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## Public Expectations and Nonprofit Sector Realities: A Growing Divide With Disastrous Consequences

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*This article suggests that there is a growing disconnect between the public's expectations for nonprofit organizations and the operational realities faced by nonprofit organizations. This disconnect is a problem of image as well as a deeper problem of meaning and substance. The image problem relates to inaccurate perceptions about the size, use of volunteers, and sources of revenue of nonprofit organizations. The problem of substance relates to the public's growing misunderstanding of the legitimate and essential role of nonprofit organizations to engage in the public policy decision-making process to help set social priorities and allocate resources. The relief efforts associated with September 11, 2001, highlight how the disconnect between the public's expectations and nonprofit sector operations is beginning to have adverse consequences for the nonprofit sector. The article concludes with suggestions for how nonprofit organizations can better align public expectations with their operational realities.*

Much of what is believed about the nonprofit sector and how it operates can be traced back to the early observations of Alexis de Tocqueville in his classic *Democracy in America* (1945/1994). Tocqueville was interested in understanding the dynamics of America's new democracy. He was fascinated with the propensity of small groups of citizens to come together voluntarily to use their time and money to (a) provide services for their fellow citizens and (b) peacefully challenge their government by using their guaranteed rights of free speech and the right of assembly.

Over the years, the nonprofit sector has romanticized Tocqueville's (1945/1994) observations to present a modern-day image of the nonprofit sector as being composed of relatively small, volunteer-driven organizations that largely rely on contributions of money, time, and goods from individual contributors. It's not that Tocqueville's observations were wrong—it's that the nonprofit

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*Note:* These comments are adapted from a speech delivered at Georgetown University's Waldemar A. Nielsen Issues in Philanthropy Series, The Center for the Study of Voluntary Organizations and Service and The Georgetown Public Policy Institute, March 22, 2002.

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sector has evolved into something far different since 1831. Unfortunately, this inaccurate image of the nonprofit sector is contributing to an incorrect picture of its current operations, weakening its role as social change agents within American democracy and creating a growing divide between public expectations and nonprofit sector realities.

#### WHAT IMAGE PROBLEM?

Today's image of the nonprofit sector as largely relying on volunteers or underpaid, hard-working professionals, for whom compensation is neither required nor sought because of their unwavering commitment to a particular cause, is increasingly untrue and problematic. Based on 1994 data from the Independent Sector, the nonprofit sector represents more than 1 million organizations with annual funds of \$568 billion and employs 9.7 million full- and part-time employees and 5.5 million volunteers as full-time employee equivalents (see Abramson & Salamon, 2002). These paid employees have every right to expect that they will be able to afford a decent place to live, have adequate health insurance, and a comfortable retirement. Moreover, many nonprofit organizations are multimillion dollar institutions whose operations require a full-time, highly trained staff.

Nonprofit hospitals, United Ways, international relief agencies, universities, and foundations are among the many types of nonprofit organizations that require full-time employees with high levels of skill, talent, and professionalism that cannot be reasonably expected of a part-time volunteer or from a poorly paid workforce. In addition, with the exception of foundations, all of the organizations just mentioned are likely to receive financial support from multiple sources, including individuals, government contracts, foundation grants, and fees for services. These staffing and funding realities mean that some of the largest and best known nonprofit organizations do not operate in ways that fit the romantic image of the nonprofit sector that is ingrained in the public's consciousness.

The image that the average citizen has of the nonprofit sector is likely to be wrong when applying his or her understanding to the largest nonprofit organizations that are the most well-known. It's not that some nonprofit organizations don't use volunteers; it's that not all of them do and only a few them rely solely on volunteers. It's not that nonprofit organizations don't receive financial contributions from individuals; it's that many of them also receive substantial financial support from local, state, and federal governments, corporations, and foundations. It's not that there aren't small nonprofit organizations staffed by committed people who receive modest salaries; there also are large nonprofit institutions that must pay talented professionals market rate salaries to ensure quality service. It's not that nonprofit organizations don't seek to make a profit when providing their services, it's that an increasing number of

nonprofit organizations are making profits through successful for-profit ventures that provide revenue to subsidize their nonprofit activities.

In retrospect, it seems clear that the nonprofit sector always has had something of an identity crisis. Its very name is defined in terms of what it is not rather than what it is. To put it in marketing terms, the nonprofit sector's brand identity is at best confusing and, during times of intense public scrutiny, can reasonably lead the average citizen to believe that the nonprofit organization in question is acting in an inappropriate manner. Whereas the nonprofit sector has matured and evolved over the years, the public's understanding of us has not. The result is often public disappointment, frustration, and, occasionally, anger. The irony in this is that the nonprofit sector must shoulder much of the blame for this lack of clarity about who we are, how we operate, and our real value to American society.

Unlike other sectors, the nonprofit sector has done little to help evolve the public's understanding of its operations and role in American society. By comparison, the average citizen can easily differentiate between the characteristics of a major corporation and a small business and what can be expected from each. Moreover, a scandal involving one company or small business seldom impugns the reputation of all for-profit companies, even those that mirror the offending organization in size, complexity, and product distribution. By contrast, any breakage, spillage, or theft that would be accepted as the normal cost of doing routine business for a for-profit or government agency is considered unacceptable for a nonprofit and proof of the entire sector's ineptitude.

In the past 22 years, the nonprofit sector has done a remarkable job of cataloguing both the variety of nonprofit organizations (the national taxonomy) and the universality of charitable giving and volunteering, across ages, income levels, and racial and ethnic groups. These were important contributions and necessary first steps. Unfortunately, this research, albeit unintentionally, helped to reinforce a romanticized view of nonprofit organizations. The effort to document the widespread support of nonprofit organizations through the voluntary contributions of time and money has led many to erroneously believe that such contributions are the only sources of support for nonprofit organizations.

#### WHAT SUBSTANCE PROBLEM?

Compounding the nonprofit sector's image problem is an even larger challenge of meaning and substance. By substance, I mean the question of why the nonprofit sector does what it does. It is both ironic and profoundly disappointing that we have forgotten why Tocqueville (1945/1994) was so fascinated with the nonprofit sector in the first place. He was interested in our sector's unique and active participation in the democratic process. As we have focused on Tocqueville's description of how we look, we have forgotten his intense fascination about who we are and what we do. At its core, the nonprofit sector is

about the capacity of citizens to come together to improve the lives of people and to influence government at all levels to act in ways that support their views. As Tocqueville understood,

Governments, therefore, should not be the only active powers; associations ought, in democratic nations, to stand in lieu of those powerful private individuals whom the equality of conditions has swept away. As soon as several of the inhabitants of the United States have taken up an opinion or a feeling which they wish to promote in the world, they look out for mutual assistance; and as soon as they have found one another out, they combine. From that moment they are no longer isolated men, but a power seen from afar, whose actions serve for an example and whose language is listened to. (p. 109)

The challenge for our various national and local membership organizations is that not all nonprofit organizations share the same view on what government should do. It is this diversity of strongly held views engaged in active debate that preserves our democracy.

By whatever name is used: the nonprofit sector, the independent sector, the third sector, the nongovernmental sector, the social sector, or public benefit corporations, our sector is starting to lose touch with the American people. The fact that we can't agree on what to call ourselves underscores a larger problem that we aren't sure what we stand for and as a result no one else knows what we stand for. The questions that loom before us as a sector are, Who are we and what do we stand for?

The nonprofit sector's inability to uniformly answer these questions is contributing to the public's lack of understanding about the larger purpose and substance of the work of foundations and nonprofit organizations. At their best, nonprofit organizations and the foundations that support them are social change agents. National and local foundation and nonprofit membership organizations must expand their horizons beyond their perennial focus on the narrow issues of greater tax deductibility for the charitable contributions of nonitemizers, the rollover of individual retirement accounts for charitable purposes, or whether the excise tax for private foundations is decreased. These are important issues that should be addressed. However, efforts to prime the pump to create greater resources should not be confused as a substitute for sustained and meaningful discussions on how to bring about a more just society.

By almost exclusively pursuing issues of expanding the available charitable resources, the nonprofit sector is failing in its larger purpose to actively and energetically engage in the democratic process of setting social priorities and allocating resources. Rather than hiding out on the great issues of our day—universal health insurance, persistent poverty, the lack of affordable housing, and AIDS—the nonprofit sector should be at the forefront of these discussions.

These comments are not intended to be controversial. They are based on the belief that although foundations and nonprofit organizations will disagree on strategies and approaches, as a sector, these institutions are important actors in the civil discourse about how our government responds to social injustice and disadvantage at the national and local levels. Unfortunately, the nonprofit sector's increasing timidity about actively engaging in the political process on social issues is beginning to have negative consequences. Foundations are so unwilling to fund advocacy by nonprofit organizations that many have guidelines prohibiting such support. This trend has become so troubling that the Alliance for Justice and the Council on Foundations have been actively engaged in efforts to re-educate foundations about the ways they can legally and appropriately engage in public policy (see Council on Foundations, 1999; Schadler, 1998).

More disturbing is that in recent years, several congressional leaders have introduced bills that would have severely curtailed the ability of nonprofit organizations and foundations to actively participate in the democratic process under the mistaken view that they have no legitimate role in the public policy decision-making process. Such legislation, if passed, would have enormous negative consequences for our democracy.

Ideally, the public should view the nonprofit sector as the place where people gather to actively promote their views of improving the quality of life for all. In this context, foundations provide nonprofit organizations with the investment capital, along with other sources of support, to carry out their activities. Certainly, nonprofit organizations are more credible than either government or business in raising tough social issues and bringing citizens with opposing views together to articulate a common strategy. Who disagrees that it is the responsibility of every citizen to vote and that every valid vote should be counted? Who argues that every child shouldn't have access to health care or a quality education? What challenges our society is how to achieve these goals. The nonprofit sector should actively assert its important voice in shaping the answers to these questions.

And yet, our sector doesn't appear headed in this direction. We leave the most challenging and difficult questions of poverty and social justice to a precious handful of individual nonprofit organizations and foundations that have neither the collective clout, funding, nor diversity of opinion to be effective in helping to shape public opinion and fashion a political compromise.

#### PUBLIC POLICY CONSEQUENCES

The disconnect between public expectations and nonprofit sector realities around both image and substance has started to erode the public's confidence in our sector. The responses by nonprofit organizations to the September 11, 2001, terrorist attacks provide a prime example. The loss in public confidence

is due, in part, to concerns raised about the legitimacy of overhead expenses, executive compensation, and organizational efficiency in the distribution of resources, each of which can be traced back to romanticized views about the nonprofit sector. These concerns, which led to congressional hearings, stem from the disconnect between the public's belief about how nonprofit organizations should operate and the reality of how nonprofit organizations actually operate.

Almost from the beginning, the media and the public began the drumbeat about whether all monies donated would reach the individuals affected by the attack. The idea that there would be no legitimate overhead expenses in staffing, coordinating, monitoring, and disbursing monies in connection to the September 11 attacks was absurd. And yet, faced with the enormous pressure of public expectations, many of the nonprofit organizations directly involved in the relief efforts felt obliged to say that every dollar contributed would go to victims of the attack. This required many of the nonprofit organizations, for example, the September 11th Fund, to separately fund-raise to cover legitimate and appropriate overhead expenses. In testimony before the Subcommittee on Oversight of the House Committee on Ways and Means, Joshua Gotbaum, CEO of the September 11th Fund, stated that "every dollar raised by the September 11th Fund goes directly to grants to meet the needs of victims, their families and affected communities. We have raised all of the Fund's administrative costs separately."<sup>1</sup> Rather than taking advantage of a teachable moment, we reinforced the public's misunderstanding that nonprofit activity doesn't cost anything and can be carried out for free.

It should have been expected that the media and the public would be interested in the compensation of nonprofit executives. However, it was surprising that even the hero of New York, the now knighted former mayor Rudolf Giuliani, has come under criticism for the salaries that will be paid to employees of the Twin Towers Fund.

The Twin Towers Fund was established by Giuliani to help the families of rescue workers, especially police officers and firefighters, who died in the World Trade Center attacks. Notwithstanding that fund officials took the pledge that all overhead expenses would be raised separately and that overhead administrative expenses are projected to be less than 1%, or \$2.25 million of the \$150 million that has been raised to date, the salaries are the target of continuing public criticism (Barton & Herszenhorn, 2002a, 2002b). In addition, representatives of some of the victims' families have objected to removing city oversight of the fund to a private nonprofit charity over concerns about financial accountability.

Finally, there has been ongoing public criticism about the perceived lack of efficiency among the various relief agencies and emergency funds in assisting the victims of September 11th. Families of the victims have complained that it has been difficult for them to receive funds because of the lack of coordination among funding sources and the limited information of volunteers who are assisting them.

The Red Cross's Liberty Fund received substantial criticism for its decision, which it later reversed, to use \$264 million of the monies raised to create a permanent fund that could be used in the event of future terrorist acts. In testimony at the congressional hearings, New York's attorney general threatened legal action against the Red Cross on the basis of consumer protection laws and charitable giving regulations if it did not expend all of its monies on the September 11th disaster. He went on to say that the Red Cross's actions amounted to a violation of the public trust. I would note that Minnesota's attorney general raised similar questions in 1998 about monies raised by the Red Cross in connection with flood relief (Williams, 2001). The Red Cross also faced criticism about the blood donations collected from 50,000 people that had to be destroyed because they were not needed. These and other concerns led to the resignation of the Red Cross's president, Bernadine Healy.

These events were a lost opportunity to teach the public that nonprofit organizations operate differently from government agencies. The nonprofit sector does rely on volunteers, especially during emergencies. And, the sector does not have the existing infrastructure to easily coordinate services. The unfortunate part of all of this is that rather than viewing the nonprofit sector as heroes that were able to quickly mobilize during an unprecedented emergency, many Americans now have negative perceptions of the nonprofit sector's capabilities and intentions. It also does not help that several of the organizations that have assumed leadership in responding to the tragedy have publicly stated that they are no longer accepting contributions when there are still people in need as a result of the tragedy (Wilhelm, 2002).

## CONCLUSION

The nonprofit sector is at a critical crossroads. It has an image problem that masks an even larger problem of purpose and meaning. Others are inaccurately defining the nonprofit sector, and if this is not corrected, it will continue to undermine the public's trust and confidence and, possibly, the participatory nature of our democracy. What needs to be done?

- Nonprofit sector leaders need to acknowledge forthrightly the magnitude of the problem. Nonprofit and foundation membership organizations at both the national and the local levels need to coordinate their efforts to present an accurate picture of the operational realities of the nonprofit sector.
- The nonprofit sector must learn to respond quickly and aggressively to every media inaccuracy, misrepresentation, or misunderstanding of the nonprofit sector, whenever it occurs.
- Public policy research is needed that underscores the variety and differences among nonprofit organizations so that we may forever debunk the one-size-fits-all romanticized view of the nonprofit sector that now exists.

- Foundation and nonprofit sector membership organizations at the national and local levels need to actively engage with the state attorney generals about the changing nature of nonprofit organizations and what laws should apply to which activities.
- Most important, foundations and nonprofit organizations must affirm, at every opportunity, that the larger purpose of nonprofit organizations and foundations is to be social change agents. These institutions must balance narrow self-interest with the larger purpose of fulfilling the common good. This will be difficult, require national and local membership organizations to take risks, and will not be universally accepted within or outside of the nonprofit sector.

The growing divide between public expectations and nonprofit sector realities cannot be allowed to grow any larger. The time for the nonprofit sector to act is now.

#### Note

1. Statement of Joshua Gotbaum, chief executive officer, September 11th Fund, New York, New York. Testimony before the Subcommittee on Ways and Means. Hearing on Response by Charitable Organizations to the Recent Terrorist Attacks, November 8, 2001.

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*In 1994, Emmett D. Carson, Ph.D., was named president and CEO of The Minneapolis Foundation, providing leadership for one of the largest and oldest community foundations in the United States. He also serves as president of Community Loan Technologies, a foundation subsidiary that manages national and statewide lending programs to nonprofit organizations.*