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A Model for Evaluating Charitable Contributions in Nonprofit Organizations in Kalamazoo County, Michigan

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A MODEL FOR EVALUATING CHARITABLE CONTRIBUTIONS IN NONPROFIT
ORGANIZATIONS IN KALAMAZOO COUNTY, MICHIGAN

by

Kristen Smith

A dissertation submitted to the Graduate College
in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
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A MODEL FOR EVALUATING CHARITABLE CONTRIBUTIONS IN NONPROFIT ORGANIZATIONS IN KALAMAZOO COUNTY, MICHIGAN

Kristen Smith, Ph.D.

Western Michigan University, 2021

Reported data suggest there has been an increase in charitable giving and the number of charitable organizations in communities nationwide over the last 20 years. It is widely believed that growth in nonprofit organizations would be a valuable asset for a community, but limited research evaluates the return on investment in these organizations. To ensure these organizations are good stewards of resources, various forms of accountability have been established, including websites like “Charity Navigator™,” which provide rankings and scores to charities nationwide. Data repositories like these make it possible to investigate variations in these organizations' funding, growth, and impact. This study considers how philanthropic giving has changed compared to the average income in the county, as well as the overall impact on health and human services associated with increases in nonprofit funding. This study also considers compensation structure over an eight-year period. A previous study (Smith et al., in press) found that mental health organizations in Kalamazoo County, Michigan, reported statistically significant differences in annual budgets and funding growth over an eight-year period. However, this growth was not predictive of specific health outcomes. This study attempts to further quantify the benefit from increased revenue and contributions to all health and human service nonprofit organizations in Kalamazoo County. Data considered was obtained from the Form 990s that nonprofit organizations submitted to the Internal Revenue Service from 2012-2018.

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CHAPTER I

INTRODUCTION

Charitable, nongovernmental, and nonprofit organizations have existed in the United States for centuries as a way to provide resources and services to communities in need (Pynes, 2013). Although those three organization types have varying definitions, they are all private organizations that exist and are established to support wellness and meet the unmet health and human needs of the communities in which they reside (Kearns, 1994). These organizations have a storied history in America as they formed in part to provide necessary health and human services. However, as time went on, they also became a way for wealthy benefactors and volunteers to give back and support important causes (Rosenthal, 2003). The history of charity in the United States, specifically the charitable health and human service-providing nonprofit organizations, can be identified by its roots in caring communities and policy changes resulting in growth in the sector. This research will examine how funding has been explicitly directed to organizations and its impact on this sector in one county in Michigan. In addition, this study observes all nonsecular 501(c)(3) organizations precisely because, although churches are granted tax-exemption, they do not always provide direct service to the county as a whole.

In the early 1800s, charitable and philanthropic giving prompted the development of new social organizations and a growing sense of responsibility among business leaders who saw value in supporting social causes (Muslic, 2017). Since then, and for the past two centuries, the U.S. government has adopted policies to adjust to social organizations' growth and encourage charitable giving (Muslic, 2017). While the historical financial support for nonprofit

organizations came from several sources, recently there has been a growth in private donations and the number of private foundations that manage donations and missions (Boris, et al., 2010). The growth in the nonprofit sector has widely been believed to benefit individuals and individual communities. However, national scandals and issues with corruption have also encouraged an inquiry into the return on investment in philanthropic giving (LeClair, 2018). As these private organizations have evolved, community involvement and trust have also shifted (LeClair, 2018).

With the growth in funding and charitable contributions to the health and human service nonprofit sector, examining the funding impact at the community level should interest those funders and private donors (Charity Navigator, n.d.). In addition, there is inherent value to taxpayers, as these local organizations do not contribute to the community through taxation, which suggests there is also value in exploring the nonprofit sector's overall return on investment. However, due to nonprofit organizations' heavy reliance on philanthropic giving or donated time, space, or monetary resources, as well as public and government funding and exemption from business-related taxes, nonprofits risk losing funds and public trust without demonstrating their social impact on the causes they serve. Fortunately, readily available data and the existence of online nonprofit accountability trackers make this kind of exploration possible.

Background

The nonprofit sector in the United States, also known as “the third sector,” often provides necessary services to fill gaps and support the work of the public sector (Kearns, 1994). The origins of the nonprofit sector can likely be traced back to benevolent societies and mutual aid organizations whose focus was on caring for community members (Kilsdonk, 2016). Benevolent societies have likely existed for many centuries. Some of the earliest in the United States,

documented in the late 1700s and early 1800s, were born from religious and community leaders aiming to improve their communities (Kilsdonk, 2016). These types of organizations began with the sole purpose of improving the lives of those experiencing hardship and generally improved the community they resided in (Kilsdonk, 2016). Many, if not all, of these benevolent societies were religious. Though community care often has religious roots, Alexis de Tocqueville, a French historian and philosopher, characterized Americans as having the inherent nature to participate in community care, most likely happening in these types of organizations and churches (Kilsdonk, 2016). Charity, existing for centuries, is a vital value propping up communities worldwide (Levenson, 2018).

Charity's roots in religion and then historically being carried out by monarchies as a representation of being chosen by God have helped perpetuate the concept and value of community care in society (Levenson, 2018). Philanthropic activity and charitable giving have been a part of how societies care for each other well before tax exemptions and formal nonprofit organizations (Levenson, 2018). That giving can take the form of community members looking out for and caring for one another in times of hardship. It can take the form of a landowner protecting those who care for the land. It can take the form of engaging as volunteers in benevolent organizations. Charitable giving can take the form of resource sharing, donations of money and time.

Charitable giving and charitable organizations, commonly known today as nonprofit organizations, have existed in some form since early civilization (History of Giving, 2016). The primary focus has been to meet the communities' needs and advance various causes (History of Giving, 2016). Since its inception, the private nonprofit sector has seen substantial change, and these organizations have widely been believed to provide a great benefit to their communities.

The nonprofit sector in the United States has existed for over a century. It has grown due to the government's encouragement for the public to give and contribute to their communities' advancement through tax incentives (History of Giving, 2016). Philanthropy has contributed to the advancement of social causes, led to greater innovation, and has been the leading driver of nonprofit organization growth over the last century (Rosenthal, 2003). Until the early 20th century, the government had little involvement in the oversight of charity and philanthropic giving but became involved in policy change and incentivizing giving as a way to divert funding to health and human service needs (Duquette, 2019).

The nonprofit sector has evolved through history to meet community needs and has also been behind new policies. Policies, including the Tax Reform and Tax Revenue Acts, have been introduced by the federal government to encourage charitable giving to the nonprofit sector, and there has been significant growth in both size of organizations and the number of organizations in the sector since its inception (Duquette, 2019). Other policy changes, including the introduction of reporting organization financials, have improved the sector's focus on the efficiency and effectiveness of individual nonprofit organizations in this time (Mosley & Smith, 2018). However, there is limited research to evaluate and measure organizational impact on the community and whether there has been a notable increase in funding. While nonprofit organizations may measure their metrics and impact on a micro-scale, a broader exploration could help determine the potential impact of the nonprofit sector's impact on community needs or improvement in community health. Nationwide, in 2019 alone, nonprofit organizations, including hospitals, have achieved almost \$2 trillion in revenue and have increased operating capacity as well as a good reputation in pledging their services for impacting essential health and human outcomes (NCCS, 2020). The United States is a global leader in the nonprofit sector and

often sets the pace of policy change (Gürcan, 2015). However, the evaluation of impact remains. For example, there is limited research evaluating the increased funding on communities these organizations serve.

Statement of the Problem

In 2020, economic instability across the country increased, and more than 50 million Americans have experienced or are currently experiencing a financial crisis (Moore, 2020). As a result, more and more Americans have begun to increase their reliance on economic aid from the government and support from their local communities. A recent nationwide survey conducted by the National Nonprofit Research Organization (NNRO) determined that around 50% of nonprofits felt the burden of the need for increased services to support their communities in need (NNRP, 2020). Among other things, the economy's current state is projected by the NNRO to increase help-seeking behavior. What remains unknown is who benefits as nonprofits' funding grows and whether the increased funds are directed to address the actual needs. *Nonprofit Quarterly* published a poll suggesting that donors are becoming increasingly interested in the impact of their charitable donations and what percentage of their contributions is going to overhead (Andino, 2017).

Nonprofit organizations have been leaders in community care since the 1900s (Muslic, 2017). Their purpose and function are often to address community health and human needs (Kearns, 1991). In times of economic uncertainty, people tend to lean on charity and philanthropic efforts to address social and economic needs (Muslic, 2017). Individual nonprofits are tasked with strategic planning to address community needs, but many factors contribute to effectiveness within the nonprofit sector (Kushner, 2018).

Kalamazoo County Nonprofits

In 2018, over 200 nonprofit service-providing organizations (excluding private nonprofit foundations) served the health and human needs of Kalamazoo County, Michigan (IRS, n.d.). By 2021, Kalamazoo County was home to 205 private, not-for-profit health and human service organizations with budgets totaling over \$300 million a year in revenue (IRS, n.d.). Some of these organizations do similar work and may duplicate services, while others may provide complementary services. Each year, nonprofit organizations report to the Internal Revenue Service (IRS) the revenue, charitable contributions, executive compensation, and more to ensure financial transparency and maintain tax exemption. A previous study concluded that Kalamazoo County's nonprofit funding growth was not predictive of community health outcomes (Smith et al., in press). This previous study highlighted the need to examine further the benefits of increased funding within the nonprofit sector in Kalamazoo County.

A previous study on nonprofit funding and health outcomes found significant revenue growth in the local nonprofit sector from 2012 to 2018, with over 30 new organizations starting in the time period (Smith et al., in press). In that study, and to manage a large number of organizations, the study categorized those organizations by using Maslow's Hierarchy of Needs by services these organizations provide, from basic needs provision to mental health services, to arts and education programming. After categorizing the NPOs into one of three categories, the study found that mental health organizations had a statistically significant funding growth from 2012-2018, while the other two categories, survival needs and actualization needs organizations, did not significantly change (Smith et al., in press). This increase in revenue for mental health organizations was predictive for just three health outcome variables. As mental health funding

increased, homelessness and car deaths went down, while suicides went up. Future investigations into variables associated with growth in nonprofit funding should be considered.

Kalamazoo County Philanthropy

Kalamazoo County has an active philanthropic community. The greater Kalamazoo area is home to three Fortune 500 companies and two large health systems with annual revenues of over \$200 million and \$900 million, respectively. Each of those two health systems supports a connected nonprofit foundation and rich history of charitable giving (IRS, n.d.). Over 100 private nonprofit foundations are active in Kalamazoo County, Michigan (IRS, n.d.). Unlike nonprofit service providers, nonprofit foundations do not fundraise. The most common funding source for nonprofit foundations and nonprofit service providers is a single person or group, and contributions to nonprofit foundations are tax-deductible. They do not provide direct service but rather provide grants and funding support for other organizations that promote and support their foundation values (Foundation Source, 2020). Kalamazoo County has a history of philanthropy and has become home to a community of charitable givers, both financially and volunteer-based. In fact, in 2018 alone, Kalamazoo nonprofit service providers received over \$200 million in private charitable contributions (IRS, n.d.).

Nonprofit organizations have faced pressure from their communities and funders to be effective for quite some time (Mosley & Smith, 2018). Research on the effectiveness of nonprofit organizations suggests there is value in adopting performance measurement standards for these organizations. However, there is no agreed-upon method for evaluating the relationship between funding and a county's health and human needs. This research will examine how nonprofit funding relates to community health outcomes, the benefit of nonprofit financial growth on health outcomes, and how funding is used to impact nonprofits, with the intent of

evaluating the return on investment (ROI) of Kalamazoo County, Michigan, nonprofit organizations. Measuring individual ROI is a growing trend with nonprofit organizations (Stombaugh, 2019). Return on investment measurements is a performance measurement method that can assist community members and funders with understanding the impact of the organizations on their communities (Stombaugh, 2019). While private nonprofit organizations have the freedom to measure their performance however they choose, there is a benefit to funders and donors in knowing what their dollars are paying for (Andino, 2017). In addition, there is an increasing desire from donors to know how much of their gift will go to overhead and how much impacts services and programming (Andino, 2017).

Overview of the Study

This study aims to evaluate the benefits of charitable giving and charitable organizations in one community. In addition, this study examines how philanthropy and charitable giving have changed over the 2012-2018 time period in the sector, the connection between growth in funding and executive compensation, and any relationship between funding, philanthropy, and health outcomes. The results of this research will assist local communities, funders, and nonprofit organizations in measuring and evaluating the impact their dollars have on improving community health.

Significance of Research

Approximately 1.5 million organizations registered as tax-exempt with the Internal Revenue Service (IRS) in 2016, a 4.5% increase from 2006 (NCCS, 2020). Of those, there are roughly 370,000 providing public goods and services as described in this paper and about 100,000 private foundations (Andino, 2016). Research has examined nonprofits on organizational performance measures, and it is common to refer to it as “effectiveness.”

However, it is unknown whether increases in funding to specific content areas are related to changes in intended health outcomes. Additionally, although the nonprofit health financial sector has been studied in the past, there has been little research to determine the return on investment for nonprofit organizations (Kushner, 2018). Organizations can improve their transparency if they understand and report on their contribution to health outcomes and the overall benefit and impact of nonprofits in the Kalamazoo community. It also stands to reason that individuals who wish to continue providing funds to nonprofit organizations would benefit from understanding the performance measure on community health of those organizations.

While previous research has suggested methods for nonprofits in measuring and substantiating impact and effectiveness, this study considers how donor and private contributions affect the nonprofit sector. Perhaps more importantly, this study examines how charitable contributions affect measures of community health by examining the changes in charitable giving. Of course, other funding sources, like government funding and private grants, impact nonprofit success, which will be adjusted for in the analysis. This study also considers how changes in revenue and charitable contributions proportionally affect executive compensation. Further exploration of the amounts of funding and the allocation of funding related to the community health and human outcomes will provide insight into potentially associated impact. Finally, there is a need to determine the effectiveness of nonprofit organizations in Kalamazoo County, as private donations, government contracts, and foundation dollars are being spent annually.

This study provides much-needed insight into how overall funding and donor contributions impact the nonprofit success and, ultimately, community health in Kalamazoo. This study is a step in examining whether nonprofit organizations are operating effectively and

whether these organizations are good stewards of community funding. This study is also essential to understand how philanthropy is changing locally and how those changes potentially impact health on a community scale. In order to stay competitive in a growing nonprofit sector, organizations can begin prioritizing their return on investment as the funding is not guaranteed forever.

Nonprofit organizations are often developed based on community demographics as well as available funding sources. Although many studies outline methods for measuring nonprofit effectiveness, there is a lack of research in determining what role these nonprofits and their funding sources play in their communities at a population level. Additionally, there is a need to understand how a community's needs are related to the available resources. The Kalamazoo community can make better-informed decisions about spending and allocating the available resources if there is an association between funding levels being distributed to the different categories of nonprofit organizations and health outcomes.

CHAPTER II

LITERATURE REVIEW

Introduction

The nonprofit sector has been growing and evolving in the United States since the late 1800s (Muslic, 2017). What started as a system of caring communities became a formal sector, recognized by the U.S. government, of charitable giving and organizations committed to community and individual well-being (Muslic, 2017). The nonprofit sector has been growing more rapidly since the middle of the 20th century due to growing community needs and policies promoting tax exemptions (Kearns, 1994). Since the 1960s and the inception of the 501(c)(3) designation, researchers have been trying to improve efficiencies in the nonprofit sector. Previous literature notes the frequency and utility of individual nonprofit performance measures, but little is understood how these organizations collectively impact communities on a broader population-level basis. To understand the nonprofit sector in Kalamazoo County, we can consider what previous research can tell us about how nonprofits have historically operated, their challenges, and their business model.

This study is the first step in evaluating community impact, considered here as “return on investment,” of Kalamazoo County nonprofits and in proposing a model for measuring nonprofit impact within other similar communities. In addition, this study will evaluate the impact of philanthropy and overall funding on health and human outcomes in previously determined categories of types of organizations. Finally, this study will also consider whether there are

confounding effects related to charitable giving, nonprofit revenue, and changes in nonprofit size and executive compensation.

Review of Research

History of Nonprofits and Public Service

One of the earliest recognized public charities turned nonprofit organizations in the United States was the Young Men's Christian Association (YMCA), which began in the mid-1800s. The YMCA began as a religious organization for young men in response to a need for fellowship and evolved into what we know today as a community-based nonprofit organization (YMCA, 2018). The YMCA, however, has changed its mission and focus since the 1800s. Over time, the original informal fellowship grew into a larger organization providing a broad range of services to Christian men, which has since expanded to all walks of life (YMCA, 2018). With the introduction of tax reform and the creation of the nonprofit designation, the YMCA could fundraise and grow from a small grass-roots-level fellowship system to a large, franchised organization that today reaches 2,400 communities nationwide (YMCA, 2018). It has grown into a nationally known community system that focuses more on health and wellness and offering various related programming and less on the original religious intent (YMCA, 2018). The YMCA is an example of a nonprofit that has grown and evolved since its inception. Many other nonprofit organizations have a history of small beginnings that evolved by large growth due to how the system and sector have changed since the early 1800s (Muslic, 2017).

As it is known today, the nonprofit sector did not begin in the 1800s but is undoubtedly influenced by early caring communities. From the early 1800s to the early 1900s, charitable organizations were primarily encouraged by wealthy benefactors like John Rockefeller and Andrew Carnegie (Rosenthal, 2003). These philanthropists were interested in shaping

communities through their financial contributions (Rosenthal, 2003). The United States also changed through this time and experienced the expense of secession and a costly Civil War (Duquette, 2019). Following the Civil War and Reconstruction Era, the public's interest in and reliance on nonprofit organizations grew as these organizations provided support and services within communities (Duquette, 2019). The Reconstruction Era also coincided with the Industrial Revolution, and more American families could contribute financially to the expanding needs of their communities (Ellens, 2017). Not only was individuals' wealth growing, but advances in technology allowed for the communication that enabled resources to be distributed more widely (Ellens, 2017). The Industrial Revolution created wealth for Americans and increased charitable giving through the following few decades (Ellens, 2017). The new wealth and increased giving led to major growth in the charitable sector and, eventually, policy caught up to create nonprofit designations (Muslic, 2017). The Great Depression led to the formation of new organizations to provide aid to struggling communities (Alliance for Strong Families and Communities, 2020). The U.S. government, to this point, was not involved in supporting charities, but to encourage continued charitable giving to support the needs created by financial hardships, created a policy, ensuring tax deductions for charitable giving, to encourage charity growth (Alliance for Strong Families and Communities, 2020).

Historically, health and human service nonprofit organizations have partnered with the government to help meet community needs (Pynes, 2013). In the early 1960s, state-run hospitals began to close due to reductions in federal funding, resulting in individuals requiring specialized mental and physical healthcare being pushed back into their communities for care (Grob, 1992). The increased need for community mental and physical healthcare sparked the growth of more nonprofit community care organizations to provide healthcare as the existing private and

governmental healthcare systems became overwhelmed (Grob, 1992). These organizations contributed to the private nonprofit sector's growth in funding and the number of organizations already working on advancing social and environmental causes (Gürcan, 2015).

The Tax Reform Act, passed in 1969, granted nonprofit organizations and charities tax-exemption with the 501(c)(3) designation (Muslic, 2017). This designation granted nonprofit organizations the financial benefit of having no taxes collected on earnings and donations as an incentive to increase giving. Therefore, this helped raise money from individuals and corporations since charitable contributions were considered tax deductions (Muslic, 2017). Since then, nonprofit organizations, which often provide fundamental community health and human services, have seen considerable growth (NCCS, 2020). About 1.5 million total nonprofit organizations registered with the Internal Revenue Service (IRS) in 2016, a 4.5% increase from 2006 (NCCS, 2020). We might assume that an increase in the number of charitable organizations would necessarily mean that more services are provided or measure better community outcomes. However, there are not many studies that have attempted to evaluate that relationship. There has yet to be a thorough evaluation of nonprofit organizations' growth, measured by financial data, and whether this financial growth contributes to better overall health in a community. Essentially, though nonprofit organizations are private organizations, they have not been evaluated for their effectiveness while they continue to enjoy the benefits of tax deductions.

Nonprofit organizations are characterized by several distinct features that set them apart from for-profit and public sector organizations. Human resources and the volunteer base for labor have become as crucial as funding resources for nonprofit organizations, which is a major distinction from their for-profit counterparts. These organizations often rely on volunteer support to carry out their missions, in contrast to for-profit organizations, which cannot utilize unpaid

volunteers. Nonprofit organizations typically focus on a community or charitable cause instead of profitable business ventures (Morris, 2000). Furthermore, nonprofits expect to distribute excess revenue back into the organization to contribute to service provision and program success instead of distributing revenues to executives to increase overhead costs (Morris, 2000).

Like the for-profit sector, nonprofit organizations experience competition for funding, impacting nonprofit organizations' scope of operations, fundraising efforts, and community productivity (Pynes, 2013). Across the country, nonprofit organizations compete for funding and face dwindling resources and a shrinking workforce (Pynes, 2013). In addition, nonprofit organizations can face uncertainties from year to year due to fluctuating government funding and private donations and may end up competing with similar organizations for funding (Pynes, 2013). This competition for resources can impact nonprofit collaboration and impact the community. Nonprofits may be more concerned with raising funds for survival, which may distract from carrying out their missions or increasing services (Jang & Feiock, 2007). While surviving is a reasonable goal for nonprofit organizations, the challenge to stay in business may impede an organization's ability to reach its stakeholders effectively (Pynes, 2013).

The nonprofit sector has a long history of organizations struggling to secure funding and survive in an economy that values profit and competition (Frumkin & Chetkovich, 2002). The standard for-profit business model can be challenging to nonprofit organizations, as organizations in the nonprofit sector may struggle to maintain adequate funding for services, to maintain a competent staff, and to solicit philanthropy from their communities (Frumkin & Chetkovich, 2002). Though the bottom line and demonstrated effectiveness is important for their for-profit counterparts, nonprofit organizations compete for community donors and must

demonstrate targeted and effective use of these specific donor dollars (Frumkin & Chetkovich, 2002).

History of Philanthropy and Charitable Giving

The nonprofit sector, also referred to as the “third sector,” did not crop up by chance but evolved as a response to community need, as well as community giving (Ohio University, 2020). The Peabody Education Fund, founded in 1867 in response to the new needs of the United States in the Reconstruction Era, became the first private foundation in the country (Ohio University, 2020). This trust used pooled resources from the community to prioritize community needs (Ohio University, 2020). The first private philanthropic fund was the Cleveland Welfare Council in 1914 (Ohio University, 2020). This fund was the “community chest” of the Cleveland area, uniting the charitable services and organizations through funding (Ohio University, 2020). This fund aimed to unite charitable organizations by dispersing funds to the membership and reducing competition amongst charities (Ohio University, 2020). Through this community action, private donations to charitable organizations became encouraged nationwide. While this organization is not necessarily the gold standard for community care, it is the first example of crowdsourcing funds to meet community needs (Ohio University, 2020).

Philanthropic giving provides individuals with an opportunity to feel good, give back to their communities, and provide deductions in taxable income (Muslic, 2017). Giving to charities has long been how society has helped itself contribute to its neighborhoods’ well-being or for causes they believe in. Modern-day philanthropy exists for a myriad of reasons. Notably, renowned businessman Andrew Carnegie encouraged the wealthy to participate in charitable giving as owed to our society. Further, it was believed that donating to causes encouraged business innovation (Rosenthal, 2003). Carnegie’s encouragement to others to give led to

innovation in research and charitable services and acknowledged the need to address social issues on a grander scale (Rosenthal, 2003). Philanthropic giving gave communities the ability to contribute to their communities' well-being and push for innovative work to solve problems in the modern era (Rosenthal, 2003). Andrew Carnegie, the Rockefellers, and other prominent philanthropists in the early 20th century were seen as a resource to help subsidize programming in the country (Duquette, 2019). Wealthy philanthropists subsidizing public sector funding was one of the driving forces of the Tax Reform Act of 1917. The U.S. government saw an opportunity to incentivize giving to causes previously funded by the public sector or government while introducing an income tax nationwide (Duquette, 2019). Congress feared an income tax would discourage the wealthy from giving away their fortunes and shift the burden of funding programs back to the government, which at the time was funding World War I (Duquette, 2019).

Philanthropic giving has primarily been at the hands of the ultra-wealthy but has been encouraged in the general population as a means of investment in community outcomes (Duquette, 2019). It is primarily a wealthy donor class driving charitable giving because the kind of giving that qualifies for the tax deduction outlined in the Tax Reform Act of 1917 is primarily for large-scale giving, and these wealthy families learned they were better off giving their money away as opposed to spending (Duquette, 2019). Carnegie funded public libraries, while Rockefeller found a way to turn philanthropy into a business and created the blueprint for private foundations to become a charity (Duquette, 2019). This age of philanthropic giving paved the way for the ultra-wealthy to enhance their standing socially and shape how public goods and services were distributed (Duquette, 2019). The influence philanthropists brought into the health and human service world helped grow the popularity of charitable giving and led to the sector's growth (Duquette, 2019). While charitable giving can be linked to individual belief in charitable

causes, much of the growth of private donations can be linked to the incentives created with the aforementioned legislation (Duquette, 2019). After World War II, philanthropic giving remained relatively steady and without much change (Duquette, 2019).

Another World War brought about new national tax structures to pay for the cost of the war. Wealthy families quickly learned their charitable contributions decreased their taxable wealth and started contributing to foundations to keep their taxable income low and avoid capital gains tax (Duquette, 2019). Instead of investing in real estate or investing their wealth, the wealthy gave their income to not-for-profit foundations to avoid hefty taxes during a costly war (Duquette, 2019). Following World War II, wealthy individuals realized it was in their best interest to avoid these taxes by donating shares of stock, regardless of their intent to be charitable or not (Duquette, 2019). Thus, charitable giving shifted from wanting influence and innovation to an avenue to avoid higher tax rates. One philanthropist noted,

[Taxes] was extremely important because I could give away securities and end up with the same amount of money, after-tax as if I sold them. And if I gave them away, they went where I wanted. If I sold them, they went to the U.S. Government. (Duquette, 2019)

Essentially, there were no safeguards to charitable giving, and giving was not increasing for high-need areas, but seemingly randomly.

Additionally, though Congress may not have intended for the incentive to be used this way, they did themselves no favors by increasing the percentage of income allowed to be given for a deduction (Duquette, 2019). The 1917 Tax Reform Act allowed 15% of income to receive a deduction, which was raised to 25% in 1952 and 30% only for contributions to churches, hospitals, and educational institutions in 1954 (Duquette, 2019). Essentially, individuals could contribute to nonprofit institutions at high rates to avoid higher rates of income tax, which would also improve these institutions' bottom lines. However, as this limitation increased for the ultra-

wealthy, there was effectively no benefit for the average American to contribute to charity as the deduction applied only to a single income when donations exceed \$12,500 (Duquette, 2019).

The growth of the private, nonprofit sector can also be attributed to increases in private donations and philanthropic giving that started taking shape in the 19th century (Charity Navigator, n.d.). The tax deductions for larger gifts and improvements in technology have helped nonprofit organizations stay connected to their communities and have increased private donations, resulting in nationwide growth (Arnsberger et al., 2008). For example, in one year alone, from 2016 to 2017, charitable organizations saw a rise in private donations of 23% (Charity Navigator, n.d.). The IRS estimates that the nonprofit sector's donor contribution revenue increased 171% to \$1.2 trillion from the tax years 1985-2004 (Arnsberger et al., 2008). The Tax Reform Act of 1969 allowed charitable organizations to solicit donations from their local communities to further their agendas and work toward their missions. The tax benefit and the belief in organizations' missions are widely believed to be the biggest drivers in giving (Rein, 2019). In the last decade alone, donations to nonprofit organizations have risen significantly (Charity Navigator, n.d.).

This increase in donations has led to an increase in the number of organizations. In 2015, nonprofit organizations accounted for 5.4% of the country's GDP with almost \$2 trillion in annual revenue across the 1.5 million registered organizations (Rein, 2019). In 2018, \$428 billion were given in charitable donations to the sector (Rein, 2019). While it is evident that charitable giving has increased, the impact of funds has yet to be examined on a community level. There has yet to be a model established for verifying the community impact of philanthropic giving locally. Individual nonprofit organizations have employed various evaluation strategies to determine their effectiveness, but there is no standard for measuring the

sector's community impact (Mosley & Smith, 2018). With the number of nonprofits increasing nationwide, it could stand to reason that interest has emerged to evaluate collective impact.

Although over 1.5 million tax-exempt organizations are registered with the IRS, not all organizations contribute to the charitable sector (Andino, 2016). Of the larger 1.5 million, only about 400,000 of these organizations can be defined as providing public goods and services, as there is a large range of "types" of organizations that qualify for tax exemption by the IRS (Andino, 2016). These private foundations point to a robust philanthropic sector in our country. There are roughly 100 private foundations of varying sizes in Kalamazoo alone, contributing to the county's solid and rich history of philanthropy in the area (IRS, n.d.).

There has been a rise in private funding with the introduction of economic policies that encourage large-scale philanthropy. The United Way has typically been at the top of every list for philanthropic giving and a top fundraiser of privately donated funds (Vara, 2016). Recently, however, Fidelity Investments, a private financial services company, started a private charity, Fidelity Charitable, which quickly grew its charitable revenue to \$4.6 billion of donated funds (Vara, 2016). Fidelity Charitable is just one example of a new type of organization, "donor-advised funds," which provides donors with their tax write-offs, allows their money to grow over time, and can be directed to their chosen charity at any point (Vara, 2016).

Private foundations and donations have grown substantially since the birth of the modern nonprofit sector. The tax deduction provides allure in donating. There are also many options for people interested in investing in their communities through direct contributions to organizations, donor-advised funds, and private foundations. The growth in private funding and charitable giving suggests that Americans are interested in investing in their communities and, in particular,

their community's health and humans. This growth also suggests it may be helpful to gauge whether there has been an adequate return on investment in the nonprofit sector.

Evolution of Public Funding

When discussing how nonprofit organizations have evolved and changed over time, one must first discuss how nonprofit sector funding originated. Before private funders played a prominent role in the development and growth of the nonprofit sector, it was assumed that it was the public sector's responsibility to ensure that public needs were mainly being met. The United States operates under a capitalist economy, a system that thrives on privately controlled industry to maximize profit for the owners and the taxable income that these private industries create (Mayer, 2019). As a result, there is an opportunity for major economic growth, often met with great economic inequality (Mayer, 2019). Due to the lack of government-based healthcare services historically, nonprofit organizations were born to assist social causes underfunded by the government. In other words, nonprofit organizations exist in a capitalist economy to provide services in the public sector gaps. Since the financial crash of 2008, both for-profit and nonprofit organizations have had to make a shift in how they conduct business (Farrell, 2014). With for-profits shifting to be more conscious of their social impact, nonprofits have had to find ways to adjust to conducting business in an ethically capitalist way (Farrell, 2014). In other words, nonprofit organizations must focus on finding the balance between profit margin and mission-driven behaviors (Farrell, 2014).

It is also important to discuss how the public sector has influenced the nonprofit sector. The United States has emerged as a financial leader globally and has preserved this legacy through capitalist ventures (Gürcan, 2015). To maintain dominance in the global economy, the United States has rejected communist theories and has poured funding into the capacity building

of “nongovernmental organizations,” or nonprofit organizations, to help meet the needs left vacant by state funding (Gürcan, 2015).

Beyond public and private funding, there are times when public need is not met. Enter a new form of giving, GoFundMe™. GoFundMe (2020) is a public fundraising platform that has been in existence since 2010. It is a mechanism for crowdsourcing funding for various issues and has gained popularity over the last decade to help meet individual needs in times of crisis. For example, GoFundMe is often used to raise funds for medical bills, as 27.5 million people are without insurance and even more are underinsured in the United States (GoFundMe, 2020). After Hurricane Harvey hit Texas, GoFundMe distributed \$27 million directly to individuals in need of relief (GoFundMe, 2020). This platform has been effective in quickly mobilizing to meet community and individual needs in a way the public sector has been largely unable to in its current form (GoFundMe, 2020).

Evolution of Nonprofit Management

Nonprofit management and public administration have been popular degree and training programs over the last decade or two to improve leadership skills in the nonprofit sector (NACC, 2006). Rockefeller’s focus on making philanthropy a business sparked the need for those in nonprofits and philanthropic giving to be business savvy (Duquette, 2017). With limited funds and a unique business structure, nonprofit leaders have had to hone their skills in the sector over time (Pynes, 2013). In addition, as the nonprofit sector has grown and changed with the economy over time, the competencies and expectations of leaders in nonprofit work have changed. In response to these changes, research suggests how nonprofit organizations can rise to the occasion and recruit, train, and retain competent staff (Pynes, 2013).

Nonprofit leadership and frontline staff play a significant role in the success of these agencies as well. However, nonprofit leadership may not be equipped for management after being promoted to the position with no experience or knowledge to lead (Hopkins et al., 2014). Managerial issues stem from demands and limitations set by funders and the type of work these agencies typically do. Often, the larger agencies are prepared for these demands, leaving community-based organizations to feel the pressures to perform (Mosley & Smith, 2018). Because of this demand for more competent leadership in the nonprofit sector, leadership training programs began (Pynes, 2013). The first nonprofit management degree program started 35 years ago at the University of San Francisco with the Masters in Nonprofit Administration program (University of San Francisco, n.d.).

The increase in expected skills and competence of nonprofit leadership has changed the labor pool for individuals interested in working in the nonprofit sector. This new degree program created the need for competencies in the field. Nonprofit degree programs focus on ethics, strategic planning, and program evaluation, much like a business administration degree, but also focus on nonprofit laws (NACC, 2006). Nonprofit leaders are recruited, hired, and retained based on their skill level and experience within the nonprofit sector (NACC, 2006). These qualifications have changed the pay structure and quality of the workforce within these organizations (Pynes, 2013).

There is also a focus in these degree programs on human resources and ways to recruit the right individuals for the nonprofit sector that has grown since the first program started in 1983 (NACC, 2006). Recruitment and retention in the nonprofit sector are challenging components of nonprofit work (Pynes, 2013). Nonprofit organizations, like for-profit and government organizations, must pay attention to the labor market to determine equitable

compensation (Pynes, 2013). Working for a nonprofit can strain employees as high-achieving employees are a nonprofit's most valuable resource, compensation rates are typically low, and turnover can be expensive (Timm, 2016). With personnel being the number one resource in an organization, staff development and human resources can help lead to more effective nonprofit organizations. Organizations are prepared for turnover and change in the labor markets with effective human resource management to ensure effective transitions and no disruptions in services (Pynes, 2013).

To determine compensation, nonprofit organizations often look to other nonprofit organizations to determine an equitable wage structure for the sector (Pynes, 2013). Many independent factors may impact compensation levels within the private nonprofit sector. However, if there is an assumption by the workforce that pay is not equitable, the sector risks losing qualified staff (Pynes, 2013). Executive compensation has plagued the private for-profit sector for years as it has been a hotly debated topic and has garnered national attention (Murphy, 1999). There was a boom of research related to executive compensation in the 1980s (Murphy, 1999). Researchers wondered if executive compensation in for-profit organizations was related to the organization's size or the growth in profits (Murphy, 1999).

Additionally, early research has sought to determine if CEO salaries are tied to organization performance and, alternatively, if CEO termination is tied to how the organization performs. It was not until the late 20th century that executive compensation became a hot topic for researchers (Murphy, 1999). This issue has extended from the for-profit sector to the nonprofit sector as there are now more requirements and skillsets expected from nonprofit leaders than ever before (Pynes, 2013). With new degree programs and higher expectations

necessary for nonprofit sector leadership, there is an increased expectation that the salary also rises with the skills required (Pynes, 2013).

Evolution of Need

Over the same time that nonprofit organizations were growing and changing, the country's health and human service needs were changing. The 1960s saw the close of publicly run health systems, and mental and physical healthcare was pushed back to communities (Grob, 1992). This movement to the private sector resulted in private nonprofit and community agencies burdened by need (Grob, 1992). The increase in need caused the private and public sectors to determine how to meet this challenge. Coincidentally, or perhaps due to this shift to community care, tax-exempt, or community, hospitals have been required to put some of their tax savings aside for what is called community benefit (Singh et al., 2015). Community benefit expenditures can be used for individual or charity care, community health initiatives, or any unprofitable clinical service (Singh et al., 2015). There is no minimum requirement for hospitals and health systems to contribute to their community benefit pools so that expenditures can be as low as 5% of total hospital expenditures, much lower than the taxable income (Singh et al., 2015).

Due to the requirement of community benefit expenditures, health systems perform community needs assessments each year to determine their strategies for spending these dollars, which has only recently included the requirement to identify the impact of community benefit spending (Singh et al., 2015). Community needs shift from year to year as the economic landscape changes, making anticipating community needs challenging (Singh et al., 2015). Additionally, regardless of community need, community benefit dollars historically go to charity care and unprofitable clinical services, which essentially benefits the hospital, as opposed to the

greater community need, which includes more than healthcare needs, but also social, physical, and behavioral needs (Singh et al., 2015).

Charity Navigator and Nonprofit Accountability

Nonprofits organizations are often established to provide health and welfare-related programs and services to meet community needs (Kearn, 1994). Nonprofit agencies do not pay state or federal taxes on business expenses as an incentive to do this work. There is no national policy establishing operating guidelines for nonprofit organizations. Instead, each state sets its standards for nonprofit organization financial disclosure and outcome reporting (LeClair, 2018). As a result, inconsistent accountability in the nonprofit sector often leads to poorly managed organizations (Kearns, 1994). This lack of consistency can lead to less impact on communities. Soft corruption, or financial impropriety, results from a lack of accountability (LeClair, 2018). In some highly publicized cases, this type of corruption has happened in the nonprofit sector, with a recent example being a well-known cancer organization collecting over \$150 million in donations and funneling very little to appropriate programs and services (LeClair, 2018).

The nonprofit sector has seen many scandals on the national stage (DiGangi, 2016). For example, in 2010, the American Red Cross came under fire for misuse of donated funds (DiGangi, 2016). The misuse of funds became a national issue as the American Red Cross is a nonprofit organization, not a governmental agency, which solicits donations to support communities during and in the immediate aftermath of a crisis or disaster. Additionally, during this period of mistrust in the Red Cross, it was reported that the organization might also be misrepresenting what their outputs have been (Beck, 1992). Specifically, the American Red Cross had alleged they had provided housing for over 100,000 individuals, and then later it was found that only six permanent houses had been built (DiGangi, 2016).

Perhaps the biggest scandal to date in the nonprofit world is the United Way of America's CEO siphoning organization revenue for his benefit (DiGangi, 2016). The United Way of America is the umbrella organization of the United Ways in existence across the country (Beck, 1992). Providing funding to community organizations in priority health and welfare areas, the United Way is one of the country's largest nonprofit corporations (Beck, 1992). In 1992, the United Way of America CEO, William Aramony, resigned amid the allegations of impropriety, including using company funds to engage in a romantic relationship with a minor (DiGangi, 2016). There is little more worrisome for the nonprofit sector than a CEO behaving irresponsibly within his organization. He was widely seen as a model for success in nonprofit leadership and helped shape the nonprofit sector's policy and practices in the late 20th century (DiGangi, 2016).

Nonprofit organizations use data collection to report each year's successes and growth regarding outputs and impact on maintaining and developing funding streams (Stombaugh, 2019). One way nonprofit organizations can be more successful with this is to find a way to illustrate the return on investment. A return on investment is an organization's ability to demonstrate an item or activity attributed to revenue (Stombaugh, 2019). For nonprofits, return on investment can go a step further to demonstrate social impact, as well as investment impact. Estimating their return on investment is where a nonprofit can determine the community's outcomes if the organization does not exist (Stombaugh, 2019). Thus, nonprofits have the ability, whether or not they put this into practice, to demonstrate their capacity to carry out their mission and indicate their ability to maintain and disseminate data effectively to the communities they serve (Stombaugh, 2019).

Nonprofit organizations face the same type of corruption and threat of scandal that for-profit organizations face. However, it was not until these large national organizations garnered

this level of public criticism and attention for this behavior that nonprofit accountability became a larger question (LeClair, 2018). In response to these scandals, along with the age of technology and the internet, resources like GuideStar™, Charity Navigator™, and Charity Watch™ became widely used by the public as a means of becoming more aware of the organizations to which individuals would like to contribute.

Community members may volunteer their time or donate their money to organizations in order to support agencies. It is beneficial to the community that these organizations operate with high financial transparency, oversight, and measurable outcomes so individuals can act according to their values. While nonprofit organizations face increased scrutiny to help their communities, staff members often perform performance measurements to the organization (Lynch-Cerullo & Cooney, 2011). While it is not a requirement to stay up to date, some organizations utilize tracking services like the Charity Navigator Impact Ratings as a scorecard for effectiveness. Reporting outcomes to a third party is valuable transparency for communities.

Nonprofit accountability has become a necessity for public and private funders alike. These funders may use services like Charity Navigator to assist with making decisions about which organizations have the capacity for impact. Additionally, when nonprofit organizations began contracting with government agencies to provide services to communities, expectations of successful outcomes came with it (Mosley & Smith, 2018). The change in accountability expectations created the expectation from all funders to hold nonprofits accountable to outcome measures, known to most as “results-oriented contracting.” This model has increased in popularity and is implemented with the hope that nonprofits work to spend their resources more efficiently and effectively in pursuit of their missions.

Nonprofit organizations have historically been established to meet community health needs and assist in the care and development of its inhabitants. The U.S. government recognized the inherent value in the existence of these organizations to help fill the remaining gaps, and it created an incentive for organizations to exist and for the public to donate through the creation of tax exemptions and deductions. These incentives, paired with the changes in community needs, have helped grow the nonprofit sector nationwide. Nonprofit organizations are unique in that they exist as private businesses with the authority to operate at their discretion. However, the tax deductions provided by the federal government and community donor dollars that provide value to these organizations may make a case for the need to measure effectiveness and efficiency in the sector.

CHAPTER III

METHODS

Study Design

This study examines the nonprofit sector changes over time and provides a foundational understanding of who benefits as the nonprofit sector grows. A previous study yielded the outcomes that nonprofit funding to Kalamazoo County organizations is, overall, not predictive of health outcomes, which prompted a future evaluation of these organizations. This study evaluates any relationships between charitable contributions and changes in nonprofit revenues; whether there are any relationships between nonprofit revenues, charitable contributions, and executive compensation changes; and demographic data for Kalamazoo County from 2012-2018.

Research Questions

1. Has there been significant growth in charitable contributions to the nonprofit sector in Kalamazoo County from 2012-2018?
2. Are changes in yearly charitable contributions to nonprofit organizations in Kalamazoo County associated with the type of organization receiving funding?
3. Are changes in charitable contributions and a nonprofit's overall revenue associated differentially with executive compensation in nonprofit organizations in Kalamazoo County?
4. Do changes in disposable income and population in Kalamazoo County have any associations with charitable contributions and overall nonprofit revenue?

Data Sources

Data for this study come from public government sources. Nonprofit organization funding data are taken from the Internal Revenue Service Form 990, which every nonprofit organization must file annually to maintain its tax-exempt status (IRS, n.d.) The data from Form 990 include organization type and revenue amounts, charitable contributions, and executive compensation from 2012-2018. This time frame was chosen as the data were readily available on the website TaxExemptWorld for this time period specifically. The hospital systems in Kalamazoo—Bronson, Borgess, and their affiliates—were excluded from the study due to their large annual budgets and high executive salaries. Therefore, these data points would be outliers in the overall analysis. The previous study (Smith et al., in press) also showed significant growth in organizations' mental health categories and, thus, analysis of mental health organizations will be a primary focus.

Continuing work of the 2021 study of nonprofit evaluation from earlier research (Smith et al., in press), the use of categorization of the NPOs assists in evaluating the impact of charitable contributions in the nonprofit sector. Maslow's Hierarchy of Needs remains the rubric for categorization as the hierarchy covers the spectrum of health and human needs. As mentioned earlier, Maslow's Hierarchy of Needs is a theory in psychology that describes human needs in a hierarchical structure (McLeod, 2020). The hierarchy starts with the most basic needs or physiological needs at the foundational level and consists of needs like food or shelter. The next level is safety needs, which comprises health and security, physiological, and safety service organizations; these are considered "Survival Needs" in this study. The Hierarchy of Needs builds on these foundational needs, including love and belonging needs, esteem needs (Mental

Health Needs), and actualization needs (Actualization Needs). Actualization, as Maslow suggests, is the level at which humans can reach their full potential (McLeod, 2020).

Categorization in the original study helped standardize and simplify the types of work being done in the community. This study uses the previous categorization; nonprofits are placed into three categories (Survival, Mental Health, and Actualization) by evaluating mission statements and service areas. The Survival Needs category contained 45 organizations, the Mental Health Needs category contained 41 organizations, and the Actualization Needs category contained 119 organizations (Smith et al., in press).

Additionally, data from the U.S. Census Bureau (2019) were used to determine disposable income in Kalamazoo County from the same time period. Finally, population estimates were used to compare changes in nonprofit revenue and charitable contributions to population size.

Analyses

Before analyzing the data to answer the overall research questions, descriptive statistics were compiled for charitable contribution and executive compensation data. For the first question, the analysis evaluates changes in the nonprofit sector over the time period of the data, 2012-2018, in Kalamazoo County. Next, the analysis considers if there has been a significant change in charitable contributions to the nonprofit sector and if there have been significant changes in executive compensation within organizations in Kalamazoo County. Finally, a *t* test was used to determine if there was a significant change in charitable contributions (in U.S. dollars) in each organization's category and to determine if there was a significant change in executive compensation (U.S. dollars) from 2012-2018.

Additionally, Research Question 1 of this study focuses on the relationships between changes in overall contributions and revenue to specific types of NPOs. Linear regression was used to assess if the predictive variable of charitable contributions has a predictive relationship with nonprofit revenue changes for each service category (Survival, Mental Health, Actualization). The average charitable contributions, the independent variable, were compared to the dependent variable, nonprofit revenues, to determine if charitable contributions in the nonprofit sector are related to revenue growth and organization staffing changes.

The second question focuses on relationships between charitable contributions, nonprofit revenue, and executive compensation. The overall purpose of this study is to determine which sector benefits as nonprofits grow. The third question was answered using another linear regression analysis, which allowed the consideration of the overall significance of the model and allowed for evaluating the size and direction of independent variable coefficients across dependent outcomes. Using linear regression can determine whether funding to the nonprofit organizations (revenue and charitable contributions) had any relationship with executive compensation. This analysis's dependent variables are the nonprofit revenue and contributions, and the independent variable was executive compensation.

Additional *t* tests were run to compare the disposable income and population of Kalamazoo County from 2012-2018 and to determine if there was a significant change. Multivariate regression was run to determine any predictive relationships among disposable income, population, and charitable contributions. This model uses disposable income and population as the dependent variables to determine if these are predictive of charitable contributions. This exploration of the nonprofit sector, both funders and service providers, helps

determine how funding and charitable contributions have changed in the nonprofit sector and determine nonprofit organizations' benefits.

Conclusion

This study examines the greater nonprofit sector in Kalamazoo County to evaluate any changes in the organizations' size and any philanthropy changes in Kalamazoo County. It explores the changes in Kalamazoo's philanthropic nature and how the nature of Kalamazoo and charitable giving impact organizations countywide. Additionally, due to the original study conducted by Smith et al. (in press), we know that this revenue did not relate to better health outcomes, so this study will assist with understanding the impact of increased revenue.

CHAPTER IV

FINDINGS

Charitable Contribution Change

There were 205 service organizations operating in Kalamazoo County at the time of the study, separated into three distinct categories according to organization type: Survival, Mental Health, and Actualization Needs organizations. To begin the analysis of these data, descriptive statistics were gathered for the first three analysis variables: Overall Revenue, Charitable Contributions, and Executive Compensation (Table 1). Some organizations reported negative values for overall revenue, and for the purposes of this analysis, these were removed from the analysis, resulting in a smaller sample size. Additionally, there is a wide range of charitable contributions and executive compensations for these service providers, indicating a wide range of organization sizes.

Table 1

Descriptive Statistics of Latest Overall Revenue, Charitable Contributions, and Executive Compensation (Kalamazoo County, MI, n = 205)

| Variable | N | Minimum | Maximum | Mean | Standard deviation |
|--------------------------|-----|---------|--------------|-------------|--------------------|
| Overall Revenue | 191 | 0 | \$33,593,492 | \$1,894,735 | ± \$4,275,050 |
| Charitable Contributions | 205 | 0 | \$18,231,248 | \$844,314 | ± \$2,139,002 |
| Executive Compensation | 205 | 0 | \$2,020,725 | \$236,210 | ± \$371,902 |

Research Question 1: Has There Been Significant Growth in Charitable Contributions to the Nonprofit Sector From 2012–2018 in Kalamazoo County?

As seen in Table 2, there was no significance in the overall change in charitable contributions in Kalamazoo County. There was no significant change in charitable contributions in the sector as a whole (t statistic = 0.59, p value = 0.5539) (Table 2).

Table 2

Differences Between Charitable Contribution to Nonprofit Organizations in Kalamazoo (2012–2018, Kalamazoo, MI, n = 205)

| | Average 2012 charitable contributions | Average 2017 charitable contributions | t statistic | p value |
|---------|---|---|---------------|-----------|
| Overall | \$1,146,724 | \$1,087,857 | 0.59 | 0.5539 |

Research Question 2: Are Changes in Yearly Charitable Contributions to Nonprofit Organizations in Kalamazoo County Associated With the Type of Organization Receiving Funding?

Furthermore, a one-way ANOVA yielded no significant predictive relationship between organizational type and charitable contributions (Table 3), suggesting no growth in philanthropy in the nonprofit sector. Therefore, the type of organization does not predict the growth or availability of donated funds.

Table 3

Charitable Contribution to Nonprofit Organizations by Service Category in Kalamazoo ANOVA Results (2012–2018, Kalamazoo, MI, n = 205)

| Charitable contributions by service category (1, 2, 3) | Sum of squares | df | Mean square | f value | p value |
|---|-------------------|------|--------------|-----------|-----------|
| One-way analysis of variance | 697326801177 | 2 | 348663400588 | 0.34 | 0.7117 |

Charitable Contributions Impact on Overall Revenue and Executive Compensation

Research Question 3: Are Changes in Charitable Contributions and a Nonprofit's Overall Revenue Associated Differentially With Executive Compensation in Nonprofit Organizations?

Organization type did not significantly impact charitable contributions (f value = 0.34, p value = 0.7117) (Table 3). Finally, a t test was performed to consider the changes in overall revenue and executive compensation. There were no significant changes in overall revenue (t statistic = -1.44 , p value = 0.1520) (Table 4 and Figure 1). There was a significant change in executive compensation between 2016-2019. As seen in Table 5, there was significant growth in executive compensation in the time frame studied, but with no significant relationships to the funding received by these organizations ($t = -3.27$, $p = 0.0016$).

Table 4

Difference Between Overall Revenue in Nonprofit Organizations in Kalamazoo County (2012–2018, Kalamazoo, MI, $n = 191$)

| Variable | t statistic | p -value |
|-----------------|---------------|------------|
| Overall Revenue | -1.44 | 0.1520 |

Figure 1

Changes in Overall Revenue for Service Providers in Kalamazoo (2012–2018, Kalamazoo, MI, n = 205)

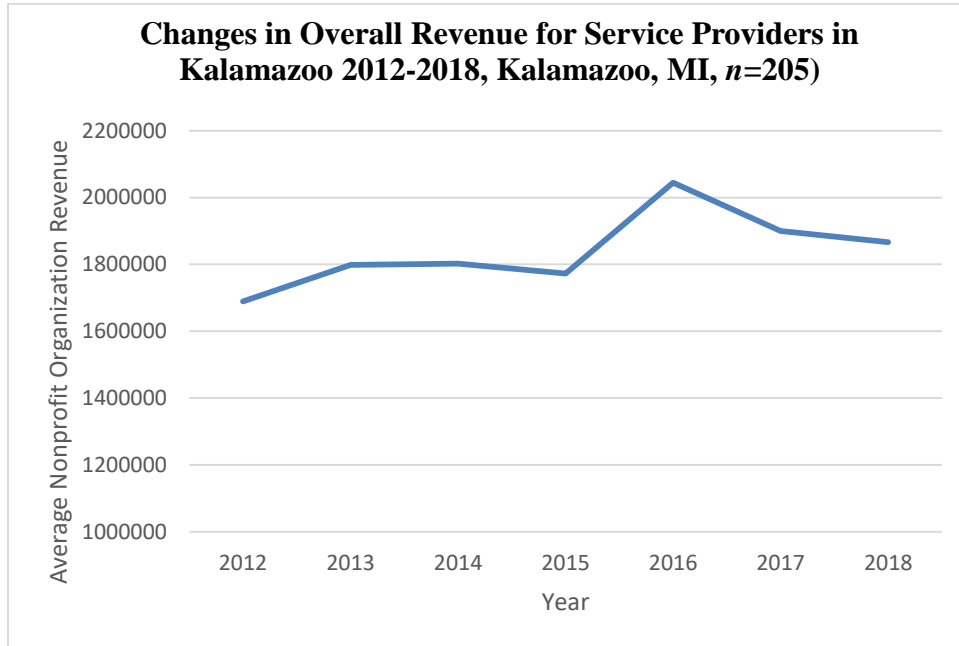


Table 5

Change in Overall Executive Compensation in Nonprofit Organizations in Kalamazoo t-Test Results (2012–2018, Kalamazoo, MI)

| Variable | t statistic | p-value |
|------------------------|-------------|---------|
| Executive Compensation | -3.27 | 0.0016 |

Disposable Income and Population as Predictors for Charitable Contributions

Research Question 4: Do Changes in Disposable Income and Population in Kalamazoo County Have Any Associations With Charitable Contributions and Overall Nonprofit Revenue?

While both population and disposable income increased significantly in the time frame (see Table 6 and Figures 2 and 3), because there was no variance in the charitable contributions in the nonprofit sector, there was no need to perform the linear regression. The linear regression

that was planned to determine whether population and income were predictor variables for change in charitable contributions was unnecessary, as regressions seek to examine the reason for variance, but there was no variation found (see Table 7).

Table 6

Charitable Contributions as a Predictor for Changes in Compensation Kalamazoo County (2012–2018, Kalamazoo, MI, n = 205)

| Regression variable | <i>df</i> | Sum of squares | <i>f</i> value | <i>R</i> squared | <i>p</i> -value |
|--------------------------|-----------|----------------|----------------|------------------|-----------------|
| Charitable contributions | 1 | 1.21727 | 1.47 | 0.0212 | 0.229 |

Figure 2

Changes in Population in Kalamazoo County (2012–2018, Kalamazoo, MI)

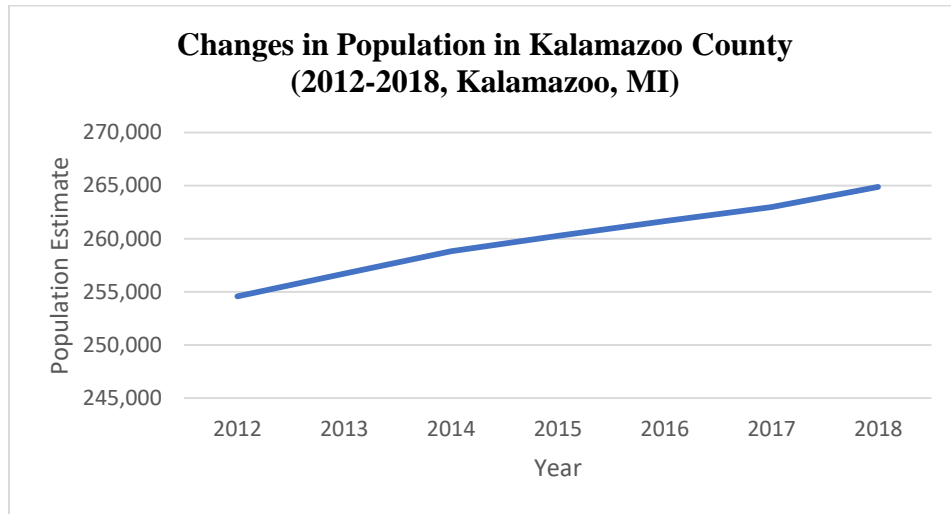
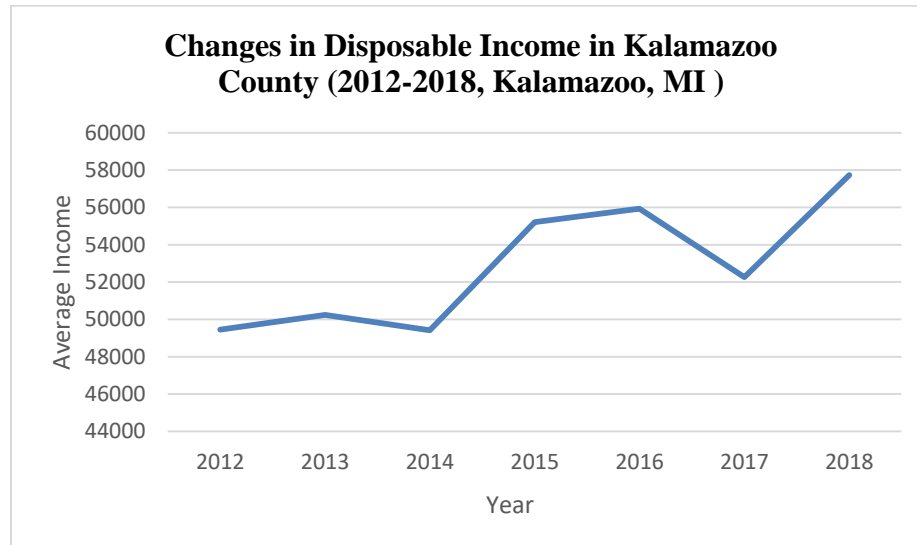


Figure 3

Changes in Disposable Income in Kalamazoo County (2012–2018, Kalamazoo, MI)



The change in executive compensation was significant, with the p value of 0.0016 indicating significant growth in compensation (see Table 4). The changes in population and average income were significant, with both yielding p values of 0.0001 (see Table 6). But because there was no significant change, or variation, in charitable contributions, there are no significant predictive relationships between the population and income variables and charitable contributions. Charitable contributions did not have significant change when the t test was performed, so the regression formula found that population and income are not predictors for change in charitable contribution.

Table 7

Charitable Contribution to Nonprofit Organizations, Population, and Average Income in Kalamazoo County Results (2012–2018, Kalamazoo, MI, n = 205)

| Variable | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | <i>t</i> statistic | <i>p</i> -value |
|--------------------------|-------------|-------------|-------------|-----------|-------------|-------------|----------|--------------------|-----------------|
| Income | \$49,448 | \$50,236 | \$49,423 | \$55,215 | \$55,923 | \$52,267 | \$57,725 | –infinity | 0.0001 |
| Population | 254,580 | 256,725 | 258,818 | 260,263 | 261,654 | 262,985 | 264,870 | infinity | 0.0001 |
| Charitable contributions | \$1,087,858 | \$1,426,745 | \$1,123,684 | \$932,612 | \$1,330,736 | \$1,146,725 | No data | 0.59 | 0.5539 |

CHAPTER V

CONCLUSION/DISCUSSION

Summary

Overall, often nonprofit organizations have evolved from altruistic community chests to large organizations requiring business skills, acumen, and plans with a focus on community service. The results of this research suggest that nonprofit organization funding or philanthropy in Kalamazoo County is not growing in parallel with disposable income or population growth. While we know there has been an increase in nonprofit organizations over the last 20 years (Smith et al., in press), there has not been significant growth in charitable contributions or overall revenue in the sector. Additionally, as executive compensation significantly increased, there was a need to look at possible predictive relationships with this variable to determine possible causes for the growth.

The first research question yielded no significant findings. Charitable contributions have not significantly changed in the seven-year time frame, and the organization type is also not significant in predicting charitable contributions. Over time, there has not been an increase in philanthropy to the nonprofit sector, and there is no relationship between organization type and charity. Essentially, the type of work done in an organization does not impact whether more charity is likely. As we know from previous literature, charitable contributions have increased nationwide. Kalamazoo County has not followed that trend, which could be indicative of an already high amount of philanthropy.

Although charitable contributions have not significantly increased in Kalamazoo County nonprofits, executive compensation for these organizations has increased. There is no predictive relationship between contributions or revenue and compensation. Whereas revenue and charity are not increasing, executives are being paid significantly more now than in years past, which is no surprise, as this is a trend across all sectors. If revenue is not increasing, why organizations prioritize paying executives more needs to be explored. There are other variables to explore, such as educational experience, tenure with an organization, and performance of the organization and leadership. And lastly, there have been increases in the population and increases in disposable income, but no predictive relationship exists between these two variables and contributions to nonprofit organizations. This means that although Kalamazoo has a particularly philanthropic community, there is no direct correlation between individual income and charity.

Discussion

Strengths and Limitations

This is a unique study on the impact of philanthropy in a community. As an extension of a previous study (Smith et al., in press) on the relationship between funding and outcomes, which yielded no significant predictive relationships between nonprofits and health outcomes, this study looks at the impact of philanthropy on the nonprofit sector in Kalamazoo County, as opposed to the impact at the organizational level. This approach to exploring predictive relationships between revenue growth, charitable contributions, and executive compensation growth has yet to be examined at the Kalamazoo County level. In addition, published literature on nonprofit funding is limited, and more research exploring the community benefit of philanthropy in the nonprofit sector is needed.

There were 205 organizations in Kalamazoo County examined, with over \$200 million in annual charitable contributions. Kalamazoo has a philanthropic history and a history of multiple benefactors contributing large dollar amounts to community care and advancing health and human organizations. This is the first look at the impact of philanthropy on a sector-wide scale.

Lastly, all the data used in this study came from reliable and consistent publicly available sources. Finally, the Internal Revenue Service collects information about nonprofit organizations via IRS Form 990 each year. Organizations are compelled to file these reports since this is a requirement for maintaining their tax-exempt status. Additionally, disposable income and population data came from the U.S. Census Bureau (2019) estimates. This data source provided consistent data for each of the years in the time period examined.

There are some limitations to this study. First, there is subjectivity in the categorization of the IRS data. While consistency was the primary goal, the categorization was subjective. Nonprofit organizations were categorized using mission statements, which may not entirely reflect the organizations' work. Additionally, there are many confounding factors impacting nonprofit revenue and charitable contributions not captured by this study. Government funding and programs also have an impact on overall revenue. Staff sizes and changes in organizational infrastructure can change how revenue is spent on overhead, including executive compensation. Additionally, the variables examined in this study are not unique to nonprofit agencies, and other sectors of the economy may also struggle with similar challenges to nonprofit organizations. Finally, this study examines if philanthropy is predictive of revenue increase and executive compensation and does not examine the potential individual causes of executive compensation growth, such as educational attainment, experience, or performance.

An additional challenge of this study is that there is no “control group” or “counterfactual” for comparison. There is no way to know if Kalamazoo County is truly benefitting from these organizations overall, since there is no way to know what the community would look like in the absence of these organizations. It is challenging to measure the impact of an organization without a comparison or control group, and there are no comparable counties without nonprofit organization representation. Essentially, there is no way to know if these organizations are making a true impact with their donated dollars. Donors who are interested in knowing what their donated dollars contribute to should investigate individual organizations to determine the best fit for their resources.

Finally, private nonprofit organizations, like the ones examined in this study, often function as private businesses with autonomy to make decisions and changes without the input of any government or other private entities. Therefore, there is no simple solution to identify how exactly nonprofit organizations should spend their charitable contributions, and nonprofit leadership and Boards of Directors should consider how best to spend resources. In addition, each organization has its own resource needs, and each organization plays a role in the health of the community, so it is possible that there cannot be a “one size fits all” determination of what will make the nonprofit sector in a given county successful.

Future Directions

We know that the number of philanthropic organizations has grown from 2012 to 2018, which is one measure that may indicate that the nonprofit sector in Kalamazoo County is growing. Despite perceived nonprofit sector growth, funding and charitable contributions to nonprofit organizations have remained relatively level over the time period of interest. Furthermore, although overall revenue is not increasing, executive compensation has

significantly increased. As mentioned, this concept and subject are relatively new in exploration. Further development of this model is warranted, perhaps categorizing organizations by size, as opposed to service category, due to the wide range of organizational revenue. Categorization by organization size could assist with understanding if organization size is indicative of higher executive salaries or more charitable contributions, and perhaps if these things are related or predictive of outcomes in the community. This analysis did not yield any significant predictive variables but suggests there is value in a closer look at individual organizations to consider why executive compensation is increasing while revenue is not, perhaps indicating there are other variables to be explored, such as level of education, cost of nonprofit leadership degrees, and trends in executive compensation.

Future research should focus on the individual organizational variables such as executive compensation, employee turnover and performance, organization size and scope, and individual organizational outcomes. That would aid nonprofit organizations' measure of their return on investment. For example, nonprofit staff size, volunteer base, and work type could be explored to understand why executive compensation is growing and whether this is an acceptable use of organization resources. It is challenging to evaluate if the nonprofit sector, as a whole, is performing or allocating available resources well, but individual organizations can be doing this kind of analysis and reporting on it more regularly. It would be of use to individual organizations to track their return on investments by reporting on their outcomes, as well as evaluating their own use of resources and sharing these items in their annual reports. Nonprofit organizations can increase transparency to maintain public trust, be good stewards of funds, and contribute to the community's well-being.

Additionally, if there is interest in evaluating the nonprofit sector on a broader scale, organization size should be considered. There are large, long-standing nonprofit organizations that may receive large and unchanging contributions from their donors. This may account for the lack of variance in this study but may also contribute as outliers in the analysis. Bronson and Borgess hospitals and their affiliates were removed from this study as their large revenues were outliers in the analysis, but there are other large organizations that impact variation as well. Categorizing organizations based on size, as opposed to service areas, may provide a better understanding of the impact of the nonprofit sector in Kalamazoo.

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Appendix A

**Human Subjects Institutional Review Board
Letter of Approval**

WESTERN MICHIGAN UNIVERSITY



Human Subjects Institutional Review Board

Date: June 30, 2021

To: Rob Lyerla, Principal Investigator
Kristen Smith, Student Investigator for dissertation

From: Amy Naugle, Ph.D., Chair

Re: IRB Project Number 21-06-20

This letter will serve as confirmation that your research project titled "A Model for Evaluating Charitable Contributions" has been **approved** under the **exempt** category of review by the Western Michigan University Institutional Review Board (IRB). The conditions and duration of this approval are specified in the policies of Western Michigan University. You may now begin to implement the research as described in the application.

Please note: This research may **only** be conducted exactly in the form it was approved. You must seek specific board approval for any changes to this project (e.g., *add an investigator, increase number of subjects beyond the number stated in your application, etc.*). Failure to obtain approval for changes will result in a protocol deviation.

In addition, if there are any unanticipated adverse reactions or unanticipated events associated with the conduct of this research, you should immediately suspend the project and contact the Chair of the IRB for consultation.

The Board wishes you success in the pursuit of your research goals.

A status report is required on or prior to (no more than 30 days) June 29, 2022 and each year thereafter until closing of the study. The IRB will send a request.

When this study closes, submit the required Final Report found at <https://wmich.edu/research/forms>.

Note: All research data must be kept in a secure location on the WMU campus for at least three (3) years after the study closes.

Appendix B
Definition of Key Terms

Nonprofit Organization: An organization that does not accrue profit and has been granted 501(c)(3) status by the Internal Revenue Service

Nongovernmental Organization: A voluntary group of individuals or organizations, usually not affiliated with any government, is formed to provide services or advocate a public policy. Although some NGOs are for-profit corporations, the vast majority are nonprofit organizations.

Charitable Organization: An organization whose primary objectives are philanthropy and social well-being (e.g., educational, religious, or other activities serving the public interest or common good)

501(c)(3) Status: An exemption of business-related taxes has been granted by the Internal Revenue Service

Philanthropy: The desire to promote the welfare of others, expressed especially by the generous donation of money to good causes.

Charitable Contributions: In taxation, a contribution to an organization is officially created for charitable, religious, educational, scientific, artistic, literary, or other good works. Such contributions are deductible from gross income and thus lower the taxes paid.

Charity Navigator™, *Charity Watch Dog*™, *GuideStar*™: An online database of nonprofit organizations nationwide established as a tool for accountability and transparency for nonprofit and charitable organizations.