

STANFORD PROJECT ON THE EVOLUTION OF NONPROFITS



*Managing Through Challenges:
A Profile of San Francisco
Bay Area Nonprofits*

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CENTER FOR
SOCIAL INNOVATION

STANFORD GRADUATE SCHOOL OF BUSINESS

What if

- you want to address a need and don't know if there is an existing nonprofit you can support?
- you want to be sure your philanthropy is being used effectively?
- you need data to draft, support, or fight against pending legislation?
- you are looking for information to help you lead your nonprofit?

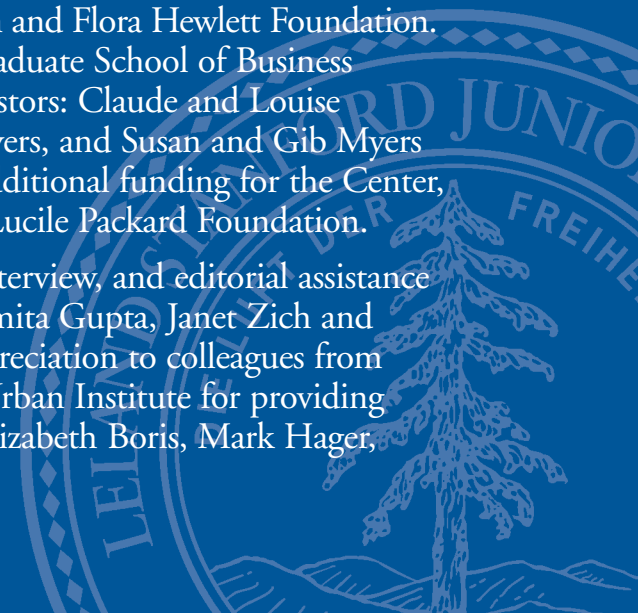
This first report from the Stanford Project on the Evolution of Nonprofits will help answer these questions and pose others that should be asked.

Thank you.

This study would not have been possible without the generous commitment of time and frank sharing of expertise and experiences by more than 200 participating nonprofit leaders in the San Francisco Bay Area. We thank them for helping us increase our understanding of organizations in this sector, and we hope our analysis rings true to them and their peers throughout the Bay Area and the nation.

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A U G U S T 2 0 0 5

This report from the Stanford Project on the Evolution of Nonprofits is intended to provide baseline knowledge to enhance current understanding of the San Francisco Bay Area nonprofit sector and to inform decision making within and about the sector. We provide a comprehensive overview of the regional nonprofit economy in the Bay Area and contrast the region with the nation as a whole. Our focus on the management of charitable organizations should help nonprofit leaders and others understand the relative position of their organizations and support efforts to improve the standing of the sector more generally. Many critical decisions, from funding programs to enacting legislation, are based on partial knowledge and anecdotal accounts because hard data on the sector are scarce. Thanks to the generosity of more than 200 participants, this report begins to resolve some of the issues being debated about the sector and points the way toward new questions we should be asking about the management of nonprofits.

We first profile operating charities in the San Francisco Bay Area and compare this nonprofit sector to those in the Los Angeles region, the State of California, and the United States across a variety of basic organizational characteristics. We then turn to the capacities and managerial practices of Bay Area nonprofits. We conclude the report with an overview of the foundations and supporting organizations that provide funding to the sector.

We hope the report is useful, and we welcome your reactions.

Walter W. Powell

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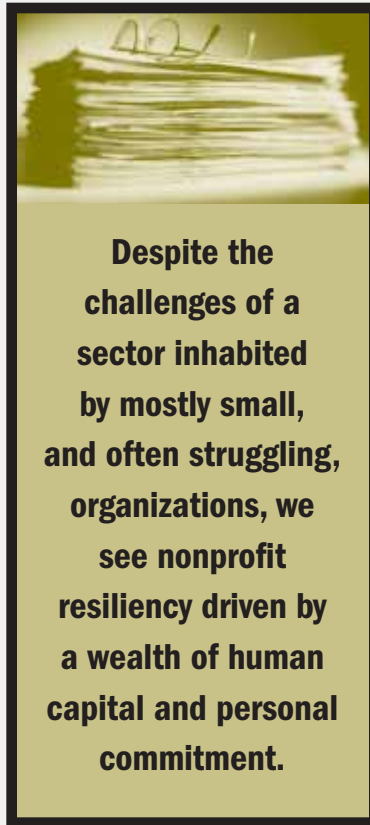


Little is known about the nonprofit sector and its individual organizations—their role, size, structure, and management, relative to the government or for-profit sectors. This first report from the Stanford Project on the Evolution of Nonprofits (SPEN) profiles this under-researched sector and provides baseline information that will be useful for practitioners and stakeholders. The report describes the characteristics of nonprofits, considers the role of locale within and among regions, and focuses on nonprofit management.

This snapshot of individual organizations that comprise the sector is taken during a period of economic difficulty, which increased both need and competition for funding. This is also a time when American politics have spotlighted the sector, questioning whether it is accountable and deserving of its tax-exempt status. This study is important precisely because new questions are being raised about this important part of our society and economy, yet little empirical information or rigorous analysis is available to guide either the questions or answers to them.

The SPEN study breaks new ground in three ways. First, it focuses on the management of nonprofits to learn how they are founded, funded, and organized to meet their missions. Second, the broad scope of the study, covering the entire range of charitable activity, enables us to better understand the sector and variation between and within regional nonprofit economies. Third, this study carefully unpacks the category of public charities, considering the program-providing operating organizations in isolation and more appropriately grouping supporting organizations with private foundations as

the two fund-providing nonprofit groups. In this first report on the study, you will find a profile of the operating charities (scope, locale, and management) followed by a profile of nonprofit funders.



Key Findings

- There is broad similarity in the composition of regional nonprofit economies across the nation. Nonprofits are overwhelmingly small, and the majority of assets are concentrated among a few, very large organizations. The sector is relatively young and heavily focused in human services, health, education, and the arts.
- Although most nonprofits are small, collectively they represent an important part of our economy. In 2000, Bay Area operating charities alone spent in excess of \$41 billion, representing nearly 14 percent of the total regional gross domestic product (GDP) of \$295 billion.
- Locale matters. Nonprofits are embedded in local infrastructures, dependent on their communities for volunteers, a majority of their financial resources, peer support, and professional development.

- Disparities exist across locations. The profile of the nonprofit sector is broadly similar across regions, but some regional sectors are relatively better off. For example, San Francisco Bay Area nonprofits have both a higher median budget and higher per capita spending than Los Angeles, the state, and the nation.
- Human services organizations—those nonprofits most often serving people in need—have considerably different resources at their disposal depending on location. The typical human services nonprofit in the Bay Area and in the Los Angeles region has a budget of about \$1,285,000, yet the Bay Area spends far more per resident living in poverty (\$5,115) than does the Los Angeles region (\$1,327).
- Despite relative advantages in the Bay Area, most nonprofit leaders feel stretched, challenged to bring in the resources necessary to meet the needs or aspirations defined by their missions. Executive directors are highly educated and come from a diverse talent pool with slightly more coming from a previous position in the for-profit world than those coming from elsewhere in the sector. They are poorly paid relative to other sectors, yet they are highly committed.

- Nonprofit leaders are becoming increasingly professionalized as they cope with the challenges of greater competition, increased need, and external calls for greater accountability. Many are working to professionalize their boards, to build capacity for their organizations, to diversify their funding models, and to find opportunities for professional development. They are implementing a wide range of managerial practices, from strategic plans and annual audits to evaluation procedures, in hope that such efforts will improve their organizations.

Implications

- There is a need to address the challenges posed by limited organizational capacity, given that the majority of nonprofits are quite small.
- Nonprofit leaders and other stakeholders concerned with the health of specific communities or specific fields of activity would do well to map their sectors so as to better identify the challenges and opportunities.
- More attention should be paid to developing appropriate strategies and practices for particular problems and types of organizations; too often practices are pushed as one-size-fits-all solutions.

Despite the challenges of a sector inhabited by mostly small, and often struggling, organizations, we see nonprofit resiliency driven by a wealth of human capital and personal commitment.

FACTS AT A GLANCE

CHAPTER 1: SCOPE OF THE SECTOR

- There are 7,106 operating charities, 754 supporting organizations, and 1,996 private foundations in the San Francisco Bay Area, for a total of 9,856 nonprofits. (p. 13)
- There are 1.1 operating charities for every 1,000 residents of the Bay Area; there are 0.7 operating charities for every 1,000 residents across the United States. (p. 13)
- More than 80 percent of Bay Area operating charities are concentrated in four major areas: human services (37 percent), education (21 percent), arts and culture (14 percent), and health (11 percent). (p. 14)
- Nonprofits are overwhelmingly small with more than half having budgets below \$200,000 per year, whether in the Bay Area, the state, or the nation. (p. 17)
- Median budget expenses for Bay Area operating charities is \$184,117; for Los Angeles \$141,168; and for the United States \$164,148. (p. 17)
- For most operating organizations (80 percent) revenues outpace expenditures in 2000; hospitals and human services nonprofits run deficits in the highest proportions at 39 percent and 26 percent respectively. (p. 19)
- Most operating nonprofits are quite young, with close to half of operating charities ten or fewer years old. (p. 21)

CHAPTER 2: LOCATION MATTERS

- The predominantly urban counties of Alameda, San Francisco, and Santa Clara have the most operating charities, but Marin County has the highest density at 2.4 nonprofits per 1,000 residents. (pp. 25–26)
- Median budgets for operating charities vary within the Bay Area. Solano County organizations have the lowest median at \$89,022 compared to a high of \$334,474 in San Francisco. (p. 30)
- Although nonprofits in Bay Area rural counties have smaller budgets than their more urban counterparts, they are still ahead of those in other regions: the largest nonprofit expense per capita in the Los Angeles region is in Orange County at \$1,806 while the lowest per capita expense in the Bay Area is in Solano County at \$2,980. (p. 29)
- Although Alameda County has nearly 6,000 nonprofits registered for 501(c)(3) status, only 45 percent bring in more than the \$25,000 in revenues that require them to file with the IRS. In San Francisco, 60 percent of its 5,200 registered organizations file. (p. 31)

CHAPTER 3: MANAGERIAL PRACTICES

- A sizeable number of operating charities (14 percent) are structured as franchises or chapters of another organization; another 13 percent operate as subsidiaries or affiliates of larger organizations, creating large organizational families. (p. 32)
- In the Bay Area, 74 percent of operating charities have paid staff with a median of 2.4 full-time equivalents. (p. 33)
- Volunteers are a resource mobilized by 85 percent of organizations; these nonprofits enlist the help of from 2 to 2,000 volunteers over the course of a year and the value of their contribution ranges from \$7,000-\$800,000 annually. (p. 33)

- Among staffed organizations, 31 percent have at least one paid position dedicated to fundraising. (p. 35)
- Reflecting the high-tech environment of the Bay Area, 76 percent of organizations have a website; this compares to 27 percent nationally. (pp. 36–37)
- Mergers are not new to this field; 9 percent of operating charities in the Bay Area have already been through some type of merger and/or acquisition in their history. (p. 37)
- Even though most nonprofits are small, 46 percent now develop a strategic or business plan; among those that receive government or foundation funding, the number rises to more than 60 percent. (pp. 38–39)

CHAPTER 4: SCOPE OF THE PHILANTHROPIC SECTOR

- When we aggregate all revenues to California operating charities in the year 2000, the largest share of total revenues (62 percent) comes from program fees, such as admissions, tickets, or clinic charges. (p. 43)
- Our interviews found that 81 percent of operating charities receive some form of donation and that: 79 percent receive individual gifts; 59 percent receive foundation grants; and 50 percent receive support from corporations or corporate foundations. (p. 44)
- There are 2,750 nonprofit funders (754 supporting organizations and 1,996 private foundations) in the San Francisco Bay Area. (p. 45)
- Of the 754 supporting organizations, 46 percent support a single organization (such as a nonprofit or a public school), 10 percent focus on a single activity such as education, and 44 percent provide general fundraising or other support for the public benefit. (p. 45)
- The typical Bay Area nonprofit funder is even smaller than the typical operating charity; 60 percent of supporting organizations and 74 percent of private foundations expend less than \$200,000 annually (including grants given). (pp. 48–49)
- The 12 largest supporting organizations in the Bay Area account for 55 percent of the total expenses by all supporting organizations (p. 47); similarly, the 9 largest private foundations account for 53 percent of the combined private foundation expenses (p. 50).

CHAPTER 5: NONPROFIT FUNDERS PROFILED

- Within the Bay Area, 64 percent of supporting organizations are concentrated in 3 counties: 34 percent in San Francisco, and 15 percent each in Alameda and Santa Clara counties (p. 53). Sixty-eight percent of private foundations are located in 3 counties: 36 percent in San Francisco, 20 percent in Santa Clara, and 12 percent in San Mateo. (p. 55)
- Median expenses for supporting organizations vary among Bay Area counties: the highest is found in Marin at \$219,199, and the lowest is found in Contra Costa at \$80,408. For private foundations, the highest is found in San Francisco at \$70,433, and the lowest is found in Solano at \$18,086. (pp. 53–55)

The Stanford Project on the Evolution of Nonprofits

The importance of the nonprofit sector in the United States for the delivery of social and cultural services has reached unprecedented levels. The economic downturn of the early 21st century put new pressures on the sector in a double blow: more individuals and causes now need assistance from nonprofits, while competition for funding and other resources has increased. Although the economic downturn has been especially difficult for the sector in recent years, government retrenchment has been an issue for decades. Nonprofits are increasingly called

upon to provide social services that are no longer delivered by federal or state governments (Abramson, Salamon, and Steuerle, 1999; Salamon, 2002). At the same time as direct government provision of assistance—ranging from housing to mental health—declines, government funding of nonprofits has also been cut. Both for-profit and nonprofit organizations now compete for the markets associated with the provision of social services. Governance scandals in the for-profit and nonprofit sectors have

prompted lawmakers to enact legislation at the state and national levels that demands greater transparency and accountability. Pressure has also come from within the sector as stakeholders ask how best to achieve organizational goals and measure their outcomes.

As these challenges converge, nonprofit leaders, funders, consultants, policymakers, and other diverse stakeholders are making decisions that will affect the sector's future. Strategic planning, capacity

building, mergers, and evaluation are but a few of the practices being advocated by foundation leaders today. Most of these exhortations are not focused on service provision per se, but rather on the management of nonprofits. Many nonprofits are being urged to adopt business practices that may or may not be appropriate to their organizations. Similarly, legislation is sometimes advocated with little attention to the administrative costs it will have on nonprofits or to the benefits that will eventuate. Increasingly, survival in the nonprofit sector involves managing diverse pressures as well as organizing to deliver services. Managing an organization entails deploying resources effectively not just to further the mission but also to secure one's place in the wider environment.

There is scant systematic, public data available about nonprofits. We do not know enough about the sector to answer such basic questions as: How many organizations are there in a given region?

What is a Nonprofit?

United States tax legislation exempts more than 27 categories of corporations and trusts from paying tax on their revenues under section 501 of the Internal Revenue code. Comprising some 7.5 percent of the total U.S. nonprofit sector, California hosts a diverse array of organizations estimated at more than 143,500 (IRS, 2005). These include labor organizations, social clubs, fraternities, country clubs, cemeteries, teachers' retirement funds, and others. Most of these are considered "membership benefit" organizations.

Only one section—the "public benefit" organizations falling under section 501(c)(3), commonly known as the "charitable" organizations—provides a double benefit, that of tax exemption on revenues as well as tax benefits accruing to the donors that support these organizations. More than 27,500 nonprofits from the Bay Area have

incorporated and sought 501(c)(3) status. Only 36 percent of those organizations file the nonprofit tax return on IRS form 990 that is required of 501(c)(3) nonprofits with annual revenues of \$25,000 or more. It is this group of nearly 10,000 more formalized organizations that provide the focus of the SPEN research.

Nonprofits are structured in diverse ways. Most are stand-alone institutions, but many organizations are formally interconnected. A sizeable number of operating charities (14 percent) are structured as franchises or chapters of another organization. Some organizations, large and small, choose to incorporate as a "family" of organizations with each branch or certain departments incorporated separately. Many also have affiliated organizations.

How are they structured? What type of activities do they pursue? How large are they? Are emerging organizations recreating the wheel or learning from the experiences of successful mature organizations? Does the sector vary from region to region? Little is known about these basic characteristics, let alone the management of the sector.

How do nonprofits tackle the challenges they face, ensure public confidence, and advance the public good? Despite much debate in nonprofit circles, among philanthropists, and within the halls of government, we do not know whether nonprofit capacity is adequate to deliver services and respond to wider demands for increased transparency. To answer this crucial question, we examine the leadership, governance, financing, and external relations of nonprofit organizations.

The San Francisco Bay Area, known for its social activism and thriving entrepreneurship, is reputed to have a particularly vibrant and innovative nonprofit sector. In the past decade, it has been an important laboratory in which nonprofit

leaders and other stakeholders have been vocal advocates for the sector on the national stage and have experimented with new ideas such as virtual service organizations and venture philanthropy. And yet, during this economic downturn, the region has been faced with the effects of California's infamous budget deficit, major economic losses due to the regional economy's reliance on the technology industry, and soaring costs of doing business, notably rent and employment benefits.

According to the U.S. Census Bureau, the San Francisco Bay Area is comprised of ten counties that include the major cities of San Francisco, Oakland, and San Jose as well as the surrounding suburban and rural communities.¹ The counties that are economically and socially integrated with these metropolitan areas are Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma. The region is one of the most ethnically diverse in the country, and is located within a state that has the highest number of people reporting multiple ethnic iden-

ties.² The Bay Area is one of the major metropolitan regions of the United States, and it provides an ideal setting to study a regional nonprofit economy in its entirety and to explore the management practices of the sector as nonprofits navigate through a difficult period.

There are only a handful of large-scale, regional studies of nonprofit organizations.³ Whereas most academic studies approach the sector from a public policy perspective, the Stanford Project on the Evolution of Nonprofits (SPEN) brings an organizational perspective to the study of nonprofit management. There has been much interest in the ways management ideas and practices circulate across the for-profit and nonprofit sectors, but little empirical investigation of the phenomenon. To provide both a comprehensive profile as well as detailed information on the management of charitable nonprofits, we adopted a two-pronged approach.

First, we obtained annual tax filing data from the Internal Revenue Service, provided by the National Center for

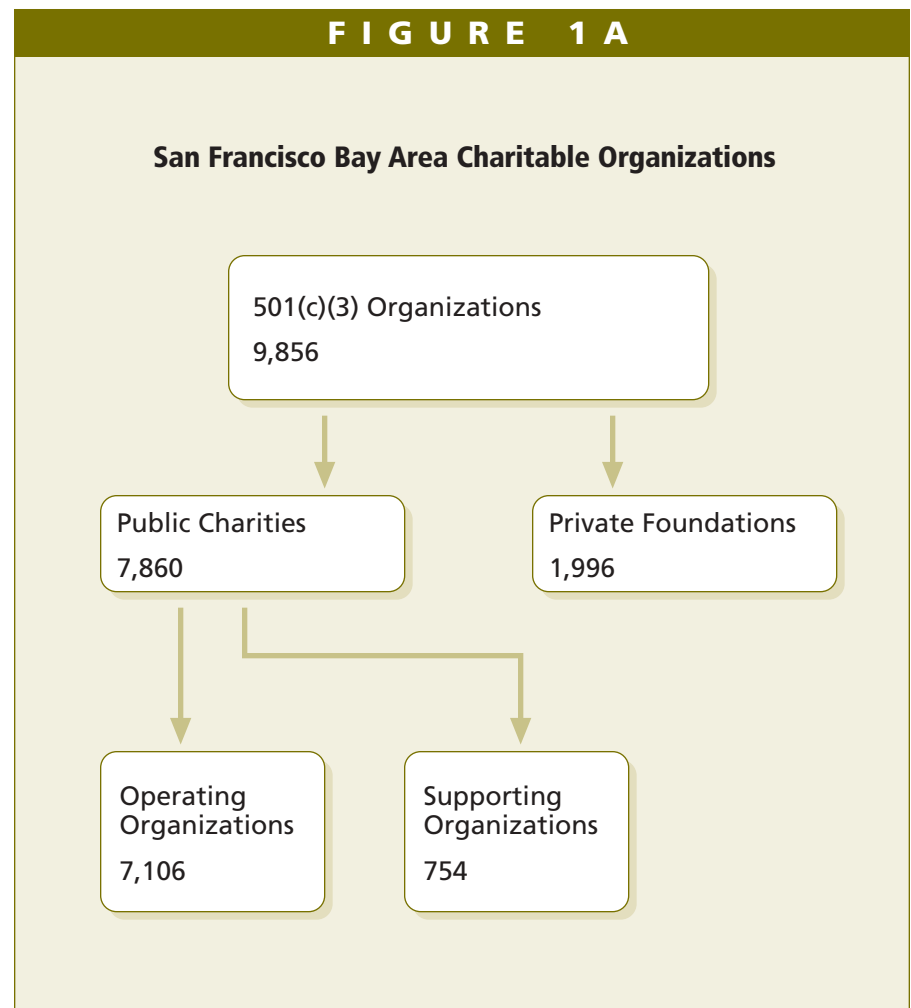
Charitable Statistics,⁴ from which researchers extracted detailed financial and other information on the nearly 10,000 reporting 501(c)(3) or “charitable” nonprofits that operate in the ten-county area. As shown in Figure 1A, this population can be divided into private foundations and public charities, which include supporting organizations and operating organizations.⁵ Public charities are those organizations that meet the test of receiving at least one-third of their revenues from “public support.”⁶ Operating organizations are public charities that provide programs for public benefit in general and specifically in the areas of the arts, environment, education, health, human services, international, and religion. Supporting organizations are public charity funders, such as community foundations or sole-support organizations that raise money to redistribute. Private foundations are grant-making organizations and trusts that derive the majority of their revenues from a single source such as a family or a corporation.

The operating organizations, supporting organizations, and private foundations—those we think of as providing direct services to clients or causes in the sector as well as those nonprofits that fund these activities—are the primary focus of this report. The organizations in this population range from small, “minimalist” organizations to very large, diversified enterprises with budgets in excess of \$1 billion. They span the full spectrum of charitable activity and include emerging, adolescent, and mature organizations. For the purpose of this report, we use “non-profit” to refer to these charitable 501(c)(3) organizations only rather than to the entire population of tax-exempt entities.

Second, to better understand the IRS financial data and to complement it with a richer picture of the nonprofit organizations and their management, we drew a random sample from the full population of Bay Area operating organizations that filed in fiscal year 2000, and we recruited leaders from 200 nonprofits to follow over time.⁷ The 200 participating organizations in the SPEN sample closely approximate the diversity seen in the full nonprofit population as regards activity, size, age, and location. We conducted extensive interviews with the executive directors (in the case of staffed organiza-

tions) and with the board chairs (in the case of volunteer-based organizations). The interviews provide a wealth of quantitative and qualitative data on the leadership, governance, founding, structure, funding, evaluation, operations, and external relations of these organizations. All quotations presented in this report are drawn from our interviews with the executive directors and board chairs unless otherwise identified. The identity of all participants and their organizations is protected.

Our research design accomplishes three purposes. One, large-scale use of IRS data



on operating charities from the San Francisco Bay Area and beyond enables us to capture the scope and demography of the charitable population. Two, our interviews provide detailed knowledge of the management practices of these organizations and the issues confronting nonprofit leaders. Finally, large-scale use of IRS data on nonprofit funders—the supporting organizations and the private foundations—permit us to clearly delineate one portion of the sector’s funding stream that is at once an integral part of the sector and yet distinct in its work and characteristics from the operating nonprofits.

Part 2 of the SPEN report presents a profile of the full population of San Francisco Bay Area charitable nonprofits and compares the nonprofit sector in the Bay Area to the sector in the other major metropolitan area in the state,

Los Angeles, as well as to the California and national contexts. In the first chapter, on the scope of the sector, we profile nonprofits by the basic characteristics of activity, size, fiscal health, and age to better understand the composition of the regional nonprofit sector. In the second chapter, on variation within the region, we consider the importance of locale, looking at variation across Bay Area counties to see patterns of difference within the larger community of nonprofits. In the third chapter, we focus on the management practices and experiences of nonprofit leaders, reporting findings from more than 200 interviews.

Part 3 of the report addresses the role played by nonprofit funders—including both supporting organizations and private foundations—in providing grants to the charities featured in Part 2. Close cousins of the charities, these funding

organizations are at once nonprofits yet distinct from the operating organizations. The vast majority of studies consider public charities as a whole, without making the critical distinction between operating organizations that provide programs and supporting organizations that provide funding to the former. The fourth chapter profiles these funders. By analyzing the scope and characteristics of supporting organizations separately, this report demonstrates how markedly different supporting organizations are from operating organizations. It places them in their appropriate category as funders, more similar to the private foundations that are also profiled in Chapter 4. The fifth chapter examines how the distribution of nonprofit funders relates to the community of operating charities in a region. We conclude with thoughts on the implications of this report and future areas of study.

Operating Charities Profiled

Operating charities are the lifeblood of the nonprofit sector. As their name suggests, they operate one or more programs for the benefit of society. Their missions are as diverse as societal needs. They provide shelter to the homeless, educational programs for the young, care for the elderly, cultural venues, and scientific knowledge for all. Their beneficiaries can be human beings of all ages, animals, buildings, or spaces. How do we begin to make sense of such a diversity of organizations that together constitute the core of a sector?

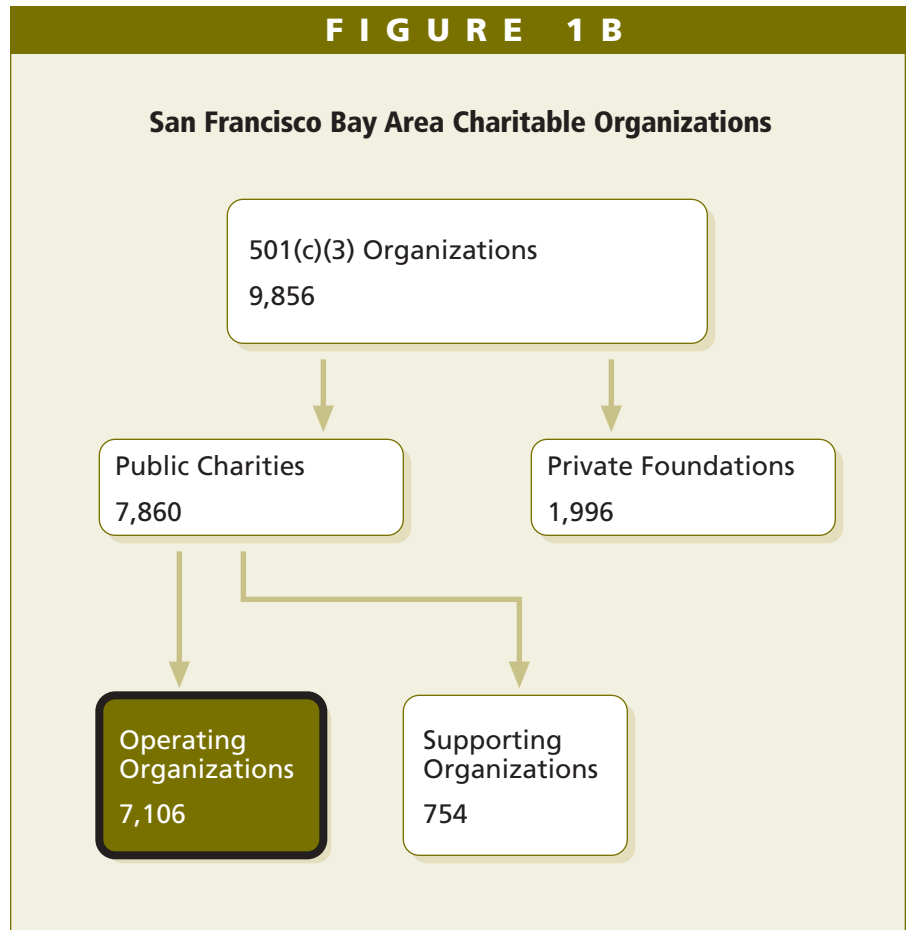
Part 2 sheds light on these organizations by highlighting their similarities and differences across characteristics such as activity, size, age, and location. We provide the reader with an opportunity to learn how these organizations are managed and how nonprofit leaders meet the challenges faced in the delivery of their missions.



CHAPTER 1: SCOPE OF THE SECTOR ACTIVITY, SIZE, FISCAL HEALTH, AND AGE

There are 7,860 public charities and 1,996 private foundations in the Bay Area, for a total of 9,856 nonprofits. This represents a ratio of 1.4 nonprofits per 1,000 residents. While the Bay Area accounts for only one-fifth of the total California population according to the latest census numbers, its 7,106 operating charities account for 31 percent of the state's total of 23,046 operating charities. The five-county Los Angeles region⁸ contains another 40 percent with 9,175 operating charities. Thus 71 percent of the operating charities in the state are located in the two metropolitan regions of San Francisco and Los Angeles.

Regional nonprofit sectors vary widely on a number of dimensions. For many organizations, their missions and how they seek to meet those missions, are unique. Other nonprofits are developed as members of large networks of similar organizations or are created by replicating already successful models. Despite variations, however, there are also many similarities when viewed as a group. To better understand the composition of the Bay Area nonprofit sector, we profile its operating charities along several characteristics—especially activity, size, fiscal health, and age—and set this within the relative contexts of the state and the nation.



What do nonprofits do? Activity

Nonprofits are fundamentally defined by their missions, and mission is, in the eyes of many leaders, what distinguishes nonprofit corporations from corporations in the for-profit sector.

“The difference between a nonprofit and a for-profit is that for-profit corporations are always looking at the bottom line. Not that nonprofits aren’t, but how we get to the bottom line is different. Most nonprofits really don’t have a product; we are service oriented. We don’t do major layoffs to raise profits. We can’t because laying off

means cutting service. That’s a hard thing for people to understand, because yes, we are a business and we understand that, but we are mission-driven, and you have to understand what that means.”

— EXECUTIVE DIRECTOR, MEDIUM-SIZED SOUP KITCHEN

Operating charities in the Bay Area are engaged in a wide variety of activities that benefit the public; some programmatic activities focus on the provision of social services but missions range through arts and leisure activities to other areas as well.

The National Taxonomy of Exempt Entities (NTEE) was created to classify nonprofits according to the major

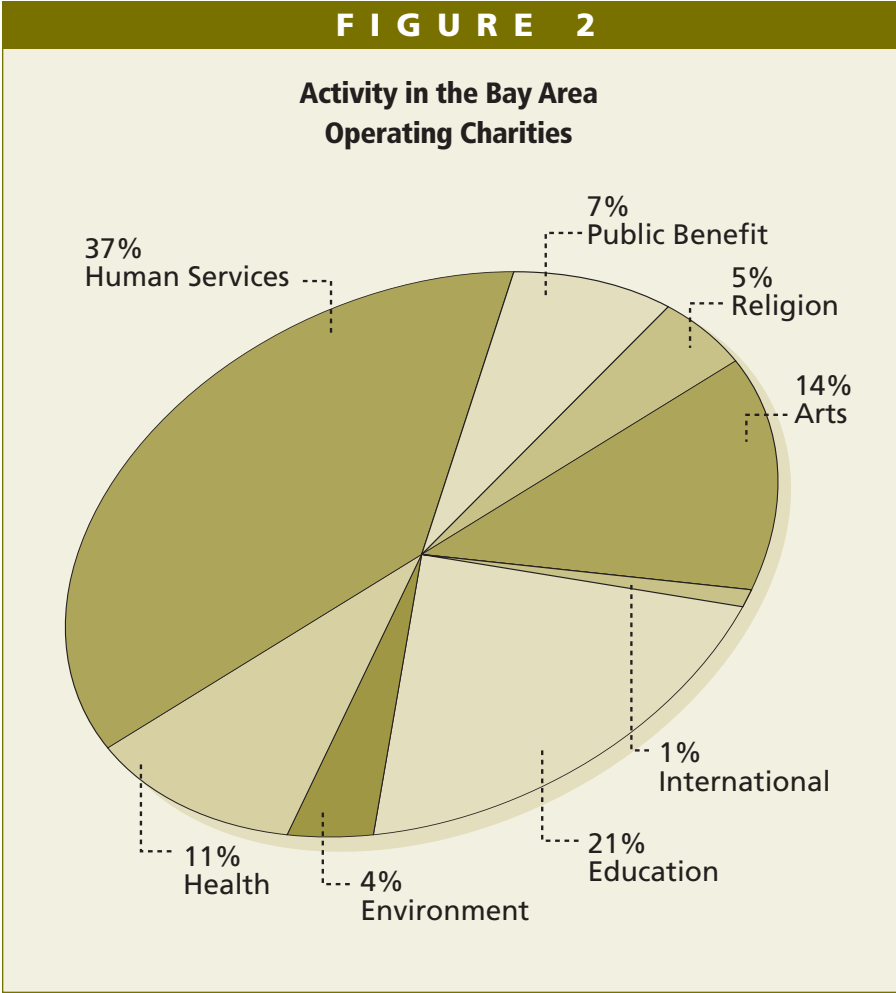
In activity, as in other characteristics, we find that the profile of sector organizations across regions is notable in its relative similarity, rendering the Bay Area a useful microcosm for understanding the whole.

focus of their missions.⁹ Eight broad groupings of activities¹⁰ were identified:

- Arts, culture, and humanities
- Education
- Environment and animals
- Health
- Human services
- International
- Public benefit
- Religion-related

While the designation of most categories is self-evident, a few require explanation. International is the only category designated as much by geography as by activity. For instance, it includes not only organizations focused on world affairs but also those organizations that work abroad in activities that could be described as health or human services. Public- and societal-benefit operating charities promote effective government

infrastructure within our communities, capacity development and leadership, and community improvement (for example, a public policy think tank). Religion-related nonprofits are those that have as their primary mission the promotion of religious messages, religious education and training, and worship activities (for example, a Christian bookstore or Hindu community center). Churches, synagogues, and other religious congregations are not required to file IRS form 990 and are not included in this study. Many organizations with a religious affiliation serve a secular mission and are therefore placed in other categories (for example, a Jewish nursing home in health).



OPERATING CHARITIES DENSITY PER 1,000 PEOPLE

San Francisco Bay Area	1.1
Los Angeles Region	0.6
State of California	0.7
United States	0.7

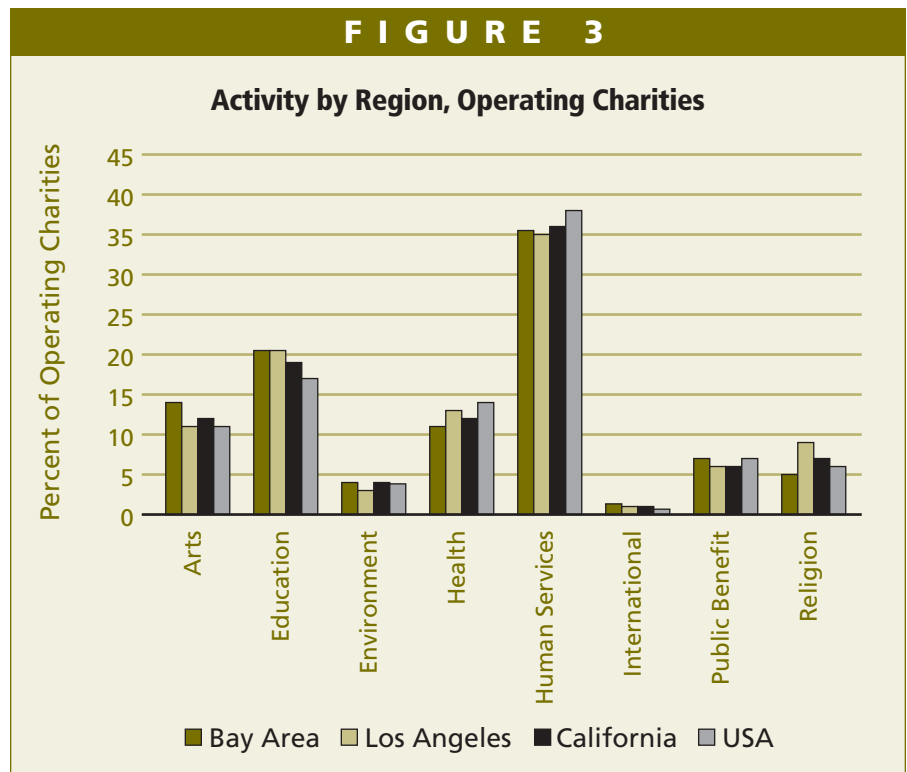
More than 80 percent of Bay Area operating charities are concentrated in four major areas as shown in Figure 2. Human services organizations are most numerous (37 percent), followed by education organizations (21 percent), arts and cultural organizations (14 percent), and health organizations (11 percent). The remaining 17 percent focus on religion, the environment, or general public benefit as well as a very small percentage of nonprofits that have an international focus.

Within human services organizations, more than 37 percent serve specific

populations such as the disabled or homeless, 20 percent provide recreation activities such as sports leagues or camps, 18 percent provide housing or shelter, and 10 percent focus on developing leadership among children and youth. The remaining 15 percent of human services organizations are divided among crime and legal, employment, food and agriculture, and public safety.

To set this view of nonprofit activity in context, we compared the Bay Area population of active operating organizations to those in the greater Los Angeles region, to the full population in the State of California, and to the full population in the U.S. as shown in Figure 3. In activity, as in other characteristics, we find that the profile of sector organizations across regions is notable in its relative similarity, rendering the Bay Area a useful microcosm for understanding the whole. In each population compared, the majority of activities are concentrated in human services, education, health, and the arts.

Despite these broad similarities in the proportions of regional profiles, the Bay Area distribution of operating charities by activity differs in some respects from other regions at a more fine-grained level of detail. The Bay Area has a lower



proportion of health- and religion-related operating charities than the state and the nation as a whole. The Bay Area has both fewer and smaller health organizations than is typical elsewhere. When it comes to religion, the difference is especially striking when comparing the Bay Area with Los Angeles, a region that has almost twice the proportion of religion-related organizations as the Bay Area and

more than the state and the nation as a whole. The lower representation of religious organizations in the Bay Area may be related to its lower-than-national church attendance numbers.

There are several areas in which the San Francisco Bay Area has a slightly higher proportion of nonprofits. The Bay Area is distinctive in having a higher percentage of arts organizations compared to Los Angeles, the state, and the nation. The Bay Area, and especially the city of San Francisco, is known for its strong support of the arts with initiatives such as San Francisco's Grants for the Arts, funded by a special hotel tax. International organizations also have a stronger presence in the Bay Area than in the United States as a whole. At 1.4 percent, the Bay Area has a higher proportion of international organizations than the Los Angeles area (1.1 percent). Many

BEYOND CHURCHES: THE ROLE OF RELIGION IN THE SECTOR

Although only seven out of 200 organizations (3.5 percent) in the SPEN sample are classified as religion-related, that is, organizations whose primary activity is religion-focused, 10 percent of the SPEN organizations claim a religious affiliation or identity regardless of their primary activity. Despite their secular status, another 17 percent report church support in their founding, such as the involvement of a cleric, community outreach by local congregants in mission delivery, or the provision of rent-free facilities.

nonprofits seek to help international populations that are represented in the Bay Area's ethnic diversity. For those that do not provide concentrated local services but seek impact abroad, San Francisco has represented an attractive address between East and West since hosting the establishment of the United Nations charter sixty years ago. Similarly, the Bay Area's focus on environment organizations is higher than that of Los Angeles,

though it closely matches the proportion of environment charities in the state as a whole and in the nation.

As a final observation, the proportion of public benefit organizations in the Bay Area is similar to the national distribution, whereas the Los Angeles region and California as a whole have less than the national average of these organizations.

How big are nonprofits? Budgets

To better understand the size of nonprofit organizations, we focus primarily on annual expenditures. While in aggregate nonprofit revenues and expenditures are similar, expenditures indicate actual activity in economic terms, giving us the best proxy for operating budget during a particular fiscal year. Nonprofit annual budgets vary considerably. One factor

What is Advocacy?

Advocacy is a common means to support a cause across all areas of nonprofit activity. Definitions of advocacy range over a wide spectrum, and nonprofit lobbying—that is, the effort to influence specific legislation—is an issue of intense political debate. Very few 501(c)(3) organizations actively lobby, and the charitable nonprofits that do lobby spend few resources on this activity (Krehely, 2002). This holds true in the Bay Area where only 161 operating charities (2 percent) report on lobbying activities to the IRS; these nonprofits expend a median of \$5,000 on lobbying compared with a median of \$7,134 for the state.

In SPEN interviews, nonprofit leaders were asked whether their organizations “advocate on behalf of their clients or cause through public information campaigns, legislative campaigns, or other activities” and to describe those activities. Many were quick to assure us that they did not lobby “because it is illegal,” revealing how poorly understood advocacy is. In fact, the attempt to influence legislation (though not endorsement of political candidates) is legal for 501(c)(3) organizations so long as they do not spend a substantial portion of their revenue on lobbying. Operating charities are permitted to spend up to 20 percent of the first \$500,000 in exempt-purpose expenditures on lobbying activities. After that point, organizations must spend progressively less and should not exceed \$1 million in a given year.

Lobbying represents only a small portion of the social change activities carried out by nonprofits. When discussed further, researchers

uncovered a wide array of advocacy activities that Bay Area nonprofits are engaged in, including some far beyond lobbying. More than 50 percent of the organizations surveyed indicated that they engaged in public information campaigns or legislative campaigns at various levels. Organizations advocate in many ways on behalf of AIDS patients, welfare mothers, the homeless, the elderly, the disabled, and other groups to raise awareness about the challenges facing these populations even when there is no pending legislation.

Interviews with executive directors highlighted the variety of advocacy work carried out in the Bay Area. Some nonprofits utilize large networks of volunteers or join professional associations to advocate for social change. Other organizations work to develop social capital and interest in civil society by focusing on voter registration. A director of a medium-sized housing organization said:

“Advocacy is something that we try to weave through the organization and it comes out in many ways—we are trying to get people to be civically oriented. This year we had a major voter registration activity to get people to engage in the process. We try to have polling places in our properties. There was a lot of education about voting and what it means and why and how you select the candidate.”

Advocacy can also be about educating people to change mindsets. It can be as simple as a puppet show that teaches kids to be comfortable with children who have special needs.

Nonprofits across the country are overwhelmingly small, with more than half below the \$200,000 mark, regardless of location.

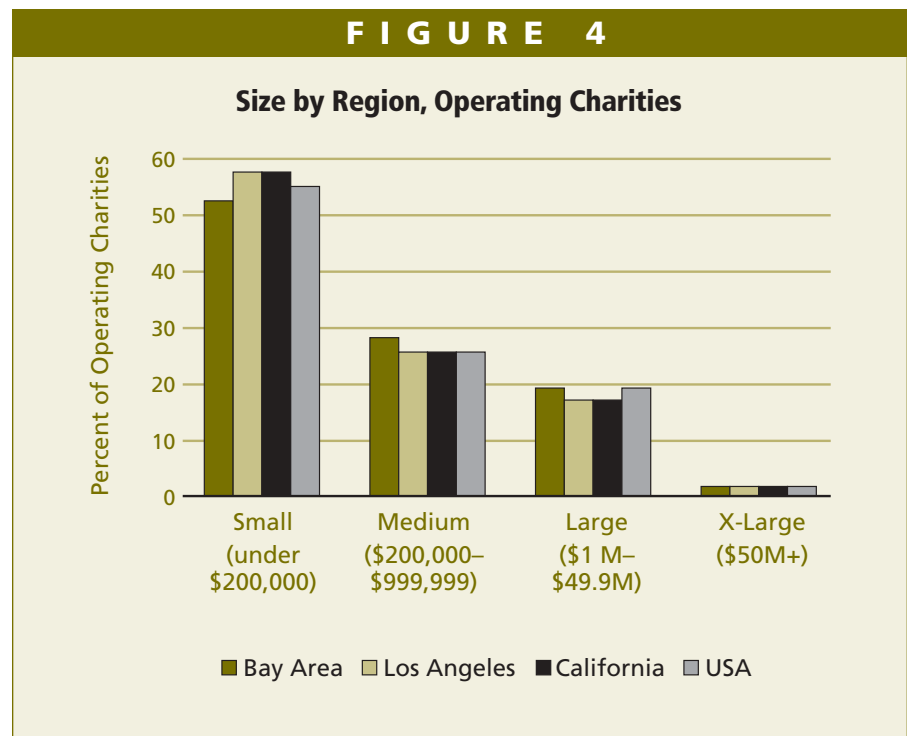
affecting organizational size is mission; for example, a neighborhood-focused Little League is unlikely to have aspirations that will cause it to grow substantially to meet its goals, whereas a human services organization, such as a work/life support program for the disabled, may aspire to broaden its reach and may realize better efficiency through going to scale and expanding beyond one locale. Whether stable or changing in scope, emerging or mature, the capacity of organizations to reach goals depends to a great extent on the ability to mobilize resources such as funding, staffing and volunteers, or gifts in kind. The most quantifiable of these are financial—revenues and expenditures, assets and liabilities—and reported data on these characteristics provide further insight into the scope of the nonprofit sector.

Across these regions and the nation, there is more similarity than difference regarding size. Nonprofits are overwhelmingly small, with more than half below the \$200,000 mark, regardless of location. In 2000, the size of individual Bay Area reporting charities ranged from zero expenses (a reporting but dormant organization) to budgets of nearly \$15 billion for the year. The distribution along this continuum can be divided into small (up to \$200,000 annual expenses), medium (\$200,000–\$999,999), large (\$1,000,000–\$49,999,999), and extra-large charities (\$50 million and above). The vast majority of Bay Area nonprofits are small, with the median reported expenses at \$184,117. We use median expenses to control for unusual outliers in the distribution.

To give some sense of the organizations at this level, 26 percent of nonprofits are solely volunteer-based organizations, and most of these (92 percent) are small. For example, most sports leagues and school booster activities are in this category. There are also numerous small nonprofits that are staffed but operate on a shoestring. Some of these manage by mobilizing not only considerable volunteer talent but by bringing in gifts in kind. Despite a great deal of talk in the sector urging greater accountability and the adoption of business practices, the reality is that most nonprofits are more akin to the small family business than to large, publicly-held corporations.

At the other extreme, among the ten largest Bay Area operating charities, with

total expenses in excess of \$4 billion each year, are six Kaiser Foundation Health Plan affiliates and three other healthcare organizations, as well as Stanford University. Less than 1 percent of charities fall into the extra-large category, yet these few organizations account for 82 percent of the total annual expenses and total revenues in the sector. Of these, about two-thirds are hospitals, clinics, or health plans, and the remaining third is distributed among universities, other large education nonprofits, and large human services organizations. Only one arts organization, the San Francisco Opera Association, and one environmental organization, the Trust for Public Land, have budgets in excess of \$50 million. Despite being overwhelmingly small, operating charities in the San Francisco Bay Area are, however, typically larger; national median nonprofit expenses are \$138,216.



Although the typical organization remains small, taken together, operating charities are a crucial part of regional economies. In 2000, Bay Area operating charities alone spent in excess of \$41 billion.¹¹ This represents nearly 14 percent of the Bay Area's total regional gross domestic product (GDP) of \$295 billion.¹² We find that operating charities in the Bay Area account for a larger portion of GDP than in the Los Angeles region and California and the nation as a whole as shown in Table 1.

The Bay Area is home to a comparatively thriving nonprofit sector: operating charities in the Bay Area have expenses of \$5,824 per capita, compared to \$1,680

per capita in Los Angeles. When removing hospitals, universities, and group health plans, Bay Area operating charities still spend \$1,214 per capita whereas Los Angeles nonprofits spend \$693 per capita.¹³ Nonprofits in the Bay Area also spend more per capita than is typical for the nation, as the national nonprofit sector as a whole reports expenses of \$2,438 per capita. The rest of California's operating charities economy is very similar to the Bay Area's, with \$43 billion. This leads to a total for California of \$84 billion, representing 6.3 percent of the \$1.33 trillion Gross State Product in 2000. The Bay Area accounts not only for one-third of the

While the typical organization remains small, taken together, operating charities are a crucial part of regional economies. In 2000, Bay Area operating charities alone spent in excess of \$41 billion. This represents nearly 14 percent of the Bay Area's total regional gross domestic product (GDP) of \$295 billion.

state's total number of operating charities, it accounts for 48 percent—close to half—of the state's total nonprofit economy.

Universities, Hospitals, and Health Plans

Many studies on nonprofits routinely remove hospitals and higher education institutions from their samples and analyses, because of their large size and the uniqueness of these well-established, mixed-market industries, or because the study focuses only on specific areas of activity such as human services. In seeking to understand the organization and management of nonprofits, Stanford researchers felt it was important to take the broader view across activities. Hospitals and universities are an integral part of the nonprofit sector in any given region. Of all areas of nonprofit activity, these two are the most established sub-industries. In considering the management of nonprofits and how they are affected by size and activity, there are several important observations that should be made about universities and hospitals.

- The top 25 universities and hospitals alone account for 30 percent of the total expenditures in the Bay Area's sector. When adding large health group plans (organizations such as Kaiser), the proportion jumps to 73 percent.
- Hospitals and universities account for most of the nonprofit sector's assets, resources, and employment (Boris, 1998).
- These institutions are under specific legal and governance requirements and have highly regulated human resource practices, such as credential requirements for certain positions (professors, doctors, nurses), and higher executive salaries.

In order to get an accurate picture of nonprofit size despite those very large organizations, we use the statistics of medians instead of means and remove hospitals and universities from the analysis only when they mask the results in other categories.

Size by Activity

Size is clearly linked to activity. The general trends for size are once again similar across all regions. Within all activity areas except health, Bay Area operating nonprofits stand out by comparison to the other regions. As Figure 5 shows, the difference is especially pronounced in the areas of education, environment, human services, international, and public benefit organizations. The sole exception is in health, where the national median is significantly larger than that of health nonprofits in the Bay Area, Los Angeles, and California.

The smallest organizations among Bay Area operating charities are found in the religion-related activity category, with a typical nonprofit spending only \$101,651 in 2000. Interestingly, Bay Area religion-related nonprofits are larger, despite the

TABLE 1

Economic Contribution by Region, Operating Charities

	Bay Area	Los Angeles Region	California	United States
Expenses per Capita	\$5,824	\$1,680	\$2,479	\$2,438
Median Expenses	\$187,081	\$141,168	\$147,243	\$164,148
Total Expenses	\$41 billion	\$27.5 billion	\$84 billion	\$686.5 billion
Percentage of Regional GDP	13.8	5.0	6.3	6.9

tional stability as it varies across regions and by activity.

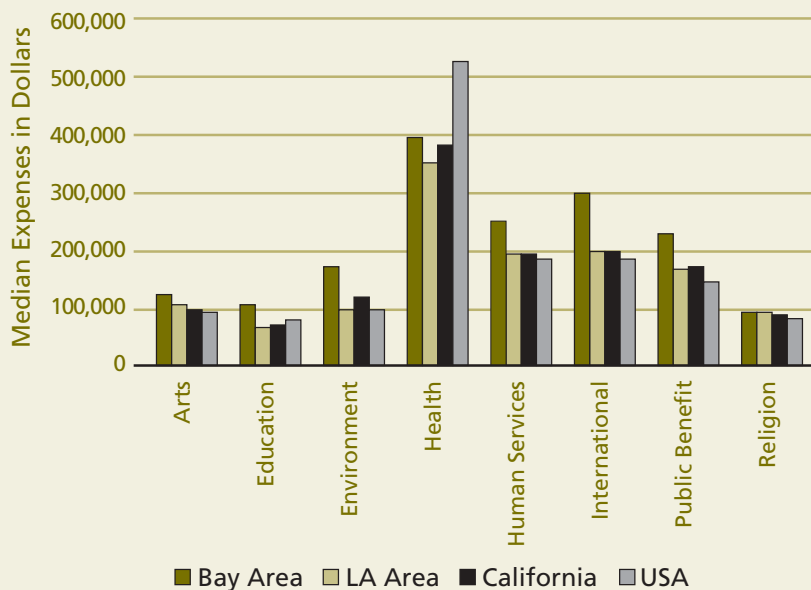
Most Bay Area organizations operate in the black with total reported revenues slightly outpacing total reported expenses (median is \$22,797). The executive director of a large human services organization provided a striking example of just how small the margin of operations can be: “Our operational budget is a ‘squeaker.’ This year, the difference between the revenues and expenditures was \$349. You don’t get a lot closer than that in a multimillion dollar budget.” Bay Area arts organizations typically have the tightest margins of operation, with lowest median revenues after expenses at \$14,031.

While most operating charities bring in more revenues than they spend, 20 percent of Bay Area operating charities operated in deficit in 2000, reporting expenses that outpaced revenues and causing them to dig into reserves. The proportion of organizations in deficit is distributed unequally across activities as shown in Table 2.

Hospitals carry the highest median surpluses and are also the most likely to operate in deficit. The other activity in which many organizations operate in deficit is human services, with 26 percent. Organizations in this category often rely on government contracts for program support, delivering services ahead of being reimbursed by the government. This creates a cash flow problem, as explained by the executive director of a medium-sized human services organization: “Government contracts basically say that we have to provide the service, and then we submit for reimbursement. To give you an understanding of what

FIGURE 5

Size and Activity by Region, Operating Charities



Los Angeles region having nearly twice the number. Across the nation, the largest nonprofits are found in the hospitals and higher education subsectors. Hospitals in the Bay Area have a median size of \$7.8 million, compared to the national median of \$6.7 million.

How fiscally secure are nonprofits? Revenues and Assets

Just as certain activity fields are bigger than others, some domains are fiscally healthier than others. A review of revenues and assets, two indicators of fiscal health, help provide a picture of organiza-

T A B L E 2

Deficit Spending by Activity, Operating Charities

Activity	Percentage in deficit
Arts	18
Higher Education	24
Education	14
Health	22
Hospitals	39
Environment	11
Human Services	26
International	16
Public benefit	18
Religion	13

happens, we have been working at one point for six months without any kind of repayment, which then sets us up to be in a really bad fiscal situation. The other possibility is, if, by the time they're supposed to give us the money, there isn't any money, then we've just eaten our budget without any kind of repayment."

In the arts field, 18 percent of organizations reported a deficit in 2000. The executive director of one small performing arts nonprofit in San Francisco reflected on the difficulty of raising enough funds to successfully carry his promised season of concerts: "We will be able to complete the season that we have committed to, but then will have no money at the end of the season. Unless we get more money, we will have no reserves and will not be able to get the next concert started."

Assets and liabilities are another important aspect of fiscal health. Assets reflect the amount a nonprofit has at the end of the year, in cash and investments as well as buildings and property. For Bay Area operating charities, median

total assets are \$147,072 with median liabilities at \$5,824. Forty percent of nonprofits report no liabilities, and the vast majority of nonprofits have more assets than liabilities. Operating charities in the Bay Area typically benefit from higher net assets than those found in other California regions. As shown in Table 3, Bay Area operating charities hold slightly fewer net assets than the national median, while those located in the five-county Los Angeles region typically hold only 56 percent of the national median.

Not only do net assets vary substantially by region, but they are also distributed unequally across nonprofit activity, as shown by Figure 6. In general, these

findings correspond to the already observed discrepancies in median size by activity. Bay Area nonprofits typically have higher net assets than those in Los Angeles or in the U.S. as a whole, with the exception of arts and health organizations. Whereas the largest discrepancy in median expenses was found in the international organizations category (see Figure 5, page 19), the largest disparity in net assets is in the religion-related category. Bay Area religious nonprofits typically have about \$55,000 more in fund balances than those in the Los Angeles area, the state, or the nation. Although Los Angeles has a higher proportion of religion-related organizations than the Bay Area, these organizations tend to have smaller budgets and to function with a smaller asset-based safety net. The smallest difference in net assets across regions is found in the arts, where Bay Area operating charities have only slightly higher net assets than those in Los Angeles or the state as a whole.

Only 15 percent of operating charities have an endowment—permanently restricted funds—that can contribute to their revenue streams and protect them from economic difficulties. The size of endowments among our sample organizations vary from \$5,000 to \$9 million, and 63 percent were created since 1989.

T A B L E 3

Median Net Assets by Region, Operating Charities

Bay Area	Los Angeles Region	California	United States
\$95,383	\$56,033	\$69,817	\$99,955

When it comes to cash reserves, as many as 32 percent of nonprofits have less than three months of operational reserves or none at all. At the other extreme, 8 percent maintain at least 12 months' operating reserves. The amount of operational reserves varies by activity. Reflecting the difficult cash flow situations of those depending to some extent on government grants, human services organizations tend to have the lowest operational reserves with a median of 2 months.

An emerging sector? Age

To some extent, a nonprofit's age is reflected in capacity as it takes time for organizations to develop infrastructure and programs, train staff and volunteers, solidify funding streams, and develop relationships that can further its interests.

Only IRS "rule dates" are widely available to give an idea of the age of organizations in this sector. The rule date, or date at which an organization received tax-exempt status from the IRS, usually lags one to three years behind the organization's legal incorporation date, but this gives us only a minimum age for nonprofits.

For several reasons, both rule dates and incorporation dates may lag considerably from what an organization considers its historical founding date. The organization may have existed loosely as a very small or grassroots organizations for many years before it was incorporated. Even if incorporated, the board members may have made such extensive changes to the by-laws that they had to dissolve the organization or seek a new ruling for its tax-exempt status, such as after a reorganization or a merger. In other cases, the organization may have grown so large

that the board of directors decided to split its programs into multiple organizations, each specializing in a particular program or region.

Among our sample organizations, only about 60 percent have rule dates within five years of their historical founding. Rule dates may be particularly inaccurate as age proxies for the oldest organizations, especially those that were founded ahead of much of the exempt entity tax legislation. Indeed, a handful of Bay Area organizations today date their historical beginnings as far back as the Gold Rush, although the earliest charitable exempt-status date recognized by the IRS is 1908. In general terms and for recent decades especially, rule dates provide at least a sense of the age for each organization in its most recent organizational form. We should note that while this helps us understand those nonprofits existing today, these are the survivors, and little over-time data exists to help us understand survival rates relative to founding rates of nonprofits.

Most nonprofits are quite young, with close to half of operating charities "emerging" or ten or fewer years old (in 2000). As shown in Figure 7, Bay Area organizations are similar to other regions and the nation in a relative sense; however, the two metropolitan areas and California at the state level each have a higher percentage of emerging nonprofits than the rest of the country and a slightly lower percentage of adolescent nonprofits than the nation as a whole. Overall, the age distribution of operating charities is similar across geography.

Age distributions provide a picture of what the sector looks like, but with a particular lens. Emerging, adolescent, or

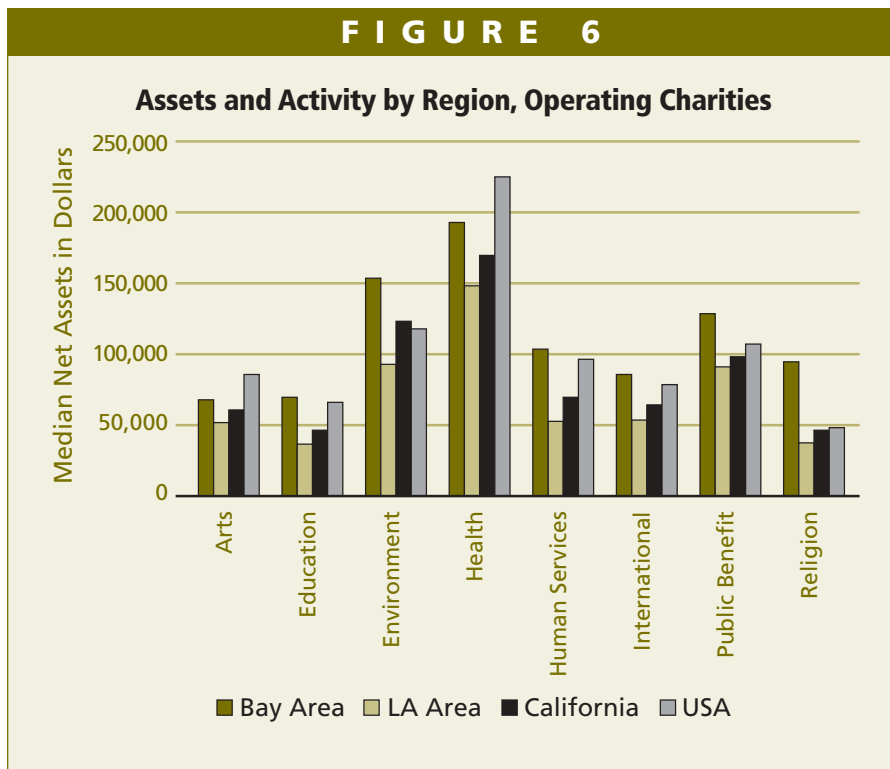
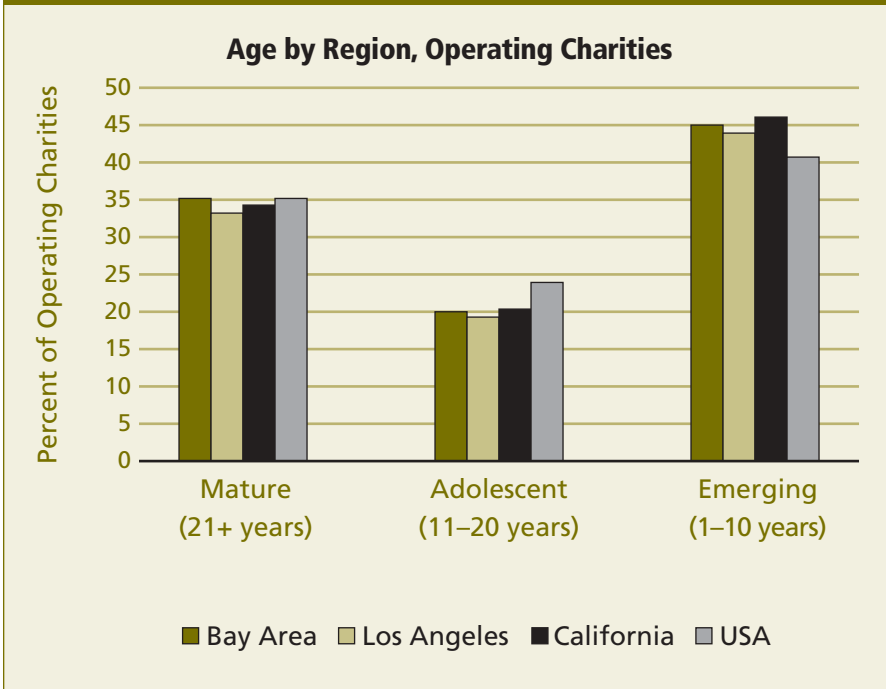


FIGURE 7



mature are terms that capture age and perhaps can serve to indicate the stability of organizations. Yet they might equally be applied to describe the state of a nonprofit. For instance, a thirty-year-old nonprofit may also in some sense be “emerging,” such as when it is going through a transition; it might face the retirement of a charismatic founding director, undertake major redefinition of its mission, or extend its reach to other activities or locales.

Age by Activity

Overall, the age distribution of Bay Area operating charities matches the proportions found in Los Angeles, in California, and in the nation in general. There is more variation when age is viewed by activity. The typical arts organization in

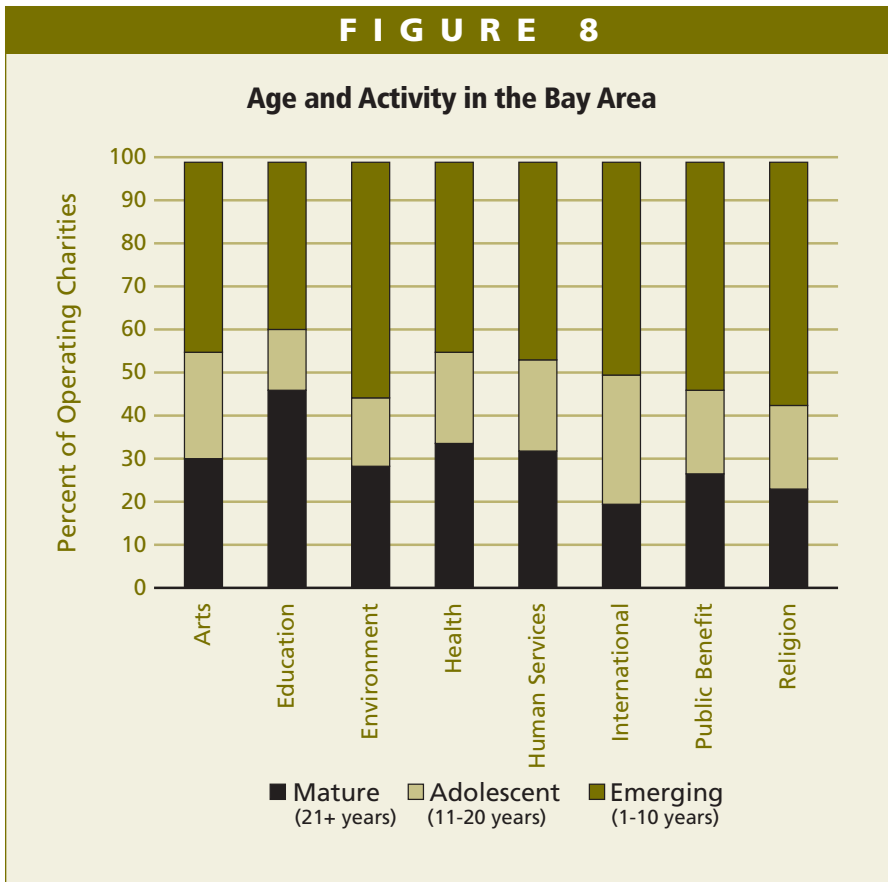
the Bay Area is 19 years old, older than in the Los Angeles region and in the state as a whole. Conversely, the typical Los Angeles education organization is much older than those in the Bay Area. Environmental and international organizations tend to be young across locations, with median ages around 12 years old. The fields of education and health have the highest proportion of mature nonprofits, with some institutions dating back to statehood. These activities also have the smallest proportion of emerging organizations in the Bay Area. By contrast, a large number of Bay Area operating charities with an environmental mission are in the emerging category, with 53 percent 10 or fewer years old. The activity field with the highest proportion of young operating charities in the Bay Area is religion, with 56 percent 10 or fewer years old.

The high proportion of emerging nonprofits among international and religion-related organizations may correspond to recent waves of immigration in the Bay Area, where ethnic diversity has increased. Among religion-related charities, about 45 percent of emerging nonprofits have either an interfaith or an international identity or are associated with a religion that has emerged relatively recently in the U.S. such as Buddhism, Islam, and Indian spirituality. By contrast, only about 30 percent of adolescent or mature organizations have such an international identity. Similarly, about 45 percent of mature religion-related organizations are formally classified as Christian by the NTEE; this proportion goes down to 36 percent for emerging religion-related organizations.

Most nonprofits are quite young, with close to half of operating charities “emerging” or ten or fewer years old.

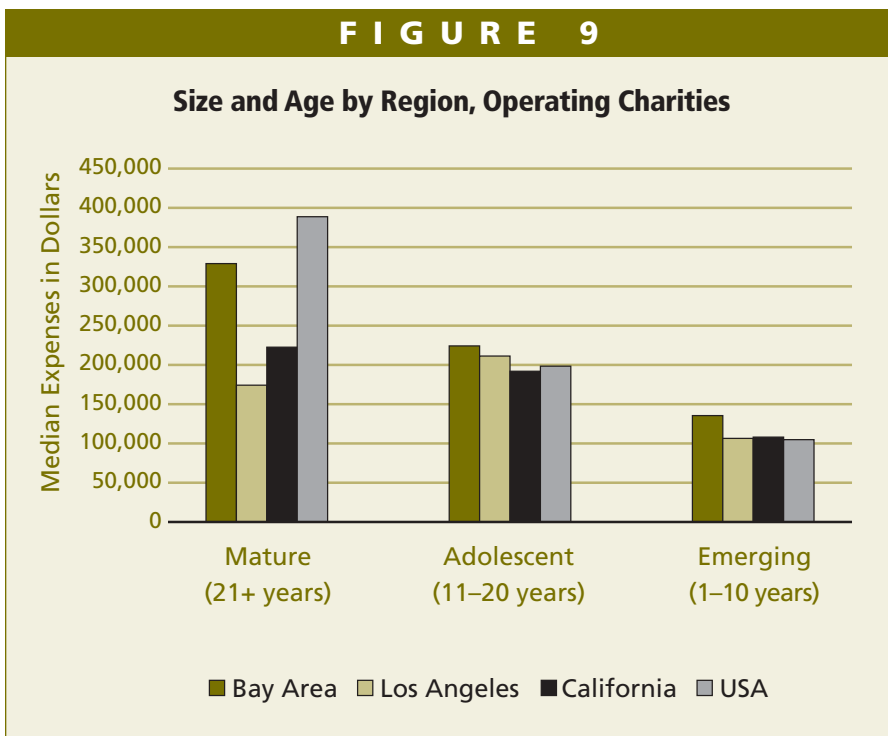
Age by Size

San Francisco has a long history of nonprofit activity. San Francisco’s old wealth traces its roots to the Gold Rush and the completion of the transcontinental railroad. Since the mid-1800s, the city has been one of the 100 most populated urban places in the United States. Los Angeles did not join the list until 1890, and did not surpass San Francisco’s



population until 1920, at the time when Southern California started to develop around the film industry.

Whereas the oldest nonprofit in the Bay Area traces its rule date to 1908, the Los Angeles region's oldest rule date is 1924. Not surprisingly, nonprofit size is related to age; today's oldest operating charities tend to be the largest. Operating charities in the Bay Area are larger than those found in the Los Angeles region in each age category as shown in Figure 9. Mature Bay Area organizations, and those in the nation in general, are typically much larger than their Los Angeles counterparts. Bay Area organizations in existence for more than 20 years are nearly 60 percent larger than their Los Angeles peers. Looking at these organizations more closely, we find that the Bay Area has more universities, hospitals, and large arts organizations among its oldest nonprofits, while in Los Angeles the mature category includes a higher proportion of relatively smaller human services organizations. The same is true for the U.S. in general: many of the country's oldest nonprofits are large higher education and health institutions. Adolescent and emerging nonprofits are slightly larger in the Bay Area than in Los Angeles and the state and the nation.



This chapter highlighted the notable similarities shared by operating charities across regions. Whether in the San Francisco Bay Area, the Los Angeles region, the State of California, or the country as a whole, operating charities are typically small and young, and tend to be concentrated in human services, education, health, and arts. The Bay Area benefits from a relatively more vibrant population of operating charities. While still small

Whether in the San Francisco Bay Area, the Los Angeles region, the State of California, or the country as a whole, operating charities are typically small and young, and tend to be concentrated in human services, education, health, and arts.

organizations, they are typically larger than nonprofits found in Los Angeles. Bay Area nonprofits also benefit from larger net assets and contribute to a larger part of our economy. Before concluding that Bay Area communities all benefit equally from a vibrant nonprofit economy, however, it is important to examine variation in the scope of nonprofits across counties.

CHAPTER 2: LOCATION MATTERS INTRA-REGIONAL VARIATION AMONG OPERATING CHARITIES

Throughout this report we have used regional, state, and national comparisons to place the San Francisco Bay Area nonprofit sector in context as a region. This chapter explores the complex patterns of variation between nonprofits within a region. The vast majority of operating nonprofits in our sample, 71 percent, report having a local or regional reach in program service delivery. Nonprofits are embedded in local infrastructures, dependent on their communities for volunteers, financial resources, and peer support. Framing the intra-regional variation along several dimensions helps us better understand the composition of the nonprofit sector within the Bay Area.

Bay Area residents are familiar with distinctions among local areas such as the “Peninsula” versus the “East Bay” or the “North Bay” versus the “South Bay,” and these perceptions play out in our analyses. We show variation between urban, suburban, and rural areas in addition to the differences that follow county lines. For example, a nonprofit in Santa Cruz County may have more in common with organizations in distant counties such as Napa or Sonoma than it does with nonprofits in its neighboring but more urban Santa Clara County. This section considers some of the intra-regional differences in the Bay Area and implications that will interest leaders and philanthropists concerned about their local communities.

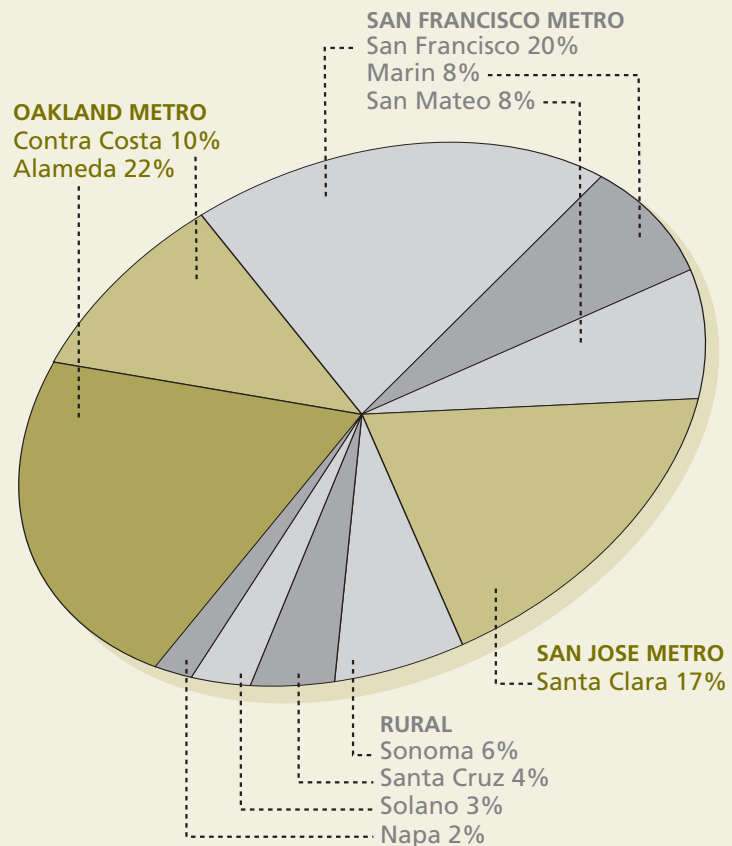
Counties differ in the number of operating charities, especially considering their population size. In this region, 36 percent of all nonprofits are located in the San Francisco Metropolitan Area (Marin, San Francisco, and San Mateo counties) as shown in Figure 10. The Oakland Metropolitan Area (Alameda and Contra Costa counties) has nearly one-third (32 percent) of the region’s operating charities. Santa Clara County, the focus of the San Jose Metropolitan Area, has 17 percent. Predominantly rural counties peripheral

to the three main metropolitan areas together host the remaining 15 percent.

Within the Bay Area, the distribution of this large number of nonprofits varies by location as shown in Table 4. As one might expect, the predominantly urban counties of Alameda, San Francisco, and Santa Clara have the most operating charities, but when comparing the number of nonprofits to residents, Marin has the highest nonprofit density, followed by San Francisco and Santa Clara. Despite its small size and population compared to

FIGURE 10

Bay Area by County and Metropolitan Area, Operating Charities



As one might expect, the predominantly urban counties of Alameda, San Francisco, and Santa Clara have the most operating charities, but when comparing the number of nonprofits to residents, Marin has the highest nonprofit density, followed by San Francisco and Santa Clara.

the other major metropolitan counties in the Bay Area,¹⁴ San Francisco County accounts for 21 percent of the region’s nonprofits with a total of 1,455 operating charities and is the clear leader in this sector.

With the exception of Solano County, all counties exceed the overall California and national ratios of 0.7 operating charities per 1,000 people (see page 13). In general, the major metropolitan areas of the Bay Area have a higher density of operating charities than the rural counties. The distribution between major metropolitan areas is also unequal; the Oakland Metropolitan Area has a lower

density of operating charities than other cities in the Bay Area despite having more families living below the poverty level. The distribution of nonprofits in the Bay Area points to disparities between the Peninsula and the East Bay, and between the metropolitan areas and the outlying counties.

Among the counties outside the three major metropolitan areas, Santa Cruz has the highest density of operating charities. Solano is the county that has the lowest nonprofit density, with a mere 181 operating charities supporting a population of nearly 400,000. This prompts questions for local counties and the communities

within them: Does the development of nonprofits track with population developments and demand in the county in terms of increasing urban sprawl, poverty, or ethnicity? Or does this reflect the support of philanthropic and government funding supply?

Intra-regional Activity

Within the Bay Area, counties also differ in terms of the programmatic balance of operating charities they host, as shown in Table 5. Like the Bay Area in contrast to the Los Angeles region or to the nation, the San Francisco Metropolitan Area leads within the region, having the highest proportion of operating charities in the arts, environment, health, international, and public benefit areas. The San Francisco and Oakland Metropolitan

T A B L E 4

Bay Area by County, Operating Charities

Census Metro (Area)	County	Number	Share (Percent)	Median Age	Population	Density per 1,000 Residents
Oakland Metro	Alameda	1,543	22%	13	1,443,741	1.7
	Contra Costa	704	10	14	948,816	0.7
San Francisco Metro	Marin	530	7	14	247,289	2.1
	San Francisco	1,455	21	13	776,733	1.9
	San Mateo	549	8	13	701,161	0.8
San Jose Metro	Santa Clara	1,242	17	15	701,161	1.8
Rural Counties	Santa Cruz	318	4	9	251,584	1.3
	Napa	129	2	14	131,607	1.0
	Sonoma	447	6	13	458,614	1.0
	Solano	181	3	10	394,542	0.5
Bay Area CMSA		7,106	100	13	6,055,248	1.17

Areas tie in their proportions of the primary service-related areas: human services (35 percent) and education (33 percent).

The San Francisco Metropolitan Area accounts for the largest share of nonprofits in the international and arts categories by far. International organizations are overwhelmingly concentrated in the San Francisco Metropolitan Area (45 percent). San Francisco County is the most ethnically and culturally diverse, with 37 percent of its population foreign-born and as much as 46 percent of its population speaking a language other than English at home. San Francisco's proportion of white ethnicity is also lower than most other counties. Both San Francisco and Alameda counties,

The distribution of nonprofits in the Bay Area points to disparities between the Peninsula and the East Bay, and between the metropolitan areas and the outlying counties.

especially the city of Berkeley, have long histories of social activism in this arena. The two counties are home to many human rights and peace international nonprofits, such as the World Free Press Institute, Global Exchange, and Roots

of Peace. As might be expected, the peripheral counties have the fewest international organizations. In keeping with San Francisco's reputation as a city with blooming artistic and cultural expression, 45 percent of all Bay Area arts nonprofits are located in San Francisco, Marin, and San Mateo counties. The Oakland Metropolitan Area has the second highest share of arts organizations with 26 percent; the rural counties collectively have 15 percent of arts while the San Jose Metropolitan Area has only 14 percent.

Although the San Francisco Metropolitan Area grabs the largest share in five categories, it ties with the Oakland Metropolitan Area in both human services and education, the two largest areas of nonprofit activity, both highly service-related.

TABLE 5

Activity by County and Metropolitan Area, Operating Charities

	Percent of Activity							
	Arts	Education	Environment	Health	Human Services	International	Public Benefit	Religion
Alameda	19%	21%	20%	21%	23%	25%	26%	20%
Contra Costa	7	12	8	8	10	9	8	12
Oakland Metro	26	33	28	29	33	34	34	32
Marin	9	8	10	8	8	4	4	5
San Francisco	30	16	21	23	18	32	28	15
San Mateo	6	9	7	7	7	8	8	9
San Francisco Metro	45	33	38	38	33	44	40	29
Santa Clara	14	21	15	16	17	13	16	27
San Jose Metro	14	21	15	16	17	13	16	27
Napa	2	1	2	2	2	0	2	0
Santa Cruz	4	4	6	6	5	4	3	5
Solano	2	2	3	2	3	1	1	2
Sonoma	7	6	8	7	7	4	4	5
Rural Counties	15	13	19	17	17	9	10	12

A Model for Public Funding of the Arts

Although San Francisco is home to 20 percent of all Bay Area nonprofits and only 13 percent of Bay Area residents, it hosts fully 30 percent of the region's arts and cultural charities. San Francisco residents have long been known for their strong commitment to the arts, and this is reflected by extraordinary support from their city government. They created an innovative funding mechanism to support the arts in 1961, when city and state legislation instituted a hotel tax designed to fund the arts and other amenities in the city. This 14 percent tax is levied on all hotel clients and produces significant revenue for the city, which apportions the income as follows:¹

- 34 percent general fund
- 41 percent Moscone Center, Convention Bureau, and convention facilities
- 3 percent Monster Park at Candlestick Point
- 3 percent low-income housing at Yerba Buena Center

- 10.5 percent Fine Arts Museums, the Asian Art Museum, the Cultural Equity Endowment, cultural centers, and the War Memorial and Performing Arts Center
- 8.5 percent Grants for the Arts

In this way, fully 19 percent of the hotel tax funds are dedicated to the arts, much of it permanently allocated to a handful of major art institutions or facilities but also with a competitive grant-making program—Grants for the Arts—to which any San Francisco arts nonprofit may apply. Since the inception of the grants, nearly \$220 million has been distributed through this process to nonprofits in dance, media, music, civic celebrations, theater, and other arts and cultural areas. We estimate that as much as 7 percent of all San Francisco arts and cultural nonprofits' expenditures are covered by funds from this tax.

¹ San Francisco City Hall, *Grants for the Arts: Annual Report Fiscal Year 2004-2005*. (www.sfgfta.org)

Interestingly, San Francisco, Marin, and San Mateo counties have the lowest proportion of school-age children.¹⁵ The Oakland Area has the largest share of religion-related nonprofits with 32 percent. The two areas clearly dominate the Bay Area region.

Human services organizations in the Bay Area are focused primarily on the delivery of social services, although 20 percent are devoted to recreation activities. Bay Area counties' poverty rates fare well in comparison to the rest of the state. Most California counties with the lowest poverty rates are located in the Bay Area (Lopez, 2002). Despite this and unprecedented wealth creation in recent years, segments of the population remain impoverished. Indeed, some argue that the creation of an independent poverty index is needed for the Bay Area; the federal poverty definition does not apply well to this region where costs of living have skyrocketed in recent years. A recent report estimates that a household of two adults and two children in San Francisco

County needs an income of \$60,274 to be considered self-sufficient,¹⁶ well above the federal poverty level of \$17,000 per year (Northern California Council for the Community, 2003). According to this definition, nine of the ten Bay Area counties fall into the highest necessary-income brackets in the state to achieve self-sufficiency, and more than 25 percent of the Bay Area population does not meet the self-sufficiency standard (Pearce, 2003; Northern California Council for the Community, 2003; United Way of the Bay Area, 2003). Human services nonprofits are often the first to respond to the socio-economic needs of a very diverse population in this expensive area.

Human services organizations are concentrated in the major metropolitan areas of San Francisco and Oakland. However, the distribution of human services organizations may be best considered in relationship to the proportion of needy populations per county. One such indicator is the number of people living below the federal poverty level in each

county. Looking at the regional distribution of human services organizations per 1,000 people living in poverty, we find that Marin County stands out with around 13 human services providers per 1,000 people in poverty, while Solano has the lowest density of nonprofits to poverty-stricken residents at 2.6. Overall, the San Francisco metropolitan area is best equipped in terms of its density of human services nonprofits. The East Bay and the San Jose area have a much lower proportion of those nonprofits to meet the needs of their populations. The counties located outside the urban centers are better off in this sense than the Oakland and San Jose metropolitan areas. In Santa Cruz County, for example, many human services organizations belong to a nonprofit network, the Human Care Alliance, which is designed to better serve the needs of the poor, especially the high proportion of immigrant farm workers in the county, by coordinating services and reducing overlap among nonprofits.

Despite the inequalities within this region, Bay Area counties compare well to those in the Los Angeles region, where there are only 1.5 human services organizations per 1,000 people living in poverty, nearly half the lowest ratio found in the Bay Area. In fact, the county with the highest ratio in the Los Angeles region (Ventura) is below Solano County, which at 2.7 has the lowest ratio in the Bay Area. Similarly, the largest expense per capita in the Los Angeles region's Orange County is \$1,806—only 60 percent of the lowest expenses per capita in the Bay Area, found in Solano with \$2,980.

Health organizations are also more concentrated in the San Francisco metropolitan area, which accounts for 37 percent of the health sector with organizations such as the Homeless Prenatal Program and the Tenderloin AIDS Resource Center. The Oakland Area is also second highest in its proportion of health organizations at 29 percent.

Given that the San Jose Metropolitan Area (delimited by Santa Clara County) accounts for only 17 percent of the Bay Area's nonprofits, it has a fairly large proportion of educational nonprofits, including higher education (21 percent).

The county also has proportionately more religion-related nonprofits within its environs (27 percent). Santa Clara is the Bay Area county with the second-largest number of religious congregations after Alameda (American Religion Data Archive, 2000), the county that holds another 20 percent of the region's religion nonprofits.

The outlying counties of Napa, Santa Cruz, Solano, and Sonoma, have within their nonprofit communities a relatively high proportion of environment organizations as well as health and human services compared to other areas of nonprofit activity in those counties.

TABLE 6

Human Services Scope by County, Bay Area, and Los Angeles

	PEOPLE IN POVERTY			HUMAN SERVICES ORGANIZATIONS		
	Number	Poverty Rate	Expenses per Capita in Poverty (\$)	Number	Density per 1,000 in Poverty	Median Expenses (\$)
Bay Area	612,849	9%	5,115	2,561	5.0	249,164
Alameda	158,812	11	5,504	578	3.6	271,837
Contra Costa	72,110	8	4,289	271	3.8	180,897
Marin	16,321	7	9,270	206	12.6	169,813
Napa	10,315	8	3,900	55	5.3	116,473
San Francisco	87,771	11	8,383	450	5.1	523,900
San Mateo	41,015	6	4,380	189	4.6	171,028
Santa Clara	126,194	8	4,998	431	3.4	249,262
Santa Cruz	30,417	12	3,273	123	4.0	207,508
Solano	32,747	8	2,980	87	2.7	200,615
Sonoma	37,148	8	4,168	171	4.6	161,322
LA Region	2,555,959	13	1,327	3,240	1.5	194,960
Los Angeles	1,703,962	18	1,753	1,980	1.2	235,415
Orange	293,168	10	1,806	583	2.0	146,936
Riverside	219,445	14	747	250	1.1	117,882
San Bernardino	270,091	16	1,424	284	1.1	161,347
Ventura	69,294	9	1,653	143	2.1	124,020

Santa Cruz, Sonoma, and Marin (which is a mix of suburban and rural communities that is included in the San Francisco Metropolitan Area) collectively account for one-fourth of the environment and animal-related charities. All three counties border the Pacific Ocean and are home to a variety of sea and land species as well as numerous parks and open spaces. About one-fourth of the environmental nonprofits in these counties are dedicated to preserving the local coastal areas and/or wetlands. This includes groups that advocate for the protection of natural environments and groups that actively work on restoration projects. Additionally, about 58 percent of environmental nonprofits in these counties are concerned with protecting animals, including three humane societies. Rural spaces have comparatively larger populations of wild

and farm animals, and these counties have numerous animal-related environmental nonprofits such as the Humane Society of Sonoma County and the Humane Farming Association.

Intra-regional Size

The size of nonprofits varies considerably by county. Median budgets range from a low of \$89,022 in Solano to a high of \$334,474 in San Francisco, and net assets range from a low of \$59,847 in Solano to a high of \$176,759 in San Francisco. San Francisco's operating charities are three times the size of the typical operating charity in Solano. The disparity within the Bay Area in terms of Peninsula versus East Bay and urban versus rural is again apparent. Operating charities in the San

Francisco Metropolitan Area clearly have higher net assets than those located in the Oakland Metropolitan Area. As these net assets include land and buildings, this may partly reflect the higher real estate values on the Peninsula than those in the East Bay and the outlying counties. Some outlying counties, however, fare better than urban centers: Santa Cruz nonprofits typically have more net assets than those in the San Jose Metropolitan Area (Santa Clara County), and Napa operating charities are typically wealthier in net assets than those found in the Oakland Metropolitan Area.

Within Bay Area communities, some striking disparities emerge when it comes to the nonprofit sector's population, size, and assets. "The Peninsula," comprised of San Francisco, San Mateo and the

No Child Left Behind?

Even the most cursory examination of organizations supporting our schools—PTAs, booster clubs, and other parent volunteer organizations—shows startling disparities among communities and perhaps provides some clues into the state of our current educational funding. In the entire Bay Area, 386 operating charities (just over 5 percent of all nonprofits) report support to the public schools, significantly subsidizing funding to the tune of \$28.9 million in expenses, not to mention further value in the tens of thousands of hours contributed by volunteers. These organizations rarely accrue deficits and hold more than \$22 million in total assets while assuming less than \$1 million in liabilities. SPEN interviews with such organizations describe purchases ranging from basic supplies such as toilet paper and printer cartridges to luxuries such as sports equipment.

Certainly there are hundreds more such organizations, but among those raising more than \$25,000 annually there are huge differences geographically. Consider:

- Only six Napa school-supporting organizations raise enough to file with the IRS, contributing a mere \$158,172 to their schools in total.
- Only four Oakland PTAs meet the reporting threshold, providing \$369,106 to help their schools, while in the much smaller community of Los Altos, ten organizations contribute nearly \$1.6 million.

Our focus on larger, reporting charities misses the myriad smaller parent-volunteer organizations that support our schools, yet the data clearly demonstrate the ways in which communities of parents have banded together to foster better environments for their children than those that would have been provided solely under the aegis of state, county, and city government. Whether in an urban center or posh suburb, those children fortunate enough to attend schools with active parent organizations have a clear advantage.

TABLE 7

Size by County, Operating Charities

County	Median Expenses	Median Net Assets
Alameda	\$222,820	\$92,631
Contra Costa	115,394	71,212
Marin	156,965	88,361
San Francisco	334,474	176,759
San Mateo	115,394	97,777
Santa Clara	146,611	97,938
Santa Cruz	175,945	85,422
Napa	155,624	121,084
Sonoma	136,017	63,658
Solano	89,022	59,847

northern portion of Santa Clara County, is clearly dominant over the East Bay. Both San Francisco and Oakland lead San Jose when it comes to their share of nonprofits. And the urban centers generally overshadow the rural counties, with the possible exception of Santa Cruz, which may provide a model for how relatively rural nonprofit communities can respond to the challenges. Are operating charities in these regions

sufficient to meet all the social need within these communities? Do Peninsula-based operating charities also help meet social need in the East Bay? While the water separating the Peninsula from the East Bay may not seem like a barrier to the provision of social good across locale, many residents who need the services of operating charities lack the means, health, or ability to find services far from their residence. That famous body of water may equally act as a barrier when it comes to participation in the activities of nonprofits other than those offering social services. This is even more the case for those counties located along the perimeter of the Bay Area. As predominantly rural counties, they have distinct social, cultural, and economic challenges and need vibrant local nonprofit communities to meet those challenges.

SIZE VARIES BY COUNTY

Although Alameda County has nearly 6,000 nonprofits registered for 501(c)(3) status, only 45 percent bring in more than \$25,000 per year. In San Francisco, 60 percent of its 5,200 registered organizations file.

CHAPTER 3:

MANAGERIAL PRACTICES

FINDINGS FROM THE SPEN INTERVIEWS

Demographic characteristics of operating charities, as presented in the previous chapters, are useful. They help to describe and understand the profile of the sector. But they tell us little about how these organizations operate or how they are managed. A primary goal of the Stanford Project on the Evolution of Nonprofits has been to focus less on policy issues facing the sector and more on understanding the management of these organizations—an understudied area. SPEN’s extensive interviews with nonprofit leaders included questions framed to elicit empirical data as well as discursive, qualitative responses on a variety of topics that ranged from founding conditions to human resources, organizational structure, fundraising, leadership, and many others.

Nonprofit stakeholders say charities need to be “better managed” and professionalized. Their interest in topics such as nonprofit mergers, strategic planning, and accountability has risen significantly in recent years, with various stakeholders pushing for the adoption of “professional” management practices (Powell et al., 2005). Nonprofit funders like the William and Flora Hewlett Foundation, for example, are increasingly requiring their grantees to adopt strategic planning as part of their funding requirements (Brest, 2003). At the same time, some executive directors, faced with the challenges of raising the visibility of their organizations, have been

eager to adopt some of these new solutions. The following chapter presents some of SPEN’s unique findings on nonprofit management.

Organizational Structure

Organizations in the Bay Area are structured in diverse ways. The vast majority are stand-alone institutions, but some organizations are interconnected. A sizeable number of operating charities (14 percent) are structured as franchises or chapters of another organization. For example, each Parent Teacher Association (PTA), Little League, and Boys and Girls Club is an independent organization—legally incorporated and reporting to the IRS—but operates under the governance policies of the national PTA, the National Little League, and the Boys and Girls Clubs of America. Such national organizations may provide support in terms of procedures, guidelines, training, or financial resources, and they often dictate reporting requirements and the range of programs that may be delivered. Often, the independent chapter must send a portion of its membership dues or other revenues to the national organization and must agree to comply with policies that are incorporated into the bylaws.

Another 13 percent of operating charities operate as subsidiaries or affiliates of larger organizations, creating large “families” of companies. For example, most large housing development organizations in the Bay Area have a group of sibling organizations that collectively run what appears to be one cohesive organization to the outside world. This might include an administrative corporation, a devel-

opment corporation, and a property management corporation instead of only one parent corporation. In housing, each property created is also incorporated as a separate, affiliated nonprofit.

In a different situation, some charities are created that are formally or informally affiliated with other entities. Some mutual benefit nonprofit associations that fall under other subsections of the 501 code create a 501(c)(3) affiliate when they run a charitable program for which they want to reward donors with tax deduction benefits. For example, to aid fundraising, a 501(c)(4) Rotary Club may create a 501(c)(3) operating charity for its scholarship program. In yet other cases, government entities or friends groups create charitable nonprofit affiliates to help support city programs, such as volunteer groups for a parks and recreation department or nonprofit properties under a governmental housing authority.

Still other organizations are structured to serve and be supported by specific populations such as professional groups or preservation societies; the IRS data on the full population of Bay Area operating charities shows that 22 percent of the 7,106 operating charities report some membership income. Because some membership organizations do not assess dues, the SPEN sample found that 26 percent of operating charities consider themselves membership organizations with numbers ranging from 15 to more than 10,000 members. Examples of membership organizations in our sample include numerous youth-focused clubs, sports clubs, and school associations as well as theater groups, student associations, and hobby groups.

Organizational Capacity: Staffing and Volunteers in Bay Area Nonprofits

Financial resources are important to nonprofits, yes, but equally important is the availability of effective staff and volunteers. Despite relatively scarce financial resources, many nonprofits mobilize and manage volunteers to accomplish their missions. Purely volunteer-based charities, with no staff on payroll, make up 26 percent of operating charities, while the remaining 74 percent have paid staff. The volunteer-based organizations range from Little League-type sports groups and hobby-oriented associations to amateur theater groups, from parent-teacher associations to grassroots groups seeking to relieve poverty at home or in foreign countries.

With the typical organization not exceeding three paid staff members, most Bay Area operating charities rely heavily on volunteers to fulfill their missions. Only 15 percent do not rely on any volunteers at all. The remaining organizations enlist a range of 2 to 2,000 volunteers in a given year, with a median of 30 volunteers per year. The organizations that tracked the value of volunteer time reported ranges from \$7,100 to nearly \$800,000 annually. When asked about the importance of volunteers for her organization, the executive director of a medium-sized human services organization that serves meals in the East Bay said that volunteers are the lifeblood of her program.

“We have retired doctors and schoolteachers all the way to people who have a high school education. It’s wonderful to have such a diversity of volunteers. One thing

When the Dot-com Bubble Burst...

The economic downturn has had complex effects on Bay Area nonprofits. While 69 percent of operating charities report that their revenues have been affected, many experienced only a slight dip or spent more time fundraising to find new sources to make up for the losses. Forty-five percent report seeking new sources of revenue as corporate support dwindled, individual donors were hit, government cut some of its programs, and foundation endowments and subsequent grants dropped drastically. Many nonprofits also had to cut some programs and lay off some staff. However, for those few nonprofits that were in a position to hire, the quality of skilled candidates looking for jobs was advantageous.

Many leaders also lamented the simultaneous increase in the cost of health insurance and workers compensation, which increased the financial strain during the downturn. The executive director of a medium-sized organization helping poor immigrants in Santa Cruz County said: “We had to lay off a few staff and case managers. We lowered things like our training budget. We didn’t have one at all last year... Everything was down a little bit and then, the worker’s compensation fees went way up and health insurance went way up all at the same time, so between those it’s had an impact.”

At the same time, the downturn increased social need in affected communities, placing more and sometimes different demands on nonprofits in a double blow. The Bay Area suffered greatly from layoffs in the high-technology sector, and with the ensuing state budget crisis, nonprofits were often the first respondents to help address social needs. Staff had to raise the same amount of revenue or had to adapt their programs to meet changing needs and new clients.

“We’ve had to help some clients with mortgage payments, which was different for us. Usually the people we have as clients are nowhere near a mortgage.”

— EXECUTIVE DIRECTOR, MEDIUM-SIZED HUMAN SERVICES ORGANIZATION

“The demand for our services has fluctuated. With the layoffs at the airport during the downturn, we had to serve folks who worked in transportation. Many families in this county are less than one paycheck away from homelessness. As I view it, San Mateo County became a ‘gated county,’ in terms of who could afford to live here. There has been an exodus of the poor.”

— EXECUTIVE DIRECTOR, LARGE HUMAN SERVICES ORGANIZATION

Executive Compensation

Relatively little information is known about nonprofit compensation practices. Many publicly available reports are compiled from small-scale, voluntary responses to surveys that are not representative of the sector, or they focus on pay among the largest nonprofits in the country. Detailed compensation analyses are mostly available from consulting groups at prices beyond the reach of most nonprofit executive directors or boards.

Despite the controversy and resultant media coverage that crops up from time to time in the wake of isolated compensation scandals, nonprofit executives are severely underpaid as a group in comparison to their for-profit peers.³ Using actual executive director salary information reported to the IRS from 1999-2002 and comparing it to interview information from the 200 SPEN participating organizations, researchers found median salaries for full-time executive directors in the Bay Area:

- 1999: \$67,124
- 2000: \$68,388
- 2001: \$70,233
- 2002: \$72,000

While this may not seem egregiously low at face value, staff funding is precarious for the majority of organizations in the SPEN samples. Consider that in San Francisco County, \$60,274 is considered the bare minimum for household self-sufficiency (see page 28 above). Only 157 of 200 organizations (75.5 percent) have an executive director. Among organizations with executive directors, 117 work full-time (35+ hours/week) and 40 work part-time, 18 work (sometimes full-time) as volunteers, accepting no salary, while some others take token salaries as low as \$5,000 and \$8,000. Among those who work full-time, salaries range from \$5,000 to \$564,300 (in 2001) with only one salary above \$225,000. Median salaries vary considerably by programmatic focus; for example, arts executive directors receive a median of only \$37,447 (in 2001).

³ Peter Manzo, "The Real Salary Scandal: It isn't that some nonprofit CEOs make big bucks, it's that most nonprofit employees are paid too little," *Stanford Social Innovation Review*, 2, 3: 65-67.

that comes to mind immediately is the ethnic mix in the Bay Area now. I'm very conscious when I recruit volunteers of what languages they speak, so that I have translators when I need them. Our volunteers get to know our clients, they have a real personal relationship with them, and I think that really distinguishes us, that we truly are able to keep the heart in the program. Our volunteers are just a wonderful group of people."

Across activities, other nonprofit leaders echoed her sentiment about the importance of volunteers. The board president at one parent-teacher organization provided a striking example of their value.

"We counted volunteer hours for the nine months of the school year, which didn't count my three months during the summer. It came out to be about 15,000 hours for the school, but I think it's really probably

closer to twice that. There's a different parent at the hot lunch program every day, and then we've got sixth graders who are helping out as well. Every time there's a class in the library, there's a parent in there helping the librarian. And we have a whole parent physical education program, kindergarten through third grade."

Many executive directors also talked about the difficulty of recruiting volunteers and expressed concern over fostering a culture of volunteerism in their communities.

Volunteerism becomes especially important when you consider that the 74 percent of organizations that reported paid staff give the false impression that these are mostly professional entities. In the world of nonprofits it is understood that for many small organizations the term "paid staff" means merely a few hours per week for the services of a bookkeeper. The median number of staff for

the population we studied is 2.4 full-time equivalents (FTEs), although some large nonprofits employ hundreds—in one case, 550 FTEs. Most operating charities fall into the lower range, however, and the 2.4 number underscores the small size of most nonprofits.

Indeed, permanent paid staffing varies substantially by the size of the organization. Nonprofits in the small category (budgets below \$200,000) have a median of only 0.2 employees, whereas those of medium size (budgets of \$200,000–\$999,999) typically report six FTEs, and large organizations (budgets of \$1 million or higher) report a median of 37.5 FTEs.

Among the 74 percent of organizations that have paid staff, 94 percent have an executive director. A small percentage of these organizations (7 percent) fill an executive director position with a

volunteer; in such organizations the typical paid staff member is a part-time bookkeeper rather than someone charged with oversight and leadership for the organization, rendering the organizational capacity much more in line with the purely volunteer-based organizations. Among those that have staff, 31 percent have at least one paid position dedicated to fundraising.

Among small organizations in particular, executive director compensation often accounts for the lion's share of the budget as such small-capacity organization directors wear multiple hats, from administration to leadership to program delivery. Centralizing leadership in one position is common even among the solely volunteer-based charities, where 33 percent still appoint an executive director. In another 21.5 percent of volunteer-based organizations, the executive duties are assumed by the board president, sometimes in conjunction with an active executive committee.

The data SPEN collected raises several empirical questions that impinge on policy issues. Are funders aware of the extent to which organizations mobilize volunteers and the extent to which the “below 20 percent overheads” rule may not account for this in the grant application process? How does this value reflect upon the size of organizations as discussed in Chapter 1? How can organizations that want to increase their impact through efficiency or growth increase their capacity by building their infrastructures and mobilizing volunteers? Where are the best investment opportunities for funders who want to support capacity building through staffing or through training in the recruitment and motivation of volunteers?

Leadership and Governance

The SPEN interviews shed light on the education, experience, and career paths of nonprofit leaders, both directors and board chairs or presidents. Executive directors in the Bay Area are highly educated: 70 percent completed a bachelor's degree, and 38.5 percent completed a master's, doctoral, or other advanced degree. Across all organizations, board presidents are also highly educated with 72 percent having completed a bachelor's degree and 60 percent holding an advanced degree.

Tenure for nonprofit leaders is split fairly evenly. Among executive directors, 34 percent have ten or more years' tenure in their positions while 35 percent have been in their positions only three years or fewer. Nonprofit leaders come from a variety of backgrounds, from former stay-at-home mothers who worked their way up from volunteers in the organization to former high-technology CEOs. Others were previously clients of the nonprofit who later joined its staff. In addition to experienced clients, volunteers, and managers, some leaders have specific professional expertise in a variety of fields such as nursing, law, or social work. Sixty-one percent of executive directors are women.

Seventy-one percent of nonprofit leaders in the SPEN sample had some previous experience in the nonprofit sector, either as staff or as volunteers; 57 percent have some experience in the for-profit sector; and 44 percent have some experience in the government sector (though the overwhelming majority there were public school teachers rather than government administrators). The most common previous position of an executive director

immediately prior to joining the nonprofit was in a for-profit corporation (38 percent), followed by a nonprofit corporation (37 percent). Few executive directors previously held a position within government just prior to becoming director (19 percent), and still fewer were self-employed or unemployed (6 percent) immediately before joining the nonprofit. Most are executive directors for the first time, with only 23 percent coming from senior executive positions in either nonprofits or for-profits.

Governance in operating charities reflects the diversity of size, mission, and staff in the Bay Area. Boards vary from 2 to 90 officers, with a median size of 10. The use of committees to carry out board duties also varies greatly, with 31 percent reporting no board sub-committees. At the other extreme, some organizations report having as many as 40 board committees,¹⁷ although the typical board has between two and three. The most frequent type of committee is the budget committee, with 37 percent of nonprofits reporting such a group, followed by a fundraising committee (31 percent). A 100 percent financial donation participation rate from their board members is reported by 40 percent of organizations;

HOW OFTEN DO NON-PROFIT BOARDS MEET?

- 15 percent meet 1–2 times per year
- 36 percent meet 3–6 times per year
- 17 percent meet 7–11 times per year
- 32 percent meet monthly or more often

65 percent have board members who help with fundraising responsibilities in other ways. The majority of executive directors (67 percent) communicate weekly or more often with their board chairs for advice or to update the chairperson on organizational matters.

Executive directors reflected on the delicate balance between having a hands-on, involved board and the danger of having a board so hands-on that it could become hurtful to the organization:

“It’s been a very tough year for the board members to really understand their roles and how far to come into operations. The role that they should want to play, or how we want them to play, is as support to the operations, not micromanaging. Right now I have a board that’s in the middle of everything, and it’s very difficult to manage.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED
HUMAN SERVICES ORGANIZATION

“I don’t know any executive director who has not struggled to have an effective board, not to overburden the board and draw them into micromanaging—but also not have them be the rubber stamp. It’s really a challenge to figure out what the right balance is and hard for board members to really know and understand what the organization is doing. I feel like a lot of the current knowledge on board governance is just the old tried and true, ‘if you just work harder at these, it works,’ but it really doesn’t. It doesn’t acknowledge that people don’t have as much volunteer time as they used to. Nonprofits are much more complex than they used to be; people just

can’t come to a once-a-month meeting and get it. And they can’t just walk into the site of the service delivery and start doing the work of the agency either.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED
HOUSING ORGANIZATION

In a sector where commitment to mission is paramount, the line between adequate involvement in oversight and over-involvement in the operations of the organization can be difficult to manage. Leadership and governance structures vary widely between organizations in meeting these challenges. Across the board, however, nonprofits in the Bay Area benefit from a wealth of human capital: highly educated, skilled, and experienced executive directors and board presidents are at the helm and are working together closely to make operating charities successful.

External Relations

Most operating charities in our sample, especially those with paid staff, are very much aware of the external environment and the potential resources it contains. While the majority of nonprofit leaders cannot spare the time they feel they should to focus on public and media relations, the majority of organizations make some effort at communication and marketing to the wider world. Reflecting the high-tech environment of the Bay Area, 76 percent of organizations have a website. Websites are used as an internal management tool, for fundraising, as a communication and scheduling tool for volunteers, to market services to clients,

to recruit volunteers, and to broadcast their activities and accomplishments to the public.

Nonprofits of all sizes are increasingly seeking out external opportunities for professional development. Sixty-nine percent of nonprofit leaders report that they and their staff or volunteers regularly attend professional training events to help them manage the organization, seek out new knowledge and solutions, and meet peers. For some, especially in the fields of education, health, or human services, the training is often very specialized, such as continuing education in early childhood development for daycare teachers. Many attend conferences that focus on their activity areas. Still others seek out the topical training sessions offered by an increasing number of intermediary organizations. In the Bay Area, professional development sessions at CompassPoint Nonprofit Services and the Center for Excellence in Nonprofits are most frequently attended by our respondents.

An even higher share of organizations, 73 percent, join peer networks, affinity groups, or associations that represent their interests. These memberships offer online support, email listserv discussion groups, and newsletters on current issues in the field that help leaders stay abreast of current events in the sector. Many hold conferences at which nonprofit leaders can meet to exchange ideas and find new opportunities for training and development. Many feel that the advocacy undertaken by many of these groups provides an important value to understaffed organizations without the resources to advocate on their own.

Mergers and Collaborations

Some observers of the sector express concerns about redundancy, and some funders have used their funding programs to push nonprofit mergers or to leverage efficiency through alliances and collaborations. Yet little is known empirically about the frequency of overlap between organizations, the extent to which mergers or collaborations have already occurred over time, or which types of organizations are most likely to benefit from consolidation or cooperation.

Our data show that 9 percent of operating charities in the Bay Area have already gone through some type of merger or acquisition in their history. In some cases these are mergers of relative equals while

in others the programs of a smaller nonprofit have been absorbed into a larger one. Some nonprofit leaders have extensive beneficial experience with mergers, such as this executive director of a large human services organization that serves people with disabilities:

“We added a lot of resources every time we’ve merged with another organization, adding to the organization’s economic viability. We are very cognizant of how it can be problematic to merge different cultures. We spent time making sure that all of our values were in the same place. The one thing I’ve learned is that you don’t just merge organizations that are doing what you do and want to do it the same way—you want to add something to your own programs in the process.”

While mergers can be extremely successful—one organization in our sample reported a nearly 50-percent reduction in overhead costs as a result of several successful mergers between chapters of a national organization—consolidation plans can also put organizations at extreme risk. Some operating charities tried to merge and failed, almost causing the dissolution of one or both organizations involved in the talks:

“We were supposed to merge with another organization a year and a half ago, and we talked over a year through formal negotiation. During that time, because we thought we would be merging and forming a new corporation between the two agencies, we didn’t promote the board or a lot of fundraising. We wanted to let that happen when the new organization was

A Silicon Valley Effect?

Among the 76 percent of Bay Area operating charities that had websites at the time of the SPEN interview:

- 35 percent offer online giving
- 22 percent acknowledge funders online
- 43.5 percent list board members

Is there a Silicon Valley effect? Do nonprofits in this high-tech environment feel the need to have a website? In the Bay Area, 76 percent of nonprofits have a Web presence versus an estimated 27 percent nationally (Tuckman et al., 2004). Among those with websites, 22 percent acknowledge funders online, and 44 percent list board members, using the sites both for transparency and to express appreciation.

Nonprofit websites are also used for marketing and fundraising. An estimated 35 percent have expended time and resources to offer online giving as an option for their donors, yet most bring in only a negligible amount: only 18 percent of these sites raised

more than \$1,000 for the organization in 2003. The single biggest success story in the SPEN sample was an organization that brought in \$40,000, a mere 2 percent to the \$2.1 million human services organization. It remains to be seen whether the leadership shown by Bay Area nonprofits in the incorporation of a virtual presence will also enable them to lead the way in capitalizing on this phenomenon.

Although online giving has had major success stories in the wake of disasters such as the bombing of New York’s World Trade Center and the Asian tsunami, most online donations have gone to large, well-branded organizations such as the Red Cross or major foundations in the fight against cancer. The SPEN data suggest that this new, low-cost method for fundraising has not yet caught on among donors.

Nonprofit Closures

Regulations on nonprofit dissolution vary from state to state and compliance is less than optimal. Organizations may become dormant and later reactivate; they may close and file officially or not; or they may operate below the \$25,000 in annual revenue that requires filing and therefore drop out of the available data pool. Subsequently, we know very little about closure rates (Hager et al., 1999)

While there has been a great deal of concern in the media and sector over closures, particularly as a consequence of the economic downturn, SPEN sampling suggests a fairly low rate of closure between 2000 and 2004 in the Bay Area. Of 300 operating organizations randomly selected from among the 7,106 that filed in 2000, only 16 are known to have closed or been in the process of dissolving by 2005, resulting in a rate of 5 percent over the five-year lag. Seven other organizations could not be reached and may also have closed, become dormant, or moved.

It is also important to note that closure is not synonymous with failure. Of the 16 organizations, two completed their missions (for example, a church restoration following damage in the 1989 Loma Prieta earthquake), three merged with larger nonprofits, and two filed for bankruptcy. Furthermore, although full IRS datasets are not yet available, we know that the number of operating charities in California increased each year from 2000 to 2004 despite the economic downturn, indicating a net gain in the nonprofit population from year to year.

formed. About nine months ago [after the merger talks got contentious and failed], it was decided we would not merge. So we're in the process right now of rebuilding our board."

– EXECUTIVE DIRECTOR, SMALL HUMAN SERVICES ORGANIZATION

Nonprofits are currently also being called on to engage in alliances and collaborations in order to maximize the use of limited resources and extend the reach of their missions. Collaboration and alliances are not new to the nonprofit sector. Indeed, operating charities of all sizes and missions already rely extensively on formal or informal collaborations with organizations across sectors. An overwhelming 76 percent of operating charities engage in collaboration with other nonprofits, 46 percent report collaborating with government organiza-

tions, and 32 percent report collaborating with for-profit entities.

The essence of collaboration is the delivery of mission. An executive director from a criminal justice organization talks about collaborating with a variety of other community groups that help extend the reach of her programs: "We work with about 20 different nonprofits all over the Bay Area, a few in Oakland, one in Richmond, and all of San Francisco's." In some cases, alliances and collaborations are encouraged or required by funders:

"We collaborate with five other nonprofits, the city's parks and recreation department, and the schools and school council. That collaboration was the result of an initiative from the city fund. Their objective was to make us all work together, to really get the

biggest bang for the little bit of money that we had, and to coordinate accountability requirements."

– EXECUTIVE DIRECTOR, MEDIUM-SIZED YOUTH ORGANIZATION

The same leader went on to mention other projects driven internally:

"But we also raise money and do collaborative projects with other nonprofits. We usually select partners based on personal relationships and based on the track record of the other organizations. But a lot of it's been based on whether I can work well with that other ED or program manager."

There are clear lessons to be learned from these experiences. The following questions are commonly asked by nonprofits considering mergers:

- Is the merger or collaboration a win for both parties?
- How will communication and decision-making, especially in areas of conflict, be handled?
- What is the timeline and how will the process be staffed and funded?
- Will the cultures of the organizations mesh naturally or will that need planning and fostering just as much as the program side?
- What are the realistic costs and benefits?
- What will it accomplish logistically and strategically?

Strategic Planning

Many funders have also called for more systematic use of strategic planning by nonprofits. Even though the majority of operating charities are small, 46 percent now develop a strategic or business plan, and the most common type of plan is the

long-range plan. Half of the organizations that develop such plans involve a consultant in the process.

Among the organizations that receive government funds, 60 percent engage in strategic planning. For those organizations that receive funds from foundations, 63 percent have a strategic plan, and of those receiving corporate donations, 66 percent engage in strategic planning. These data beg the causal questions: Are funder demands for plans as part of the grant application process causing organizations to develop plans? Or are organizations that already plan more successful at receiving grants from government, foundation, or corporate funders?

Nonprofit leaders disagree about the usefulness of such plans. Some find the experience transformative and refer to the plans as their organizational “Bibles” while others do it more for ceremonial reasons than words to live by. And exactly what is optimal varies by organization and experience. The director of a low-income housing organization tries to avoid costly and lengthy processes with a consultant, preferring the plan to be developed internally:

“I’m a person who believes in committing things to writing so that you actually get them done. My goals were formulated from my staff’s goals. My staff was instructed to deal with their staff on formulation of department goals. When they came out with things I didn’t agree with or that were way too light, they got a lot of pushback from me.

So I have it down to two pages. I think it’s really good discipline. And once that’s shared with the board, I commit to that and just go do it.

If I’m on a board, I hate to have these 600-page strategic plans, hundreds of pages of gobbledygook to figure out what it is we’re doing. Two pages; here’s what we’re going to do in the next two years.”

— EXECUTIVE DIRECTOR, MEDIUM-SIZED LOW-INCOME HOUSING ORGANIZATION

Other leaders doubt the usefulness of planning and insist that plans become irrelevant too quickly as the nonprofit environment changes. One executive director said that it is the process of defining values and challenges, setting priorities and establishing goals, that is the beneficial component for the organization:

“You couldn’t have planned for the housing bond. And then, you couldn’t turn around and make a plan based on the fact that \$2.1 billion was available but you got no money because the cities are all broke. How do you plan for that? You know, you just have to make something happen. The dependence on this document that’s going to be a map or a program for what’s going to happen to us, that is never going to be that way.

Our strategic plan, which didn’t predict this stuff, was invaluable just for the process, the discipline of doing it, going through that effort. So, if there’s any benefit in my mind to those things, it’s sitting down and thinking for a while. It may not ever portray what’s going to happen to you, but you sat down and had to think things out as an organization.”

— EXECUTIVE DIRECTOR, LARGE LOW-INCOME HOUSING ORGANIZATION

As with other business practices, strategic planning in itself is not a panacea. Our study found that only when those plans are customized to fit the needs of an

organization does the process become useful for staff and leadership (Hwang and Suarez, 2005). Executive directors do not want a “cookie-cutter” plan, but one that will represent their mission well and guide their organization through difficult times.

Accountability and Evaluation

There has also been increasing pressure from government and philanthropic organizations for nonprofits to be more “accountable,” especially by developing specific metrics through which they can evaluate their programs and quantify the outcomes of program accomplishments. Our research finds that 60 percent of operating charities currently collect quantitative data in order to evaluate their programs, and 53 percent use a formal evaluation instrument such as a questionnaire or survey. The vast majority (71 percent) of organizations that receive government funding use a formal evaluation instrument, as do 64 percent of those that receive foundation money.

Many nonprofit leaders question the value of the evaluation procedures or information being required. They insist that a large component of their work is not quantifiable, and something is lost in the process of measuring every element of mission delivery and focusing solely on quantitative data.

“How do you evaluate if you are giving someone emotional support? Okay, so I talked to one person for an hour... we’ll say that’s one unit of service. It’s all very subjective, how much good we do. All you can do is feel it in your heart or your gut.”

— EXECUTIVE DIRECTOR, SMALL AIDS SERVICES ORGANIZATION

Without finding measures that are appropriate to both grantmakers and grantees and without building organizational capacity, many organizations will continue to meet demands as either a necessary evil or window dressing.

“Objectives are usually described quantitatively, irritatingly quantitatively. Sometimes what is the most important you just can’t put in quantity terms. Sometimes the more important is the qualitative that you have to report anecdotally.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED SCHOOL FOR DISABLED CHILDREN

Or from another on the nature of quantitative versus qualitative measures:

“Funders want the data. They think data is most important so they want numbers, and they want to have something concrete that proves to them it’s making a difference. They don’t want to hear that the staff feels good about it. They care, yeah, if you have a nice little video that shows a wonderful group of kids smiling and happy, but they don’t want to hear about the trauma of a teenager. It’s hard because quantitative data is so mundane. It’s important, but it’s such a small part of the story. Whenever I do quantitative data, I always want to write and explain that number. To me that number without the explanation is meaningless. To them the explanation is meaningless, and so it’s a huge controversy.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED YOUTH ORGANIZATION

Furthermore, nonprofits often feel burdened by the overlapping and sometimes conflicting evaluation requirements of multiple grantmakers who do not communicate with each other to determine a single set of requirements:

“Every single grantor we have has a different evaluation tool or format or criteria they want us to use, and we measure all of them. Some require quarterly reports, and some only semi-annual or annual. The quarterly reports are very time consuming. You get all the information, turn it in, and do it again. Once you get it down and

can fill it out quickly and easily, it changes and they want different information than they were asking for before. It takes time away from what we actually get to do with people. Every year more and more time goes into the reporting and less time to actually working with people.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED TRANSITIONAL-HOUSING ORGANIZATION

Operating charities that received funding from both foundation and government sources overwhelmingly agreed that the evaluation requirements of these grantmakers were very different and put different demands on staff in terms of reporting. Among the 28 percent of organizations that receive both government and foundation funding, 67 percent agreed that the evaluation requirements differed for the two types. Most found government requirements more onerous and more data-driven than foundations. One executive director saw foundation demands positively, relative to those from government funders:

“I see foundations trying to get at the more qualitative data. They do make an effort, and I think most times you get the sense that they want to help you reflect what you’re doing well. Whereas, I think the government is much more interested in numbers, and that’s the short of it.”

Another director agreed that foundation evaluation requirements, even though they were starting to resemble government funders in using quantitative measures, tend to be more reasonable:

“The foundations seem to be moving toward more quantifiable objectives, but they also seem to be aware that they don’t want their grantees spending all the grant money reporting on how they are spending the grant money.”

– EXECUTIVE DIRECTOR, MEDIUM-SIZED HUMAN SERVICES ORGANIZATION FOR INDIVIDUALS WITH SPECIAL NEEDS

The leader of a small AIDs services organization summed up the feelings of many other leaders, saying, “Government grantmakers are a lot more specific in their requirements, and they are a lot more results-oriented, numbers-oriented. In other words, they want to look good, and they want us to look good.” Some operating charities deliberately avoid or turn down government funding because of the burden of evaluation requirements. The executive director of a small violence-prevention program complained: “We don’t have any government funding because we can’t afford it. I had gotten money from government and I told them, ‘We can’t afford to do business with you!’”

Quantifying outcomes and evaluating programs is only one aspect of accountability; another is fiscal accountability. Even though the majority of charities operate on relatively small budgets, 50 percent of organizations commission lengthy independent financial audits on a yearly basis. Some organizations, especially those that receive certain types of government funding, are required to do so. Indeed, 72 percent of nonprofits that receive funds from government com-

mission independent financial audits. Among those that receive foundation or corporate dollars, 61 percent and 65 percent respectively perform such audits. Others conduct annual audits without being required to do so by external stakeholders. Although 50 percent is, perhaps, an encouraging number given the small size of most nonprofits, there is work to be done not only to ensure accurate accounting of financial resources but also to ensure that the nonprofit board members understand and make use of this practice to carry out their fiduciary responsibilities effectively.

There are many challenges for the sector when it comes to accountability. Accountability to whom—Funders? Boards? Clients? Society? There is disagreement over appropriateness of current evaluation efforts, with a particular need to develop agreement among funders and between funders and grantees on the appropriate way to measure success within an organization. For some programs, quantitative outcomes are appropriate and help the nonprofit in the continual effort to assess and improve its programs. But for others the effort to count what you can is relatively meaningless compared to the organization's own way of measuring success. How can organizations better balance the demands for quantitative outcomes with the need in many cases to develop new ways to assess accomplishments? In an inherently unequal relationship between grantmaker

and grantee, and given the stretched capacity of most nonprofits in an extremely competitive funding environment, how can better relationships be fostered that would allow for a mutual exploration of evaluation and outcomes? The lack of agreement among grantmakers over common evaluation standards and forms is another aspect of the problem. Different funders place sometimes contradictory demands on nonprofits, as vividly exemplified by this executive director of a school for disabled children:

“Funders don’t always agree on what’s the most important. The Health Department wants the water temperature high to kill the bugs. The licensing agency wants the water temperature low so we don’t scald the children. So we’re constantly balancing the water temperature to satisfy everybody.”

— EXECUTIVE DIRECTOR, MEDIUM-SIZED SCHOOL FOR CHILDREN WITH SPECIAL NEEDS

Finally, is evaluation commensurate with effort? What other aspects of accountability, such as financial management, would help nonprofits increase their effectiveness? Some organizations are moving away from grants simply because they are too costly to manage or because there is fundamental disagreement over assessment. Without finding measures that are appropriate to both grantmakers and grantees and without building organizational capacity, many organizations will continue to meet demands as either a necessary evil or window dressing, and

not see these numbers as useful feedback to actually assess and improve or eliminate unsuccessful programs.

The nonprofit leaders in our sample are highly skilled and educated, in tune with external constituents, and strive to adhere to high standards of management. They agree that some of the management practices typically in place in the for-profit sector do not translate seamlessly to the nonprofit context, where decisions to adopt and implement practices are driven by the mission. Operating charities will consider and readily adopt mergers, alliances, strategic planning, media relations, and evaluation practices when these are adapted to and directed toward helping in mission delivery. Difficulties arise when there is a disconnect between the perceived appropriateness of specific management practices between executive directors and external stakeholders. Funders, in particular, exercise a great deal of influence on operating charities and sometimes fail to communicate the rationale behind their requests for these practices. When external patrons demand the implementation of specific practices, there needs to be a negotiation over how to adapt the practice to that charity's context and mission. In the next section, we offer a portrait of the nonprofit funders that provide not only crucial resources but often also provide advice and expertise and even advocate on behalf of the sector.

Largest Operating Charities, Bay Area

The largest operating charities in the Bay Area are overwhelmingly dominated by hospitals and health plans (18 out of the top 25). When hospitals and health plans are removed, the list looks more heterogeneous:

Stanford University	Education
Electric Power Research Institute	Public Benefit
Palo Alto Medical Foundation for Healthcare, Research & Education	Health
Chela Financial, Inc.	Education
SRI International	Public Benefit
Santa Clara University	Education
Regional Center of East Bay	Human Services
American Baptist Homes of the West	Human Services
San Andreas Regional Center	Human Services
The Trust for Public Land	Environment
Heald Colleges	Education
St. Mary's College of California	Education
Golden Gate Regional Center Program Policy Committee, Inc.	Public Benefit
Public Health Institute	Health
Pacific 10 Conference	Human Services
Episcopal Homes Foundation	Human Services
San Francisco Opera Association	Arts, Culture, and Humanities
Golden Gate University	Education
Tides Center	Environment
On Lok Senior Health Services	Health
San Francisco Symphony	Arts, Culture, and Humanities
Mills College	Education
San Francisco Museum of Modern Art	Arts, Culture, and Humanities
Sutter Visiting Nurse Association and Hospice	Human Services
The Asia Foundation	International
KQED, Inc.	Arts, Culture, and Humanities

Nonprofit Funders Profiled

In Part 2, profiling operating charities, we painted a picture of a vibrant yet stretched nonprofit sector. Nonprofits benefit from a wealth of talent in highly educated and skilled executive directors and board members, committed to succeed in delivering services to our communities. Yet, for most nonprofits, building capacity and having secure and consistent funding to fulfill their mission is elusive, especially in the context of the economic downturn.

Different sources of revenues, taken together, make up a nonprofit's funding model. Some nonprofits are fully dependent on one source or another, such as when a soup kitchen has only donations or grants as revenues, when a sports club relies exclusively on membership dues, or when a medical clinic uses only program fees.

Many nonprofits, on the other hand, rely on more than one source of revenue and as such have more diversified funding models. SPEN interviews found that in

the context of the economic downturn and cutbacks on government funding, nonprofits have tried to diversify to reduce their dependence on single sources of revenue and have sought funding from new sources. Having a secure and sustainable revenue stream has proven difficult in the current economic and political climate.

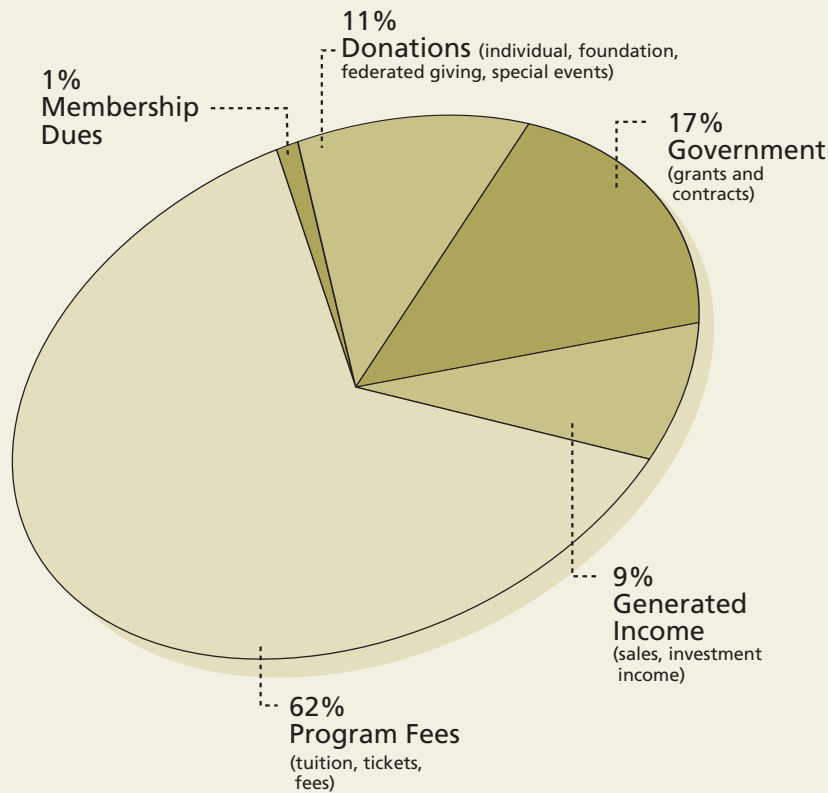
When we aggregate all revenues from California nonprofits in the year 2000, we find that the largest proportion of total nonprofit revenues (62 percent)

comes from program fees, such as when a museum charges admission or when a medical clinic charges patients to see a doctor. This is shown in Figure 11. Another 9 percent comes from income generated in activities that are not directly related to the nonprofit mission, such as when the same museum earns revenue through a café, by selling souvenirs, or through asset management. Thus, a majority of income for nonprofits (71 percent) is self-generated by the nonprofits. Government grants and contracts provide the next largest source of revenue (17 percent). Philanthropy provides 11 percent of sector revenues; this includes individual and corporate contributions and proceeds from fundraising events, as well as grants from foundations and supporting organizations. It a subsection of this category, the funders that are themselves nonprofit organizations, that we profile in Part 3.

Even while a large portion of revenues are earned through program fees—

FIGURE 11

Revenue Sources, Operating Charities



72 percent of nonprofits charge some program fees—donations are fundamental to the survival of many nonprofits. Indeed, our interviews found that 81 percent of operating charities receive some form of donation and that:

- 79 percent receive individual gifts;
- 59 percent receive support from foundations; and
- 50 percent receive support from corporations or corporate foundations.

By comparison, grants and contacts from government entities are a source of revenue for only 46 percent of nonprofits. Although government funding

provides more total revenue to the sector, it is less often a source in nonprofit funding models.

Not only are donations the most frequent source of funding, but these donations tend to be located in proximity to the operating charities. Among organizations that receive donations, about three-quarters report that 90 percent or more of their donors are from the Bay Area. While many individual philanthropists and funding organizations from the Bay Area donate beyond the region, a significant portion supports local operating charities.

In the Bay Area, the funders who are themselves nonprofits spend in excess of \$3 billion per year, most of which is distributed as grants. Funders to the operating charities not only provide funds that are necessary for mission delivery but often influence organizational practices in operating charities, playing an important role in the nonprofit sector. Executive directors and board chairs interviewed in the Stanford study provided numerous examples of the benefits and challenges of working with funders and other nonprofit stakeholders. Grantmakers often provide not only critical funds but also expertise and guidance to nonprofits.

Many regional studies consider the full population of public charities, thereby grouping operating charities and supporting organizations in the same analysis even though the latter fund part of the activities of the former. Further, many do not distinguish among different types of funders when assessing the profile of the sector. Funders differ fundamentally from operating charities. They do not deliver services but rather support the organizations that do. As such, they are structured differently and influence decision making in the operating charities that seek to obtain their support. A key contribution of the SPEN study is to highlight the difference between these organizational types within the sector and provide a detailed picture of the whole.¹⁸

In Part 3, we use the IRS form 990 and IRS form 990-PF data to develop a portrait of the 2,750 Bay Area organizations that provide substantial funding to the operating organizations profiled in Part 2. We then analyze the funders in terms of their differences within and between regions.

CHAPTER 4:

SCOPE OF THE PHILANTHROPIC SECTOR

SUPPORTING ORGANIZATIONS AND PRIVATE FOUNDATIONS

Nonprofit funders fall into two categories as shown in Figure 1C: public charity supporting organizations, such as community foundations, and private foundations, such as family foundations. While both receive tax-exempt nonprofit status under section 501(c)(3) of the internal revenue code, supporting organizations

and private foundations are subject to different tax rules. This section profiles the Bay Area population of these two important types of nonprofits and considers their contribution to the sector as a whole.

Supporting Organizations

Classified as public charities, supporting organizations face less stringent tax regulations than do private foundations. They must receive at least 30 percent of their revenues from public sources (for example, a supporting organization could not be funded by an individual's estate).¹⁹

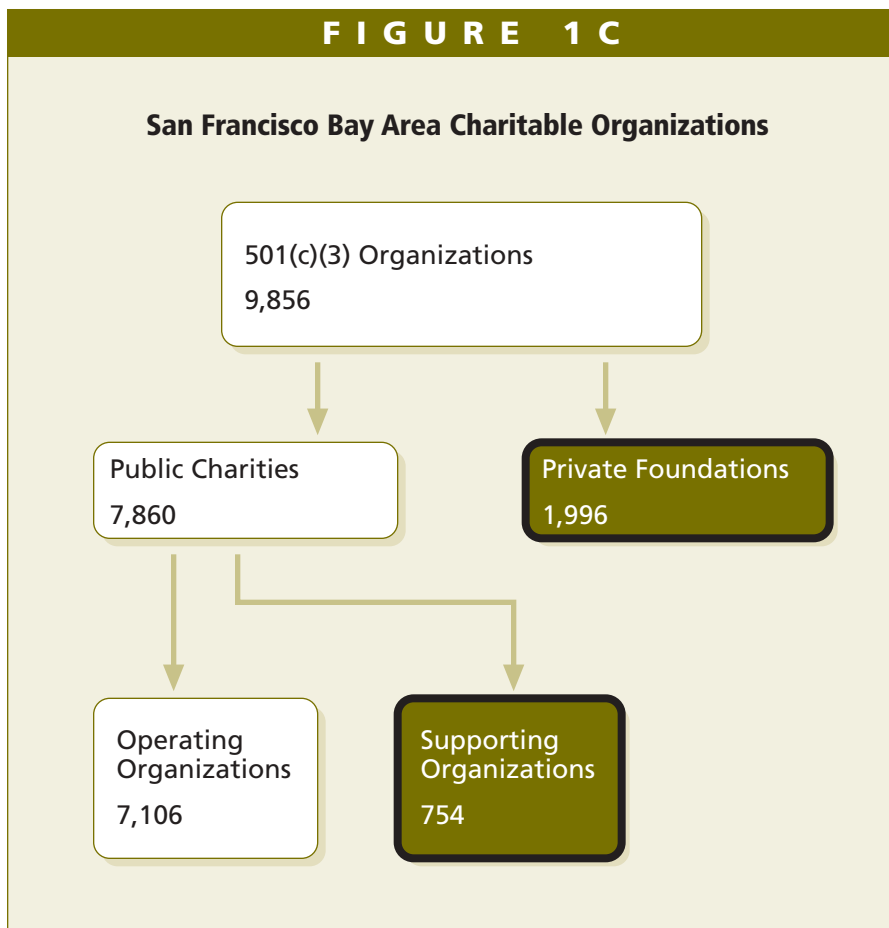
Supporting organizations provide diverse types of support to operating charities,

such as capital, programmatic support, infrastructure, real estate, and expertise.²⁰ There are three main types of supporting organizations. The first is those supporting organizations dedicated to a single charity or organization. These are called sole-support organizations. A second type provides resources to many charities within a specific activity; these are known as activity-focused supporting organizations. The third category is involved with general fundraising and grantmaking.

Programmatic Focus

Of the 754 supporting organizations in the Bay Area, 46 percent support a single organization, such as a specific operating charity or a public school. Of these, 43 percent are concentrated in the education field, and most of these organizations, such as the Oakland High Athletics Boosters, support the activities of public schools. Another 20 percent of sole-support organizations help nonprofits in the health arena. While human services is the largest category of operating charities, they benefit from relatively few sole-support nonprofits. Only 18 percent of all sole-support organizations provide resources in the area of human services, and most of these are dedicated to the subcategory of recreation and sports activities rather than to social services. Nine percent are associated with arts organizations and 5 percent focus on public benefit organizations. The remainder is spread across religion, environment, and other activities. The distribution of sole-support organizations across activities in the Bay Area closely matches the distribution of sole-support nonprofits in Los Angeles and in California as a whole.

FIGURE 1 C



Another 10 percent of supporting organizations focus within a single activity group. For example, the Marin Education Fund belongs to this category, as it provides scholarships and general support for education in Marin County. These activity-related support organizations focus on:

- education (25 percent),
- public benefit (23 percent),
- human services (22 percent),
- health (15 percent),
- environment (5 percent),
- international (4 percent),
- religion (3 percent), and
- arts (3 percent).

The remaining 44 percent of supporting organizations provide general fundraising, grantmaking, or other support activities for the public benefit. This category includes public foundations, such as the community foundations, and general fundraisers, such as federated agencies. These general grantmakers tend to be highly visible within the sector, providing not just grants but often acting as intermediaries that bring nonprofits together, provide information, and offer seminars on key issues. Among the Bay Area's top ten supporting organizations, in terms of expenditures, are three community foundations and two federated giving agencies.

Community foundations are a prominent influence in the Bay Area. Families who lack the desire or professional or legal expertise to create their own private foundations can donate or leave bequests to community foundations, which will oversee the grantmaking activities according to the donor's wishes. Community foundations provide due diligence on grants recommended by the donors and ensure that a portion of all

philanthropic dollars serve the needs of the local community. They also often provide operating charities with expertise and infrastructure assistance.

Federated giving agencies constitute another well-known type of supporting organization within the general grantmaking category. In our study, 11 percent of nonprofits report receiving grants from federated giving agencies. These organizations, such as the United Way or the Jewish Federation, solicit donations from individuals that are then distributed as grants to nonprofits targeting specific needs within the community. One executive director from our study highlighted the benefits and difficulties of being a United Way grantee, which provides the nonprofit with heightened visibility and legitimacy yet requires extensive reporting practices:

"When you are a United Way agency, there is a very vigorous administrative overview that they do every three to four years.... It's horrendous. I mean, you have to share your strategic plan, you have to answer all these questions, and you have to go before a review committee with your board members, and a couple of key staff people. Then they do a site visit where they go through the agency. It's a really long process. But their funding means a lot, even though we get a very minimal amount. We had been grassroots until 1984 when we became a United Way agency. They were our first funding source, and that gave us the credibility to be able to go out and ask for local and federal monies. That really launched us, so we're very loyal to them... If you can pass their evaluation, you can pass anything!"

— EXECUTIVE DIRECTOR, MEDIUM-SIZED HUMAN SERVICES ORGANIZATION

As they fund operating charities and make recommendations for the adoption of specific accountability requirements and business practices, supporting organizations are an important part of the funding landscape that has been neglected by other regional studies. Their numbers have grown by as much as 10 percent between the fiscal years 2000 and 2001. Here we profile supporting organizations and examine differences between the Bay Area and other regions.

Distribution by Region

Simply comparing the total numbers of supporting organizations provides an incomplete picture. Rather, comparing the number of operating charities potentially competing for funding from each supporting organization gives a more relevant estimate of each region's density of supporting organizations. These ratios provide us with an estimate of the regional support infrastructure for the nonprofits in our communities. There are 9.42 operating charities for every supporting organization in the Bay Area. As was observed for operating charities, the Bay Area has a higher density of supporting organizations for its operating charities than either the Los Angeles area or California as a whole. At the national level, there are fewer operating charities competing for each supporting organization. When considering the number of operating charities for each supporting organization, the nation as a whole fares slightly better than the Bay Area, while the Los Angeles area remains at a disadvantage as shown in Table 8. However, the ratios overall are strikingly similar in the Bay Area, the state, and the nation.

TABLE 8

Supporting Organizations by Region

	Number	Number of Operating Charities to Each
San Francisco Bay Area	754	9.4
Los Angeles Region	889	10.3
California	2,354	9.8
United States	22,113	9.2

Age

Supporting organizations tend to be young. In contrast to operating organizations, only about 3 percent are 50 or more years old; these include the San Francisco Foundation, the Jewish Federation, and the UC Berkeley Foundation. This is partly an artifact of legislative history, as the category of supporting organizations was not formally created by the IRS until the 1969 Tax Reform Act.

As with operating charities (shown on page 22, Figure 7), the majority of supporting organizations are young. In California, nearly half are emerging, as shown by Figure 12.

Size

Supporting organizations spent \$1.2 billion in 2000 and brought in \$2.4 billion in revenues. Most of the revenues and expenses are in the single-organization supporting organizations, with a total of \$671,878,626 in expenses (55 percent). Supporting organizations are typically small with median expenses of \$103,226 and median revenues of \$161,769. Close to 60 percent of supporting organizations in the Bay Area spend less than \$200,000

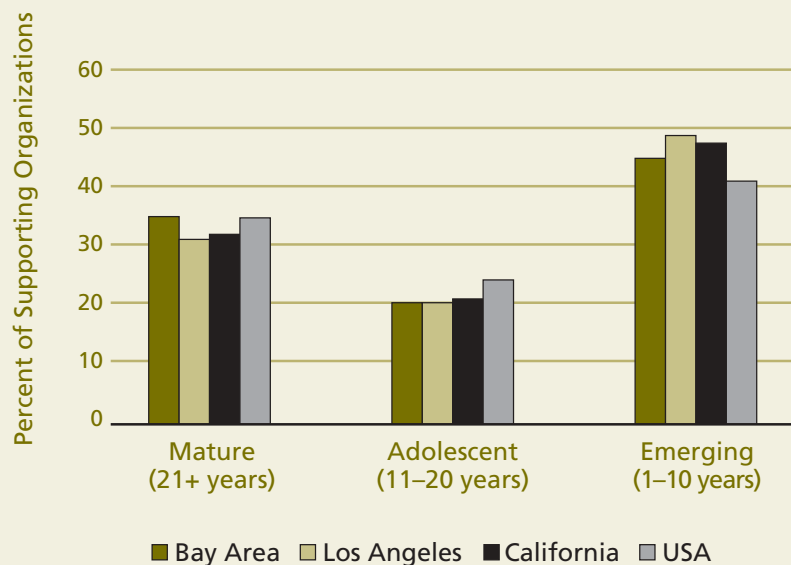
annually. Another 22 percent are medium-sized, between \$200,000 and \$1 million in annual expenses, and another 15 percent are large, with expenses between \$1 million and \$20 million. Only one percent of supporting organizations are above \$50 million in expenses. The largest 12 organizations, each with total expenses above \$20 million, make up 55 percent of the total expenses. Such large supporting

organizations include general supporters of the operating charities in their communities, such as the Peninsula Community Foundation and the Community Foundation Silicon Valley, as well as some sole-support organizations dedicated to universities, such as the University of California Berkeley Foundation. As was observed for operating charities, most of the wealth is in the hands of a few and these tend to be more mature and well-established organizations. The ten largest supporting organizations in the Bay Area account for 57 percent of the total assets and 52 percent of the expenses.

Contrary to the pattern seen in operating charities, supporting organizations in the Bay Area are typically smaller than those in the Los Angeles metropolitan region. Indeed, supporting organizations in the Los Angeles area have a median size of \$126,639 in total expenses and \$166,634 in revenues. The Bay Area has a higher

FIGURE 12

Age by Region, Supporting Organizations



percentage of small organizations than the Los Angeles region and a lower percentage of medium-sized organizations. In California as a whole, the typical supporting organization is smaller than those found in the metropolitan regions, with \$108,000 in median expenses and \$151,290 in median revenues.

While supporting organizations are larger in terms of expenses in the Los Angeles region than in the Bay Area, median assets, as shown in Table 9, reflect once again a more vibrant population of supporting organizations in the Bay Area than in the region of Los Angeles or the state as a whole. At the national level, supporting organizations are even larger in terms of assets than in the Bay Area.

Size by Age

Size varies according to organizational age of those supporting organizations as shown by Figure 14. Although most supporting organizations in the Bay Area tend to be young, the largest in terms of median revenues and expenses tend to be older. The typical mature supporting organization in Los Angeles (\$222,132) is more than twice the size of a similar organization in the Bay Area (\$99,663). By contrast, young and adolescent supporting organizations are larger in the Bay Area than in Los Angeles, perhaps reflecting the new wealth created by the emergence of Silicon Valley.

With the exception of the large community foundations, supporting organizations are usually young and small, and the majority dedicate their efforts to a single organization. Recipient organizations may be operating charities, but

many supporting organizations are attached to government institutions such as public schools, public libraries and parks and recreation programs. There remain many unanswered questions about this organizational type; we need a deeper understanding of how they intersect with private foundations and provide perhaps complementary or competing services to the sector.

Private Foundations

The private foundation is the most numerous type of nonprofit funder and thus an important conduit for philanthropy in the United States. As indicated by the name, private foundations' assets come from a single source, such as an individual, a family, or a corporation. Private foundations pay excise taxes of 2 percent of their investment income and face minimum yearly payout requirements of 5 percent of their net assets,

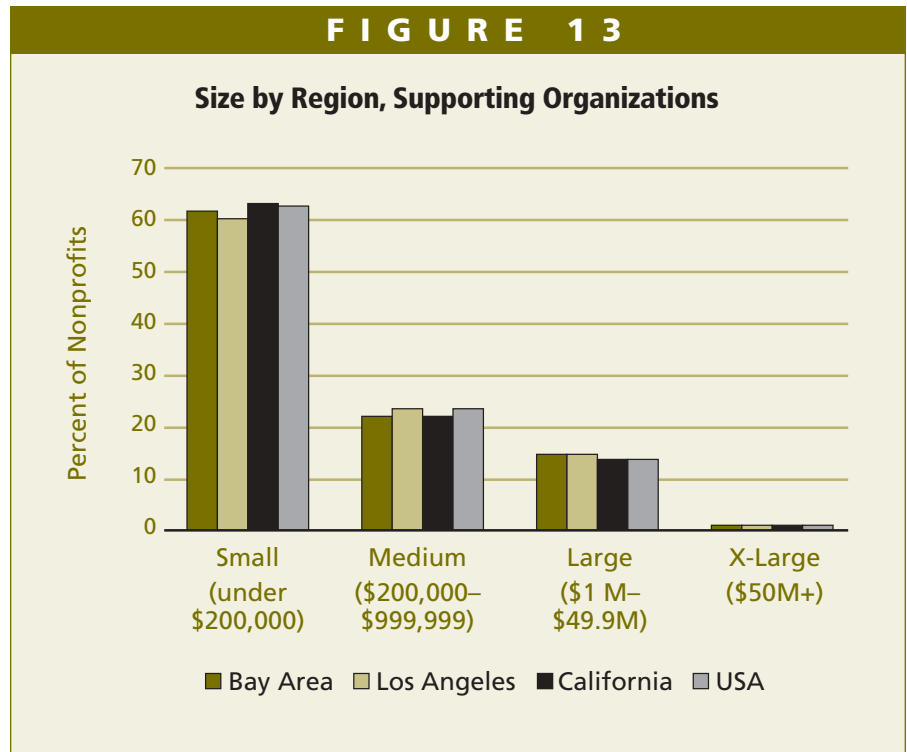
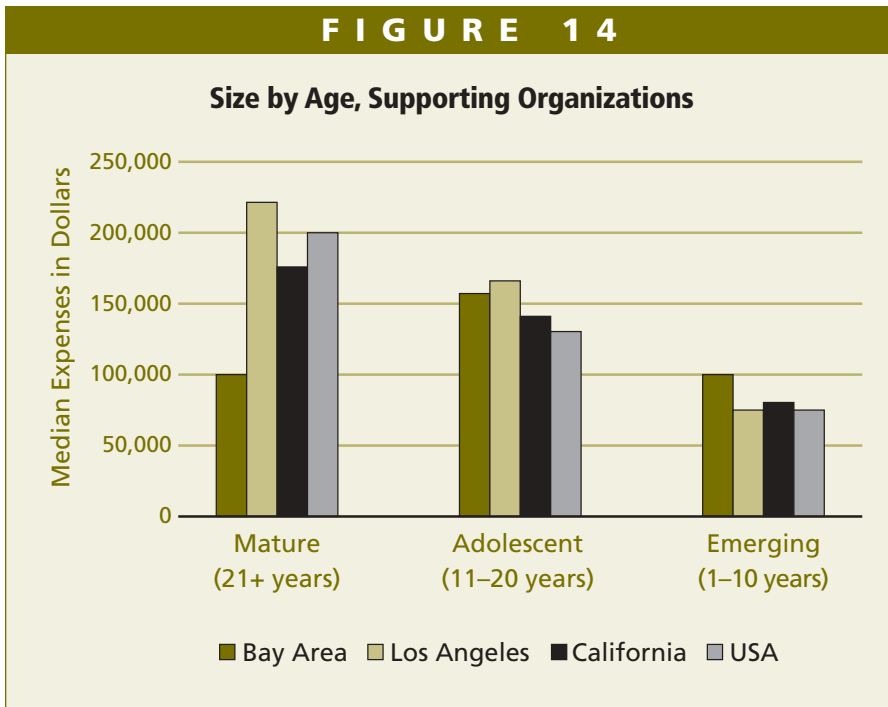


TABLE 9

Median Net Assets by Region, Supporting Organizations

Bay Area	Los Angeles Region	California	United States
\$336,458	\$200,483	\$229,391	\$363,279



while supporting organizations do not have to pay taxes on such income. Many private foundations are created with the intent of existing in perpetuity, paying out a portion of the earnings from their endowment each year.

There are three broad types of private foundations. Independent private foundations are created by individuals or families to perform philanthropic activities. Corporate foundations are incorporated to support the nonprofit sector with donations from a for-profit entity, such as the Bank of America Foundation; such organizations often focus on a specific area of activity or on the community in which the for-profit operates. A less frequently encountered type of private foundation is the private operating foundation, such as the Henry J. Kaiser Family Foundation, which funds and runs its own programs rather than funding other organizations.

Private foundations are an essential part of the nonprofit sector. Large foundations are highly professionalized and often provide more than financial assistance to nonprofits, offering their expertise and knowledge of the issues facing operating charities. We present a profile of these organizations and examine how they vary by region.

Distribution by Region

There are 1,996 private foundations in the Bay Area, representing one-third of the 6,028 located in California. The five-county Los Angeles region has 2,846 private foundations, accounting for 47 percent of the California private foundation population.

As with supporting organizations, the ratio of operating charities to private foundations by region provides us with a basis to compare the density of funders by region as shown by Table 10. While not all of these funders automatically fund nonprofits or other institutions in their immediate surroundings, these ratios do provide us with an estimate of the support infrastructure for the nonprofits in our communities. Here, contrary to supporting organizations, the Los Angeles region has a higher density of private foundations than the Bay Area and California, although both metropolitan regions and the State of California have a lower density than that found nationally. Thus, even if Los Angeles operating charities are typically smaller and less fiscally healthy than those in the Bay Area, it is not for a lack of presence of private foundations.

TABLE 10

Private Foundations by Region

	Number	Number of Operating Charities to Each
San Francisco Bay Area	1,996	3.6
Los Angeles Region	2,846	3.2
California	6,028	3.8
United States	62,815	2.9

As with operating organizations, the extra-large private foundations account for a disproportionate amount of the philanthropic funding. The nine largest private foundations, while accounting for 0.5 percent of private foundations in the Bay Area, account for 53 percent of the combined total expenses.

Size

Private foundations in the Bay Area reported combined total expenses of \$1.9 billion in 2000, representing 48 percent of California’s total private foundation economy of \$4.03 billion. The Bay Area’s private foundations brought in \$5.3 billion in total revenues in 2000, a total of 47 percent of California’s total private foundation revenues of \$11.6 billion. The extra-large private foundations account for a disproportionate amount of the philanthropic funding. The nine largest private foundations, while accounting for 0.5 percent of private foundations in the Bay Area, account for 53 percent of the combined total expenses. Similarly, the 36 largest private foundations, representing only 2 percent of the total population, account for 70 percent of private foundation revenues.

Most of the Bay Area’s private foundations tend to be small, however, with median expenses of \$53,234 and median revenues of \$109,538. By comparison, the Los Angeles area private foundations typically have expenses of \$42,224; in California as a whole, the median expenses for private foundations is \$42,914.

Contrary to popular assumptions about private foundations, they tend to be smaller in terms of expenses and revenues than operating charities. For example, 74 percent of Bay Area private foundations are smaller than \$200,000 in total expenses, and another 17 percent are

between \$200,000 and \$1 million per year. Only 8 percent spend more than \$1 million annually. However, the Bay Area counts more large foundations than the Los Angeles region and the state as a whole.

As private foundations rarely spend more than the 5 percent annually of their assets dictated by the IRS, it is important to consider their assets when measuring their size. Looking at assets paints a very different picture than limiting the size analysis to total expenses. Assets reveal that private foundations are very fiscally healthy and indeed larger than the operating charities. Total assets for Bay Area private foundations totaled

\$28 billion in 2000, and the median assets are \$569,694, significantly more than the typical foundation assets in the Los Angeles region (\$304,014), the state (\$351,435), and the nation (\$322,876).

Age

Private foundations tend to be young across regions, with nearly 60 percent of private foundations less than ten years of age, as shown in Figure 15. The Bay Area, the Los Angeles region, and the state have very similar proportions of mature private foundations. They differ only slightly from the national trends in that they tend to have a slightly higher proportion of emerging private foundations and fewer mature foundations than the U.S. as a whole. Despite these small differences, private foundations across the country are overwhelmingly young, with very few

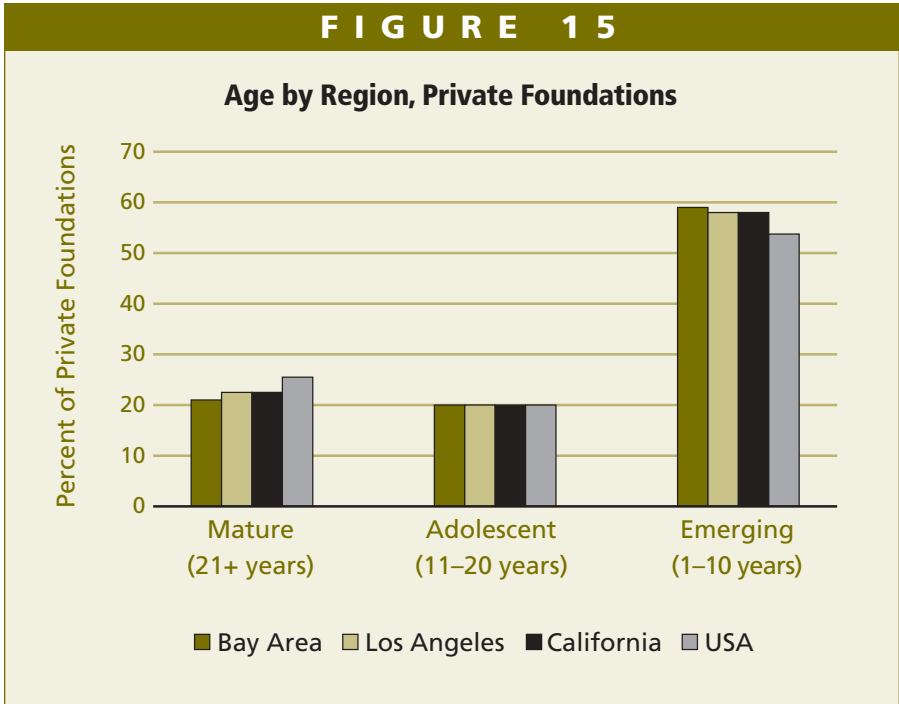
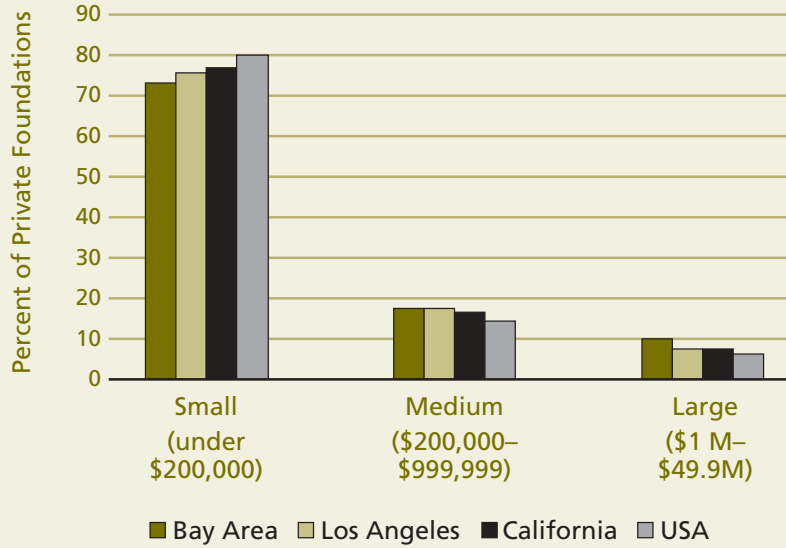


FIGURE 16

Size by Region, Private Foundations

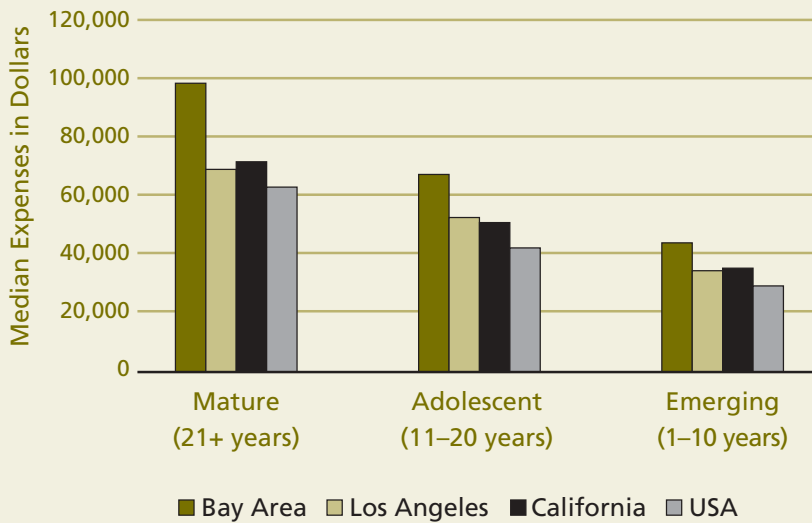


ones, across regions as shown in Figure 17. Although expenses are small with typical budgets below one hundred thousand dollars regardless of age and region, Bay Area private foundations are typically larger across age categories than those found in the Los Angeles region, California, and the United States.

While many of us think of Rockefeller, Carnegie, or MacArthur when thinking about private foundations, this analysis shows that no matter the location, most private foundations are very small and spend less than \$200,000 a year. Indeed, the proportion of small private foundations even surpasses that of operating charities. Only when assets are examined do the private foundations show greater financial capacity than do operating charities. Furthermore, a majority of private foundations are still considered emerging rather than well-established.

FIGURE 17

Age by Size, Private Foundations



What does this mean for the nonprofit sector? First, and perhaps surprisingly, despite frequent concerns expressed about the high number of small operating charities, there has been no similar questioning of private foundations. Should private foundations consolidate their efforts through mergers or collaborations? This question merits further attention. Second, large foundations are few and far between; those with broad philanthropic missions even fewer. Yet this small fraction of funders spends a majority of the philanthropic dollars and as such exerts a disproportionate influence on the management of operating charities.

adolescent and mature organizations. They count even fewer mature organizations than supporting organizations and operating charities.

Consistent with the pattern seen with operating charities, private foundation size is related to age. Mature organizations are usually larger than younger

Building Organizational Capacity

Some foundations offer capacity building grants, where the grant money is aimed at strengthening the organization's structure rather than funding programmatic expenses. Interviewees who received such grants often credited their ability to grow or emerge from financial difficulties to such grants as seen in these two cases:

"One of the reasons we are where we are today is because in the early '90s we had a Packard Foundation grant that was strictly capacity building, which allowed us to hire and train the kinds of people that we ultimately would need. That made a huge difference to us at that time because the tax credit program was taking off, opportunities were there, and we needed the kinds of people that could capitalize on opportunities. That made a big difference to us."

— EXECUTIVE DIRECTOR, LARGE HOUSING ORGANIZATION

"We were looking at a deficit of \$80,000 that we needed to eliminate. We got a capacity building grant from SV2, Silicon Valley Social Venture Fund. We got the money, to a tune of \$120,000 over three years. The purpose was for infrastructure, capacity building and sustainability of the agency, pieces that were definitely critical for us. The grant was specifically written for us to create a strategic plan with emphasis on fund development. We were to hire a part-time accountant and a part-time development director with the money. We hired a fund development director who came in May, put together a campaign, knew how to do that piece of it, organized the board, and gave them the tools. The major gift campaign was \$279,000; that actually came in between June and July."

— EXECUTIVE DIRECTOR, MEDIUM-SIZED HUMAN SERVICES ORGANIZATION

Although there are many doors a non-profit leader can knock on to seek funding, very few foundations or supporting organizations have the capacity or mission to fund multiple organizations at a significant level. Furthermore, the next chapter shows that operating charities may have unequal access to these funders depending on their location within a specific region.

CHAPTER 5: PATTERNS OF LOCATION INTRA-REGIONAL VARIATION AMONG FUNDERS

The previous chapter has shown that supporting organizations and private foundations—like their operating charity counterparts—are broadly similar in profile. Although one can see relative differences in detail, the general proportions of activity, age, and size making up a regional nonprofit sector hold across the regions examined. When we consider intra-regional variation, deeper differences emerge. Nonprofit funders, especially large organizations, are unevenly distributed within the region. This is compounded by the fact that there are so

few large funders to begin with. Location, when it comes to the distribution of nonprofit funders, matters. Policymakers and sector stakeholders can turn to the following discussion of intra-regional differences for supporting organizations and private foundations to assess the infrastructure of specific communities.

Nonprofit funders, especially large organizations, are unevenly distributed within the region. This is compounded by the fact that there are so few large funders to begin with.

Supporting Organizations

The first source of variation is found at the county level. As shown in Table 11, more than one-third (34 percent) of the Bay Area's supporting organizations are located in San Francisco. Another 15 percent are located in Santa Clara County and Alameda County, and Contra Costa and Marin have 8 percent each. The county with the fewest supporting organizations is Santa Cruz, with 2 percent, followed by Solano at 3 percent. Napa has 4 percent, Sonoma has 5 percent, and Marin has 7 percent.

The distribution of supporting organizations across geography reflects, to some extent, some of the disparities already noted about Bay Area operating charities. Once again, the San Francisco Metropolitan Area appears to be better off than the rest of the Bay Area; its three counties

T A B L E 1 1

Bay Area Supporting Organizations by County

County	Number	Ratio of Operating to Each	Percentage of Bay Area	Median Age	Median Expenses	Total Expenses	Median Assets	Total Assets
Alameda	110	14.0	15%	13	\$141,474	\$137,620,892	\$277,987	\$1,057,165,148
Contra Costa	60	11.7	8	12	80,408	21,324,517	109,630	39,162,110
Marin	54	10.0	7	7	219,199	79,046,210	145,412	177,223,642
San Francisco	253	5.8	34	20	87,007	585,258,292	257,523	3,747,889,595
San Mateo	60	9.2	8	10	82,682	144,615,500	802,497	507,058,672
Santa Clara	110	11.3	15	7	113,966	194,666,673	218,778	695,982,755
Santa Cruz	17	18.7	2	18	103,535	17,679,610	274,038	75,777,763
Napa	28	4.6	4	8	136,747	15,374,449	262,062	58,447,851
Solano	22	8.2	3	6	101,014	4,988,593	79,279	6,897,086
Sonoma	40	11.2	5	18	109,311	44,902,276	199,712	157,962,592
Bay Area	754	9.4	100%	13	\$103,226	\$1,245,477,012	\$336,458	\$6,523,567,214

Foundations in Santa Clara County are typically the youngest with a median age of merely two years, reflecting recent wealth creation in Silicon Valley and a new commitment to the sector among younger philanthropists, while many of the oldest foundations are found in San Francisco.

host 49 percent of Bay Area supporting organizations, and it accounts for 65 percent of total supporting organization expenses and 67 percent of supporting organization assets. The San Francisco Metropolitan Area also has higher ratios of supporting organizations to operating charities than other metropolitan areas.

The San Jose Metropolitan Area accounts for 15 percent of supporting organization expenses (on par with its 15 percent of the supporting organizations) and 11 percent of supporting organization assets. As was observed for operating charities, the East Bay compares poorly to the Peninsula: the Oakland Metropolitan Area accounts for only 13 percent of total expenses and 17 percent of the assets even though it is home to 23 percent of the supporting organizations. Also, counties in the periphery are not as wealthy in terms of nonprofit expenses and assets. The rural counties account for the remaining 7 percent of the expenses and a mere 4 percent of the assets even though they account for 14 percent of the number of supporting organizations. The lowest assets are found in Solano County, with 0.1 percent of the total pie even though the county contains 4 percent of the supporting organizations.

The San Francisco Metropolitan Area also includes the county with the largest median supporting organization assets, with San Mateo leading at \$802,497 in median assets, and the county with the largest typical median expenses, with Marin at \$219,199. By contrast, the

smallest typical supporting organization in terms of assets is found once again in Solano County with a median of \$79,279. The smallest supporting organizations in terms of budgetary expenses are found in the East Bay county of Contra Costa, which has median supporting organization expenses of \$80,408.

Taking into consideration the fact that supporting organizations are dedicated to helping operating charities or public entities and that their efforts are often focused within their local communities, the ratio of supporting organizations to operating charities is once again illustrative of the disparities found across the region. Indeed, it may provide a partial answer to such intra-regional inequality. Thus, in San Francisco there are 5.75 operating charities for every supporting organization, while in Santa Cruz County there are 18.70 operating nonprofits competing for the attention of a single supporting organization. Although once again the Peninsula fares better than the East Bay in terms of the ratio of supporting to operating organizations, the peripheral counties are not all at a disadvantage, with Napa and Solano doing better than the overall ratio in the Bay Area.

Age also sheds light on this infrastructure. Supporting organizations in San Mateo, Santa Clara, and Marin are noticeably younger than those found in San Francisco, perhaps reflecting the creation of new wealth in the region through Silicon Valley, while more of the “old money” is

found in San Francisco. By contrast, it is in Solano County, an area that suburban sprawl is just starting to reach, bringing its attendant problems, that supporting organizations are typically youngest, with a median age of 6 years. In short, most of the wealth is in the hands of a few, older supporting organizations, and the majority of these are located in the San Francisco Metropolitan Area.

Private Foundations

A similar pattern of disparity is found when looking at private foundations across counties within the San Francisco Bay Area as shown in Table 12. Private foundations are overwhelmingly concentrated on the Peninsula. Indeed, 77 percent are located in the metropolitan areas of San Francisco and San Jose, while 16 percent are in the East Bay, and 8 percent are in the peripheral counties. Once again, the smallest foundations are found in Solano County.

The San Francisco Metropolitan Area is still at an advantage in terms of its ratio of operating charities to private foundations and the size of its foundations, with San Francisco and San Mateo private foundations having the highest median expenses in the Bay Area and among the largest median assets. The San Jose Metropolitan Area also fares especially well in terms of its private foundations’ median assets. It holds 45 percent of the total foundation assets in the Bay Area (largely due to the presence of the Packard Foundation) and the typical foundation in this county is about 50 percent bigger than the typical foundation found in East Bay counties. The Packard Foundation, with assets of \$9.3 billion (in 2000), represents more than three quarters of the assets in

Santa Clara County. Foundations in Santa Clara County are typically the youngest with a median age of merely two years, reflecting recent wealth in Silicon Valley and a new commitment to the sector among younger philanthropists, while many of the oldest foundations are found in San Francisco.

Within the Bay Area, there are consistent disparities when it comes to the number and size of nonprofits, whether they are operating charities, supporting organizations, or private foundations. The San Francisco Metropolitan Area and the San Jose Metropolitan Area have more nonprofits and more wealthy nonprofits than the East Bay. The three metropolitan areas grouped directly around San Francisco Bay have more numerous and wealthy nonprofits than the more rural counties located around the geographic perimeter. What is the implication for our communities? Does it

matter to an operating charity in Oakland that more nonprofit funders are located in San Francisco than in its own city?

Some may argue that foundations make grants regardless of location. Indeed, with the exception of sole-support organizations, there is little mission-based reason for nonprofit funders to situate in a particular location. Yet social networks are important and the patterns and development of nonprofit funders within the region may well matter a great deal to local funding dynamics. Without numerous funders in its city, an operating charity could be at a disadvantage because of the relative difficulty of connecting to a vibrant network of funders beyond its immediate surroundings.

This could have a particular relevance to operating charities located in peripheral counties, in the absence of numerous, well-endowed funders with knowledge of

their specific needs. Executive directors from Solano or Santa Cruz may face more difficulty in getting the opportunity to tell their stories to relevant Bay Area stakeholders, faced with long drives and a lack of visibility to remotely located funders. In addition, many large foundations, community foundations, and individual donors want to address the needs in their immediate surroundings.

Despite the wide variation in funder size and makeup within a region, supporting organizations and private foundations share many characteristics across regions. Most supporting organizations and private foundations are small and young. Most of the assets are in the hands of a wealthy few, who bear an enormous share of philanthropic responsibility even though they are, in numbers, a very small part of the sector. What are the implications for funders? At a time when many urge operating charities to form

TABLE 12

Bay Area Private Foundations by County

County	Number	Number of Operating Charities to Each	Percentage of Bay Area	Median Age	Median Expenses	Total Expenses	Median Assets	Total Assets
Alameda	180	8.6	9%	6	\$50,501	\$73,145,271	\$370,294	\$1,016,732,549
Contra Costa	135	5.2	7	7	50,015	52,162,692	421,351	634,239,448
Marin	158	3.4	8	6	49,657	34,462,901	446,459	375,299,198
San Francisco	720	3.5	36	11	70,433	571,690,135	780,108	7,269,368,781
San Mateo	247	2.2	12	6	61,924	386,797,548	598,375	6,048,553,919
Santa Clara	410	3.0	20	2	44,947	813,091,919	601,932	12,728,665,850
Santa Cruz	36	8.8	2	8	26,252	4,560,841	294,877	53,278,220
Napa	33	3.9	2	9	69,630	6,853,986	906,527	79,376,912
Solano	21	8.6	1	10	18,086	5,460,716	138,662	67,544,015
Sonoma	56	8.0	3	8	43,079	7,725,073	229,436	66,848,746
Bay Area	1,996	3.6	100%	6	\$53,235	\$1,955,951,082	\$569,695	\$28,339,907,638

Local Leadership

While most of the extremely large foundations in the Bay Area fund operating charities across the country, a handful of local private and supporting foundations have a large influence in funding our region's operating charities across activities and size. When asked about the three most important gifts or grants, nonprofit leaders in our sample most frequently named the following private foundations in order:

1. The David and Lucile Packard Foundation
2. The William and Flora Hewlett Foundation
3. The San Francisco Foundation
4. The Walter & Evelyn Haas Jr. Fund
5. The California Endowment

partnerships and consolidate in order to reduce overlap, decrease overhead costs, and increase effectiveness, should the same questions be raised for funders? On the other hand, would such a consolidation further disadvantage the communities located outside urban centers by moving out the few funders who understand their specific needs? These questions merit further inquiry.

At a time when many urge operating charities to form partnerships and consolidate in order to reduce overlap, decrease overhead costs, and increase effectiveness, should the same questions be raised for funders?

Final Thoughts

This profile of operating charities offers a useful map to help understand the composition of the nonprofit sector. The broad similarities across the nation in the organizational and demographic characteristics of nonprofits suggest that nonprofit stakeholders—nonprofit leaders, board members, grantmakers, legislators, and others—have much in common and may share similar concerns. At the same time, we stress that our comparisons of the Bay Area nonprofit sector to those in the Los Angeles region,

the state, and the nation lend weight to the argument that detailed data are important to help those concerned with the sector recognize the relative health of their organizations and communities.

A simple insight of our report is that although regional nonprofit sectors exhibit broad similarities, location does matter, whether nonprofits are located in urban, suburban, or rural communities, or whether they are north or south, east or west. There are marked disparities in

the number and size of nonprofits in communities within the Bay Area, but the region, as a whole, has relatively more numerous and larger nonprofits than do other regions of the United States. To better understand the nonprofit sector as a whole, one needs to understand the profile of regional nonprofit communities. Not surprisingly, we find that nonprofits rely overwhelmingly on their home region—for funding, professional development, collaboration, and sector infrastructure resources.

Despite the relative fortunes of the Bay Area nonprofit sector, however, the executive directors and board chairs who participated in the Stanford Project on the Evolution of Nonprofits often express frustration that they do not have enough resources—money, capacity, and time—to meet the challenging aspirations they set for themselves and their organizations. They dream big, are passionate about their occupations, and work long hours under often demanding conditions for limited pay. Although they are often constrained by limited organizational capacity and small budgets, these leaders have, by and large, found creative ways to sustain their organizations.

We find that both economic difficulty and the spotlight on accountability have caused executive directors and board presidents to turn the lens on their own organizations. These leaders have found new and diversified sources of revenue. They have looked hard at their operations,

There are many reasons for operating organizations and nonprofit funders to come together to further their causes, seeing this period as a time of opportunity rather than of challenge.

cutting staff and improving or dropping underperforming programs. And they have often made considerable personal sacrifices to help their organizations turn the corner. These leaders are resourceful, committed, and resilient. They are also well educated and increasingly more connected to others with similar missions and across the sector through both formal and informal networks and professional training. Although there is greater competition for funding, increased social need, and more arduous accountability requirements, it seems clear that in surviving this difficult period, nonprofits have become more sustainable and better able to weather future challenges.

Even though individual philanthropy and foundation grants provide only 11 percent of the total income to the nonprofit sector, it is an important stream of funding. Moreover, grantmakers have an impact that far exceeds this small share of the revenue stream. Nonprofit managers frequently cite individual philanthropists, community foundations, professional foundations, family foundations, corporate foundations and other funders as having the greatest external influence on nonprofit operations, both positive and negative.

Grantmaking is a position of enormous responsibility, often credited for making a positive and crucial difference in an organization—providing the capacity building grant that broadened a nonprofit's reach and elevated its programs to the next level. Grantmakers also help

nonprofits make their operations more sustainable or finance professional development opportunities to enhance the board and staff. Often, far beyond program funding, targeted support for the management of nonprofits makes a difference in the long-term capability and sustainability of an organization. Nonetheless, philanthropic organizations are also the source of much frustration because of the unequal relationship between grantmakers and grantees. Exacerbated by greater competition for funding, it is extremely difficult for grantees to push back when appropriate and to work effectively with grantmakers as equal partners in a common cause.

There is much talk of consolidation directed at the operating charities to combat redundancy and reduce overheads. Yet ironically, this is likely even more of a problem for nonprofit funding organizations as they themselves face the challenges of small capacity with median expenses (including overheads and grants) at around only \$50,000 per year, far smaller than that for operating charities. Given the small budgets and limited staffing of the majority of operating charities and nonprofit funders, it seems likely that the leaders and governing boards of these two groups share more common organizational and management concerns than not, as both groups focus on the good of the sector. There are many reasons for operating charities and nonprofit funders to come together to further their causes, seeing this period as a time of opportunity rather than of challenge.

Do operating charities and nonprofit funders have appropriate venues to forge problem-solving partnerships for the sector outside of the tensions inherent in their individual grantor-grantee relationships?

As our research continues to focus on specific aspects of nonprofit management—especially professionalization, accountability, and funding models, we will further explore these issues and opportunities. In painting a broad profile of the sector in the Bay Area and the nonprofit sector as a whole, however, we conclude with several implications and questions that reflect the findings presented in this report.

First, the challenges of organizational capacity need to be addressed for both operating charities and nonprofit funders. Individually, the economic and organizational capacity of nonprofits is relatively small; for most building capacity for the future is only a distant dream. There needs to be a greater recognition of the importance of organizational infrastructure (management systems and human resources) not only to run programs but also to evaluate and subsequently improve them, and to manage the organizations in a sustainable way. What type of organizations would most benefit from capacity building efforts? Should grants and contracts include a portion of support for overheads? What does it mean to build capacity in all-volunteer organizations? How can nonprofits attract engaged board members that provide balanced sets of skills and representation such as management expertise, fiscal knowledge, community representation, and dedication to mission?

Second, there have been many suggestions that nonprofits are too numerous and overlapping and that the sector should consolidate. Before making such a prescription, however, we should ask: Too many for what and whom? Further, such sweeping generalizations should be countered and balanced with careful analysis of the actual processes and consequences of both successful and failed mergers for the nonprofits involved and the public these nonprofits serve. Among the nonprofits in our study that have merged, most benefited greatly; they have increased capacity while decreasing overheads, increased the reach of their mission, and often expanded their portfolios with new or complementary programs. But it is clear as well that some organizations were put at extreme risk by merging with underperforming nonprofits and others would not benefit from mergers. For nonprofits that serve highly localized or specific types of clients or causes a merger might not make sense. In this case, as with other fashionable solutions or practices, one size does not fit all. How can we identify in what locations and with which types of organizations mergers are likely to be appropriate and successful? Mergers and other standardized strategies and practices have been advocated and funded by a wide variety of stakeholders. More attention should be paid to the development and adoption of strategies appropriate for particular problems and types of organizations.

Third, organizations and funders concerned with the health of specific communities or causes would do well to map their sectors so as to identify areas

for focus. Efforts to address challenges facing a particular sector or community may be well-served by a more fine-grained analysis of that sector or community. For example, our findings on the scope of human services organizations revealed extreme disparity among those organizations across different communities in the Bay Area and in the Los Angeles region. In the latter region, there are relatively fewer human services organizations available to serve residents living in poverty. In light of this more fine-grained analysis, it is not difficult to imagine that the nature of the problems facing human services organizations in the Los Angeles region may differ significantly from that of the Bay Area, in whose counties poverty rates are lower and nonprofits spend much more per capita for the targeted population.

This report is the first step in beginning to shed light on some of the questions being posed by the sector and others concerned with nonprofits. But just as importantly, we provide the groundwork for future debates with baseline knowledge to inform these discussions. Our findings also raise new questions that can help drive solutions to many of the challenges facing the leaders managing these important, yet understudied institutions of our society.

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Part 1: Stanford Project on the Evolution of Nonprofits

- ¹ This region is identified by the U.S. Census Bureau as a Consolidated Metropolitan Statistical Area (CMSA); the San Francisco-Oakland-San Jose CMSA is one of 18 CMSAs in the United States. It pulls together the Primary Metropolitan Statistical Areas (PMSAs) around the three major cities as well as those for Santa Cruz-Watsonville, Santa Rosa, and Vallejo-Fairfield.
- ² Source: U.S. Census Bureau, *Mapping Census 2000: The geography of U.S. diversity*.
- ³ Other regions that are currently the subject of large-scale academic investigation include the Los Angeles Area (Anheier et al., 2004), New York (Seley et al., 2002), Indiana (Grønberg and Allen, 2004), Washington D.C. (Twombly et al., 2005), and Southern California (Costello and Manzo, 2005). The last comprehensive study of the San Francisco Bay Area was conducted in the early 1980s (Harder et al., 1984).
- ⁴ The National Center for Charitable Statistics (NCCS) provides the most comprehensive financial information on charitable nonprofits. NCCS researchers extensively cleaned the data extracted from the IRS 990 returns and provide information on nearly every field contained in the IRS 990. Studies that focus on other sources of data—such as incorporation applications rather than revenues or employment filings—tend to over-estimate the number of active nonprofits in any given area. In addition to the proprietary research-quality database accessed by the authors, the NCCS website, www.nccs.org, provides a list of publications as well as interactive tables on national and state nonprofit data that are publicly available.
- ⁵ Mutual benefit organizations such as labor unions and country clubs rarely receive 501(c)(3) status; most are organized to serve the interests of their members. However, 16 such organizations, including nonprofit insurance trusts, in the Bay Area have received exemptions as charities, falling under section 501(c)(3) as public charities. Comprising less than 0.002 percent of the charitable population, they are not included for the purposes of this report.
- ⁶ Source: Internal Revenue Service, www.irs.gov/publications/p557/ch03.html
- ⁷ SPEN used the full population of San Francisco Bay Area operating organizations that filed the IRS form 990 in the year 2000 to draw the sample. For more detail on the selection of the sample and recruitment of our participants, please contact SPEN at spen@gsb.stanford.edu to request a copy of the technical report.

Part 2: Operating Charities Profiled

- ⁸ The Census Bureau’s consolidated metropolitan statistical area for Los Angeles includes the counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura.
- ⁹ Twenty-six specific categories, each with sub-types, were identified and can be grouped into eight broad areas of activity. These codes enabled researchers to look closely at distinct types of organizations. The codes assigned to individual organizations are listed as part of the organizational profiles available for all nonprofits at www.guidestar.org.
- ¹⁰ Approximately 0.8 percent of operating charities are unclassifiable into an activity category, most because they span multiple activity categories (for example, a community center focused on health, housing, and crime prevention), and are omitted from activity graphs.
- ¹¹ More specifically, total expenses of \$41,076,605,468. This contribution drops to \$27.8 billion when removing hospitals, universities, and health plans; for Los Angeles, the economic contribution drops from \$27.5 billion to \$12 billion.
- ¹² The GMP (Gross Metropolitan Product) is an estimate of the value of goods and services produced in a metropolitan region. Calculating the share of GDP (Gross Domestic Product) or GMP of the nonprofit sector is an estimate at best—here we used total expenses and did not separate operating expenses, which may lead to a higher percentage. Because we have data only from reporting 501(c)(3)s, however, we cannot estimate the added contribution of those that are below \$25,000 or the added value of volunteer labor, and do not include other types of exempt 501 organizations. Therefore, the total value of the sector’s contribution is clearly underestimated.
- ¹³ Large organizations choose to incorporate in different ways: as one consolidated organization, as a small “family” of organizations, or with each branch incorporated separately. It is difficult to know how many organizations as a whole file in one region while operating in another. Kaiser organizations are an example of a very large group of nonprofit organizations headquartered—and hence, filing to the IRS—in one locale. All eleven Kaiser hospitals and group health plans file their IRS form 990 returns in the Bay Area even though some of these affiliates, such as Kaiser Health Plan of Ohio, operate mostly outside the region. While inclusion of such “families” clearly counts some activity and expenditure that takes

place outside the regions, the reverse can happen as well. Some nonprofits may operate in the Bay Area but file elsewhere, such as the Children's Home Society of California, a human services organization that operates statewide yet files in Los Angeles.

The Kaiser group is an important part of the Bay Area nonprofit community and there is no basis for removing it entirely from the analysis. However, the large organizations such as Kaiser can affect our understanding of some aspects of the region's sector, such as the estimate of the economic contribution. When removing those Kaiser affiliates that clearly operate only outside the Bay Area (e.g. Kaiser of Ohio), and keeping those that do operate in the Bay Area, the Bay Area's contribution to the Gross Regional Product (GRP) goes from 13.8 percent to 12.5 percent of the GRP. The largest Kaiser organization, Kaiser Foundation Health Plan, alone accounts for 5 percent of the region's GRP at nearly \$15 billion in expenses.

¹⁴ San Francisco County's 2000 census population number is of 776,733, compared to Santa Clara's 1,682,585, and Alameda's 1,443,741. The county and city of San Francisco are coterminous.

¹⁵ Source: U.S. Census 2000. The proportion of children between ages 5 and 19 for all 10 counties is as follows, in increasing order: San Francisco, 12.4 percent of the population; Marin, 16.5 percent; San Mateo, 18.6 percent; Santa Clara County, 20.2 percent; Alameda County, 20.3 percent; Napa County, 20.7 percent; Sonoma County, 21.2 percent; Santa Cruz County, 21.4 percent; Contra Costa County, 22 percent; and Solano County, 23.7 percent.

¹⁶ The "self-sufficiency" index designed by these studies includes regional data on housing markets and costs, child care and food costs, transportation and healthcare availability and costs, and cost of other necessary goods such as clothing, as well as taxes and availability of tax credits in specific regions (Pearce, 2003).

¹⁷ A flat organizational structure of numerous committees is especially common among PTA-type organizations, which organize committees for each fundraising or service project.

Part 3: Nonprofit Funders Profiled

¹⁸ Indeed, as this went to press, the Nonprofit Panel convened by Independent Sector at the request of Congress recommended that supporting organizations be treated separately from operating charities, especially in the filings required by the IRS (Independent Sector, 2005). Our data provide empirical support for this finding.

¹⁹ In order to be classified as a supporting organization, the nonprofit must meet three requirements: 1) it must be organized to support one or several operating charities; 2) its operations must meet the definition of what constitutes "support" (monetary, facilities, expertise); and 3) it cannot be controlled by one of its major contributors. As supporting organizations face less stringent requirements than private foundations and their numbers are growing, there is rising concern and scrutiny about their level of accountability (for a useful discussion of this issue see Pollack and Durnford, 2005).

²⁰ Endowments for public universities must be incorporated as supporting organizations, whereas the substantial endowments for private universities such as Stanford University and University of Santa Clara are part of the assets of those operating organizations.

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Who We Are

STANFORD PROJECT ON THE EVOLUTION OF NONPROFITS

The Stanford Project on the Evolution of Nonprofits (SPEN) is the major research initiative of the Center for Social Innovation. One of the few comprehensive studies of a region's nonprofit sector, it profiles the sector and follows a random sample of more than 200 San Francisco Bay Area operating charities over several years. Bringing an organizational perspective to the management of nonprofits, the study examines the impact of the recession on social sector institutions and explores the circulation of management ideas within and across sector boundaries.

We welcome your comments:

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Stanford Graduate School of Business created the Center for Social Innovation (CSI) in 2000 to prepare leaders to address increasingly complex social problems. The Center strengthens and builds the capacity of individuals and organizations to develop innovative solutions to social problems that produce a more just, sustainable, and educated world. CSI takes the approach that dissolving boundaries is critical to social innovation. The Center facilitates and advances the exchange of ideas and values across sectors, across disciplines and through bridging theory and practice.

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