The Foundations of Civil Society


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Preface: The Scope of this Report

In mid-2002, The Atlantic Philanthropies commissioned a review of its grantmaking in the field of Nonprofits, Philanthropy, and Volunteering, not as a formal evaluation of the grants, but to examine the role that Atlantic had played in the field since 1984, the significance of that role, and the issues that lie ahead. The assignment primarily rested on a series of interviews, roughly three dozen in all, in which prominent figures in the field were invited to comment on the evolution of the American nonprofit sector, the problems and opportunities it has faced in the past 15 to 20 years, and the effect of Atlantic’s grantmaking on that history.

To ensure candor, interviewees were promised that their responses would be reported or quoted without attribution or identifying information. Although many participants were willing to speak on-the-record, all names are omitted here for the sake of those who preferred to comment anonymously.

Respondents were asked to concentrate first on the field in general, not specifically on Atlantic’s contribution to it. Toward the end of the discussion, the interviewer raised questions more specifically focusing on The Atlantic Philanthropies and its grants. The goal was to assemble a broad picture of important issues and events since the mid-1980s — without biasing the discussion toward activities in which Atlantic had invested — and then, afterward, to locate Atlantic’s particular role in that period.

This review of Atlantic grantmaking was expressly limited to grants within the United States, made for purposes primarily or significantly related to the development of the American philanthropic sector. Consequently, some important Atlantic grants to promote philanthropy and civil society in other countries were not included in this analysis. On the other hand, a few grants to international organizations — for example, Civics or the International Society for Third-Sector Research — were included because of the prominent involvement of Americans in their activities, and because of the organizations’ intended benefits to American scholars and practitioners as well as others from around the world.

Atlantic also made many grants that advanced the nonprofit sector but that had some other primary purpose, and were therefore classified in another program area. To a considerable extent, support of the sector has been an institution-wide focus at The Atlantic Philanthropies, and thus at least a sub-theme of many grants whose principal purpose was to support youth, education, the elderly, or some other discrete program interest. Grants classified in other program areas are not explicitly included in the scope of this report, though references to them occasionally arose in the interviews and conversations with staff and grantees. Such grants are included in this review when they seemed to represent an especially important part of Atlantic’s influence on the nonprofit sector.

Besides the interviews, the review included a careful reading of a selection of grant files, grantee reports, internal reports and memoranda, and published material about the sector (some, but not all, produced with support from Atlantic). It also benefited from extensive
data-gathering and sorting by Steven Lawrence of the Foundation Center, as well as published data and analysis by Independent Sector and the Urban Institute’s National Center for Charitable Statistics.

The inquiry was guided by an advisory panel of three experts:

- Dennis Collins, former president of the Irvine Foundation, which has been a significant contributor to this field;
- Shirley Sagawa, former executive director of the Corporation for National Service and now a consultant and author on volunteering and civil society;
- Kenneth Prewitt, professor of political science at Columbia University and former director of the U.S. Census Bureau.

Atlantic officers Joel Fleishman, Suzanne Aisenberg, and Janice Molnar also participated in the deliberations of the advisory group. Although the advisers provided valuable guidance and were immeasurably helpful in the collection and interpretation of information for this report, the findings and analysis presented here represent solely the judgment of the author, and not necessarily those of any of the advisers or interviewees.

Many members of the Atlantic staff helped in the research and preparation of this paper, most notably Nicolette Marshall, who organized the interviews and assembled many dozens of files from the archives; Mary Chaplin, who collected and sorted grantmaking data from the Atlantic databases; Richard Romeo, who recommended outside sources of data on the sector; and Michael Criscuolo, who transcribed several of the taped interviews.

Finally, consultant JoAnne Vellardita was instrumental in defining the scope and content of data analysis on the nonprofit sector, working with the Foundation Center on dozens of different approaches to the numbers, and finally zeroing in on the specific definitions and calculations used in this report.

Without their help, this report would not merely have been less complete, but much of it could not have been written at all.
Executive Summary

Since its earliest days of grantmaking, The Atlantic Philanthropies (including its constituent and predecessor institutions) has directed well over $200 million toward a single, relatively unusual goal: strengthening the productivity and vitality of the American not-for-profit sector. Grants formally made under the rubric of Nonprofits, Philanthropy, and Volunteering (NPV) amounted to $199.3 million between 1984 and 2002. Tens of millions of dollars from other programs, made for nominally different purposes like education, aging, or youth, also supported aspects of the sector’s development. Scratch the surface of their formal justification, and many of these other grants reveal such subordinate goals as encouraging volunteerism, promoting nonprofit accountability, and solidifying networks of nonprofit managers, scholars, and funders. Those aims are, in most respects, indistinguishable from the goals of NPV grants.

Interviews with some three dozen nonprofit scholars and practitioners, conducted in the second half of 2002, suggest that Atlantic’s contribution to this field has been practically unparalleled in its breadth, dollar volume, and perseverance. Only half a dozen American foundations have consistently operated similar grantmaking programs, and only the Ford Foundation — which for most of this period was the largest foundation in the United States — approaches the scale and duration of Atlantic’s support for the sector. Yet measured as a percentage of each foundation’s total assets, Atlantic’s commitment to the field dwarfs even Ford’s.

How valuable has this commitment been — to the nonprofit sector, to Atlantic, and to the wider society? This paper attempts to answer that question primarily through the eyes of the people interviewed, supported by some independent observations on the growth and needs of the field over the past two decades. On one hand, in an $800 billion sector comprising 1.6 million member organizations, it may be nearly impossible to discern the effect of a single funder investing at most $25 million a year. On the other hand, Atlantic’s grants were not aimed at all nonprofits and their universe of different activities, but at a much more precisely defined target: the sector’s core institutions, its sources of common information and standards of performance, and the prevailing means by which member organizations raise money; recruit volunteers; and assess, improve, and expand what they do.

In seeking to undergird the nonprofit sector with stronger systems of research and analysis, information exchange, standard-setting, recruitment, and public advocacy, Atlantic deliberately avoided endorsing or promoting specific programmatic ends or particular types of nonprofit organization. The goal was not to “steer” the nonprofit sector toward any preferred goals or social outcomes, but to equip its participants with more effective tools for choosing and reaching whatever goals they set for themselves. Atlantic’s vision was of a more robust, effective civil society, pursuing all the various aims and aspirations of the citizens who participate in it.
The one area in which Atlantic deliberately embraced and advanced a given social outcome was in its promotion of volunteering. Even there, in one sense, the general principle of “invest in means, don’t dictate ends” still applied: Atlantic favored no particular target for volunteering, nor tried to skew the efforts of volunteers in one direction or another. As with its investments in philanthropy, data-collection, accountability, and other “infrastructure,” support for volunteerism was aimed at strengthening the whole field: making the act of volunteering easier, raising awareness of the opportunities and benefits, and particularly encouraging young people to start early, by contributing their time to causes they believe in.

Yet unlike the other “infrastructure” efforts, this commitment to volunteerism was partly an end in itself — a strong belief (and a widely shared one) that voluntary activity is inherently beneficial to a democratic society and to the volunteers’ own social and moral development. In some ways, Atlantic grants for the expansion of philanthropy rested on the same combination of principles: an endorsement of the value of giving per se, combined with an unbiased effort to expand opportunities for all kinds of philanthropy, improve the advice available to donors, and increase the amount and quality of information they could use in choosing where to give.

Information was, in fact, a consistent theme running through all of Atlantic’s NPV grants: information on how the nonprofit sector is financed, what it produces, how effective it is, what it needs, and how to take part in it. The single largest category of NPV grantees was by far centers of scholarship, including universities and research institutes. The main purpose of these grants was, as several internal memoranda put it, to “foment ferment” in learned circles — creating useful data and analysis around how the sector is performing, how it can be improved, how to bring in more capital, and how to make the greatest use of the capital it raises. Although some practitioners felt that these grants were too far removed from the day-to-day needs of operating nonprofit institutions, some who take a wider view of the sector considered them a valuable long-term investment in the intellectual underpinnings of civil society. The return on such an investment is necessarily hard to measure, and many argued that a full reckoning of its value is still some years away — at a time when it may become possible, for the first time ever, to make meaningful comparisons among large numbers of nonprofit organizations, to learn how they manage themselves and their resources, how they measure effectiveness, and how they grow or decline.

The second-largest volume of grants went to the sector’s “infrastructure” institutions — organizations whose purpose is to promote standards of excellence, broadcast better information about the sector to the general public, circulate information among member institutions, help members learn from one another, and provide common resources like management advice, professional recruitment and development, and solutions to technical problems. Many observers considered these grants important for the most basic of reasons: They prevent unwanted regulatory incursions from government and help members steer clear of controversial missteps. But several also regarded the infrastructure in-
stitutions as another locus of creative “ferment” — a crucial forum for exchanging ideas, encouraging innovation and exploration, and forming creative alliances.

The following pages offer specific observations, with discussion of particular grants, in each of the five main areas of focus in the NPV portfolio: data and scholarship, infrastructure institutions, human capital, volunteerism, and expanding philanthropy. In general, the people interviewed for this report spoke positively, often passionately, about the value of Atlantic’s contributions in each of these areas, though with a mix of emphases and preferences that are discussed in more detail in later chapters. On two points, however, opinion was less often positive: (a) Atlantic’s policy of anonymity through most of its history, and (b) its decision — which some regarded as abrupt and ill-timed — to withdraw from this line of grantmaking after 2002.

On the subject of anonymity, the most common observation was that Atlantic had made bold and imaginative investments in a much-neglected part of American society, and yet was not willing to make its case publicly, or to disclose the depth and breadth of its commitment. In a field that sorely lacked leadership, and one whose importance to democracy was at best under-appreciated (and at worst, in some circles disparaged), the voice of a large and dedicated funder would have been invigorating. Even when Atlantic ceased to insist on anonymity, many observers sensed a diffidence in discussing its interests and accomplishments, and a reluctance to seek allies on a national scale. In the future, many people advised, Atlantic could get significantly more from its contributions if they were combined with a communication strategy that promoted support from others, and that circulated information on what it was learning from its grants.

On withdrawal from the field, nearly all observers acknowledged that foundations periodically change their priorities and interests, and that there was nothing remarkable about Atlantic’s doing so. The concern, instead, was that this change arose unexpectedly, and it came about (coincidentally) in a time of sudden, steep reductions in other sources of support for the nonprofit sector. Here, too, more deliberate communication might have eased some of the shock in the field, though many people would have taken the news hard no matter how artfully it was delivered. Several said they regarded Atlantic’s understanding of the field, its ability to broker large funding coalitions, and to pursue far-reaching new ideas as all but unique, and for now at least, irreplaceable.

Both of these criticisms, ironically, arise from a widespread respect and goodwill for the NPV program that was reflected throughout the interviews. Had commentators been less impressed with the program’s efforts and accomplishments, they might have been less interested in how the work was described publicly, or in whether it was continued. The coming decade in the nonprofit sector, many believed, will be better for the contributions that Atlantic has made or supported: the galvanizing institutions, the enriched sources of information, the higher professional standards, the expanded highways for volunteering and charitable donations. But the real value of those things, it seems, will be tested by adversity. The true measure of Atlantic’s success in this area will be the sector’s ability to build on those assets, or at least to maintain them, through much harsher economic times and with a greatly reduced circle of philanthropic support.
Part I
The Third Sector and Civil Society in the United States

BACKGROUND AND OVERVIEW

The crisis the philanthropic world faces is more one of identity than size and scope. If the United States is embarked on a course that leads away from the kind of active, national government that has characterized it for much of the 20th Century, what should nonprofit groups, many of which have grown dependent upon the public sector, do? If American industry is discovering new ways of doing well by doing good, how should American charities respond? And if the value of neither politics nor commerce are to dominate the activities of the philanthropic world, which ones should?

— Leslie Lenkowsky, in “Reinventing Philanthropy,” 1999

WEDGED BETWEEN Government and Business — the two muscular nouns that denote the exercise of authority and the making of profit — stands modern civilization’s Other Sector, known only by its adjectives: third, independent, voluntary, civic, or most roundabout and reductive of all, not-for-profit. The descriptions betray a tentativeness and imprecision that seems almost intentional, like the muttered hypotheses of aliens groping an elephant in the dark. Each modifier is right in its fashion, neither mistaken nor particularly descriptive. Each names a quality, true but incomplete, interesting, serviceable, but ultimately unsatisfying. The vagueness is not the fault of the nomenclature, but of a deeper unclarity: The Other Sector is known, even to its own participants, mostly in parts and facets, fragments of understanding held together only by a recent, hard-won, and unfinished self-awareness.

Until very recently — 25 years ago, maybe less — the very idea of a Third Sector struck some people as whimsical. Foreign observers tended to regard the notion as a quirky American improvisation, something like jazz, perhaps. Americans, if they thought about it at all, usually viewed it as a figment of academe, useful mainly to Tocquevillians and the more restive social scientists.

The foreigners mostly had it right: There is surely something distinctively American, and not at all academic, about the early crystallization of a civic or voluntary sector. Long

before Alexis de Tocqueville took note of Americans’ reliance on ad-hoc clubs and committees, voluntary groups, and civic organizations, the demands of pilgrim and pioneer life had placed such activities among the routine tactics of survival. Barn raisings, volunteer fire brigades, posses, civic-booster groups — all the icons of early American society — were essentially Third Sector activities, built not around any formal philosophy of social organization or altruism, but around the necessities of common self-preservation.

Philosophers and reformers noted and elaborated on this impulse for spontaneous, voluntary civic organizing, but they did not invent it. Enlightenment philosophy, as it made its way across the Atlantic, took easy root in the American colonies, with its emphasis on voluntary consent, amateur self-governance, and individual sovereignty. People on these shores, already inclined toward informal civic structures, welcomed (but arguably did not need) the approving gloss of a new philosophical movement. If the whole structure of civilization is inherently voluntary and communitarian, as the American revolutionaries and their European mentors believed, then voluntary community associations, ad-hoc civic groups, and grassroots movements must be part of the natural order. In the emerging revolutionary view, such structures were as important as — in fact, they might even be morally superior to — the more ancient preserves of the capitol and the marketplace.

The point is not that the Third Sector is some unique triumph of American ingenuity. Voluntary and civic organizations existed around the world for centuries, and are proliferating far beyond the 50 states. The point is that Americans embraced and organized the activities of a voluntary sector for common benefit more explicitly and widely than other places, largely because those activities suited the needs and principles of a new and fast-growing republic. As a result, enterprises that in some places would have stood securely in the public or commercial sector — universities, hospitals, research institutes, even (in some countries) churches — here became the province of volunteers, part-time visionaries, and impromptu committees.

Recognizing the value of these communitarian and charitable enterprises, state governments long ago deliberately encouraged their growth by exempting them from taxation. The federal government followed suit when the income tax was created in 1913, and for the past half-century that exemption has been spelled out in Section 501 of the Internal Revenue Code.

Waves of immigrants to the United States found their own variations on this kind of collective self-preservation: For new arrivals, maintaining some sense of cultural identity, tradition, and belief often meant forming their own institutions and micro-
societies within the larger community: social and political clubs, anti-defamation groups, business circles, religious congregations, committees to aid people back in their countries of origin. From all these different, overlapping necessities grew habits that today fuel a large and influential segment of the U.S. economy — and not a small part of the world’s idea of democracy.

The Third Sector in the Third Millennium

Though still fragmented and poorly understood, the American Third Sector has grown gradually but persistently over the last 200 years. The rate of growth has apparently picked up markedly in the past two decades, although data are available only since the 1950s, and reliable data begin only in the 1970s. By the end of the 20th Century, the 1.6 million nonprofit organizations in the United States accounted for nearly $800 billion in total expenditures — about $2,600 per capita, more than 7 percent of national income, just under 6 percent of total payroll, and 12.5 percent of all paid jobs. The sector’s share of national income is roughly the same as that of state and local government (7.7 percent) and almost double that of the construction industry (4 percent).

Whether measured in the number of organizations, in the size of their revenues and expenditures, or in the number of employees and volunteers who staff them, growth in the sector has been pronounced since the 1970s. Between 1977 and 1998 (the last year for which consistent data are available), the number of nonprofit organizations had increased by 45 percent; their expenditures and total employment had roughly doubled, and their number of volunteers risen by more than three-quarters.

The relative size, broad reach, and rapid growth of the sector should by now, it would seem, have earned it far more public awareness, scholarly attention, and informed debate than has in fact occurred. In the still-small industry

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of scholars and activists who observe and assess the field, few opinions are unanimously held, yet among the roughly three dozen interviews that underlie this report, this conclusion had not a single dissenter: Most of the Third Sector’s work takes place in relative obscurity, and what little attention is paid rests disproportionately on incomplete information, philosophical and sentimental biases, superficial analysis, and sometimes outright error.

Most of those interviewed believe that information and scholarship on the Third Sector have improved dramatically in the past ten to 15 years (several used terms like “revolution” and “renaissance”). Yet few consider the information in wide circulation adequate for most ordinary purposes — much less comparable to the amount and quality of information on business and government. Later sections of this paper will discuss the reasons for this in more detail. For now, it is important to note mainly that perceptions of the American Third Sector are not always consistent with the reality, and in particular, tend to take far too little account of the sector’s broad influence on the quality of life of most Americans.

The Realm of Aspiration

One problem with understanding and describing the Third Sector as a whole is the vast mélange of different kinds and sizes of institutions that make it up. It’s not just that some are large and some small, some diverse and complex, some simple. The same is true of businesses or units of government. To be sure, the diversity of the Third Sector has been much less well documented and studied — and thus is less understood — than that of the other two sectors. But there is a deeper reason for that lack of inquiry, and the resulting confusion about what the sector is and how it works: The Third Sector’s component institutions have fundamentally different purposes — distinct reasons for existence — that separate one subsector from another, and sometimes each particular institution

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3 Hereafter, for brevity’s sake, general references to “observers,” “commentators,” and “experts” on the nonprofit sector will mean specifically the people interviewed for this report. Any reference to other observers or experts will be noted explicitly in the text.
from the next. A neighborhood cigar store and General Motors both exist primarily for one purpose: to earn income for their owners. A homeless shelter and the Brookings Institution both exist to bestow a public benefit — but the benefits in question are almost wholly dissimilar.

Nearly half the revenue and labor force of all nonprofit organizations are in health care institutions alone. Another quarter of the sector’s revenues, and one-third of its workforce, are claimed by schools, colleges, universities, research institutes, and churches. Apart from the high calling of all these institutions — tending the sick, the young, and seekers after knowledge or spiritual fulfillment — many function, at least in part, not all that differently from businesses: They accept fees or regular contributions from people who in turn derive a direct, personal benefit. Hospitals and universities in particular acknowledge that they compete to sell services to paying customers. The payments these customers make are not primarily altruistic, communitarian, or otherwise different from those of any purchaser in the commercial marketplace. These institutions are in the Third Sector primarily because they carry on work of public benefit that is only partly paid for through operating revenues, or because they use payments from some consumers to subsidize benefits to other consumers. Still, to a significant degree these organizations exchange value for money, much as businesses do. On the surface, they would seem different from businesses primarily because they distribute no profits.  

The remaining quarter of the sector’s income, and less than a quarter of the employment base, belongs to hundreds of thousands of organizations in other fields, whose work more often seeks to benefit constituencies beyond those who provide the money. These include soup kitchens and art institutes, environmental groups and addiction-recovery programs, employment services and child-welfare organizations, animal shelters, grantmaking institutions, and advocacy or support groups for the elderly, the disabled, people for and against abortion rights, people living with breast cancer or AIDS, and hundreds of other causes and passions. Their branches reach into every economic and demographic group, ideological camp, cultural demimonde, and social stratum, with a diversity that virtually guarantees any American some way of contributing to his or her particular view of a greater good. These would seem, by their outward-directedness, categorically different from the fee-for service nonprofits.

Even within these broad categories there is enormous variation. Each category comprises a patchwork of organizations and missions that are easier or harder to classify depending on how (and whether) they file information on their activities with federal and state governments. The smallest nonprofits (those with less than $25,000 in annual gross receipts) and some special categories of organization, including most religious groups, are not required to file the Internal Revenue Service Form 990 from which most Third Sector data are derived. Even among the reporting organizations, the required financial statements

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4 There is, as one scholar noted in an interview, “no consistent, articulated explanation, ahead of the event, for why any given class of institutions is eligible for the [charitable] tax exemption.” The boundaries of the Third Sector have been set mainly by cumulative traditions and precedents, each yielding a slightly different definition and rationale, rather than by any overarching, abstract principle that applies uniformly to all institutions and activities.
and other publicly available data on nonprofit organizations describe some sub-fields and organizations better than others, but hardly any of them capture the real purpose or fundamental importance of what the sector does — largely because its aims and benefits aren’t mainly financial.

It is difficult to make authoritative statements about the Third Sector as a whole — or even to sort its components fairly — partly because the quality and usefulness of the descriptive data vary radically among different organizations, localities, and types of work. The available information runs from the richly descriptive to the nearly opaque, from reams of detail to a completely blank slate. Some organizations file their reports electronically, making the data instantly usable for auditors, regulators, scholars, and anyone else who might have use for them. Many, however, still submit paper records, requiring costly, slow, and error-prone data entry before the numbers can be analyzed electronically. Collecting, correcting, and interpreting this information is a still-unfinished labor that will take decades to bring up to a standard that even remotely compares to data on government or business — data easily available to any citizen with a computer or a library card.

Yet for all its superficial inconsistencies and statistical mysteries, what makes the Third Sector real, coherent, and significant is that all its component organizations perform some function to which, for varying reasons, the broader society has assigned a uniform, material value. These organizations are absolved of the burden of taxation — a public subsidy, and a freedom from government interference, deliberately awarded for activity regarded as desirable, usually because it makes society better, smarter, healthier, fairer. If government’s purpose is regulation and that of private enterprise is accumulation, then the primary business of the Third Sector would seem to be aspiration. It is the place where people invest their hopes, and as a consequence their labor and wealth, for a better world.

**Rich Sector, Poor Sector**

In a recent study of nonprofit organizations in New York City — a study significantly supported by The Atlantic Philanthropies — the confusing diversity of the nonprofit sector was brought into focus by zeroing in on a single (albeit very large) community.⁵ There, as one participating researcher put it,

> we discovered that 2.5 percent of all nonprofits employ 75 percent of the people in the sector and hold probably 80 percent of the assets. And then there are all these little groups that employ maybe one or two people each. … [In aggregate,] it’s a huge labor force — more than twice the number of people working in manufacturing. It’s the size of total federal, state, and local government employment. It’s almost as big as finance, insurance, and real estate — the stock market sector. In dollar terms, the New York survey counted up something like $40 billion in annual expenditures by

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nonprofits. … Yet salaries are 40 percent lower than in the for-profit sector. The average salary is something like $35,000 a year—in New York City!

As in the rest of the country, the big employers in New York’s top 2.5 percent of the sector are primarily hospitals and universities, with a smattering of very large (typically national) institutions that happen to be headquartered in New York City. In these institutions, some salaries naturally define the upper ranges of the spectrum, as for example with physicians, top executives, or senior faculty. The sector-wide average salary of $35,000 a year therefore means that the lower ranks of the sector pay barely subsistence wages in a city with one of the nation’s highest costs of living. This prompted another of the researchers to speculate about what draws employees into the Third Sector.

Is this a [sign of a] dual labor force, with one category of people who are perfectly happy with, or capable of having, lower salaries and benefits than those in the for-profit sector, so that the two labor forces are not competitive? Or is there just one labor force, and the nonprofits are simply employing larger numbers of less-trained people [at lower wages]?

The question is not just an interesting puzzle for economists. It seems reasonable to assume, but difficult to prove, that both labor-force models are accurate to some extent. Some people clearly do work in civic and charitable organizations because of the satisfaction of the work—a “psychic benefit” that may compensate them for some reduction in cash income. In other cases, however, available wages may simply not be enough to attract people with enough skill and talent to do the job well. That may be a sad judgment on organizations with a high philosophical calling—but the consequences become much more than philosophical when the organizations in question are delivering vital services like care for the elderly, protection for abused children, or training for the unemployed.

This is just one example of the lode of unanswered questions unearthed by New York City’s Nonprofit Sector, the 2002 survey of New York’s tax-exempt organizations. What the study revealed, overall, was a vast network of some 25,000 organizations performing services, making grants, pursuing artistic or intellectual missions, or otherwise shaping and influencing the life of the city in ways that even its senior public managers had not realized. The wealth of this sector—that is, the slice of the city’s material, social, and cultural worth that it represents—is in most important respects incalculable. Yet by placing it in some context, and attaching some defensible numbers to it, the study began to give New Yorkers at least a faint impression of who is doing some of the city’s most important work, with what resources, confronting what obstacles, and creating what benefits. “It was the first time,” says a leader of the research effort “that many people had ever seen the contribution of this sector in one place, in the context of the city’s overall life.”

Beyond Aspiration: What Nonprofits Do, and Why It Matters

There is a tendency, both in scholarly literature and in the popular press, to raise most discussion of the Third Sector to the high planes of philosophy and morality. That’s ap-
appropriate enough for many purposes, but it tends to divert attention from the practical contribution of the sector’s activities — the value those activities add to the work of individual citizens and communities, and to the other sectors of society. Understanding this practical value is crucial to understanding why some members of the sector (prominently including The Atlantic Philanthropies) have been so keen to build its repositories of information and the strength of its core institutions.

Those interviewed for this report described the Third Sector’s practical contribution in various ways — many of them more poetic than scientific: “society’s research and development arm,” “the place where all non-monetary value is tested and weighed,” “the mint of social capital,” and “the proving ground of responsible citizenship.” To capture the vast range of the sector’s “product,” a certain amount of poetry, or at least of metaphor, is indispensable. There is simply too much variety in the kinds of work the sector does for any pithy formulation to describe its full worth in hard, measurable units.

Yet the rhetorical flourishes are one reason why the value of the sector is too often misunderstood, consigned solely to the realms of the spiritual and moral. The commentator who referred to nonprofits as “research and development” institutions was not, in fact, speaking solely in metaphorical terms. Often, the work of nonprofit organizations literally invents and tests ideas that are then adopted by other sectors for wider purposes. This is, of course, most obviously true in the case of nonprofit research institutes, think tanks, and science labs. But it is also true in organizations that provide services, cultivate the arts, and promote social cohesion.

Many states and cities, for example, have absorbed the “devolved” responsibilities of once-federal domestic programs by contracting with nonprofit organizations to deliver services. In community development, mental health, juvenile justice, and a host of other areas of social policy, government now mostly purchases these services from specialized nonprofit groups. The contractor agencies offer not only more expertise than might be available to government, but closer connections to the people and communities that are supposed to benefit from the services. New York City, for example, has overcome at least three waves of public scandal and outrage — over abandoned housing, homelessness, and child welfare — by turning over failing public systems to nonprofit management. In all three areas, the success has been nationally applauded.

The business sector has also benefited extensively (though with less public discussion) from the R&D work of nonprofit groups. Some famous instances of this involve deliberate collaborations between foundations and pharmaceutical companies to treat diseases that disproportionately affect poor people and countries. (The foundations typically shouldered some advance research costs in exchange for the company’s agreement to distribute the end product cheaply in less-profitable markets.) Other cases involve private companies conducting a profitable business in activities more often thought of as charitable, like addiction recovery or welfare-to-work programs. In recent years, hotel and nursing-home chains have borrowed the methods (and sometimes hired the services) of nonprofit workforce development programs to help them reduce the costs of employee turnover and training in entry-level jobs.
Even some commercial products owe their origins to pioneering work by nonprofits. One example is the TV miniseries, which was introduced to the United States in the 1970s, not by what were then the Big Three commercial networks, but by the infant nonprofit Public Broadcasting System. (The name is misleading: Nearly 60 percent of its revenue comes from private contributions.)

The point is certainly not that the value of the Third Sector derives mainly from its influence on government and business. On the contrary, most observers believe the sector is as much threatened as helped by these cross-border transactions. The off-loading of government functions onto nonprofits, for example — a tendency for which Lester Salamon, director of the Institute for Policy Studies at Johns Hopkins University, coined the phrase “third-party government” — has alarmed many observers. It tends, in some interpretations, to indenture nonprofits into an inescapable dependence on government, threatening to make a once-independent sector little more than an arm of the state.

The umbilical relationship between nonprofits and government has, in fact, led to periods of crisis when some political faction decided that foundations or nonprofit organizations had not been sufficiently friendly to that faction’s point of view. In the most serious cases, the result has been the introduction of hostile legislation meant to curtail the freedom or fiscal strength of the Third Sector. The most recent of these assaults, which we discuss in more detail in Part IV of this report, took place amid pitched tax-reform debates in the 1960s and 1990s.

The interaction of nonprofit and for-profit enterprises has likewise struck some people as worrisome. “There are reasons to be concerned about the blurring of distinctions in both directions” wrote Charles Clotfelter, director of Duke University’s Center for the Study of Philanthropy and Voluntarism, in 1999. “Trust in the nonprofit sector was sustained in part by its separation from the commercial sector,” and the lapsing of that separation, in Clotfelter’s view, can only jeopardize the sector’s privileged status in public opinion.

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Yet such concerns notwithstanding, the “blurring of distinctions” between the Third Sector and its two larger siblings is proceeding apace, and probably accelerating. And while the value of the Third Sector stretches far beyond its mere utility to other corners of society, the cross-over is surely one indication of the richness, variety, and practical value of the work that nonprofits do. It is fine — and accurate — to think of the sector as an embodiment of deep values and high aspirations. But that approach can make it too easy to overlook the more fundamental reason for treating nonprofits as a sector of the economy, rather than a branch of philosophy: Nonprofits give practical, organized expression and material value to people’s convictions and aspirations, with direct, often measurable effects on the physical, intellectual, and economic environment.

The Third Sector as a Target of Investment

In the preceding examples of cross-pollination between nonprofits and business or government, the implicit idea has been that the sector — not just individual institutions in it, but the sector itself — is a powerful and important force in American civic, governmental, and economic affairs. That is the distinctive idea behind The Atlantic Philanthropies’ program in Nonprofits, Philanthropy, and Volunteering, stretching back more than 15 years.

The idea is not without its complications. One commentator for this report, for instance, argued that, for many purposes, the whole nonprofit sector may be too diverse and unruly an entity on which to base practical conclusions:

> Once you get off the subject of taxation and charitable exemptions, there is nothing else to be said about the nonprofit sector that doesn’t come with a stack of exceptions. What do Bahá’í temples have in common with the National Rifle Association or some committee to aid Castro’s Cuba? They don’t pay taxes and, well, that’s about it. And even if you argue, as I guess I would, that they have some kind of higher connection — expressing people’s values or higher ideals — where does that get you in terms of what you do about the sector? Does that make the connections among these things useful information in some way? I’m not so sure.

Yet that is a distinctly minority view. Many observers acknowledge that the Third Sector, broadly construed, includes a number of branches and subsets that are not primarily engaged in knitting together a better, more equitable, or more able society. They may serve an honorable purpose, like sports leagues or credit unions, but they are not what most people mean when they think of public interest organizations or civil society. That core meaning may be complicated, but to many observers the complexity means only that the subject deserves more careful study. As one foundation executive put it, “All of civil society is incorporated into the nonprofit sector, but not all of the nonprofit sector is in civil society.”

As a result, many of those who have tried to improve the sector, Atlantic included, have narrowed their focus to that majority of nonprofit organizations that deliberately pursue...
the public interest, seek to improve society, serve the less fortunate, or support others who do these things. Longtime Atlantic grantee Independent Sector, in its series of Nonprofit Almanacs, devotes by far the greatest share of research and analysis to this segment of the nonprofit world — delineated by the Internal Revenue Code’s designations for “charitable” and “social welfare” organizations, under sections 501(c)(3) and (c)(4) of the Code. To emphasize the prominence that Independent Sector assigns to this sub-category or organizations, it bestows on them its own name, labeling them the “Independent Sector.” Others have used the same boundaries in delimiting what they call “civil society.”

Narrowing the universe in that way solves most of the problems of definition and common purpose, but the result is still a huge field of operations for anyone seeking to influence the strength of the sector and its future. The narrower definition still results in a field with more than three-quarters of a trillion dollars in annual income (not including an assigned value for the labor of volunteers, which would raise the value well above a trillion dollars — fully 10 percent of the national economy, roughly the size of the whole retail sector). Even the incremental shifts in such a field are huge: The increase in gross revenues over the past ten years amounted to $119 billion, a 36.5 percent growth.

Can a foundation — or even a dedicated group of foundations, devoting what normally amounts to an aggregate of $100 million to $200 million a year — influence an enterprise that massive?

That is among the questions the rest of this paper will address. But the prospect is not as daunting as the numbers might imply. A senior executive of another foundation, which has devoted approximately the same amount of grantmaking to this field as Atlantic, put the dollar amounts in context during an interview for this report. Because this executive’s experience in the field dates back several decades, his analysis is worth quoting at length:

Most of this field derives its revenues from earned income [mainly tuition or hospital bed fees], earnings on investments and endowments, and government grants and contracts. What’s left, about 20 percent, is from private contributions. Now, 85 percent of that comes from individual contributors and bequests. So up to this point, none of that money is aimed at the sector or its activities or anything collective about it. It’s revenue to specific organizations and activities, one-by-one. That leaves around $25 or $30 billion coming from philanthropy [corporate and independent], and it covers everything from community arts grants and disaster relief to en-

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dowment grants for Harvard and Boys and Girls Clubs. Now, there are some organizations and activities that are much more reliant on that $30 billion than others are — the infrastructure institutions, advocacy groups, research programs. The Council on Foundations, the Foundation Center, these are small organizations with high reliance on foundation contributions — but they are the glue in the sector, they are a big part of what we mean when we talk about things that build the sector, hold it together, extend its reach, improve its performance. In that context, the $150 million a year that foundations give for the nonprofit sector becomes a lot of money, and very hard to replace.

A Focus on ‘Infrastructure’

The theory embedded in this quotation is that most activity and grantmaking in the sector have to do with individual organizations, their donors and customers, and their various individual goals. But under that big structure lies a fundament of common systems, resources, institutions, and technologies. That substructure, though still small and fragile in the Third Sector, is a crucial determinant of how well the rest of the sector can excel, grow, innovate, and account for itself. That underlying architecture, it would seem, is where investors would most profitably train their resources if their goal is to encourage general excellence and ambition, rather than to influence one specific activity, technology, or point of view.

In business, the equivalent substructures would be the vast array of trade groups, analysis and brokerage operations, regulatory structures and systems of enforcement, bodies of standard rules and practices like corporate law or Generally Accepted Accounting Principles, and all the myriad databases, publications, and networks of information that flow from these. In government, the substructure is equally vast: all the constitutional checks and balances, independent authorities and watchdog groups, intergovernmental and international bodies, and the constant vigilance of the press and the courts — all of it buttressed by systems of data-gathering and publishing beyond anyone’s ability to catalogue.

In the Third Sector, the fundamental common assets are fewer, newer, smaller, and less powerful in their ability to influence the behavior of participating institutions. The functions of self-regulation are increasingly well-regarded but still tentative. The generally available information on the sector’s overall financing, performance, common practices, and technological trends is still piecemeal, haphazard, and not always accurate or useful. The loyalty the sector commands from its members — indeed, even the consciousness that people are members of a sector — is much greater than it was a decade ago, but is still nowhere near the level of common identity and loyalty that prevails in government and business. Even the usual watchdog and rulemaking authorities from outside the sector — regulators, the press, the courts — have generally exerted only a light touch in their scrutiny of nonprofit organizations, except for the occasional moments of emergency or scandal.

As one scholar of the sector put it (speaking primarily about grantmaking foundations):

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What keeps any institution on the strait and narrow in this society? After the market, there are two main forces: government and the press. Foundations have no market, the government is only interested in their financial management and tax policy, and the press barely notices except when there’s outright criminality or a nice human-interest story. For the most part, the government and the press have both kept their hands off. Even corporate CEOs are on more tenuous footing than these folks!

Thus the answer to the question, “What can a few foundations do to influence a sector this large?” seems to be this: Invest in the infrastructure, strengthen the common assets, technologies, and methods of communication that bind the many parts together, and encourage the compilation of information databases and basic skills with which both insiders and outsiders can assess the work and the value of member institutions. In any case, that is the theory on which The Atlantic Philanthropies, and perhaps half a dozen other major grantmakers, have proceeded for roughly the last 15 years.

Not all funders have viewed the infrastructure in the same way, or chosen the same targets for reinforcing it. Atlantic has, for instance, concentrated primarily on institutions and networks that draw various parts of the sector together for common deliberation, exchange of information, and sharing of ideas. Information has been, in much of Atlantic’s grantmaking, the central organizing idea: the circulation of information among parts of the sector, the compilation and publication of information about the sector, and the promotion of better information and accountability from each member of the sector. In the areas of philanthropy and volunteering, an equal emphasis has been on recruitment and participation — encouraging more people to give their time and money to causes they care about. Yet even there, the approach has involved a heavy reliance on producing and circulating information — making it clearer how and where people can devote their resources to strengthen the causes or produce the effects that they believe in.

Other possible approaches might have had less to do with information than with the promotion of particular philanthropic practices and standards, or of individual contributions and membership. Atlantic has addressed these areas, too, but less centrally or consistently than has been the case with information. “For example,” said a former official of another foundation, “some might argue that mass (dues-paying) membership is a key part of the infrastructure — as it certainly has been for the environmental groups and, to a lesser extent, for the arts. … Atlantic did not, as best I can tell, conceptualize ‘membership’ as a key component of infrastructure.”

Another example of an alternative approach would be an attempt to encourage or influence common standards, or “generally accepted practices” in philanthropy — for example, promoting particular standards of accountability, methods of evaluation and performance measurement, or guidelines for the support of grantees’ management and overhead costs. These, in the view of some observers, are part of the “conceptual infrastructure” of the field — the fundamental ideas (analogous to Generally Accepted Accounting Principles) that guide institutional and professional behavior. Here, Atlantic’s choice has been primarily to support institutions like the Council on Foundations or Independent Sector,
where such issues can be hashed out among practitioners, or to build repositories of essential data, like the Foundation Center or GuideStar, by which such a discussion could be informed. It has also supported professional schools and training, with which practitioners might become more adept at raising money, building organizations, or improving grantmaking practice. But it has not sought to wield influence to advance any particular outcome.

While some observers say they would like to have seen a more deliberate guiding hand in the promotion of certain ends — like more public advocacy, more uniform standards of philanthropy, or more fundraising — Atlantic’s course has been to leave those choices to people in the field, and to arm them with more and better ways of making the necessary decisions. The main exceptions have been in Atlantic’s deliberate promotion of increased charitable giving and volunteering as explicit aims. In those areas, at least to some extent, Atlantic has supported intentional, organized efforts of outreach and encouragement, though not for the sake of any preferred cause, constituency, or ideology.

The next section of this report examines more specifically what foundations in general, and particularly Atlantic, have attempted to do in their support of the Third Sector, with what amount of resources. The remainder of the paper then draws some conclusions about the particular implications of Atlantic’s work by looking closely at a handful of key subject areas that observers and practitioners identified as the most important — whether now, in the recent past, or in the decades ahead.
PART II
Investing in Civil Society

WHO SUPPORTS THE THIRD SECTOR, AND WHAT ATLANTIC HAS ADDED

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 latter 1980s. Faced with an increasingly competitive environment, nonprofit organizations have been called on to make fundamental changes in the way they operate. And that is just what they have been doing.

— Lester Salamon, in “The Resilient Sector: The State of Nonprofit America,” 2002

EVERY FOUNDATION, or very nearly every one, supports the nonprofit sector in some way. Virtually all foundation grants go to nonprofit organizations. And even if the purpose of a given grant is not to strengthen the grantee organization, but purely to pay for some charitable activity, that payment is likely to do the recipient — and by extension the sector — at least a little good. (Some nonprofit leaders can provide disheartening examples of grants that were actually more harmful than helpful, but these are exceptional cases, and the harm was surely unintentional.)

The simple fact that most grants go to nonprofit recipients, obvious on its face, creates a world of problems when one sets out to answer some of the fundamental questions of this report: What does it mean to invest in the Third Sector, what good does it do, and who is doing it in earnest? Practically every foundation invests in the sector by supporting its member organizations. But very few foundations have the strength and performance of the sector — qua sector — as a primary aim of their grantmaking. Most, in fact, intend for their grants to support the arts, or research, or direct services of some kind. Nonprofit institutions and the Third Sector are the means, not the ends, of the vast majority of American philanthropy.

The Atlantic Philanthropies, by contrast, has aimed a portion of its grantmaking — nearly $25 million a year in recent years, for an 18-year total of $199.3 million — directly at the sector itself, at its core institutions, its common assets, and the institutional and technological ligaments that bind grantees, funders, professionals, and volunteers in a common field. Other Atlantic programs, pursuing other primary purposes, have also devoted some of their grants to reinforcing the soundness and vitality of the Third Sector. One example: Some $22.6 million from other programs has gone to projects that promote volunteering,
along with tens of millions of dollars in grants to the Cornell Tradition, a pioneering scholarship-and-service program. These additional amounts are over and above the $199 million awarded by the Nonprofits, Philanthropy, and Volunteering Program (NPV). This institution-wide focus on the health of nonprofits and civil society is not unique, strictly speaking, among the goals of American foundations. But it is extremely rare.

How rare? That is where the questions become difficult, and answers are nearly all subject to interpretation and dispute. Even that majority of foundations that have no express interest in the health of the sector will now and then make a grant, for whatever reason, whose purposes are indistinguishable from grants made under Atlantic’s nonprofits program. Some of these grants might be every bit as large or ambitious as an Atlantic grant to the same recipient. In some cases, the similarities and overlaps may extend to several different grants and recipients each year, not just one. A foundation devoted solely to youth development, for example, might enthusiastically support City Year, a longstanding Atlantic grantee, because of its excellent reputation for guiding young people’s development and civic engagement. The same foundation might support Youth Service America, as Atlantic has done, for similar reasons. It might support an innovative venture-philanthropy institution like New Profit, Inc., as Atlantic has done, because of that organization’s keen interest in youth-serving grantees. Yet despite all these similar grants, that foundation is likely to report, without equivocation, that it does not invest in volunteering or the nonprofit sector per se. Atlantic, by contrast, does exactly that.

The ambiguities are almost impossible to resolve from data alone. A careful search through the elaborate grants-classification system of The Foundation Center yielded a relatively short list of three dozen grantmaking categories that seemed to define deliber-
ate investment in the Third Sector. The list included obvious categories like grants to philanthropic trade groups and professional associations, and grants to promote volunteering. Less obvious categories were few and relatively small, but seemed nonetheless important to include, like grants to strengthen community foundations or for support of income and management development among nonprofit groups. Leaving any of these categories out would seem to exclude many grants whose purposes were close to — sometimes identical with — those of Atlantic’s NPV program. Yet including them all resulted in a total amount of annual giving — nearly $300 million in each of 1999 and 2000 — that experienced, active grantmakers in this field considered far too large.

To test the idea that these numbers may overestimate total giving in this field, we asked a single foundation to review the database extracts for its own grantmaking, to see whether the totals corresponded to that foundation’s estimate of its investment in the sector. The reaction was the same: The number was far too large. The foundation in question does in fact make significant grants in support of the nonprofit sector and philanthropy, in amounts roughly comparable to Atlantic’s, although with a slightly different strategy. Still, the aggregate amounts reported in the categories we chose was significantly more

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7 Because nearly all of Atlantic’s charitable funds are domiciled outside the United States, information on its grants is not maintained by the U.S. state and federal agencies from whose records the Foundation Center data are derived. Consequently, data on most Atlantic grants are not included in the Foundation Center database. (In fact, to preserve comparability across all years and categories, we asked the Foundation Center to omit those few grants made through the Atlantic Foundation of New York that do appear in its records.) It was therefore not possible to look for Atlantic grants in the database and simply use whatever categories those grants happened to fall in. Yet it seems clear that even if we had been able to do so, those categories would still have included many grants whose purposes are not strictly comparable to those of the NPV program. And thus the amounts would still have been too large.

8 Foundation Center grants data are tallied for two years at a time, not in single years. Therefore throughout this report we refer to single-year amounts that are actually one-half of the total for a given biennium.
than this institution believed it was investing. It was clear that a great many of the grants
tallied in these categories were actually of the sort described earlier: superficially similar
to Atlantic’s, but substantively aimed at some other programmatic interest, not at the sec-
tor itself.

Reducing the list to only a few bedrock categories — the trade groups, think tanks, and
professional associations, mainly — yielded a number that most participants felt was
close to reality, roughly $135 million for the two years 1999-2000. Adding Atlantic’s
grants to that total would produce an aggregate of $186 million. The number is still sub-
ject to interpretation, and it still strikes some people as too large. But it is defensible
enough, at a minimum, for tracking trends over time, even if not for pinning a firm
amount on any given year’s investment in this field.

Those trends, in any case, deserve a close look. Even by this narrow definition, contribu-
tions to the sector have increased substantially in the 1990s, both among the leading fun-
ders and among those making smaller grants. At the end of the decade, grants from
smaller funders rose faster than those from the Top 25, and grants from the Top Ten gen-
erally leveled off. Still, it’s clear that the largest funders have driven most of this growth,
and determine, to a significant extent, how much money goes into supporting the sector
in any given year. The “Top Ten” and “Top 25” funders shown on the graph are those
with the highest aggregate contribution over the total 17-year period. Although the Founda-
tion Center data do not include The Atlantic Philanthropies, we have added Atlantic’s
grantmaking to the totals. The two lists are shown here in alphabetical order, because the
data for individual foundations (other than Atlantic) aren’t precise enough to warrant an
explicit ranking:

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<td>David and Lucille Packard Foundation</td>
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<td>Robert W. Woodruff Foundation</td>
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The largest funders on this list are also the most consistent. Among the Top 10 aggregate
contributors over all years, four names appear among the Top Ten on every biennial list
since 1984: Atlantic, Ford, Kellogg, and Mott. Lilly appears in all but one of these peri-
dods, and the Rockefeller Brothers Fund in all but two. In fact, all but one of the Top Ten
funders is at the top of the list in at least five of the seven biennia. The one exception is Packard, a relatively late entrant to the Top Ten, but a leading contributor and vocal supporter since it entered the field aggressively in 1995-96.

The ‘Double Whammy’ of 2002

The field, in short, is heavily dependent on a small number of institutions making relatively large grants over many years. That has been a blessing in one sense: These grantmakers have been dedicated, sometimes eloquent, spokespeople for the sector. But it has also made the main grantees vulnerable to any shift in priorities among the small group of funders. As this is written, current events appear to illustrate just how vulnerable they are.

A veteran grantmaker from one of the Top Ten institutions (not Atlantic) offered a succinct analysis, in a recent interview, of where most of the annual grants for the sector come from and the changes that seem to lie ahead:

Put together the sources of funding for the nonprofit sector and philanthropy in the United States, and you’ve got roughly 18 funders with grants totaling about $150 million a year. Just three institutions provide half of that:

- Packard, which until recently put $40 million a year into this field;
- Atlantic, with about $25 million a year; and
- Ford, at about the same, $25 million a year.

Now, [Packard’s] budget has gone from $40 million to $15 million — and then, finally, to zero. So you take Atlantic’s $25 million off the table, and another $40 million from Packard, and you’ve wiped out more than 40 percent of the total support in one stroke. Then it gets worse: Put that in the context of not-the-most-promising economic environment, and it’s a major double-whammy.

The “double whammy” is a point made many times, in many contexts, during the interviews for this report. At its core is the plunge in value of the David and Lucille Packard Foundation’s endowment, leading to the elimination or sharp curtailment of many of its programs. In mid-2002, the foundation’s program in Organizational Effectiveness and Philanthropy became one of the casualties, and the director of that program, Barbara Kibbe, left the foundation soon after. As its name implies, the program at Packard was most distinguished for its grants in improving the effectiveness of nonprofit organizations, promoting better management practices, enriching the management and technical consultancies available to nonprofit groups, and honing the measures of performance available to managers and donors.

Because Atlantic had remained scrupulously anonymous through most of its years of grantmaking in this field, and because Ms. Kibbe was an especially effective spokesperson for her program, many people in philanthropy viewed her as the public standard-bearer for Third Sector philanthropy. The sudden elimination of both her program and her “bully pulpit” was thus more of a shock than the loss of dollars alone might convey.
Worse, those developments came less than a year after Atlantic’s unrelated decision to wind down its program in the same area. The two decisions were completely different: One was a reluctant and abrupt change in program made necessary by economic crisis, the other was a deliberate, measured decision based on changing priorities and interests. Yet the combined effect was devastating to the field’s more passionate practitioners. “Where is the leadership now?” asked one? “There’s a need for new leadership, like, yesterday.”

There were smaller “whammies” as well. The departure of Dennis Collins from the Irvine Foundation, for example, removed one of the few CEOs in philanthropy who exercised personal leadership in behalf of Third Sector grantmaking. Benjamin Shute, secretary of the Rockefeller Brothers Fund and director of its Nonprofit Sector program, is reportedly scaling back his activity, with uncertain consequences for that foundation’s program, which is currently under review. Relatively new CEOs at the Rockefeller Brothers Fund and the Ewing Marion Kauffman Foundation could lead to a change in priorities there, although it’s too early to tell the extent or significance of such a change. Still, the combined effect of these programmatic, financial, and personnel shifts, as one interviewee put it, is “idiosyncratic decisions by particular institutions [adding] up to a huge debacle for the field.”

**Targets of Investment**

Each of the major contributors to the Third Sector has its own particular view of the needs and opportunities in the field. Yet the overlaps, both in programmatic themes and in particular grantees, are considerable. All of the major funders, Atlantic included, tend to emphasize a short list of needs that they hope to address with their Third Sector grantmaking:

- better standards and measures of effectiveness,
- more public engagement in civil society (measured variously by contributions, volunteer activity, supportive public policy, simple awareness, or some combination), and
- a higher level of skill and professionalism among those who lead and work in the sector.

Within that short list, emphases shift from funder to funder. Some (for example, Packard and Kauffman) have invested in improving management and professional skills among nonprofit organizations. Some, most notably the Ford Foundation, have concentrated particularly on philanthropy — for example, encouraging more contributions, more effective philanthropic management, and greater engagement of individual donors in the work of the Third Sector. A smaller number, including the Surdna Foundation, the William and Flora Hewlett Foundation, and the Lilly Endowment, have supported the creation of databases, research capacity, and the circulation of information on nonprofit activities — ranging from “pure” academic research to “applied” management information — to improve the way nonprofit managers and funders plan, evaluate, and improve their work. Atlantic has been a prominent grantmaker in all of these areas, though its leadership in this last area has been particularly influential.
Most funders, including all the ones just mentioned, pursue various combinations of these interests, not just one. But by whatever mix of strategies, the number of institutions addressing the national sector as a whole remains very small. Depending on how one defines “major” or “concentrated” support, the number of such institutions is surely not above 20, and some observers set it at closer to a dozen. Leadership, whether measured by grant size, inventiveness, or expertise, has generally come from three players: Atlantic, Ford, and Packard.

Many other institutions, however, contribute significantly toward all three of the needs listed above, through programs more narrowly aimed at the Third Sector as a whole, but at discrete sub-sectors, regions, or fields of activity. The Kauffman Foundation and the Edna McConnell Clark Foundation, for example, both invest heavily in management, professionalization, and performance measurement among nonprofit organizations — but only among nonprofit organizations in youth development. The California Endowment has made similar contributions to California nonprofits active in health. The Rockefeller Foundation is increasingly investing in the management and growth of workforce development organizations and networks in select metropolitan areas. The Ford Foundation’s “New Directions/New Donors for the Arts” program aims at boosting arts contributions and leadership from individual philanthropists, and at improving the sophistication with which arts institutions enlist support from individuals.

The examples of this kind of program-specific investment in what is usually called “capacity-building” are far too numerous to list. The sheer ubiquity of the word “capacity” in foundation annual reports suggests that these contributions have become part of the fiber of philanthropy nationwide. And judging from the various “capacity” categories in the Foundation Center’s data, the total volume of such specialized Third Sector support is more than $100 million a year beyond what’s invested in the sector more generally. Given the multiple problems of definition and classification, the real number is probably much higher.

Atlantic’s Role

On this sprawling, poorly charted landscape, Atlantic has not sought to lead a charge toward a particular programmatic outcome, to push for certain preferred kinds of funding, or to advance any preordained vision of its own for what the sec-
tor should accomplish. In reality, a single-minded effort of that kind would probably amount, as one commentator put it, to “herding cats.” Instead, Atlantic has attempted to equip the sector and its leaders with better tools and methods for pursuing their individual goals, strategies, and tactics, whatever those may be. The point was not to shape the sector, but to give all of its participants better means of shaping it themselves.

Those means, in Atlantic’s view, have prominently included better information, better methods of digesting and using information, and better channels for circulating the results. But they also included more effective ways of training personnel and leadership; better networks of people with similar responsibilities and interests (both nationally and globally); smoother channels by which to recruit and employ professionals and volunteers; and more broadly, a greater volume of activity overall — more giving, more volunteering, more study, more communication, more attention paid. By far, the two largest sub-categories of Atlantic’s Nonprofits, Philanthropy, and Volunteering portfolio were Academic Programs and Research (the information investments) and Institutional Capacity/Organizational Effectiveness (where most of the support for networking, infrastructure organizations, performance, and professionalization were classified).

Atlantic’s biggest grantees over time reflect the same overall priorities: Half of the 12 organizations with the biggest aggregate grants from Atlantic are dedicated, at least in part, to improving the amount, quality, and circulation of information about the sector and its operations (These are: the Urban Institute’s National Center for Charitable Statistics; New York University’s National Center on Philanthropy and the Law; Indiana University’s Center on Philanthropy; Independent Sector and its research program; the John F. Kennedy School of Government and the Hauser Center at Harvard; and Philanthropic Research, Inc., the creators of the GuideStar information system.) Three of the Top 12 grantees are aimed at improving the management and governance of nonprofits and philanthropy (the Bridgespan consulting group; Boards Source; and Power of Attorney).
Three are dedicated to increasing philanthropy, civic engagement, and volunteerism (Echoing Green, City Year, and Citizens’ Scholarship Foundation of America).

For a foundation interested in drawing attention to itself and its activities, these information and “infrastructure” grants would hardly have paved a highway to celebrity status. They were both too subtle and too technical to attract much notice beyond the people and institutions directly involved. They were, however, ideal areas of investment for an institution like Atlantic that neither sought nor welcomed publicity. The subtlety of Atlantic’s approach amounted to a kind of “supply-side” philanthropy — a complex and potentially far-reaching bet not on particular kinds of civic and philanthropic activity, but on the raw materials and essential skills with which smart philanthropic decisions are made.

Later sections of this report will explore individual aspects of this approach. But the broad outlines of the Atlantic strategy are worth examining first — partly because, as Atlantic staff members acknowledge, they had not gone to great lengths to articulate this broad theory, either in-house or to outsiders. At first, as one Atlantic employee put it, they had

pursued ideas that seemed to have high potential for broad impact — not because of some carefully mapped-out system or strategy that connected all the ideas and grants to one another, but because each grant, or each grantee, represented one underdeveloped part of the field, with at least a good chance of affecting other parts. Only down the road did the connections among these things start to become clear and compelling. And even then, we probably didn’t spell out those connections as well as we could have.

Later in the program’s history, beginning in the mid-1990s, the grants began to cluster more deliberately into three strands, corresponding to what soon became an explicit three-part strategy. That strategy was most recently articulated in the first weeks of 2002, when the staff set forth a vision based on “three overriding problems facing the not-for-profit sector today:

- a lack of reliable data and analysis on what the not-for-profit sector is and does with what impact;
- inadequate human, financial, and intellectual capital to discharge its responsibilities effectively and efficiently;
- the weakening of social capital in the U.S. as a consequence of declining levels of civic engagement.”

The strategy then set a concise goal: “to improve the effectiveness, enhance the impact, and strengthen the accountability of the nonprofit sector.” The strategic view transcended particular philanthropic or civic purposes, and focused instead on the conduct of philanthropy and civic affairs, the amount of civic and philanthropic activity under way, and the ability of people inside and outside the sector to enter new fields, try new ideas, and pursue an effective vision of the common good — regardless of the philosophy, ideology, or
scientific framework that motivates them. The paper came too late to govern much additional grantmaking, given the Board’s decision to wind down the program. But the strategic statement nicely summed up a remarkable stream of thinking and grantmaking over the preceding 18 years.

It may seem glib to refer to this approach as a “supply-side” strategy — especially given the political reverberations of that phrase in recent American economic policy. And yet the economic policy and the philanthropic strategy have at least one important core idea in common: Most of the time, the collective imagination of people in a free society is a surer seedbed of progress than the remote expertise of central planners and spenders, no matter how wise. Injecting the fuel of new capital into that collective imagination — financial, intellectual, and human capital — is a surer route to excellence than trying to “herd” the engines of production in some foreordained direction.

That is, in very brief form, what Atlantic has attempted to do with its program in Non-profits, Philanthropy, and Volunteering. Surely not every grant has risen to the standard of that ambitious vision. Longstanding grantees like Independent Sector, Indiana University, and the Aspen Institute’s Nonprofit Sector Research Fund have fueled the engine more effectively in some years than in others. As in any grantmaking program, some bets were simply misplaced. Others paid off much less, or occasionally much more, than anyone had imagined at first. But the goal, both in success and in failure, has been relatively constant (even when unarticulated): to build a bigger and stronger platform of data, research, talent, and human energy, on which others could then build and invest in their own particular ambitions and goals.
Many of the other activities that have been funded by Atlantic can go out and get substitute funding. Educational programs and the nonprofit organizations can go out and get other funding. What is going to be hazardous will be maintaining databases, because remember: All these data have to be updated. So what happens two years from now, when we have a fresh supply of [Third Sector financial] information from the IRS? [We’ll want to know] what’s happened to nonprofits with this recession. Twenty percent of nonprofits die each year, and 20 percent are born. What will the new ones be doing, or the old ones no longer doing, and how will that have changed the sector? What will have happened to charitable giving? Who’s going to maintain these data resources, so we’ll know what’s going on?

— Scholar and Atlantic grantee, interviewed for this report

Since 1984, The Atlantic Philanthropies have granted nearly $74 million under the program subcategory “Academic Programs and Research,” making that category by far the largest in the Nonprofits, Philanthropy, and Volunteering Program. The actual amount granted to academic and research institutions is considerably higher than that figure because some grants to those organizations were classified under other subcategories. Yet even by the conservative reckoning of the official categories, Atlantic’s investment in this area has been, as one commentator put it, “a loud, clear signal to the world that there is a vast, unmined body of information here, waiting to be explored, scrutinized, understood, and put to use.”

In any discussion of Atlantic’s grantmaking, given its strict anonymity, references to a “loud, clear signal” would seem remarkable. Yet time after time, people interviewed for this report described large or sustained grants to Indiana University, New York University, Harvard, Independent Sector, Aspen, and more recently the Urban Institute as conveying a “signal,” spotlighting a given body of work or potential work as important and noteworthy. And notice has, it seems, been taken. As a foundation executive put it, “people are realizing how important a sector this is. . . . There’s a definite increase — not huge, but a clear trend — toward increasing scholarship.”
A scholar and longtime grantee argued that Atlantic’s entry into the field “started a funding stream that simply hadn’t existed, and probably would not have existed.” When Atlantic started making grants, he said,

There was a lot of energy, particularly in the’80s, but not very much money. ... Everyone else was scratching for funding. Ford had a program in philanthropy; there was an earlier one at Russell Sage, but that was dead by this time. So there wasn’t much going on. When you get to this point in the history, the mid- to late-’80s — it simply wouldn’t have gone anywhere without Atlantic.

The size of Atlantic’s investment in the pursuit of Third Sector data and research, and the profound difference that investment has made in a handful of distinguished institutions, have transcended the cloak of secrecy under which most of these grants were awarded. One observer who was highly critical of Atlantic’s policy of anonymity in these years actually used the impact of the Academic Programs and Research grants as an illustration of his point. He argued that the influence of these anonymous research grants suggests how much more of an effect Atlantic might have had if it had acted more publicly. “They stimulated a body of activity of enormous value and long-term importance,” he said, “but just think what they could have done if they had added their stature, publicly, to the cause and the credibility of this kind of research.”

It would be wrong to imply that no research into the Third Sector was under way before Atlantic embraced the topic. Yale University, under the leadership of Yale Law School professor John Simon, had launched its Program on Nonprofit Organizations in the 1970s. But that was, for a time, a solitary, probably unique center of information and thinking about the field. Lester Salamon — a longtime Atlantic grantee and now among the field’s handful of nationally known figures — had already begun writing about “third-party government” and the role of nonprofit institutions in public affairs in the mid-’70s. But he acknowledges that he had not yet begun asking fundamental question about the size and potential scope of the nonprofit sector. In general, a few of the now- eminent names in the field were already at work, in a sort of pioneering way, when Atlantic began making grants in the 1980s. As one veteran Third Sector scholar put it, “It was Virginia [Hodgkinson], Lester [Salamon] and Brian O’Connell who led these funders, not the other way around. But the funders were paying attention, they were willing to be led to some extent, and that is rare. And Atlantic, more specifically, found these people when almost no one else was looking, sought out their advice, and made real bets on them.”

Many foundations (including some of the ones that this scholar was describing) might balk at the idea of being led by a small group of then-obscure grantees. Atlantic, by contrast, seemed to welcome such leadership, careful not to dictate or skew the agenda for scholarly research in the field. Instead, it funded places like Indiana, Northwestern, New York University, and other institutions where research and scholarship — whether pure, applied, or professional — would be pursued with vigor and high standards, and the pursuit would then lead wherever it leads.
In internal discussions and reports, officials sometimes referred to this approach as “fomenting ferment” in the field. It was, said one architect of the program at Atlantic, “never a matter of trying to prove this or that, or of trying to promote a given way of looking at things. Part of our strategy was always to support different points of view. We didn’t have to know in advance which would be right. In fact, it was more interesting, and probably more productive, if we didn’t. One of the great things foundations can do in any field is foment ferment. And that was our approach here.”

‘Pure’ Research and the Pursuit of the Fundamental Questions

Atlantic’s second-largest university grantee in the nonprofit program, and the target of its most wide-ranging support for a single academic center, was Indiana University. There, many observers believe, the center’s director, Robert Payton, made the most concerted effort anywhere in the country to integrate Third Sector research into the traditional disciplines of academia. While many people applauded that effort, and some still do, no one interviewed for this report is fully convinced that it has succeeded. As one scholar (not from Indiana) put it:

It’s sounds like a good model — seeding departments, which are highly resistant to change — but it’s very hard to accomplish in practice. … We’re kidding ourselves to think that ten years of growth in nonprofit research has achieved a real integration of this topic into the academic world. Here’s where the departure of Atlantic is premature and will leave a huge vacuum. Even Indiana University’s center, with all its millions, hasn’t brought the rest of the academic world along. We’ve established a little respectability, and from that beachhead we can take on the disciplines. But the beachhead isn’t going to hold [when Atlantic departs the field]. The disciplines will rush right back to their safe, secure boundaries, and anyone working on nonprofits will find themselves cut loose.

Why is it so important that the traditional disciplines embrace nonprofit studies? The answer to that question, as most scholars described it, is part tactical and part scientific. In tactical terms, the surest way to cause inquiry to spread is for scholars to believe that inquiry in the field will advance their careers, their professional stature, their ability to compete for distinguished positions, publications, and ultimately tenure. Doctoral students need to believe that a dissertation in the field will earn favorable notice; practicing scholars need to believe that publications and colleagues will be receptive. Yet the standards for what is favorable, what is well received, and what brings professional distinction are primarily set in the traditional disciplines — in departments of economics, sociology, political science, anthropology — not in interdisciplinary or professional schools. To attract talent, it is necessary to reward talent. And the rewards are disproportionately held and disbursed by the traditional disciplines.

But there is a scientific rationale as well — one that has less to do with personal motivations and more with a general theory of where knowledge, understanding, and excellence come from. Many of the most learned people interviewed for this report argue that inge-
nuity in the field will come from many sources — better data, better trained professionals, more sophisticated funders and managers, and so on — but all of those things, in turn, tend to draw their strength from the wells of pure research. It is nearly impossible to quantify, but costly to ignore, the generative effect of basic inquiry, fact-gathering, formulation and testing of hypotheses, and unfettered exploration. More than one commentator pointed out that foundations that regard themselves as “activists” tend to forget where sound plans of action come from. This is true, said one, even in the natural sciences, where foundations like to support applied research, field tests, clinical trials, and cures, but are rarely enthusiastic about the initial, exploratory inquiry from which these things arise.

One of the most accomplished of the scholars interviewed for this report, and a longtime Atlantic grantee, saw this pattern as a particular roadblock in advancing the Third Sector:

> There simply hasn’t been enough latitude for pure research — intellectual gate-opening. The constant need to prove ourselves — quickly, constantly, under pressure — has meant there was always too much applicability, practicality, outcomes, focus, and not enough general curiosity. “We want a home run” was always the message from the funders. And a “home run” was defined, I suppose, by getting information on Page One [of the daily press]. That’s a very high standard for a new field just getting its information together. You need to start with what information is available, what’s potentially interesting. You need to work with it, explore around in it, have the freedom to come up empty-handed sometimes, because that’s what creates an atmosphere of inquiry and curiosity, and that’s where you get real creativity. Not from “what can you tell us about the percentage of budgets going to fundraising?” That’s just cataloguing, it’s not scholarship.

To this researcher, and several others of similar mind, Atlantic’s investment in academic research centers has been crucial for two reasons. First, it has been patient. And second, Atlantic was anonymous — and thus institutionally unconcerned about the painstaking, seemingly undramatic quality of the early work. By this theory, Atlantic’s grantmaking was irreplaceable because it provided latitude for the field to establish its bona fides in a skeptical academy where rigor and mutual scrutiny, not splashy findings, are the standard of excellence. “One of Atlantic’s most important recent grants,” one person said, “was to the SSRC [Social Science Research Council], explicitly to connect this topic to the academic disciplines. That is just fundamentally important work. And it’s tough.”

There is, to be sure, a contrasting view. Especially among those whose work is primarily in management, professional training, and direct service, Atlantic’s large, sustained support of academic and research programs seemed remote from the field’s practical needs. Said one:

> We tend to collect a lot of data for its own sake. Foundations are in love with researchers. The discussions about research are usually conducted be-
tween foundations and academics without any practitioners in the room. We have all sorts of data, but to me, it’s not what we need. It’s sort of useless. We should make sure the research gets us where we need to go — from a practitioner’s perspective.

The debate is in some ways predictable. In a field with very few funders and fast-growing needs, tension between thinkers and practitioners is to be expected. But even among the thinkers, there is a level of disquiet about research in the field that suggests (in some cases bluntly) that “pure” research has been less productive than it might have been. One observer suggested that the degree of rivalry and second-guessing among scholars in nonprofit studies is only natural in a field so young, with so few established “stars.” Another, however, blamed the lack of “stars” on the field itself, not its age. “We simply aren’t attracting top-rate talent,” this person said.

That’s not because of a lack of money or a lack of distinguished institutions or a lack of need for the research. All those things are out there. It may well be the lack of good raw data for analysis, which are just beginning to become available in quantity. But it may also be because of a lack of a universe of funders. Who wants to tether their professional wagon to three or four foundations, at most — a couple of whom could just walk away at any time, and in fact, just did?

**Satisfying the Hunger for Data**

Almost no one disputes the first of this observer’s two possible explanations: The “raw data” on the American Third Sector have been all but inaccessible for most of the young field’s history. The effect has not just been a barren field for researchers and academics, but a badly defective radar screen for those who navigate and lead nonprofit organizations. Said one chief executive of a national nonprofit: “When I worked at [a for-profit company] — my God! The research that was available! We knew everything about our competitors, everything about products and price points and growth. We don’t have any of that [in the nonprofit sector]. Everything we get is hearsay and conjecture.”

Largely because of the alliance of two of Atlantic’s largest grantees — the Urban Institute and GuideStar — that deficit is slowly beginning to be eliminated. Thanks to a partnership brokered by Atlantic, with funding largely mobilized by Atlantic, the Urban Institute’s National Center on Charitable Statistics now assembles and corrects data from the IRS Form 990s and other national sources, and then provides the database to GuideStar, which further refines it before making it available online. The GuideStar interface is deliberately easy to use for any purpose, and is meant for foundations, scholars, practitioners, and (to a lesser degree) the public at large to consult for whatever information they may need or want to peruse.

Some foundations use GuideStar for the most elementary, routine purposes — for example, a few foundations have stopped asking grant applicants to submit evidence of their tax-exempt status or even other basic financial information. Instead, the foundation’s staff simply checks this information on its own, using GuideStar. Other users, however,
consult GuideStar with more wide-ranging research questions: to find out the size and variety of organizations in a philanthropic field, to locate groups working on particular problems or in select geographic areas, to compare financial statements or detect patterns in financial management for a given type of nonprofit organization, or to track trends in some aspect of civil society over time.

“The Urban Institute program,” said one veteran Third Sector researcher, “is far and away, hands-down, the most important research effort in the field.” In interviews for this report, the GuideStar-Urban Institute partnership was easily the most often and most enthusiastically mentioned of all the Atlantic grantees. Even commentators who were generally cool toward research and academia made an exception for this effort — or at least for some aspect of this effort. Not every observer found GuideStar easy to use. A few found the likely cost of the long-term undertaking intimidating. Several believe that it will take many years, and many more millions of dollars, before the information is complete and easily usable enough to make a big difference. And not all observers were convinced that revenues would ever fully cover costs. But more than any other development in the field, this one struck people as potentially historic, long overdue, and genuinely exciting. That is surely no small accomplishment for something that involves, as one person put it, “essentially a giant exercise of crunching, scrubbing, and packaging data from a zillion financial reports — hardly sexy stuff.”

‘Accountability’: The Holy Grail of Research

For the majority of people interviewed for this report — that is, those who are not deeply involved in or committed to pure scholarship for its own sake — the ultimate value of Atlantic’s investment in Third Sector data and research is its contribution to what nearly everyone calls “accountability.” The term means slightly different things to different people. But most of the time it refers to the sector’s ability to account for its use of contributions, measure and improve the quality of its work, compare its results to its expenditures, make a legitimate claim on public donations and confidence, and operate with the same openness to public scrutiny that people associate (in their more idealistic moments) with business and government.

To some, the goal of accountability is still far off and hard to envision. That is often because, to these observers, “accountability” means something comparable to what it means in business: a fixed, generally applicable methodology and standard of reckoning by which one organization can be compared with another and judged by common criteria. Yet the longer people tend to muse on this idea, the less confidently they defend it. Business, as we pointed out earlier, exists for one nearly universal purpose: to make a profit for its owners. Profit is readily measured in dollars alone, and a single body of Generally Accepted Accounting Principles can be applied to all such measurement. Fraud and chicanery are always possible, but any honest accounting will always be comparable, to some important degree, with all other honest accounts.

Not so in the Third Sector, where “profit” — that is, the benefit flowing from productive work — ranges from the purely spiritual or artistic to the explicitly financial, and touches every type and grade of value in between. Most nonprofit organizations expect to be held
accountable for a mission, not a tangible “return,” and their “accounts” are as likely to be reckoned in the coin of wisdom, wellness, or justice as in enumerable proceeds like children vaccinated, audience seats filled, or crimes prevented.

Like the original Holy Grail, the vision of a uniform approach to accountability in the Third Sector may, in many people’s opinion, be permanently elusive, even chimerical. But almost no one argues that accountability, as a value and an aspiration, is unimportant. On the contrary, people argued from many different perspectives that the pursuit of openness and easy scrutiny, a willingness to accept and respond to criticism, and a greater candor about success and failure are all essential — and all are significantly advanced by at least some of Atlantic’s investment in various kinds of data collection, research, and learned inquiry.

Just as important (some nonprofit managers said “more important”) is the value of performance accounting in helping nonprofits measure and manage themselves more confidently. “Accountability,” said one commentator, “doesn’t just consist in what we say to the public and the government, but in what we learn about ourselves, and how we know what we’re accomplishing, what needs improvement, and how well we’re serving our mission. In the same way that corporations use data to measure and improve productivity, nonprofits need this information for their own use. But a lot of the data that corporations use are collected and published by government. We don’t have anything like that.”

Here again, some commentators made an explicit virtue out of Atlantic’s support for open-ended data-gathering and analysis, rather than for some directed push for a single type of data or standard of analysis. Using the Urban Institute or Aspen Institute grants as examples, these observers generally argued that accountability will come from the exposure of as many kinds of information as possible to as many kinds of scrutiny and inquiry as there are benefits of civil society. Like a pointillist work, accountability in the Third Sector demands a great many points of illumination for a full picture to emerge.

The conclusion of this line of argument — and one that deserves much wider elaboration and discussion — is that the search for Generally Accepted Principles of accountability in the Third Sector is simply, diametrically wrong. A field of endeavor whose “proceeds” are multiform requires multiform methods of valuation. The best way — maybe the only way — to ensure a sector truly answerable to the public is to “open the gates” of data and reporting to all sorts of inquiry, and restrain the pre-emptive, guiding hand of funders and scholars who think they command the most relevant point of view. One interviewee from a philanthropic trade group summed up this argument eloquently:

“Accountability” as an issue is overrated. Foundations worry too much about “accounting” for themselves, and not enough about putting out information so other people can decide on their own. People need information. If you have enough data, enough books, enough people asking questions, you have accountability. It’s not a system, it’s not something the foundations can design and control. Make it a system, and you decide what story is going to get told. No one will believe it, no matter how true
and complete it is. Other people should decide that. And they will. Accountability only happens when someone asks for information, and it only happens in proportion to how well their question is answered. That’s why the pure data are more important than all the “accountability” schemes out there.

(We will revisit the question of accountability in the next section, which deals in part with institutions that maintain and circulate information about and among nonprofit and philanthropic organizations. For the purposes of this section, the issue of accountability primarily has to do with what information is recorded and circulated, and with what degree of analysis and packaging, to provide a useful, fair account of the field and its work. In the next section, the questions have more to do with who should do the analyzing and circulating, and specifically how the Third Sector should organize itself to demonstrate, monitor, and improve the quality of its work.)

‘Perverse Effects’: A Caveat
The general enthusiasm for unguided research raises some complications, and in some eyes, may even have a dark side. There is a fundamental risk inherent in the idea that many analysts should approach data in many different ways: Not all approaches will be smart.

No doubt one important reason why the Urban Institute/GuideStar alliance captivated the imagination of so many different observers is that it stands exactly at the intersection of “pure” research and readily applied learning. Because GuideStar’s contribution to the partnership includes making the data “user-friendly” — meaning both easy to access and relatively easy to interpret — even a practitioner from far outside academe can readily imagine putting it to use. It is an asset of nearly equal value in a university library or think-tank, the headquarters of an operating nonprofit, a foundation president’s office, a newsroom, or the staff quarters of a Congressional committee.

To some people, however, the information could be just a bit too easy to use, and specifically to use unwisely. In the early discussions about GuideStar, for instance, some of its architects imagined that it could become a kind of national evaluation or “rating” service for nonprofits — a kind of Consumer’s Union for funders judging where to make grants. Stated that way, of course, the idea seems simplistic, and GuideStar today repudiates any such role for itself. Still, others continue to imagine building an information clearinghouse or rating service of that kind, akin to the Morningstar reports on mutual funds. The idea puts a chill into some commentators:

“Look at the ratings systems already out there,” said one researcher:

The American Institute of Philanthropy gives grades of A,B,C, and D. Then there’s Charity Navigator. The Council of Better Business Bureaus has a rating system [BBB Wise Giving Alliance] and a group in Boston does a yearly “catalogue” of worthy charities at Christmastime. The Minnesota Council on nonprofits has a “guide” to nonprofits and the Maryland Association of Nonprofits has an elaborate accountabil-
ity system, but not many organizations have qualified because it’s simply too expensive to comply. Not all of these are bad, and some may be worthwhile. But we need to be careful about all this. It leads to a lot of perverse effects that we’re only beginning to understand, and that we may well not like.

One example of the “perverse effects” that troubled this commentator is the tendency of many “rating” systems to evaluate nonprofits based on spending ratios. The most common method compares money spent on “program” to that spent on “administration,” or calculates a ratio of, say, fundraising expenditures to total annual outlays. All these figures are typically derived from Form 990 information — precisely the resource now widely available on GuideStar.

The problem with these ratios is that they may or may not capture what any given organization actually does. It’s crucial to remember that the IRS does not gather information on nonprofit organizations at the level of detail or complexity than it does on, say, business corporations. (And there is nothing anywhere in the available information on nonprofits that is even remotely comparable to the performance data required of mutual funds and other investment services.) The Urban Institute data are hugely significant because they have never before been available from a single source with such careful quality control and a means of wide dissemination. But these data are not a foolproof description of any given organization’s real performance.

So, for example, when Smart Money magazine, a Dow Jones publication, set out to calculate its annual ranking of the “best” charities, it ranked the Citizens Scholarship Foundation of America, a major Atlantic grantee, near the top of its list. Few would argue with that choice. But the reason for the choice seems superficial at best: The Scholarship Foundation scored very high on the one factor that determines two-thirds of Smart Money’s “ranking”: the “percentage of their budget that goes to program.” Given that the Scholarship Foundation is in the business of giving away money for scholarships, its “program” outlays will naturally be a huge percentage of its total expenditures. These outlays are its program.

In that case, the result was defensible even though the rationale was debatable. But the “perverse effect” becomes clearer at the bottom of Smart Money’s ranking. Among the dead-last organizations on its list was the Nature Conservancy, a highly regarded environmental group. Why? Because (as the magazine acknowledges in small type) “its land purchases are seen as administrative rather than program expenses by the IRS.” Note: “land purchases” are what the Nature Conservancy exists to do. It purchases land to conserve habitat, not to build offices or recreational facilities for itself. Yet its reward for that activity is a national humiliation in a well-respected magazine.

To be sure, there would seem to be real value in measuring the efficiency with which nonprofit organizations balance administration and fundraising costs against expenditures that directly serve their mission. But the Smart Money exercise, and others like it, show how tricky such a calculation can be. In 2000, Atlantic awarded $500,000 jointly to the Indiana University Center on Philanthropy and the Urban Institute to study a more realis-
tic and useful approach to the question of fundraising and administrative costs for non-
profit organizations — a search, in effect, for a smarter way to understand, analyze, and
use cost data in measuring some aspects of nonprofit performance.

The point of this caveat, then, is not that wide dissemination and use of data are in them-
selves dangerous. The opposite is true: The Third Sector has languished in the intellectual
shadows, and its potential has been both undervalued and underexploited, largely because
quality data have been scarce and imaginative inquiry has been stunted as a consequence.
As with any new source of information, the challenge is one of vigilance, not of suppress-
ing the data.

Here again, many commentators applauded Atlantic’s influence specifically for focusing
the evolution of databases and statistical analysis in constructive directions, and for dis-
couraging hasty or narrow-minded approaches. Preserving the widest possible use and
interpretation of data — not proscribing anything, but encouraging multiple points of
view — is a healthful influence for which Atlantic has been widely credited.

As one summed it up: “You can make a case for more research, more university centers,
more databases, more books, all of that. But when information is this new, and there
aren’t yet established, tested ways of interpreting it, you can get a lot of nonsense out
there influencing the way people make decisions. That’s why you need funders who
know what they’re doing and will exercise some restraint on people’s big ideas. That’s
where [Atlantic] has been just indispensable.”
PART IV
Infrastructure

ATLANTIC GRANTS TO STRENGTHEN AND UNITE THE SECTOR

What would we lose if we lost the infrastructure institutions? The things that nail us all are the big scandals: the United Way, the Red Cross’s handling of 9/11, the recent New York Times article on the Markle Foundation, the Bishop Trust in Hawaii. Eighty-five percent of those happen because the board’s asleep at the switch, or because they’re buddies with the CEO. Board Source deals with precisely those issues. But more broadly, the Council on Foundations raises people’s awareness of all the standards and expectations, all the risks and responsibilities that a responsible philanthropy faces. You can’t measure how many problems that prevents, but you wouldn’t want to live without it, either. ...All the serious infrastructure institutions that aren’t about scholarship — which is really a question of how we judge and measure what we do — are explicitly about quality.

— Foundation executive, interviewed for this report

AMONG ATLANTIC’S $63.3 million in total grantmaking for “Institutional Capacity/Organizational Effectiveness” — its second-largest subcategory in the Nonprofits, Philanthropy, and Volunteering Program — one-third of the total outlay, roughly $21 million, has been for the “infrastructure” of the Third Sector. These grants include support for trade associations like the Council on Foundations, Independent Sector, the Maryland Association of Nonprofit Organizations, the National Council of Nonprofit Associations, and the National Society of Fundraising Executives. Other grants to umbrella groups — for example, support to the Forum of Regional Associations of Grantmakers — were aimed more specifically at promoting charitable giving and effective philanthropy, but nonetheless contributed to institutions that help organize and strengthen the sector as a whole. The category “Expansion of Philanthropy” therefore contains an additional $7.5 million in total grantmaking for infrastructure, with the specific purpose of enlarging the field as well as improving its performance.

In this latter category are many organizations that help form networks of funders, provide guidance on effective grantmaking and regulatory compliance, circulate information on the sector and its members, and generally perform many of the same services as trade groups. Examples are the National Center for Family Philanthropy and the National
Committee for Responsive Philanthropy, which aim at both the expansion of philanthropy and the sound management of charitable funds. The “infrastructure” addresses both the sources and the uses of these funds: It includes donor advisory services like The Philanthropic Initiative that promote more and better grantmaking, and intermediaries or consultancies that promote quality management of operating nonprofits, like the Nonprofit Coordinating Committee of New York or The Bridgespan Group, Atlantic’s fourth-largest grantee in Nonprofits, Philanthropy, and Volunteering.

Grants for research, data-gathering, and analysis are, in a sense, another kind of “infrastructure” for the field: a central resource available to all the sector’s members, and a window through which others can view the sector as a whole. But given that these grants are discussed at length in the previous section, we will focus here not on sources of information, but on its uses: the means of circulation, absorption, and application — the sector’s methods of deliberation and mutual learning, channels for exchanging technical information and advice, and its forums for measuring, debating, and improving performance.

The infrastructure grants, taken as a whole, are Atlantic’s second-greatest investment in the growth, effectiveness, and accountability of the Third Sector, after the grants for research and scholarship. The two totals are, in fact, nearly equal: some $74 million for generating intellectual raw materials, and $70 million for sharing and using them.

‘The Strait and Narrow’

In an earlier context, we quoted one person interviewed for this report who asked “What keeps any institution on the strait and narrow in this society?” That observer focused on the marketplace, government, and the media as the main public police forces, but he might well have added a fourth: mutual or self-policing. From movie and TV ratings to rules on internet privacy, business “infrastructure” groups have often built self-regulatory mechanisms for their members whenever they feared some impending scandal or government encroachment. They have, as a result, often been successful at fending off both.

Something similar has driven the growth in Third Sector infrastructure, and many observers locate the origins of that growth in the late 1960s and early ’70s. It was a time of impending scandal and threats of crippling regulation, starting with Congressional hearings leading to the Tax Reform Act of 1969, which was widely seen as an assault on foundations. Within a few years, philanthropy responded to that pressure with what became a first step toward constant self-scrutiny in the years to follow: the Commission on Private Philanthropy and Public Wealth, more commonly known as the Filer Commission, after its chairman, Aetna CEO John H. Filer.

Time after time, people interviewed for this report started their analysis of the sector, its self-identity, its unifying institutions, and the mobilization of its leadership with the galvanizing events of 1969-1975, running from the Tax Reform Act to the Filer Commission’s final report. The former conjured a real threat (one early draft would have required the gradual liquidation of all foundations), and the lessons of that experience continue to haunt people in the sector — even relatively young people — one-third of a century later.
The latter demonstrated how much good a little organized self-examination could do, both for the sector’s image and for its actual performance.

The Filer Commission wasn’t without its controversies. But even the controversies proved helpful, at least in some cases. Because the Commission was viewed as elite and patriarchal by some grant-seeking organizations, the latter formed their own, free-standing panel of inquiry. Yet in the end, Filer’s personal diplomacy and determined openness to criticism resulted in a meeting of minds: The grantees’ report was included in the Commission’s published work. Later, the grantee panel’s success provided part of the impetus for the creation of the National Center for Responsive Philanthropy.

Today, leaders of the Third Sector seem to be able to catalogue, from memory, every one of the periodic assaults and scandals to which the sector has been subject since those days of confrontation and response. (One reason they can recite the list so accurately is that it isn’t long, though each entry on it stings with its own particular asperity.) It is significant that the next big Congressional attack on the perquisites of the Third Sector, 25 years after the Tax Reform fight, was soundly defeated by an astutely mobilized response from the sector itself. The response came not from a specially convened group of executives, but from the established “infrastructure” institutions, primarily Independent Sector and the Council on Foundations, responding to criticism with reliable information, astute coalition-building, and well-practiced diplomacy.

The incident was a proposed amendment to a Treasury Appropriations Bill in 1995 by Sen. Ernest Istook (R-OK). The amendment would have banned any advocacy on public policy by nonprofit organizations that received federal grants. Independent Sector, in particular, saw the amendment as a threat to the most important function of civil society: to invigorate democracy by voicing the convictions of citizens, through the organizations they form to embody those convictions. The defeat of the Istook Amendment — mentioned in at least half the interviews for this report — was the first big test of the sector’s ability to stand up for itself, and it passed that test. There seems to be little doubt that, but for the energy and resolve of Independent Sector and the Council, the amendment would be federal law today.

The response to the Istook Amendment, in fact, perfectly illustrated one important reason why Independent Sector exists, and why it is among Atlantic’s earliest and longest-standing grantees. In marshaling the sector’s response to Istook, Independent Sector and the Council on Foundations assembled an impressively broad, ideologically diverse coalition, thus rescuing the debate from the polarizing liberal-vs.-conservative outlines in which Istook and others had hoped to frame it. To many observers (including those at Atlantic at the time), the defeat of the Istook Amendment was not just a successful defensive operation. It was an assertion of important values, in the newly coherent voice of the whole sector, ably led and well supplied with clear, pertinent information with which to counter its critics.
Strengthening Management and Governance

The greatest value of the sector’s infrastructure institutions is not just in countering assaults, which are rare, but in setting, maintaining, and periodically raising the prevailing standards of honesty and quality. Many contributors to this report expressed some degree of lingering doubt about the ability of nonprofit institutions to understand and follow tax and financial rules and the various operating regulations of state and federal governments — or even just the normal, generally accepted rules of responsible management and accountability. As one put it:

The sector has become much larger, with many more players and employees, and a lot more money in it. And that means more opportunity for abuse. … At the small nonprofit level, there still remains an almost comprehensive and total ignorance about what the rules are. I’m often stunned by how little they know. The attitude often is: “I came into this to help the world, and you’re telling me I have to do all this burdensome, boring stuff.” There’s real resistance. Where people don’t take this stuff particularly seriously, bad things can happen — they do happen, time after time — that hurt everybody. Fix that, and it would improve the effectiveness and viability of the whole nonprofit sector.

In several interviews, respondents mentioned trade, intermediary, and advisory organizations that have received support from Atlantic as promising remedies to such problems. They most often mentioned New York’s Nonprofit Coordinating Committee and Lawyers Alliance, the National Center for Family Philanthropy, Power of Attorney, the Maryland Association of Nonprofit Organizations, and especially Board Source, (originally known as the National Center for Nonprofit Boards).

The theme linking most of these references (few commentators mentioned more than one or two of them) is that most nonprofits tend to regard excellence, and the search for it, as a matter of program quality and, among more sophisticated groups, program outcomes. The idea that excellence entails good back-office management, paperwork and archives, electronic data management, and good legal and accounting advice, is rarer. These issues address “infrastructure” in the most elementary sense: they undergird the more visible kinds of success with unglamorous but indispensable reinforcements. And if neglected, they can bring down even the most effective programs through scandal, financial penalties, or even just the distracting and disruptive work of cleaning up after mistakes are detected.

One example of Atlantic grants that pursue the unglamorous but essential work of improving back-office management is support to CompassPoint Nonprofit Services, a training, consulting, and research organization based in California. Between 1998 and 2001, Atlantic supported CompassPoint’s “990 by 2000” project, aimed at raising the quality of financial reporting by nonprofits, not only to keep them out of trouble, but to make it easier for them to account clearly and completely for the work they do.
Some grants for research and scholarship pursue a closely related agenda, though they were much less often mentioned in interviews. A small grant to Project 180, for example, produced an “issues report” on the legal boundaries between nonprofit and for-profit activities. The paper was authored by Marian Fremont-Smith, an attorney and legal scholar on the faculty of Harvard’s Hauser Center for Nonprofit Organizations, and among the nation’s pre-eminent authorities on nonprofit law. Some grants to New York University’s School of Law also supported early, sustained, influential research into legal issues affecting philanthropy. To this day, NYU’s National Center on Philanthropy and the Law remains the only American center of research and thought on nonprofit law, regulation, and compliance.

Other Atlantic grantees have made practical contributions to improving nonprofits’ quality and accountability, by focusing not so much on compliance with external rules, but on effectiveness and good management. One example is the grantmaking intermediary and “venture philanthropy” pioneer New Profit, Inc. New Profit’s mission is primarily to invest in proven nonprofit organizations, to help them grow and perform better. But in the process, it also hopes to demonstrate a method of philanthropy that is both more demanding of grantees and more supportive of their efforts to improve, manage themselves more effectively, and set more ambitious goals for themselves. By applying an investor’s approach to philanthropy — using rigorous standard-setting and performance-measurement systems, including a management and performance “scorecard” — New Profit envisions a relationship between funder and recipient that not only provides income for the grantee, but ensures better outcomes as well. (We will have more to say about Atlantic’s support for experiments in “venture philanthropy” later, in Part VII.)

By far the most often mentioned grantee in discussions about infrastructure and quality management has been The Bridgespan Group. Several commentators saw an opportunity for Bridgespan to help raise the prevailing standard of management consultancy throughout the nonprofit world — a standard many regarded as depressingly low. A few, though, were skeptical that any one organization could significantly alter the prevailing standards among the hundreds of consultants in the nonprofit sector, working in firms of every size.

Yet by defining a high end of quality for the field, many saw Bridgespan’s contribution as one of “raising the bar” overall — that is, lifting the expectations of nonprofits, and the ambitions of consultants, to a standard well above the current norm. One interviewee summed up this point of view this way:

The more people see what someone like Bridgespan can do — and some other for-profit consulting groups are trying to do as well — the less they’re going to settle for the mediocre work that passes for the norm in this sector. Most management consulting services basically amount to a few generalists — or worse, a few people from McKinsey who wouldn’t know a nonprofit from a used-car dealership — coming in and doing a year-long strategic plan that tells everybody what they already knew, but with four-color graphs. When foundations see Bridgespan’s work, and the effects it can have, they might be less willing to settle for consulting-on-
the-cheap. They might make fewer grants for consultants, and insist on getting real value for the ones they do make.

A few other observers, especially foundation officials, likewise saw a possible influence by Bridgespan on the standard of “due diligence” by which foundations review and select grantees. As one put it, “the first value Bridgespan can add will be to teach their foundation clients how to look at an investment opportunity, to see where help is really needed, and to detect where the real risks lie. When foundations get that kind of help themselves, they’ll want to start providing it to their grantees as well.” Of those who made this point, some noted the current relationship between Bridgespan and the Edna McConnell Clark Foundation as an example of a foundation using the service in ways that have changed both its grantmaking decisions and its relationship with grantees.

### The ‘Infrastructure’ of Imagination

Nearly all discussion of the “infrastructure” of the Third Sector focused on practical needs: promoting honesty and legal compliance, circulating information and advice, and maintaining central resources like databases and libraries. Few cited what may, to an outside observer, seem like the more far-reaching value of infrastructure groups: the promotion and maintenance of networks for people in the sector. One of the few who raised this point argued that “it isn’t so important what people do when they get together; at this point, with the identity of the sector so weak, it’s just important that they get to see each other, find out who else is out there, learn what they have in common. A lot will follow from that.”

What follows, it would seem, could be a widening of the circle from which participants in the sector draw ideas, form alliances, seek out new methods, or simply define what they do and why. These opportunities for bonding, linking, and stimulating thought are, as one person put it, “impossible to quantify, and not even very easy to recognize when you see them in action.” Yet it’s at least arguable that any field requires such common channels of conversation and cross-pollination in order to be a field at all — that is, to have any practical utility or meaning for its members.

So, for example, when one observer criticized a prominent trade organization as “mainly a big party, with a lot of talk,”9 another responded, “But the talk is the point! In fact, even the party is the point. How else would we get, for example, urban planners, community groups, foundations, hospitals, and all kinds of other people in one place, influencing how each of them sees their jobs? You’d have to pay these people to come together, if it weren’t for [the trade group’s conferences].”

Conferences and networking events may help form acquaintances and speed the exchange of some information, but the most effective, lasting networks need a sustaining institution behind them — an organization that concentrates on improving the communi-

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9 This observer quickly retracted the harsh choice of words. We quote it here as a succinct, if extreme, summation of one point of view — and because it prompted an explicit rejoinder — not because it reflects the speaker’s most considered judgment.
cation web, helping members exert collective leadership when they feel the need, and making sure they continue to participate and benefit from their membership. The foundation world has many such organizations, at national, regional, and local levels, but fewer cater to operating nonprofits.

An organization specifically formed for that purpose, the National Council of Nonprofit Associations, is really a federation of 37 state and regional associations of nonprofits, aimed at cross-fertilizing the work of member groups and consolidating their influence on the national stage. Not only has Atlantic supported the National Council with a major grant in 2000, but it has contributed an even larger amount to one of the Council’s more prominent members, the Maryland Association of Nonprofit Organizations. In both the regional and national cases, the mission (and the purpose of the Atlantic grants) is to “combine efforts to support and invigorate local nonprofits.”

To illustrate the invigorating potential of industry associations and other elements of a sound infrastructure, one commentator suggested a comparison between the nonprofit sector and the field of scientific research:

> Science has a strong and well-funded infrastructure — common data sets, professional associations, internships, endless networks, shared research facilities and laboratories, journals and more journals. Though difficult to prove, the consensus is that American science is what it is largely because of this infrastructure, which has taken a century to establish. If a century from now the nonprofit sector …had anything like this infrastructure, its potential would be enhanced and its effectiveness strengthened.

Although the focus of this review is specifically domestic, it is worth noting that Atlantic has also supported some sector-wide organizations to extend their “infrastructure” globally. International work at the Council on Foundations, for example, has received Atlantic support for several years. And grants to some international scholarly groups, like Civicus and the International Society for Third-Sector Research (ISTR), which include a wide cross-section of American scholars along with those from other countries, have partly been intended to foster communication, cross-influence, and common identity among influential people in the worldwide Third Sector.
The big change in the last 15 years has been the professionalization of management in nonprofit organizations. Here, we’re really making change, by grooming young people in the ways of effectiveness, results, leadership.

— Scholar interviewed for this report

The word “professionalization” or “professionalize” arose in all but five of the three dozen interviews conducted for this review. It nearly always appeared at or near the top of respondents’ lists of the most striking changes in the Third Sector over the last 15 years. Time after time, observers conjured a world of 15 to 20 years ago in which those who wanted a career in nonprofit organizations had nowhere to go for professional training in that field, and instead had to choose among three mostly unsatisfying options:

- study the particular discipline of the program in which one wanted to work (medicine, the arts, economics, theology);
- enter public policy school and study what was, in those days, almost exclusively public-sector management and administration; or
- enter business school and study corporate management.

Many aspiring Third Sector leaders actually chose a fourth option, law school, but not because they expected to learn skills that would help them manage a nonprofit enterprise. As one person who made this choice explained it, “in those days, so much social change was coming from the legal system that law school attracted all the brightest, most ambitious change agents. If you didn’t want to be a lawyer, you still went to law school for the connections, the mental discipline, and the credentials that said ‘this is someone who understands the system and can change it.’ Of course, that wasn’t necessarily so, but that’s how people interpreted the degree.”

One longtime foundation official recalled graduating from an elite two-year Master’s program in public policy in the late 1970s, headed for a job at a giant national foundation. He had, as he put it, “not the least idea what people in foundations actually did, other than Good. The only time the nonprofit sector had been mentioned in two years of graduate school was in a course on health-care economics. And the nonprofits in question were all hospitals. The first time I heard the word ‘foundation’ at [that graduate school] was the day I read about a job opportunity at one.”
The head of a nonprofit “infrastructure” institution recalls an even less satisfying academic environment in the 1960s: “I wanted to go to law school and specialize in foundations. It couldn’t be done. There was nothing but a few tax courses that even remotely related to foundation practice and concerns, and nothing to do with the actual running of foundations or foundation law.”

**Stature Among the Elite**

Today, practically every observer paints the contrast between present and past in the starkest terms: “a whole new world,” “a complete transformation,” “simply phenomenal.” Not only has the amount and variety of professional education for nonprofit careers expanded, by every observer’s estimate, but the total number of people employed in the sector has doubled in the last two decades, growing from 5.5 million in 1997 to 10.9 million in 1998. More than one out of every 12 paid employees in the United States now works for a nonprofit employer. In short, training and opportunities for advancement in the Third Sector have become important not only to produce a competent workforce for civil society, but to support the economic prospects of a large and growing number of Americans.

An important part of this influx, many observers believe, has come from more highly skilled people seeking opportunity in the sector in far greater numbers than before. “There are better people in the nonprofit sector now,” said a leader of a major Third Sector trade organization. “more people have chosen to become nonprofiteers, like lawyers practicing nonprofit law, management-school grads managing nonprofit institutions. … The sector is seen more and more as a place to devote your waking hours, to have as a job. And as it gets bigger, there’s more creative stuff going on.”

Because a few interviewees were closely affiliated or acquainted with Harvard University, they used Harvard, and especially its Business School, as a prime illustration of the change. The Business School’s Initiative on Social Enterprise, for example, educates not only current and future nonprofit executives but also business leaders who may work with nonprofits as volunteers, grantmakers, or simply interested citizens. (The program was created with a $10 million gift from former Goldman-Sachs co-chair John C. Whitehead, himself a model of the business leader-as-nonprofit-activist.) Said one observer of the Harvard program:

This year 8 percent of the admitted class [at Harvard Business School] came into business school from nonprofit organizations. The school has elevated leadership in nonprofits to a level comparable to that in business. Students want to be able to use the skill sets they acquire here in socially useful ways, and in ways they find satisfying. They learn that they can … use their full set of skills, in either the nonprofit sector or in business, or quite often in both over time. That’s relatively new, but it’s big.

At Harvard, Atlantic has made grants to both the Business School for its nonprofit training program and to the John F. Kennedy School of Government, including money to cre-
ate and sustain the Hauser Center for Nonprofit Organizations. But in many ways the rise in nonprofit studies at the Business School is the more remarkable achievement, not only because it would have seemed the more improbable of the two a decade ago, but also because it has now, to many people’s eyes, become the program of choice for aspiring nonprofit leaders, in preference to the public-policy school.

“The brightest people,” said one observer who has worked in both schools, “frankly don’t want to go to the Kennedy School unless they’re looking for a foreign service or international career. They want to go to the B-School, which they perceive as more first-tier, with more [transferable] skills. … They don’t want to end up mired in what they see as the stultifying, unproductive world of government.”

Several people (including three who are not affiliated with Harvard) pointed out that the student organization for nonprofit enterprise is the most popular of all the student societies at the Business School. The fact is interesting in its own right (“ten years ago, an interest in nonprofits would have branded you as a misfit there,” said a senior academic), but it’s also striking how widely known this fact is. To some extent, it seems, the goings-on at Harvard, and maybe specifically at the Business School, seem emblematic of how the American elite thinks about the organization and management of society, about ambition and aspiration, and about the nature of leadership.

The “discovery” of nonprofits in business education corresponds to a similar awakening in American law schools. Harvey Dale, the founder of NYU’s National Center on Philanthropy and Law (as well as former president and current trustee of the Atlantic Foundation) recalls his first attempt, in 1987, to gather teachers of nonprofit law from across the country:

At the annual get-together of the American Association of Law Schools, I organized a little side-meeting of all the then-law professors who taught anything to do with nonprofit law at least once every other year. There were four of us at that meeting, out of more than 3,000 law professors from all over the country. Even assuming that we missed some, there could have been no more than seven or eight all together; there certainly weren’t a dozen. I started a list with five or six names on it — and we still maintain that list [at the NYU Center]. But today the number is close to 60 professors. That means that today, at at least four dozen law schools, students now have an opportunity at least every other year to take a course that deals specifically with nonprofit organizations, where they had no such choice in 1986.

The field of nonprofit law began without so much as a case book of its own. To promote the teaching of nonprofit law courses, the Center on Philanthropy and the Law originally had to solicit syllabi from the few professors offering courses, and it circulated these to others who might be interested but wouldn’t know where to start for a reading list. Today, however, there are three published case books dedicated to nonprofit law. When the authors of the first such volume completed a draft, they reviewed it with 12 to 15 law
professors convened by NYU. When the review process was finished, not only did the professors know they would soon have a case book, but the authors were able to tell the publisher that their book would be used at no fewer than a dozen law schools.

To some extent, the emergence of nonprofit studies in law schools is even more remarkable than in business schools, given the near-void of precedent. As one scholar put it, “business disciplines were always at least partly transferable to nonprofit management. All you had to do was recognize that, and you could start teaching. But nonprofit law rests on a distinct body of problems, laws, precedents, and so on. You can’t just take a contracts or corporate law class and add a few bells and whistles. You’re starting from scratch, on a field where even practice, never mind scholarship, has been very thin.”

At NYU, which had no courses in nonprofit law before the National Center was founded in 1986, the School of Law now offers three courses a year, with 140 to 160 students taking one or more of them. Law Schools at Harvard, Yale, and Columbia have seen growth in these same years.

Several people argued that the presence of nonprofit studies in professional schools, management courses related to nonprofit leadership, and nonprofit executives teaching graduate-level courses — all these recent phenomena reflect something more than just a handful of new subjects appearing in university catalogues. More profoundly, they feel, the changes reflect a fundamental shift in the way the world is presented to young people who are making career choices and trying to chart a satisfying course in life. “We obviously need better-trained, higher-skilled people in the sector,” said one, “and that’s happening at a rate that’s really unprecedented. But we also need more discussion of the nonprofit sector in the general educational environment, so that even if students don’t end up working for a nonprofit, or if they only end up working there on and off, they still understand the option, the idea, and they know what the sector is doing that should matter to them.”

**Clearing a Career Path**

Once students are trained in management, law, or some other discipline that might, now or later, contribute to a nonprofit career, how would they find their way to the right organization and position? Business and government have long-established recruiting systems. Corporations especially have everything from informal networks to in-house recruitment officers and career academies to full-time executive search firms. Government has fellowships and internships, perennial relationships with public-policy and law schools, and the constant attention of the daily press. Apart from the occasional university flier or career fair, most of the Third Sector enjoys little or none of this. When questions about nonprofit recruiting are asked at all, the presumed answer is usually that people will gravitate naturally toward things they care about, lured by philosophical affinity or community proximity.

That sort of serendipity — or at best, the formal appeal of a newspaper advertisement — is about as much of a recruitment network as most smaller nonprofits (other than, say, hospitals and universities) can boast. Even large organizations — or at least the career
possibilities within those organizations — may be completely unknown to people who would otherwise make ideal candidates, measured both by skill and passion.

To fill this void, Atlantic in 2002 awarded a $5 million, five-year start-up grant to The Bridgespan Group, roughly half the initial cost of organizing an executive networking service to be called Bridgestar. The service would, first of all, keep track of graduate students in management or professional schools who express an interest in nonprofit activities — whether by taking courses, participating in student organizations, volunteering or working for a nonprofit group, or even just by answering Yes when asked. Bridgestar would also maintain a live database of open positions and of organizations that regularly look for professional talent.

In simplest terms, the challenge would be to make a match between well-trained people and the organizations that need them. But the more far-reaching mission is not primarily marriage-broking; it’s forming and encouraging relationships, expanding possibilities, keeping channels of communication open, and giving individuals and organizations more information about one another than they had before. Most business and law-school graduates start off in for-profit careers, even if they are drawn to nonprofit causes. (Mobility is still greater from business into nonprofits than in the other direction.) Some “matches” may be made at the time of graduation, but others probably won’t be so immediate. Yet even graduates who prefer to start in for-profit positions may join nonprofit boards, make contributions of time and money to nonprofit organizations, and stay informed on issues that nonprofits tackle. With good information, and a database to track them and keep them interested, the graduate may be ready, by the second or third job, for a full-time position in the Third Sector. Even if not, the rest of that person’s involvement with the field will surely have been enriched, and maybe enlarged.

As this is written, Bridgestar’s business plan is still being written, and the description of its activities is therefore necessarily rough. But whatever form it eventually takes, its purpose is another example of the kind of organizational substructure that Atlantic has consistently sought to build under the nonprofit sector: more reliable sources of capital or information, better channels of communication or cooperation, and ways of refining skill or technology, that can make the sector and its organizations function more efficiently, creatively, effectively, and accountably than they do now.

**Doing Good by Managing Well**

Besides a higher level of professional training and education for Third Sector personnel, and better channels for drawing talent into the field, many commentators for this review zeroed in on Atlantic grants or grantees whose purpose is to cultivate management excellence in practice, not just in training and recruitment. They referred in particular to grantees New Profit, Inc., Ashoka, and Community Wealth Ventures, as undertakings that promote and support sound, ambitious, and creative leadership. They pointed to the work of these organizations (and to the use of management consultancies like Bridgespan) as a way for foundations to invest in human capital outside the university — improving management while also investing in programs, services, and outcomes.
“The best way to support excellence is to find the excellent people and support them,” said one observer. “You can train all sorts of people and make them smarter, which is valuable. But you may get much farther by finding some gifted managers with good ideas, and with the native skill to build an effective organization, and banking on them.”

That is precisely what Ashoka, for example, does all around the world. By selecting “social entrepreneurs” and supporting their undertakings with fellowships, information, and opportunities for international networking, Ashoka invests in fresh thinkers and the “big new ideas” that lead to breakthroughs in effective practice. Ashoka has been an Atlantic grantee since 1992, with support totaling more than $1.3 million. New Profit, Inc., which has been discussed in other contexts as well, likewise bases its support of public-service innovation on a search for outstanding individual talent — seeking out both “big ideas” and sound management ability that can build organizations to translate those ideas into consistent practice.

Reflecting on organizations like New Profit that describe their approach as “venture philanthropy,” one observer zeroed in specifically on these organizations’ careful selection and support of gifted leaders. The issue, this person said, is “really personal, not philosophical. … It isn’t mainly about the timing of mezzanine financing, and all the other VC [venture capital] hocus-pocus. It’s about establishing a long, supportive relationship with the people you think are going to make a difference, and helping them build their vision responsibly, all the while exercising the kind of supportive skepticism that any visionary needs over his shoulder.”

A few respondents noted that the majority of Atlantic’s investment in human capital for the Third Sector has been through academia, rather than through programs that concentrate on organizational development and strengthening management in practice. At least one such person felt that Atlantic’s investment in academic programs and research may do less to produce a higher-skilled nonprofit workforce or better-run organizations than would a comparable investment in professional schools and in developing management skills after people are on-the-job:

I don’t know what they’re trying to accomplish with the [academic grants.] If it’s to enable scholarship, it’s valuable. If it’s to influence a way of operation, I don’t see the connection, or even the intended connection. The academic theory has to be attached to what people are doing. Here’s an analogy: Schools of Education lately are getting a lot of heat. Why? Because public schools aren’t performing, and no one is really pointing a way to make them perform. Now, these are excellent academic institutions! … The better Ed Schools [are] perceived as part of the problem, not the solution, because either they’re detached from what’s actually happening in schools, or they are part of what’s happening there, and they’re not getting results. Either way, it’s a judgment on them. There’s a lesson there about what can happen to pure scholarship, even very good scholarship, when the real issues are about performance, not philosophy.
**The Price of ‘Professionalization’**

Nearly every reference to “professionalizing” the nonprofit field was positive, and often enthusiastic. One exception is worth noting because it spotlights a potential conflict between two explicit ambitions of Atlantic’s grantmaking: raising the level of professional talent and skill in the sector, and promoting volunteerism.

“I feel the real challenge to volunteering is the professionalization of the nonprofit sector,” this dissenter said. He went on to point out that early in 2002,

a few days after the President’s State of the Union Message, in which he made a call to service, a story appeared in *The Washington Post* under the headline “Are Charities Cool on Call for Volunteers?” The gist was: We don’t know what to do with volunteers. And there’s a lot of truth to that. It’s not obvious to me that Atlantic’s work in this area has recognized the capacity issue [i.e., nonprofits’ capacity to use volunteers] as a problem and tried to do something about it. … This is true of all the foundations in this field. Being professionals themselves, they’ve pushed for the professionalization of philanthropy and nonprofit activity, and in the course of that, we have not directed as much attention as we need to the role of the civic volunteer.

Other commentators dissented from the idea that there is a natural trade-off or conflict between professionalism and welcoming volunteers. “In fact,” said one, “what we need is more professionals volunteering their expertise in finance, management, law, and the substantive disciplines. Who came up with the idea that volunteers are skill-free?” Said another: “I’ve known nonprofits that couldn’t use volunteers or didn’t welcome them, sometimes for good reasons and sometimes not. But they’re in the minority. It’s not a general problem out there.”

The more professionally a nonprofit organization is managed, some observers argued, the more likely it is to welcome volunteers and use them wisely. One reason is that skilled, well-trained management is better able to seek out able volunteers, train them well, and carve out areas of responsibility that will use and reward their talents. The issue is almost never whether to use professionals or volunteers; most often, it is what ratio of volunteers to professionals is right for a given mission. And it is worth remembering, several people pointed out, that in most cases the volunteers are, at least formally, in charge: The great majority of nonprofit organizations do not pay their directors or trustees.

**The Human Sector**

It’s important, in any case, not to make too much of the debates and criticisms. Overwhelmingly, interviewees raised progress on human capital as among the most important successes (some even said the most important) of the recent history of the Third Sector. And Atlantic’s grantmaking is widely associated with that success. In two or three cases, respondents commended Atlantic’s grants in this field specifically for contributing to the
stature and allure of nonprofit careers — for boosting the human appeal of the sector’s work in a general way.

“People don’t come into this sector because some professor harangued them about it in college,” one person said. “They come in because they believe it’s going to be a rewarding, interesting life for them. As the saying goes, ‘It will have some thrills, not just pay the bills.’ You don’t get that just from endowing a chair at Stanford or planting articles in the *Harvard Business Review*, you do it by raising up the successful people so that others can see and appreciate them. That’s what gets noticed.”

By supporting the education and training of leaders, and by fueling programs like Ashoka and Echoing Green that support outstanding leadership, Atlantic has attempted to balance the pedagogic and the practical approach to the sector’s human capital. Some felt, though, that the practical side of the equation still remains the weaker of the two. Not only is nonprofit compensation low compared with business and even some branches of government, but benefits are comparatively poor — especially in smaller organizations. As one observer put it: “The inability of many institutions in the sector to offer decent benefits is as much a detriment to recruitment (and retention) as are low salaries.” This person added that the unwillingness of many foundations to fund their grantees’ “indirect costs,” including employee benefits, makes the problem worse. Yet this is not an area much addressed by Atlantic’s grants or those of other foundations — at least not since 1918, when the Carnegie Foundation for the Advancement of Teaching established TIAA.

However much a given observer may question the particular balance that Atlantic has struck, nearly all speak approvingly of Atlantic’s efforts to prepare and attract people into nonprofit careers and to reinforce some of the more innovative and visionary nonprofit leaders. “It’s important,” one person summed up, “for Atlantic to know that they invested in *people* — in the important leaders of this sector. The great people and great minds transformed this sector — not projects, but leadership and vision.”
PART VI
Volunteerism and Community Service

SUPPORT FOR ‘DEMOCRATIC ENGAGEMENT’ AND ‘SOCIAL CAPITAL’

When individuals make the effort, not only do they help causes and people, but something special happens for them, too; and in the composite, the individual, the community, and the nation take on a spirit of compassion, comradeship, and confidence.

— Brian O’Connell, in Civil Society, 1999

BEYOND the sector’s professional workforce, its other major source of human capital is the estimated $225 billion in time contributed by more than 90 million volunteers, a talent pool devoted overwhelmingly to civil society. Volunteers in the nonprofit sector contributed an estimated $152 billion in unpaid work in 1998, an amount equivalent to nearly 2 percent of the U.S. Gross Domestic Product. Volunteers also contribute an additional $58 billion worth of time to government agencies, much of which is undoubtedly shared with, or in any case reinforces, government’s nonprofit contractors and grantees.

Yet despite what Independent Sector estimates as an 11 percent increase in the total number of U.S. volunteers over the past decade, some scholars and observers have raised an alarm over a “strange disappearance of social capital and civic engagement in America” in these same years. The source of this quotation, and by far the most prominent of the alarm-ringers, is Harvard Professor Robert D. Putnam, author of the bestselling Bowling Alone: The Collapse and Revival of American Community (Simon & Schuster, 1995). Putnam summed up his argument in a 1996 article in The American Prospect with this paragraph:

Evidence for the decline of social capital and civic engagement comes from a number of independent sources. Surveys of average Americans in 1965, 1975, and 1985, in which they recorded every single activity during a day — so-called “time-budget” studies — indicate that since 1965 time spent on informal socializing and visiting is down (perhaps by one-quarter) and time devoted to clubs and organizations is down even more sharply (by roughly half). Membership records of such diverse organizations as the PTA, the Elks club, the League of Women Voters, the Red

Cross, labor unions, and even bowling leagues show that participation in many conventional voluntary associations has declined by roughly 25 percent to 50 percent over the last two to three decades. Surveys show sharp declines in many measures of collective political participation, including attending a rally or speech (off 36 percent between 1973 and 1993), attending a meeting on town or school affairs (off 39 percent), or working for a political party (off 56 percent). 11

To say that Putnam’s thesis is far from universally shared is not to detract from the quality or importance of his work. The popularity of Bowling Alone would be remarkable for any scholarly book (it remains a lively subject of debate from university lecture halls to Washington cocktail parties fully seven years after it was published), much less one with little relationship to the pocketbook realms of business or government. Although many commentators for this report criticized the book’s conclusions and dismissed some of its graver diagnoses, most of them applauded the attention that Putnam has drawn to a crucial, long-neglected issue. And most agreed that, even if Putnam overstates his case, not all is well in the American civic spirit.

Putnam’s observations range well beyond civic and charitable volunteering, the precise focus of Atlantic’s grantmaking interest in the past 15 years. In fact, his thesis has less to do with altruism in particular than with sociability, involvement with other people, and engagement with the wider society generally. For that reason, he tends to blur a distinction, important to Atlantic and other supporters of the Third Sector, between “mutual benefit” organizations (bowling leagues, labor unions, PTAs) and truly charitable nonprofits, like those that serve the aged or neglected children. Yet even in the latter category, Putnam sees signs of a “post-civic generation” in ascendance: reduced time spent on civic and altruistic activities, falling membership in communitarian clubs and societies, and flagging public confidence in the virtue and value of such commitments. In some ways, data from Independent Sector and the Urban Institute reinforce his findings. Most particularly, they show that despite a steady increase in the number of volunteers and the total hours worked, the average amount of time per volunteer has dropped by 25 percent between 1987 and 1998. Could that just be a matter of greater efficiency in the use of contributed time? Or increased time pressure on two-income households, leaving fewer hours for volunteering? Or is it, as Putnam argues, evidence of waning public interest and commitment? The most likely answer would seem to be some combination of the three.

Several of the people interviewed for this report take a positive view of these trends, especially in the most recent years. Some acknowledge that the 1980s may have been a period of decline in public and community engagement, for various reasons, but later years have seen far more personal involvement than Putnam and others recognize. One person recalled some research in the 1980s and compared the results with the present:

   In 1989, Hart [Peter D. Hart Research Associates] did a poll on attitudes of young people toward volunteering and community service. They found

that young people had a very simple idea of service — they considered taking out the garbage an act of service! They followed up with a more in-depth survey, with more open-ended questions. And what became clear was that nobody was asking young people to do anything. And they weren’t doing anything on their own because there were too many obstacles, or they didn’t know what they’d be needed for, or there was just nothing around to give them the idea. They needed not only a call [to service], but a structure. Now look at the difference today: Now, you can’t distinguish yourself without service. Everybody is being called to something — not enough, maybe, but a lot. I can’t imagine a sector that has grown as fast as service and volunteering. It’s not just the big programs like AmeriCorps and Teach For America; every school has a service program. College admissions practically require service, and decisions are based partly on the amount and quality of service.

Several others made similar observations about present-day volunteering by young people, looking either through the lens of formal volunteering programs or those of educators observing the behavior of students. A few questioned whether some of this was merely a response to the changing tastes of admissions offices (it is certainly true that top colleges now regard community service as de rigueur for serious applicants), and others saw it as a side effect of the momentary idealism of adolescents and very young adults. By these lights, people’s behavior in later life may well conform exactly to Putnam’s description. Others argued that patterns in social capital track closely with parenthood — for example, participation in PTAs, soccer leagues, and even churches may be related to child-raising — and that some of Putnam’s bleaker findings may simply be artifacts of the end of the Baby Boom, or may not properly capture some popular means of family and community interaction in the tech age.

**Effectual, Accessible, Satisfying**

These arguments are far beyond the scope of this paper to resolve. The point is not to determine which side is right, but to show that the issue of civic engagement, particularly as it is manifest in voluntary community and public service, is a matter of intense interest and unresolved debate, even among astute observers and thinkers of the sort consulted for this review. Most of all, the relevant point is that people on all sides of the issue regard volunteering as both a social and personal phenomenon, affected not only by each individual’s values and feeling of involvement in society, but also by the way society invites, organizes, presents, and responds to the efforts of volunteers.

The desire to enlist people in social causes — especially young people, in years when their view of society is still being formed — has led to the recent expansion of a hybrid form of volunteering, where effort is partly contributed and partly compensated. In service programs like Teach For America, City Year, and the federal AmeriCorps program, participants do not work for free, but are paid a small amount (usually less than their work would normally pay) in exchange for a far greater-than-average time commitment. The idea is not just to draw more people into public service, but particularly to give vent to the voluntary impulse among people for whom uncompensated work would be an im-
practical hardship, or among people drawn to the kinds of social activities that can’t be done in the few hours between paid work and sleep (teaching, for example, or environmental conservation).

The “paid volunteering” hybrid has provoked some minor controversy at times, particularly when the Clinton Administration first proposed AmeriCorps in the early 1990s. Yet the controversy tends to sputter quickly (as it did even in the heated partisan environment of the Clinton years) when proponents note the largely uncontroversial models on which the idea is based: national defense, some forms of church work, the Peace Corps, Vista, or New Deal prototypes like the Works Progress Administration. By now, it seems, the idea of community service with a stipend has taken root, and many people reasonably include it, alongside unpaid work, when they speak of opportunities for voluntarism and civic engagement.

Whether volunteering, by any definition, is headed up or down, whether people are more or less involved in society and its future, whether democracy is growing stronger or weaker — all of these are questions not just about the individual character of each American, but about American institutions and systems. People’s involvement in communities, organizations, electoral politics, and altruistic endeavors will surely depend, at least in significant part, on the extent to which potential volunteers find those activities effectual, accessible, and inviting.

Atlantic’s grantmaking in the area of volunteerism has sought to address all three of these issues. Grants to volunteer-marshaling organizations like City Year, Public Allies, Youth Service America, and Teach For America aim particularly at outreach that makes service easy and appealing. But several of these grants have also zeroed in on issues of management and performance in ways that are meant to make the volunteer’s experience as effectual and rewarding as possible.

Some grants, though not necessarily large, have aimed at sustaining the voluntary urge into adulthood. For example, a $50,000 grant to the National AmeriCorps Association, the federal alumni group formerly known as AmeriCorps Alums, in one observer’s words “really saved that organization, strengthened it enough so that it could then raise much bigger support from other sources. Atlantic often provides the small, unglamorous infrastructure grant that may not make much of a splash, but without it the [grantee’s] whole institution fails.” Much larger versions of the “unglamorous infrastructure support” went to City Year (a total of $6.7 million over time), in ways that allowed City Year to expand, hone its data-gathering and internal management, and make a national case for the excellence of its services. Another observer said of these grants:

There wouldn’t have been an AmeriCorps — at least not as we know it — without City Year. What City Year proved was really two things: One, that if you ask for kids’ help, they will come forward in great numbers, and two, that what they end up doing will be enormously valuable, beyond any question. Before that happened, some people liked the idea of national service, but all they could say was that it was good psychologically and
politically for young people to volunteer for things. Afterward, they could say “It’s more than that — it’s a material benefit you can see and touch and measure.”

Atlantic’s early and sizable support for City Year, along with similar support for Public Allies and Teach For America, provides an excellent example of how foundations get “leverage” from strategically timed grantmaking. By helping to strengthen and expand these organizations early in their development, Atlantic invested not just in the organizations themselves, but in the ideas they were advancing. Those ideas — particularly that volunteers were an undervalued resource whose potential could be tapped for national benefit on a large scale — were still on the fringe of political debate in the late 1980s and early ’90s. The success of these programs, due in some part to Atlantic’s support, piqued the enthusiasm of presidential candidate Bill Clinton, among others, and eventually led to the creation of a national program far bigger than anything philanthropy could have funded on its own. While it would be hyperbole to say that Atlantic’s grantmaking was a prime cause of the federal AmeriCorps program, many people believe that it was one crucial element. The “leverage” came when the grantees were able to use that support to build a national phenomenon.

Atlantic’s single largest and most sustained contribution to the promotion of civic engagement has actually been through none of these exclusively community-service organizations, but through a university, in a series of grants made under the rubric of higher education, rather than of nonprofits and philanthropy. Support for the Cornell Tradition, amounting to tens of millions of dollars over the years, is part of a broader history of grants to Cornell University. The Cornell Tradition grants began, in Atlantic’s first year of operation, mostly as a way of helping students earn part of their university tuition, a scholarship program that promoted self-help and a work ethic among Cornell students. Yet as it evolved, partly due to Atlantic’s influence, the program has developed a much more specific emphasis on work that benefits others and serves the wider community.

The Cornell Tradition grants demonstrate the pre-eminence of community service, voluntarism, and personal effort as an overarching theme of all of Atlantic’s grantmaking, not just its explicit work in the Nonprofits, Philanthropy, and Volunteering program. In every program, in ways that may be more or less obvious depending on the grant, the theme of volunteering and altruistic labor emerges again and again. Counting only those grants in which this theme is intentionally expressed (in other words, omitting some grants where volunteering and service may be important but unstated), this stream of support amounts to more than $30 million beyond the amount ($13 million) formally classified under the NPV program’s “Opportunities for Voluntarism.”

In many cases, in fact, the distinction between NPV grants for voluntarism and those of other programs appears to be merely an administrative convenience. For example, grants to senior-volunteer corps programs like Civic Ventures, the Experience Corps, and the National Retiree Volunteer Coalition, made through the program on aging, are every bit as deliberate and specific in their promotion of civic engagement as are the NPV grants to City Year or Public Allies. (In fact, the Retiree Volunteer Coalition received grants from
both programs). Grants from the Higher Education program to Harvard, Stanford, and NYU, among other universities, promote volunteering among students, or study its effects, or both, just as much as do NPV grants to, say, Community Impact at Columbia University.

Studying the effects of volunteering has been important in several of these grants, particularly at Cornell and Notre Dame. In fact, research into the benefits of voluntary service, engagement with others, and firsthand altruism has been central to what Atlantic means by promoting voluntarism: not just supporting people who volunteer, but testing, quantifying, and documenting the value of their activity to the wider society. One especially far-reaching exercise of that kind was Atlantic’s support to Public/Private Ventures, for studies of the effects of volunteer mentoring. In its research on Big Brothers/Big Sisters volunteers, the P/PV study demonstrated a statistically significant link between adult mentoring and declines in youthful violence and drug use and improvements in academic performance. The study has since become a cornerstone of philanthropic and government deliberation on youth development, and a model for how to test and calculate the social benefits of civic and philanthropic activity.

In sum, it would be hard to imagine a single philanthropic aim that is larger, more sustained, or more pervasive in Atlantic’s giving than that of promoting volunteerism — among the young and the old, among professionals and those with no special training, with or without compensation, and in pursuit of virtually every branch and vision of the public interest. This review necessarily concentrates on grants made through the Nonprofits, Philanthropy, and Volunteering Program. But in the case of volunteering, it would be deeply misleading to isolate the NPV grants from a far wider — indeed, nearly universal — commitment to the topic throughout the rest of Atlantic’s programs.

**Paving a Volunteers’ Superhighway**

Among the voluntarism grants explicitly made through Nonprofits, Philanthropy, and Volunteering, Atlantic’s second largest commitment (after City Year) has been to Impact Online, creators of the Volunteer Match computer service. Volunteer Match gives any user an easy way to search online for local nonprofit organizations where that user’s specific talents and interests are needed. The search can be very precise: for example, “services for seniors in a given zip code.” Listings ask for specific talents and activities — a given organization may post for volunteer writers, business planners, exercise instructors, envelope stuffers, lighting technicians, or readers for the vision-impaired. Users can search by type of organization, clientele, or skill required. When they see something interesting, they can send the nonprofit an expression of interest, or e-mail the posting to a friend. They can state their potential availability, and will be contacted within a few days. ImpactOnline keeps tabs on how quickly its listed organizations respond, and aggressively seeks out users’ experiences, reactions to the site, and opinions of the opportunities they find online.

The experience of Volunteer Match is, in some ways, a perfect Exhibit A for those who argue that the voluntary spirit isn’t dying (pace Robert Putnam), but information on how to volunteer, with the greatest effect and the warmest welcome, is sorely lacking. Volun-
Volunteer Match was founded by the very kind of person it now seeks to attract: people who wanted to volunteer but didn’t know where to go. In the mid-1990s, when CEO Jay Backstrand was in graduate school and later as he was just starting his career, he found himself frustrated by a lack of information on where he could profitably volunteer his time. Many of his friends said the same thing, including his roommate, a young attorney. “People are always saying they wish it were easier to volunteer,” says Backstrand. “So we just kind of pushed ahead to build the [Volunteer Match] site.”

Between the personal frustration and “pushing ahead to build the site,” Volunteer Match got a crucial ally in Atlantic. Backstrand and his associates provided the personal insights and tech savvy to assemble an organization, a business plan, and a web site that would appeal to potential volunteers. But Atlantic provided a means by which they could raise a significant amount of start-up and expansion support from a wide circle of funders. Atlantic hired The Bridgespan Group to conduct a “due diligence” scrutiny of Impact Online, during which Backstrand says he got valuable advice on his business plan and operations. Atlantic then circulated Bridgespan’s findings to other foundations, convened meetings of other funders with Backstrand, and gradually brokered a multimillion-dollar bundle of grants to strengthen and expand the online service.

Several people, both at Atlantic and elsewhere, cited this story as an example of the most effective philanthropy in support of volunteerism. It gives the grantee the benefit of both the funder’s money and its judgment and reputation. It builds a quality institution around a gifted group of leaders, with the kind of expert advice and scrutiny that’s likely to lead to a lasting success. And it uses all these resources to provide a sophisticated customer-driven service that puts real people in real volunteering opportunities, not based on “marketing” alone, but on concrete alliances between eager volunteers and real nonprofits that need the help.

“Ultimately,” said one observer not associated with Volunteer Match, the success of volunteerism will come from individual people organizing their time and setting their personal priorities one-by-one. We can’t influence that directly, not even with millions of dollars in PSAs [public service ads] and signs in the subway. What we can do, and what Volunteer Match actually is doing, is be there, ready with answers, the minute someone says “I’d like to volunteer.” If you let that moment pass, you may lose the person, or at least you’ve lost them for a while. If you’re there, with your fun web site and your instant contact buttons and layers of information and customer-satisfaction stuff, you’re going to capture much more of this audience. And it looks like that’s what Atlantic was trying to do with this grant. If so, it’s very smart.
PART VII
Philanthropy and Giving

ATLANTIC GRANTS TO PROMOTE EFFECTIVE GENEROSITY

Funders just don’t see their work systematically, as part of a whole. For example, until recently we saw no need for a newspaper to cover philanthropy, and after a buoyant decade, we still have only one. Serious research, as is daily journalism, is still a rarity. Our trade association seems to scrupulously avoid taking up hard, key issues like the estate tax. Only a small handful of funders make grants in the field of philanthropy and non-profit organizations. Finally, in philanthropy there’s no need to be externally accountable, and no sanction from the marketplace, so there’s little incentive to improve.

— Edward Skloot, Executive Director, The Surdna Foundation, 2001

FINANCIAL GENEROSITY, like volunteering, is a product partly of personal conviction, partly of social zeitgeist. Foundations have at best a thin record at influencing either of those directly or dramatically. Yet as with volunteering, there is a third important influence on charitable giving that foundations — and government as well — can do much to alter and improve: the practical mechanisms and varieties of useful information that either help or hinder people’s charitable impulses.

Government has long recognized, and sometimes explicitly embraced, its ability to direct Americans’ generosity toward civic and charitable causes. It’s a rare debate on tax reform, for example, that doesn’t touch, at least for a time, on the tax deduction for charitable donations. The presidential “bully pulpit” has occasionally been used to encourage personal generosity, as when President Reagan urged people to support nonprofit programs during a retrenchment in government services for the poor in the 1980s, or when several national leaders encouraged donations after the attacks of September 11.

Foundations, with neither taxing authority nor much of a pulpit, have tended to concentrate on clearing and widening the charitable pathways — that is, making charitable giving easier and more appealing to donors, particularly in four areas:

- strengthening local philanthropic services like community foundations, United Way programs, or local intermediaries like the Fund for the City of New York;
- helping nonprofits boost their appeal to wealthy individuals and family foundations, by offering fundraising advice to grantees, direct help in approaching other donors, challenge grants, or some combination;
- supporting philanthropic advisory services like The Philanthropic Initiative or the National Center for Family Philanthropy; and
- investing in new styles and vehicles of philanthropy that specifically appeal to a new generation of potential donors — in one current example, vehicles of “venture philanthropy” meant to appeal to a generation of suddenly wealthy tech entrepreneurs who first found success through the support of venture capitalists.

Atlantic has pursued all four courses now and again, but not always with the primary intent of promoting philanthropy. A large 1996 grant to the Fund for the City of New York, for example, was meant to help the Fund promote effective use of telecommunications technology among New York City nonprofits, not primarily to encourage donations to the Fund. On the other hand, an even larger gift to the Community Foundation of Tompkins County (around Ithaca, New York) was deliberately aimed at helping that young foundation attract new donations and draw contributions from donors who wish to remain anonymous. Unlike the Ford Foundation, which has pursued a sustained grantmaking strategy to build up community foundations and local intermediaries, Atlantic’s work in this area has been more episodic, responding to particular opportunities of the moment rather than committing to any particular kind of institution or model of philanthropic promotion.

Likewise, Atlantic support to help grantees appeal to new donors has had more to do with strengthening those grantees than with promoting philanthropy per se. Grants to City Year, for example, which have in fact expanded that program’s ability to reach corporate and individual donors, have generally been classified as “Institutional Capacity” grants or “Opportunities for Voluntarism.” In other words, these grants were aimed at building on City Year’s programmatic strengths, but had the indirect effect of encouraging donations from the same kinds of contributors that are otherwise targeted under the banner of “Expansion of Philanthropy.”

One series of grants that has helped promote fundraising, at least indirectly, actually appears nowhere among Atlantic’s “Expansion of Philanthropy” listings: the long stream of support for Indiana University’s Center on Philanthropy, which includes its Fund Raising School. Atlantic grants weren’t aimed particularly at the Fund Raising School, but they did support the Center on Philanthropy generally, as well as some particular scholarly initiatives (including the research and writing of founding director Robert L. Payton). Several observers credit Indiana’s fundraising program for improving the reach and effectiveness of nonprofit grant-seeking and for raising the professional standards applied to fundraisers. Other parts of the Indiana program, including many of its research efforts, also aim at improving the practice of fundraising.

Compared with these indirect efforts to improve donor outreach and fundraising, Atlantic’s support for philanthropic advisers and intermediary services has been more explicit,
deliberate, and sustained. Atlantic was instrumental, for example, in helping to organize the National Center for Family Philanthropy, a supportive forum in which family foundations can solve common problems, explore new interests and opportunities, and generally learn from one another and from expert advisers. As in the discussion of Volunteer Match in the preceding section, the point of Atlantic’s support for the National Center for Family Philanthropy is to seize the opportunity, when family foundations are eager for information or mutual support, to supply their need and encourage a positive feeling about their work, in the hope that that work will eventually expand. Neither the Center nor Atlantic takes a position on how those grants are used, except that they be used in ways that encourage continued (or increased) grantmaking. The strategy, as with much of Atlantic’s program, is strictly supply-side.

A similar principle underlies a series of grants to The Philanthropic Initiative, most of which supported separate, discrete projects, but with a single overarching purpose: to make sure that advice and encouragement reach potential donors as soon as they are interested, and to foment discussion that may pique the interest of some who are not yet thinking about large-scale giving. Atlantic’s largest grant to The Philanthropic Initiative, in 1998, supported a marketing and technical-assistance effort by which TPI tries to enlist professional wealth advisers as agents of smart philanthropy. Here, the goal is even more assertive than with Volunteer Match and the National Center for Family Philanthropy: Rather than wait for potential donors to seek out grantmaking opportunities, TPI aims to seed the field in which wealthy people are already seeking general financial advice, so that information will be available to them even before they look for specifically philanthropic ideas. One commentator summed up the approach this way:

The estate-planning trust lawyer, the life insurance agent, the financial advisor — these wealth advisers are potentially an army of marketeers for philanthropy. If we can get the message to them, we can get it to literally thousands of their clients. That should be our target audience. Citigroup and Deutschebank have been the most aggressive and serious about offering philanthropic options to their clients, purely as a service. They are paymasters willing to serve the philanthropic agenda — mainly for the relationship-building potential that it creates between them and their customers. We should be leveraging and promoting that.

**The ‘Venture’ Adventure**

The fourth approach to expanding philanthropy — packaging new modes of giving that may appeal to a specific generation of donors — has lately been the subject of a lively (if not always friendly) debate in philanthropic circles. Derided by one observer as “newfangled giving for newfangled wealth,” the idea of “venture philanthropy” has actually captured the imagination of some decidedly old-fangled institutions. Atlantic has worked with the Ford Foundation, the Pew Charitable Trusts, the Edna McConnell Clark Foundation, and other mainline institutions to make grants that correspond almost exactly to the playbook of the “venture” school: grants based on business and growth planning, advance “due diligence,” close strategic and tactical consultation between donors and grantees, and a schedule of investments timed to correspond to planned phases in the grantee’s
growth. Atlantic has also invested in all of the best-known venture philanthropy funds, including New Profit, Inc., and Community Wealth Ventures.

At least one Atlantic grant has supported a deliberate approach to “newfangled wealth” — that is, an attempt to draw more new-economy entrepreneurs into philanthropy. In 1998, at the peak of the tech boom and the dawn of the “venture philanthropy” debates, the Forum of Regional Associations of Grantmakers launched its New Ventures in Philanthropy program, an effort “to create new philanthropies and philanthropists” by helping younger people of wealth devise approaches to philanthropy that suit their interests and preferred methods of operation. Some of this effort has no doubt led to more giving in the “venture” mode, but its purpose isn’t to foster any given style of philanthropy. It’s to reach out to people to whom the current styles aren’t yet appealing, for whatever reason, and help them find alternatives that work for them and their communities.

Significantly, Atlantic’s support for the “venture” movement has been substantial but far from exclusive. Although some of its own grantmaking practices have followed “venture philanthropy” principles (support for Volunteer Match, described in the previous section, is an unmistakable case in point), it has taken roughly the same approach to this phenomenon as to other schools of thought about the Third Sector: support outstanding efforts of various kinds, give them enough resources to prove their merit, and meanwhile fund enough alternative approaches so that informed comparisons can be made. This intentional diversity of approaches is another example of what an Atlantic insider, quoted earlier, called “fomenting ferment”: supporting several credible models at once, to help them test their potential and to encourage discussion and analysis of their merits. Some of the observers who commented for this review consider that wide-ranging approach both helpful and rare. As one person put it, “Atlantic has not really taken sides in the ‘venture philanthropy’ business, but it has probably done more to throw light on that debate than a lot of the partisans of either side have done.” Said a self-described skeptic about “venture philanthropy”:

My hunch is that this venture stuff is headed for a crash sooner or later, when all these tech wizards discover that it’s much harder to cure illiteracy than to launch a new video game. That’s hard too, by the way; I’m not making light of it. But an enterprise succeeds or fails within a few years, and you know where you stand. Whereas with most social problems, you don’t know for decades whether you’re even going to make a dent. When [new-wealth philanthropists] figure that out, some of them are going to feel misled, others maybe just get fed up and walk away. Or maybe I’m wrong, and they’ll get so deeply involved in this stuff that they’ll be at it for the rest of their lives — which for most of them is going to be a very long time. We’ll see.

The Future of the Charitable Impulse

At the core of Atlantic’s grantmaking, as well as that of other foundations’ philanthropy programs, is a belief that personal and institutional giving could be much greater than it now is. Atlantic grants to the Committee to Encourage Corporate Philanthropy, The Phil-
anthropic Initiative, and the Forum of Regional Associations of Grantmakers, among others, have been explicitly premised on the idea that there is untapped wealth that would, under the right circumstances, flow into charitable donations but is not now doing so. A second, related premise is that some of the wealth now being funneled to charities is not being directed as effectively or thoughtfully as it could be, and the result is a lower benefit to society. The reason these two ideas are related is not only that society is worse off under both theories, but also that the two phenomena may be mutually reinforcing. The results of ineffectual giving may cast a pall over other possible donations, and the shortage of donations may prevent some grantmaking efforts from gaining the scale and traction they need for success.

None of this is proven, yet all of it seems plausible. And some argue, pointedly, that plausibility is enough: If there is even a reasonable suspicion that giving could be increased or improved substantially, it is incumbent on established philanthropy to try to unclog the pipes. Some make this case from a purely financial perspective: Nonprofits clearly could be doing more with more money Others argue from the perspective of personal and social virtue: A wealthy society could arguably draw more charity from its citizens than does the United States, at about 2 percent of national income (although that percentage is already by far the world’s highest, with the United Kingdom in a distant second place, at 0.7 percent).

To boost interest in charitable giving, two Atlantic grantees specifically appeal to American minority groups: The 21st Century Foundation and the First Nations Development Institute encourage philanthropy among African Americans and Native Americans, respectively, besides contributing directly to organizations and causes in those communities. The National Committee for Responsive Philanthropy, among many other programs, works to encourage giving in the workplace, promoting charity among employees at every rung of the corporate ladder. Another grantee, the American Law Institute, seeks out elements of law that discourage or impede charitable giving — say, in tax law on charitable contributions, laws and regulations governing charitable activity, or case law flowing from either of these.

Surveying what some consider a deficiency of charitable giving, a few observers are inclined to blame foundations themselves. A few commentators suggested, for example, that institutional philanthropy, particularly in the United States, has an aloof, ethereal, elitist character that elicits disdain from younger or scrappier entrepreneurs. Others accuse foundations of aggravating the tendentiousness and ideological divisions in American society, of which most people seem to disapprove. “Foundations,” said one scholar interviewed for this report, “are the last of the royal class: capricious, enigmatic, secretive, imperious, opaque, and arbitrary, under no scrutiny for what they accomplish.”

More often, though, observers fault a festering solipsism in late-20th Century America (Robert Putnam, again). In this view, not only are contemporary Americans less likely than their forbears to venture out into community circles and civic activities, but they are no longer even convinced that those things are good. The occasional scandals have undermined trust in philanthropy and nonprofit organizations, as illustrated by public disil-
lusionment over the planned use of September 11 contributions — including many planned uses that were highly defensible and honorable. But more corrosive still, say some scholars, is the spread of an extreme but pervasive version of libertarian capitalism: *The best thing one can do for society is take care of oneself. Collective virtue consists in individual self-interest universally pursued.* By those lights, as one observer put it, “Ivan Boesky wasn’t wrong when he said ‘greed is good’ — his error was only in believing that *criminal* greed is good.”

The fact that most commentators praised Atlantic’s support for the promotion of philanthropy, as well as the similar efforts of other foundations, should not necessarily be taken as an expression of optimism on the subject. One longtime scholar of the Third Sector summed up his reasons for discouragement in these terms:

> The [nonprofit] sector has had an astounding growth in the last 20 years, two to three times the rate of growth of the rest of the economy. But over half of that has been fueled by fees and charges. About 40 percent [of the increase] has been fueled by government — an actual growth in government support, but in a different form from the straightforward grants and contracts of the past.

Others, citing different numerical evidence or relying on personal experience, argued that the charitable impulse is alive and well, just not fully realized yet among a generation whose wealth came to them earlier and more suddenly than was typical in the past. To people who see matters this way, the opportunity for Atlantic and other foundations is not only to prompt the next generation toward greater generosity, but to help them shape the way generosity will be exercised in a new economy. Almost no one argued that foundations have yet fully lived up to that challenge, but several believe it is possible and important to do so. Said one:

> Overall, if you ask why isn’t giving rising as a percentage of GDP, I think there are four answers: One, the “new wealth” isn’t ready. They’re still finding their way and finding themselves as philanthropists. Two, we may have needed some kind of galvanizing event that made people feel part of a common, national community — and now, with September 11th, we’ve had one. Three, the field is getting too dry — talking about metrics and strategy and ventures, sounding like bookkeepers, leaving all the passion out. And four, we haven’t marketed well. We haven’t penetrated. That’s a big failing.

All of these calculations — and the work of many organizations that promote philanthropy — may change with the darkening of the economic skies since 2001. Most of Atlantic’s efforts to boost charitable giving have been undertaken since the mid-’90s, in a period of spectacular growth in G.D.P. and the sprouting of whole new industries. The end of the tech bubble and the ensuing period of slow growth may change the calculus somewhat — perhaps placing less emphasis on the uses of sudden wealth, the interests of “ba-
by billionaires,” and the management of hundreds of new foundations, and returning in-
stead to the basics of sound grantmaking practices, better accountability, and more information on how and where to donate. Atlantic has supported all of these functions, and sought to help institutions develop the means to promote and adapt them over time. Atlantic’s success in this area may therefore be tested not by how much its grants changed the agenda of philanthropy in the booming 1990s, but by how well they equipped the sector to sustain and promote the will to give through the leaner years that followed.
CONCLUSION

Lessons and Impressions from 18 years of Grantmaking

Foundations always want to see the next new thing. There’s a real danger in that, both for the grantees and for the foundations themselves. When grantees chase the buck with every new idea-of-the-week, foundations often find themselves dragging a strong organization into areas where it’s weak and ineffectual, or watering down a good program with extraneous stuff. Atlantic’s grants are a rare exception to that. Atlantic will prod and suggest and solicit, but they don’t push. They believe in their grantees, and they support them, they don’t drag them away from their mission. The other reason Atlantic was so great is that they never worried about having a big public “win.” They weren’t afraid of failing. They were looking for real answers to questions, and they were willing to take some risks, go out into uncharted areas, to get them.

— Nonprofit practitioner interviewed for this report

Atlantic’s withdrawal [from NPV] is widely seen as a disaster in a struggling field with very few leaders, in which Atlantic has been absolutely pivotal. There is nobody out there in a position to take the place of Atlantic Philanthropies in this field. Their withdrawal is really premature, in a field whose credibility is still very much open to question. As a result, there will be a lot of gloating from the skeptics, a lot of “I told you so’s — this isn’t really a field, there’s no future in it.” Certainly in the research enterprise, it probably won’t continue to have the dynamic of the last 10 years, and it may well regress. In the history of academic work, 10 years is a real short time, and it hasn’t been nearly enough to establish nonprofit studies as a respected, stable feature of American academia.

— Scholar, in a separate interview

The “anonymity strategy” as practiced by APS was dysfunctional and often destructive. On reflection, I think it did more harm than good to the field, and even to the way many donors see (or fail to reflect on) philanthropy. Most important, I can perceive how dangerous all our behavior is when we choose not to talk about important matters, and to assume, as philanthropy does, that silence is golden.

— Foundation official, in a post-interview e-mail
The observations of people asked about Atlantic’s grantmaking in Nonprofits, Philanthropy, and Volunteering were overwhelmingly positive — though mixed with widespread alarm or dismay at the prospect of Atlantic’s seemingly unplanned withdrawal from the field. A few expressed tactical dissents over this or that line of grants (academic grants got the brunt of these, though they also had fervent supporters). But by and large, reviewers were impressed both with Atlantic’s vision for the field and with how much of that vision has begun to be realized in the past 18 years.

Almost no one was prepared to draw a clear causal connection between Atlantic’s grants and the current state of the nonprofit sector, mainly for two reasons. The first is that other influences on the development of the sector have been so profound and widespread that it would be difficult to locate the unique role of any one grant program, even a large and sustained one, in the overall course of events. The change in government’s relationship with nonprofits, for example, has by itself wrought enormous shifts, prohibitively hard to calculate, in the size of the sector and the demands on its resources. Atlantic’s grants have arguably helped the sector respond more effectively to those changes. But measuring its particular influence, distinct from that of other public and private forces, would be next to impossible.

The second reason why commentators avoided the question of causality is that most saw the aim of Atlantic’s grants as subtle and long-term — too long-term to allow for much decision about specific effects at the 18-year mark. In various ways, observers described Atlantic’s program as aiming not so much at the sector’s actual achievements as at its means of achievement — its ability to accomplish whatever goals its leaders and institutions set for themselves. Providing better ways of collecting and interpreting information, wider channels of communication and cross-consultation, more sophisticated means of managing organizations and planning programs, a more talented and better-trained pool of leadership — all these things improve the toolbox with which philanthropic and civic organizations do their work. Not only do the various tools and techniques take time to develop and field-test, but it takes even longer for end users to become adept at employing them to their full potential.

For example, one commentator described the process by which improved data-gathering and analysis leads to better performance: First comes the long, tedious process of finding good data and gathering them into usable reservoirs; next is the challenge of distributing the data efficiently to possible end users, and then, perhaps slowest of all, the process of helping the end users take full advantage of the newly available information:

We’re maybe in the fourth inning for [gathering and circulating] information. There’s still a lot more we haven’t gathered that’s really important to be known. There are two sides to this issue: (1) the value of the information, which has to do with what’s in the database, but then (2) how well it can be utilized in decision-making. We’re not very far along the line in data being used by decision-makers. We’re like 5 or 10 percent of the way
there. Policy people aren’t attuned to [the available information] yet, and we haven’t done a good enough job of presenting it in ways that resonates with them. And patterns are hard to break in an industry where no one was ever demanding performance information.

This observer hastened to point out that much of the progress in this area is due to Atlantic’s steady investment and leadership. He pointed out that the early “innings” have demanded years of unspectacular labor at a level of eye-glazing detail, for which many other foundations would not have had the patience or ability to envision an eventual payoff. Still, the game is not, in his view, half over yet. And at this stage, to declare anything truly accomplished would be premature — much less to credit any specific portion of such an accomplishment to Atlantic.

Instead, observers tended to focus on three essential needs of the Third Sector, all of which have been central focuses of Atlantic’s grantmaking over nearly two decades:

- for greater awareness and precision about what the sector does and how it performs;
- for an infrastructure of leadership, self-governance, and communication to hold the sector to high standards and improve its relationship with the rest of society;
- for a body of common assets and tools to promote the effectiveness, efficiency, and credibility of the sector and its member institutions.

Agreement was nearly unanimous that these three needs remain critical, despite considerable, often unprecedented progress in recent years. The institutions of civil society — the means by which it functions and sets its course — remain fragile, misunderstood, thinly funded, and sometimes weakly managed. The problem is chronic and will take decades to solve. But funders are not naturally drawn to these concerns, and under most circumstances are all but unaware of them. Therefore the most important need is for philanthropic leadership to spotlight possibilities for investment and to provide the critical first dollars that draw other investors to the table. That, observers feel, is the area in which Atlantic has been the most valuable and will be hardest to replace.

When Atlantic was faulted, it was generally for missing what some observers saw as opportunities for further leadership — usually because its grants were anonymous, but sometimes also because an observer believed that one or another area deserved more emphasis than Atlantic had given it. “None of that would have been as important,” said one person, “if the field [of funders] wasn’t so thin on so many of these things. If there had been 50 foundations supporting the infrastructure of this sector, the fact that one of them was more interested in issue A than issue B wouldn’t have mattered all that much. But when so much dependent on Atlantic’s sole leadership, naturally everyone felt they needed to be No. 1 on its priority list.”

‘A Structure to Build On’
For all the expressions of anxiety about unfulfilled needs and the amount of work still unfinished, observers overwhelmingly described a credible, visible Third Sector today, a
significant presence in American society and public policy, one that had barely existed (some flatly said did not exist) when Atlantic entered the field. There is now, as one commentator put it, “a solid structure to build on, with all the basic elements you need for effective growth, even if those elements still don’t rise much above one or two stories yet.” Most people described the elements of that structure as corresponding to the elements of Atlantic’s grantmaking, detailed in earlier sections of this report: information sources, channels of conveyance for that information, common forums of deliberation and mutual scrutiny, a system of professional training and qualifications, and efforts at drawing new people and energy into the field. Different observers rated different elements higher or lower, but most would no doubt have agreed on pegging the current state of construction at “not much above one or two stories.”

Time after time, observers pointed out that the very idea of a sector was in some dispute just a few decades ago. Today, by contrast, there is an identity, a sense of magnitude and importance to the Third Sector that outsiders could recognize and reckon with, even if they did not fully understand or appreciate it. Today, the debate about the nonprofit sector is about what more it could accomplish and for what purposes, not whether it exists or whether it matters.

Better still, the information necessary for asking and answering these questions is now finally becoming clearer — a core of meaningful signals that are still surrounded by confounding noise, but that are growing louder and more distinct, with constantly improving devices for listening and understanding. That, said nearly everyone, has been Atlantic’s principal accomplishment, though its real potential won’t be known yet for many years.

In the years ahead, even though Atlantic has chosen to step out of this line of grantmaking, its involvement in the Third Sector will no doubt continue, at least in some form. At a minimum, virtually all of its U.S. grantees will continue to be nonprofit institutions. But more broadly, whatever fields it supports will continue to need infrastructure, sources and channels of information, sound management and skilled leadership, increased contributions, participation from volunteers — in short, all of the fundamentals that have been cultivated and supported in the NPV portfolio. Even if these issues will now be seen through the narrower lens of particular fields and sub-sectors, the lessons of 18 years of Third Sector grantmaking will continue to apply, and in some fields they will become more acute, rather than less.

‘A Syndicator, a Deal-Maker’

Given its anonymity for most of this history, Atlantic was not seen primarily as an advocate or a proselytizer for Third Sector philanthropy, but more as a broker or market-maker — an early investor or an organizer of investments that drew in other participants over time. Some, admittedly, saw Atlantic’s leadership as too quiet during this period. But others saw its anonymity and understatement as an effective way of drawing other funders into its vision. A foundation official who has worked with Atlantic made this observation:
There’s a fundamental anti-collaboration thing in this industry. You need someone like Joel Fleishman, a syndicator, a deal-maker, to get foundations to do anything significant together. People in philanthropy don’t think beyond their own walls and their individual silos. The exception, and a very rare one, is something like GuideStar. And why? Because Joel put that together by hand.

Several people in or close to philanthropy argued that their own engagement in this field, or that of people they know personally, has been led, focused, or inspired by Atlantic. Even among those who faulted Atlantic for its anonymity or for sponsoring some grantee of which the speaker disapproved, the conclusion overwhelmingly was that Atlantic had brought about far more investment in the Third Sector, with greater focus and attention to results, than would have been conceivable otherwise.

Still, many people lamented the lack of a more public voice for the sector, to explain and advocate for its interests, to draw business and government participation in its causes, and to rebut the occasional misperceptions and political attacks. A few laid the blame for this deficit at Atlantic’s door. “We needed,” said one critic, “an institution to put its mouth where its money was. And that, Atlantic would not do.”

Observers who were not intimately familiar with Atlantic’s staff and board frequently felt uneasy speculating about its grantmaking strategy or overall goals. “We simply didn’t know — couldn’t know — what they were trying to do,” said one. “They weren’t telling, and their grantees were forbidden to share information on what they were funded for. Plus, even after [Atlantic] stopped being anonymous, and it was OK to talk about them publicly, they still rarely talked about themselves. They continued to operate under the radar, with no flags flying.”

The lack of an explicit communications policy, even in the post-anonymity years, further contributed to the muting of Atlantic’s views and interests in this area. Uncertainty about communication affected all of its programs in this period, not just NPV. But in a field as loosely organized and unevenly led as the American Third Sector, Atlantic’s understated, behind-the-scenes approach had particular ramifications, both positive and negative. On the plus side, the quiet approach meant that other funders didn’t perceive Atlantic as “claiming” the field for itself or trying to control what happened. Others could be induced to join coalitions of funders or simply persuaded to make supportive grants because there was little danger of their having to play a “second fiddle” role. The “first fiddle” never appeared on stage.

The disadvantage, of course, is that Atlantic could not help the field tell its story, make its case, and build support the way a more publicity-minded funder might have done. To be sure, Atlantic made many grants to help others produce and circulate information and advocate for the sector. But to many observers, that is still at least one step short of what might have been possible. Placing the reputation and commitment of a great philanthropic institution behind the nurturing and growth of civil society would have, by itself, been
a powerful form of support. But it was among the few kinds of support that, in many people’s view, Atlantic declined to provide.

Among the people who took this view, a few also believed that Atlantic aimed its investments too widely, with not enough focus on or commitment to particular fields of activity. Not only did Atlantic not argue strongly or publicly in support of its work, they said, but even people who were aware of that work had a hard time discerning a clear point of view or emphasis in it. As one put it:

The strategy [in the NPV program] was not really transparent. What went on, went on largely in secret, in a we/they kind of way, just as it does in all foundations. … Don’t get me wrong: Atlantic has done a lot to push the iceberg [of philanthropic effectiveness] up to glacial speed. But they could have been much more focused and more practical in their orientation — I mean, they would never have funded any other organization that had as broad a set of objectives as they have!

Yet several other commentators regarded the breadth of the NPV program as a virtue, not a vice, given the largely uncharted territory in which the program was investing. “There was no playbook for this stuff,” said one favorable reviewer.

It wasn’t a field where there were several established lines of activity already under way, and you could just make a bet on one or two of them. You had to feel your way around in the dark, follow some dead-ends and circular tracks, and every now and then maybe you’d land on something that was really going to go somewhere. Most foundations don’t like those kinds of odds, and that’s why you didn’t find most foundations doing this stuff.

**The Whole and Its Parts**

It is significant, though not altogether encouraging, that few people interviewed for this report were inclined to assess the field as a whole, or even to comment in depth on parts of it in which they were not personally involved. Despite many upbeat observations about the increased unity, self-awareness, and common identity of the Third Sector, the interviews actually painted a picture of a still-fragmentary field in which participants identify with academia, with national service and volunteering, with the administration of trade groups, with specific services or needy populations, or with grantmaking — not with an overarching Third Sector that comprehends all of these things.

When people sought to speak about the interests or activities of the sector as a whole, they invariably withdrew quickly to their own turf — not always fully aware that they were doing so, and were no longer speaking about the rest of the sector. People often recognized needs in other branches of the field, but they tended to see the solutions to those needs as coming from their own line of work, or from work closely related to their own.
The tendency to advance one’s field of activity as especially important might be nothing more than ordinary human nature — especially since every interviewee was aware that the source of the questions was a major grantmaking institution. Still, in a discussion explicitly devoted to the nonprofit sector and its emergence as a meaningful unit, it might have been natural to expect a greater-than-average effort at synthesizing, crossing boundaries, or sharing credit. That did happen, but rarely. For the most part, educators saw the sector’s challenges as having mostly to do with education, researchers with research, and grantmakers with better grantmaking.

This is not meant as a criticism of the interviews, which were unusually candid, substantive, and thoughtful. On the contrary, this evidence of fragmentation is among the more interesting and relevant findings of those interviews — a revelation all the more valuable because it was mostly unintended. It demonstrates, most of all, how much work remains to be done in clarifying the common themes of a sector whose long historical roots lie almost entirely in its separate component fields, not in any well-established idea of a single, if multifaceted, enterprise.

There are, to be sure, two sides to this issue. For all the desire to create a more coherent voice and image for the Third Sector, most observers agree that its diversity is a strength, not a weakness. A desire for harmony and common identity should not, they said, lead toward a push for conformity or a vain search for unanimity. As one commentator put it:

> We all talk about the nonprofit sector, including me, and we end up thinking just about whatever parts come to mind, from our own experiences or involvement or whatever. But there’s far more cohesion in our mind than in reality. There is more disparity and pluralism and disunity in the sector itself than there is between the sector and the rest of the world. There’s cacophony, not harmony — and I love it. It’s a wonderful idea to conceptualize the common themes, so that people can understand what their interests have in common. But the goal is not to make everything uniform and orderly. The goal is pluralism and, indeed, cacophony. Lose that, and you’ve lost what’s best about it.

On balance, however, most people regard the prospect of a “uniform and orderly” field purely hypothetical, at least in the near term. Weighing the dangers of factionalism and fragmentation against the risks of too much conformity, most people considered the former the more immediate threat to the sector’s growth and productivity. Until there is a firm, respected, and complete set of data on the nonprofit sector; broad-based institutions that serve its many parts; and greater crossover among its many lines of professional expertise and credentials, the fragmentation is likely to continue. Almost no institution has done as much, over as long a time, to create such unifying forces as has The Atlantic Philanthropies. The fact that so many people can now envision a single, functioning Third Sector, and can place themselves within it, is a tribute to that work, and to Atlantic. “The question now,” as one person put it, “is whether those of us who have learned to recognize this sector as a national asset will continue to invest in it, and exercise leadership in it, and make the most of what we’ve accomplished in the last few years.”