What Is the Nonprofit Sector?

Our sacred promise to improve lives has been—and must continue to be—our ultimate purpose for existing. . . . Americans have high expectations for us: We are the primary outlet for their humanitarian impulses, their conduits of goodwill and generosity. We are the way individuals give back, so that we as a society can move forward.

Diana Aviv, President and CEO, Independent Sector

Imagine that it is 1980 and a second-grade teacher learns that one of her 7-year-old students has been abused by a trusted family member. Once the teacher completes her mandatory call to police, the child is taken from her home by uniformed officers and subjected to a thorough examination in a sterile room at the hospital. Following a series of tests and questions, she is then taken to the police station and asked even more confusing questions before being handed over to a child protective services employee, who sits on a cold bench with her as she waits to be retrieved by her grandparents. As frightening and bewildering as all of this must be for her, the ordeal is far from over for this young victim. In the months that follow, she is taken to the police station several more times, is assessed by various counselors, and questioned by prosecutors and other court staff; in essence, she continues to be traumatized.

Throughout her ordeal, this young victim has interacted with professionals in government (the police officers, child protective services employee, and the state prosecutors), the private sector (the physician), and the nonprofit sector (since the hospital in which she was examined is likely a not-for-profit entity). Various public policies affect the process she endured, from the legal requirement that teachers notify law enforcement of possible abuse to the specific statutes which classify the type of abuse and the penalties associated with conviction. Aside from these legal requirements, however, in 1980 there were no public policies or programs designed to reduce the trauma of navigating the legal and health care systems imposed on victimized children. As is often the case, this problem took years to recognize and years more to address; as is also often the case, those involved pursued a nonprofit option to solve this systemic problem. The nonprofit National Children's Alliance and hundreds of children's advocacy
Part I Fundamentals and Environment of the Voluntary Sector

centers have been developed nationwide to provide that systemic solution through provision of child-centered services; most of these centers are nonprofits and are discussed further below.

POLICY IMPLICATIONS OF NONPROFIT ORGANIZATIONS

- Nonprofits are inextricably linked to public policy.
- Our history as a British colony facilitates our understanding of the origins of the U.S. nonprofit sector, e.g. through the impact of the Statute of Charitable Uses and the Revolutionary spirit which defined the Constitution and also informs the proclivity for both voluntary and government action.
- The nonprofit sector has grown dramatically in size in recent years and represents a diversity of interests. This leads to competition for resources and for attention from policymakers.
- U.S. tax policy is also relevant for the growth and diversity of the sector, particularly with regard to the incentives for the development of philanthropic foundations and their ability to direct resources.

NONPROFITS AND PUBLIC PROBLEMS

As will be discussed throughout this book, nonprofit organizations in the United States address public problems and are imbued with public policy. It is impossible to understand the formation, operation, and management of nonprofits without a commensurate understanding of the public policy context they inhabit. Not-for-profit organizations both act and are acted upon with regard to public policy; in order to pursue their missions, they often advocate for government support and must comply with government mandates. The nonprofit sector has a symbiotic relationship with public policy—each is influenced to varying degrees by the other; this is the central theme of our book. Nonprofits are inextricably linked to public policy, and understanding the relationship between the two is a significant factor in successful nonprofit management.

For example, let us return to the issue of child abuse. Although there is now nearly universal recognition of child abuse as a public problem in the U.S., that was not always the case. In fact, the first case of child abuse was prosecuted in 1874 under an animal cruelty statute because at the time there was no law aimed specifically at the protection of children. As a result of this case the first child protective services agency, the nonprofit New York Society for the Prevention of Cruelty to Children (NYSPCC), was formed in 1875 by Henry Bergh and Elbridge Gerry.1  By 1908, similar societies were in existence in 44 states, as well as Great Britain and most other European countries plus India, South Africa, Australia, and South America.2 By the mid-1940s, city, county, and state government agencies had taken over
most of the primary tasks of the nonprofit Societies for the Prevention of Cruelty to
Children (SPCC), which from that time forward have served in partnership with govern-
ment in the protection of children. 3

This is one of many examples in which nonprofit action helped define as well as address
a public problem. SPCC agencies were on the leading edge of delivery of services to abused
children—receiving complaints, conducting investigations, and taking cases to trial—prior
to adoption of legislation stipulating specific protections for children; most subsequent child
abuse legislation can be traced back to their advocacy efforts. 4 These organizations were in
effect changing public policy by taking responsibility for a public problem in the 1870s.
More than a century later, Bud Cramer, then district attorney for Madison County, Alabama,
and his colleagues organized a new nonprofit response to child abuse, namely the allevia-
tion of the trauma of prosecution inflicted on child victims of sexual abuse, such as the little
girl described in the opening vignette. Through Cramer’s leadership and the efforts of many
volunteers, the National Children’s Advocacy Center (NCAC) was established in Huntsville,

NCAC has become a model for centers throughout the United States and other coun-
tries 5 , and led to the creation of National Children’s Alliance (NCA), which provides
information “and technical assistance to promote the development and operation of chil-
dren’s advocacy centers (CACs) across the United States. ” 6 Children’s advocacy centers
provide an alternative and collaborative approach to standard criminal justice procedures
in the handling of child abuse cases. A children’s advocacy center is a centralized, child-
friendly facility in which law enforcement, social services, legal, medical, victims’ advocate,
and counseling professionals come together as a team to interview, examine, and provide
support services to child victims. Importantly, as noted earlier, most children’s advocacy
centers are nonprofit organizations.

While many think of nonprofits and their involvement in public policy as relatively
new phenomena, not-for profit organizations have taken on public roles and purposes for
generations. Indeed, by 1835, Alexis de Tocqueville had observed that Americans were
constantly forming civil associations: “If it is proposed to inculcate some truth or to foster
some feeling by the encouragement of a great example, they form a society. ” 7 By the time
of Tocqueville’s writing, public work was already being facilitated through the efforts of
nonprofit organizations including churches, museums, colleges, and universities. As
Hammack explains, there was little government opposition to nonprofit organizations in
the early decades of the nineteenth century. Most courts and legislatures by this time “had
accepted the view that nongovernment, nonprofit organizations provided essential ser-
vices, reinforced religious education in ways important to civil peace, reduced the need for
tax-supported government action, permitted variety and flexibility in the provision of
services. ” 8

Examples of the varied influence of the nonprofit sector in the realm of public policy,
therefore, abound in American history. The American Red Cross delivered direct services
to victims of forest fires as early as 1881, and in 1958 the policy advocacy efforts of the Child Welfare League of America facilitated federal legislation requiring states to hire full-time child welfare caseworkers. An example of nonprofit influence on public policy through the court system comes from the Police Foundation's research on the use of deadly force. Their findings were extensively cited in the 1985 U.S. Supreme Court decision *Tennessee v. Garner*, which modernized police policy by reserving the use of deadly force by officers to cases in which a life is threatened. Each of these examples illustrates the ways in which public policy has been encouraged, informed, tested, or delivered by nonprofit entities.

Since all nonprofits operate within the public policy arena, it is critical for those working in not-for-profit organizations as well as in government entities to understand the very important role that nonprofits play. Similarly, it is important to recognize that public policy influences nonprofit organizations and their management. From their tax status, to the federal policies that affect their personnel practices, to the mandates required by government contracts, not-for-profit organizations are both guided and limited by public policies as they pursue their missions; they affect and are affected by public policy.

It is the aim of this book to set the work of nonprofit organizations firmly within the milieu of public policy and to highlight the fact that effective nonprofit management requires a keen understanding of the complex relationship between the nonprofit sector and the policy world. In order to meet the broader needs of society it is essential that not-for-profit organizations and the public agencies that work with them are able to successfully navigate this complexity.

**WHAT IS A NONPROFIT?**

Nonprofit organizations are generally understood to provide goods or services but are neither private businesses nor government operated. The term “nonprofit,” however, is a misnomer. These organizations can and often do have revenues that exceed expenditures—that is, they make a profit—but the distinction between nonprofits and private business is that nonprofits must retain excess revenues for the benefit of the organization; excess revenues in private business are distributed to owners/shareholders. Not-for-profit is therefore a more precise descriptor, but the two are used interchangeably throughout this text. While “nonprofit” is the more dominant term throughout the general literature, other terms sometimes used include “charitable,” “voluntary,” or “philanthropic organizations.” All refer to the same type of tax-exempt organizations, and exemption from taxes is the primary characteristic that affects legal designation of nonprofits and the rules and regulations pertaining to them.

As will be discussed in greater detail in Chapter 4, a determination letter from the Internal Revenue Service (IRS) is considered the primary document needed for legal recognition as a tax-exempt organization. According to the IRS, however, nonprofit status is actually a concept
of state law; registration within a certain state grants the organization certain benefits with regard to exemption from state taxes. Exemption from federal income tax requires separate action and compliance with additional requirements. Exemption from local, state, and federal income taxes are significant incentives for the development of not-for-profit organizations, but first and foremost, nonprofits exist to address a public problem or need that, for whatever reason, is not adequately served through government or the private market. Theories on the reasons why nonprofits are more attractive options than governments and markets are the focus of Chapter 3.

Public Charities
At this point it is important to distinguish among the different types of nonprofits, since it is their classification according to the Internal Revenue Code (IRC) that gives most nonprofits their legal recognition. Public charities are those organizations recognized under section 501(c)(3) of the IRC whose purposes generally fall into the categories of religious, charitable, scientific, literary, or educational endeavors. At 63.7 percent of all tax-exempt organizations in 2009, public charities represent by far the largest category of not-for-profit organizations (see Figure 1.1 on page 15). As such, most practitioners and researchers in the nonprofit sector focus their efforts upon organizations classified as public charities. This is not surprising as charitable purposes are the foundation for the nonprofit sector dating back as early as 1601 when Queen Elizabeth I accepted the Statute of Charitable Uses:

. . . some for relief of aged, impotent, and poor people, some for maintenance of sick and maimed soldiers and mariners, schools of learning, free schools, and scholars in universities, some for repair of bridges, ports, havens, causeways, churches, seabanks, and highways, some for education and preferment of orphans, some for or towards relief stock or maintenance for houses of correction, some for marriages of poor maids, some for support, aid and help of young tradesmen, handicraftsmen, and persons decayed, and others for relief or redemption of prisoners or captives, and for aid or ease of any poor inhabitant concerning payment of Fifteens [a tax], setting out of soldiers and other taxes. . . . 9

The statute was adopted in order to delineate the relationship between church and state since churches were the primary vehicle through which charitable endeavors were accomplished. Following English law, early American churches remained the dominant providers of charity in the colonies and later within independent states. Accordingly, the Statute of Charitable Uses was instrumental in establishing the boundaries of tax-exempt activity by enumerating what would generally be considered public purposes and benefits provided by charities and it continues to affect the legal perspective of what is and is not acceptable activity by charitable organizations today. 10 See Going Global 1.1 for further discussion of British and other international influences on the origins of the U.S. nonprofit sector.
GOING GLOBAL 1.1

International Influences on Early U.S. Nonprofits

While efforts of U.S. nonprofits overseas will be highlighted throughout the text, it is useful initially to consider the influence of international policies on voluntary organizations in colonial and post-Revolutionary America.

The Statute of Charitable Uses—while quaint in its language—was British policy adopted in the seventeenth century that continues to have a lasting influence on how nonprofit organizations are organized and viewed by government in the U.S. The enumeration of what were considered “legitimate objects of charity” had a profound and lasting impact on what U.S. legislative and judicial authorities would consider to be tax-exempt activities.

The power of the Catholic Church in areas of the New World controlled by Spain and France coupled with the dominance of the Anglican Church throughout the British Empire led to the formal policy, and commonly held public opinion throughout the British colonies that there should be one religion and that the church should be supported by taxes. This resulted in the church essentially operating as an arm of the government, providing education and human services in addition to religious services to citizens. With religious diversity already established in many parts of colonial America, by the early eighteenth century even those who continued to believe that there should be a single religion established by government were unable to agree as to which should be the one official church. Subsequently, religious and political leaders such as Cotton Mather and Benjamin Franklin became effective advocates for voluntary societies. Mather’s Essays to Do Good—which are believed to be the inspiration for Franklin’s collection of Silence Dogood letters—is believed to be the first American tutorial on the benefits of establishing voluntary societies. Because Cotton Mather wanted the Puritan church to be the official religion, which was not possible given the British policy regarding the sole authority of the Anglican Church, he sought the only avenue he saw open for Puritan social influence by promoting collective action outside of government or religion.

After gaining independence from Great Britain (and the Church of England), citizens of the new United States had galvanized their preference for limited government; the First Amendment to the Constitution reflects the correspondingly prevalent sentiment in opposition to an established religion. The voluntary associations promoted and established in the early to mid-1700s were thus an attractive conduit through which to provide collective goods and services; this penchant for voluntary action has deep historical roots grown from international seeds.

International seeds continued to take root, for example, in the case of the ASPCA. Established in 1824, England’s Royal Society for the Prevention of Cruelty to Animals (RSPCA) spawned the establishment of New York’s SPCA when Henry Bergh (also responsible for NYSPCC, discussed
previously) met with the Earl of Harrowby—then president of the RSPCA—on a visit to London in the mid-1860s. Bergh’s mortification at witnessing bullfighting on a visit to Spain, the inhumane treatment of animals he saw while a diplomat to Russia, and the notes he gleaned from the success of England’s RSPCA all culminated in 1866 when the New York legislature passed a charter incorporating the nonprofit ASPCA on April 10; nine days later it adopted the nation’s first anti-cruelty law.

For more information on the history of the U.S. nonprofit sector, see *Making the Nonprofit Sector in the United States*, edited and annotated by David Hammack. Additional information on the history of RSPCA and ASPCA can be found at www.spcai.org and www.apsca.org.

Today, the terms “charitable organization” and “public charity” are applied to organizations which provide a large and diverse array of public goods and services. The terms are loosely applied and routinely thought to encompass all organizations exempt from tax under section 501(c)(3) of the Internal Revenue Code. However, private foundations—which are not public charities—are also most often classified as 501(c)(3) organizations but are regulated much differently from charities. The growth in the number of these organizations is also reflected in Figure 1.1, and they are discussed further below. This muddied distinction can be linked to the Statute of Charitable Uses, as it is the specific listing of what constitutes a tax deductible contribution that results in most 501(c)(3) organizations being referred to as charities. Section 170 of the IRC (which creates the tax deduction) defines charitable contributions using the same language as in section 501(c)(3) to identify eligible organizations. Accordingly, what distinguishes a public charity from other 501(c)(3) nonprofits is not clear in the regulations, leading to a general misconception that only public charities are organized under section 501(c)(3) of the IRC.

Other 501(c) Nonprofits

Today, of course, the voluntary sector includes more than public charities. Not-for-profit organizations encompass a broad spectrum of activities. The second largest category of tax-exempt organizations are those incorporated under IRC section 501(c)(4)—civic leagues, social welfare organizations, and local associations of employees such as AARP, the NAACP, and Rotary Clubs. Unlike 501(c)(3) organizations, those organized under section 501(c)(4) are allowed greater latitude with regard to lobbying and political activity. However, only certain volunteer fire departments and veterans’ organizations described in section 501(c)(4) are eligible to receive tax-deductible contributions, whereas most charities described in section 501(c)(3) are eligible to receive tax-deductible contributions. A list of the major categories of tax-exempt organizations other than those organized under section 501(c)(3) is included in Table 1.1.
### Table 1.1

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IRC Section</td>
<td>Number of Orgs</td>
</tr>
<tr>
<td>Civic leagues, social welfare orgs, etc.</td>
<td>501(c)(4)</td>
<td>124,774</td>
</tr>
<tr>
<td>Fraternal beneficiary societies</td>
<td>501(c)(8)</td>
<td>103,725</td>
</tr>
<tr>
<td>Business leagues, chambers of commerce, etc.</td>
<td>501(c)(6)</td>
<td>70,718</td>
</tr>
<tr>
<td>Labor, agricultural, horticultural orgs</td>
<td>501(c)(5)</td>
<td>60,530</td>
</tr>
<tr>
<td>Social and recreational clubs</td>
<td>501(c)(7)</td>
<td>56,429</td>
</tr>
<tr>
<td>Posts or organizations of war veterans</td>
<td>501(c)(19)</td>
<td>34,608</td>
</tr>
<tr>
<td>All other 501(c) nonprofits</td>
<td></td>
<td>41,909</td>
</tr>
<tr>
<td>Total Other 501(c) Nonprofits</td>
<td></td>
<td>492,693</td>
</tr>
<tr>
<td>Total 501(c)(3) Public Charities</td>
<td></td>
<td>631,902</td>
</tr>
<tr>
<td>Total 501(c)(3) Private Foundations</td>
<td></td>
<td>77,978</td>
</tr>
</tbody>
</table>


#### Foundations

As mentioned previously, most foundations are classified as 501(c)(3) organizations but are differentiated from public charities by the IRS; they are subject to more stringent regulations, as discussed in Chapter 4. In 2009, private foundations comprised 7.6 percent of all nonprofits, and 10.7 percent of organizations classified as tax-exempt under section 501(c)(3). The nonprofit Foundation Center is the leading authority and resource for and about foundations in the United States (see Box 1.2). While the IRS distinguishes primarily between operating and grantmaking foundations (see Table 1.2), the Foundation Center...
uses the terms “private foundation” in lieu of “operating foundation” and “public foundation” instead of “grantmaking” in order to distinguish between the various sources of funding. Private foundations derive their funds from “an individual, a family, a corporation, or some combination of related parties”\(^{14}\); these foundations may grant funds to other organizations or may use funds to operate their own programs. Public foundations, however, have grantmaking as their primary purpose. Funding generally comes from multiple sources including government grants, individuals, and private foundations.\(^{15}\)

The Foundation Center identifies four types of private foundations: 1) independent foundations; 2) operating foundations; 3) corporate foundations; and 4) corporate operating foundations. Independent foundations (also referred to as family foundations) comprise nearly 89 percent of the foundations in the Foundation Center database. These foundations are established by individuals or families through large gifts or bequests of funds, stocks, and properties, and are varied in size, scope, and types of interests. Most independent foundations do not employ staff; the donor and/or family members manage resources and distribute funds.\(^{16}\) Prominent family foundations include the John D. and Catherine T. MacArthur Foundation, the Robert Wood Johnson Foundation, and the W.K. Kellogg Foundation, each of which has had major policy influence through the projects it funds. The Robert Wood Johnson Foundation, for example, now partners with the nonprofit Alliance for a Healthier Generation in its mission to change school policy regarding food and beverage options in order to alleviate the problem of childhood obesity; these efforts are highlighted in Chapter 2.
Box 1.2
FOR MORE INFORMATION
THE FOUNDATION CENTER

The Foundation Center was recognized as a 501(c)(3) tax-exempt organization in 1957 and today is the leading authority on philanthropy in the U.S. Its primary resource is information, maintaining the most comprehensive database on grantmakers and their grants in the U.S. Research, education, and training programs are directly provided by the Center. There are five regional library/learning centers—Atlanta, Cleveland, New York, San Francisco, and Washington, D.C.—along with a network of more than 400 “funding information centers” located in public libraries, educational institutions, and community foundations across the nation.

The mission of the Foundation Center is “to strengthen the nonprofit sector by advancing knowledge about U.S. philanthropy.” This is done primarily through their website and five regional centers. The Center conducts its own research, as well as facilitates the research of others on U.S. philanthropy. Through its information database, the Foundation Center provides access to IRS Form 990 information as well as information on numerous funding sources. In addition, free online tutorials and webinars are available on preparing grant proposals, while additional publications and workshops are available for a fee.

Educational resources available through the Foundation Center aid nonprofit managers by providing practical assistance in identifying and pursuing grant funding. Data on the nonprofit sector, particularly through its searchable database of Form 990 information, enhances knowledge of the field and provides researchers and policymakers with valuable information. In addition, the Center launched a $15-million, 50th Anniversary campaign in 2006 to raise funds for capacity-building activities. Capacity-building is an important issue within the field, since provision of funds specifically to professionalize the operations of nonprofits will likely have a long-term policy impact by strengthening the sector as a whole.

To learn more about the Foundation Center resources and services, go to http://foundationcenter.org.


Operating foundations—such as the J. Paul Getty Trust—are also established with assets given by individuals or a small group of donors, but unlike other family foundations they use their resources to operate their own programs rather than or in addition to distributing funds to other organizations. Family foundations that move toward direct charitable activities and away from grantmaking would likely benefit from reclassification by the IRS to be private operating foundations. IRS restrictions and requirements for private operating foundations are less strict; for example, greater deductibility of new donations is allowed and they have a different payout requirement. More information on the regulations and restrictions that apply to foundations is included in Chapter 4.

Corporate foundations are established with assets received from a publicly held company, although they are a separate legal entity. These foundations—including the Alcoa
Foundation and Enterprise Rent-A-Car Foundation—are typically established as means to target giving in the geographic locations where the company operates, to support children of employees through scholarships, and/or encourage charitable giving and volunteer efforts of company employees. Like family operating foundations, corporate operating foundations run their own programs rather than distribute funds to other organizations. Most foundations of this type have been established by pharmaceutical companies for the direct distribution of medications such as the Bristol-Myers Squibb Patient Assistance Foundation and the Lilly Cares Foundation.

Like the nonprofit sector in general, foundation growth has been dramatic in the past 20 years. Foundations held an estimated total of $583.4 billion in assets in 2009, up from $448.6 billion in 1999, but down from the decade high of $682.2 billion in 2007. While the number of foundations has increased each year in the last three decades, the rate of growth from 2007 to 2008 was the smallest, most likely because of the economic crisis. Approximately 32,300 foundations held assets of at least $1 million or distributed funds in excess of $100,000 in 2007; 63.6 percent of them were established between 1990 and 2008. Table 1.3 includes the timeline of establishment for these foundations, as well as total number of active private and community foundations by decade. The Foundation Center estimates a termination rate of 1.5 percent in 2006, when 1,080 foundations that had been active in 2005 ceased operation.20

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1940</td>
<td>596</td>
<td>2%</td>
<td>N/A</td>
</tr>
<tr>
<td>1940–1949</td>
<td>807</td>
<td>3%</td>
<td>N/A</td>
</tr>
<tr>
<td>1950–1959</td>
<td>1,959</td>
<td>7%</td>
<td>N/A</td>
</tr>
<tr>
<td>1960–1969</td>
<td>2,025</td>
<td>7%</td>
<td>N/A</td>
</tr>
<tr>
<td>1970–1979</td>
<td>1,274</td>
<td>4%</td>
<td>22,088</td>
</tr>
<tr>
<td>1980–1989</td>
<td>4,816</td>
<td>16%</td>
<td>32,401</td>
</tr>
<tr>
<td>1990–1999</td>
<td>11,274</td>
<td>38%</td>
<td>56,582</td>
</tr>
<tr>
<td>2000–2006</td>
<td>6,709</td>
<td>23%</td>
<td>72,477</td>
</tr>
</tbody>
</table>

Classification of Nonprofits

While the Internal Revenue Code includes almost 30 sections delineating different eligibility requirements for tax-exemption, until the 1980s organizations were not uniformly classified by type. Because the not-for-profit sector is so diverse, a classification system was deemed necessary to yield meaningful information by grouping organizations by purpose, type, or major function. As such, the National Taxonomy of Exempt Entities (NTEE) was designed by the National Center for Charitable Statistics (NCCS) in cooperation with major nonprofit organizations. The value of the NTEE lies in its ability to:

- facilitate the collection, tabulation, presentation, and analysis of data by the types of organizations and their activities;
- promote uniformity and comparability in the presentation of statistical and other data collected by various public and private agencies; and
- provide better quality information as the basis for public policy debate and decision-making for the nonprofit sector and for society at large.  

New National Taxonomy of Exempt Entities—Core Codes (NTEE-CC) include about 400 categories. Codes are organized with consistent hierarchical logic that affords ease of use. A discussion of the major groups and divisions, as well as the impact of NTEE on research and public policy, is included in Box 1.3.

While the data in Figure 1.1 and Table 1.1 are helpful in illustrating the size of the voluntary sector according to different types of tax-exempt status, the diversity of functions among these organizations makes understanding of the scope of the sector less clear. Examination by NTEE categories, however, affords a more illuminating view of the sector because NTEE classification includes all nonprofits in all sections of tax-exemption. The diversity within the sector highlights the many and varied public policy ramifications of nonprofit efforts.

Table 1.4 reflects change in the number of registered not-for-profit organizations by major purpose or activity between 2000 and 2010. As you can see, while the sector as a whole grew, the proportion of certain types of nonprofits fluctuated. Public and societal benefit nonprofits decreased as a percentage of total nonprofits while the relative share of religious organizations increased; mutual/membership benefit organizations showed a decline in numbers as well as proportion. Decline in the number of mutual/membership benefit organizations most likely reflects trends identified in recent scholarship on the decrease in civic engagement in the United States (see Robert Putnam’s Bowling Alone, for example). Regardless, it is clear to see that the NTEE enables a better understanding of the work being done by nonprofits and specifically how the voluntary sector is changing. Since 1999, for example, nonprofits have increased their presence in the area of human services by 25 percent, indicating greater involvement in policy areas such as child protection, social welfare, and job training.
FOR MORE INFORMATION

NATIONAL TAXONOMY OF EXEMPT ENTITIES

NTEE is comprised of 26 major groups (labeled A through Z) and seven common codes. Whereas the 26 major groups are organized under ten broad categories (listed in Table 1.4), the common codes are used within each major group to delineate activities of organizations. Common codes also allow use of a fourth digit to provide more detail about a kind of organization within a group. For example, National Children’s Alliance is an affiliate organization coded as I037, where the I indicates the major group Crime & Legal-Related, which falls under the broad category of Human Services, and 03 refers to the common code Professional Societies and Associations. The fourth digit was taken from the decile level of the NTEE-CC, which in this case is I70 Protection Against Abuse. Use of the 7 as the fourth digit indicates that NCA is not only a professional association within the field of criminal justice, but that the organization specializes in protection against abuse.

IRS determination specialists use the information from applications for tax-exempt status to classify organizations according to the NTEE-CC. This classification makes data collection and dissemination by the National Center for Charitable Statistics more useful, thus enhancing our understanding of the nonprofit sector. In addition, the Foundation Center also uses a slightly more detailed version of the system to classify grants and those who receive them.

While the NTEE codes have proven immensely valuable, due to the availability of digitized data from Part III of the Form 990 through the NCCS/Guidestar database, the National Center for Charitable Statistics has developed the Nonprofit Program Classification (NPC) System. Whereas the NTEE classifies nonprofits according to their organizational purpose, the NPC codes reflect the nonprofits’ actual activities. It is expected that these enhanced data will be not only more useful for researchers but also for potential donors and volunteers for nonprofits, as it facilitates a greater understanding of their activities. In addition, policymakers at all levels of government who are interested in the role of the voluntary sector will be better served through the availability of more complete and detailed information regarding the activities and impact of nonprofit organizations.

A complete list of the NTEE-CC and further discussion of the NPC are available at nccsdataweb.urban.org.

SCOPE AND FUNCTION OF THE NONPROFIT SECTOR

The nonprofit sector is also known as the voluntary sector, the independent sector, or the third sector, in contrast to the public sector (government) and the for-profit (private business) sector. When nongovernmental organizations that are active in other countries are included in the discussion, reference is generally made to Nongovernmental Organizations or NGOs. Since this text focuses primarily on nonprofit activity in the U.S., the terms nonprofit, not-for-profit, or voluntary sector will be used interchangeably throughout. References to NGOs should be construed as denoting an international emphasis.


Table 1.4 Change in Registered Nonprofit Organizations by NTEE Category, 1999 and 2010

<table>
<thead>
<tr>
<th>NTEE Category</th>
<th>Dec. 1999a</th>
<th>Nov. 2010b</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of Orgs</td>
<td>%</td>
<td># of Orgs</td>
</tr>
<tr>
<td>Arts, Culture, and Humanities</td>
<td>91,275</td>
<td>7.6</td>
<td>124,965</td>
</tr>
<tr>
<td>Education</td>
<td>159,896</td>
<td>13.3</td>
<td>216,443</td>
</tr>
<tr>
<td>Environment23</td>
<td>35,732</td>
<td>3.0</td>
<td>59,174</td>
</tr>
<tr>
<td>Health24</td>
<td>75,885</td>
<td>6.4</td>
<td>100,517</td>
</tr>
<tr>
<td>Human Services25</td>
<td>296,081</td>
<td>24.7</td>
<td>413,359</td>
</tr>
<tr>
<td>International, Foreign Affairs, and National Security</td>
<td>12,781</td>
<td>1.1</td>
<td>20,838</td>
</tr>
<tr>
<td>Public and Societal Benefit26</td>
<td>302,591</td>
<td>25.2</td>
<td>357,345</td>
</tr>
<tr>
<td>Religion Related, Spiritual Development</td>
<td>138,996</td>
<td>11.6</td>
<td>253,054</td>
</tr>
<tr>
<td>Mutual/Membership Benefit Organizations</td>
<td>85,057</td>
<td>7.1</td>
<td>78,106</td>
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<tr>
<td>Unknown</td>
<td>4,979</td>
<td>0.4</td>
<td>11,502</td>
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<tr>
<td>Total</td>
<td>1,203,273</td>
<td>100.00</td>
<td>1,617,303</td>
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Growth of the Nonprofit Sector

The number of tax-exempt organizations that comprise the nonprofit sector continues to grow in the United States. According to statistics from the Internal Revenue Service (IRS) and published by the Urban Institute’s National Center for Charitable Statistics (NCCS), the number of nonprofit organizations grew by 31.5 percent between 1999 and 2009 (See Figure 1.1.) While data on the number of organizations that cease operations are limited, the Urban Institute has studied the survival rates of small public charities—specified as those that meet the filing threshold but have revenues, expenses, and assets of less than $100,000 per year. Of the original group of 63,493 small nonprofits that filed the Form 99027 in 1997, Boris and Roeger28 estimate that about 16.7 percent were inactive or defunct by 2007, and almost
21 percent saw their revenues decline to below the requirement for filing. Conversely, 28.5 percent of the small organizations saw their revenues, expenses, and assets increase to more than $100,000 per year over the decade studied.

As shown in Figure 1.1, public charities continue to increase as a proportion of total nonprofits, as well as in real numbers. In 2009, almost two-thirds of all organizations recognized as tax-exempt under section 501(c) of the Internal Revenue Code (IRC) were public charities, up from just over half ten years earlier. It is important to note that this reflects only the number of reporting public charities, and the definition of reporting public charity changed in 2008. Prior to 2008, a reporting public charity was one with more than $25,000 in gross annual receipts that was therefore required to file a Form 990; since 2008, only organizations with more than $50,000 in gross annual receipts are required to file a Form 990.

Since prior to 2008 organizations making less than $5,000 in annual revenues were not required to either register or report to the IRS, and those with between $5,000 and $25,000 were not required to file the Form 990, data on these nonprofits are limited. Boris and Roeger estimate that about 63 percent of 501(c)(3) organizations did not meet the requirements to file with the IRS in 2007, suggesting the sector is far larger and more complex than the data on reporting charities indicate. While information on very small nonprofits is likely to improve in subsequent years because all public charities (excluding churches) must now file the Form 990-N, commonly called the e-postcard, those data are not yet sufficiently available. Throughout this book we, like most in the field of nonprofit scholarship, focus primarily on organizations large enough to be Form 990 filers because of the data available.
pertaining to them. These data give credence to the claims of numerous nonprofit scholars that the sector as a whole is experiencing tremendous growth.

This growth had its beginnings in the post-World War II era and has been attributed to several factors, including greater affluence among Americans and changing government policy priorities. Increasing American affluence has allowed people to simultaneously contribute more to the nonprofit sector and to purchase the services that nonprofits provide, especially education services. In addition, extreme wealth allows individuals to form philanthropic foundations; for example, in 2000, billionaire and Microsoft co-founder Bill Gates and his wife formed the nation's largest grantmaking foundation, the Bill & Melinda Gates Foundation.

Government policies have also facilitated the growth of the voluntary sector. During the 1960s, President Lyndon Johnson's Great Society created social programs to address health needs, legal aid, urban renewal, and an expansion of social welfare services. The Johnson administration was the first to offer a major infusion of federal funding to nonprofit organizations to help government provide these services. More recently, creation of AmeriCorps in 2003, and its subsequent expansion in 2009 through the Serve America Act have infused the nonprofit sector with a cadre of young and eager volunteers.

Furthermore, the civil rights movement in the 1950s and 1960s added substantially to the growth of the nonprofit sector. The efforts of African American and women's rights groups during those years paved the way for many of today's nonprofit associations, including those representing both sides of the abortion issue, environmental conservation efforts, and gay rights. Finally, increased government use of privatization—hiring contractors from the nonprofit and private sectors—has also increased the number of not-for-profit organizations operating in the United States.

Given the long history of not-for-profit involvement in public policy, the growth of the sector will undoubtedly offer nonprofits continued influence. Government trends, such as continued federal devolution of policy responsibility to the states, will afford additional opportunities for nonprofit involvement in addressing public problems. Taken together, these factors demonstrate the need for academics, policymakers, and the public to pay far more attention to the role of nonprofits in the policy process.

**Economic Impact of Nonprofits**

Growth in the number of organizations is only one factor in the scope of the nonprofit sector and its importance in both academic and practical terms. Data from the Bureau of Economic Analysis (BEA) reflect that in 2011 nonprofit institutions constituted 5.5 percent of the U.S. Gross Domestic Product (GDP). This represents an increase from 4.85 percent in 1999 but a decrease from the decade-high of 5.73 percent in 2009. Between 1999 and 2009, U.S. GDP grew by approximately 47 percent; during this same time, revenues and assets of reporting nonprofits grew by 33.9 and 38.7 percent, respectively. In 2009 (the latest year for which complete data are available), reporting nonprofits received $1.87 trillion in revenue and held $4.3 trillion in assets. These statistics illustrate that not-for-profit organizations produce a significant and increasing impact on the U.S. economy. In addition, with revenues
and assets that have grown at a rate dramatically greater than growth in GDP, the nonprofit sector is positioned to be an even larger force for public policy influence because of greater resources for service provision, research, and advocacy.

According to the Urban Institute, the nonprofit sector accounted for nine percent of wages and more than 10 percent of jobs in the 2009 economy; this marks a continued increase (from 4.4 percent in 1994 and 5.9 percent in 2007) in nonprofit employees as a percent of all workers. Studies indicate that workers in nonprofits are compensated at similar levels to their counterparts in other sectors—slightly more than for-profit employees but somewhat less than workers in state and local government. In 2007, the average hourly wage for nonprofit workers was $21.68 compared to $21.08 for employees at for-profits, and $23.77 for state and $25.26 for local government workers, respectively. It is important to note, however, that these data reflect wages for all workers in each sector; when examining wages for management occupations only, private sector average hourly earnings are highest at $41.38 and nonprofit sector earnings are lowest at an average of $34.24 per hour. In addition to the economic impact of paid employees, volunteers make significant contributions via the nonprofit sector. In 2009, volunteers contributed 14,963,262 hours, equivalent to 8,802,000 full-time employees. The value of their time is estimated at $278,615,940, further illustrating the growing importance of nonprofits on the U.S. economy and labor market.

PHILANTHROPY AND POLICY SOLUTIONS

As discussed above, foundations and the programs that they fund and operate have been vital to advancing social goals in the United States since the turn of the twentieth century. Among America’s first modern philanthropists, Andrew Carnegie and John D. Rockefeller both pronounced very public goals for their respective foundations: Carnegie to facilitate “the advancement and diffusion of knowledge and understanding,” and Rockefeller “to promote the well-being of mankind throughout the world.” Established during the Progressive Period in American History (1880–1920), these were the pioneering foundations—a new means of organized philanthropy to facilitate social change by influencing collective political action. According to Sheila Slaughter and Edward T. Silva, resource holders such as Carnegie, Rockefeller, and Russell Sage put their wealth to use to influence the “process of ideology formation”—[defined as] the production, dissemination, and consumption of ideas” because it was believed that such ideologies “supplied the social cement for collective political action.”

Thus, the Progressive movement ushered in a new era in which nonprofit organizations affected how public problems were perceived and how policy solutions were derived. For example, the Council on Foreign Relations (CFR), a nonpartisan nonprofit, has been instrumental in U.S. foreign policy since 1921 when it was founded by grants from the Rockefeller and Carnegie Foundations. The CFR designed important parts of the charter that created the United Nations, helped to craft the Marshall Plan for post-World War II recovery in Europe, and advocated for nuclear nonproliferation agreements throughout the 1970s and 1980s; its journal, Foreign Affairs, has long been considered one of the most influential publications covering U.S. foreign policy issues.
In addition to these public policy-shaping activities, philanthropic foundations have for decades engaged in civic strengthening activities, which are undertaken to facilitate the democratic process by encouraging transparency in governance, improved public leadership, and increased civic participation. Work in these areas, often part of community foundation efforts, includes voter registration, get-out-the-vote campaigns, leadership programs, and collaborations with governments and community organizations to pursue governance and electoral reforms.

**PUBLIC PROBLEMS AND THE POLICY PROCESS**

The work of the early foundations to bolster collective political action builds upon a long history in which government entities and not-for-profit organizations have worked together to provide public goods and services to American citizens. Public goods, also called collective goods, are those that fulfill a need or demand where the benefit cannot be restricted to those with the ability to pay for them. For example, clean air is a collective good. All members of a community benefit from clean air, but access to the air cannot be restricted to those who do not introduce pollution. Because access to collective goods cannot be restricted to those who pay for them, strong incentives exist for people to become “free riders”—that is, those who consume collective goods and services without paying their share of the cost. Public goods, therefore, are typically not provided via the private market—which restricts provision of goods and services to activities which generate profits—but rather through the public sector. This often leads to what are known as collective action problems.

Collective action problems involve those situations in which individual self-interests conflict with social interests—that is, private benefits result in social costs. The classic example is the tragedy of the commons, in which it is in each individual’s self-interest to use as much of a common resource as possible; however, if that happens, the resource will be depleted. Therefore, it is in the collective interest for each person to use less, thereby managing the resource together. For example, the collision between economic development and environmental protection often results in competition between the two sides over problem definitions and appropriate policy solutions. Nonprofit organizations are often involved in developing and managing solutions to such collective action dilemmas. One example of a nonprofit mitigating the competition between economic and environmental interests comes from the Blue Ridge Conservancy, highlighted in Box 1.4.

Collective action dilemmas and other public problems are often addressed through the creation of public policy, which is traditionally considered to be government’s response to perceived problems. Indeed, government action is routinely viewed as a way to validate claims about public needs, those “that a community recognizes as legitimate and tries to satisfy as a community.” Of course all members of a community will not agree on society’s problems nor will all agree on appropriate solutions. Thus, public policy requires that a political deal be struck offering an acceptable balance of benefits and costs across society.
FOR EXAMPLE

THE BLUE RIDGE CONSERVANCY: MITIGATING COMPETING INTERESTS

Founded in 1997, the nonprofit Blue Ridge Rural Land Trust (BRRLT) served a seven-county area of Western North Carolina with a mission of “neighbors helping neighbors work to preserve rural communities and culture in northwestern North Carolina through the protection of the land resource upon which they depend.” Begun with the support of the local Resource Conservation and Development Council—a nonprofit organization sponsored by the U.S. Department of Agriculture—the BRRLT had protected over 5,500 acres through conservation easements by the end of 2005. Another 5,750 acres had easements pending in Spring 2006. BRRLT helped protect the commons by preserving the landscape—that is, the view everyone shares when looking out over a rural mountain vista. The land may be individually owned, but the view is a common resource.

In 2010, BRRLT merged with another nonprofit, the High Country Conservancy, to form the Blue Ridge Conservancy. Both nonprofits were formed as land trusts and their merger combined a history of protecting over 15,000 acres in the northwestern region of North Carolina. Each organization promoted the strong tradition of private property rights; landowners retain ownership and specific use of their property (e.g. for farming), but the development rights are conveyed to the land trust in perpetuity. The land can be sold or transferred through inheritance but must be conserved and protected from development by subsequent owners. Such reduction in development potential results in significant tax savings to property owners; North Carolina led the states in providing state income tax credits for land or easements donated for conservation purposes. However, since the lands remain private property, they continue to generate property tax revenue for local government. This is an important example in which nonprofit organizations collaborated to make policy and resolve the collective action problem of land preservation.

Additional information is available at blueridgeconservancy.org.

For example, Lowi’s classic policy typology addresses these varying perspectives on public problems and solutions by distinguishing between distributive policies, redistributive policies, and regulatory policies. Distributive policies tend to be noncontroversial because they offer targeted benefits but distribute costs so widely as to go unnoticed by most people—for example, university research grants. Redistributive policies, on the other hand, are more controversial, as they are seen as offering benefits to one group, such as welfare recipients, via direct cost to another group—for example, taxpayers. Finally, regulatory policies target individual or industry behavior, thus typically offering widespread benefits, such as cleaner air, with narrow costs to a certain industry or consumer group.

The proliferation of the nonprofit sector has helped to expand the size, scope, and function of organizations prepared to meet public needs and influence citizens’ lives beyond what government can or is able to do. In his discussion of public policy, B. Guy Peters recognized the important role that nongovernmental actors—government’s agents
via contract—play in the policy process. Therefore, his definition of public policy is particularly useful when studying nonprofit organizations. Peters wrote that “public policy is the sum of government activities, whether pursued directly or through agents, as those activities have an influence on the lives of citizens.” Accordingly, based on our academic and professional experience, and the characterizations of numerous scholars in the field, we define public policy as: the actions taken by governments, not limited to statutes and regulations, but including programs and direct service delivery by government agents and nonprofit organizations that seek to address public needs. This definition both informs and guides the discussion of nonprofits and public policy throughout this book.

**Stages of the Policy Process**

Public policies and programs are typically the result of a long and complex process—sometimes decades in the making. As noted above, the policy process typically begins with identifying a problem and deciding whether it is inherently a public problem necessitating a public solution. Although the classic model of the policy process is a simplification, it continues to offer a useful framework for studying public policy in the United States. This model includes several stages, generally proceeding in the following manner: problem recognition, agenda-setting, policy formulation, adoption of the policy, policy implementation, and finally, evaluation.

First, is the problem recognition phase during which a failure in the social, economic, or political system is identified. The problem can be identified by a citizen or group of citizens, a politician, a bureaucrat, an interest group, or a nonprofit organization, much like the New York Society for the Prevention of Cruelty to Children identified the problem of child abuse in 1875. Often a coalition of these actors recognizes a problem and comes together to seek a government solution. Vital to attracting government attention and action is the problem’s policy image—the perception and framing of the issue. Policy image is formed, and can be manipulated, through a combination of the emotional appeal, symbolism, and factual evidence surrounding the problem.

In the agenda-setting stage, the issue attracts a wider audience, including policymakers and politicians. Oftentimes a policy entrepreneur brings the problem to government’s attention, as in the case of Bud Cramer, who as a district attorney led the effort to establish the first children’s advocacy center (CAC). Later, as a U.S. Congressman, Cramer placed this new facet of the problem of child abuse on the federal agenda, advocating legislation and funding for the CAC model.

With enough attention from those inside government, and with their agreement that the problem warrants public action, the issue can move to the policy formulation phase. During this third phase, a possible solution to the problem is sought; a variety of alternative solutions can and will be considered by policymakers. Often in the policy formulation phase, lawmakers solicit information and ideas from stakeholder groups, including nonprofits, as they pursue a policy solution. Policy advocacy by groups such as National Children’s Alliance, for instance, is often critical to policy formulation. A final policy is agreed upon by lawmakers during the phase known as policy adoption.
Fundamental to the process following policy adoption is the implementation stage, during which the mandate of the policy is carried out by those in government or their agents in the nonprofit or private sector. An example of policy implementation is the actual delivery of services for abused and neglected children offered by children’s advocacy centers. Next, is the evaluation phase, in which the outcomes of programs and policies are measured and stakeholder feedback is processed by the agencies carrying out the policy. National Children’s Alliance monitors the performance of the children’s advocacy centers they accredit to ensure standards of operation; while not the only evaluation of center outcomes, this is another example of the role nonprofits play throughout the policy process. The evaluation and feedback stage often leads to policy reform, as the limitations, unintended consequences, or failings of the policy as implemented become clear. Policy reform is considered a regular part of the policy process; as Charles Lindblom explained, “Policy is not made once and for all; it is made and re-made endlessly.”

Collaboration

Particularly useful for a discussion of nonprofits in the policy process is research on the scope and impact of collaboration by various actors. Scholars have varyingly referred to these collaborations as policy networks, subsystems, subgovernments, issue networks, policy communities, or advocacy coalitions. What all have in common is the understanding that policy problems, solutions, advocacy, and analysis are influenced by a variety of actors, often working in concert to advance specific goals.

The basic concept of the issue network was introduced by Hugh Heclo in 1978 to explain how long-dominant iron triangles lost control over certain policy issues. An iron triangle is a closed policymaking group, traditionally consisting of three relevant parts: a government agency, congressional committees, and interest groups, who share interest in an issue and seek to control access to the policymaking process in order to facilitate a mutually beneficial policy outcome. Heclo’s concept of the issue network better illustrated the diversity of actors and complexity of the policymaking process in most policy areas, and later scholars expanded on this idea, further capturing the nature of the relationships between actors involved in the policy process. For example, the Advocacy Coalition Framework describes in greater detail the system of actors “from a variety of public and private organizations who are actively concerned with a policy problem or issue.” The Advocacy Coalition Framework incorporates the idea of policy-oriented learning facilitated by coalition members such as policymakers and other public officials, university faculty, think tanks, and nonprofit organizations including foundations and those delivering public services. Many of these actors work together on a specific policy area over long periods of time. For example, not-for-profit organizations like the Society for the Prevention of Cruelty to Children and National Children’s Alliance have been active members of coalitions that have influenced the policies surrounding child abuse in the U.S. for decades. The various collaborative models offer a useful way to examine the ongoing role that nonprofits play at each point in the policy process.

As this discussion shows, there are many points at which foundations and other nonprofit organizations have an impact on public policy. Those in the nonprofit sector can act
as policy entrepreneurs, identifying public problems and bringing them to the government’s agenda. Foundations and other nonprofit organizations are often vital in the policy formulation phase. During this process, nonprofits may be asked to participate in hearings, provide data, or submit position papers to assist policymakers in crafting a policy that will eventually win adoption. Once adopted, the complex process of policy implementation begins, often involving the division of responsibilities between governments at the local, state, and federal level, and the use of outside service contractors. Increasingly, nonprofit organizations are engaged in direct implementation of public programs and policy as they deliver public services. The sector also has an important role to play in the policy evaluation and feedback process, particularly when the clientele of nonprofit organizations are affected, or when services have been delivered by a not-for-profit organization.

Further, not-for-profit organizations exist independently of government institutions, engage in public activity, and make public policy decisions every day—for example, deciding the content and location of recreational programs for senior citizens; choosing how and where to feed the homeless; and determining which concert, play, or art exhibit is most appropriate for their communities. On the other hand, they also operate within the constraints of tax policy, employment law, and policies that prescribe accountability over their finances and governance. In the course of addressing collective action dilemmas, meeting public needs, and defining public problems, not-for-profit organizations continually affect and are affected by public policy. This, of course, has far-reaching implications for the management of organizations in the nonprofit sector. Society’s best interests are at risk if a not-for-profit organization is given tax-exempt status, receives federal or foundation grants, is tasked with direct service delivery, and encouraged to participate in the policy formulation and implementation processes when that organization is ill-equipped for these responsibilities. While issues of nonprofit management are addressed more specifically in Chapters 11 to 14, it is important to keep in mind that due to the symbiotic nature of the nonprofit sector and public policy, good management techniques are important beyond their impact on any single organization.

At this point it should be clear that the nonprofit sector is integral to the policy process, is often limited by policy mandates, and is frequently responsible for public policy action. Accordingly, it is inadvisable to work in or study the nonprofit sector without a basic understanding of its relationship to public policy and the policymaking process. Likewise, we argue that given the frequency with which not-for-profit organizations deliver services that were once delivered by government, policymakers and public sector employees must also understand the workings of the nonprofit sector. Facilitating understanding of the interrelatedness and often interdependence of not-for-profit organizations and public policy is the aim of this book.

**OUR APPROACH**

The book is comprised of three parts: Fundamentals and Environment of the Voluntary Sector, Strategies of Not-for-Profit Organizations, and Management Issues. Each section
Chapter 1 What Is the Nonprofit Sector?

focuses on the important relationship between public policy and the nonprofit sector; accordingly, each chapter begins by highlighting the policy implications of the nonprofit issues discussed therein.

In some instances nonprofits are policy actors and in others nonprofits are affected by public policy decisions; in all cases, nonprofits are inextricably linked to the world of public policy. (See Figure 1.2.) Throughout the text we argue that nonprofits and public policy interact in four primary ways:

1. nonprofits make policy, for example, by opening their doors and providing services to the public to implement solutions to public problems;
2. nonprofits influence policy through efforts such as advocacy and lobbying;
3. nonprofits are affected by public policy, such as laws which encourage use of nonprofit service providers; and
4. nonprofits are subject to public policy, such as state and federal regulations regarding the handling of donor funds.

These categories illustrate the interlocking relationship between nonprofits and public policy; thus, they are depicted in Figure 1.2 as pieces of a puzzle.

We view the relationship between nonprofits and public policy as symbiotic, a union marked by reciprocity and overlap. Understanding the nature and impact of this
interrelatedness is the focus of this book. At the same time, we highlight the skills and strategies with which nonprofit organizations must be equipped in order to pursue their missions and get the most from their relationships with the public and for-profit sectors.

Part I, Fundamentals and Environment of the Voluntary Sector, is an overview of the nonprofit sector as a whole. Chapters in this section are designed to define and identify the different types of not-for-profit organizations and provide the theoretical basis for the existence of the nonprofit sector, as well as its relationship to public policy and government at the federal, state, and local levels. Part II, Strategies of Not-for-Profit Organizations, focuses primarily on the role of nonprofits as actors within the policy process—that is, how their operations influence public policy and the alleviation of public problems. The chapters throughout Part II address the major strategic planning topics for nonprofits, including developing and adhering to mission, vision, and organizational goals, lobbying and policy advocacy, and issues of organizational ethics and accountability. In addition, the relevance of marketing for nonprofits and the growing trend to brand one’s organization and product are discussed.

Finally, Part III, Management Issues, emphasizes the nuts and bolts issues of operating a not-for-profit organization. Throughout the chapters in this section, public policy is highlighted with regard to how local, state, and federal legislation affects the day-to-day activities and management of nonprofits—that is, ways in which nonprofits are acted upon by public policies. It is important for nonprofit organizations to address capacity and long-term viability; thus, general issues of administration such as budgeting, management, funding, and evaluation are the focus of this section. Finally, because some personnel issues in the not-for-profit sector are unique, this section delves into the role of volunteers and creating effective relationships between executive directors and boards of directors; their decisions and the work that they do have a significant impact on the lives of individual citizens and society at large.

We believe that all not-for-profit organizations are affected by public policy and that many affect policy as well. Some nonprofits are founded specifically to pursue policy change while others influence policy inadvertently. Regardless of intent, voluntary sector organizations have an important role to play in the arena of public policy; therefore, throughout this book nonprofit management is discussed with an emphasis on the public consequences of not-for-profit action. In the end, our goal is to equip managers in both the nonprofit and public sectors with the information they need to navigate the complexities of managing nonprofit organizations in a policy world.
Chapter 1 What Is the Nonprofit Sector?

**QUESTIONS FOR REVIEW**

1. The nonprofit sector has been an important part of U.S. society since its beginnings; why have we only recently begun to recognize its importance?

2. The nonprofit sector has grown dramatically in recent decades. What does this growth mean for the provision of public goods and services by the public (government) sector?

3. Identify examples of collective action problems other than those being addressed by the Blue Ridge Conservancy. Discuss how and why not-for-profit organizations address problems such as these.

4. Discuss how foundations are in a unique position to influence public policy. Give an example of how foundations work in cooperation with public charities to identify and address public problems.

**ASSIGNMENT**

Because the Statute of Charitable Uses has had such a long-lasting impact on the legal framework and policy orientation of nonprofits, access the article “The Political Use of Private Benevolence: The Statute of Charitable Uses,” by James J. Fishman, at http://digitalcommons.pace.edu/lawfaculty/487. Read pp. 28–43 and pp. 49–61 and compose an essay that addresses the following questions:

1. Why was the Statute of Charitable Uses (1601) deemed necessary by both the public and the government? What public problems/needs was the law designed to address?

2. How does the history of the statute inform your understanding of the scope and function of the nonprofit sector in the United States? Consider which activities were deemed charitable and which were not, the role of local governments as well as the national government, and issues of accountability.

**SUGGESTED READINGS**


**WEB RESOURCES**

Association for Research on Nonprofit Organizations and Voluntary Action, www.arnova.org
The Foundation Center, www.foundationcenter.org
Independent Sector, www.independentsector.org
National Center for Charitable Statistics, nccsdataweb.urban.org
Urban Institute, www.urban.org