Overview of Nonprofit Sector in the United States

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Introduction

US nonprofit Organizations

- Include public charities, human service organizations, educational organizations, foundations, professional and trade associations, nonpartisan advocacy groups, and faith-based organizations, etc.

- More than 1.5 million nonprofit organizations operate in the US.

- Examples of US Nonprofit Organizations:
  - Bill and Melinda Gates Foundation
  - Howard Hughes Medical Institute
  - Carnegie Corporation of New York
  - Nourishing USA
  - Goodwill Industries
  - United Way
  - ACORN
  - Habitat for Humanity
  - Family Promise
  - Teach For America
  - the Red Cross
  - Institute of Electrical and Electronics Engineers (IEEE)
  - International Council on Systems Engineering (INCOSE)
  - Heifer International
  - Translators without Borders
  - SOS Children's Villages.
The US nonprofit sector has great diversification within its subsectors. Among others,

- Human service organizations account for 34%;
- Education organizations, including tutoring for school children at learning centers and adult continuing education, account for 18%;
- Public and social benefit organizations, account for 13%;
- Health organizations account for 12%;
- Arts and culture organizations account for 11%;
- Faith-based organizations account for 6%;
- Environment protection, wildlife and animal rights’ preservation organizations account for 4%;
- International and foreign affairs organizations, which mostly focus on global disaster reliefs in hurricanes, earthquakes, and military confrontations, account for 2%.
Characteristics

• Concentrate on a vision and mission
  ⇒ Everything that a nonprofit does should be reflective of its mission.
  ⇒ Evaluation of the organization’s performance is ultimately based on its mission.
  ⇒ “Girl Scouting builds girls of courage, confidence, and character, who make the world a better place”. (Girls Scouts of America)

• Stay within the budget and may have a surplus
  ⇒ US nonprofits are permitted to accumulate services, surpluses, and contingency funds.
  ⇒ These positive balances are not referred to as “profits”, but to provide better services.

• Governed by volunteer, non-compensated board of directors. The Board has authority to:
  ⇒ Hire and dismiss top executives;
  ⇒ Establish compensation policies;
  ⇒ Ensure the fiduciary responsibilities for revenues, expenditures, and allocations.

• Has great economic impact
  ⇒ Employs more than 9% of the US workforce;
  ⇒ Generates 8.3% of the nation’s wages and salaries;
  ⇒ Manages 3 trillion dollars of the nation’s total assets and 1.4 trillion dollars of annual revenues;
  ⇒ Accounts for 5.2% of the nation’s gross domestic product.

• Strategically partner with government departments
  ⇒ Is viewed as responsible leaders of innovation to address urgent social issues.
  ⇒ Government compensates some key services that may not be provided by nonprofit organizations, such as services related to criminal offenders, severely mentally challenged people and other populations with special needs.
The federal tax codes associated with nonprofit organizations include 501 (c) 1, 2, 3, 4, 5, 6, and 7, which are assigned based on the organization's purpose and activities.

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<th>Nonprofit Tax Code Citation</th>
<th>Summary Description of Nonprofit Legal Status in the United States</th>
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<td>501 (c) (1)</td>
<td>Corporation originated under Act of Congress, including federal credit unions [which are specially chartered membership-based financial institutions]</td>
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<tr>
<td>501 (c) (2)</td>
<td>Title-holding corporation for a tax-exempt organization [organized for the purpose of holding title to property]</td>
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<tr>
<td>501 (c) (3)</td>
<td>Religious, educational, charitable, scientific, and literary organizations; and those testing international sports competitions; and organizations engaged in the prevention of cruelty to children or animals</td>
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<tr>
<td>501 (c) (4)</td>
<td>Civic leagues, social welfare organizations, local associations of employees</td>
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<tr>
<td>501 (c) (5)</td>
<td>Labor, agricultural, horticultural organizations</td>
</tr>
<tr>
<td>501 (c) (6)</td>
<td>Business leagues, chambers of commerce, real estate boards, etc.</td>
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<tr>
<td>501 (c) (7)</td>
<td>Social and recreational clubs</td>
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Financial Resources

Funding comes in the form of donations, grants, services, and revenue generated by fees. Among others,

- 45% were received as fees and services;
- 32% were from government grants and fees for services;
- 20% were from contributions and grants given by individuals, foundations, corporations, and bequests.

*Source: Giving USA Foundation, 2011; Wing, Roeger, & Pollack, Urban Institute, 2010*
Foundations and Corporations

More than 76,000 foundations estimated giving totaling 45.7 billion dollars in 2010, remaining at its highest level on record (Foundation Center, 2011).

*Notice: Foundation Center...

Is a national nonprofit organization established in 1956;
Has built agreements with over 450 organizations within global area to host Cooperating Collections Sites;
Provides a database of grant makers and grants;
Conducts and publishes research on trends in foundation growth, giving, and practice;
Offers an array of educational programs;
Has 2 sites in Beijing and Shanghai, China.

Fees for Services

The number of nonprofit organizations targeting service fees has grown substantially in the past decade;
These fees come from services in training, customized research, and evaluation, etc.

Purchase Service Contracts

Come from government and private sector:

Government Service Contracts

Are made up by federal, state, and local levels;
32,693 nonprofit organizations nationwide have government contracts and grants;
Payment methods include cost reimbursement, fixed costs, unit cost per individual or family, and performance-based payments;
About half of government contracts and grants are either cost reimbursement or fixed-cost payments.

Private Sector Service Contracts

Are comprised of corporate, foundation, and other nongovernmental organizations;
Include contracts of training, capacity-building service, research and evaluation service;
Cover other services such as community outreach, performing community needs assessment, and assisting with the establishment of collaborations, etc.
# Challenges

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<th>Revisions of Related Federal Revenue Codes</th>
<th>The National Economic Crisis</th>
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<td>Reducing tax reductions as credits for contributions made to nonprofit organizations was proposed; Number and amount of contributions by US citizens to nonprofit organizations will reduce once getting approval.</td>
<td>Resulted in: An increased demand for resources and services; A decrease in corporate, foundation, and individual giving; A loss of nearly 1/4 staff due to shrinking budgets; Staff burnout due to rising service case-loads and fewer available resources.</td>
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<th>Turnover Rate of Executives</th>
<th>Racial Diversification</th>
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<td>Nonprofits are experiencing the loss of executive leaders; Largely due to the “baby-boomer” population retiring; A projected 640,000 management positions will need to be filled by the year 2016; The situation calls for nonprofit organizations to begin the succession planning process.</td>
<td>84% of nonprofit executive positions are held by a Caucasian, while only 9.9% by an African American, and 4% by a Latino/Hispanic; 42% of service communities are white communities, while 22% are African American communities.</td>
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Main Goal:
Improve transparency and awareness of New Jersey Nonprofit Sector

Data Collection:
Received 493 responses in total
Research objects were selected from IRS records
Completed by executive staff online

Participating Organizations:
Organizations in Federal 501 (c) 3 tax exemption status and/or State of New Jersey nonprofit tax exemption status
Research Result

Core Mission

- Education: 23%
- Multipurpose Human Services: 16%
- Youth Development: 12%
- Community Empowerment: 9%
- Public/Society Benefit: 8%
- Volunteerism: 8%

Number of Clients Served Annually

- Less than 500: 47%
- 501-5,000: 40%
- 5,001-10,000: 9%
- More than 10,000: 4%
**Funding Sources**

- Donations/gifts from individuals: 25%
- Dues and membership fees: 13%
- State government: 12%
- Special events: 12%
- Foundations/corporations: 11%
- Federal government: 11%
- Local government: 10%
- Other: 7%
- 5%

**Challenges Reported**

- Funding: 62%
- Attracting retaining highly skilled staff: 13%
- Management: 12%
- Governance: 8%
- Other: 5%
Implications for China Civil Society

**Diversification of Staff and Managers.** Developing a diverse workforce can improve the effectiveness of work, which greatly depends on staff’s understanding of unique cultures or communities. Especially in terms of varied parts of China geographically, ethnically, linguistically, and culturally, it is imperative that diversity be included at all levels of nonprofit activities.

**Transparency and Openness.** Citizens are more likely to trust and financially support nonprofit organizations that with higher level of transparency. To avoid misappropriation of funds, nonprofit executives’ compensation should be overseen by government officials, private citizens, individual philanthropists, recipients of programs and services, other nonprofit organization stakeholders, as well as mass media.

**Technology Capacity.** Technology accounts for a great part in assisting nonprofit activities in the US— including online training, interactive real-time use of Skype, devices such as geo-spatial service needs mapping, etc. While comparing effectiveness and financial costs with using new technology, nonprofit organizations should conduct cost-benefit analysis.

**Utilization of Volunteerism.** Volunteers account for a significant part in US nonprofit activities. 17.1 million volunteers work in nonprofit organizations every day. They contribute about an estimated 15 billion hours a year. To take full advantage of volunteers, China nonprofits need to develop strategies of recruiting, training, maintaining, and compensating volunteers.

**Global Crisis Relief.** The 2010 earthquakes in China and Haiti served as a catalyst to spur NGOs, nonprofit and civil society entities to improve their capabilities in natural and man-caused crisis. Within the global area, relief work includes rescue, relief, recovery and redevelopment.
**Communication Strategy.** A communication strategy should include all persons who are employed with the organization, who serve the public’s interest, and who are key stakeholders. Effective communications enhance the organization’s brand, promote its services, and separate the organization from its competitors.

**Impact of Global Economic Recession.** Due to the economic recession, many individuals in local communities who have been impacted are seeking increased services from nonprofits. In addition to reduced charitable giving, some states have cut funds for public services, which increase the financial burden of nonprofits. While the economic climate in China is not as severe as in the United States, China nonprofits should be aware of the economic trend.

**Fundraising.** All board members should take the responsibility of fundraising. Some organizations can hire professional grant-writer to apply for grants. Remember to use “Friend-raising”, which means developing potential new donors while maintaining relational familiarity with current donors. And, be aware of diversification of funding sources.

**Mergers and Acquisitions within the Nonprofit Sector.** Recently, several previously independent Planned Parenthood agencies in the Midwest region of the US successfully merged, retaining most of the executive staff and creating a powerful capacity to lead, inspire, and create a high performing organization. In addition, some higher education institutions have successfully executed mergers in the US, such as Case and Western Universities, Harvard University and Radcliffe College, Rutgers University and Douglass College.

**Cross-sector and International Collaborations.** Professional schools-- such as schools of social work, nursing, law, business, public health, and education, can provide student interns in nonprofit organizations, who can offer services without much monetary compensation. Meanwhile, nonprofit organizations in the United States and China should develop new partnerships and expand existing alliances, including sharing of resources, evidence-based practices, and program replications.
To reach the scale and scope of enormous service needs, China civil society organizations need to expand in quantum magnitudes, scaling up in areas such as:

**Continuous training;**
**Developing professional certification and practice standards;**
**Compensation, financial, and benefit packages for executive leaders;**
**Institutionalizing evidence-based practice;**
**Creating legacy agencies as replicable models for new organizations.**
Key References


Overview of Nonprofit Sector in the United States

Huamin Philanthropy Brochure Series - 3

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