

Introducing the Nonprofit Program Classification System: The Taxonomy We've Been Waiting For

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The National Center for Charitable Statistics at the Urban Institute has developed a system to classify the programs, services, and activities of public charities, called the Nonprofit Program Classification (NPC) System. Designed to serve a wide range of potential users, the system has been used to code the activities of each organization, as reported in Part III—Program Service Accomplishments of its Form 990. Currently, codes from the National Taxonomy of Exempt Entities (NTEE) system are used to classify nonprofit organizations according to their organizational purpose. Frequently, however, the questions that are asked by researchers, nonprofit organizations, and the public are focused on what an organization does rather than the type of organization. This article describes the development of the system and its strengths and limitations. Using both the NPC and NTEE systems, researchers will be able to develop a more complete portrait of nonprofit organizations and their activities.

The National Center for Charitable Statistics (NCCS) has recently developed a system for classifying the programs, services, and activities of nonprofit organizations. Designed to serve a wide range of potential users from researchers to donors, the system will first be used to classify the Program Service Accomplishments as reported on Part III of a charity's Form 990, the annual information return required by the Internal Revenue Service (IRS) for most tax-exempt organizations with more than \$25,000 in gross receipts each year. For the first time, such a system is feasible because of the availability of the GuideStar/NCCS National Nonprofit Organization Database with Part III information that can be electronically searched and categorized.

Codes from the National Taxonomy of Exempt Entities (NTEE) system (1998) are now used to classify nonprofit organizations according to their organizational purpose. Although essential to research, organizational categories do not always adequately describe the varied activities of the groups.

Many times, the questions asked by researchers, nonprofit organizations, and the public are focused on what an organization actually does rather than the type of organization. YMCAs, for example, are given a single NTEE code (P27) but usually offer a wide variety of programs such as recreational activities, arts classes, literacy instruction, food distribution, and AIDS awareness, just to name a few. The use of additional codes to classify activities will provide a more complete portrait of nonprofit organizations.

WHY DEVELOP A NEW NONPROFIT PROGRAM CLASSIFICATION (NPC) SYSTEM?

NCCS examined a number of existing classification systems for their adaptability for coding the programs of nonprofit organizations. These included the NTEE, the nonprofit standard for organizational classification; the North American Industry Classification System (NAICS) (1997); and the AIRS/INFO LINE *Taxonomy of Human Services* (Sales, 1994), a conceptual framework with standardized terminology and definitions for the information and referral field. Table 1 compares these three systems to the new NPC System.

NTEE

NTEE is a tax-exempt organization classification system designed by a team of nonprofit scholars and practitioners in the 1980s to serve as a common reporting language for statistics on the nonprofit sector (Sumariwalla, 1986). The system is now used by the IRS, as well as by NCCS at the Urban Institute, INDEPENDENT SECTOR, the Foundation Center and many foundations, American Association of Fundraising Council (AAFRC)-Trust for Philanthropy, GuideStar, and many researchers of the nonprofit sector.

NTEE divides nonprofit organizations into types based on their organizational purpose. It uses 10 major categories that can be disaggregated first into 26 major groups and ultimately into about 450 categories. The major categories are

- arts, culture, and humanities (I);
- education (II);
- environment and animals (III);
- health (IV);
- human services (V);
- international (VI);
- public, societal benefit (VII);
- religion related (VIII);
- mutual/membership benefit (IX); and
- unknown (X).

Table 1. Classification Systems Comparison

<i>Classification System</i>	<i>System Focus</i>	<i>Statistical Unit</i>	<i>System Structure</i>	<i>Major Users</i>	<i>Issues for Nonprofit Program Classification</i>
National Taxonomy of Exempt Entities (NTEE)	Tax-exempt organization classification system designed to serve as common reporting language for statistics on the nonprofit sector	Organization as determined by EIN	10 major categories, arranged topically, further disaggregated into 26 major groups comprising 450 categories	IRS, NCCS at the Urban Institute, Philanthropic Research, Inc., INDEPENDENT SECTOR, the Foundation Center, and many scholars of the nonprofit sector	Multiservice organizations, such as YMCAs, are given a single NTEE code that does not reflect a wide variety of programs across multiple NTEE major group divisions Organization code does not always clearly describe what an organization does Not detailed enough to define the myriad of programs provided by nonprofits
North American Industry Classification System (NAICS)	Industry classification system designed to facilitate economic analysis between United States, Mexico, and Canada	Establishment as based on a production-oriented conceptual framework	20 major economic sectors, divided into 108 subsectors representing 1,170 industries	Federal government agencies	NAICS is broken down into 20 economic sectors; 67% of nonprofit organizations fall into only 2 of them

(continued)

Table 1 Continued

<i>Classification System</i>	<i>System Focus</i>	<i>Statistical Unit</i>	<i>System Structure</i>	<i>Major Users</i>	<i>Issues for Nonprofit Program Classification</i>
<i>Taxonomy of Human Services</i>	Classification used to index and access community resources; primary intent is to help match individuals with needed services	Individual services	10 major service categories, arranged alphabetically, then hierarchically from the most fundamental types of services required through the most general services provided; more than 5,000 separate classifications; include community groups and services as well as target populations	Information and referrals service throughout the country, various local and state government agencies	<p>Most programs of human service organizations would be placed in the other services category</p> <p>Environmental, animals, advocacy, and societal benefit organizations do not fit easily into NAICS</p> <p>Present IRS usage limited to only 23 codes</p> <p>Coverage outside the nonprofit sector, including public programs and for-profit establishments such as restaurants</p> <p>Very detailed, more than 5,000 categories</p> <p>Programs of philanthropic organizations, research institutes, advocacy and civil rights organizations are hard to classify</p>

Nonprofit Program Classification System	System designed to classify the programs and beneficiaries of nonprofit organizations	Program classes representing discrete categories but not lists of individual activities	Three facets—program codes, generic codes, and beneficiary codes; program codes are divided into the same 26 major groups as the NTEE, consisting of 1,000 individual categories	Still in the development phase; potential users are NCCS, PRI, scholars, and donors	Structure does not reflect broad subdivisions within the nonprofit universe; for example, arts and culture are subsets of leisure activities Created specifically for nonprofit program-level classification Works in tandem with NTEE
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Note: IRS = Internal Revenue Service; NCCS = National Center for Charitable Statistics; EIN = employer identification number; PRI = Philanthropic Research, Inc.

There are also common codes that describe activities common to nonprofits across the major group areas. For example, nonprofits in all of the major categories may include those with the same purpose of research, management and technical assistance, and fund-raising.

NTEE is an organizational classification system designed to capture the purpose of organizations and group them by type. Sometimes the type of organization reflects its programs and activities, but sometimes it does not. For example, the 100 Black Men of America, Inc., was founded in 1963 to “improve the quality of life of our communities, and enhance educational and economic opportunities for all African Americans” (www.100blackmen.org). According to the classification guidelines of NTEE, the organization would be coded as a men’s service organization (S82). What the organization does, however, is provide programs for youth and economic empowerment of minorities. This activity is not reflected in its organizational code.

This example illustrates that NTEE is designed for a different purpose than capturing programs, services, and activities. Therefore, NCCS concluded that a system more focused on activity descriptions was needed to supplement the NTEE code that indicates organization type.

NAICS

The NAICS is an industry classification system that groups establishments into industries based on the activities in which they are primarily engaged. It is comprehensive, covering the entire range of economic activities. NAICS was developed by the U.S. Economic Classification Policy Committee; Mexico’s Instituto Nacional de Estadística, Geografía e Informática; and Statistics Canada to provide common industry definitions for the United States, Mexico, and Canada to facilitate economic analysis of the three countries covered under the North American Free Trade Agreement. It replaced the Standard Industry Code System in January 1999.

The NAICS system consists of 6 digits and five levels of hierarchy, with the first 2 digits representing the major economic sector. The first 5 digits are standardized among the three participating countries; below the agreed-upon level of compatibility, each country may add additional detailed industries, provided that this additional detail aggregates to the NAICS standard. Eleven of the 22-digit major economic sectors in NAICS contain nonprofit organizations. They include agriculture (11); information (51); finance and insurance (52); professional, scientific, and technical services (54); administrative and support and waste management (56); educational services (61); health care and social assistance (62); arts, entertainment, and recreation (71); accommodation and food services (72); other services (81); and unknown (99).

According to research conducted by Linda Lampkin and Nicholas A. J. Stengel (1999, 2000), the majority of nonprofit organizations fall within only two areas—almost 32% in health care and social assistance (62) and 35% in religious, grantmaking, civic, and professional and similar organizations

(813), a subcategory of other services. In addition, some of the organizations that provide services and pursue activities that are typically found within the nonprofit sector, such as animal and environmental groups or societal benefit organizations, do not fit easily into NAICS. Because NAICS was created on a strict production paradigm, it is difficult to classify organizations that do not have a strict economic output.

AIRS/INFO LINE TAXONOMY
OF HUMAN SERVICES (TAXONOMY)

The *Taxonomy* is a classification system used by organizations maintaining human services databases. It is used to index and access community resources based on services provided and target groups served. Developed by INFO LINE of Los Angeles and used by information and referral programs throughout the country as well as state and government offices, the latest version contains more than 5,000 terms that are organized into 10 major service categories and a separate target group section. The major service categories are arranged alphabetically then hierarchically within categories from the most fundamental types of service required by individuals through the most general services provided for the community at large (Sales, 1994). The structure includes the following categories:

- basic subsistence,
- consumer services,
- criminal justice and legal services,
- education,
- environmental quality,
- health care,
- income security,
- individual and family life,
- mental health care and counseling,
- organizational/community services, and
- target populations.

The structure and content of the *Taxonomy* are constantly modified to accurately capture the ever-changing service delivery system and meet the needs of users (Sales, 1998). The system was created from the bottom up, taking a large and disparate group of activities that individuals had inquired about over the years and making the information meaningful by organizing it in a logical and consistent manner. The *Taxonomy's* primary intended function is to help match individuals with needed services. As such, it does not classify activities of nonprofits for research purposes very well. For example, it is very broad in coverage, including government programs as well as organizations and programs of for-profit establishments such as restaurants. It is also very detailed, with more than 5,000 separate classifications.

In addition, some programs playing a significant role in the nonprofit sector, such as those of philanthropic organizations, research institutes, and advocacy and civil rights and liberties organizations, are difficult to classify. Finally, the overall structure of the *Taxonomy* does not reflect the division of broad subsectors that is typically found in the nonprofit universe. For example, arts and culture, an important fundamental component of the nonprofit sector in this country and a major group division of NTEE, is merely a subset of leisure activities in the *Taxonomy*.

Because of the *Taxonomy's* development of very detailed activities and focus on services to individuals and families, the need for a different system for research on nonprofit programs was clear.

THE NPC SYSTEM

The NPC System is not intended to be a replacement for the NTEE but rather an added dimension to help in understanding what nonprofits do. Although it can stand alone, its major groups are linked to NTEE. It is broken down into the same 26 major groups as the NTEE and then further divided into about 1,000 program descriptions in those areas. Researchers familiar with NTEE major group divisions will easily recognize how individual programs fit into the NPC structure. Combined with the NTEE, NPC codes will provide a detailed description of the wide range and number of nonprofit programs. Analyses based on the NPC System will provide an immensely useful tool for researchers, practitioners, and policy makers who are concerned with the role of the nonprofit sector at national, regional, and local levels.

NPC was developed to reflect the manner in which nonprofit program data are organized, collected, and reported, using categories that can capture the vast majority of programs. NPC program descriptions are intended to represent discrete categories into which appropriate data can be placed, but not an exhaustive list of individual organization activities. Essential taxonomic principles of comprehensiveness, mutual exclusivity of elements, and logical consistency were followed throughout. NPC basic structure includes the following:

- *Three facets.* Terms are divided into three distinct categories or facets that can either be evaluated individually or combined. This creates a multidimensional system with a minimum number of codes. The NPC uses (a) program codes—the heart of the classification system designed to capture the subject focus of the programs performed; (b) general codes—modeled on NTEE's common codes, these include cross-sector activities such as advocacy, fund-raising, and research; and (c) beneficiary codes—population groups the programs intend to serve.

- *Subject hierarchies.* These are lists of standardized terms, displayed in hierarchical arrays, using the same major types as NTEE. Arranged from broader to narrower concepts, subject hierarchies were created using the NTEE and actual Form 990 program services descriptions. The lists of appropriate terms were supplemented by various subsector thesauri in different disciplines.
- *Definitions, lists of broader and narrower terms, and extensive cross-references.* Users will access the classification system either by keyword searches or browsing through the system's tree structures. Extensive lists of cross-references and broader and narrower terms to allow choices of terms from "drill down menus" in a logical manner have been created.

USING THE NPC SYSTEM

Used in conjunction with the NTEE, the NPC System can help provide much more detail on the programs, services, and activities of various types of charities and yield a much more accurate picture of the role played by the sector. The availability of the GuideStar/NCCS National Nonprofit Organization Database with its Form 990 information on programs now permits the development of a computerized matching system. For the first time, it is feasible to analyze activities for the more than 220,000 charities that file the form each year.

LIMITATIONS OF FORM 990 DATA

Although the IRS Form 990 data are the most comprehensive available on the sector, there are a number of limitations when they are used for this type of analysis. These include the following:

- *Not all charities file the Form 990.* The data do not include organizations with less than \$25,000 in gross receipts annually, as they are not required to file. Religious congregations are also not required to file, although some do. Some charities do not comply with the requirement to file, although the increasing visibility and easy access provided on the Internet should work to improve compliance.
- *Not all charities filing the Form 990 complete the Part III descriptions.* In the samples examined in this article, more than 8% of the organizations had no entries on their forms for this section. Although the instructions call for descriptions of their "exempt purpose achievements for each of their four largest program services (as measured by total expenses incurred)," most charities described two programs. Although it is possible that most charities have fewer than four programs, an alternative explanation is lack of attention to this part of Form 990.

- *The quality of the program descriptions on Form 990 is uneven.* The organizations are given four small blank spaces for their entries on the form, with instructions to describe “program service accomplishments through measurements such as clients served, days of care, therapy sessions, or publications issued” and “the activity’s objective, for both this time period and the longer-term goal, if the output is intangible” and to “give reasonable estimates for any statistical information, if this information is estimated.” The last instruction in this section (“Be clear, concise, and complete in your description”), given the space constraints, is a necessity.

Another factor in the quality of responses is that the words used to describe the programs may most often be chosen by the accountant or bookkeeper completing the form, rather than by those more familiar with the activities of an organization. Again, the quality of the descriptions should improve as charities realize the increased scrutiny these forms are receiving. As Form 990 increasingly serves as the first introduction of the organization to a potential donor, volunteer, or funder, the programs, activities, and services should become more accurately portrayed.

The future holds great promise of improved data quality. Electronic filing of the form and the self-selection of NPC codes from drop-down menus will help standardize the responses. The IRS is beginning the process of moving to electronic filing, and NCCS is launching a pilot program with a number of states to help identify potential problems and speed the transition. (See <http://nccs.urban.org> for additional information.)

IMPLICATIONS FOR RESEARCH

The number of Web sites concerned with nonprofits has grown dramatically in the past few years, and more are being created every day. A standard way of describing the programs, activities, and services is essential to matching donors, volunteers, and funders—and those just seeking information—with charities providing programs of interest. The NPC System can be a valuable resource in providing this necessary link. Several Web site developers have contacted NCCS about the use of NPC codes to help classify and categorize the vast array of nonprofit activities in an organized fashion for Web searching.

The NPC codes for activities can also be used to help check the appropriate NTEE classification for organizations. With computer assignment of codes to the Part III descriptions, an automated review of the NTEE classification is also possible. This will help improve the quality of the organizational coding and also indicate when the purpose of a charity has changed.

For researchers, the NPC System can provide detail on programs offered by different types of charities within the subsector. For example, questions such

as “To what extent do organizations not classified as arts organizations offer arts programs?” and “How many YMCAs offer day care?” can now be addressed. The types of programs offered can also be analyzed, such as “How many performing arts organizations offer ethnic/cultural awareness programs?” In fact, an initial study revealed that 25% of arts programs in four communities were offered by organizations other than arts organizations (Romeo, Lampkin, & Twombly, 2001).

Investigations about programs can be completed using keyword searches in the database (day care/child care, grassroot*, advoca*, lobby*, etc.). Detailed knowledge of the system and its hierarchies is not needed as keywords and cross-references have been extensively developed. Another useful aspect is that there can be a better tracking of common activities such as advocacy, increasing public awareness, technical assistance, and research that cut across all major groups.

Over the next year, another important field will be added to the Form 990 database—the program services expenses associated with each of the program services accomplishments listed on Part III. This step will allow researchers to investigate the size and scope of the programs by NPC code and greatly enrich the portrait of programs, services, and activities of charities using the expenses associated with them.

SUMMARY

The NPC System being developed by NCCS provides a way to greatly enrich the information available on nonprofits and use the newly available NCCS/PRI (Philanthropic Research, Inc.) National Nonprofit Organization database from the IRS Forms 990 filed annually by charities. It provides a method to organize the programs, services, and activities, with an appropriate level of detail for analyses. And more important, the resulting analyses will yield a more complete understanding of nonprofit activities to help inform discussions about their role in civil society.

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Linda Lampkin works closely with the Internal Revenue Service (IRS), key nonprofit groups, and the scholarly community to maximize usage of nonprofit data to promote and conduct research on the sector. Recent research projects include studies of charitable giving and data sources for nonprofit research, evaluation of the effectiveness of nonprofit programs through outcome measurement, and development of a system for classifying the program, activities, and beneficiaries of nonprofit organizations based on the information in the IRS Forms 990. She is a coauthor of numerous publications and holds bachelor's and master's degrees in economics from Cornell University.

Sheryl Romeo joined the Urban Institute's National Center for Charitable Statistics as a working group member revising the National Taxonomy of Exempt Entities for adoption by the Internal Revenue Service and inclusion in the North American Industrial Code. She oversaw the publication of the National Taxonomy of Exempt Entities—Core Codes manual and created the index for the same volume. At present, she is heading up a team who is creating a system for classifying the programs and activities of nonprofit organizations. The Nonprofit Programs Classification System, as it is known, will provide both a user interface for accessing data and an artificial intelligence package for automatically classifying program services.

Emily Finnin conducts research and analysis on data related to nonprofit organizations, primarily financial data from Internal Revenue Service (IRS) Form 990. She was primarily responsible for building and error checking and correcting the digitized database system of seven congruent databases, which together contain more than 650 variables for more than 228,000 organizations. In addition, she compiled the 1999 National Center for Charitable Statistics (NCCS) Core File, which contains descriptive and financial information from the IRS Form 990 for more than 200,000 nonprofit organizations. She is responsible for maintaining other NCCS databases (Return Transaction File and Business Master File) and has assisted in the creation of several smaller databases used for specific analysis of program services and advocacy.