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Introduction

When three hijacked planes crashed into the World Trade Center and the Pentagon on the morning of September 11, 2001, the police, fire, and military organs of New York City, Washington, D.C., and the U.S. government were not the only entities to respond with heroism and *élan*. The events of that horrific morning also triggered a spirited response from that vast, uncharted network of private voluntary institutions that forms the unseen social infrastructure of American life. In small towns and large metropolises, from Seattle to Savannah, people rushed forward to offer assistance. In part, the responses were spontaneous and unstructured. But in far larger part they were organized and orchestrated, mobilized by the vast assortment of organizations and institutions that constitute what is increasingly recognized as a distinct, if not wholly understood, sector of our national life known variously as the “nonprofit,” the “charitable,” or the “civil society” sector.

Like the arteries of a living organism, these organizations carry a life force that has long been a centerpiece of American culture—a faith in

the capacity of individual action to improve the quality of human life. They thus embody two seemingly contradictory impulses that form the heart of American character: a deep-seated commitment to freedom and individual initiative and an equally fundamental realization that people live in communities and that they consequently have responsibilities that extend beyond themselves. Uniquely among American institutions, those in the nonprofit sector blend these competing impulses, creating a special class of entities dedicated to mobilizing *private initiative for the common good*.

The terrorists who crashed civilian jetliners into unarmed buildings on that fine September morning did not, therefore, assault a nation without the capacity to respond. But that capacity extended well beyond the conventional and visible institutions of government. It embraced as well a largely invisible social infrastructure of private, charitable groups and the supportive impulses to volunteer and give that it has helped to nurture.

And respond it did. Within two months, individuals, corporations, and foundations had contributed \$1.3 billion in assistance to a wide array of relief efforts. Blood donations alone were estimated to have increased between 250,000 and 400,000 pints in the wake of the disaster.¹ Some of the institutions involved in mobilizing this response were household words—the Red Cross, the Salvation Army, United Way. Others were established but less well-known institutions, like the New York Community Trust, the Community Service Society of New York, and the Chicago Mercantile Exchange Foundation. And still others were created especially to deal with this crisis—the September 11 Fund, the Twin Towers Fund, Trial Lawyers Care (to assist victims with legal issues), and the Alaska Culinary Association (to benefit families of restaurant workers killed in the World Trade Center collapse). Altogether, some 200 charitable organizations reportedly pitched in to help directly with the relief and recovery effort in New York alone, and countless others were involved more indirectly. According to one survey, an astounding 70 percent of all Americans made some kind of contribution to this response.²

Revealing though this episode was of the remarkable strengths of America's "third," or nonprofit, sector, however, it simultaneously revealed the sector's limitations as well. Private voluntary groups, though highly effective in mobilizing individuals to act, are far less well equipped to structure the resulting activity. In short order, therefore, the fragile systems of nonprofit response were severely challenged by the enormity of the crisis they confronted in the aftermath of September 11. Individual agencies, concerned about their autonomy, resisted efforts to coordinate their responses, either with each other or with governmental authorities. Individuals in need of assistance consequently found it necessary to navigate a multitude of separate agencies, each with its own eligibility criteria and targeted forms of aid. Inevitably, delays and inequities occurred; many individuals fell through the slats, while others benefited from multiple sources of assistance. What is more, misunderstandings arose between the donors, most of whom apparently intended their contributions to be used for immediate relief, and some agencies, most notably the Red Cross, which hoped to squirrel at least some of the contributions away for longer-term recovery, general institutional support, and other, less visible, disasters down the road. What began as an inspiring demonstration of the power of America's charitable community thus quickly became a demonstration of the sector's limitations as well.³

In this, the story of the nonprofit sector's response to the crisis of September 11 is emblematic of its position in American life more generally. Long celebrated as a fundamental part of the American heritage, America's nonprofit organizations have long suffered from structural shortcomings that limit the role they can play. This juxtaposition of strengths and limitations, in turn, has fueled a lively ideological contest over the extent to which we should rely on these institutions to handle critical public needs, with conservatives focusing laser-like on the sector's strengths and liberals often restricting their attention to its weaknesses instead. Through it all, though largely unheralded and perhaps unrecognized by either side, a classically American compromise has taken shape. This compromise was forged early in the nation's

history, but it was broadened and solidified in the 1960s. Under it, nonprofit organizations in an ever-widening range of fields were made the beneficiaries of government support to provide a growing array of services—from health care to scientific research—that Americans wanted but were reluctant to have government directly provide.⁴ More than any other single factor, this government-nonprofit partnership is responsible for the growth of the nonprofit sector as we know it today.

Beginning in the early 1980s, however, that compromise came under considerable assault. At the same time, the country's nonprofit institutions have faced an extraordinary range of other challenges as well—significant demographic shifts, fundamental changes in public policy and public attitudes, new commercial impulses, growing competition from for-profit providers, shifts in the basic structure of key industries in which nonprofits are involved, massive technological developments, and changes in life-style, to cite just a few. Although nonprofit America has responded with creativity to many of these challenges, the responses have pulled it in directions that are, at best, not well understood, and at worst, corrosive of the sector's special character and role.

Despite the significance of these developments, however, little headway has been made in tracking them in a timely and systematic way, in assessing the impact they are having both generally and for particular types of organizations, and in getting the results into the hands of nonprofit practitioners, policymakers, the press, and the public at large. This book is intended to fill this gap, to offer a clear, up-to-date assessment of a set of institutions that we have long taken for granted but that the Frenchman Alexis de Toqueville recognized nearly 170 years ago to be “more deserving of our attention” than any other part of the American experiment.⁵ More specifically, the book makes available in a more accessible form the summary of a much larger inquiry into the state of America's nonprofit sector that the present author carried out with an extraordinary team of collaborators and that was published in a prior volume.⁶

The basic story that emerged from this larger project, and that is the theme of this book, is fundamentally a story of *resilience*, of a set of institutions and traditions facing enormous challenges and also important opportunities, but that has found ways to respond to both, often with considerable creativity and resolve. Indeed, nonprofit America appears to be well along in a fundamental process of “re-engineering” that calls to mind the similar process that large segments of America’s business sector have undergone since the late 1980s.⁷ Faced with an increasingly competitive and changing environment, nonprofit organizations and the institutions and traditions that support them have been called on to make fundamental changes in the way they operate. And that is just what they have been doing.

What is involved here, moreover, is not simply the importation of “business methods” into nonprofit organizations, though that is sometimes how it is portrayed.⁸ While nonprofits are becoming more “market oriented” and “businesslike,” the business methods they are adopting have themselves undergone fundamental change in recent years, and many of the changes have involved incorporating management approaches that have long been associated with nonprofit work—such as the critical importance of mission to organizational success, the ethos of service to clients as a cornerstone of organizational purpose, and the need to imbue staff with a sense of purpose that goes beyond the narrow concept of maximizing profits. In a sense, these long-time nonprofit management principles have now been fused with business-management techniques to produce a blended body of management concepts that is penetrating business and nonprofit management alike.

Like all processes of change, this one is far from even. What is more, it is not without its costs, both for individual organizations and for the nonprofit sector as a whole. Some organizations have thus been swept up in the winds of change, while others have hardly felt a breeze, or having felt it, have not been in a position to respond. What is more, it is far from clear which group has made the right decision or

left the sector as a whole better off, since the consequences of some of the changes are far from certain, and at any rate are mixed.

Any account of the state of nonprofit America must therefore be a story in three parts, focusing, first, on the challenges and opportunities that America's nonprofit sector is confronting, then examining how the sector's institutions are responding to these challenges and opportunities, and finally assessing the consequences of these responses both for individual organizations and subsectors and for nonprofit America as a whole. Against this backdrop, it will then be possible to identify some of the steps that are needed to allow America's nonprofit institutions to continue to make the contributions of which they are capable.

The balance of this volume offers such an account. To set the stage for it, however, it may be useful to explain more fully what the nonprofit sector is and why it deserves our attention.