**The Organizational Foundations of the Nonprofit Sector**

Patricia Bromley & Heitor Santos

The nonprofit sector is a recent invention, arising mainly in the latter half of the twentieth century. There are some historical precursors, such as religious activity and civil society, but these fail to directly capture contemporary meanings of the term “nonprofit sector”. The editors of this volume define the nonprofit sector as “voluntary (and organized) action that is not aimed at generating profit” (Child & Witesman, this volume, page TBD): Appropriately, the organized nature of the sector is explicitly called out. In this chapter we argue that “organization” is a constitutive feature of the nonprofit sector. What makes the sector distinct from earlier manifestations of prosocial activity is its dependence on formal organization and organizing. By embedding the emergence of the nonprofit sector within the evolution and institutionalization of organization as a central feature of modern society, our chapter provides new insight into core questions about the sector, such as how to explain blurring between boundaries of business, government, and nonprofit domains, and how to explain variation in the size of the nonprofit sector over time and around the world.

The purpose of this volume is to understand why nonprofit organizations and sectors exist. The answer we offer here is that they are part of a dramatic historical phenomenon: the rise and globalization of modern organization and organizing. The contemporary social structure we now call “organization” evolved out of the massive social transformations wrought by the Enlightenment and the related principles of Western liberal culture. Functionalist accounts of the emergence of a nonprofit sector, rooted in ideas of pre-existing needs or government and market failures, overlook the role of this broader cultural context in shaping the nature of prosocial activity into its distinctly organizational character. We propose that the form and size of the nonprofit sector in part reflects the dominance of formal organization as the preferred way of structuring activity.

We start with a brief explanation of the view of organization that guides our arguments, known as neo-institutional theory. In this account, organization is a socially constructed category or model composed of entities that are defined, by law and cultural tradition, as autonomous social actors with rationalized identities, purposes, and responsibilities. Next, we provide a brief sketch of the historical evolution of organization, including nonprofits. The concept of formal organization, and the accompanying idea of a three-sector society with a distinct nonprofit sphere, has roots in liberal philosophy and the history of the Western world. But after the fall of the Soviet Union, the tripartite model of society with a private sphere populated largely by forprofit and nonprofit organizations diffused widely around the world. Lastly, we discuss how our view contributes to core questions about the sector and conclude with reflections on how the recent fragmentation of the liberal and neoliberal world order could portend critical changes for nonprofits.

Before proceeding, three clarifications are important. First, novel social phenomena, like the “nonprofit sector,” emerge from existing arrangements. Thus, although the term “nonprofit sector” is relatively new, we can retrospectively observe nonprofit-like examples that existed before society coined the term. For instance, going back to Aristotelian times, there was “civil society” which was envisioned as a political community of citizens in the ancient Greek polis (DeWiel 1997). In this early manifestation, there was no vision of an independent sector, as we understand it today. Much later, during the Enlightenment, civil society became re-defined as distinct from the state. Societies were thought to be best governed by the free self-organization of individuals and groups, including the market and economic entities (Kocka 2004). At the time, businesses were more integral to civil society than we expect in contemporary definitions of the nonprofit sector. As another alternative, there have long been religious institutions carrying out many activities that are now recast as part of the nonprofit sector. However, as we will discuss later, this transformation of religious activity and civil society as part of the nonprofit sector also transforms these spheres. These pre-cursors do not quite capture contemporary meanings of “nonprofit sector” and they are changed by becoming more nonprofit-like.

Second, we argue that what makes the nonprofit sector distinct from precursors is the pervasiveness of formal organization and organizing. This does not mean that all activity in the sector is legally incorporated. Instead, formal organization is a dominant cultural model that provides legitimacy and visibility, but it is often more aspirational than achieved. Under conditions where formal organization is a celebrated model, even informal clubs and grassroots associations are more likely to adopt some of its trappings, such as meeting minutes and rules of order or strategic plans.[[1]](#footnote-1)

Third, our observation that formal organization is a defining feature of the nonprofit sector is analytic rather than normative. Later, we discuss what may be gained and lost as a result of structuring prosocial activity this way, but our primary goal is to explain rather than prescribe.

**A Neo-Institutional Theory of Organizational Actorhood**

*The Rise of Organization*

The introduction to this volume began with a valuable thought experiment. We were asked to imagine a group of people appearing on an uninhabited and ungoverned land, tasked with determining “how they might organize their world.” Child and Witesman ask, “What will be the nature of the organizations that they create to carry out the work of building and maintaining a society?” (this volume, page tbd). From our view, there is a critical distinction between how a society is organized and the nature of its organizations. “Organizations” are not the only option available for how human activity can be organized or structured. Looking historically and cross-nationally, there are multiple alternatives such as kinship or tribal networks, caste systems, autocratic forms of government, or empires. None of these patterns fit the model of a society that is thickly populated with formal organizing and organizations that are considered to be a private sphere separate from government. A key facet of our argument is that the concept of a nonprofit sector (often implicitly) takes for granted the existence of a private, non-governmental arena that has become largely filled by “organizations.” But organizations are a distinct form of social structure that emerged in modern times out of specific historical and cultural conditions, and they remain institutionalized to varying degrees around the world.

Many organization scholars have documented that the modern concept of organization as an autonomous cultural and legal entity was uncommon until the 1950s (Coleman 1982; Perrow 1991; Drucker 1992). Prior to this period, the word “organization” was mainly used to refer to a pattern or particular way of structuring or arranging things, ideas, or groups. In contrast, the contemporary use of the word organization refers to a bounded social actor that is distinct from its predecessors such as states, churches, universities, or hospitals (Krücken & Meier 2006; King, Felin, & Whetten 2010; Krücken, Blümel, & Kloke 2013). For example, whereas bureaucracies were envisioned as a tool of a sovereign, organizations are themselves constructed as sovereign social actors.

By our definition, organization is an idealized model with three main characteristics: they are conceived of as bounded, rationalized, and responsible (Bromley & Sharkey 2017; Hwang, Colyvas & Drori 2019).[[2]](#footnote-2) The modern organization is conceived of as *bounded*, meaning it is intended to be autonomous with an identity and purposes of its own, which are separate from the identities of its individual members or creators. In some legal systems, organizations even come to have certain rights of their own. Proper modern organizations are also expected to be *rationalized*, which is to say that the way in which they go about enacting their mission involves the adoption of scientized practices. A modern organization concerned with eradicating hunger does not achieve its mission by simply buying food and distributing it to the poor. It does so in a measurable, trackable, and optimizable way. Finally, as they assert their place as autonomous entities and adopt rationalized practices to enact their goals, organizations become imagined as *responsible*. Just as individual human actors are accountable to the wider society, the modern organization, as an actor, also ought to abide by prescribed legal and moral standards in order to maintain its legitimacy in the organizational society.

Two long-term historical trends are most salient to the rise of formal organization, including nonprofits (Meyer & Bromley 2013; Bromley & Meyer 2015). Starting especially in the 18th century, Enlightenment-era individuals were re-defined as, first, having the capability to reason about science and nature and, second, as having the right and responsibility to do so (Baker 2001). These shifts provided the basis for establishing a sphere of life meant to be independent of government, a phenomenon that has been described as “the invention of society” (e.g. Kaviraz and Khilnani 2001; Rudan 2016; for a critical take see Foucault 2008: 4-5). One central outcome was the emergence of a social structure intended to enable and protect collective action separate from the state – the corporate form (Drori, Meyer & Hwang 2006; Bromley & Meyer 2015). Although contested in their early phases, corporations and their modern counterparts, organizations, have become the dominant social structure of our time. Broadly speaking, this view of organizations as dependent on, and constructed by, the external cultural environment is called neo-institutional theory (Meyer & Rowan 1977; DiMaggio & Powell 1983; Meyer 2010; Scott 2013). These foundational arguments are especially spelled out in a seminal work by Gili Drori, John Meyer, Hokyu Hwang, and collaborators, *Globalization and Organization: World Society and Organizational Change* (2006).

*Nonprofit Forms of Organization*

Early on, there was little distinction between nonprofit and forprofit corporations (Kaufman 2009). However, as the corporate form took hold and expanded, it became increasingly differentiated and elaborate. Gradually, rules and regulations emerged to define and govern organizations of different sizes, industries, and goals (e.g. for the public good or profit). But only after society became populated by a dense ecology of organizations did it became possible to theorize about differences between types, such as nonprofit and forprofit.

Efforts to demarcate a sharp line between nonprofit and forprofit organizations developed most forcefully starting in the mid- to late- twentieth century. Especially during the 1980s, several related strands of economic thinking sharpened the focus on nonprofits and a distinct nonprofit sector. One key set of arguments speculated that nonprofits would arise when consumers did not have enough information to evaluate a product or service, and therefore must place trust in an organization (Hansmann 1980). A second, more macro, set of arguments (often captured in the term neoliberalism) speculated that private service provision would provide the most effective and efficient means of meeting public needs. These trends contributed to the celebration of the three-sector model of society, which was pushed widely around the world, especially following the fall of the Soviet Union, and together created today’s “society of organizations” (Perrow 1991). For better or worse, organizations have become the dominant social structure of late modern societies, often touching people’s lives more deeply and routinely than the distant structures of government and sometimes having great influence over public life.

As the organizational form gained legitimacy, earlier entities started to take on some of the features of what is now called organization. Establishing mission and vision became elaborate processes, as did the development of plans for achieving goals through logic models, theories of change, and detailed evaluation and reporting metrics. For example, in *American Grace*, Putnam and Campbell (2012) describe one minister’s internal struggle over his growing role as an events coordinator. His time was increasingly spent providing entertainment-focused social gatherings as a rationalized organizational tactic to build market share and improve customer satisfaction. In an earlier era, religious leaders would attend to other-worldly matters; as churches start to adopt the features of a modern organization, they begin to follow the latest management practices and aim to measure their impact.

As one signal of these transformations of older structures, new language evolved. When firms became contemporary organizations, they started to be described as “post-modern,” (Parker 1992; Caporaso 1996; Hirschhorn 1997; Kumar 2009) or “post-industrial,” (Touraine 1971; Bell 1976; Masuda 1980; Huber 1984). Similarly, government agencies and other large bureaucracies shifted to become “post-bureaucratic” (Kernaghan 2000; Brunsson & Sahlin-Andersson 2000). And previous forms of associational and prosocial activity become “nonprofit organizations” constituting a “nonprofit sector” as they are transformed into modern organizational actors (Hwang & Suárez 2019). As an illustration, Figure 1 shows the relative frequency of the phrase “nonprofit sector” in the Google Ngram corpus of digitized books; that is, how often the phrase appears in a sample of more than one million books published in American English. The phrase hardly appears until starting in the 1970s and then increases dramatically. An examination of a different database, the [Corpus of Historical American English](https://www.english-corpora.org/coha/), revealed a similar pattern: The phrase “nonprofit sector” does not appear from 1800 until the 1970s, at which point 0.07 words per million include the phrase; this doubles by the 2010s when 0.14 words per million are “nonprofit sector.” Related, the top co-locate of the word “nonprofit” is “organization” (a co-locate is the word appearing most commonly just before or after in the text corpus). In sum, the nonprofit sector is co-constructed with the expansion of the model of organization, and it reflects the culmination of a much longer process of societal and organizational transformation.

Figure 1. Relative Frequency of the Bigram “Nonprofit Sector” in Google’s English Language Book Corpus.

Note: Y-axis scaled at 1 x 105. Smoothing of 20. Source: Google Inc. 2021.

**Organizational Actorhood: Applications**

What does a neo-institutional theory of organization suggest for the nonprofit sector? Applying our arguments to foundational questions and trends in the sector yields novel insights. As a start, observations of ‘blurring boundaries’ are now commonplace, and typically attributed to pressures of marketization (e.g. Eikenberry & Kluver 2004). But economic explanations only go so far; they fail to account for why firms are transformed as well as nonprofits, and why many of the changes go far beyond direct marketization (Bromley & Meyer 2017). We argue that as pre-organizational structures – such as family firms, guilds, townships, universities, and churches – become instances of “organization,” they become more alike. By definition, all organizations possess similarities that make them recognizable members of that category. And what it means to be a proper organization continues to evolve and shift; for example, increasingly including broad emphases on social responsibility in both firms and nonprofits (Pope et al 2018: Lim 2021). Our view offers a cultural account for why we see similarities between forprofit and nonprofit entities.

Importantly, our account of the rise of organizational actors as a socially constructed meta-category does not predict an unending and inevitable march towards similarity between firms and nonprofits. Following classical social theory arguments, we posit that social structures are constituted by, and therefore reflect, underlying culture (as in, for example, Weber’s canonical discussion of how the Protestant ethic underpinned the evolution of capitalist structures). As culture shifts over time, the form and content of social structures also change. It is an open question what the future will hold. But there is great opportunity for, and likelihood of, changes away from the trends of the late twentieth century.

The theory we advance can also be applied to improve understanding variation in the size of the nonprofit sector over time and between countries. Canonical explanations predict larger nonprofit sectors in countries with greater diversity in the population (as there is more divergence from a ‘typical’ citizen and so more needs to be filled) or where government service provision is limited (James 1989). Our view, which is complementary to traditional arguments rather than logically competing, posits that societies that are more linked to the liberal cultural principles underpinning the model we call “organization” will have more of these entities. In a sophisticated empirical test of this argument, Schofer and Longhofer (2011) and Longhofer and Schofer (2010) show countries have larger domestic nonprofit sectors if they are more connected to liberal culture through their associations with international organizations and have policies and laws that reflect liberal ideals.

The expansion of nonprofit sectors worldwide occurs in part due to the globalization (sometimes coercively) of liberal cultural principles, beyond the instrumental needs imposed by population and economic growth in each country. As a result, over time a highly diverse group of countries have experienced growth in the nonprofit sector. At the same time, persistent and meaningful differences between countries continue to exist. In fact, major differences should be expected given the immense diversity in historical legacies, resources, political structures, and demographics. Excellent research has focused on highlighting the differences between countries or country types, especially as rooted in their social origins (classically, see Salaman & Anheier 1998; for a recent revision and review, see Anheier, Lang & Toepler 2020). Despite important and expected cross-national differences, there are unexpected similarities in the growth and form of nonprofit sectors around the world. Neo-institutional theory provides an account of changes to many national nonprofit sectors in largely the same direction, as emerging from liberal cultural influences in the external environment.

Our theoretical view also has applications for the direction of future research. The term “nonprofit sector” has evolved into a significant concept, but the multiple meanings and changing nature of this category ought to be an object of study rather than treated as a taken-for-granted social fact. A reification of the category of “nonprofit” can lead us to overlook important trends and mis-specify the causes and consequences of key features of the sector. Nonprofits are often defined as voluntary, independent from government, and subject to the nondistribution constraint (Frumkin 2009). But, as is well known, these features are problematic when we start digging into individual cases. Moreover, such definitions say nothing about contributions to the public good, a dimension of great interest to many nonprofit scholars. Harmful associations such as the KKK can fit the traditional definition of nonprofits but are likely not what most scholars have in mind. To be sure, in the US such groups are unable to obtain the “public good” certification from the IRS; but tax-exempt status alone does not identify the “goodness” of a group. For example, as discussed in chapter 17 in this volume, many indigenous organizations purposefully do not formally incorporate as the government has long been complicit in egregious forms of exploitation. Similarly, support associations for some of the most vulnerable groups in society, such as illegal immigrants, may be wary of drawing government attention and thus face a form of “civic invisibility” (De Graauw, Gleeson & Bloemraad 2013). The public good is somewhat arbitrarily defined in the U.S. tax code and is always contested (perhaps notably so in the current era of extreme polarization). Overall, the meanings of “nonprofit organization” and “nonprofit sector” remain in flux, and there is often a disconnect between formal definitions and on-the-ground realities. We call attention to these features as central areas where research is needed.

Alongside the need for greater study of the creation, evolution, and meaning of “nonprofit” and its features, our theory calls for careful attention to the conceptual goal of research when developing empirical measures (see Eliasoph 2020 for an analysis of the meaning of voluntary action). For example, if our interest is in prosocial action, by focusing solely on nonprofits we fail to recognize a large amount of relevant work and innovation that happens outside of this sphere. One example from the past year is in the groundbreaking efforts of Engine Number 1, a ‘green’ activist investment firm, to take over two board seats on Exxon. Engine Number 1 pressures firms in which it holds investments to change their practices, unlike many prosocial investors that focus on investing in ‘green’ firms. This innovative shift changes the meaning and scope of traditional environmental activism. Related, there is a striking rise of new organizational forms around the world, such as B-Corps, social enterprises, and the use of LLCs for philanthropy (Mair & Noboa 2003; Lee, Battilana & Wang 2014).

We are not suggesting abandoning existing classifications, such as the distinction between nonprofit and forprofit. Rather, we advocate investigating the conditions under which such classifications carry more and less importance (e.g. in terms of material consequences, legitimacy, and/or conformity), and their evolving meanings. And we urge moving towards more fine-grained and precise measurement motivated by clearly specified conceptual purposes. There are many ways to differentiate between organizations — degree of voluntariness, size, industry, internationalization, formalization, profit-ness, prosocial-ness, legal status, and so on. The goal is to identify which dimension(s) are of interest, specify why, and seek to measure them more directly in the empirical world. For example, Langer (2021) develops a measure of the individualistic and collectivistic orientation of organization. As another example, Bloom and colleagues developed the World Management Survey, a tool to compare management practices across multiple countries and industries (Bloom & Van Reenen 2007; see Bloom et al 2020 for a recent example of hospital practices). To be sure, legal nonprofit status is a convenient, and oftentimes useful indicator: it may be highly correlated with (and thus a proxy for) some other factor of interest, such as profit motivations. And legal status itself, or the choice of legal form, may have important causes and consequences worth studying (Child, Witesman & Braudt 2015). Seeking greater conceptual and empirical precision is a big task. But the potential gains for understanding what we call the nonprofit sector are great.

**The Future of Organizational Actorhood**

Looking to the future, recent research suggests that the hegemony of Western liberal culture may have peaked in the 1990s and eroded in the past twenty years (e.g. Guillén 2018; Norris & Inglehart 2019). Some even claim we have reached the end of the society of organizations (Davis 2009). By our arguments, if there is an erosion of the cultural foundations that generated organizational expansion, then the nonprofit sector will be dramatically altered. Speculatively, in the US, we would expect that increasing polarization and populism undercut the myth of a shared vision of the public good that is required to support the tax-exemption system for nonprofits. If such trends continue, we might see new challenges to the Internal Revenue Service classifications, or legal redefinitions of the public good. Given the universalism of liberal principles, international organizations might be particularly negatively affected if illiberal culture takes center stage; indeed, recent research shows a decline in founding rates of international nonprofits in the US (Bush & Hadden 2019). Cross-nationally, a liberal backlash may threaten nonprofit sectors; already countries around the world are placing more restrictions on the establishment and financing of formal nonprofit organizations, especially regarding the receipt of foreign funding (Bromley et al 2020; Dupuy, Ron, & Prakash 2016).

Our arguments reinforce the importance of efforts like this volume, which returns to the fundamental questions of what we mean by “nonprofit” and why we think it matters. Our phenomenological approach sees nonprofits and the nonprofit sector as socially constructed categories, and therefore evolving and changing over time in ways that go beyond functional exigencies. A dominant feature of the nonprofit category, in contrast to alternatives like “civil society”, is its interdependence with formal organization (sometimes, but not always or solely, indicated by legal status). The rise and evolution of a meta-category of “organization” accounts for many of the similarities between firms and nonprofits, but also provides a framework within which the differentiation and elaboration of sub-species of organizations can occur, such as the invention of nonprofits and B-Corps. It remains an important task to track and explain the transformation of these constructed categories. Although categories are social constructions, they carry important material implications (such as tax-exempt status) and have symbolic value (such as perceptions of legitimacy or worth, which can bring additional material consequences). Recognizing the contingent nature of contemporary social structures opens the door to asking the key ethical and philosophical questions of our time: Given the structure of society is mutable, what ought it look like? Should there be a sharper distinction between forprofit and nonprofit activity, or more independence from government? Should we hold nonprofit and forprofit organizations to different moral or ethical standards?

Globally, the current era is marked by growing challenges to the liberal and neoliberal order that provided the cultural foundation for the rise of nonprofit organizations. Populism and authoritarianism are on the rise, there is increased polarization and income inequality in many others, as well as an eroded sense of optimism. For some, the recent challenges to democracy, nonprofits, and capitalism are an existential threat. For others, the upheaval indicates a respite from Western, liberal hegemony. For our part, we do not believe a shift away from liberal or neoliberal principles portends a decline in the amount of prosocial activity in the world, just that its nature will change to become less organizational. A move away from the dominance of formal organization as a key feature of prosocial activity may pose challenges such as decreased emphasis on professionalism and effectiveness if rationalizing tendencies are lessened, or reduced independence from the state if the autonomy dimension of organization is undermined. But a less formally organized sphere could also reduce barriers to access for highly marginalized groups and generate innovative forms of informal network activity that may be temporary and highly responsive or flexible (e.g. Højgaard 2020, Sydow & Windeler 2020). What is certain is that now is the time for seeking out and evaluating alternative futures for society.

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1. We do not conflate “organization” with the legal incorporation of a bounded entity, but rather see it as an aspirational cultural model. As a result, we use the term in two distinct but connected ways. On the one hand, “organization” refers to the social construction of imagined bounded actors, including the rise of ‘corporate personhood’ laws to institutionalize this status but also the general social tendency to anthropomorphize organizations and treat them as bounded entities in management theory and practice (Bromley & Sharkey 2017; Ashforth et al 2020). On the other hand, we also refer to “organize” as a verb, a set of practices which, while not referring to the bounded entity, is ultimately situated in the same semantic field. For instance, when we talk about social movements getting organized, we mean the adoption practices such as professionalization, monitoring and evaluation, and accountability, which are connected to the universe of formal organization, despite being adopted and enacted outside of this legal form. [↑](#footnote-ref-1)
2. To say “organization” is a model does not suggest it is pure ceremony. As the model of organization becomes institutionalized through normative, regulative and cultural-cognitive mechanisms (Scott 2013), it exerts both coercive and symbolic control over local contexts, thereby taking on material consequences. Real-world efforts to conform to the model of proper organizations are coercively imposed (e.g. by law) or aspirationally embraced (e.g. by management recommendations) to varied degrees, and this “decoupling” or variation around enactment of the ideal model represents an important area of inquiry for scholars and managers alike (Meyer & Rowan 1977). [↑](#footnote-ref-2)