
The Idea of a Nonprofit and Voluntary Sector

The nonprofit and voluntary sector is the contested arena between the state and the market where public and private concerns meet and where individual and social efforts are united. Nonprofit and voluntary action expresses a complex and at times conflicting desire to defend the pursuit of private individual aspirations, while at the same time affirming the idea of a public sphere shaped by shared goals and values. For this difficult balancing act to work, participation in the sector demands a commitment to, among other things, expression, engagement, entrepreneurship, and service. Constituted by both legally chartered nonprofit organizations and myriad informal groups and voluntary associations, this sector occupies an increasingly critical and visible position in our political, social, and economic life.¹ Yet despite its size and perceived influence, there is considerable uncertainty and confusion about its boundaries. The lines delimiting the sector have frequently been subject to challenge and revision, as funds and responsibilities have shifted back and forth among business, nonprofit, and government organizations. Reaching consensus on the very definition of the nonprofit and voluntary sector is difficult because many of the core features and activities of nonprofits increasingly overlap and compete with those of business and government.

Thus, the nonprofit and voluntary sector is at once a visible and compelling force in society and an elusive mass of contradictions. On the one hand, the rise of nonprofits is thought to have contributed to democratization around the world, opening up societies and giving people a voice and a mode of collective expression that has in too many cases

been suppressed.² In the United States, nonprofit and voluntary organizations are seen as playing a central role in generating, organizing, and emboldening political opposition, working through national networks and building international linkages. Nonprofit and voluntary organizations have also acted as practical vehicles for the delivery of a broad spectrum of community services, ranging from affordable housing to theater performances to vocational training to health care. The nonprofit sector appears, therefore, to be a real and identifiable group of tax-exempt organizations that encourage political engagement and produce services. The sector is in fact a documented economic powerhouse that employs millions of people and accounts for a significant portion of the nation's gross domestic product. All of which makes the nonprofit sector a strong and compelling concept that appears grounded in economic, political, and legal reality.

On the other hand, the nonprofit and voluntary sector is home to such a wide range of organizations that grouping them together into one entity is highly problematic. From the largest hospitals and universities (which fund their operations by collecting fees or tuition) to small mentoring programs and avant-garde arts organizations (which survive on charitable contributions), nonprofits span a tremendous range of organizational forms. Many of these forms are stable and lasting, while others are fragile and transient. Some of the organizations that are considered part of the nonprofit sector, such as religious congregations and private membership organizations, operate without government funding. Other nonprofit organizations, particularly those that service the elderly and poor, could not survive without the steady flow of funds from federal, state, and local government. Beyond differences in funding, the organizations within the sector are balkanized by legal status, level of professionalization, and underlying purpose.

Thus, any exploration of the nonprofit and voluntary sector would do well to begin by acknowledging its fundamentally contested nature. This chapter reviews the difficulties in defining the central characteristics of nonprofit and voluntary organizations, the conflicting nature of the words we use to describe this part of our world, and the evolving place the sector occupies in America's fragmented and polarized political sphere. Throughout, the tensions inherent in the very idea of organizations operating between the state and the market emerge again and again. All of which leads to the analytic framework that guides this book

in its exploration of the overarching functions of the nonprofit and voluntary sector.

Three Features of Nonprofit and Voluntary Organizations

Attempting to define the fundamental features of the disparate entities that constitute the nonprofit and voluntary sector is a complex and daunting task. Yet there are at least three features that connect these widely divergent entities: (1) they do not coerce participation; (2) they operate without distributing profits to stakeholders; and (3) they exist without simple and clear lines of ownership and accountability. Taken together, these three features might make nonprofit and voluntary organizations appear weak, inefficient, and directionless, but nothing could be further from the truth. In reality, these structural features give these entities a set of unique advantages that position them to perform important societal functions neither government nor the market is able to match.

Perhaps the most fundamental of the three features is the sector's noncoercive nature. Citizens cannot be compelled by nonprofit organizations to give their time or money in support of any collective goal. This means that, in principle at least, nonprofits must draw on a large reservoir of good will. This noncoercive character is also what most starkly differentiates the sector from government, which can levy taxes, imprison violators of the law, and regulate behavior in myriad ways. The power of coercion that the public sector possesses is a powerful tool for moving collectivities toward common ends, but it is also a source of strife and contention. Trust in government is now low,³ making the effective use of state power more and more difficult as its legitimacy fades. For nonprofit and voluntary organizations, these issues do not arise. Free choice is the coin of the realm: donors give because they choose to do so. Volunteers work of their own volition. Staff actively seek employment in these organizations, often at lower wages than they might secure elsewhere. Clients make up their own minds that these organizations have something valuable to offer. Though they stand ready to receive, nonprofit and voluntary organizations *demand* nothing. As a consequence, nonprofits occupy a moral high ground of sorts when compared to public sector organizations that have the ability to compel action and coerce those who resist.

In some ways, the noncoercive character of the nonprofit and voluntary sector situates it closer to the market than to government. Business depends on the free choice of consumers in a competitive market where alternatives are often plentiful and where no firm has the capacity to compel anyone to purchase its goods or services. Similarly, nonprofit organizations cannot coerce participation or consumption of their services. The sector makes choices available, rather than deciding for others. When it comes to the mobilization of funds, the parallel between business and nonprofits is equally clear. Just as no one forces anyone to buy shares or invest in enterprises, no one forces anyone to give or volunteer in the nonprofit world. The flow of resources to a nonprofit depends entirely on the quality and relevance of its mission and its capacity to deliver value. To the extent that a business firm or a nonprofit organization is performing well, investors and donors will be attracted to it. Should things take a turn for the worse, investment funds and philanthropic funds usually seek out other options quickly.

The second feature of nonprofit and voluntary organizations sharply differentiates them from business firms, however. While corporations are able to distribute earnings to shareholders, nonprofit and voluntary organizations cannot make such distributions to outside parties. Rather, they must use all residual funds for the advancement of the organization's mission.⁴ By retaining residuals rather than passing them on to investors, nonprofit organizations seek to reassure clients and donors that their mission takes precedence over the financial remuneration of any interested parties. The nondistribution constraint has been seen as a tool that nonprofits can use to capitalize on failures in the market. Since there are certain services, such as child care and health care, that some consumers feel uncomfortable receiving if the provider is profit driven, nonprofits are able to step in and meet this demand by promising that no investors will benefit by cutting corners or by delivering unnecessary services.

While the noncoercive feature of nonprofits brings nonprofits closer to business and separates them from government, the nondistribution constraint pushes nonprofits closer to the public sector and away from the private sector. Government's inability to pay out profits from the sale of goods or services is related to its need to be perceived as impartial and equitable.⁵ With nonprofits, the nondistribution constraint also builds legitimacy and public confidence, though this does not mean that spe-

cial powers are vested in these organizations. In both sectors, the non-distribution constraint strongly reinforces the perception that these entities are acting for the good of the public.

The third feature of nonprofit and voluntary organizations is that they have unclear lines of ownership and accountability.⁶ This trait separates these entities from both business and government. Businesses must meet the expectations of shareholders or they risk financial ruin. The ownership question in the business sector is clear and unambiguous: shareholders own larger or smaller amounts of equity in companies depending on the number of shares held. Similarly, government is tethered to a well-identified group of individuals, namely voters. Executive and legislative bodies—and the public agencies they supervise at the federal, state, and local levels—must heed the will of the electorate if they are to pursue public purposes effectively and retain the support and legitimacy needed to govern. There is also a long tradition in the United States of conceiving government as “belonging” to citizens, though the ways in which this ownership claim can be exercised are severely limited. In the nonprofit sector, clear lines of ownership and accountability are absent.⁷

Nonprofit and voluntary organizations must serve many masters, none of which is ultimately able to exert complete control over these organizations. Donors, clients, board members, workers, and local communities all have stakes, claims, or interests in nonprofit and voluntary organizations. Yet none of these parties can be clearly identified as the key ownership group. The relative strength of these ownership claims depends on how an organization is funded and on its chosen mission.⁸ Nonprofit organizations that depend heavily on charitable contributions are often held closely accountable by their donors, some of whom believe that as social investors they have a real stake in the organizations to which they contribute. Nonprofits that are largely driven by service fees or commercial revenues are in a different position. While these more commercial organizations do not have donors asserting claims over them, social entrepreneurs and professional staff may view themselves as the key stakeholders in these more businesslike organizations.

Often, however, the lines of ownership and accountability are rendered more complex by the fact that many nonprofit organizations combine funding from multiple sources—foundations, corporations, and government—with earned income, making it hard to point to any particular party as the key stakeholder to whom these special institutions

must answer.⁹ One might be tempted to point out that nonprofit and voluntary organizations are almost always governed by boards, and to propose this as a solution to the ownership and accountability issue. Unfortunately, board members are not owners. They are stewards who are held responsible for the actions of their organization. In the end, nonprofit and voluntary organizations are authorized to act in the public interest by the communities in which they operate, though the lines of accountability are weaker than those in the public sector and the lines of ownership far more obscure than in the business sector.

These three features of nonprofit organizations are not without controversy and contention. In fact, each has been called into question in recent years. First, the noncoercive nature of the sector has been challenged by the growing tendency to mandate community service or volunteer work. In the case of welfare reform, many states have required aid recipients to complete a community service requirement in order to continue receiving their monthly support payments.¹⁰ A growing number of high schools now make volunteering with a local organization a condition for graduation. In addition, there have long been parts of the nonprofit landscape where strong norms are enforced on those who have committed to membership. Within professional associations, licenses to practice medicine, law, and other callings are granted and denied by nonprofit entities.¹¹ Within many religions, the behavior of adherents is severely constrained by doctrine. In some neighborhoods, independent community groups have been granted the power to plan and constrain future development by residents. The exercise of power may be subtle in some cases. For example, many private funders exercise considerable influence over the recipients of their grants. This influence can take the form of a gentle suggestion or a condition of support that programs be revamped.¹² Although the constraints imposed in each case follow a decision to participate and join, the power of some nonprofits over groups of individuals is considerable. In each and all such instances,¹³ the noncoercive character of these organizations is called into question.

Second, the nondistribution constraint of nonprofit organizations has likewise been under assault from a number of different directions. In recent years, increased scrutiny of the high salary levels of many nonprofit executives has led some to ask whether the “profits”—or, more accurately, the increased program revenues—are not in fact being routinely distributed to staff in the form of generous compensation and benefit

packages.¹⁴ In the area of capitalization, large nonprofit organizations have been aggressive in raising funds through bond offerings, which do not offer investors the ownership stake that stock offerings do, but which have the effect of opening up major capital flows into the nonprofit sector. The accumulation of capital in the form of large endowments has also called into question the boundary between business and nonprofit organizations: endowment funds, by their nature, are not used to fulfill an organization's immediate needs. Instead, they are invested in stocks, real estate, and other speculative investments designed in the long run to maximize financial return. This is a strategic move that some have characterized as contrary to the public purposes of nonprofit organizations.¹⁵ Making the boundary between nonprofits and business firms even more opaque, at least one study has argued that the nondistribution constraint does not significantly increase consumer confidence in the trustworthiness of nonprofits compared to business firms.¹⁶

Third, the ownerless character of nonprofit and voluntary organizations has come under fire as the legal claims of nonprofit stakeholders have evolved. The courts have held that only members (in the case of a membership organization), trustees or directors, and the attorney general in the state where the nonprofit is located have legal standing to contest the action of a charitable corporation. Over the years, however, the power of trustees and directors has grown substantially, not to the point where they can claim ownership of the assets of a nonprofit, but to the point where boards now have tremendous leeway in the way they operate a charitable organization.¹⁷ While these claims have rarely come to equal those of ownership, the lines of accountability have been drawn more sharply, particularly as questions about the transfer of assets have come up when nonprofit organizations have attempted to convert to for-profit status.¹⁸

The ultimate result of these debates and trends is that the defining features of nonprofit organizations are evolving and are the subject of considerable debate. The notion that there is some simple and unambiguous test that can be developed to decide what sector an organization belongs to is no longer reasonable. While the Internal Revenue Service (IRS) and the states have developed statutes and rules that define and regulate these special institutions, a different and far more complex reality has emerged. The legal code is often of limited value in the effort to determine which organizations are really nonprofit and voluntary in their operation.

Composition of the Nonprofit and Voluntary Sector

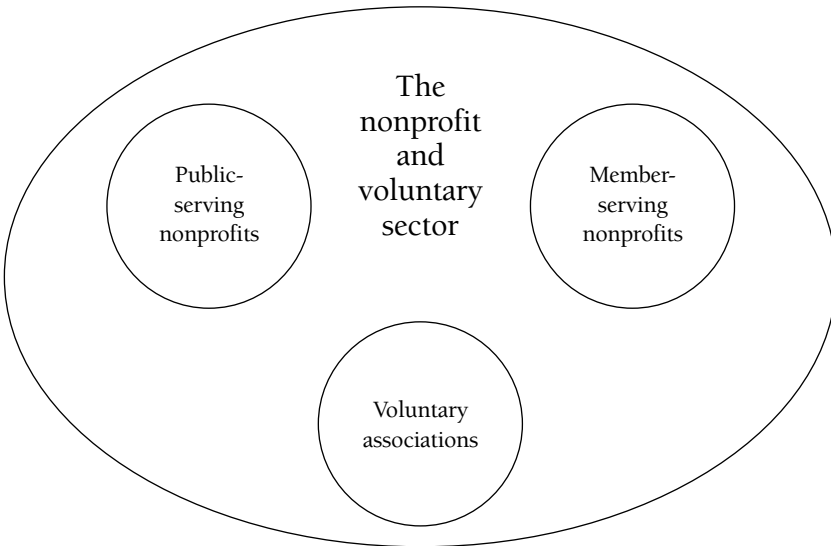
In the United States today, there are more than one and a half million registered nonprofit organizations, as well as several million informally organized community groups. The formally registered organizations fall into two broad and porous categories: those that serve the public and those that serve members. The public-serving organizations, classified under section 501(c)3 of the IRS code, operate in almost every imaginable field of human endeavor, and include, among countless others, social service agencies helping children, the elderly, and the poor; independent schools and private colleges; community clinics and hospitals; think tanks; environmental organizations; cultural groups such as museums, theaters, and historical societies; and a range of international assistance organizations. They are the most visible and recognizable part of this organizational universe. But substantial resources are concentrated in the member-serving or mutual benefit organizations, which include credit unions, business leagues, service clubs, veterans' organizations, and trade associations. They tackle problems ranging from the most complex issues of business policy to the most prosaic challenges of small-town life. Also included in the sector (though not filing forms annually with the IRS) is a vast array of churches, synagogues, and mosques that form the foundation of the nation's religious life. While we tend to think of congregations as membership organizations, they are treated differently by government and are not subject to the same forms of oversight as other member-serving nonprofits.

While the largest and better-financed nonprofit organizations receive the bulk of public attention, important work is done by the army of less visible associations, clubs, networks, and groups through which communities come together and act.¹⁹ There is considerable dispute as to whether the legally chartered nonprofit organizations share enough traits with informal voluntary associations to justify including both groups in one sector.²⁰ However, leaving these grassroots associations out of the picture grants far too much deference to the tax treatment of nonprofits and ignores the fact that informal associations and formal nonprofits both eschew the distribution of profits, are noncoercive, and have no owners.

Public awareness of the sector is rapidly increasing, though surprisingly little is known about the underlying purposes and values that ani-

mate nonprofit and voluntary action or the vehicles through which these values and purposes are channeled. In part, this is because these activities reflect a sometimes confusing agglomeration of strongly held private values, as well as a set of complex public purposes. The sector can thus be conceived as a tent covering public-serving charities, member-serving organizations, and a range of informal organizations, including voluntary and grassroots associations (see Figure 1.1).

This diverse and at times contradictory group of entities comprises organizations and associations that are neither part of the state nor fully engaged in the market. The sector's solutions to community and public problems at times represent a conscious disavowal of commercial markets and a realization that some exchanges are simply better conducted under terms of mutuality and trust than under the strict dictate of *caveat emptor*.²¹ Using charitable contributions, many nonprofit and voluntary organizations can deliver services to clients who are unable to pay. At other times, nonprofit and voluntary action represents an attempt to move beyond government action to find solutions to public problems that a majority of citizens are unable or unwilling to support. Nonprofits



1.1 Elements of the nonprofit and voluntary sector.

can and do speak to community needs that lie outside the priorities of the median voter. But the position of this group of organizations in relation to the market and the state is far more complex and changeable than these simple claims of differentiation might lead one to believe. In some fields of activity within the sector, intense commercialism has eroded the moral high ground of these organizations and transformed nonprofits into shadow businesses that compete actively for clients able to pay for the services they offer. In other fields, nonprofits have lost their autonomy from government and have come to serve as dutiful implementers of public sector programs and priorities. The lack of clarity in the identity of nonprofit and voluntary organizations in relation to business and government becomes ever more evident as soon as one considers the range of names used to speak about these entities.

What's in a Name?

The process of arriving at a single term to designate this sphere of activity has been long and conflicted. Although the term “nonprofit and voluntary sector” is common today, many other terms have been devised over the years. The long-standing confusion over terminology can be traced to the diversity of activities that need to be covered by whatever term is chosen.²² Programs are delivered through both formal and informal organizations, carried out by both salaried and volunteer staff, and supported through donations, contracts, and commercial revenues. As a consequence, the formal organizations that constitute the sector have at various times and for various reasons been called “the tax-exempt sector,” “the nongovernmental sector,” “the independent sector,” “the third sector,” “the civil society sector,” “the commons,” “the charitable sector,” “the voluntary sector,” “the nonproprietary sector,” and “the non-profit sector.” The terminological debate continues today. Each of the many terms that has emerged over time has had its own historical and political baggage. A brief review of these terms will illustrate the scope of the sector, even if a definitive defense of any particular term is impossible.

One of the earliest names attached to these organizations was in some ways the narrowest and the most descriptively accurate: “tax-exempt.” After the ratification of the Sixteenth Amendment to the Constitution and the establishment of the national income tax in 1913, Congress

granted tax-exempt status to those organizations that were specifically “organized and operated exclusively for charitable, scientific, and educational purposes.” Later additions included a long series of very specific purposes, including “prevention of cruelty to children or animals” (1918), “community chest, fund, or foundation” (1921), and “testing for public safety” (1954). The categories of tax-exemption have shifted over time; today there are more than twenty different specific categories of tax-exempt organizations delineated under the Internal Revenue Code. The arbitrariness of these narrow categories can best be seen today in the fact that international sports organizations are specifically recognized, whereas health organizations are not. But this is of little consequence, since the vast majority of public-serving nonprofits file today under the catch-all category 501(c)(3). For a time, the moniker “tax-exempt organizations” was widely used inside government and within the legal community because it pointed—or at least appeared to point—to the black letter of government regulation. Yet because this approach did not capture the huge number of clubs, associations, and groups that have never been formally registered with the IRS, it fell out of favor and was replaced with others.

In the 1970s, efforts to find a broader and more inclusive term led to a whole series of names that aimed at positioning the sector in opposition to government. Today, the term “nongovernmental organization” (NGO) remains popular around the world. It is used to denote the array of organizations that pursue public purposes through largely private means. It covers both indigenous organizations working within particular countries overseas and international organizations that work around the world. While not specifically limited to a particular field of activity, when the term “nongovernmental organization” is used today, it usually denotes an organization that works to promote such things as rural development, education, environmental quality, and community health. What is interesting about the term “nongovernmental” is that it defines these independent organizations in opposition to government, rather than in opposition to business firms. One possible explanation for the popularity of this term internationally is the power and dominance that the state enjoys in many developing countries and the relative absence of organized opposition. The sector is thus defined as that which is not part of the state, rather than that which is not oriented toward profit-making. This choice also implicitly reflects the oppositional role of lo-

cal nongovernmental organizations, which do in fact challenge governments and hold them accountable. In some countries, small, informal organizations within the broader NGO sector are at times termed “people’s organizations” and “community-based organizations,” as a way of differentiating them from larger, more formal institutions. The label “nongovernmental” remains firmly entrenched in current usage, particularly when Americans seek to distinguish between American nonprofit organizations and international NGOs.

The term “independent sector” came into popular usage in the 1980s and can be traced to a particular event—namely, the founding of Independent Sector, the national trade association representing both grant-making and grant-receiving organizations.²³ Founded in 1979, the group consolidated two existing associations and sought to unify the motley world of foundations and nonprofit organizations. By advancing the use of the term “independent sector,” organizers of the association wanted to emphasize the capacity of these organizations to devise solutions free from the market and political pressures. The only problem with this term is that over time it became increasingly obvious that nonprofits were neither independent from government nor free from the pressures of the marketplace. As government funding for social service and health nonprofits has risen sharply, many have come to view nonprofit organizations as engaged in important collaborative relationships with government. Independence from government has come to be seen as more of a wish than a reality. Similarly, the idea that nonprofit organizations operate independently from the market has been called into question by the growing number of cross-sector partnerships, joint marketing agreements, and nonprofit commercial ventures.

At times, the term “third sector” has been in vogue. Popularized by several early researchers in the field of nonprofit and voluntary action,²⁴ this term had the advantage of covering both formally constituted nonprofit organizations and the countless informal grassroots organizations that populate the sector. The idea that nonprofit and voluntary action was somehow third in line after government and business rubbed some people the wrong way, however. It seemed to imply a kind of inferiority and subsidiarity that few in the sector were willing to concede. While the term “third sector” is still sometimes used in the research community, the practitioner community rarely uses it. Like “nonprofit” and

“nongovernmental,” the term “third sector” seems to define these organizations in isolation from the other sectors.

The term “civil society” was coined by the classic writers of political theory, and has regained currency of late. The modern idea of civil society plays a prominent role in the work of Hobbes, Montesquieu, and Hegel, who used it to refer to the broad private realm outside the state. One of the problems with using the term today is that “civil society” traditionally encompassed everything from the family to the church to the business corporation. Still, the term is acquiring popularity both in the United States and internationally, and it has lately come to refer to something more concrete than the huge and abstract private realm outside the state. In practice, it has come to denote a set of voluntary mediating institutions that invite individuals to come together to pursue shared interests, values, and commitments. Over the past decade, “civil society organizations” has come to compete with “nongovernmental organizations” among people interested in indigenous social movements around the world, ranging from small local organizations to large international institutions.

More recently, yet another solution to the name game was proposed. Instead of a term that either defined the essential characteristic of these organizations or that situated these organizations in relation to government and the market, a new form of reference was proposed: “the commons.” Advocates for the term argued that the vast landscape of nonprofit and voluntary action constitutes a special terrain of shared concerns.²⁵ “The commons” was intended to solve some of the problems associated with previous attempts at naming the sector. It denoted the vast array of relationships between benefactors, intermediaries, and beneficiaries that constitutes a space in which associative communities can operate freely. Linked to the Greek term *koinonia*, “the commons” emphasizes free participation, common purpose, shared goods, a sense of mutuality, and a commitment to fairness.²⁶ A critical part of what distinguishes “the commons” from other attempts to delineate the non-market and nonstate realm of activity is that the definition focuses not just on what kinds of purposes are accomplished, but also on the ways in which they are accomplished. By pointing to the features of *koinonia*, “the commons” defines the boundary of the sector in ethical terms.

In several European countries today, the dominant term is “the chari-

table sector,” which captures the critical philanthropic character of these organizations and their activities. The very use of the term “charity,” however, harks back to Victorian England, the settlement house movement, and the class elitism associated with “poor aid” and “alms giving.” Because self-help and community empowerment have become rallying points for the sector, the idea of calling this part of society “charitable” offends some people because it puts the spotlight on the contributions of elite patrons and donors, not on the efforts of activists, caregivers, and clients. The term also implies that much of the work of the sector is funded through private gifts, when in reality government funding and earned income now fuel large parts of the sector.

“The voluntary sector” has been in use intermittently for decades, both in the United States and abroad. One clear advantage of the term is that it focuses on the vast landscape of formal and informal organizations that work for the public good. It is a way of including the millions of neighborhood-based groups that operate without legal recognition. Yet the name has been criticized at times for obscuring the growing professionalism of nonprofit activity, a subject of considerable sensitivity. As part of the process of receiving more and more funding from public sector agencies through contractual relationships, many nonprofit managers now take great pride in the fact that they have removed all vestiges of amateurism associated with volunteerism and have replaced it with the professional work of highly trained people.

Most recently, some people dissatisfied with the existing alternatives have begun using the term “nonproprietary organizations” in order to highlight the ownerless character of these entities. In contrast to business firms that are proprietary, nonproprietary organizations are not linked to a clear owner or ownership group. This alternative has been advanced because the term “nonprofit” obscures the fact that many “nonproprieties” do in fact generate surplus revenue, though they do not directly distribute their earnings to shareholders or owners. While this term has the benefit of drawing a clear line between business firms and nonprofits, it does not resolve the question of what differentiates nonprofits from government agencies, which are also nonproprietary.

Of the many competing options, the term “nonprofit sector” has been the most widely used over time. Rather than defining these organizations in terms of the special privilege they enjoy of being free from taxation, the term points in a different and less contentious direction by em-

phasizing the benevolent character of the sector. Though there is some question as to when exactly the term “nonprofit sector” came into use, the consensus is that it is a product of the 1950s and 1960s. The term “nonprofit” focuses on one of the three defining features mentioned above—namely, that these organizations are not intended to generate profits and distribute them to investors. Since this term distinguishes nonprofit organizations from business corporations, some observers have argued that it was actually designed to confer a kind of legitimacy and trustworthiness.²⁷ In recent years, the substantial increase in commercial revenues and executive salaries within the nonprofit sector has led many to question just how unprofitable the sector truly is. Still, the label “nonprofit sector” has the benefit of currency and simplicity.

Because the sector comprises both legally chartered nonprofit organizations and countless informal groups and voluntary associations, I will use the somewhat cumbersome though descriptively accurate “non-profit and voluntary sector” to denote the organizations occupying an increasingly critical and visible position in our political, social, and economic life. Though not perfect, the term points accurately to the target population of organizations that are emerging as critical actors even though they operate without coercion, profits, or owners. This is a compromise solution that many researchers working in this field use, though some fall back on “nonprofit sector” for brevity’s sake. Though it does not please everyone, the term does meet the requirement of being broad enough to cover the range of organizations and groups that are acting privately for some collective good.

Underlying all the names that have been used to describe these entities is the fact that even when agreement is reached on a single appropriate name, it is not entirely clear that this complex and varied set of organizations constitutes a single coherent societal “sector.”²⁸ In many ways, the word “sector” is just as problematic as “independent,” “third,” “nongovernmental,” and all the terms that have preceded it. An important part of the problem is the lack of consistency across the organizations that are said to be part of this sector. After all, the sector includes organizations that cater to the narrow needs and desires of their memberships, as well as organizations that have broad public service missions.²⁹ The sector is also home to highly institutionalized organizations with millions of dollars in revenues and informally organized groups with little or no money. The sector includes political parties that exist to

shape public policy and service delivery organizations that depend on the political process to deliver needed funds. The sector counts as its constituents both foundations that give away money³⁰ and a multitude of organizations that seek grants, as well as a growing number of organizations that depend on fees and commercial revenues. Thus, given the great diversity of formal and informal structures, the varieties of purposes pursued, and the range of financing systems used to support these organizations, the very use of the word “sector” is troublesome because it implies far more consistency than may be present. Some scholars of nonprofits thus maintain that the idea of a coherent sector may be an invention, which has begun to outlive its usefulness and now merely provides cover for a large and diverse group of organizations that have little in common.³¹

Yet, by defining a set of activities that are neither part of government nor part of the market,³² we acknowledge that there is a sphere where coercion is not used, where profits are not the principal motive, and where lines of ownership are not clearly drawn. Why nonprofit and voluntary organizations exist and what functions they perform are among the central topics of this book. Before presenting a framework for thinking about these issues, it is important to recognize some of the political cleavages that the very idea of a nonprofit and voluntary sector creates.

The Politics of the Nonprofit and Voluntary Sector

The nonprofit and voluntary sector occupies an ambiguous and at times contentious position in the current American political scene. Just as few people agree on the right name to use to describe these organizations, Americans are likewise engaged in heated debate about the sector’s underlying politics. Today, for quite different reasons, nonprofit and voluntary organizations are embraced by both conservatives and liberals. How can this be? The answer lies in the fact that the sector comprises a great number of complex, multidimensional organizations that appeal simultaneously to many constituencies. The fact that both sides of the political spectrum applaud and see the potential of nonprofit and voluntary organizations, far from revealing some underlying weakness, ultimately reflects the sector’s strength and enduring relevance.

For at least three reasons, nonprofit and voluntary organizations have, particularly from the 1960s forward, represented a tremendous resource

and ally to liberals. First, a natural affinity between liberals and nonprofit workers quickly became apparent, since those willing to toil in often low-paying or voluntary positions—and frequently in difficult circumstances—constitute a self-selected group of socially committed individuals dedicated to the idea of making a difference and initiating change. As membership in labor unions declined, thus eroding one of the traditional bases of the Democratic party, the rise of nonprofit social service agencies in the 1970s came at a very opportune moment. Not only could nonprofit organizations serve as new channels through which social programs could be delivered, but they also represented a new and important space in which potential supporters of progressive policies might well be located.³³

The second reason liberals were attracted to the sector as a whole was more operational. Nonprofit organizations were seen as an ideal and untainted partner to government, one that could most effectively deliver needed services to the most disadvantaged populations. As concern over the impact of Great Society programs grew and as distrust of government increased, nonprofits came to be seen as neutral and legitimizing forces with the capacity to give large human service initiatives a more diverse, pluralistic face.³⁴ The funding crunch that most nonprofit organizations face on a continuing basis appeared to put government in a position to use its substantial resources, in the form of contracts and grants, to gain control over a whole new range of community actors and problems. At the same time, nonprofits represented an ideal “bottom-up” approach to implementation, one that empowered the grassroots level and that gave government tremendous leverage for each dollar spent.

Third and finally, liberals were attracted by the political activity of many nonprofits and their ability to mobilize groups around issues and concerns in a distinctive way. Unlike corporations, which are beholden to shareholders and the bottom line, and unlike government, which is bound by the limits of the Constitution and the pressures of public opinion, nonprofit organizations have a great deal more freedom to operate. This flexibility lends itself well, in principle, to the pursuit of progressive, alternative agendas. Moreover, since many advocacy nonprofits seek to give voice to populations that have long been excluded from the political debate, liberals continue to view the broader nonprofit sector as a means to exert pressure for social change and justice.³⁵

Changes in the national political climate since the 1980s coincided

with a very different set of ideas about the nonprofit sector. Instead of considering nonprofits a potential source of political and social change, conservatives were attracted by three completely different features of nonprofits. First, they believed that nonprofit organizations might well represent an appealing alternative to direct public expenditures on social programs that conservatives believed had not produced results.³⁶ Questions about whether the War on Poverty had failed were in the air, especially in the early 1980s. By encouraging private charities to take responsibility for local community needs, conservatives believed they could make an effective argument for shrinking government. After all, if churches and community groups were able to function with voluntary contributions of time and money, the need for an ever-growing number of public spending programs would surely be diminished. Compared to taxation and national spending, private charity and volunteerism were seen as preferred means of solving social problems because they permitted greater individual freedom and choice. A strong and vital nonprofit and voluntary sector fit well with the emerging ideas of both devolution and privatization, two mantras of the conservative movement. As government functions were pushed “down” from the federal level to the state and local levels, and transferred “out” of government to private providers through contracting, nonprofits were ideally situated to deliver services that once had been the province of “bureaucrats” in the nation’s capital.³⁷

Second, conservatives also argued that nonprofits, particularly faith-based nonprofits, were in a position to bring to social programs something that public entitlements had long lacked—namely, a moral or spiritual component.³⁸ Faith-based nonprofits were seen as willing to make demands on the recipients of charity and require a change of character and behavior in exchange for assistance. At the same time, given that many nonprofits are fueled by volunteer labor and private contributions, conservatives were attracted to the idea of nonprofits because they represented the ideal of self-help and independence. This was a powerful feature that, conservatives argued, was perilously missing from public assistance programs.³⁹ For those who believed that public entitlements bred dependence and complacency, the idea of delivering not just a check but a moral and spiritual message was a very strong attraction.

Finally, for conservatives, nonprofit organizations were also a potential wellspring of innovation, representing a plurality of local solutions

to social problems and a powerful alternative to the ongoing search for uniform national solutions to public problems. Grounded in an ethos of self-help and respecting regional cultural variations, voluntary action fit well with a growing sense among conservatives that a broad range of alternatives to an expanding state needed to be actively cultivated. By giving local organizations a chance to try their hand at program implementation, conservatives believed that good ideas would percolate up from communities. Conservatives argued that expenditures on federal social welfare and education programs should not be increased. Instead, funds could be used most effectively and creatively when channeled through local groups that were more in touch with the diverse and changing needs of the people. Nonprofit organizations thus represented a way of breaking through the red tape of Washington to find new approaches to longstanding problems. Nonprofits, conservatives maintained, could serve as a battering ram for policy innovation.⁴⁰

At first blush, it might appear that the capacity of nonprofit and voluntary organizations to speak to both liberals and conservatives implies either a split and conflicted identity or a simple lack of political scruples. In reality, the sector is a remarkably complex entity, one that is capable—like an inkblot—of evoking a broad range of reactions and interpretations. Because it simultaneously supports the autonomy of the private individual actor while affirming the importance of shared and public purposes, the politics of nonprofit and voluntary action can take on many different meanings. The ability to speak across, or rather above, traditional political boundaries has become one of the most powerful features of the sector, and this trait has led to its growth and popularity, particularly among young people.

The Two Dimensions of Nonprofit and Voluntary Action

Given the confusion over what to call this sector and the complex and at times confused politics that have surrounded it, the goal of this small book is to help shape our understanding of the many different ways one can approach the core functions of these independent organizations. To make this task easier, I organize my exposition of the central functions of voluntary and nonprofit organizations along two broad conceptual distinctions. The first critical distinction concerns how the sector is explained; the question is whether nonprofit and voluntary activity is

driven primarily by demand or by supply—that is, whether it can best be understood as a response to unmet demands or whether it is taken to be an important supply function that creates its own demand. The second distinction concerns how the sector is justified; here the issue is whether the value of nonprofit and voluntary action is seen as residing in the instrumental character of the outcomes that are generated for society or in the inherently expressive quality of the activities themselves that reward those who undertake them. These are complex and difficult distinctions, which will be discussed in turn and then brought together to form the conceptual framework for the analysis that constitutes the core of the book.

Starting with the distinction between demand and supply, it is easy to see nonprofit and voluntary action as responding to two quite different but important forces.⁴¹ The demand-side perspective starts with the premise that the sector exists by virtue of the broader social context within which it is embedded and that its activities are responsive to the demands of the public or its members. Thus, nonprofits exist because they are able to meet important social needs. Urgent public problems such as illiteracy, drug addiction, and violence demand solutions, and the nonprofit sector exists to respond to the powerful pull of such issues. The demand-side approach to nonprofit activity has both descriptive and normative dimensions. Descriptive demand-side theories focus on patterns of nonprofit formation and growth. In the 1970s, researchers proposed detailed economic models and explanations for nonprofits' behavior,⁴² most of which started with the assumption that nonprofits fulfill important demands that for one reason or another the market and government are unable or unwilling to meet. This led to the broad and popular belief that nonprofits were really gap-filling entities that historically have arisen when public needs were sufficiently strong.

On a more normative level, the demand-side approach to nonprofit organizations has spawned a literature focusing on the social and political responsibilities of nonprofit organizations—defined in relation to the demands of the neediest members of society. Starting with the claim that the tax exemption accorded these institutions conveys an obligation to help, many people have made the normative argument that nonprofit organizations should seek to assist the most disadvantaged and empower the most disenfranchised members of society. Accordingly, the success or failure of the sector can and should be judged by how well or how

poorly it meets society's needs. The demand for nonprofit and voluntary action leads neatly to a set of prescribed activities, including greater advocacy work within the sector, and the empowerment and mobilization of those left out of the political process. The demand for nonprofit activity thus brings with it the expectation that these institutions will help give voice and opportunity to those who have been marginalized by the market economy and the political process.

The idea of a demand-driven nonprofit and voluntary sector dominates much of the research that is conducted in this field. Yet a central claim of this book is that the demand-side approach captures but one aspect of this broad social phenomenon. An alternative, supply-side position argues that the sector is impelled by the resources and ideas that flow into it—resources and ideas that come from social entrepreneurs, donors, and volunteers.⁴³ This is a more controversial perspective because it has led to some strong claims about how nonprofit organizations should be managed and operated. Rejecting many of the preceding arguments about the needs that pull on the sector, the supply-side perspective holds that nonprofit and voluntary organizations are really all about the people with resources and commitment who fire the engine of nonprofit and voluntary action. Drawn to the sector by visions and commitments, social entrepreneurs bring forward agendas that often operate independently of immediately obvious and enduring community needs. This supply-side theory of nonprofits, like the demand-side approach, has both descriptive and normative elements.

On the descriptive side, this approach emphasizes the entrepreneurial quality of nonprofit activity. Instead of starting with the demand of clients, positive supply-side theories of the nonprofit sector draw attention to the way various forms of entrepreneurship fuel innovation within the sector and how an emerging class of new social enterprises—increasingly led by a new generation of social entrepreneurs—is challenging old models of nonprofit management. Seen from the supply side, nonprofit organizations have a logic that is far more complex than a simple response to a gap in government service or the failure of the market to meet a particular demand. The entrepreneur, donor, and volunteer take on a much greater role in this model, since it is the supply of new ideas, charitable dollars, and volunteer commitments that is the real driving force behind the sector. This means that the task of explaining the emergence of nonprofit and voluntary organizations

requires studying and developing typologies of social entrepreneurs who use the nonprofit form to pursue their private visions of the public good.

The supply-side approach has an important normative component, which holds that we must reassess the moral claims that needy clients have on nonprofit programs. Instead of asking that a nonprofit meet a test of moral stewardship that is ultimately decided by the level and quality of service provided to those in need, the supply-side approach advises that society should look to and protect the private interests and values of the critical actors who are fueling nonprofit and voluntary action, including philanthropic donors, volunteers, and social entrepreneurs. In order to ensure the continued flow of charitable inputs, the interests and values of these actors should be the first priority of those who seek an enlarged role for nonprofits. This means recognizing that the satisfaction of donors and the preservation of their intent constitute a critical normative task for the sector. Arguing that donors, volunteers, and social entrepreneurs should be the centerpiece of the sector is a controversial position because it unabashedly diminishes the claims that needy populations have on the charitable resources. Supply-siders counter this complaint with the argument that if one is truly committed to helping the needy, then constructing a sector that recognizes, protects, and encourages action by the private parties who control the resources should be an obvious priority.

Distinguishing between the demand and supply sides of the nonprofit and voluntary sector is a primary task when it comes to sorting through the arguments that have emerged in recent years. Yet we must also develop a second dimension for our conceptual framework. As soon as we begin to consider the broad number of important projects and causes to which the sector is dedicated, it becomes clear that nonprofit and voluntary organizations rest on two different ideas about what justifies and gives meaning to the work that is carried out in the sector.

First, nonprofit and voluntary action is an important *instrument* for the accomplishment of tasks that communities view as important. Nonprofit service agencies and volunteer helping organizations play an important role in the delivery of critical services in a broad array of fields. Nonprofits can be the principal means through which job training, arts education, shelter for the homeless, health care, neighborhood clean-ups, firefighting, crime patrols, and countless other functions are ac-

complished. When the sector works to accomplish popular social purposes, it acquires powerful instrumental value. It becomes a concrete tool to achieve some collective purpose that society considers important. The sector's instrumental value is measured in terms of its concrete outcomes. In the search for validation and learning, the programmatic outcomes of nonprofit and voluntary action are increasingly being measured and evaluated using metrics borrowed from the business and public sectors. The growing emphasis on performance has led to a vast new literature on nonprofit management, which is aimed at making these organizations more efficient and useful instruments for the accomplishment of public purposes.⁴⁴ The idea that nonprofit and voluntary organizations are valuable because they can be useful tools for the accomplishment of public purposes constitutes the core of what I will term the "instrumental dimension" of the nonprofit and voluntary sector.

Second, the sector can be seen as valuable because it allows individuals to *express* their values and commitment through work, volunteer activities, and donations. By committing to broad causes that are close to the heart or by giving to an effort that speaks directly to the needs of the community, nonprofit and voluntary action answers a powerful expressive urge. For donors, volunteers, and particularly staff, the very act of attempting to address a need or fight for a cause can be a satisfying end in itself, regardless of the ultimate outcome. The value that is created may be entirely psychic and may arise simply from the act of expressing commitment, caring, and belief. The expressive quality of the sector has led some to conclude that the narrow focus on the financial resources available to nonprofit organizations and on the level of services delivered has detracted from the deeper meaning of nonprofit and voluntary action, which derives from the fellowship and self-actualization experienced by those who give or volunteer. This is what I will refer to as the "expressive dimension" of nonprofit and voluntary action.⁴⁵

The expressive and instrumental dimensions of nonprofit and voluntary action can compliment each other or they can create tensions. In the best cases, the moral energy that motivates those who deliver services can be harnessed to produce better and more effective programs. In some ways, this connection seems obvious: a committed volunteer or social entrepreneur is more likely to work hard to create value through his activities than someone who holds a job merely to earn a paycheck. In some cases, however, values and personal expression can be out of

sync with instrumental goals and may lead to trouble. On the one hand, if strong expressive desires draw people to causes and community problems without adequate structure or planning, frustration can easily set in and group cohesion may be threatened. On the other hand, if too much focus is placed on improving a charitable organization's bottom line and maximizing the instrumental efficiency of its operations, an organization runs the risk of dimming the expressive flame of its staff, volunteers, and supporters. The managerial challenge, of course, is to bring the expressive and instrumental dimensions into alignment.

The contrast between the supply and demand sides and the opposition of the expressive and instrumental dimensions give us a basis for thinking systematically about the functions of nonprofit and voluntary action. We can construct a matrix that depicts, on one side, the nature of the value produced by the sector (instrumental versus expressive) and, on the other side, the underlying animus or force (demand versus supply). This book is organized around the four cells generated by this matrix (see Figure 1.2), which have come to represent the four underlying functions of the nonprofit and voluntary sector: encouraging civic and political engagement, delivering needed services, enacting private values and religious convictions, and providing a channel for social entrepreneurship.

The book works through and elaborates current debates relating to each of these four functions. Chapter 2 considers the role nonprofit organizations play in fostering civic and political engagement. Local nonprofits contribute in important ways to community cohesiveness, social solidarity, and what some call "social capital," which is constituted by the norms, networks, and forms of trust that make communities work. These ties prepare people to play an active role in civic life and democracy. Grassroots community organizations also have the capacity to harness this community spirit and generate social and political change.⁴⁶ Using the protection afforded by the First Amendment, these advocacy and organizing efforts are a critical ingredient in our national political life. In fields ranging from environmental protection to world peace, nonprofit and voluntary organizations have begun to exercise considerable political power. Nonprofits play a powerful role in setting the terms of many public debates, in mobilizing key constituencies, and in coordinating grassroots campaigns to effect change at the local, state, national, and transnational levels.

Chapter 3 considers how nonprofits represent an effective and powerful tool for responding to concrete public needs that the market and the state fail to meet. On the questions of why nonprofit organizations come into being and what role they play in society, a strong line of argument has emerged. Starting in the 1970s and continuing into the 1980s, theories about nonprofits focused heavily on the idea of government and market failure. Researchers proposed the idea that nonprofit provision of particular services arises when either government is unable to meet demand or when consumers are resistant to purchasing a given service in the for-profit marketplace. This positive theory of nonprofits embraced the subtle assumption that nonprofits were really just government's partners, charged with helping to deliver needed services. Since government and nonprofit organizations were thought to have the same basic goals and values, collaboration between sectors was seen as largely unproblematic. Some of the progenitors of this early, foundational per-

	Demand-side orientation	Supply-side orientation
Instrumental rationale	<u>Service delivery</u> Provides needed services and responds to government and market failure	<u>Social entrepreneurship</u> Provides a vehicle for entrepreneurship and creates social enterprises that combine commercial and charitable goals
Expressive rationale	<u>Civic and political engagement</u> Mobilizes citizens for politics, advocates for causes, and builds social capital within communities	<u>Values and faith</u> Allows volunteers, staff, and donors to express values, commitments, and faith through work

1.2 The four functions of nonprofit and voluntary action.

spective argue that the future of the nonprofit sector lies in its capacity to cooperate and collaborate effectively with government, even though tensions between sectors appear to be rising. Chapter 3 presents the early models of nonprofit production, while raising new practical questions about the interaction of nonprofits with government and the market.

Chapter 4 considers the essentially private character of nonprofit and voluntary action that makes the sector an ideal vehicle for the expression of personal values and spiritual beliefs. Nonprofit and voluntary organizations are places where believers of all sorts are welcome, some of whom are motivated by faith, others by commitment to issues, and still others by strongly held private values and norms. The value component of nonprofit work—which goes beyond the rational, purposive function of that work—is part of what defines the sector and attracts donors, volunteers, and entrepreneurs to nonprofit and voluntary action. The values that animate nonprofit and voluntary action can often be important sources for innovation and experimentation, as private visions of the common good are tested and refined. The discussion covers the controversial normative position that has evolved in recent years from this positive analysis, which holds that the special visions of donors and entrepreneurs—not the growing demands of the recipient organizations and their clients—should define and shape nonprofit activity. It is important to note that when one shifts the focus of the normative analysis from recipients to donors, volunteers, and social entrepreneurs, the evaluative criteria for the sector change radically. Instead of measuring outputs and outcomes for clients, evaluation looks at the subjective experience of those funding and delivering the services. Because it flies in the face of the more progressive ideas that have dominated thinking about the sector, this particular part of the supply-side vision represents a way of seeing nonprofit and voluntary activity that challenges some of our comfortable assumptions about nonprofit organizations.

Chapter 5 tracks one of most important changes in the sector over the past two decades—namely, the growth of a new kind of social entrepreneurship and the rise of commercial activities as a way of financing aggressive growth agendas. Rather than waiting for donors to support initiatives with charitable dollars, more and more nonprofit managers are exposing their organizations to market forces. The rise of entrepreneurship in nonprofit organizations is manifest in many different ways, in-

cluding the creation of new kinds of hybrid organizations, the influx of a generation of younger, more business-oriented managers, and a willingness to rethink the traditional boundaries between for-profit and not-for-profit enterprises. Many of the new entrepreneurial nonprofits explicitly start out with the intention of producing social innovations that will in turn create their own demand. This marks a major change from the traditional idea of delivering services for which there is already a demand. To finance this start-up strategy, some social entrepreneurs have developed funding plans that rely heavily on revenues from commercial ventures of all kinds, not just charitable contributions or government grants. Chapter 5 looks at both the theory and practice of nonprofit entrepreneurship.

After reviewing the four core functions of the sector, Chapter 6 explores emerging challenges connected to the sector's rapid growth and identifies a few significant consequences that flow from seeing the sector as a diverse and pluralistic realm. The chapter, and the book as a whole, advances a message connected to both the management of individual nonprofit organizations and the direction of the sector as a whole: each of the four functions of nonprofit activity is important in itself. But when pursued in isolation and in excess, any of the functions can lead to imbalance, at both the organizational level and the sectoral level. If individual nonprofits and the sector as a whole are seen as only engaging in political organizing and advocacy, charges of excessive politicization are likely to arise sooner or later. If the sole focus of nonprofit activity is the efficient delivery of publicly funded services, concerns about independence and vendorism will never be far away. If nonprofits do nothing but enact private values and interests, worries about particularism will almost certainly arise. If nonprofit activity comes to be focused too much on the creation of income-generating ventures, objections related to commercialism will be difficult to counter. Balance and a plurality of purposes thus turn out to be critical to sustaining nonprofit organizations and to the sector's continued growth and success.

At a time when nonprofit and voluntary activity has been the subject of increasing public attention and academic study, the breadth and depth of our understanding of this phenomenon has been severely constrained by the lack of a clear statement of the sector's core activities, rationales, and dimensions. This book strives to respond to this need by presenting four critical functions that the sector performs. While it does not pre-

tend that these functions entirely exhaust the range of purposes and rationales that guide nonprofit and voluntary action, the book argues that many of the most essential conceptual and policy problems within the sector can be usefully captured with this framework. The normative argument of the book is simply that the sector cannot survive and garner financial, political, and volunteer support if it swings too far in the direction of any particular function. In the long run, balance, achieved through the fulfillment of a diversity of functions, is ultimately essential within the vast range of nonprofit organizations and across the sector as a whole.

Nonprofit and voluntary action can be a powerful force for good in society. Yet a good many myths have grown up around these private organizations that fulfill public purposes. In searching for the core functions of the nonprofit and voluntary sector, the book challenges some of these myths and suggests that the nonprofit and voluntary sector is an evolving and at times contradictory realm that now faces a number of significant challenges to its continued growth and legitimacy. Rather than attempting to smooth over and resolve these tensions, the exposition here deliberately brings them out in to the open. Ultimately, it is the diversity of purposes and rationales embodied in nonprofit and voluntary organizations that make them increasingly visible and exciting vehicles for the pursuit of common social goals. And it is the sector's diversity and flexibility that may well help nonprofit organizations to solve some of the pressing challenges they now confront.