INTRODUCTION TO HUMAN RESOURCES MANAGEMENT IN THE PUBLIC AND NONPROFIT SECTORS

After reading this chapter, you should be able to:

- Understand the responsibilities and roles of human resources management
- Understand what constitutes public organizations
- Explain why civil service systems or merit systems exist in the public sector
- Understand what constitutes nonprofit organizations
- Identify the challenges facing human resources management today

Human resources management (HRM) is the design of formal systems in an organization to ensure the effective use of employees' knowledge, skills, abilities, and other characteristics (KSAOCs) to accomplish organizational goals. HRM concerns the recruitment, selection, training and development, compensation and benefits, retention, evaluation, and promotion of employees, and labor-management relations within an organization. In public and nonprofit agencies, the greatest expenses and the greatest assets are employees. Unlike many for-profit organizations, which can use technology to automate the production of their products and reduce staff, public and nonprofit organizations typically provide some

type of service. Thus, they rely on the professionalism and competence of their employees.

Machines cannot be substituted for most public and nonprofit employees. As a result, public and nonprofit agencies are labor intensive; employee costs are typically between 50 and 80 percent of their budgets (Cascio & Boudreau, 2008; Fitz-enz, 2000). Employees are also the greatest assets of public and nonprofit organizations. Whether referring to top leadership, department directors or managers, or first-level employees, the quality and competencies of the workforce differentiate successful agencies or departments from others. Why is one police department more effective than another when dealing with similar problems and situated in local governments with similar incomes and demographics and with similar responsibilities? Why is one substance abuse treatment center more effective than another if they are using similar clinical protocols and techniques and have clients with similar problems? The answer is likely to be related to the professionalism and competencies of their employees. The study of HRM has existed for a long time, despite having different names. Frederick Taylor's scientific management addressed the principle of breaking job positions down into their simplest tasks. Scientific management was concerned with production efficiencies through making the best employee and job match. It also addressed employee motivation by developing incentive pay systems.

Additional psychological aspects of HRM were developed to select individuals for military positions. Intelligence, aptitude, and psychological tests were developed to screen and place employees in various positions. The field of industrial-organizational psychology has played and continues to play a critical role in the development of HRM activities. Human resources management has evolved to encompass systems for the effective recruitment, selection, evaluation, and training and development of employees. Compensation studies to pay employees fair salaries and provide them with benefits that are important to them are also important components of HRM systems. Fair compensation serves to retain and motivate employees.

Human resources management responsibilities change as society changes. Today, public and nonprofit organizations are facing serious economic challenges, changes in the legal environment, and social, cultural, generational, and educational changes. A strategic human resources management system identifies these changes and challenges and develops effective human resources strategies to address them.

The Public Sector

The public sector is composed of a variety of government organizations. Government agencies are owned and controlled by the people. Government is used to maintain a system of law, justice, and social organization. It protects individual rights and freedoms, provides security and stability, and provides direction for the nation. Government provides public goods, regulates certain industries and activities, and corrects problems that the markets create or are unable to address (Rainey, 2003).

In the United States, we have a variety of federal, state, and local government agencies.

Federal employees work directly for federal agencies and receive their compensation and benefits from the federal government. Federal Bureau of Investigation agents are federal employees, as are doctors working for the National Institutes of Health and the Centers for Disease Control. Other federal employees may work for the Federal Aviation Authority, the Securities and Exchange Commission, and the Food and Drug Administration. (To see the scope of federal departments and agencies, go to http://www.whitehouse.gov/government/independent-agencies.html.) In 2006, 2.7 million employees were employed directly by the federal government (U.S. Census Bureau, 2006).

State employees work directly for state agencies and receive their compensation and benefits from state governments. Each state has a different number of state agencies. The compensation and benefits given to state employees vary across the states. In 2006, 5.1 million employees were employed directly by state governments (U.S. Bureau of the Census, 2006).

There are more than eighty-eight thousand units of local government: counties, cities, villages and townships, and special districts such as school districts, fire districts, park districts, hospital districts, museum and zoo districts, and parks and recreation districts. Local government employees work directly for local units and receive their compensation and benefits from the local governments and taxing districts. The number of local units varies across the states, as do compensation and benefits given to local government employees. Even within the same county, county employees may be paid different salaries from employees working for city governments located in the county. Also, special district employees receive different salaries and benefits. There is often little consistency across local government units. In 2006, the number of local government employees

was 11.9 million. Most public employees work for local units (U.S. Bureau of the Census Annual Survey of Government Employment, 2006. http://www.census.gov/govs/www/apes.html.)

Individuals working directly for federal, state, or local units are considered to be government employees. In a democracy, government is owned by all of its citizens, and most of the revenues that support government agencies typically come from taxes. Government's objectives are political in nature. Public agencies are influenced by certain values found in the private sector such as efficiency, effectiveness, timeliness, and reliability. But they are also influenced by values not necessarily found in the private sector and often in conflict with one another, such as accountability to the public at large and elected officials, being responsive to rule of law and governmental authorities, being responsive to public demands, being open to external scrutiny and criticism, adhering to strict ethical standards, and conducting pubic affairs with the goals of fairness, equal treatment, social equity, and impartiality (Rainey, 2003).

Civil Service and Merit Systems

Many public agencies are required to comply with civil service or merit systems to facilitate these values and objective employment practices in public agencies:

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• *Federal government.* The Pendleton Act, passed in 1883, set up an independent, bipartisan civil service commission to make objective, merit-based selections for federal jobs. Those individuals best qualified would receive a job or promotion based on their KSAOCs. The terms *civil service system* and *merit system* are often used interchangeably. This is because merit provides the foundation for civil service systems. The ability to perform tasks is dependent not on political affiliation but on individual skills and abilities (that is, merit considerations). The intent of the merit system was to remove the negative effects of patronage in appointing individuals to federal positions. Public employees were expected to perform their work in a politically neutral manner. In 1978, the Civil Service Reform Act made changes to federal personnel policies. The Civil Service Commission was eliminated, and the Office of Personnel Management and the Merit Systems Protection Board took its place.

However, being politically neutral, along with experience, education, and expertise are still important criteria for selecting federal employees.

• *State governments*. The federal government encouraged state and local governments to develop civil service or merit systems as a condition of receiving federal grants (Aronson, 1974). The federal government has a vested interest in seeing that state and local programs supported by its funds are administered in an efficient and professional manner. The recipients of federal monies were to ensure the proper administration of grant programs. Standards were initially issued in the 1930s and continued through the 1970s when the Intergovernmental Personnel Act of 1970 was passed, which gave grants to state and local governments to improve their personnel practices. The authority for state merit systems is typically outlined in state statutes, which direct a specified agency to issue the necessary rules and regulations that have the effect of law and the necessary administrative procedures to carry out its provisions. Most civil service systems have independent civil service commissions that are patterned after the first Civil Service Commission. They are bipartisan in composition and usually have three to five members who serve staggered terms. They are typically appointed by the governor. They are usually responsible for overseeing hiring and promotions, but they may also be involved in adjudicating grievance or discharge hearing and developing or approving job classification schedules.

• *Local governments*. The administrative structure and the authority granted to local governments are typically found in their charters. This provision for chartering local governments is found in state constitutions and state statutes. For example, the Illinois state statute permits seven varieties of local government structure: aldermanic-city, trustee-village, commission, manager, special charter, strong mayor, and administrator. Each form has its own rules for the selection and type of officers, their powers and responsibilities, and their general operations. Any municipality may adopt the civil service provisions of the Illinois Municipal Code. However, they are not required to do so. Should they adopt civil service provisions, they must adhere to them. All relevant officers and employees must be appointed, promoted, and removed according to civil service rules.

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In jurisdictions with civil service systems in place, applicants are typically appointed after they have passed a standardized selection procedure. The selection procedure could consist of written examinations, a combination

of prior experience and education, or oral interviews. Where competition exists for positions, candidates are ranked by their scores, with the agency appointing one of the top-ranking candidates.

Different rules apply to different civil service systems. Some systems allow managers to select one of the top three ranked candidates to be selected, others allow one of the top five ranked candidates to be selected, and others allow a larger range of acceptable candidates. Some public employees are exempt from civil service requirements. The exemptions permit chief executives to select people who are in agreement with their priorities for policymaking and politically sensitive posts. In most state and local governments, department directors are appointed by the chief executive. Many public sector HRM regulations and responsibilities are codified in statutes, which means that any changes need the respective legislative body to make the change. Chief executives and managers often have limited administrative and managerial discretion. Increases in compensation and benefits are often dependent on legislative approval.

The federal and state governments grant hiring preference to veterans of the U.S. armed services. Additional points may be added to the scores of eligible veterans applying for public sector positions.

Economic Challenges

Seventy-one percent of low-income families work. More than half of these families are headed by married couples. One in five workers is employed in occupations where the median wage is less than $8.84 an hour. According to *Working Hard, Falling Short: America's Working Families and the Pursuit of Economic Security* (Waldron, Roberts, Reamer, Rab, & Ressler 2004), compensation for one-fourth of wage earners in the United States is so low they are barely able to financially survive. Not only do these families suffer from low incomes, but they usually lack medical insurance, often spend more than a third of their income on a place to live, and do not receive paid parental leave from their employers to deal with family issues and emergencies.

This report is consistent with U.S. Census data indicating that the number of Americans living in poverty and without health insurance is significant. In 2007, 37.3 million people were in poverty. The poverty rate for blacks is 24.3 percent, Hispanics 21.5 percent, non-Hispanic whites 8.2 percent, and Asians 10.3 percent. For children under eighteen years old, the poverty rate is 18.0 percent, and the number in poverty is 13.3 million (DeNavas-Walt, Proctor, & Smith, 2008). When times are tough, the demand for public services grows. Low-income residents are dependent on

a variety of services, such as housing assistance, assistance for medical care, food, unemployment benefits, transportation, and utility bills.

Middle-income Americans are increasingly concerned about jobs, health insurance, pensions, housing, and income security as well. Wage and salary increases have not kept up with increases in the cost of housing, gasoline, food, education, and insurance. Residents concerned about their living expenses tend to keep a closer eye on government spending and want tax relief. At the same time, state and local governments are facing budget deficits and have to make budget cuts. Problems with the housing markets and foreclosures, leading to reduced property taxes, reductions in sales taxes due to declines in consumer spending, and increasing unemployment rates have led to reductions in spending, so state and local revenues are falling (Prah, 2008).

As a result of difficult economic times, federal, state, and local governments are looking to reduce expenses. Strategies to save money include not hiring employees with benefits. Examples include hiring supplemental direct-hire employees who work irregular hours; they receive a paycheck from the agency for time worked, but do not receive health insurance, retirement pensions, vacation or sick leave, and other benefits. In some organizations, they are referred to *as other personnel services workers*.

Governments are also using more contract workers. These workers work for public agencies, but they are procured through a staffing agency or other third party. These work arrangements, as well as seasonal, part-time, on-call, and temporary agency work, are referred to as *nonstandard work arrangements* (Thompson & Mastracci, 2005). Privatization and contracting-out services are also being used increasingly by public sector agencies.

Privatization and Contracting-Out Services

Privatization and contracting out occur when public sector agencies contract with private nonprofit, private for-profit, or other public agencies to provide specific services. A typical privatization agreement specifies that a private or nonprofit entity is responsible for producing particular services. The public employer chooses the service level and pays the amount specified in the contract, but leaves decisions about production methods to the contracted firm. From an administrative perspective, privatization is often viewed as a way to save tax dollars, reduce the public payrolls, minimize government spending, and boost productivity.

Supporters claim that contracting out government programs will lead to greater efficiency and more effective operations. They maintain that

competition and fewer restrictions allow the contractors to be more cost-efficient and responsive and that cost savings can be achieved through the economies of scale used by one vendor to provide services to many communities and organizations. It is believed that nonprofit and private firms, not hampered by bureaucratic rules and regulations, can be more innovative than public sector ones (Osbourne & Gaebler, 1993; Savas, 2000, 2002). However, research on the cost savings of privatization is inconclusive. There are examples of sweetheart deals with contractors, cost overruns, inefficiencies, and less-qualified staff providing important services. Furthermore, transparency, accountability, and concern for the public interest are often lacking (Feeney & Kingsley, 2008; Greenblatt, 2004; Light, 2008; Lee, 2008; Moe, 1987; Sclar, 2001; Starr, 1987).

Technological Innovations

Economic challenges have brought about an increase in accountability and demands for greater productivity. Innovations in technology are changing the way public sector organizations are structured and how work is organized and managed. *E-government* has been defined as "the use of information technology to support government operations, engage citizens, and provide government services" (Cook, LaVigne, Pagano, Dawes, & Pardo, 2002, p. 3). Within that definition are four dimensions that reflect the functions of government itself:

> Economic challenges have brought about an increase in accountability and demands for greater productivity.

- *E-services*—the electronic delivery of government information, programs, and services often over the Internet
- *E-management*—the use of information technology to improve the management of government, from streamlining business processes to improving the flow of information within government offices
- *E-democracy*—the use of electronic communication vehicles, such as e-mail and the Internet, to increase citizen participation in the public decision-making process
- *E-commerce*—the exchange of money for goods and services over the Internet, such as citizens paying taxes and utility bills, renewing vehicle registrations, and paying for recreation programs, or government buying office supplies and auctioning surplus equipment

Organizations need to recruit and hire people with a new set of skills and orientation to fit the new culture. Key SHRM challenges facing organizations will be the ability to attract and hire qualified applicants and to provide training for incumbent employees so that the benefits of technology can be realized.

The Nonprofit Sector

Nonprofit sector is the collective name used to describe organizations that are not government or private for-profit organizations. They have also been called the *voluntary sector,* the *third sector,* and the *philanthropic sector*. Nonprofit organizations are chartered by each state and are conferred special tax-exempt status by the states and the Internal Revenue Service (IRS). The IRS exempts nonprofits from paying federal corporate income taxes, and state and local governments may grant nonprofits exemptions from property and sales taxes.

To be recognized as a nonprofit, an organization must possess the following general characteristics: (1) it is specifically designated as a nonprofit when organized; (2) profits or assets may not be divided among corporate members, officers, or directors in the manner of corporate dividends; and (3) it may lawfully pursue only such purposes as are permitted for such organizations by statute (Oleck, 1988). Internal Revenue Code 501(c) lists the types of associations, corporations, and trusts that can qualify for federal tax exemption (Table 1.1).

The largest nonprofit classification is 501(c)(3) nonprofits, referred to as *public charities*. The IRS defines a public charity as an organization that normally receives a substantial portion of its total income directly or indirectly from the general public or government. This is different from 501(c)(5) (labor and agricultural organizations) and 501(c)(6) (business leagues) classifications, which derive most of their money from members and are organized to primarily serve the interests of their members.

Individuals and corporations who give money to 501(c)(3) organizations can deduct the value of the gift from their taxable income. Of the 1.4 million nonprofit organizations registered with the IRS in 2004, nearly half a million collected more than twenty-five thousand dollars in gross receipts and are therefore required to file a Form 990 annually. Public charities with less than twenty-five thousand dollars in gross receipts are not required to file a Form 990. Therefore, the number of 501(c)(3) organizations is higher than what is reported to the IRS (Boris, 2006). Human

TABLE 1.1. IRS ORGANIZATION REFERENCE CHART

Section of 1986 Code	Description of Organization	General Nature of Activities	Application Form Number	Annual Return Required to Be Filed	Contributions Allowable
501(c)(1)	Corporations organized under act of Congress (including federal credit unions)	Instrumentalities of the United States	No form	None	Yes, if made for exclusively public purposes
501(c)(2)	Title holding corporation for exempt organization	Holding title to property of an exempt organization	1024	990 or 990-EZ	No
501(c)(3)	Religious, educational, charitable, scientific, literary, testing for public safety, to foster national or international amateur sports competition, or prevention of cruelty to children or animals organizations	Activities of nature implied by description of class of organization	1023	990 or 990-EZ, or 990-PF	Yes, generally
501(c)(4)	Civic leagues, social welfare organizations, and local associations of employees	Promotion of community welfare; charitable, educational, or recreational	1024	990 or 990-EZ	No, generally
501(c)(5)	Labor, agricultural, and horticultural organizations	Educational or instructive, the purpose being to improve conditions of work and to improve products of efficiency	1024	990 or 990-EZ	No
501(c)(6)	Business leagues, chambers of commerce, real estate boards, etc.	Improvement of business conditions of one or more lines of business	1024	990 or 990-EZ	No
501(c)(7)	Social and recreational clubs	Pleasure, recreation, social activities	1024	990 or 990-EZ	No
501(c)(8)	Fraternal beneficiary societies and associations	Lodge providing for payment of life, sickness, accident, or other benefits to members	1024	990 or 990-EZ	Yes, if for certain Sec. 501(c)(3) purposes

501(c)(9)	Voluntary employees beneficiary associations	Providing for payment of life, sickness, accident, or other benefits to members	1024	990 or 990-EZ	No
501(c)(10)	Domestic fraternal societies and associations	Lodge devoting its net earnings to charitable, fraternal, and other specified purposes. No life, sickness, or accident benefits to members	1024	990 or 990-EZ	Yes, if for certain Sec. 501(c)(3) purposes
501(c)(11)	Teachers' retirement fund associations	Teachers' association for payment of retirement benefits	No form	990 or 990-EZ	No
501(c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, etc.	Activities of a mutually beneficial nature similar to those implied by the description of class of organization	1024	990 or 990-EZ	No
501(c)(13)	Cemetery companies	Burials and incidental activities	1024	990 or 990-EZ	Yes, generally
501(c)(14)	State-chartered credit unions, mutual reserve funds	Loans to members	No form	990 or 990-EZ	No
501(c)(15)	Mutual insurance companies or associations	Providing insurance to members substantially at cost	1024	990 or 990-EZ	No
501(c)(16)	Cooperative organizations to finance crop operations	Financing crop operations in conjunction with activities of a marketing or purchasing association	No form	990 or 990-EZ	No
501(c)(17)	Supplemental unemployment benefit trusts	Provides for payment of supplemental unemployment compensation benefits	1024	990 or 990-EZ	No

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TABLE 1.1. IRS ORGANIZATION REFERENCE CHART (*continued*)

Section of 1986 Code	Description of Organization	General Nature of Activities	Application Form Number	Annual Return Required to Be Filed	Contributions Allowable
501(c)(18)	Employee funded pension trust (created before June 25, 1959)	Payment of benefits under a pension plan funded by employees	No form	990 or 990-EZ	No
501(c)(19)	Post or organization of past or present members of the Armed Forces	Activities implied by nature of organization	1024	990 or 990-EZ	No, generally
501(c)(21)	Black Lung benefit trusts	Funded by coal mine operators to satisfy their liability for disability or death due to black lung diseases	No form	990-BL	No
501(c)(22)	Withdrawal liability payment fund	To provide funds to meet the liability of employers withdrawing from a multiemployer pension fund	No form	990 or 990-EZ	No
501(c)(23)	Veterans organization (created before 1880)	To provide insurance and other benefits to veterans	No form	990 or 990-EZ	No, generally
501(c)(25)	Title holding corporations or trusts with multiple parents	Holding title and paying income from property to 35 or fewer parents or beneficiaries	1024	990 or 990-EZ	No
501(c)(26)	State-sponsored organization providing health coverage for high-risk individuals	Provides health care coverage to high-risk individuals	No form	990 or 990-EZ	No
501(c)(27)	State-sponsored workers' compensation reinsurance organization	Reimburses members for losses under workers' compensation acts	No form	990 or 990-EZ	No
501(c)(28)	National Railroad Retirement Investment Trust	Manages and invests the assets of the Railroad Retirement Account	No form	Not yet determined	No

501(d)	Religious and apostolic associations	Regular business activities. Communal religious community	No Form	10659	No
501(e)	Cooperative hospital service organizations	Performs cooperative services for hospitals	1023	990 or 990-EZ	Yes
501(f)	Cooperative service organizations of operating educational organizations	Performs collective investment services for educational organizations	1023	990 or 990-EZ	Yes
501(k)	Child care organizations	Provides cares for children	1023	990 or 990-EZ	Yes
501(n)	Charitable risk pools	Pools certain insurance risks of 501(c)(3)	1023	990 or 990-EZ	Yes
501(q)	Credit counseling organizations	Credit counseling services	1023	1023	No
521(a)	Farmers' cooperative associations	Cooperative marketing and purchasing for agricultural procedures	1028	990-C	No
527	Political organizations	A party, committee, fund, association, etc., that directly or indirectly accepts contributions or makes expenditures for political campaigns	8871	1120-POL 990 or 990-EZ	No

service organizations are the most common type of public charity nonprofits (35 percent), followed by education nonprofits (18 percent), health care nonprofits (13 percent), public and societal benefit nonprofits (12 percent), and arts, culture, and humanities nonprofits (11 percent) (Table 1.2).

The National Taxonomy of Exempt Entities, developed by the National Center for Charitable Statistics, provides this classification system for public charity nonprofit organizations:

A. Arts, Culture, and Humanities
B. Education
C. Environmental Quality, Protection, and Beautification
D. Animal-Related
E. Health
F. Mental Health, Crisis Intervention
G. Diseases, Disorders, Medical Disciplines
H. Medical Research
I. Crime, Legal-Related
J. Employment, Job-Related
K. Food, Agriculture, and Nutrition
L. Housing and Shelter
M. Public Safety, Disaster Preparedness, and Relief
N. Recreation and Sports
O. Youth Development
P. Human Services
Q. International, Foreign Affairs, and National Security
R. Civil Rights, Social Action, and Advocacy
S. Community Improvement and Capacity Building
T. Philanthropy, Voluntarism, and Grantmaking Foundations
U. Science and Technology
V. Social Science
W. Public and Societal Benefit
X. Religion-Related
Y. Mutual and Membership Benefit
Z. Unknown

There are nine major groups, twenty-six categories, and over four hundred subcategories (Table 1.3).

There are approximately 9.4 million 501(c)(3) nonprofit employees and approximately 4.7 million full-time equivalent volunteers. Combined, the workforce is more than 14 million workers (Salamon & Sokolowski, 2006).

TABLE 1.2. NUMBER OF NONPROFIT ORGANIZATIONS IN THE UNITED STATES, 1996–2006

	1996		2006		
	Number of Organizations	Percentage of All Organizations	Number of Organizations	Percentage of All Organizations	Percentage Change
All nonprofit organizations	1,084,939	100.0%	1,478,194	100.0%	36.2%
501(c)(3) public charities	535,930	49.4	904,313	61.2	68.7
501(c)(3) private foundations	58,774	5.4	109,852	7.4	86.9
Other 501(c) nonprofit organizations	490,235	45.2	464,029	31.4	–5.3
Small community groups and partnerships	Unknown	NA	Unknown	NA	NA
501(c)(3) public charities	535,930	49.4	904,313	61.2	68.7
501(c)(3) public charities registered with the IRS (including registered congregations)	535,930	49.4	904,313	61.2	68.7
Reporting public charities	224,316	20.7	347,414	23.5	54.9
Operating public charities	192,927	17.8	295,355	20.0	53.1
Supporting public charities	31,389	2.9	52,059	3.5	65.9
Nonreporting, or with less than $25,000 in gross receipts	311,614	28.7	556,899	37.7	78.7
Congregations (about half are registered with IRS)[a]	—	0.0	385,874	26.1	NA

(Continued)

TABLE 1.2.   NUMBER OF NONPROFIT ORGANIZATIONS IN THE UNITED STATES, 1996–2006 (continued)

	1996		2006		
	Number of Organizations	Percentage of All Organizations	Number of Organizations	Percentage of All Organizations	Percentage Change
501(c)(3) private foundations	58,774	5.4	109,852	7.4	86.9
Private grant-making (nonoperating) foundations	56,377	5.2	105,187	7.1	86.6
Private operating foundations	2,397	0.2	4,665	0.3	94.6
Other 501(c) nonprofit organizations	490,235	45.2	464,029	31.4	−5.3
Civic leagues, social welfare organizations	127,567	11.8	116,539	7.9	−8.6
Fraternal beneficiary societies	102,592	9.5	84,049	5.7	−18.1
Business leagues, chambers of commerce	68,575	6.3	72,549	4.9	5.8
Labor, agricultural, horticultural organizations	61,729	5.7	56,460	3.8	−8.5
Social and recreational clubs	57,090	5.3	56,778	3.8	−0.5
Post or organization of war veterans	30,578	2.8	35,164	2.4	15.0
All other nonprofit organizations	42,104	3.9	42,490	2.9	0.9

Note: Excludes out-of-scope organizations.

Sources: IRS Business Master File 01/2007 (with modifications by the National Center for Charitable Statistics at the Urban Institute to exclude foreign and governmental organizations). Reprinted with the permission of the Urban Institute. NCCS Web site, Number of Nonprofit Organizations in the United States, 1996–2006. http://nccsdataweb.urban.org/PubAppa/profile.1.pho?state=US.

[a]The number of congregations is from the Web site of American Church Lists (http://list.infousa.com/acl.htm), 2004. These numbers are excluded from the totals for the state, since approximately half of the congregations are included under registered public charities.

TABLE 1.3.   NATIONAL TAXONOMY OF EXEMPT ENTITIES: BROAD CATEGORIES

Major Group	Categories
Arts, culture, and humanities	A
Education	B
Environment and animals	C, D
Health	E, F, G, H
Human services	I, J, K, L, M, N, O, P
International, foreign affairs	Q
Public, societal benefit	R,S, T, U, V, W
Religion related	X
Mutual/membership benefit	Y
Unknown, unclassified	Z

501(c)(3) Nonprofits

Charitable nonprofits are private organizations that serve a public purpose. Because they operate under a nondistribution component, this prohibits the distribution of profits or residual earnings to individuals who control the entity. As such it is believed that they possess a greater moral authority and concern for the public interest than private for-profit organizations. Nonprofits often perform public tasks that have been delegated to them by the state or perform tasks for which there is a demand that neither government nor for-profit organizations offer. They provide myriad services, such as helping the disadvantaged, providing medical services, supporting museums and cultural activities, preserving the environment, and funding medical research.

Nonprofits are thought to be more flexible than government agencies. They can experiment with new programs, responding more quickly to new social needs. Instead of government getting involved in new or controversial programs, it often gives money to nonprofit agencies to do this work instead. Nonprofits get financial support, and clients receive services. Government, through the conditions it places on agencies that receive public funds, still has some influence but can quickly disassociate itself from programs when things go wrong. There are often certain societal needs that may be too expensive to be provided on a private for-profit basis. Therefore, in the United States, both government and the nonprofit sector

provide certain services whose costs exceed their market value (Douglas, 1983; O'Neil, 1989; Salamon, 1999; Weisbrod, 1997).

Public administration practitioners and scholars have increased their attention to nonprofit organizations as governments have more frequently used such agencies to provide health and human services. Among the examples are organizations established to prevent child abuse, domestic violence, or homelessness; assist the disabled, the elderly, or the mentally ill; or provide day care, counseling, vocational training and rehabilitation, or community and neighborhood centers (Kramer & Grossman, 1987; Lipsky & Smith 1989–1990; Salamon, 1999).

Public assistance reaches nonprofit organizations indirectly through federal, state, and local governments that contract with nonprofit agencies to provide public services. Many people do not realize that "rather than depending mostly on private charity and volunteers, most nonprofit service organizations depend on government for over half of their revenues; for many small agencies, government support comprises their entire budget in contrast to the traditional relationship of two independent sectors; the new relationship between government and nonprofits amounts to one of mutual dependencies that is financial as well as technical. The lines between public and private are blurred" (Lipsky and Smith, 1989–1990, p. 625).

This blurring is especially vivid in health and human services. Government, nonprofit, and for-profit organizations are subject to similar regulations, dependent on the same revenue sources, hire the same types of professional staff, and perform similar functions. However, public organizations and nonprofits are similar in that they define themselves around their missions or the services they offer. These services are often intangible and difficult to measure. Both sectors are accountable to multiple constituencies. Nonprofits must be responsive to supporters, sponsors, clients, and government sources who provide funding and impose regulations. Public agencies must be responsive to their respective legislative and judicial branches, taxpayers, cognate agencies, political appointees, clients, the media, and other levels of government.

501(c)(4) Nonprofits

Social welfare organizations are often referred to as *advocacy organizations*. The American Civil Liberties Union, the National Rifle Association, and the Sierra Club are examples. They cannot receive tax-deductible gifts, they engage in more lobbying activities, and they can advocate for specific issues. They, along with 501(c)(3) nonprofits, constitute what

is referred to as the *independent sector* and are public serving (Wetizman, Jalandoni, Lampkin, & Pollak, 2002). Many 501(c)(4) nonprofits have affiliated 501(c)(3) nonprofits to assist with fundraising, and they often establish foundations since donations to them are not tax deductible. And many 501(c)(3) nonprofits have affiliated 501(c)(4) organizations to engage in lobbying and advocacy activities. This is because 501(c)(3)nonprofits have more restrictive limits on their lobbying and political advocacy activities than 501(c)(4) nonprofits.

The Alliance for Justice provides live as well as online workshops and publishes booklets and fact sheets on the permissible advocacy activities for 501(c)(3) and 501(c)(4) organizations. Nonprofits organized under Section 527 are permitted to be active in political campaigns, although they cannot communicate with candidates or members of their staffs and advocacy activities.

Nonprofit Administrative Structures

A nonprofit's administrative structure is governed by its bylaws, internal documents that typically define most operational and management policies. Bylaws regulate the organization's procedures and internal practices, as well as define the duties, powers, and limitations of the directors, officers, and other agents. Like all other important documents, bylaws should be reviewed periodically and updated.

Nonprofit organizations possess legal power. Directors are elected or appointed to the board and are authorized to manage and direct the affairs of the organization. They act on behalf of the organization but do not have ownership powers within it; their control is managerial and proprietary. They are free only to change policies and short-range purposes unless the charter or bylaws permit the directors to change the fundamental purpose or policies. Many states permit the delegation of direct authority to committees to study and make recommendations about some matter or to manage routine affairs.

The human resources committee, responsible for developing personnel policies, may recommend employee and executive director salary ranges and benefit packages to the board, as well as evaluate the executive director. It may also handle employee grievances. Although the board may delegate its authority to committees, it has not delegated its responsibility; it must still supervise and hold accountable the activities of the committees.

The nonprofit sector is often referred to as the *voluntary sector* because nonprofit agencies are often dependent on the use of volunteers to assist

in executing their missions. Additional information on volunteers and governing boards is provided in later chapters.

Nonprofit Economic Challenges

Nonprofits are facing severe economic challenges. Declines in public revenues mean less support for many of these organizations. Uncertain financial times place additional stresses on them. Increased unemployment often requires the expansion of food assistance, medical aid, and job training, rent assistance, or retraining services. These services are typically provided by nonprofit agencies, which must absorb an increase in demand for services without increasing their staffs and possibly facing layoffs themselves.

Nonprofit agencies are affected by economic uncertainty in other ways. Individuals who have been or might be laid off are less inclined to spend money on cultural activities than more securely employed people. Nonprofits that rely on gifts between one hundred and three hundred dollars are very vulnerable because these are often the donors most affected by hard economic times. Civil rights groups and community improvement organizations tend to experience gains when the economy is strong and harder crashes during bad times (Hall & Kean, 2008). Nonprofits that rely on government aid are also facing hard times. The housing crisis of 2008 is resulting in lower property tax revenues, which are forcing state and local governments to reduce their budgets.

There is a greater emphasis on social enterprise and social entrepreneurship activities as well. Nonprofits are expected to diversify their revenue streams and eliminate their reliance on public monies or foundation grants. The leadership of nonprofit organizations must understand, supervise, and implement finance strategies and social marketing. Tough financial times also provoke a greater scrutiny on performance outcomes and indicators of effectiveness.

The New Public Service

Recent graduates of schools of public policy and administration are twice as likely as members of earlier classes to take first jobs in the nonprofit sector and have shown an interest in working for the private sector as well. The nonprofit sector is attractive to graduates because they are motivated and believe they will find more challenging work and a greater opportunity to acquire new skills than in government service (Light, 2003). As a result,

government trails the private and nonprofit sectors in competing for new graduates. Once working outside government, these new graduates are likely to remain there because government offers few opportunities to enter at the middle and senior levels (Light, 2003).

Public charity 501(c)(3) and social welfare 501(c)(4) nonprofits share a common purpose of serving the public. They also share the community-oriented values of public administration, such as being responsive, being open to external scrutiny and criticism, conducting public affairs with the goals of fairness and social equity, addressing what they perceive to be community or societal problems, and defending individual rights, commitment to democratic ideals, and citizen and community participation and involvement. They are mission driven, and although operating in the black is a goal, profit is not the reason for their existence. Public and nonprofit administrators must behave responsively and ethically at all times, acting in the public interest.

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Today's Context for Human Resources Management

Human resources management is critical if organizations are to be effective. Public and nonprofit organizations are labor-intensive enterprises depending on the knowledge, skills, abilities, and other characteristics of their employees. To be successful, organizations need to develop progressive HRM practices. Understanding the legal environment that impacts HRM, the social and cultural changes affecting society and organizations, the generational changes taking place in today's work environments, and changes in the educational opportunities available to incumbent employees and future employees is important.

The Legal Environment

Public and nonprofit agencies must comply with federal, state, and local laws; with executive orders and the rules and regulations promulgated by administrative agencies such as the Equal Employment Opportunity

Commission and the Department of Labor; and federal and state court decisions. Equal employment opportunity, labor relations, and employer contributions to benefits such as retirement plans and pensions, workers' compensation, and unemployment are regulated by law. These topics and employment at will are discussed in greater detail in later chapters.

Social and Cultural Changes

The demographic composition of American society is changing. Hispanics (who can be of any race) are now the largest minority in the United States, at approximately 44.3 million, 15 percent of the nation's population. As of 2006, the black or African American population, including those of more than one race, surpassed, 40.2 million (U.S. Census Bureau, 2007d), the Asian population was 19.9 million, American Indian and Alaskan Native 4.5 million, and Native Hawaiian and other Pacific Islander 1 million. The number of Americans who declared themselves as two or more races is greater than 6 million. The population of non-Hispanic whites who indicated no other race totaled 198.7 million.

The minority population in the United States is now at 100.7 million. Approximately one in three U.S. residents is a minority. Foreign-born workers make up approximately 15.3 of the civilian labor force sixteen years of age or older (U.S. Census Bureau, Hispanic Americans by the Number 12/19/07; 2006 American Community Survey).

Nontraditional families are now prevalent. Divorce, death, domestic partners, and different generations of the same family living together have become commonplace. More than 2.5 million grandparents are raising their grandchildren (U.S. Census Bureau, 2007c). Nationally, 43 percent of unmarried couples living together are raising children, nearly matching the 46 percent figure for married couples. According to the 2000 Census, one-third of lesbian couples and one-fifth of male couples have children at home (Cohn, 2003; U.S. Census Bureau, 2003). Same-sex couples accounted for one in nine of the total unmarried live-in households; however, this number may be understated because of fear of prejudice or confusion over the unmarried partner category (Marquis, 2003). In 2005, 51 percent of women said they were living without a spouse, up from 35 percent in 1950 and 49 percent in 2000 (Finding Family, 2007; Roberts, 2007).

Because of the increase in single-parent families, families in which both parents work, employees taking care of elderly parents and young children, and children living with caregivers other than their parents, organizations need to provide employees with more flexibility and options in

choosing work schedules and benefits. Issues such as day care, elder care, assistance with family problems, and spousal involvement in career planning have become important workplace issues.

Employers face new issues arising from the diverse workforce. They must offer more flexible work schedules to accommodate training, education, and family demands. They must also provide greater opportunities for work-based learning to prepare future workers and upgrade the skills of current workers. The increased diversity of the workforce poses new challenges for the systems that educate and train workers. These systems must accommodate ethnic and cultural differences, provide for the needs of working families and individuals with disabilities, and address gaps in literacy and job skills among some immigrant populations. This will require increased investments in adult literacy and English as a Second Language programs, more opportunities for continuous learning to stay competitive, and expanded access to work supports to sustain labor force participation. Employers need to manage a diverse workforce. They will need to ensure that agency rewards such as promotional opportunities and compensation are determined by job performance, initiative, or special skills, not by racism or sexism.

There has been a shift in the attitudes and values of employees. Employees are now seeking a balance between their personal and work lives and demanding more leisure time to spend with their families. Attitudes toward work have also changed: a greater number of employees want challenging jobs and the opportunity to exercise discretion in the performance of their tasks. Improving the quality of work life has become important. Empowerment, teamwork, quality improvement, job design, labor-management cooperation, and participative management are expected. Organizational culture will need to be changed if organizations wish to attract, motivate, and retain a competent workforce.

Generational Challenges

Many workforces today are composed of four generations of workers: the traditionalists or matures, born between 1925 and 1945; the baby boomers, born between 1946 and 1964; Generation Xers, born between 1965 and 1980; and the millennials, born between 1981 and 2002. Baby boomers are the largest segment (at least for now) followed by Gen-Xers, millennials, and traditionalists.

Each generation is characterized as having its own work-related behaviors. Traditionalists and baby boomers have typically remained with one

organization throughout their working lives. They accept organizational policies and procedures more readily than the other generations and have lower expectations of work and life balance. Some of the keys to motivate them include recognizing their experience and contributions and providing them with opportunities to share their knowledge with less-experienced employees. Gen Xers tend to be results oriented, they are less comfortable with established procedures that may no longer be effective, and they expect the employer to be supportive of a balance between work and life. Some of them may have expected to spend their career with the same organization. They may be motivated by working in a flexible environment and being provided with learning and development opportunities. Millennials tend to be comfortable with technology, which they have grown up with. As a result, their attention spans are believed to be shorter and more focused on visual and auditory prompts. They are socially minded and goal oriented; drawing the connection between their work and how it contributes to organization goals and public service is likely to motivate them. They are likely to prefer working in a collaborative, flexible environment and being provided with learning and development opportunities. However, the learning and development opportunities need to be delivered in an experiential manner.

Agencies need to prepare for the impending retirements of traditionalists and baby boomers. They need to engage in workforce and succession planning and develop strategies for sharing knowledge and experience. Many retired employees want to continue working, although in another capacity than in their former jobs. Many retirees from the private, for-profit sector are looking for new opportunities in public service. Public and nonprofit organizations should be able to accommodate them with flexible work schedules, flexible benefits, and flexible compensation plans (Decker, 2008; Yang & Guy, 2006).

Educational Challenges

At a time when workforces require greater skills, fewer low-income students are attending college, and those who have enrolled have acquired a greater amount of federal student loan debt. At the same time the changing demographics of American society have called attention to inequities in postsecondary education. Black and Hispanic students earn bachelor's degrees at a substantially lower rate than white students.

Future college-age cohorts will look different from previous generations of college-age students. It is estimated that 80 percent will be nonwhite

and almost 50 percent will be Hispanic (Advisory Committee on Student Financial Assistance, 2001).

Today's knowledge-based economy makes college more important than ever before. Nearly 60 percent of jobs today require at least some college. The new economy is making a baccalaureate degree the equivalent of a high school diploma in the old economy. It is estimated that shortages of workers with postsecondary-level skills could grow to 14 million by 2020. In order for the nation as a whole to maintain a competitive economic edge, the workforce must have education and training beyond high school. Six out of ten jobs now require at least some postsecondary education and training (Carnevale & Desrochers, 2003).

Conclusion

Public and nonprofit agencies must change. Nonprofits, dependent on government for a significant share of their revenue, must compete with other nonprofits, government agencies, and for-profits for shrinking dollars. Faced with the same changes that are confronting public organizations, nonprofits must demonstrate they are capable of providing cost-effective professional services. The nature of work has changed, and like public agencies, nonprofit organizations require their employees to have more professional and technical skills. In both sectors, there is a greater reliance on technology. Advances in technology call for advanced education, continuous training, and the addition of new benefits, such as educational leaves or tuition reimbursement. Jobs may have to be redesigned in order to take advantage of employee skills and to enhance job satisfaction. Job rotation, job enlargement, and job enrichment have become SHRM components.

Public and nonprofit administration must meet the challenge of changing social needs and priorities, new directions in public policy, demands for greater citizen involvement in the decision-making process, and pressures for increased accountability and productivity.

An uncertain external environment, coupled with changing needs for organizational skills, has facilitated a shift in the importance of HRM functions. Organizations need individuals with the right technical knowledge, skills, abilities, and other characteristics, but they also need people who are flexible and willing to deal with rapid and unstructured changes. Public and nonprofit jobs are increasingly more professional in nature, requiring higher levels of education. At the same time, the number of jobs

requiring manual labor is decreasing. Employees in public and nonprofit agencies need to be able to deal with a variety of people, many with a stake in the agency. Taxpayers, clients, customers, elected officials, foundations, donors, contractors, board members, and special interest groups are just some of the stakeholders concerned about agency performance. Studies have indicated that relationships exist among an agency's strategy, its human resources planning and HRM practices, and its performance.

Exercise 1.1: Art Museums Are Looking for Leaders

Today, a museum director needs both an advanced degree in art history and curatorial experience, as well as the financial acumen and managerial skills of a chief executive. "The demands placed on directors are broader than twenty years ago. Then there was greater public support, so you didn't have to raise so much money. Nobody thought about earned income revenue from restaurants, shops, or partnering with Wolfgang Puck" (Finkle, 2007).

Now, most museum directors have to think about generating revenue streams and charitable donations, as well as tending to the permanent collection and acquisitions. Although they may have a chief financial officer and development team, directors generally serve as the museum's public face of fundraising. They are also ultimately responsible for covering the costs of acquisitions and operations.

Questions

1. Given the economic climate in the United States, if you are a member of a search committee looking to recruit an executive director for a museum, what knowledge, skills, abilities, and other characteristics would you emphasize?
2. What about a different type of nonprofit organization? Do you believe that financial and management skills are as important as the knowledge an executive director has in the substantive area of the nonprofit: for example, an educator leading a school, a social worker leading a social service agency, or an athlete leading a sports and recreation program? Explain your reasoning.

Chapter Questions

1. In a small group, each member should select three HRM challenges discussed in the chapter and describe how they are evident in a current or past employer. If you are unemployed at present, discuss how the HRM challenges might be affecting your university.
2. In your opinion, discuss why it is important for HRM to evolve from an administrative and operational role to a strategic one.

Online Activities

1. Visit the U.S. Department of Labor, Bureau of Labor Statistics Web page and review *Occupation Outlooks and Demographics Data*. What additional workforce changes do you believe might take place in the next five to ten years? What strategies will public and nonprofit agencies need to implement to be prepared for the future?
2. Visit the *Monthly Labor Review Online*. Review the two most recent editions, and select two articles from each edition. What topics are discussed, and why do the authors think they are important? Explain your answer.