

Public and private funding for non-profit organizations



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Non-profits rely upon fundraising as their primary way to raise capital. Therefore, as the lifeblood of nonprofits, the methods or sources for obtaining funds must be carefully examined to determine which sources have the capability of helping nonprofits provide the necessary services that will accomplish the goals or mission of the organization. Fundraising in the non-profit sector, whether obtained from public or private sources, does not come without issues from the standpoint of public administration. These issues include, but are not limited to taxes, disclosure, legality, accountability and responsiveness to funders. Furthermore, the efficiency and effectiveness of nonprofit organizations have received the attention of many over the past decade (Reinhardt, 2009, p. 283). According to Anhier and Salamon (as cited in Reinhardt, 2009, p. 283), this attention has resulted in broadening the scope of schools of business and public administration to include nonprofit studies programs. Whereas the central issue of this study will focus on the influence of public, particularly government funding entities, versus private funding of nonprofit organizations, a body of research (as cited in Jang and Feoick 2007),” has established that the type of funding on which nonprofits rely influences their governance structures and management practices” (p. 174). In addition, the effect of public versus private funding sources on the possible collaboration of nonprofits with other organizations will be addressed. While there is little evidence concerning the reliance of public funding and the influence it may have on nonprofit collaboration, the significance of this issue to the field of public administration stems from the growing body of research reported by O’Leary (as cited in Jang & Feoick, 2007, p. 174) that supports interorganizational collaboration and a better understanding of government and governance. A <https://assignbuster.com/public-and-private-funding-for-non-profit-organizations/>

better understanding of governance will yield a clearer vision concerning all the processes that coordinate and control a nonprofit organization's resources and actions including ethics, resource management processes, accountability, and management controls.

Public versus Private Funding: An Opportunity for Nonprofit Organizations

The ability of nonprofit organizations to serve society's various groups is made possible through funding from multiple sources such as individual/private donations, fees, private foundations, and government grants and contracts (Jang & Feiock, 2007, p. 176). The process to securing funds can be quite costly in an already competitive arena of fundraising. Therefore, many nonprofit organizations seek the most cost efficient method of securing donors in an effort to maintain resources that allow mission goals to be fulfilled and clients served (Reinhardt, 2009, p. 284). The expectations of stakeholders and claims on nonprofit organizations must be carefully considered for many reasons. For example, Salamon (as cited in Jang & Feiock, 2007, p. 176) has reported that nonprofits that depend primarily on private funds such as client fees and commercial income are in a very different position than those nonprofit organizations that rely heavily on government funding for financial support. Salamon (as cited in Jang & Feiock, 2007, p. 176) further explained that " a funding environment driven by private donations, dues, and service fees may lead nonprofit organizations to act as profit seekers." With this thought in mind, it is not difficult to understand how public/government funding has fueled significant increases in the service functions of nonprofits (Jang & Feiock, 2007, p. 177).

Furthermore, Frumkin (as cited in Jang & Feiock, 2007, p. 177) reported that <https://assignbuster.com/public-and-private-funding-for-non-profit-organizations/>

government grants and contracts are responsible for over one-half of the revenue of nonprofit organizations, regardless of their altruistic, political, or religious origin. However, funding responsibility varies by sector, accounting for 66 percent of revenues for health-related nonprofits, 52 percent of revenues of social welfare organizations, and over 65 percent of human service organizations (Boris, de Leon, Roeger, & Nikolova, 2010). In addition to funding obtained from private sources, “ some research has argued that the flow of public funds into nonprofit organizations allows nonprofits to expand substantially their operations and to achieve greater levels of operational efficiency and improved effectiveness” (Frumkin & Kim, 2002, p. 8). Furthermore, Gazley (as cited in Jang & Feiock, 2007) collaboration creates other opportunities to serve clients with potential gains from interorganizational cooperation to also include “ economic efficiencies, more effective response to shared problems, improvements in the quality of services delivered to clients, the spreading of risks, and increased access to sources” (p. 178). While the benefits of collaboration are collective in nature, there are monetary costs to the individual organizations and their managers as well as the loss of managerial autonomy (Gazley, as cited in Jang & Feiock, 2007, p. 178). Whereas private funding tends to reinforce the individual organizational focus, therefore the benefits of collaboration will not outweigh the costs factor imposed on the notprofit organization (Gazley, as cited in Jang & Feiock, 2007, p. 178).

Public Funding: An Obstacle to Nonprofit Organizations

Although public/government funding is at the center of many nonprofit

organizations, several researchers including Frumkin, Rushton and Brooks
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(as cited in Jang & Feoick, 2007, p. 177) have explored the dependence of these nonprofits on government funding as a subject of debate. Studies conducted by Frumkin and Rushton and Brooks (as cited in Jang & Feoick, 2007) have raised concerns that government funding detracts from the distinctive purposes of nonprofit organizations within the service system therefore “ creating inappropriate accountability relationships and results in the loss of professional autonomy” (p. 177). According to Smith and Lipsky (as cited in Brown & Troutt, 2004) an ongoing tension exists in government’s relationship with the nonprofit sector because of the “ competition between government’s need to ensure equity and accountability in its spending of tax dollars and the nonprofit’s emphasis on responsiveness and flexibility in meeting clients’ needs (p. 9). Additional research by Smith and Lipsky (as cited in Frumkin & Kim, 2002, p. 3) explained that the acceptance of government funding often requires nonprofits to agree to serve clients who are different from their normal client base. To effectively serve these clients, nonprofits quite often must hire additional or more qualified staff which brings increased salary expenses that may or may not be reimbursed by the government.

Due to the labor -intensive compliance work that accompanies some forms of public support, nonprofit costs may increase under government funding (Frumkin & Kim, 2002, p. 3). With this said, a substantial amount of time must be dedicated to reporting and accounting to maintain compliance. As a result, many larger nonprofits have staff available for the sole purpose of soliciting, managing, and reporting on the use of government grants and contracts. With the additional fiscal and accounting requirements, the

management practices of nonprofit organizations are affected and require adjustments in order to secure and keep public contracts (Frumkin & Kim, 2002, p. 4). The increased demands and management adjustments have led some nonprofit managers to view public/government funding in a negative manner. A study of nonprofit managers conducted by Gronbjer (as cited in Frumkin & Kim, 2002) found that managers rated government funding as “more burdensome, less related to mission, and more expensive to maintain than all other funding sources, including private contributions, foundation and corporate grants, and earned income” (p. 4).

An Assessment of the Arguments

There are reported opportunities and obstacles when it comes to the utilization of

public/government versus private funds as a primary source of revenue streams for nonprofit organizations. Although “government funding clearly imposes administrative costs on nonprofit organizations, the impact of government funding may need to be understood within the context of a two-way relationship” (Frumkin & Kim, 2002, p. 7). In a study conducted by Saidel (as Frumkin & Kim, 2002, p. 7) findings indicated that virtually identical degrees of resource dependence on each other were shown by both nonprofits and public/government agencies. Lecy and Van Slyke (2012) have described the relationship between the government and the nonprofit sector as one that “evolves in an interdependent way. Governments benefit from stable relationships with nonprofits because risk is managed, goods are produced, and service delivered” (p. 206).

Regardless of the literature that has argued or suggested that public/government funding has a weakening effect on the nonprofits' ability to operate efficiently, there is substantial research that suggests otherwise. Some research has argued that the utilization of public/government funds has allowed nonprofit organizations to expand their operations and achieve greater levels of operational efficiency and improved effectiveness. Furthermore, some researchers have recognized that a mutually advantageous partnership between nonprofit organization and the public/government sector is possible because public funding creates the necessary conditions for this opportunity (Frumkin & Kim, 2002, p. 8).

Although competing arguments autonomy and accountability of nonprofit management cannot be overlooked, Salamon (as cited in Frumkin & Kim, 2002) has “ noted that when nonprofits are left to their own devices they tend to focus less on the needs of the poor because of problems generating income-flows to support the work” (p. 10). While private funding sources are also relied upon by nonprofit organizations, public/ government funding compliments and strengthens the nonprofit sectors other sources of funds and helps to broaden the availability of services. Without the availability of public/government funding for nonprofit organizations, the potential for these organizations to reach new heights in their scale of operations would be impossible (Frumkin & Kim, 2002, p. 10).

Conclusion

The role of public administration in this twenty first century must carefully examine the methods for obtaining funds, whether public or private, as

sources of revenue for managing nonprofit organizations. The main objective is to raise money in the most cost effective way, while seeking donors that share the same goals for meeting particular needs or providing necessary resources that are unique to the nonprofit organization. Although most organizations rely on private funding sources, nonprofits should not overlook the opportunities to collaborate with other organizations, or reject the possibility of broadening the scope of the organization and the group it serves, as a result of the access of public/government funding.

Whereas private funding can be used in a more flexible manner with fewer stipulations or strings attached, the availability of public funding at the local, state, and federal levels of government level and the opportunities for growth that these entities have the ability to provide, cannot be overlooked. As Jim Hizer (2014, November 19) stated in his blog concerning the pros and cons of public sector funding, public administration, and economic development, “ if they don’t invest it in your organization, they’ll invest it somewhere else” (para. 5).

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