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Why More Nonprofits Are Getting Bigger

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A recent study found that the number of US nonprofits with annual revenues of more than $50 million has increased dramatically

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THE FIRST DECADE of THE 21ST century saw a boom of activity in and around the US nonprofit sector. There was a proliferation of high-profile social entrepreneurs, an emergence of "big bettor" philanthropists, and an increase in funding to the sector. Taken together, these trends fueled tremendous growth in the number and sheer size of nonprofits.

The 2000s also saw the emergence of a new class of heavyweight nonprofits, which were founded in the latter decades of last century. Organizations such as Teach for America, Habitat for Humanity, and Susan G. Komen for the Cure have scaled up rapidly as they have sought to address some of society's greatest challenges. This new layer of large nonprofits builds on the bedrock of brand names that emerged at the turn of the 20th century—the United Way, Goodwill, and Boys & Girls Clubs of America—that accounted for a vast amount of the nonprofit activity over the last 100 years.

To understand the characteristics of this new class of large US nonprofits, we sought to identify those founded since 1975 that have grown to at least $50 million in annual revenues. Of more than 200,000 that opened their doors between 1975 and 2008, 201, excluding hospitals and universities, broke through this ceiling. (See the full list at ssireview.org.) Although this represents a tiny fraction of nonprofits that sought mission-driven growth, it is a major increase from the last time we looked at these numbers: a full 40 percent more than we found in a similar 2003 study, in which only 144 organizations had grown so big. How did these organizations break through?

In studying the new $50 million-plus class, a few themes emerge that provide insight into what has shaped—and will continue to shape—the growth of nonprofits during the first half of this century.

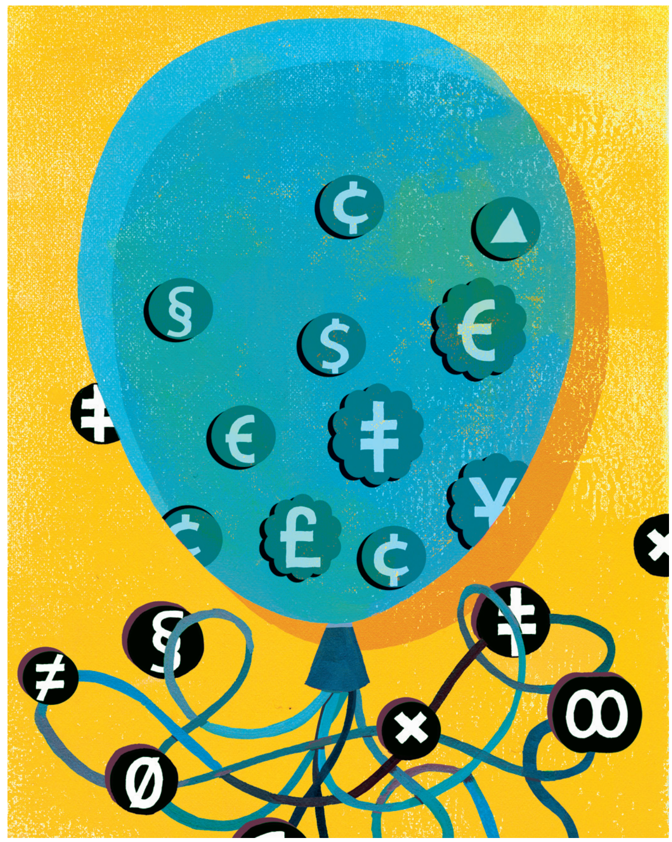

ILLUSTRATION BY JUSTIN GABBARD

FOUR THEMES

Single-Engine Growth: The first theme echoes a finding from our earlier study—nonprofits that grow big concentrate their funding efforts rather than diversify them. In contrast to conventional wisdom, the really big organizations raised the bulk of their money from a single type of funding, such as corporations or the government. In fact, more than 90 percent of the $50 million-plus group relied on a dominant funding source to drive growth.

The insight here is that small- and mid-sized nonprofits seeking to grow can benefit from identifying a primary funding source early in their life cycle, which can be aligned with their program model. This will lead to investment in a funding strategy—for example, building deep expertise in government grantmaking processes—that can better attract the resources needed to fuel programmatic growth. It is a strategy that also avoids spreading resources thinly across a variety of funding opportunities.

Heavyweight Stability: Government funding through grants and fees continued to drive the growth of most of the really big organizations in our study, with corporate in-kind donations following behind. This trend has held for at least a decade: When we compared the revenue mix of nonprofits that appeared in both our current study and the one from five years before, no organization underwent a major change in its dominant funding source. This underscores the propensity of institutional funders to invest in what works. It also supports a second theme: once a nonprofit institutionalizes a funding model at a large scale, it rarely departs from it.

These dynamics may change in the next five years, as the potential for long-term retrenchment by government at all levels

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signals serious trouble for nonprofits dependent on federal, state, and local funds. Some glimmer of hope may lie in new government resources directed toward evidence-based solutions, such as the federal Social Innovation Fund, but it is too early to understand the ultimate scale and impact of such efforts. And what's worked to keep large nonprofits afloat in past recessions may no longer be possible. Previously, nonprofits with established brands and proven programs had some influence over their funding. Long-standing government relationships typically positioned them as the first to know of coming changes, enabling many to shape policy change. Yet over the past year, we have heard executive directors from large organizations say that they are finding themselves in uncharted waters, struggling to preserve long-standing funding relationships. If these organizations face government funding adversity over the next decade, the nonprofit landscape could be dramatically affected.

Magnet Fields: A third theme was that certain fields have attracted increasing amounts of funding. About half of the organizations in our study fell within one of three program areas—international (including global development), health care, and human services—although these three areas comprise only about a quarter of the nonprofit sector. What are the trends that drove disproportionate growth in these fields, and what might their growth portend?

In the field of global development, the presence of 39 internationally focused nonprofits among the 201 heavyweights, which include Food for the Poor and Habitat for Humanity International, may represent a significant shift in how Americans direct their financial support. Widespread media coverage of the Indian Ocean tsunami in 2004, for example, triggered the largest outpouring of international aid ever seen. In fact, between 1998 and 2008, the percentage of US philanthropy going to global issues has doubled, from 12 percent to 24 percent, according to the Foundation Center.

In health care and human services, the increase in government funding over the past decade has contributed to the growth of health care and human services, which together encompass 68 of the 201 organizations reaching annual revenues of $50 million. For example, some of the large health care organizations in our study are actually community health clinics, such as the Institute for Family Health in New York City, which started as a small nonprofit with four employees and now serves 90,000 patients annually. Between 2001 and 2008, the federal government's bipartisan Health Center Initiative doubled the funding level for local health centers and expanded the program to provide 8 million patients access to care, creating the preconditions for some large players to emerge. With uncertainty about the scale of future government funding, however, it is hard to know how the largest nonprofits in these areas—particularly in human services—will fare in the years ahead.

Big Bettor Philanthropy: Of the 201 nonprofits at $50 million-plus, only a handful had foundations as their dominant funding source. But foundation funding did play a pivotal role in turning small- and medium-sized nonprofits into large ones in the first decade of the 2000s. Indeed, a final theme in our findings is the rise of the big bettor philanthropist: Among the 201 organizations in our study, some grew through support from philanthropists willing to invest heavily at an early stage of their development. This group includes education nonprofits KIPP (Knowledge Is Power Program) and Teach for America.

Two key factors contributed to the emergence of these organizations: results-oriented philanthropists and ambitious social entrepreneurs seeking scalable solutions to major social challenges. Take for instance the efforts of Don Fisher, founder of the Gap, and his wife, Doris, to increase their involvement in philanthropy in the late 1990s. An interest in education led them to KIPP, which at the time was just two middle schools in Houston and New York City. Impressed by KIPP's visionary co-founders and their plan to expand to other cities, the Fishers committed $15 million to start the KIPP Foundation, which would help KIPP grow nationally. When the Fishers learned that two-thirds of KIPP principals were alumni of Teach for America, the couple began to contribute large gifts to help that organization grow as well. Today the funding models for KIPP and Teach for America are no longer anchored in philanthropy, but the investments of foundations and individual philanthropists have played a critical role in helping both organizations achieve their current scale and impact.

The impact of foundations' small slice of the philanthropic pie—13 percent in 2008—may grow more pivotal. With drastic cuts in public funding across multiple fields, many nonprofits are seeking philanthropic support to sustain and grow their programs. Over the next 10 years, big-betting philanthropists are likely to play a significant role in determining which social enterprises continue to flourish and which new ones grow to scale. Philanthropists cannot make up the gap in government funding, but their philanthropic dollars may play an outsized role in determining who withers and who grows.

THE BIG GET BIGGER

Although much has been made of the proliferation of nonprofits—the sector grew 60 percent to more than 1 million registered organizations across 26 fields from 1999 to 2011—our research shows that the biggest nonprofits have gotten bigger. The average size of organizations in our study is much larger than the average size of organizations in our 2003 study, even accounting for inflation. In the previous study, the biggest organization was just under $700 million in annual revenue. In the current group, five organizations broke through $1 billion. These nonprofits are growing bigger, faster.

We may be living through a time in which a new set of nonprofits emerge that shape the sector for decades to come and influence whether we will meet the needs of the most disadvantaged. But big nonprofits are not a societal panacea: the jury is out on whether scaling organizations will translate into scaling impact. Although "going to scale" has gained currency, there is an emerging set of questions about how such scale links to local community engagement, which may be the linchpin of lasting social change.

Whatever the answers to these questions, the emergence of a new class of bedrock organizations may be the most defining characteristic of the sector's recent growth. The evolution of this $50 million-plus class will influence how the sector as a whole will grow and change—and how many of society's most important challenges and opportunities will be addressed. ■

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