NONPROFIT COMPETITION AND THE ALLOCATION OF PHILANTHROPIC RESOURCES

Dennis Young, Bruce Seaman, Janet Johnson, Amanda Wilsker, Lewis Faulk, Nicholas Harvey

Georgia State University, Atlanta, Georgia, United States

In the present era of economic and fiscal stress, nonprofit organizations in the U.S. and other countries around the world are under increasing pressure to collaborate and to consolidate their resources in order to operate more effectively and efficiently. Much of the pressure to consolidate derives from donors and philanthropic institutions who believe that their gifts and grants would be better utilized if nonprofits reduced the degree to which they compete for resources and markets or duplicate each others’ services. However, the arguments for nonprofit consolidation suffer conceptually from two weaknesses. First, as a theoretical matter, it is unclear whether nonprofit competition is harmful or helpful in advancing public welfare. In particular, the same policy arguments used to promote competition and discourage collusion in the business sector are largely applicable to the nonprofit sector. Moreover the rhetoric of collaboration in the nonprofit sector itself competes with a simultaneous promotion of social entrepreneurship which implicitly encourages competitive initiative. Second, and perhaps more fundamentally, the present state of knowledge about the degree of consolidation and competition across the nonprofit sector is rudimentary at best. Lacking rigorous or comprehensive studies of the degree of consolidation or competition in nonprofit industries, the present policy debate proceeds largely in ignorance of the facts on the ground.

The present paper begins to address this research lacuna by examining the patterns of concentration in a dozen metropolitan areas and two dozen nonprofit industries in the United States, with an eye towards discerning whether philanthropic investments are targeted to reducing or increasing the existing levels of consolidation in nonprofit industries. In particular, we compile data from IRS 990 tax forms on the expenditures of U.S. nonprofits, and on particular revenue streams for these organizations, including charitable contributions and government grants. We utilize standard measures of industry concentration, including Gini coefficients and Herfindahl indices, and compare the levels of overall expenditure concentration in particular industries and metro areas to those of charitable contributions and government grants in those same venues. We expect to find substantial variation among both industries and subsectors, reflecting differences in the nature of services provided and in the sizes and traditions of particular cities.

We also hypothesize that philanthropic contributions will be concentrated more heavily on larger nonprofit organizations than smaller ones, encouraging further consolidation of the sector. The reasons for this vary, including intentional policy decisions of institutional funders such as corporations and foundations, and the impact of name recognition and fundraising investments by larger nonprofit institutions on individual donors. We also expect to find similar tendencies for government grants, given that larger nonprofits are more likely to have the sophistication to navigate complex systems of government funding. The latter, however, may be mitigated by a
greater inclination of government agencies to distribute resources more equally across constituencies.

Finally, in light of trends toward the proportional diminishing of philanthropic support of nonprofit organizations over time, we discuss the implications of greater future emphasis on nonprofit earned income. In particular we consider whether this new emphasis may drive the sector towards a more competitive and decentralized structure, rather than further consolidation and concentration.

References

Woods Bowman (2009), “Competition between Nonprofits and For-Profits”, draft for presentation at ARNOVA, October


