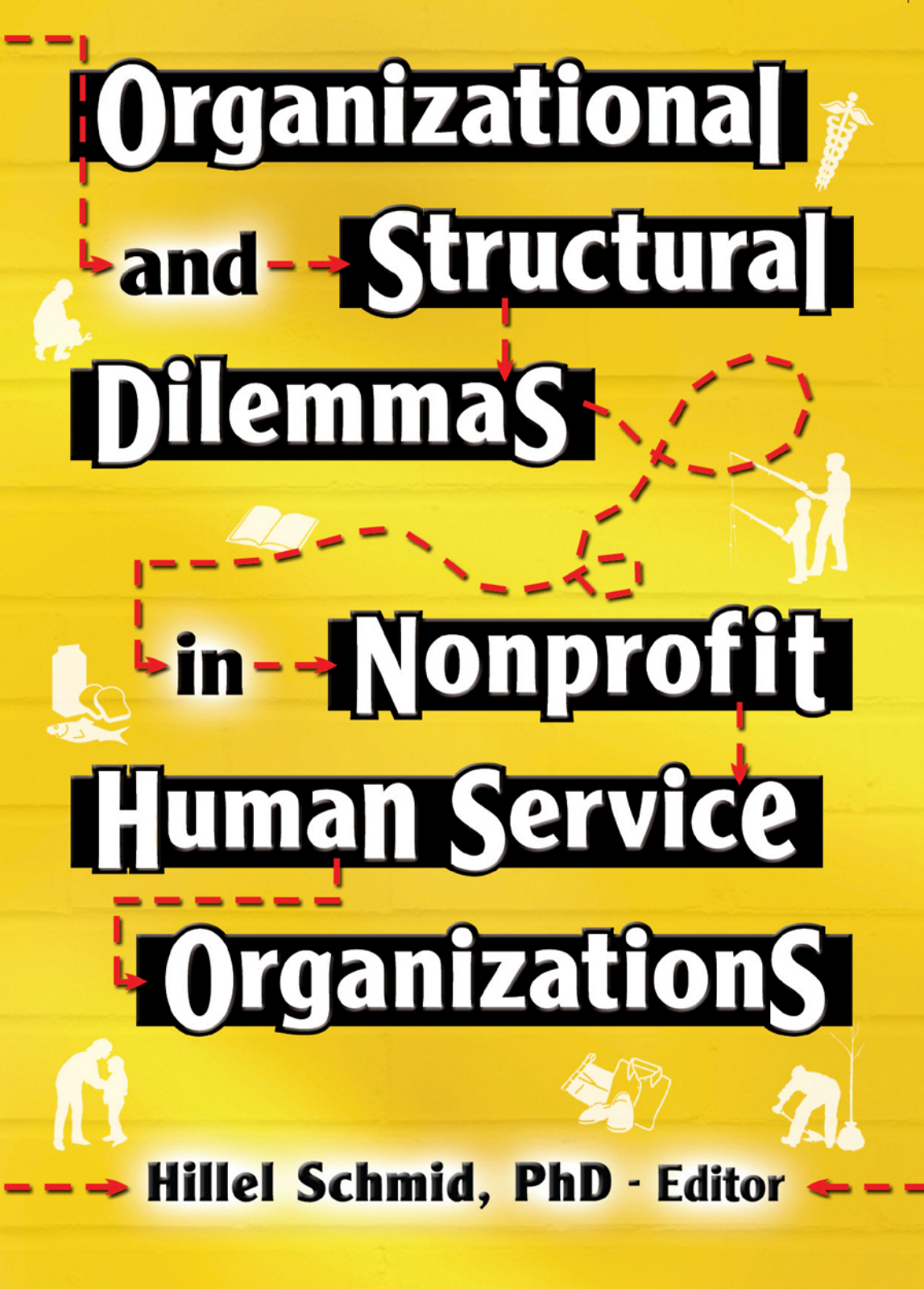


Organizational and Structural Dilemmas in Nonprofit Human Service Organizations



Hillel Schmid, PhD - Editor

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Organizational and Structural Dilemmas in Nonprofit Human Service Organizations has been co-published simultaneously as *Administration in Social Work*, Volume 28, Numbers 3/4 2004.

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ABOUT THE EDITOR

Hillel Schmid, PhD, is a senior faculty member at the Hebrew University of Jerusalem. Professor Schmid's field of expertise is the policy and management of nonprofit organizations providing human, social and community services. His research interests include: (a) organization-environment relations and strategies of adaptation to changing environments; (b) the managerial and administrative processes in nonprofit organizations; (c) organizational strategy and structure in human service organizations; (d) executive leadership in non- and for-profit organizations providing human services; (e) organizational change and organizational development.

Professor Schmid's most important studies are in the fields of community-centers and neighborhood self-management, the implications of the Long-Term Care Insurance Law on the organizational behavior of for-profit and nonprofit organizations delivering home care services to the frail elderly and organizational and structural patterns in nonprofit organizations providing services to children, the finding of which have been published in professional journals. His book "Community Centers: Trends and Changes" was published (in Hebrew) in 1997, and his book "Neighborhood Self-Management/Experiments in Civil Society" was published by Plenum/Kluwer in 2001. Professor Schmid has also published articles, research studies, and monographs on the topic of the management of social welfare and community organizations in the professional literature both locally in Israel and abroad. He currently serves as the associate editor in *Nonprofit Management* and *Leadership and Administration in Social Work*, leading journals in the area of management of nonprofit organizations. Professor Schmid is a member of various international professional associations and regularly presents his research findings at conferences in the U.S., the UK and Europe.

Professor Schmid was the founder and director of the first graduate MA program in Management of Community and Nonprofit Organizations and Public Policy at the Paul Baerwald School of Social Work. In 1999/2000, Professor Schmid was awarded the Rector's Prize for excellence in his research and instruction and for his active involvement in the academic livelihood and the Hebrew University of Jerusalem. Professor Schmid currently serves as the Centraid-L. Jaques Ménard Chair in Social Work for the Study of Volunteer and Nonprofit Organizations and as of October 2003 serves as a Dean of the Paul Baerwald School of Social Work.

The Role of Nonprofit Human Service Organizations in Providing Social Services: A Prefatory Essay

Hillel Schmid, PhD

SUMMARY. The essay presents the recent developments in nonprofit human service organizations that belong to the “third sector.” The author describes and analyzes the changing context of human services, in which a new division of labor has emerged between the government and nongovernmental organizations, including nonprofit and for-profit service providers. “Demand and supply” theories are presented, in order to explain the mission, goals, and roles of nonprofit human service providers and their contribution to the state economy. Finally, the author explores the extent to which these organizations actualize their ideology in a society characterized by growing inequality, and by widening social and economic gaps between “haves” and “have nots.” *[Article copies available for a fee from The Haworth Document Delivery Service: 1-800-HAWORTH. E-mail address: <docdelivery@haworthpress.com> Website: <<http://www.HaworthPress.com>> © 2004 by The Haworth Press, Inc. All rights reserved.]*

KEYWORDS. Nonprofit human service organizations, government failure theory, contract failure theory, third-party government theory,

Hillel Schmid is affiliated with the School of Social Work, The Hebrew University of Jerusalem, Mt. Scopus, Jerusalem 91905 Israel (E-mail: mshsmid@mscc.huji.ac.il).

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entrepreneurship theory, trustworthiness, disguised nonprofits, shadow government

Over the past decade, there has been growing research interest in nonprofit organizations that are part of the “third sector,” even though the suitability of that term has been questioned (Kramer, 2000). Recent studies have explored the role and functioning of nonprofit service providers in modern societies from various perspectives. Theoretical and empirical investigations have dealt with the activities of these organizations, as well as with their contribution toward building a civil society, their role vis-a-vis the government, their relations with for-profit organizations, and their efforts to improve service quality for the benefit of their clients (Eisenberg, 2000; Hammack, 2001). Research institutions and academic and nonacademic programs have been established in the United States, England, and several countries in Western Europe, as well as in Japan, Australia, Israel, and third world countries. Furthermore, professional journals have published research and scholarly articles on social, political, economic, technological, and other issues that relate to the functioning of these organizations and their role in providing social, human, and other services (DiMaggio, Weiss, & Clotfelter, 2002; DiMaggio & Anheier, 1990).

What are the causes for the tremendous growth and expansion of nonprofit organizations, and the increase in the scope of their activities? Why has there been heightened public and research interest in this topic, when voluntary nonprofit organizations existed way before professionals became concerned with them? Is it because of the government’s policy of encouraging their establishment, or is it because of social entrepreneurs who seek to establish organizations which will promote ideas that they cannot implement through the governmental system or through market mechanisms? Or has the government’s role in providing social, educational, and health services declined to the point where there is a vacuum that social entrepreneurs are attempting to fill in order to promote post-modernist ideologies? These entrepreneurs seek to contribute toward developing civil society on the one hand, while caring for the well-being of needy and at-risk populations on the other. There are those who claim that governments have failed to provide services to all citizens, and others who claim that governments have neglected their responsibility for the well-being of their citizens. These questions concern many social scientists, especially in light of the rapid changes in the task environments of governmental agencies, and the impact of the changes on their functioning and on their ability to promote the well-being of their citizens (Ben-Ner, 1986).

THE CHANGING CONTEXTS OF NONPROFIT HUMAN SERVICE ORGANIZATIONS

Nonprofit human service organizations have witnessed major changes over the past two decades.

First, governments in the Western world as well as in other countries have shown an increasing tendency to diminish their role in the provision of social services. This trend can be attributed to several motives, some of which are ideological while others are utilitarian and economic. The ideology that has led to the change in government policy is based on the concept of self reliance, which entails a redefinition of the rights and obligations of citizens toward the state. Even though the state has obligations to its citizens, liberal ideology emphasizes that citizens are obligated to contribute their share to the state. Moreover, according to this ideology, citizens cannot rely only on government services or on sources of government funding to support them. Rather, they need to develop independent sources of income that will enable them to purchase the services they need. In the worst case, the state will serve as a safety net for the weakest strata of society that cannot cope and solve their own problems or satisfy their own needs. From the utilitarian perspective, many countries have found that the burden of providing universal services is heavy, and creates deficits that can be avoided if the state allocates its resources more carefully and creates a new division of labor vis-a-vis other authorities that promote the well-being of citizens. It has also been argued that by transferring some of the traditional roles of the government to nonprofit or for-profit organizations, it will be possible to economize and achieve greater efficiency, in addition to reducing bureaucracy and administrative red-tape in provision of services. As a result, the organizations will be better able to respond to the needs of clients and to encourage innovative programs and new service technologies. In addition, transferring some traditional governmental functions to nongovernmental provider organizations undoubtedly serves some inherent interests of the government, such as: (1) creating a political climate that enables and justifies cuts in government programs; (2) laying the groundwork to charge clients directly for some expenses for services (health, welfare, education, housing, etc.); (3) protecting the government against public responses to budget cuts, and increasing the potential that nongovernmental organizations will serve as institutional intermediaries between the government and citizens. These inherent functions shift the accountability and responsibility for reporting about the availability accessibility, and quality of services from the government to nongovernmental organizations, thereby relieving the government of direct responsibility for the well-being of its citizens.

This trend intensified during the 1980s and 1990s, partially due to a significant decline in the political and public legitimation of the welfare state (Mishra, 1990). Among other causes, this decline can be attributed to pressure and economic crises, as well as to rising unemployment. The blame for these problems has largely been placed on the welfare state itself and on the beneficiaries of services, whom the opponents of the welfare state claim do not contribute anything to society. According to that perspective, the welfare state encourages parasitic behavior, so that citizens demand assistance and support from the state instead of relying on their own resources or trying to solve their own problems.

The continuous decline of the welfare state and the entry of nongovernmental organizations into the arena of service delivery (Austin, 2003) have also been accompanied by demographic processes such as aging of the population and a substantial increase in life expectancy, as well as by economic processes, such as the transition from a production economy to a service economy, and from an "old economy" to a "new economy." As a result of these transitions, many workers have joined the ranks of the unemployed and increased the burden of the government, which has had to deal with social pathologies such as crime, mental illness, addiction (to drugs and alcohol), family violence, and other non-normative behavior. The information revolution has also widened gaps between populations with higher education, who benefit from the new opportunities offered by the knowledge economy, and populations without appropriate education, who are pushed to the margins of society. For educated populations, international markets have taken the place of local markets. The international markets offer abundant professional opportunities, and give workers much greater mobility than in the past. By contrast, uneducated populations cannot compete in the new markets and have much less opportunity for employment and personal advancement. Hence, they become a burden to the state. All of these trends even increase the social gaps and inequality between different population groups, separating the "haves" from the "have nots" while the state ignores the problems of the needy. These trends have intensified under many governments in the Western world, whose declared policy encourages processes of new public management, decentralization, and devolution (Gronbjerg & Salamon, 2002). These processes aim to relieve the state of direct responsibility for service delivery, by transferring that function to peripheral units that maintain close ties with the client populations and provide solutions to their needs. The decentralization process has been political and administrative. On the political level, formal powers have been granted to the local authorities and community service organizations. With regard to administrative decentralization, local authorities and neighborhoods manage their affairs independently, and their autonomy has been strengthened with regard to decision-making and control of financial resources (Berger, Neuhaus, &

Novak, 1996; Schmid, 2001a). The practical manifestations of this process have been policies of contracting out social services (Cordes, Henig, & Twombly, 2001; Schmid, 2003; Smith & Lipsky, 1993; Taylor, 2002), privatization of government services, and incentives for voluntary nonprofit organizations and for-profit organizations to enter domains of service provision that were controlled almost exclusively by governmental agencies in the past (Austin, 2003; Tuckman, 1998).

NONPROFIT HUMAN SERVICE ORGANIZATIONS AND THEIR CONTRIBUTION TO THE STATE ECONOMY

Over the past decade, Professor Lester M. Salamon and his colleagues at Johns Hopkins University have engaged in efforts to define and categorize the different types of nonprofit organizations that belong to the third sector and to evaluate their contribution to the national economy. Their seminal work has been published in several publications that have made a lasting imprint on theory and research dealing with the role and functions of nonprofit organizations (Salamon, 2003; Salamon & Anheier, 1992, 1997; Salamon, Anheier, List, Toepler, & Sokolowski, 1999). According to their definition, nonprofit organizations include “thousands of private community groups, health clinics, schools, day care centers, environmental organizations, social clubs, development organizations, cultural institutions, professional associations, consumer groups, and similar entities that comprise what is increasingly coming to be known as the private or civil society sector” (Salamon et al., 1999, p. xvii).

According to Salamon and Anheier (1992), these organizations meet the following criteria:

- a. formal or institutionalized to some extent;
- b. private—institutionally separate from the government;
- c. nonprofit distributing—not returning profits generated to their owners;
- d. self-governing—equipped to control their own activities;
- e. voluntary—involving some meaningful degree of voluntary participation.

They are legally defined as tax-exempt organizations, namely those that are eligible for exemption under either section 501(c)(3) or 401(c)(4) of the tax code (Hopkins, 1992).

In the domain of human services, nonprofit organizations include those that provide individual and family services (social counseling, welfare, or referral), job training (training, work experience, vocational or rehabilitative courses for the unemployed, underemployed, and physically challenged), day care (chil-

dren and infants, and residential care (children, elderly, etc.)). There are also many faith-based organizations that are particularly involved in low-income communities, and that provide a variety of human services from housing to drug counseling, emergency food distribution, and employment assistance (Cnaan, 2002).

Following a survey of third sector organizations in 11 countries, Salamon et al. (1999) found that the nonprofit sector is an 11 trillion dollar industry that employs nearly 19 million full-time equivalent paid workers, and 10.6 million full-time equivalent volunteer workers, not including religious congregations. In the U.S., the estimation was that the total spending from all sources and by all types of entities amounted to 8% of the Gross Domestic Product. By comparison, the proportion of spending among third sector organizations in France, England, and Israel was estimated at 3.7%, 7%, and 12% of the GNP, respectively. The proportion of Full-Time Equivalent workers (FTEs) in third sector organizations was found to be about 8% in the United States, 4.5% in France, 6.2% in England, and 9.5% in Israel. With regard to provision of health and social services, it was found that third sector organizations comprise 59.8% of the market in the United States, 55.2% in France, 17.4% in England, and 84% in Israel (Salamon et al., 1999).

As for funding sources, Salamon et al. (1999) found that in the United States, 49% of the organizations' average revenue derives from fees, 43% from the public sector, and 11% from private philanthropy. With regard to funding of human services, private donations and other forms of philanthropic support accounted for 13% of the 74 billion dollars in total social services expenditures, whereas private fees and service charges (paid by individuals, employers, or insurance companies) accounted for almost 43%, followed by direct public spending (37%). Salamon et al. (1999) also found that the nonprofit sector dominates individual and family services (80%) and vocational rehabilitation agencies (70%), while it accounts for more than half of residential care facilities (55%) but less than a third of day care agencies (31%). By comparison, it should be mentioned that in France, third sector organizations derive 58% of their revenue from public, governmental, and municipal funding, while 7.5% derives from private sources and another 35% from sale of services. In England, third sector organizations derive 47% of their revenue from public funding, while 9% derives from private sources and 45% derives from sale of services. In Israel, revenue from public funding is 55%, compared with 5% from private sources and 26% from sale of services. Analysis of the data indicates that the nonprofit sector is larger in more developed countries than in developing and transitional economies. Western Europe emerges as the region with the most highly developed voluntary and nonprofit sector (Salamon et al., 1999, p. 12).

Government social welfare spending and the size of the nonprofit sector are positively correlated. Putnam (2000) found that across American states and

across Organization for Economic Cooperation (OECD) nations, there is a positive correlation between size of government (or welfare) spending and various measures of social capital (voluntary group membership, social trust, etc.). In contrast to the nonprofit sector, the overall financial profile of the for-profit human service sector is unknown. According to Gronbjerg (2001), it is presumed to involve primary reliance on fees and service charges. Nonetheless, in an attempt to estimate the size of both sectors in social services, Frumkin (2002) calculated that from 1977 to 1997 the number of nonprofit social service providers (including individual and family services, job training and vocational rehabilitation, day care for children, and residential care) increased by 125%, while the number of for-profit providers increased by 202%. The respective increases in revenue amounted to 705% for nonprofits and 827% for for-profits. Moreover, during that period, there was an increase of 202% in the number of for-profit organizations that provided individual and family services, job training and vocational rehabilitation, day care for children, and residential care for the elderly (Frumkin, 2002, p. 68).

Using revenues as a measure of market share, the prominence of for-profit organizations varies by social service sector. In 1997, for-profit firms had 60% of all revenues in nursing and residential care, as well as a surprising 48% in emergency and other relief services (food, shelter, clothing, medical relief, resettlement, etc.), 40% in child care, 18% in vocational rehabilitation, and only 2% of individual and family services (U.S. Census Bureau, 1997). There are some notable examples of large corporations in the human services, including firms such as Kinder-Care, which operates over 1,250 learning centers that serve over 120,000 children between the ages of six weeks and 12 years, with a revenue of over 250 million dollars in 2002. In the field of correction services, privately owned and managed prisons have become a big industry. Correction corporations of America is responsible for 54,000 inmates in 60 facilities (37 are company-owned) in 21 states, and their revenue amounted to over 700 million dollars in 2002 (Karger & Stoesz, 2002). Clearly, the growth of these organizations is impressive and has had a strong impact on provision, availability, and quality of services. The following section will present the theoretical perspectives that explain the growth of these organizations and their role and function in the modern world.

THEORETICAL APPROACHES ON THE ROLE OF NONPROFIT ORGANIZATIONS

Several theories have attempted to explain the emergence of nonprofit human service providers as well as the trends described at the beginning of this

chapter. In general, the relatively new theories can be categorized as “demand” theories, which focus on clients (the party that demands services) versus “supply” theories, which focus on providers (the party that “supplies” services). The demand theories explain why clients want services from non-profit organizations and are willing to pay for those services. The supply theories describe the motivation and incentives that encourage groups of individuals (directors, entrepreneurs, and coalitions) to offer services in this organizational context. The demand theories, which are better known, include “government failure theory” (Weisbrod, 1977), “contract failure theory” (Hansmann, 1987), and “third-party government theory” (Douglas, 1987). With regard to supply theories, the main one is entrepreneurship theory (James, 1983, 1987; Young, 1983).

“Government failure theory” (Weisbrod, 1977) argues that in democratic regimes services are determined according to laws that derive from decisions adopted by a majority of voters. The services are appropriate for the “median voter,” but they do not respond to a diverse population of clients who have special needs that are not met by the government. The vacuum is filled by non-profit organizations that seek to provide services to the special needs of clients, and believe that in so doing they are realizing an ideology of philanthropy and altruism, besides enabling their clients to participate in political decisions about setting priorities and allocating resources.

The other theory, which was put forth by Hansmann (1980), a scholar of law from Yale University, maintains that the entry of nonprofit organizations into the field of service provision is part of the conditions created by “contract failure.” Following Arrow (1963), he assumes that there is asymmetry in information between clients and providers, and that consumers feel unable to evaluate accurately the quantity or quality of the service a firm produces for them. Under such circumstances, a for-profit firm has both the incentive and the opportunity to take advantage of customers by providing less services to them than were promised and paid for. A nonprofit firm, in contrast, offers consumers the advantage that, owing to the nondistribution constraint, those who control the organization are constrained in their ability to benefit personally from providing low-quality services and thus have less incentive to take advantage of their customers than do managers of a for-profit firm (Hansmann, 1987, p. 29). Under these conditions, nonprofit organizations take advantage of the trust they are given by clients and enter new and existing service domains that increase their access to resources and capital.

Another demand theory that attempts to understand the role and function of voluntary nonprofit organizations was put forth by Salamon (1995). According to this theory, there is a division of labor between the government and nonprofit organizations. The government regulates the economy and society by assuming responsibility for setting general policies, for legislation that en-

ables provision of services, and for (full or partial) financing of services. In addition, the government monitors, controls, and supervises the provision and quality of services while nonprofit organizations are responsible for providing services and for direct contact with clients, in that order. Governments intervene in crisis situations or, alternatively, when the nonprofit organizations face difficulties that prevent them from providing the amount and quality of services they are expected to offer. These difficulties, among others, include inability to mobilize resources, or to provide services to the populations that need them. Young (1999, 2000) provides support for this approach in his description of alternative models for relations between the government and nonprofit organizations. According to this model, the services provided by the organizations are viewed as supplementary, complementary, and adversarial. Along the same lines, Najam (1997) describes the relationships between the government and nonprofit organizations as confrontation, complementarity, and collaboration.

The main supply theory, “entrepreneurship theory” (James, 1987; Young, 1983), maintains that certain motives such as ambition, religious faith and altruism, or personal and social challenge can be best realized by initiating projects and by establishing nonprofit organizations that serve various populations whose needs have not been met by governmental agencies or local authorities. In fact, studies have shown that many nonprofit organizations were established by social entrepreneurs who witnessed the government’s failure to provide services and sought to offer more flexible, efficient solutions to social problems. By establishing and heading their own organizations, they were also able to satisfy their personal motives and fulfill their ambitions (Schmid, Bargal, Korazim, Straus, & Hochstadt, 2001; Schmid, Bargal, & Hochstadt, 2003).

Based on these theories and on the changing context of social services, an attempt is made here to examine the goals and functions of nonprofit human service organizations and their contribution toward enhancing the well-being of disadvantaged and at-risk populations.

IDEOLOGY AND ESPOUSED GOALS OF NONPROFIT HUMAN SERVICE ORGANIZATIONS

Nonprofit human service organizations are considered to be ideologues, and their espoused goals are derived from their *raison d’être*, which is to enhance the well-being of their clients. The following section presents these goals and then discusses the extent to which they are achieved.

First, Billis (1993) expressed the view that nonprofit organizations operate mainly in areas characterized by social ambiguity, where they have a comparative advantage over public, governmental, and for-profit organizations. In this connection, his main claim is that the distinctive and ambiguous hybrid structures of these organizations enable them to overcome problems of principal-agent gap, median voter reluctance, weak messages from politicians to staff, and lack of market interest. However, there are other interpretations of social ambiguity which shed light on the mission and goals of those organizations. According to these perspectives, ambiguity ensues for various reasons, including vague and inconsistent government policies for social, educational, health, and other services. Under these conditions, for-profit organizations avoid entering areas and domains where they cannot be ensured of the profits they expect to receive. By contrast, nonprofit organizations maintain an altruistic ideology of charity and concern for others, and perceive their mission and role as a "safety net" for people who are unable to find solutions to their problems and exigencies.

Second, nonprofit organizations function as pioneers that stake out the land and enter uncultivated, unknown domains. At the same time, they try to find innovative solutions for populations whose needs have not been met by governmental agencies. NPOs are thus perceived as innovative organizations that are not trapped by government bureaucracies and can therefore offer innovative experiments that the government would have difficulty implementing.

Third, nonprofit organizations support ideologies that aim to enhance the personal well-being of their clients. In so doing, they fulfill a social mission aimed at promoting justice, equality, and well-being for individuals, groups and communities (Kramer, 1987). In this context, they fulfill advocacy roles as agents of social control and social change (DiMaggio & Anheier, 1990; Teasdale, 1999), and as policy entrepreneurs (Najam, 1997). They represent groups of citizens-clients with special needs, and intervene on behalf of those who are unable to make their voices heard, while acting in areas of human and civil rights. They represent the government agencies where decisions are made and policies are determined, in order to channel resources to needy populations.

Fourth, nonprofit organizations enable their member-clients to express their views and raise their voices in protest. Moreover, they facilitate attainment of social goals by providing clients with an opportunity to participate in social struggles and conflicts. They are considered a democratic means of promoting values such as equal opportunity, equitable allocation of resources, support of disadvantaged populations, and responses to the needs of specific populations (Eisenberg, 2000). Government agencies are interested in establishing and preserving these organizations, since they act as a buffer and en-

sure social stability in the face of growing inequality and widening gaps between haves and have-nots.

Fifth, nonprofits—some of which originated in religious communities—emphasize the need for mutual support in addition to advocating the ideology of citizen participation. Their ideology reflects an orientation toward the community and commitment to solving social problems. As part of their social mission, they encourage development of community services, which offer an alternative to institutional services. They seek to change the existing balance of power and responsibility between the community on the one hand and the central and local authorities that control resources on the other. Nonprofit community service organizations aim to change this situation by encouraging processes of devolution and decentralization, in which the role of decision-making is transferred from the central government to community and neighborhood self-management organizations.

Finally, the ideology and ethic underlying their operation is to accept from their clients-consumers the price they are able to pay and provide to each consumer the services they need (Lewis, 1989, p. 10).

Undoubtedly, these are worthy and important goals, which go beyond the traditional roles of the government and its agencies. The nonprofit organizations value these goals, which represent the ideology that constitutes the ethical and moral basis for their service programs and activities. The question is whether they have succeeded in achieving those goals and in promoting the well-being of their clients, as they claim, or whether the goals have become myths that are not actualized. In the following section, an attempt will be made to analyze and evaluate the myths and to examine the extent to which they have been fulfilled in reality.

ARE THE IDEOLOGY AND ESPOUSED GOALS OF NONPROFIT HUMAN SERVICE ORGANIZATIONS ACTUALIZED?

First, regarding the contribution of nonprofit human service organizations toward diminishing social gaps and reducing the growth in inequality between haves and have-nots in Western countries. In my opinion, they have not achieved this goal, and inequality between different social strata has grown. There is ample evidence that the activities and programs run by these organizations are differential, encourage sectoralism, and in certain cases even perpetuate inequality between different target populations. There is reason to assume that by defining the needs of the respective target populations NPOs indeed overtly manifest selective and non-universal behavior. At times, these organizations

delineate clear boundaries, which define the populations that are eligible for their services while rejecting all of those who do not meet the definitions, criteria, and requirements. The services they deliver are selective, and are not anchored in law or in legal rights enjoyed by the eligible groups—unlike the universal services provided by government authorities. Thus they may develop welfare cartels or supply oligopolies of social services. It is believed that nonprofit agencies focus on clients that conform with their respective service missions (Lipsky & Smith, 1989/90). In this vein, Knapp, Robertson, and Thomason (1990) argue that purchase and contracting of services by nonprofits has the potential for “. . . fragmentation, discontinuity, complexity, low-quality outputs, poorly targeted services, productive inefficiencies, horizontal and vertical inequities, wasteful duplication and inappropriate replication, sectoralism and paternalism” (pp. 213-214). Evers (1995) also argues that voluntary nonprofit organizations and purely voluntary organizations do not operate on principles of equity and equality. Rather, “services of voluntary organizations are often unreliable and unequally spread. They tend to exclude certain groups and are very different in quality” (p. 175).

Second, are nonprofits really innovative and creative in delivering social services compared to the bureaucratic, formal, rigid, and cumbersome governmental agencies? It is commonly believed that voluntary nonprofits reflect innovative thought, technology and services, and that they respond rapidly and efficiently to changes in their task environments. However, research findings indicate that this is not the situation. On the contrary, studies indicate that when nonprofit agencies are highly dependent on government resources, they tend to provide services mandated by law and in keeping with government policy (Schmid, 2001b). Moreover, nonprofit agencies as providers of government services have found that as long as they conform to government policy and regulations, they will be able to obtain the resources they need for their survival. Hence, they do not give priority to development of new programs and innovative service technologies (Davis-Smith & Hedley, 1993; Hoyes & Means, 1991), and the penalties they incur for failing to meet standards may inhibit innovation (Deakin, 1996, p. 119).

Third, it is also believed that the introduction of nonprofit agencies to the area of providing social services has the potential to increase the choice option for clients. The basic assumption behind government policy to contract out services with nongovernmental agencies states that clients will be offered a wider and more varied choice of service providers that will enable them to choose rationally according to their needs and financial capabilities. Allowing clients to select service providers may also empower them and increase provider dependence on them, while the resulting competition is expected to yield improved services and possibly reduce costs as well. Contrary to these expect-

tations, however, research findings show that the choice option is only partially exercised by social service clients (Schmid, 1998, 2001b). Frail elderly clients, couples applying for adoption, students at residential boarding schools and others often become highly dependent on their caregivers or home care workers. Thus, they tend to resist change and usually do not complain even if they are dissatisfied with the services they receive. Moreover, the choice option is only available to clients who control the appropriate resources, i.e., to educated and sufficiently affluent people with access to information that is relevant to their needs. Those who lack sufficient and accessible information are limited in their ability to make choices, to compare the performance of provider organizations, and to evaluate them. This argument is supported by Knapp, Kendall, and Forder (1999), who report that beneficiaries of local authority and independent sector domiciliary care services did not exercise their option to choose between sectors or providers. Few had been consulted about service composition or timing, and most were happy to rely on care managers' judgments. These findings are also supported by other studies, which have demonstrated that contracting out increases neither choice nor user control (Hoyes & Means, 1991).

Fourth, compared with their for-profit competitors, nonprofit organizations enjoy a large extent of trustworthiness from their clients. Based on the clients' behavior under the "contract failure" theory described earlier (Hansmann, 1980, 1987), and under the conditions of the nondistribution constraint, it is believed that managers of nonprofits—unlike managers of for-profit agencies—are not motivated to make profits since they are prohibited from doing so. Any such profits must be invested in development of services for the benefit of their clients, who consequently place considerable trust in the organization's executives and workers. However, the evidence points to a different view of the behavior of nonprofit agencies and their executives. Recent events, including several scandals in nonprofit church-based organizations, provide incontrovertible evidence that the trust accorded to the nonprofit sector should be reconsidered from several perspectives (Gibelman & Gelman, 2001).

There is increasing evidence that directors of nonprofit organizations compensate themselves with high wages and fringe benefits because they are subject to the nondistribution constraint. In numerous organizations such as the United Way, the directors earn disproportionately higher wages than their workers, contrary to the ideology, goals, and spirit of the organization. In addition, it has been found that since the late 1980s, directors of hospitals used the surplus of income over expenditures and the support payments received from various sources to pay higher salaries to their professional staff instead of investing in service development (Lewis, 1989).

Moreover, most of the studies on differences between NPOs and FPOs have found that church-based organizations are the most trustworthy of all types of organizations (Weisbrod, 1998). However, an entirely different picture emerges from the events that have taken place over the past few years and from the findings of studies that have traced the activities of those organizations and compared their performance. The major scandals uncovered recently in numerous church-based organizations, which have revealed abuse and sexual harassment of young men by church leaders, demonstrate the unmitigated misuse of clients' trust in the services provided by those organizations. In brief, NPOs may exploit the implicit trust that their clients place in them and the lack of effective supervision and control by public boards in order to improve their directors' status, position, and salaries, as well as other benefits.

THE UNIQUE ORGANIZATIONAL IDENTITY OF NONPROFIT HUMAN SERVICE ORGANIZATIONS

The above discussion somewhat contradicts the basic assumptions and the rationale for the existence of nonprofit human service organizations that serve special needs and at-risk populations. Have these organizations actually succeeded in forming their own unique identity, or are they subcontractors of the government for provision of services, whose dependence on resources controlled by the government dictates their behavior (Young, 2001)? There is a growing body of evidence to support the latter argument that high dependence on government resources potentially affects their activity as gatekeepers, protestors, or advocates of at-risk and special needs populations (Schmid, 2001b). The more dependent they are on government funding, the less they engage in protest activities and advocacy—all at the expense of their mission and their organizational identity. In addition, as mentioned, dependence on government funding on the one hand and the coercive power of the government on the other cause nonprofit organizations to adopt behavior that conforms to the norms and standards set by the government, which detract from their ability to offer innovative programs and services (Bielefeld & Corbin, 1996). Moreover, even though there are those who would disagree with this argument (DiMaggio & Powell, 1983; Gronbjerg, 2001), the coercive power of the government encourages bureaucratic, formal behavior among nonprofit human service organizations. Thus, they become not only a “shadow government” (Wolch, 1990), but also a “government B” under a somewhat different guise. Moreover, competition with for-profit organizations influences their organizational behavior and poses a potential risk to their unique identity. Over the past two decades, dozens of articles have analyzed the differences between the

nonprofit and for-profit sectors in numerous areas such as services for children, adolescents, people with disabilities, and health services (for a comprehensive review, see Schmid, 2000). Research findings clearly indicate that the distinctions between the sectors are becoming blurred as a result of several interesting processes. First, the organizations operate in similar environments, are subject to the same regulations, use the same service technologies, employ the same types of workers, serve client populations with similar needs, and are becoming more bureaucratic and political. Second, nonprofit organizations have begun to emulate their for-profit counterparts, and have assimilated service technologies and administrative techniques like those of for-profit providers (Austin, 2000; Salamon, 1993). The process of commercialization has also given rise to “disguised nonprofits,” which are legally defined as nonprofits, but essentially operate as profit-making firms (Weisbrod, 1998).

Under these circumstances, can nonprofit human service organizations potentially lose their identity while devaluing their mission and the quality of their services? It is argued here that even in changing environments characterized by the intensive penetration of for-profit organizations, nonprofit organizations still play a major role in delivery of social and welfare services to populations at risk that have been adversely affected by the government’s policy to diminish its role in the provision of services. In our view, nonprofit human service organizations have an exclusive domain for the provision of social services, and they should emphasize their distinctive virtues and added value compared to governmental agencies and for-profit firms (Salamon, 1995). They have to position themselves in areas characterized by structural ambiguity, which both governments and for-profit organizations are reluctant to enter. Specifically, for-profit organizations may be forced to lower the quality of their services in those areas in order to ensure themselves of a profit. Thus, nonprofit organizations need to operate in areas where they have a relative advantage, which enables them to realize their identity and achieve their mission while attaining the trust of their clients without exploiting their weakness and naivete. In so doing, they need to adhere strictly to codes of professional ethics and abide by the values and ideology that they represent. They have to be cautious about developing “poor,” low-quality services for disadvantaged populations, and maintain high standards of service quality that will be a model for governments and for-profit organizations. They need to make better use of their relative advantage, which is defined as the asset of human resources, by developing their professional and volunteer staff members, who are known to be committed to the organization’s goals and clients, and have the motivation to provide high-quality services. It has been found that nonprofit workers enjoy a relatively high level of functional autonomy, which enables them to develop their competencies and give the organization a relative