Author(s): Neel Hajra, 2010

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PubPol 671: Policy & Management in the Nonprofit Sector

Lecture 2: Why Is There a Nonprofit Sector Anyway?

Neel Hajra
Assignment

- Please email me a list of the organizations and entities you’ve worked/volunteered for (and in what roles). Due Tuesday the 19th.
Learning Themes

Management Issues

Policy Issues

Nonprofit Sector

For-Profit Sector

Public Sector (Government)

inform

impact

Nonprofit Sector

For-Profit Sector

Neel Hajra
Readings are fairly easy…

…so what’s the catch?
Note: Nonprofit GDP

- 2008: Nonprofit sector generated $751.2 billion in economic output, which comprises 5.2% of U.S. GDP (Bureau of Economic Analysis of the Department of Commerce)
Next

- Discuss the defining characteristics of a nonprofit
- Explore reasons for a nonprofit sector
- Consider ‘traditional charity’ as basis for the sector
Salamon’s Six Characteristics

- Formal
- Private
- Non-profit distributing
- Self-governing
- Voluntary
- Of public benefit
#1: Formal

- Institutionalized
- Typically in corporate form
Benefits of Formality

- Limited liability
- Property and contract rights
- Perpetual existence
- Structure
- Employee benefits
- Legitimacy
Challenges of Formality

- Red tape
- Survival instinct
#2: Private

- Separate from Government
Benefits of Private

- Flexibility / experimentation
- Diversity (power through association)
- Less bureaucracy
Challenges of Private

- Can’t tax!
- Free riders
- Self-Interest
#3: Non-profit distributing

- Main distinction from for-profit segment of private sector
Benefits of Non-Profit Distributing

- Mission focused
- Trust!
- Inherently more efficient (or maybe not)
Challenges of Non-Profit Distributing

- No profit motivation!
- Harder to raise capital
- Inherently less effective (or maybe not)
#4: Self-Governing

- Internal procedures
- Not controlled by others
Benefits of Self-Governing

- Control and autonomy
Challenges of Self-Governing

- Accountability
- Self-interest
#5: Voluntary

- Sometimes staff / labor
- Almost always the board
Benefits of Voluntary

- Rally stakeholders
- Free labor!
Challenges of Voluntary

- Management challenges
- Reliability / quality of service
- Unrealistic expectations
#6: Of Public Benefit

- Promotes public good
- Not contrary to public policy
Benefits of Public Benefit

- Public benefit 😊
Challenges of Public Benefit

- What is “public” (e.g., “Irish Castles” dilemma)
- What is “benefit” (e.g., ideological extremes)
## Sector Comparison

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<th>Government</th>
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Why Is There a Nonprofit Sector Anyway?
Historical

Think about: Hospitals
Market Failure

Think About: Nonprofit scandals
Government Failure

Think about: Devolution
Pluralism/Freedom

Think About: Government Funding
Solidarity
Broad View of “Public Good”

- Some (like Salamon) favor a broad, open definition of sector
- Alternative viewpoint: Diaz!
Diaz vs. Salamon

![Image of two fencers, labeled 'Salamon' and 'Diaz.']

Source: uwdigitalcollections, Flickr
Diaz

- Nonprofit sector should (but does not) primarily benefit the poor and disadvantaged
The Bourgeois Sector?

- 10% of philanthropy went to alleviating poverty in 2004
- Religious, Higher Ed, Arts/Culture: Trickle down charity??
- Very little direct foundation spending on under-represented populations
- National Committee for Responsive Philanthropy: Foundation giving…
  - Lagging for minority populations
  - Falling for indigent populations
What about the Government?

- Isn’t it the government’s job to support the underprivileged for the common good?
- Which sector is better situated to take on poverty and suffering?
What about Government Funding?

- Inherent skew toward the “haves”?
- NCRP: “Foundation funding is dwarfed by government spending and should not be thought of as a legitimate substitute for meeting the needs of diverse communities.”

Comments to the House Committee on Ways and Means, 2007
So Which Should It Be?

Broad or narrow?