

The Role of Nonprofits in American Life

*By Robert Glavin, MNA, President, Robert Glavin, Inc.,
and Faculty Member, University of San Francisco*

Today, what nonprofits do is vast, diverse, and invaluable to American life. Nonprofits are the primary drivers of social change and the providers of a wide array of goods and services; are essential to public policy and advocacy; hold critical responsibility for meeting broad social needs; share responsibility for education with government and, to a lesser degree, with the private sector; hold a declining but still large responsibility for providing health care; are the home of most fine arts and culture; and they include all religious organizations. This chapter will provide essential facts about what nonprofit organizations are, what values they serve, and their numbers and types. A brief history of American nonprofit activity will show how they have developed and expressed American ideals and beliefs. The final section presents some key trends and their implications for the future roles of nonprofit organizations in their service to society.

What Is a Nonprofit Organization?

A nonprofit organization is, most simply, a means for voluntary group action for mutual benefit or the benefit of others. Nonprofits form a third sector of society apart from both the government (the public sector) and for-profit businesses (the private sector). Unlike the government, which undertakes public action for public good, or business, which undertakes private action for private gain (the shareholders), nonprofit organizations are an expression of private action for public good. They “lie beyond family, market, and state.”¹

Public benefit nonprofit organizations have six defining characteristics:²

- They are organized, though not necessarily incorporated.
- They are private, not governmental.
- They operate under the nondistribution constraint, that is, profits may only be applied to the mission.
- They are self-governing.
- They are voluntary.
- They seek to provide a societal benefit.

What Values Does the Nonprofit Sector Serve?

By joining the sector, you are contributing to a great legacy of social change. Standing apart from business and government, *nonprofit organizations are where social reform efforts have most often arisen*. Made possible by American freedoms of association, speech, and religion, the nonprofit sector is a highly effective expression of American pluralism, providing a stabilizing means for voluntary community building and public benefit. It makes possible evolutionary rather than revolutionary social change. Today’s nonprofits are the successors to barn-raising and other community-building efforts of colonial America. Although their specific roles have changed throughout American history, the larger, societal functions that nonprofits fill are more stable. They are a reflection of and a mechanism for the expression of several important social values, such as:

- Nonprofits identify societal problems and advocate for change.
- Nonprofits provide a structure for the investment of private capital to cause social change.
- Nonprofits relieve government burden.
- Nonprofits preserve and promote knowledge, cultures, values, and traditions.
- Nonprofits offer opportunities for personal fulfillment and self-realization.
- The nonprofit sector is the place of spiritual expression in America.

Nonprofits in America Today

The American nonprofit sector is made up of the approximately 1.5 million organizations that have been granted tax-exempt status by the Internal Revenue Service (see Table 1.1). These nonprofits include public charities, private foundations, religious congregations, and membership associations. Of these, roughly 1 million are organized to provide a social good and are classified by the Internal Revenue Code as 501(c)(3) public charities, or “public benefit organizations.” This classification qualifies them to receive gifts

Table 1.1: Nonprofit Numbers

Numbers (2009)	
TAX-EXEMPT ORGANIZATIONS	1,569,572
PUBLIC CHARITIES	997,579
PRIVATE FOUNDATIONS	118,423
OTHER NONPROFITS	453,570
REVENUES (2007)	\$1.4 trillion
ASSETS (2007)	\$2.6 trillion

Source: National Center for Charitable Statistics, “NCCS Quick Facts About Nonprofits” (Urban Institute, Oct. 2009), www.nccs.urban.org/statistics/quickfacts.cfm (retrieved Feb. 2, 2010).

that donors may deduct from their income taxes, with certain limits.³ In addition to the registered nonprofits, there are many uncounted efforts (especially those with less than \$5,000 in annual revenues) that may have formed to meet the specific needs of a community, a neighborhood, a school, or their own members. If these very small nonprofits were counted, the numbers of nonprofits would certainly be much higher.⁴

Diverse Needs, Responsive Nonprofits

Although U.S. tax laws allow 27 types of exempt organizations, including organizations such as fraternal groups, professional associations, and political parties, when using the term “nonprofit” most people are thinking of incorporated 501(c)(3) public charities. These organizations serve such a wide variety of purposes that the National Taxonomy of Exempt Entities (NTEE) system used by the Internal Revenue Service classifies nonprofit organizations into over 400 categories of activity.⁵ Among the major categories (see Table 1.2), Human Services, which includes organizations engaged in job training, inmate support, and abuse prevention, as well as those providing food, housing, and shelter, has the most organizations—more than 115,000 as of 2009. The Health category, which includes hospitals and primary care facilities, as well as mental health services and medical research, has the highest revenues, expenses, and assets. The Health category also employs the greatest number of people, accounting for over 41% of nonprofit employment.⁶ Education is a major category that includes elementary and secondary schools, charter schools, universities, adult education, and libraries. Public and Societal Benefit includes over 40,000 organizations that work for civil rights, community improvement, scientific research, and changes in public policy. Although having the least number of organizations, the International, Foreign Affairs, & National Security category and the Environment and Animals categories have shown the fastest growth in recent years.⁷

The majority of nonprofit funding comes from earned revenue. Earned revenue may come from fees for services or products, ticket sales, dues and membership fees, and tuition, and *accounts for 50% of nonprofit revenue.* Government at all levels accounts for 29.4% of nonprofit revenue, provided as grants and contracts. Charitable contributions from individuals, foundations, and

Table 1.2: Nonprofit Categories: 501(C)(3) Public Charities

Nonprofit Category	# of Orgs	Revenues	Expenses	Assets
Arts, Culture & Humanities	38,772	32,316,336,324	28,298,338,340	98,828,363,709
Education	64,362	266,655,237,172	221,693,681,689	845,019,216,480
Environment and Animal-Related	15,293	13,858,004,996	11,943,284,580	33,105,099,438
Health Care	43,592	816,974,665,642	788,364,602,947	1,013,249,929,736
Human Services	118,416	181,386,508,441	175,497,790,668	275,195,500,873
International, Foreign Affairs & National Security	6,793	31,894,220,842	30,938,307,141	31,591,030,972
Public, Societal Benefit	42,261	83,715,978,124	72,090,092,530	284,176,332,828
Religion-Related	22,398	12,263,526,139	11,501,896,473	26,711,870,566
Mutual & Membership Benefit	883	2,444,863,589	2,045,362,530	15,033,504,714
Unknown	927	391,946,810	379,532,910	696,401,174
Total	353,697	1,441,901,288,079	1,342,752,889,858	2,623,607,250,490

Source: Adapted from National Center for Charitable Statistics, "Number of 501(c)(3) Public Charities by NTEE Activity/Purpose—Annual Filers Only, static version of NTEEs released Apr. 2010" (Urban Institute), www.nccsdataweb.urban.org/PubApps/nonprofit-overview-sumRpt.php?v=nteeFilers&t=pc&f=0 (retrieved Dec. 2, 2010).

corporations account for 12.3%, and 8.3% of revenues come from other sources including investment income.⁸ More detail on the makeup of charitable contributions is included in the fundraising chapters of this book.

Economic Impact

Beyond the variety and scope of their activities and services, nonprofits are a significant part of the U.S. economy, both in terms of income and employment. The Urban Institute, a leading contributor to our knowledge of the sector, estimates that in 2006 nonprofits contributed \$666 billion to the U.S. economy. The Government Accounting Office testified, "During the

period 1998 through 2002, spending reported by tax-exempt entities was roughly 11 to 12 percent of the nation's gross domestic product."⁹

Nonprofits also contribute significant wages and salaries to the economy: In 2005, nonprofits employed 12.9 million people, approximately 9.7% of the U.S. economy, and they employed more people than the construction (7.3 million), finance and insurance (5.8 million), and real estate (2.0 million) sectors.¹⁰ In 2006, nonprofit wages and salaries totaled \$489.4 billion—8.11% of all salaries and wages paid in the United States.¹¹ If the American nonprofit sector were a country, in 2006 it would have been the sixteenth largest economy in the world, based on wages paid.¹²

Social Impact

Nonprofits are a major organizing force in society. They encourage people to volunteer for their communities, act in response to need, and pursue personal goals and opportunities. In 2005, 61.2 million people volunteered their time with a nonprofit organization. In 2006, 26.7% of American adults said they volunteered a total of 12.9 billion hours, the equivalent of 7.6 million full-time employees. The estimated value of volunteer time was \$215.6 billion.¹³

How We Got Here

Philanthropy has always been a force in American life. In Native American communities as in colonial and frontier communities, mutual support was essential to the survival of the group. Caring for others in need was prescribed by the religious beliefs of the colonial settlers. Forms of caring for those in need, whether expressed through tithing, helping others, or giving alms, can be found in the cultures and religions of all of the people who came to make up the United States. Out of these traditions, the United States has evolved a particular nongovernmental, organizational, and egalitarian structure for providing aid and addressing social needs. Initially, most care delivered outside the family was delivered by religious congregations and organizations. As notions of democracy and freedom evolved, religious organizations were joined by secular ones, motivated by civic purpose.

The need for group effort to aid society grew as the United States experienced social needs arising from wars, immigration, and industrialization. At each stage, voluntary associations provided charitable assistance and care to individuals in need. As America matured, nonprofit organizations and foundations sought to go beyond simple charity and to improve society through philanthropy, in the effort to address the underlying causes of social needs.

From Colonies to a Nation

The lack of a nobility or an autocratic state made self-governing group action a principal means of building our society. After the Revolutionary War, chartered corporations, voluntary associations, fraternal societies, and political parties were founded to help build the new nation. In the first half of the nineteenth century in New England, wealthy merchants funded universities, asylums, hospitals, professional schools, scholarship funds, lecture series, and reform societies. Religious and evangelical movements, primarily originating in Europe, led to greater voluntary activity and, by the middle of the nineteenth century, to broad social action for temperance, prison reform, and the abolition of slavery.

In response to the Civil War, individuals created many voluntary groups to raise funds, gather supplies, and marshal volunteers. In 1861, Clara Barton formed a group to distribute aid to the wounded that led, in 1881, to the American Red Cross. The U.S. Sanitary Commission was established in 1861 as a privately funded national federation to provide health care and relief to the military. The U.S. Christian Commission was a religiously motivated effort to raise funds and provide care for the armed forces.¹⁴ Each established roles and models for other voluntary groups¹⁵ and what would become an organized and critical sector of society.

After the War, devastation resulted in enormous social needs, and the end of slavery resulted in a new class of citizens in need. Voluntary groups played key roles in assisting the government, particularly in educating and training newly freed men and women. Philanthropic funds that resemble today's foundations, such as the Peabody Fund founded in 1868, were created to support and educate former slaves and to develop public health policy. Voluntary efforts created educational institutions such as Fisk University

(1866) and Howard University (1867) to serve newly educated former slaves. The Salvation Army, a major provider of religiously motivated charity, was founded in the United States in 1880.^{16,17,18}

Progressives and Philanthropists

Industrialization, urbanization, immigration, and economic crises created new and increased social hardships that voluntary groups could not meet with traditional charity. During the Progressive Era, which began in the latter part of the nineteenth century, there arose a pervasive movement of organized associations of all kinds, some for mutual benefit and others devoted to organized citizen efforts to address workplace conditions, housing, child labor, and women's suffrage. Churches, too, undertook greater action for social relief and reform.¹⁹

In the same period, industrialists, whom many progressives blamed for urban welfare conditions, began to seek social change through philanthropy rather than charity. Andrew Carnegie initiated a national dialogue on the power of philanthropy in his 1889 essay "Wealth," in which he urged the wealthy to address the root causes of social problems as opposed to providing simple relief of hunger or need, charity that he believed only contributed to the continuation of poverty and slothfulness. He advocated and undertook the creation of institutions designed to offer knowledge and opportunity to the masses. These included libraries, museums, parks, concert halls, and educational institutions. He and other wealthy industrialists began to set aside significant sums for systemic reform. The Russell Sage Foundation was founded by Margaret Olivia Slocum Sage in 1907 with nationwide activities in child welfare, industrial relations, housing, and city planning. This was followed by the Carnegie Corporation of New York in 1911 and the Rockefeller Foundation in 1913. Their work led to the creation of numerous institutions and to the professionalization and expansion of fields including medicine, engineering, and social work.²⁰

Nonprofit Professionals Arise

Social benefit activity itself became more professional. As the creators of foundations undertook social change, they increasingly hired well-educated, skilled managers. Reliance on professionals increased with foundation assets,

and with the death or retirement of founding donors. Fundraising, too, became professionalized, as communities undertook organized, staffed efforts to fund universities, hospitals, YMCAs, and other organizations.

More democratic efforts to encourage and professionalize philanthropy arose, with two important community-based models arising at the same place and time. The Community Chest, founded in Cleveland in 1913, was the first major effort to collect money from a broad community for a variety of causes. Its successor, the United Way, is today joined by many other such efforts collectively known as workplace and community giving campaigns. In 1914, the Cleveland Foundation was created as the first community foundation. Like private foundations, community foundations make grants, but they differ in that they are funded by contributions from many sources and governed by a board that represents those they serve, generally a specific group or geographic area. Both of these new types of organization were, from the start, run by informed, paid, professional managers. As philanthropic institutions funded and governed by the community, rather than by the wealthy, community giving campaigns and community foundations enabled social action by and for the people.²¹

The Government Joins In

Before the Great Depression of the 1930s, the federal government's role in addressing social needs was limited and expressed mostly through the provision of legal privileges and tax exemptions. The massive crisis of the Depression was far beyond the capacity of voluntary organizations and led to the assumption by the government, for the first time, of certain social needs, including aid to the poor and unemployed and the creation of the Social Security system in 1935.²² Thus began the shared role of both the nonprofit and the government sectors in caring for the good of the people.

Thereafter, social action by the government and the nonprofit sector grew, aided by the establishment of more private foundations (from 203 in 1929 to 2,058 by 1959). Foundations, corporations, and government programs funded the creation and growth of many nonprofits, particularly in health care, the performing arts, and international affairs. A larger government role prompted the emergence of new organizations that advocated for changes in public policy in civil rights, the environment, and international causes.²³

This continued during the 1960s with the Great Society, an effort of the U.S. government to increase its involvement in providing health care, education, welfare, and other social services. New programs included Medicare, Medicaid, the National Endowments for the Arts and Humanities, Head Start, Legal Services, and more. The government, at all levels, began to work with nonprofits, contracting extensively with them to carry out large parts of these programs.²⁴

Government Cuts, New Responses

Government's role in providing a variety of services grew until the Reagan administration, when an emphasis on decreased government responsibility and privatization dominated public policy. The administration's conservative theorists believed that reduced support for social welfare, health, education, environment, and culture would stimulate private responses that would be flexible, competitive, and effective.²⁵

During the 1980s and 1990s, the government greatly reduced its support and services for the needy. The reduction in government funding affected millions and placed burdens on nonprofit organizations far beyond their capacity. Nonprofits responded with greater activity and, ultimately, with increased professionalization, improved models, and greater impact, although many social needs remained unmet. And when government contracting mechanisms put nonprofit organizations in competition with the private sector, particularly in health care, health insurance, and education, nonprofits responded by becoming more skillful, commercial, and entrepreneurial.²⁶

The 10-year period from 1998 to 2008 saw an impressive rise in the total numbers, revenues, and assets of nonprofits. Between 1998 and 2008, the number of nonprofits registered with the IRS increased 60%, total revenues for reporting nonprofits increased 91%, and total assets for reporting nonprofits increased 106%.²⁷ A varied and vibrant sector began to emerge.

During this period, nonprofits also found new partners in people who had acquired recent and great business wealth, often in technology, and who brought with them for-profit perspectives and practices. The field of "venture philanthropy" arose, where donors began to look at themselves as investors,

seeking to help nonprofit organizations to create earned-income programs, test solutions, apply technologies, or otherwise accomplish social change through the employment of entrepreneurial strategies. These projects generally involve high engagement by the investors and have preestablished measures for accountability, efficiency, and overall performance. This phenomenon of business attention to and investment in the operations of the nonprofit sector has continued to increase focus on quantifying and measuring accomplishment throughout the nonprofit sector.²⁸

In addition, a number of foundations now employ methods to leverage capital to strengthen organizations and cause social change in new ways. Significant examples include “socially responsible investing,” which is the practice of aligning investment policies with an organization’s mission by investing in causes that are in line with its goals; and “program-related investments,” which are loans, loan guarantees, purchases of stock, or other kinds of financial support or investment made by a foundation from its asset base rather than its grant-making budget²⁹—see Chapter Twenty, “How to Seek a Grant,” for more information on this topic.

What’s Next: Trends and Implications

Though unforeseeable challenges and opportunities for nonprofits will arise, key trends that are most likely to affect the nonprofit sector in the immediate future include:

- **Economic pressures.** Social needs will continue to exceed the capacity of nonprofit organizations to meet them. The recession of 2008–2009 increased demand, particularly for housing, food, employment, and social services, and its consequences will be felt for some years to come.³⁰ Estimates are that as many as 100,000 nonprofit organizations may close as a result of the financial downturn.³¹ Even in stronger economies, the pressures of demand and competition for resources will challenge nonprofits economically. Innovative and entrepreneurial solutions to social problems and organizational difficulties will be crucial for success in the sector.

- Cultural and racial composition. America is becoming a minority-majority society made up of a group of individuals of various and mixed races and backgrounds.³² The growth in Hispanic and other minority groups in the United States will call for cross-cultural communication and cooperation skills, and inclusive behaviors that leverage diverse ideas and skills will become more important to those providing social benefit.^{33,34} Organizations will need to be culturally fluent and competent to meet their missions in the future.
- Age. Predicted changes in the age of the population include the approaching retirement of an entire generation of experienced nonprofit leaders.^{35,36} At the same time, a growing number of able retirees from all sectors will offer the potential for highly valuable service to causes, and the volunteer rate of youth (16 to 24) nearly doubled between 1989 and 2005 and has since held steady.^{37,38,39} The increased presence of these two generations as volunteers and employees will create a need for strong intergenerational communication and cooperation, and will lead to new models of “skills-based” volunteerism, which is addressed in detail in the chapters on volunteer management. Finally, the generational transfer of funds that will occur with the death of the Baby Boomer generation will provide the largest transfer of wealth in the history of the nation and holds great potential for gifts to nonprofits in the form of bequests.⁴⁰ Successful nonprofits will need to be effective in communicating with and engaging supporters and employees of all ages to remain competitive in the coming decades.
- Global concerns. The population served by nonprofits has been expanding, even as the world appears to be shrinking. In addition to addressing domestic needs, American nonprofit organizations today are attempting to alleviate and solve social needs all over the world. There has been a dramatic growth in concern and effort toward global humanitarian needs. Such issues as climate change, AIDS, poverty, and natural disasters have attracted billions of dollars in funding from American donors and a growing group of international philanthropists.⁴¹ In an increasingly interconnected world, it is imperative that nonprofits understand how their efforts fit into a larger context.

- Communication technologies. Exciting and revolutionary developments in technology offer new and fast-changing opportunities to nonprofits, especially in their efforts to communicate, raise funds, engage volunteers, and increase impact. Technology is enabling new ways to build, share, and use data and knowledge about social needs, while at the same time providing new means to interact, support, network, and collaborate. Nonprofits now have fast, viral, democratic, and ever-improving tools for building community, prompting action, and seeking support from people with shared values, regardless of distance or boundaries. Technology has provided a means for anyone to support disaster relief or other efforts instantly anywhere in the world and has greatly accelerated people's willingness to donate online. To be successful and competitive, nonprofits must learn the power and potential of technology to help an organization achieve its mission. At the same time, today's electronic communication tools allow the formation of loose, temporary networks organized around ideas and initiatives, rather than around existing nonprofit organizations, which means that successful nonprofits will focus on the cause and the audience more than their own needs and agenda.^{42,43}
- Cross-sector partnerships. Nonprofit organizations are increasingly working in close relation to other nonprofits, government agencies, for-profits, and networks to accomplish change. Collaborative financing, contracts, commercial arrangements, and other partnerships involving two or more organizations and even sectors are occurring nationwide and globally, often in research, community development, and health care, effectively blurring many traditional boundaries.^{44,45} To have the greatest possible impact, nonprofits may need to step outside their organizations and explore opportunities for partnership and alliance.
- Social entrepreneurship. The movement toward social enterprise by nonprofits has been funded largely by business leaders who have sought to adapt business skills to a nonprofit environment. Initially, they wanted to experiment with ways in which nonprofit organizations could both earn income and achieve their missions. This concern with social benefit has now been embraced by some in the for-profit sector as well. Some corporations have embraced "corporate social responsibility" as a way to benefit the community and shareholders alike. In addition, new corporate

structures such as the low-profit limited liability corporation (L3C) and the B corporation (“benevolent” corporation) offer innovative ways for the private sector to cause social change.⁴⁶ These corporations can receive program-related investments from foundations and other socially minded investors to create businesses that earn a profit but have social benefit as a primary purpose. As individuals, investors, and foundations become more “sector agnostic,” nonprofits will find themselves competing with these efforts for funding and employees as they seek ways to work together toward social change.^{47,48,49}

- **Scrutiny and transparency.** High-profile scandals and public questioning of nonprofit effectiveness have led to a decline in public confidence in nonprofits. A 2008 poll found that only 25% of Americans thought that nonprofit groups do a “very good” job, down from 54% in 2003.⁵⁰ Several states are challenging the property tax exemptions of hospitals and other nonprofit institutions that compete with and closely resemble for-profits.⁵¹ To respond, nonprofits need to present information and communicate their distinctions and benefits to society more powerfully and proactively. Nonprofit boards of directors will be held to higher and more clearly defined standards of governance and responsibility for progress toward mission.
- **Focus on results.** Efforts to quantify impact and to identify and replicate successful models will continue to be dominant forces as traditional and venture philanthropists increasingly demand more accountability and clearer measures of nonprofit success.⁵² The White House Social Innovation Fund is also seeking to assess nonprofit effectiveness and select good models to multiply.⁵³ Yet each organization is different and there is little agreement about what gauges are appropriate or useful as measures of organizational potential, mission adherence and fulfillment, and the accomplishment of social change.⁵⁴ It is essential that nonprofits find persuasive ways to quantify their goals, progress, and results to those who would support them. Pressure from funders, a harsh financial landscape, and a continuing focus on effectiveness will encourage collaboration within the sector and prompt merger considerations by many nonprofits.⁵⁵

- **Earned income.** Attention to earned revenue sources as a means to diversify revenue and ensure sustainability will continue, both through conventional means and through the efforts of social entrepreneurs to create new and more effective income-generating mechanisms. The successful pursuit of greater earned revenue while honoring a mission will call for careful decision making and will demand professionalism, efficiency, and competitive expertise.
- **Contributed income.** Raising funds from individuals, the source of the great majority of donations, has never been more complicated—or more possible. The environment is filled with challenges (donor skepticism, competition to be heard and noticed) and promises (exciting new ways to engage people and to identify, cultivate, solicit, and steward gifts). Nonprofits must commit to steady and constant effort to create, build, and maintain relationships with those who care about and can fund the change they seek to cause through their annual, capital, and planned gifts.

Conclusion

The nonprofit sector in America was born of various traditions and religions and is today a reflection of the evolution of American values and beliefs about duty, community, and social good. Shaped by political, economic, social, religious, environmental, and global forces, the nonprofit sector continues to grow in size and responsibility. As the needs that nonprofits address grow in scale, scope, and complexity, and as their work occurs more in the public eye and in relation to the for-profit and government sectors, demand for skill and impact will grow. If nonprofit leaders are to prompt others to embrace and support their missions and efforts, they will need clear and practical guidance. In the following chapters, experts will inform, share their experience, offer practical advice, and provide direction for further learning and engagement. Our shared goal is to inspire you and equip you for the great work of group action for the common good.

Robert Glavin is a consultant, teacher, public speaker, writer, and volunteer. As president of Robert Glavin, Inc., he counsels nonprofits nationwide in fundraising, governance, and management. He helps clients to plan, increase capacity, raise funds, and execute lasting change. Previously, he was executive director of the San Francisco Shakespeare Festival, director of development and marketing at the California Academy of Sciences, director of development at the University of San Francisco and Georgetown University Medical Center, and legislative representative for the American Hospital Association. He has a bachelor's degree in government from Georgetown and a master's in nonprofit administration from the University of San Francisco, where he teaches graduate courses in fundraising, strategic planning, and governance.

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