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PubPol 671:

Policy & Management in the Nonprofit Sector

Lecture 2: Why Is There a Nonprofit Sector Anyway?

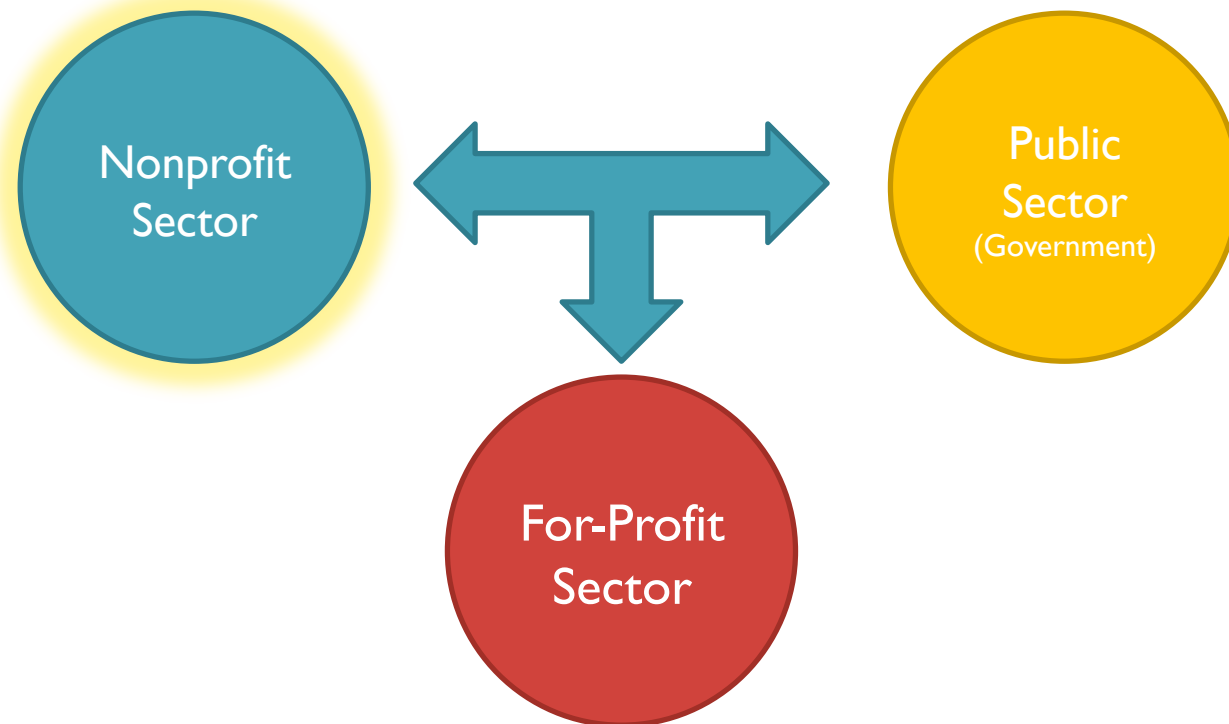
Neel Hajra



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





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

	Nonprofit	For-profit	Government
Formal	✗	✗	✗
Private	✗	✗	
Non-Profit-Distributing	✗		✗
Self-Governing	✗	✗	
Voluntary	✗		
Of Public Benefit	✗		✗



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



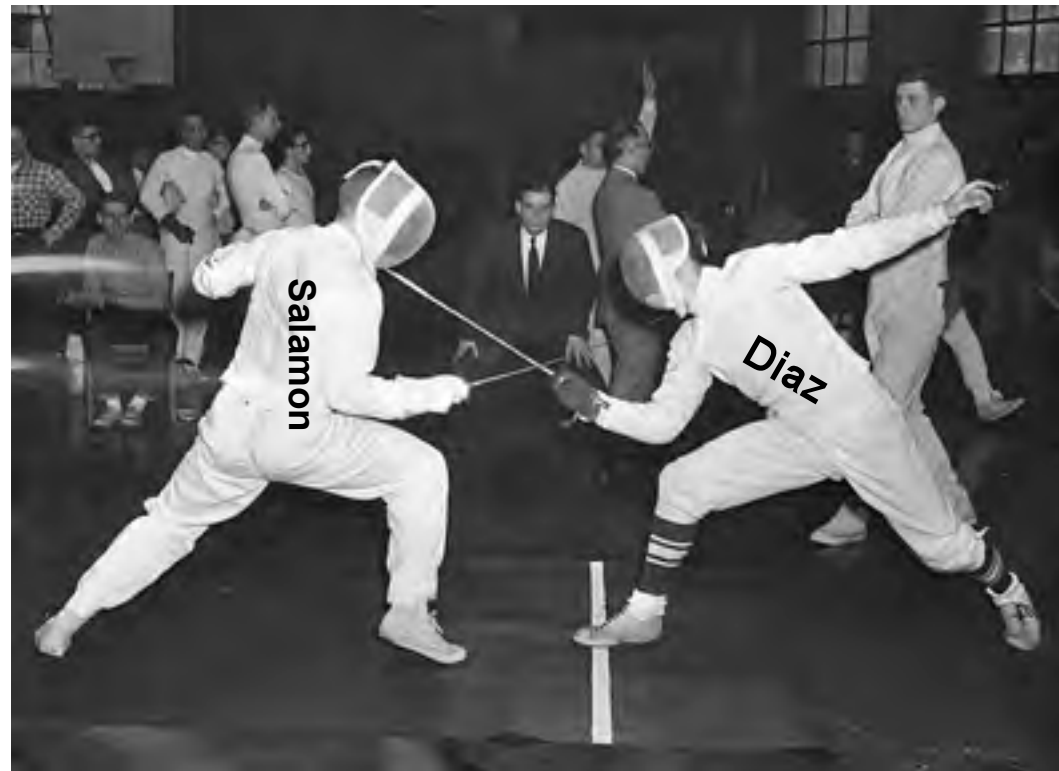
Solidarity



Broad View of “Public Good”

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

Diaz vs. Salamon



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?