

Too Many Nonprofits?: A New Analysis

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How are the nation's nonprofits like a herd of animals in a forest?

That's the analogy used by a team of five university experts in nonprofit policymaking in connection with their [recently published analysis](#) of the "perennial question" of whether there are too many such organizations in the United States – or room for more.

They published the full study, titled [A Field Too Crowded? How Measures of Market Structure Shape Nonprofit Financial Health](#), in March 2018 in the *Nonprofit and Voluntary Sector Quarterly*.

In August 2018, two of the authors wrote a shorter, much less "deep-in-the-weeds," summary for *The Conversation*, an independent academic publication: [America has 1.5 million nonprofits and room for more](#).

The professors compared the U.S. economy and culture to a forest. All existing organizations in the United States are a herd trying not just to exist but also to flourish in that forest. Are there enough resources right now to support the herd? What about expansion? At what point will there be too many additions to the herd, jeopardizing not just the newcomers but the entire population?

Is the Nonprofit Herd Sustainable?

Who is asking this question and why?

First, the charitable sector in the United States has been growing steadily since about 1970. Just since 1995, the number of 501(c)(3) organizations [have doubled](#); [more than 300,000 have been started in "recent years."](#) A concurrent development is the growing importance of the nonprofit sector as an element of the U.S. workforce.

Second, some philanthropists and foundations, along with policymakers, community, and the media, [have expressed worries](#) that the nation has more tax-exempt groups than it can sustain. There is

“great interest in how the growth and size of the ... sector affect organizational fiscal health” and a certain narrative has emerged that there are “too many nonprofits.”

This new study “helps to inform discussion of this issue and offers guidance for scholars.”

Fresh Methodology

The five co-authors acknowledge at the outset that the primary issue – sustainability – underlying the research has been addressed before. It has been “investigated in many different ways by many different people from both inside and outside the nonprofit sector.”

They were determined, though, to approach the research topic in a new and fresh way. “Whereas some of this early research was entirely quantitative, the authors argue that their specific focus on nonprofits’ financial health sets their work apart.”

They used the National Center for Charitable Statistics’ (NCCS) number of 1.5 million nonprofits operating in the US. They “looked into whether having more nonprofits in one place – probably competing for the same funds – affects their financial health.” It “matters *how*” the researchers “measure the structure of the sector,” how they “define performance, and the fields in which [they] test these models.”

They broke down “this dynamic” by geography, “using complex statistical techniques.” They studied almost 300,000 groups “located across 3,141 counties and county-equivalent jurisdictions in 2011,” assessing “the relationship between the aggregated financial health of all these groups and county-specific characteristics, such as tax-exempt organization density, the size of the local population and poverty rates.”

Too Many Nonprofits?: Findings

As soon as academic researchers tell you they used “complex statistical techniques,” that’s a clue that even the short-form summary of the study is going to be a tough read.

So let’s skip to the conclusion about whether “the environment – the forest – has enough resources to support the herd.”

This study “suggests that nonprofit financial health starts to worsen when a county with three nonprofits per 1,000 residents gets an additional nonprofit organization.” An important conclusion relevant to “the sector as a whole” is that “creating yet another nonprofit in places with the great number of nonprofits per thousand residents made all of its peers financially weaker.”

But – the authors caution – “if one or two larger nonprofits get most of the regional funding, establishing a new, smaller group poses little competition.” However, since the average county “only has one nonprofit per 1,000 people,” there is room for one or two more and this expansion “may actually improve the financial health of *all* the nonprofits.” (*emph in orig.*) “Within limits,” adding to the herd in this way may also promote “more collaboration and sharing of information and resources among sector leaders.”

The data, though, indicates that there is a “different spread for arts organizations.” They hope that future research will – among other goals – “help unpack other nonprofit fields that might be affected

differently by density” and why.

Conclusion

At the end of the study, the authors add another caveat: “[F]rom a purely financial perspective, there is legitimate concern for field-crowding.” They look forward to future research on this important issue.