Introduction to the *Nonprofit Policy Forum's* Special issue on a Nonprofit Health Index Alan J. Abramson¹ / Allison L. Grayson² / Jeffrey G. Moore²

Assessing the Vitality of the U.S. Nonprofit Sector: Toward a Nonprofit Health Index

¹ Schar School of Policy and Government, George Mason University, Arlington, VA 22201, USA, E-mail: aabramso@gmu.edu

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While the Dow Jones Industrial Average and other indicators provide timely information about the health of the business sector in the U.S., there is currently no comparable measure of how the country's nonprofit sector is faring. The most comprehensive information on nonprofit organizations comes from the Form 990 returns that nonprofits file annually with the IRS. In recent years, increased electronic filing of 990 forms and the IRS's efforts to make 990 data more accessible to the public have speeded up the availability of 990 data for analysis. However, there is still a lag of months – or even years – before comprehensive, high-quality data is available to the public. More timely information about the health of nonprofits is available from occasional, one-shot surveys. However, these surveys are often expensive to undertake; are typically of limited value because of unrepresentative responses and narrow focus; and may have only short shelf-lives because the condition of nonprofits can change quickly after surveys are conducted.

We believe the development of better approaches for assessing the state of the U.S. nonprofit sector will be helpful to nonprofit and foundation leaders, policymakers, and others who care about and benefit from the health of this important part of our society. In recent years, the nonprofit sector has been buffeted by government spending cuts, reductions in private giving resulting from the Great Recession and tax reform, increased demand for assistance from individuals affected by natural and man-made disasters or not being helped by economic growth; increased competition from hybrid social enterprise organizations, generational changes in the nonprofit workforce, and other trends. More timely and complete information about how nonprofits are coping in these challenging times should help nonprofit and foundation leaders plan better and make more strategic investments, and help policymakers make smarter decisions about nonprofit issues.

Moreover, a well-conceived nonprofit index has the potential to help the general public engage on issues affecting nonprofit operations. The nonprofit sector's lack of visibility and complexity holds the public back from becoming active when public policy or other forces undermine nonprofit well-being. A visible, easy-to-understand health index would put the sector more firmly on the nation's radar screen, much as nightly reports on the Dow Jones index, monthly announcements of the unemployment rate, and quarterly reports on the growth of the nation's Gross Domestic Product focus our attention on the business sector.

To be sure, there are now a modest set of governmental and non-governmental data sources that speak to the health of the U.S. nonprofit sector. Much of this data – including information on nonprofit revenues and expenses, assets, wages and employment, charitable giving, volunteering, and other aspects of nonprofits – is compiled by the Urban Institute's National Center for Charitable Statistics in its "The Nonprofit Sector in Brief" series or in occasional, longer editions of *The Nonprofit Almanac* (McKeever 2015; McKeever, Dietz, and Fyffe 2016. See also Giving USA 2018; Salamon 2018; U.S. Bureau of Labor Statistics 2018; U.S. Corporation for National and Community Service 2018). However, again data on the nonprofit sector seems much less timely and fulsome than data on the for-profit sector, which includes the aforementioned stock, employment, and economic output indicators as well as many other measures relating to productivity, prices, earnings, profits, trade, wages, assets, inventories, and many other features of business activity.

How can we do better with regard to data on the health of the U.S. nonprofit sector? What are options for developing a high-quality, regular, modest-cost approach to assessing the health of nonprofits that yields data on a timely basis? As an initial step toward creating a nonprofit health index, in 2017 the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) teamed up with the organization Independent Sector to solicit policy briefs from researchers interested in exploring the development of an index or multiple indices for the U.S. nonprofit sector. The project leadership team identified the following as some of the critical questions deserving of attention from researchers:

² Independent Sector, Washington, DC, USA

- What are the most appropriate financial and non-financial indicators of a healthy nonprofit sector? How relevant is our understanding of financial indicators of the health of individual nonprofits to our understanding of financial indicators of the health of the overall nonprofit sector? Non-financial indicators might take into account the level of a variety of risks to the nonprofit sector, including political risks (e. g. efforts to constrain nonprofit activity), identity risks (e. g. drift away from nonprofit missions), and others.
- What measures are currently being employed to assess nonprofit sector health? How comprehensive or narrow are current measures? What are their strengths and weaknesses?
- What new measures are needed to assess the health of the U.S. nonprofit sector? How easy/hard would it be to implement these measures? How can we assess nonprofit sector health in the lowest cost and highest quality way? What existing measures that are currently being used for other purposes can be adapted to help measure nonprofit sector health?
- What global indices (e. g. U.N. Sustainable Development Goals) might be applicable to a U.S. charitable sector health index? What are the advantages/disadvantages to adopting/adapting a global index for use in the U.S.?
- Who currently uses information about the health of the nonprofit sector? How well do current measures meet the needs of various audiences? Who might use information about nonprofit sector health in the future?
- What additional questions need to be addressed before a nonprofit sector health index can be developed?
- Who are the experts who should be engaged in developing an index of nonprofit sector health?

Following a review of researcher applications, a small group of scholars was selected to receive modest stipends to complete short, concept papers on the subject of a nonprofit health index. The researchers then developed papers that were first presented at the Independent Sector annual conference in October 2017 and again at the ARNOVA annual conference in November 2017. Following these conference presentations, the researchers revised their papers and submitted them to *Nonprofit Policy Forum* for review for publication. This special issue of NPF contains these briefs.

In many ways the four papers in this volume are an initial brainstorming effort to "stir the pot" on the issue of a nonprofit health index. Reflecting the fact that this is an early stage undertaking, the papers in this collection address very different issues related to the development of a nonprofit health index. The paper by Sarah Pettijohn and Elizabeth Boris, "Testing Nonprofit State Culture: Its Impact on the Health of the Nonprofit Sector," explores how an important environmental factor, namely a state's culture for nonprofit activity, may affect the health of nonprofits. For example, in states with a complementary nonprofit culture, like Michigan, New York, and Pennsylvania, nonprofits work extensively in partnership with higher tax and spending state governments to provide services. The paper's findings affirm that environmental factors, like state nonprofit culture, matter to the health of nonprofits.

In "Nonprofit Social Capital as an Indicator of a Healthy, Nonprofit Sector," Patrick Bixler emphasizes that a healthy nonprofit sector contributes to society through the social capital that it helps to build. As Bixler points out, "social capital" has a variety of definitions but broadly refers to the web of relationships, or networks, that an individual or organization is part of. According to Bixler, a nonprofit sector high in social capital is better able to build relationships to leverage resources and better able to withstand external financial or political strains. If nonprofit social capital were measured on a regular basis, nonprofit leaders, policymakers, and philanthropists could more easily support efforts to increase nonprofit social capital. In particular, Bixler sees special value in aid for umbrella organizations that weave nonprofits together, thereby increasing the nonprofit sector's social capital.

Elizabeth Castillo's contribution, "Qualities before Quantities: A Framework to Guide Dynamic Assessment of the Nonprofit Sector," recommends a "capabilities approach" to designing a nonprofit health index. Castillo suggests a healthy nonprofit sector has the capacity to create sustainable value and wellbeing for individuals, organizations, and society. Castillo's index would assess nonprofit capabilities in terms of the stock of multiple forms of capital – social, intellectual, political, reputational, financial, and others. An index that reflects capabilities and multiple forms of capital would help philanthropists and policymakers support the development of capabilities to produce increasing returns.

In "Evaluating a Nonprofit Health Index as a Policy Tool," Roland Kushner draws on his experience in helping develop a National Arts Index to identify key considerations in establishing a Nonprofit Health Index. The National Arts Index adopts a balanced scorecard framework with measures of financial flows, capacity, arts participation, and competitiveness. Interestingly, Kushner found more attention to the arts index at the local rather than national level, with counties and cities using their index values to compare themselves to other jurisdictions. Drawing on the experience of the National Arts Index, Kushner suggests that a Nonprofit

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Health Index should be parsimonious, comprehensive of the field being studied, communicated clearly, and be supported by a measurement system that delivers clear answers.

While these four papers will certainly help to inform efforts to develop a nonprofit health index that are starting at Independent Sector and perhaps elsewhere, we are confident that the authors would agree that the papers in this volume just begin to scratch the surface on this important, complex topic. Recognizing the many challenges ahead, we invite others to join us in working to create meaningful, useful measures of the health of the nonprofit sector.

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