we have nonprofits in the United States, he begins with the historical argument that when colonists arrived there were no preestablished governments, and tasks that exceeded individual capacity simply had to be done by voluntary association. (This, of course, can serve equally well to explain the emergence of governments, and to accept this explanation one has to keep in mind the strong antigovernment sentiment of most of the colonists, as Salamon also points out.)

Beyond this, Salamon offers economic and other political explanations for the existence of nonprofits. The first of these is the familiar market-failure explanation. Businesses cannot exact individual charges for and hence make profits from goods and services which are collectively consumed, so-called public goods such as clean air or neighborhood safety. Such goods and services can only be financed by voluntary associations which are willing to forgo profit (or distribute it among themselves) or by governments which can coerce us into financing them. But government failure occurs as well: To remain in government, public officials need majority support, which often leaves "minor" interests unrepresented. And if the majority prefers the economic and personal benefits of driving cars to more elusive environmental benefits, desires like clean air will be left to independent agents. These may then get together in voluntary groups like the Sierra Club and seek to rouse public support towards pressuring government into making environmental protection policy. When individuals get together in such associations to promote those values and goals, they are, finally, illustrating two other of Salamon's reasons for the existence of nonprofits: Pluralism and solidarity. The former affords individuals the right to articulate different interests and the latter legitimate ways to gather forces in association and argue their interests in solidarity—reaffirming the democratic rights of free speech and freedom of association.

Viewing religious organizations just in their contemporary context, Salamon sees

them as marginal in the nonprofit sector. Their tax-exempt status exists chiefly to protect them from government interference and they are not really obligated to do anything philanthropic. For Salamon, service providers are "the heart of the public-serving nonprofit sector" and he groups these into five basic fields: health care; education; social and legal services; civic and social; and arts and culture organizations.

He observes that the United States has a larger nonprofit sector than most modern nations, but he adds that even so we remain between eight and 15 percent behind them in terms of total social spending. (In those other countries that social spending is typically provided by government but it is important to note that the social services themselves are very often provided by nonprofits.) On that financial front, he notes that almost 60 percent of *all* nonprofit revenues are absorbed by health providers and that government remains the biggest single source here as it does in education where it provides over 70 percent of total spending.

For the nitty-gritty on all these numbers and proportions, the *Nonprofit Almanac* is indispensable. Now in its fourth edition, the ongoing work of its compilers along with other newly emerging resources should make the fifth edition a truly definitive foundation for research and analysis. The authors have developed the National Taxonomy of Exempt Entities, and the 1990 census for the first time specified nonprofit employment. Lovers of lists, charts and graphs, statistics numerical and proportional will find endless riches in the detailed profiles of the individual sectors and in the complete state-by-state breakdowns. A couple of general trends and points might be noted briefly: Both in terms of number of employees and amount of finances, the nonprofit sector is showing healthy growth, after a bit of a dip in the early 1980s. The role of fees and charges has risen slightly while that of government funding has dropped slightly. The proportion of women and minorities employed in the nonprofit sector is considerably higher than it is in the workforce generally (though this is not necessarily an unequivocally positive indicator since pay and prestige are often less).

#### So who really benefits from these nonprofits?

Nonetheless with all the still huge quantities of government money, i.e., your money and mine, going to these nonprofits one might indeed be asking this. *Who Benefits*

*From the Nonprofit Sector*, a collection of studies edited by Charles T. Clotfelder, offers some preliminary answers. According to Clotfelder, what little work economists have done on the redistributive effect of nonprofits suggests that it is minimal, though it does vary somewhat by subsector.

In the health sector, far and away the largest, Professors Salkever and Frank worry, ultimately, that between the growing number of for-profits and the nonprofits, there is increasingly less care available for the indigent. Indeed, we have all seen the increasing news reports of individuals turned away from some nonprofit hospital upon failing that proverbial "wallet biopsy"—something we might have expected only of the for-profits.

In the second largest sector, education, Professors Schwartz and Baum find, similarly: "Not surprisingly, the proportion of low-income students attending private institutions has been consistently lower than the proportion of high-income students attending private institutions" (p. 70). "The interesting point," they go on to specify, "is the disproportionate percentage of students from upper-income families attending private colleges" (p. 71). Summing up across all levels of education, they finally come to the sweeping conclusion: "Students from high-income families are more likely than students from low-income families to attend secondary and postsecondary schools in the private nonprofit sector" (p. 86).

The redistributive effect of religious spending is rather more elusive. Professor Biddle finds that congregations spend around 70 percent of their income on themselves (and of course 80-plus percent of it comes from members); of the remaining 30 percent about one-fifth directly benefits the poor.

The researchers were generally unable to find much reallocation downward, but one of them does report one fairly unequivocal finding. Applying multiple regression analysis to social service agency data, Professor Salamon found "high correlations between the agency's orientation toward the poor and the source of its funding, with those receiving federal aid more likely to focus on service to the poor" (p. 21). The degree of agency professionalism was also positively related to focus on the poor. This is a significant finding in terms of whether federal funding should be funneled through nonprofits.

Salamon's essay in this volume adds a new explanation to the arguments that market and government failure are responsible for

the growth of nonprofits: voluntary failure. People don't want to help the "truly disadvantaged"; they want to help those, as some others have written, immediately below them, most nearly like themselves, or, even more simply, they want to help those whom they want to help. And because of their dependence on others, most nonprofits wind up doing pretty much what the market will bear.

Foundations rarely benefit the poor directly but, as Professor Margo points out, often have a signal indirect impact, as he well illustrates: Gunnar Myrdal was the sole direct beneficiary of the Carnegie grant that enabled him to publish *An American Dilemma* in 1944, but the stream of benefits emanating down through the *Brown v. Board of Education* decision of 1962 to the present day is incalculable.

Editor Clotfelder offers three general conclusions: There is "great diversity" in the nonprofit sector; in no sector, however, "is there evidence that benefits are dramatically skewed away from the poor and toward the affluent"; and, finally, echoing Salamon, "an institution's source of funding appears to be important in the distribution of its benefits" (p. 22).

Can we learn about nonprofit financing and services from other countries?

If part of the answer to positive action lies in what the source of an agency's funding is, and if Salamon is correct in concluding that (federal) government funding produces the most redistributive benefits, we will do well to examine the relationship of *Government and the Third Sector* more closely, as Gidron, Kramer, and Salamon himself have. Their volume is, moreover, the *rara avis* in the flock in that it offers a comparative birds-eye view of the United States and nine other nations. Apart from the great benefits of the comparative approach, there are of course the equally great problems of finding truly common denominators—some political cultures view government much more positively than others, for instance.

There is not only great variety in this relationship between government and nonprofits but a great deal more nongovernmental service than might have been expected, as the editors put it in one of their major "lessons from the field." Sweden, of course, is nearest the classic model of the welfare state in the sense that the state implements most welfare policies, but equally high levels of welfare are delivered in the Netherlands, where nonprofit-

its are the primary providers of services, and in Germany, where these provide over half of the social services.

While much has been made of the conflict between government and voluntary organizations—with substantial historical evidence supporting it—such conflict today has pretty much given way to large-scale cooperation. (In recent times, this specter of conflict has been conjured up chiefly by those who wanted to use it to reduce, or appear to reduce, the role of government, most vocally perhaps Margaret Thatcher and Ronald Reagan.) But as early as 1916, those fabulous Fabians, Sid and Bea Webb, had already depicted the voluntary sector as an "extension ladder" enhancing what the government provided.

One important variable in how the role of the third sector varies from country to country is the legal system—whether it is based on Roman law or on common law—in which the former tend to be more government-oriented and the latter more market-oriented. The degree of state centralization or decentralization follows, not surprisingly, a similar pattern.

Out of a combination of such variables the editors constructed a set of models ranging from the "government-dominant" to the "third-sector-dominant," with "dual" and "collaborative" in between. The "government-dominant" ones are becoming even less so than might have been anticipated, with Great Britain, Israel, Italy, and France all increasingly tending towards collaborative approaches, whether it be via voluntary organizations or local governments (as in France). Everywhere, the authors find, governments are trying to "animate" other agents to deliver what are currently still government services, be it for economic or political reasons.

To give just an inkling of the extent to which nonprofits elsewhere provide services that we here associate with government: In the Netherlands, probably the most third-sector dominant, the drivers' license bureau is a nonprofit, and in Germany, which is pretty much the half-and-half collaborative model, the vehicle-inspection organization is nonprofit. These are models that, should we want or need to, we could easily follow using an organization like the AAA. But while people in most countries do seem to want more such nonprofit organizations providing these services, it's equally important to recognize that they emphatically also want more and better government oversight.

The big distinction, as we've learned from the privatization debate as well, for policy makers and administrators to keep in mind is between funding, delivering, and controlling services. This comparative research also casts some doubt on the economic explanation (market failure) and the political explanation (group conflict) of the emergence of nonprofits; whatever truth there may be to either or both of those explanations, they need to be thoroughly leavened with more particularistic historical and often demographic explanations. (Centralized government service provision is easy, as we know, in countries with populations that are largely homogeneous in ethnicity and religion, such as France and Sweden, while those with even just two different dominant religions, like Germany and the Netherlands, are better off turning service provision over to the representative organizations of those religions.)

**What keeps nonprofits from realizing their great promise? A couple of cases in point.**

While one basic reason for turning to nonprofits or for promoting them as alternatives to government is our desire to have these services at a more personal level, less remote and bureaucratic, the fact is, of course, that nonprofits that continue to operate successfully get just as "bureaucratic" as the government agencies they were supposed to replace. Those who then argue that what we really need is to subject such bureaucracies to some market discipline, one of the many business bromides frequently prescribed, may find themselves having to think twice when the erstwhile missions of those nonprofit organizations have been replaced by marketing ploys.

This is the dilemma faced by both the United Way, as depicted by Eleanor Brilliant, and by the managers of nonprofit organizations, as articulated by Susan Bernstein(1991). Brilliant early on sums up the basic problem in connection with the Commission of Private Philanthropy and Public Needs. This was formed in 1973 in response to a strongly felt decline in voluntarism and became better known as the Filer Commission after its chair, John H. Filer, CEO of Aetna, who had taken the job at the encouragement of John D. Rockefeller III and with the financial support of the U.S. Treasury, under George P. Shultz and his deputy William E. Simon, and the political support of Wilbur Mills, long-time chair of the Ways and Means Committee.

One of the Commission's earliest findings was that the United Way had apparently failed to address the "demands of a new society." It had come to this pass, in a nutshell, because of its too strong and too exclusive alliance with corporate America and its corresponding reliance on that world's consensus on what public needs were. But that should not have surprised any of the researchers, as Brilliant's exhaustive history of this organization's development clearly suggests.

Americans had learned from the British how to design federated fundraising organizations, founding the first one in Denver in 1887. And here is where the basic idea—and the basic problem—emerged: Community organizations collected funds for charitable purposes from everyone and then distributed them to causes their boards deemed worthy. And while these organizations spread horizontally throughout the country, they also began to organize vertically—and that in a distinctly top-down fashion. The seminal event here was a meeting called in 1947 by Henry Ford II. Caught between the pesky demands of workers and the seemingly endless slowdowns of production by the "disease-of-the-month" approach of workplace solicitation, Ford got other business executives, union leaders, and fundraising professionals together to streamline all this. Two precedents had made the resulting automated one-time, "United Way," solicitation eminently feasible at the time: Payroll deductions had become common—unions had begun them for their dues in 1941; and more important, the government had instituted compulsory withholding in 1943.

Undermined on the one hand by accusations of elitism and sapped by disaffections of groups which felt underrepresented, the United Way seemed for a time to be going the way of the corporate dinosaurs with which it was allied such as GM. One can only hope that its recent troubles have given the national organization cause for serious self-examination and will enable local agencies to address themselves more fully to the local needs they no doubt perceive best and would no doubt like to meet.

While Brilliant's United Way dilemma is the organizational one of serving actual needs on the one horn while satisfying the organization's sponsors on the other, Bernstein's dilemma is the nonprofit manager's personal and professional one: How does one continue to secure government funding with its often highly restrictive definitions while at the same time fulfilling one's nonprofit mis-

sion? Parallel to Brilliant's findings regarding the United Way and its corporate benefactors, Bernstein sees a good bit of "evidence that contracting results in the poorest being least served" (p. 4) because having to meet those governmental contractual obligations produces a tendency to "cream."

It is too much to expect that highly dedicated and over-worked service providers will not only labor on behalf of their constituents but also to try to educate those funding sources, be they corporate or governmental, to a more realistic sense of what our social needs are. Perhaps this responsibility should increasingly be thrust upon the boards of directors of these nonprofits.

More responsibility and more responsiveness from our nonprofits might well result from boards that are not only more active but, much more important, more truly representative. If, moreover, these non profits were more bottom up and more representative, they might serve better as training grounds for democracy.

Indeed, it's clear, as these readings attest, that we need both more grass-roots effort and more government incentives, more local initiatives with greater latitude over reliable resources. This combination might enable nonprofits to be the better service providers they aspire to be. Twenty years ago the Filer Commission set a goal for corporate giving at 2 percent of pretax income; today even the most charitably inclined corporation barely reaches three-quarters of that, and only a very small proportion of corporations give anything at all. On the government front, Salamon deplores the great "missed opportunity" of the "Reagan Revolution," which actually cut nonprofit funding. It did, however, establish a White House Office for Private Sector Initiatives, whose most audible philanthropic initiative was to distribute, free of charge, 5,000 copies of Pat Boone's record, "Lend a Hand."

**What shall we conclude?**

First of all, while any brief overview like this covering so much individual and collective effort will doubtless do injustice right and left, perhaps I can rectify some of that by summing up how these volumes might benefit us. O'Neill's *The Third America* is a must for anyone who wants to understand the historical origins of our nonprofits. Salamon's *America's Nonprofit Sector* would be my prime choice for introducing public administration students and practitioners to this area. And for such students I would recommend chiefly

one other volume from among these, and that is the collection of *Essential Readings* since it incorporates historical documents, such as Carnegie's "Gospel of Wealth," and the Filer Commission Report and, in abbreviated form, much of the prominent recent writing in the field, ranging from the economic and political to the directorial and administrative aspects.

Since the question of "who benefits" is fundamental in policy making and public administration and the question of "how to improve it" is an inevitable corollary, everyone, student and practitioner alike, stands to learn from the pieces on health and social services in the Clotfelder collection and those on Germany and the Netherlands in the comparative volume by Gidron et al. Here I have singled out those that concern the most pressing areas, and that I think have the most to tell us in terms of what we could take from other countries and use in handling our own nonprofit organizations.

Finally, while the *Nonprofit Almanac* should be in every library, I would recommend the Brilliant and the Bernstein volumes to individuals interested, respectively, in the rise and fall of corporate charity and real "war stories" from the front lines of social service organizations.

#### What should we do?

So much for the readings, but what about the lessons? First, the philanthropic impulse is alive and well, as the burgeoning number of people working in nonprofits (for less than stellar salaries) attests. We can expect the trend of more devolution of public services to nongovernmental organizations to continue well into the future. Philanthropy, and voluntarism, cannot, however, be expected to extend far enough to solve all our social problems. Second, if we want to extend the philanthropic impulse more effectively to those who need it most, we may have to change the funding structure and decentralize service delivery. The funds may have to be gathered at the highest, most politically authoritative level possible and to be distributed, and the services delivered, at the lowest, most personally authoritative and knowledgeable level. We need to find, in other words, the most effective possible combination of genuine personal, professional autonomy with completely transparent public accountability. Third, if we want to see more private contributions, we will have to call upon government to create more corporate and personal incentives. More centralized funding and

more decentralized service delivery seem to promise the most felicitous combination of more democracy and less bureaucracy—and those are, after all, two primary motive forces of nonprofit organizations.

#### Reference

- Susan Bernstein, 1991. *Managing Contracted Services in the Non-Profit Agency: Administrative, Ethical, and Political Issues*. Philadelphia: Temple University Press.