THIRD EDITION

NONPROFIT ORGANIZATIONS

Theory, Management, Policy

Helmut K. Anheier and Stefan Toepler



Nonprofit Organizations

In this new edition of the popular textbook, *Nonprofit Organizations: Theory, Management, Policy*, Helmut K. Anheier and Stefan Toepler have fully updated, revised, and expanded this comprehensive introduction to a growing field. The text takes on an international and comparative perspective, detailing the background and concepts and examining relevant theories and central issues.

Anheier and Toepler cover the full range of nonprofit organizations—service providers, membership organizations, foundations, community groups—in different fields, such as arts and culture, health and social services, and education. Introducing central terms such as philanthropy, charity, social entrepreneurship, social investment, and civil society, they explain how the field relates to public management and administration.

This textbook is systematic in its approach to theories, management, and policy. The first edition won the Best Book Award at the American Academy of Management in 2006, and this new edition will continue to match the growing demand for academic teaching. *Nonprofit Organizations: Theory, Management, Policy* is an ideal resource for students of both undergraduate and postgraduate courses.

Helmut K. Anheier is Professor of Sociology at the Hertie School, Germany, and faculty member of the Luskin School of Public Affairs, University of California, Los Angeles.

Stefan Toepler is Professor of Nonprofit Studies at the Schar School of Policy and Government, George Mason University, Virginia.

Praise for previous editions of *Nonprofit Organizations:*

"An invaluable resource for students, scholars, policy makers, and practitioners. No other source so effectively conveys complex ideas with such pellucid prose, no other volume so seamlessly integrates a crucial international perspective into this topic—and no one but Professor Anheier has the experience, overview, and wisdom to produce a volume of this scope and quality." **Paul DiMaggio**, *Professor of Sociology, Princeton University, USA*

"The clear international leader in its field." **Martin Knapp**, *Professor of Health and Social Care Policy, London School of Economics, UK*

"The indispensable text for both graduate and undergraduate courses on the organization of the nonprofit sector." **Stanley N. Katz**, *Professor, Woodrow Wilson School of Public and International Affairs, Princeton University, USA*

"Comprehensive, grounded in theory and data, with historical and comparative perspectives, this book is useful to practitioners as well as students and scholars throughout the world." **Leslie Lenkowsky**, *Professor Emeritus in Public Affairs and Philanthropic Studies, Indiana University, USA*

"The book lucidly examines key management and policy issues facing nonprofit organizations around the world . . . [A] valuable resource for classroom use, researchers, and nonprofit staff and volunteers." **Steven Rathgeb Smith**, *Executive Director, American Political Science Association*

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Zeke Hasenfeld († 2019)

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and

Lester M. Salamon († 2021)

to honor their extensive contributions to the study of nonprofit organizations and civil society in the US and worldwide.



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Preface to the Third Edition

This book can be used as an introductory text to the study of nonprofit organizations suited for courses at the graduate and advanced undergraduate level. The lack of a multidisciplinary textbook dedicated to the topic of nonprofit organizations, philanthropy, and civil society has long been a major complaint among faculty and students, as has been the absence of a comprehensive overview of current knowledge in the field. This book tried to meet both objectives when first introduced in 2005 and revised in 2014. This third edition, fully revised and expanded, holds on to these objectives, as the field of nonprofit studies continues to expand worldwide.

This textbook covers the major areas of knowledge and expertise when it comes to nonprofit organizations. As in previous editions, it follows a sequence of background—history—concepts—facts—theory—behavior—management—policy to cover the interests of academics, nonprofit leaders, and managers alike. Each chapter offers an overview of the topic covered and review questions at the end, with suggested readings for those who wish to explore topics in greater detail.

As a basic overview text, this book cannot cover all aspects of nonprofit studies; and even those addressed cannot be dealt with in the depth the subject matter frequently warrants. It is a testimony to the breadth and richness the field has achieved. But choices must be made, especially in this new edition. For one, the comparative, international dimensions that have always been part of the book have now been integrated more fully throughout the text, though the US remains the point of departure. We have added new chapters, and all others have been revised and updated using the latest available sources.

Finally, we have introduced applied topics even though the book is primarily targeted at academic audiences. Fortunately, the current edition follows the publication of the *Routledge Companion to Nonprofit Management*, an ideal source for additional in-depth coverage of key managerial tasks and issues with an international outlook.

As best as we can judge, this book, the first comprehensive textbook on nonprofit studies to span different disciplines and experiences, remains unique in its comparative approach and ambition. As such, it shows all the weaknesses that come with such an endeavor, and it is our hope that it will also show some of its promise from which future editions of this book can benefit.

Acknowledgments

This book owes much to the effort of others. We would like to thank Regina List who carefully and creatively edited the chapters of this book not once but twice. Without Regina, this book, and certainly its third edition, would have unlikely found its way to the printer. She deserves our fullest gratitude.

Thanks are also owed to Terry Clague, Senior Publisher, Alexandra de Brauw, Senior Editorial Assistant, and Naomi Round Cahalin, also Senior Editorial Assistant, at Routledge for encouragement and help "across the finish line." Their patience is legendary.

Some of our most sincere thanks are reserved for the hundreds of students at University of California, Los Angeles, the Hertie School, Heidelberg University, the London School of Economics and Political Science, Johns Hopkins University, and George Mason University who patiently sat through lectures and seminars. Their enthusiasm and feedback made this book possible.

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PART I

Studying Nonprofit Organizations



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CHAPTER 1

Studying Nonprofit Organizations

This introductory chapter first presents an overview of the range of nonprofit institutions, organizations, and activities. The chapter then briefly surveys the intellectual and political history of the study of nonprofit organizations and states some of the key intellectual, practical, and policy-related issues involved. It also discusses how the field relates to the various social science disciplines and shows its interdisciplinary nature. Finally, the chapter includes a description of the objectives and structure of the book by offering brief chapter summaries.

LEARNING OBJECTIVES

The study of nonprofit, third sector, or voluntary organizations is a fairly recent development in the history of the social sciences. What has become one of the most dynamic and interdisciplinary fields of the social sciences today began to gather momentum a generation ago. At the same time, the field is rooted in long-standing intellectual and disciplinary approaches that seek to come to terms with the complexity and vast variety of nonprofit organizations and related forms and phenomena. After considering this chapter, the reader should:

- have an understanding of the wide range of institutions, organizations, and types of activities that come under the label of the nonprofit sector;
- be able to identify key intellectual traditions of nonprofit sector research;
- have a sense of the major factors that influenced the field and that contributed to its development; and
- be able to navigate through the book's various parts and chapters in terms of specific content and their thematic connections.

Some of the key terms introduced in this chapter are:

- Charity
- Civic culture and engagement
- Civil society
- Civility

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- Giving
- Nongovernmental organization
- Nonprofit organization
- Nonprofit sector
- Philanthropy
- Social capital
- Social entrepreneurship
- Social enterprise
- Social investment
- Third sector
- Voluntary association
- Volunteering

A SECTOR RICH IN ORGANIZATIONAL FORMS AND ACTIVITIES

The nonprofit sector is the sum of private, voluntary, nonprofit organizations and associations. It describes a set of organizations and activities next to the institutional complexes of government, state, or public sector on the one hand, and the forprofit or business sector on the other. Sometimes referred to as the third sector, with government and its agencies of public administration being the first, and the world of business or commerce being the second, it is a sector that has gained more prominence in recent decades—be it in the field of welfare provision, education, community development, international relations, the environment, or arts and culture. The nonprofit sector has also become more frequently the topic of teaching and research, and this textbook seeks to offer students an overview of the current knowledge and understanding in the field.

The nonprofit sector is the sum of private, voluntary, nonprofit organizations and associations.

Although we speak of the nonprofit "sector," which suggests clearly defined borders with the public sector and the forprofit sector, such sector distinctions are in reality quite blurred and fluid. Institutions can reach across sector borders, as suggested by terms such as corporate philanthropy or social investment, and activities like volunteering and civic engagement, while primarily associated with the nonprofit sector, also take place in the public and the forprofit sectors. Organizations can "migrate" from one sector to another, e.g., hospitals change from public to nonprofit, or from nonprofit to forprofit status; public universities privatize; other organizations contain both profit and nonprofit centers within them, e.g., corporate responsibility programs or businesses run by nonprofits; and others yet are quasi-governmental institutions located somewhere between the private and the public realm, e.g., the Smithsonian Institution in Washington, DC, the BBC in the United

Kingdom, or GIZ, the German agency for international cooperation and development. What is more, some organizations, e.g., cooperatives and social enterprises, straddle the border with the forprofit world and are considered hybrids. Yet what many students of the nonprofit sector find as perplexing as fascinating is the sheer diversity of institutions, organizations, and activities it encompasses. Here are some current examples of the rich variety of entities that make up the nonprofit sector in the United States:

What many students of the nonprofit sector find as perplexing as fascinating is the sheer diversity of institutions, organizations, and activities it encompasses.

Museums: from major institutions like the Metropolitan Museum of Art in New York, the Getty Museum in Los Angeles, or the Chicago Art Institute to smaller institutions such as the Tyler Museum of Art in Texas.

Orchestras: including world-renowned companies like the Cleveland Symphony Orchestra, the Philadelphia Orchestra Association, or the Boston Symphony Orchestra, to smaller companies such as the Vietnamese American Philharmonic in California, the Peoria Symphony Orchestra in Illinois, and the Waterbury Symphony Orchestra in Connecticut.

Schools: from prestigious "academies" and "prep schools" in the New England countryside like the Phillips or Exeter Academies to the many thousands of private elementary, middle, and high schools across the country, including institutions for special education like the Morgan Autism Center in the San Francisco Bay area, and the Carroll Center for the Blind in Massachusetts.

Universities: from elite institutions like Harvard, Yale, and Stanford that have become multi-billion-dollar nonprofit corporations with significant endowments, and select liberal arts colleges like Sarah Lawrence in Bronxville, New York or the Claremont Colleges in California, to smaller, local, and regional colleges like Louisiana College and Sterling College in Kansas.

Adult education: including schools for continuing studies, literacy programs, skills and vocational training such as Literacyworks and JobTrain in California, Academy of Hope in Washington, DC, and the Hillsborough Literacy Council in Florida.

Research institutions: including the RAND Corporation in Santa Monica, CA, the Brookings Institution, the Earth Policy Institute, and the Urban Institute, all in Washington, DC, and the Russell Sage Foundation in New York.

Policy think-tanks: from "Beltway" institutions like the Cato Institute, the Center for Budget Priorities, or the Hudson Institute to regional centers such as the California Budget and Policy Center or the Southern Poverty Law Center.

Health: including major teaching hospitals like Johns Hopkins Health System Corporation in Baltimore or the Mayo Clinic in Minneapolis and clinics and community health centers, rehabilitation centers, nursing homes, and hospices.

Mental health: ranging from organizations serving specific ethnic communities such as the Hawaii Community Health Service, to organizations that deal with specific issues such as the Center for Grief Recovery and Therapeutic Services in Illinois, and organizations

that provide a broad spectrum of services such as the East House Corporation in New York.

Human services: including daycare for children, homes for the elderly, Meals on Wheels, social work organizations, YMCA, YWCA, counseling for youth, married couples or people in financial debt, Big Brother/Big Sister programs, the Red Cross, or the Salvation Army.

Credit and savings: ranging from the Consumer Credit Counseling Foundation in California, the Florida Community Loan Fund, and the Henry Strong Educational Foundation in Illinois, to the online crowdfunding organization Kiva.

Environment and natural resources: including the Sierra Club and organizations such as Campton Historic Agricultural Lands and Ducks Unlimited in Illinois, the Colorado Alliance for Environmental Education, and the Captain Planet Foundation in Georgia.

Local development and housing: from Habitat for Humanity International to local and regional organizations such as Satellite Housing Associates in California, the Housing Assistance Corporation in Massachusetts, or the Southwest Neighborhood Housing Corporation in Colorado.

Humanitarian relief associations and international development organizations: from large organizations such as CARE, Catholic Relief Services, and World Vision, to regional organizations such as Assist International in California and ActionAid USA, Africare, and American Near East Refugee Aid in Washington, DC.

Human rights organizations: from Human Rights Watch in New York to Freedom House and the International Campaign for Tibet in Washington, DC.

Religious organizations: from large institutional networks like the Catholic Church, to local congregations of Lutheran, Baptist, Episcopalian, and other Protestant, Hindu, Buddhist, Jewish, Muslim, and Islamic organizations.

Foundations: from larger foundations like the Ford Foundation, the Rockefeller Foundation, the Charles Stewart Mott Foundation, the John D. and Catherine T. MacArthur Foundation, or the Bill and Melinda Gates Foundation, to smaller endowments like the Durfee Foundation.

While these examples often refer to organizations in the sense of corporate entities, others are primarily membership associations:

Service organizations like the Rotary Club, the Lions, Kiwanis, or Zonta International and its affiliate chapters, the Junior League and its affiliate chapters, or the Knights of Columbus.

Fraternities and sororities include the numerous "Greek" student associations, named after the use of Greek letter combinations in their names, alumni associations, the Elks, but also the Freemasons and similar societies.

Special interest associations and advocacy groups like the National Rifle Association Foundation, Mothers Against Drunk Driving, People for the Ethical Treatment of Animals, the American Association of Retired People, or the American Medical Association, to name a few.

Self-help groups such as Alcoholics Anonymous, and countless local groups for divorcees, the sharing of grief and loss, weight loss, or crime victims.

Sports and recreation clubs like Little League Baseball, golf and country clubs, or urban roadrunners clubs.

The diversity of nonprofits is, of course, not limited to the US. In Canada, for example, thousands of organizations with charitable status provide a range of services from education and social services to healthcare and the arts. As in the US, Canadian nonprofit organizations include, in addition to nonprofit service providers and foundations, labor unions, professional associations, managerial associations, business organizations, consumer organizations, ethno-cultural organizations, religious organizations, social clubs, and neighborhood groups.

The diversity of nonprofits is, of course, not limited to the US.

The Charity Organisation Society, founded in 1883 in London, was at the time one of the largest formal organizations in the British Empire, and similar networks of private human service providers and charities began to form in Germany, France, Italy, Australia, and Japan as well. Today, two such networks, the Catholic and the Protestant social service organizations, Caritas and Diakonie, are among the largest employers in Germany, providing one million jobs; as is UNIOPSS, a French social service and healthcare federation of nonprofit providers. ONCE, the Spanish organization for the visually impaired, runs the largest lottery system in the country. In Israel, nonprofit organizations serve large portions of the country's immigrant population as well as the elderly.

But it is not only in welfare and healthcare that nonprofit organizations are prominent in other countries. World-famous museums like Tate Modern in London or the Guggenheim in Bilbao, Spain, the Maeght Foundation in France, or the Burda Museum in Baden-Baden, Germany, are nonprofit, as are other cultural institutions like the Academy of St. Martin-in-the-Fields in London or the Scala Opera in Milan, Italy. In education, the French *Ligue de'Enseignement* (Education League) covers over 30,000 private schools, and Japan has a substantial number of *gakko hojin*, nonprofit school corporations. In terms of research and higher education, the nonprofit sector would include the London School of Economics and Political Science, Oxford University, McGill University in Montreal, Canada, the Hertie School and the various Max Planck Institutes in Germany, the Louis Pasteur Institute in Paris, the Institute for Social Research in Milan, and Keio University in Japan.

It is not only in welfare and healthcare that nonprofit organizations are prominent.

Among international humanitarian relief associations we find Doctors Without Borders, founded in France, in addition to the British nongovernmental organization (NGO) Oxfam, and the German Bread for the World humanitarian assistance and development organization. What is more, some of the largest and most influential foundations in the world are located in countries outside the US, such as the Canadian Alberta Heritage Foundation for Medical Research, the Foundation Compagnia di San Paolo in Italy, the Sasakawa Peace Foundation in Japan, the Mercator, Bertelsmann, Hertie, and Volkswagen

foundations in Germany, the Wellcome Trust and the J. R. Rowntree Foundation in the UK, the Myer Foundation in Australia, and the Mo Ibrahim Foundation working on leadership and civil society development in Africa.

As the last example suggests, the nonprofit sector is not limited to the developed countries of America, the Asia-Pacific, and Europe. In Africa, Latin America, the Middle East, India, and Central and South East Asia, too, we find a rich tapestry of organizational forms and activities in the nonprofit field. Prominent examples include the Tata Institute and PRIA in India, the rural development organizations in Thailand and Indonesia, the countless rotating credit associations in West Africa, the associations among slum dwellers in Mumbai, the network of Catholic welfare associations in Brazil and Argentina, corporate foundations in Turkey, large education nonprofits like the Getulio Vargas Foundation in Brazil, the BRAC conglomerate in Bangladesh, among the largest organizations in the country, and the numerous *wakf* foundations in Egypt and other Arab countries. Russia has developed new philanthropic foundations as well, linked to various oligarchs, and created a new type of socially-oriented nonprofit organization that contracts with autocratic governments at regional and local levels to deliver services. China, too, has a nascent nonprofit sector destined to grow in numbers and to expand into new fields as the country, under governmental tutelage, seeks to devolve and privatize service provision in social services, healthcare, and education.

As the above examples from the US and other countries illustrate, when speaking of the nonprofit sector, we tend to refer to organizations, foundations, and associations first and foremost. Yet at the same time, the sector also covers individual activities and the values and motivations behind them, e.g., people's concerns, commitments to and compassion for others outside one's immediate family, respect of others, caring about one's community, heritage, the environment, and future generations. Specifically, these aspects refer to related terms that are discussed in somewhat more detail in Chapter 3, such as:

The sector also covers individual activities and the values and motivations behind them.

Charity, i.e., individual benevolence and caring, is a value and practice found in all major world cultures and religions. It is one of the five pillars of Islam, and central to Christian and Jewish religious teaching and practice as well. In many countries, including the US, the notion of charity includes relief of poverty, helping the sick, disabled, and elderly, supporting education, religion, and cultural heritage.

Philanthropy, i.e., the practices of individuals reflecting a "love of humanity" and the voluntary dedication of personal wealth and skills for the benefit of specific public causes. While philanthropy, like the term charity, has long historical roots in religion, its modern meaning emerged in early twentieth-century America and refers to the private efforts to solve common social problems such as poverty or ignorance.

Volunteering, i.e., the donation of time for a wide range of community and public benefit purposes such as helping the needy, distributing food, serving on boards, visiting the

sick, or cleaning up local parks. About a quarter of the US population volunteers on a regular basis.

Giving, i.e., the donation of money and in-kind goods for charitable and other purposes of public benefit to organizations such as the Red Cross or religious congregations, or to specific causes such as HIV/AIDS, cancer research, or humanitarian relief. Some two-thirds of US households donate money, a number not too different from that of many other countries, but not necessarily the highest.

More recently, as we also see in more detail in Chapter 3, additional concepts have entered the field of nonprofit studies. First there is a set that clusters around the term civil society and the more social and political facets and dimensions of the nonprofit sector:

Civil society: Many different definitions of civil society exist, and there is little agreement on its precise meaning. Nonetheless, most analysts would probably agree with the statement that modern civil society is the sum of institutions, organizations, and individuals located between the family, the state, and the market, in which people associate voluntarily to advance common interests. The nonprofit sector provides the organizational infrastructure of civil society.

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Civic culture refers to a country's broader political culture that, while characterized by an acceptance of the authority of the state, emphasizes a general belief in active political participation and social engagement of citizens as a civic duty. The term was prompted by concerns about the long-term political stability of Western democracies, and today refers to an enabling legal and social environment encouraging citizen participation.

Civic engagement is the enactment of a civic culture outside the realm of politics. Civic engagement refers to informed and involved citizens caring about social issues of many kinds, trusting of major social and political institutions, and concerned about the common good. Civic engagement is related to volunteering and giving, but carries a broader connotation of democratic participation in local communities and beyond.

Civility is related to but distinct from civil society and civic engagement. It means respect for the dignity of others and a reciprocal expectation that others are respectful as well. Civility requires empathy by putting one's own immediate self-interest in the context of the larger common good and acting accordingly.

Social capital is an individual characteristic and refers to the sum of actual and potential resources that can be mobilized through membership in organizations and through personal networks. People differ in the size and span of their social networks and number of memberships. Social capital captures the norms of reciprocity and trust that are embodied in networks of civic associations, many of them in the nonprofit field, and other forms of socializing.

Then, there are terms that relate more to the economic aspects of nonprofit organizations and activities:

Social entrepreneurship has been increasingly taken up within the nonprofit sector and by philanthropists to refer to innovation and initiation of social change in all areas of need. Such entrepreneurs often set up new nonprofit or community organizations, but can also be found within existing organizations and in the public and private sectors. They can operate at the local community level, across a country, or internationally.

Social enterprises are firms that blend social and commercial objectives as well as methods. In the US, social enterprises are nonprofit and forprofit firms in which the primary objective is to maintain and improve social conditions in a way that goes beyond the financial benefits created for the organization's funders, managers, employees, or customers. In Europe, social enterprises, unlike traditional nonprofit organizations, are frequently constituted as cooperatives and mutual societies with the principal aim of serving the community or a specific group of people.

Social investment, in its most narrow sense, is the equivalent of program-related investment, i.e., providing financing through loans and loan guarantees. A somewhat broader concept among grant-making foundations describes social investment as the practice of aligning investment policies with the organization's mission. The most encompassing definition equates social investment with "socially responsible investment," which refers to the financial practices of individuals as well as a broader set of institutions in addition to foundations. These practices attempt to integrate social responsibility and environmental sustainability with investment.

These terms related to the nonprofit sector address different aspects of the same social reality. For example, social capital is a measure of the individual's connection to society and the bonds of mutual trust it creates; the nonprofit sector refers to private action for public benefit; civil society is the self-organizing capacity of society outside the realms of family, market, and state; and social investments are private contributions to achieve public goods.

Terms related to the nonprofit sector address different aspects of the same social reality.

Yet at first such concerns about terms and definitions—and their wider meaning and implications, let alone how we could explain the existence, patterns, variations, and contributions of the organizations and activities they capture—were few and overall scanty. Indeed, for a long time, social scientists and policy-makers paid little attention to the nonprofit sector and related phenomena, and perhaps even less to the question of what these different forms and activities might have in common. The focus of much social science thinking and policy-making was elsewhere, i.e., with markets and governments. By contrast to the world of government and business, analyzing the complex and varied landscape of nonprofit and civil society institutions seemed less important, and perhaps

also too daunting a task relative to its theoretical importance for understanding society and its policy relevance in fields such as employment, welfare, health, education, or international development. This attitude, however, began to change over the course of the last two decades of the twentieth century, and has gathered momentum since then.

AN EMERGING SECTOR, AN EMERGING FIELD OF STUDY

As we show in Chapter 4, the nonprofit sector has become a major economic and social force. Parallel to the apparent increase in economic importance is the greater policy recognition nonprofits enjoy at local, national, and international levels. Prompted in part by growing doubts about the capacity of the state to cope with its own welfare, developmental, and environmental problems, analysts (e.g., Grønbjerg & Smith, 2021; Phillips, 2020; Powell, 2020) have come to see nonprofits as strategic components of a middle way between policies that put primacy on "the market" and those that advocate greater reliance on the state. Some governments such as the Clinton and Bush administrations in the US and the New Labour and Cameron governments in the UK saw in nonprofit and community organizations an alternative to welfare services provided by the public sector. At the international level, institutions like the United Nations and the European Union were searching for a balance between state-led and market-led approaches, and are allocating more responsibility to NGOs.

While these developments led to a greater policy recognition of nonprofit organizations generally throughout the 1990s and the early 2000s, they also created a backlash. Some countries are pushing back and seek to limit the civic space available to civil society and nonprofit operations (Anheier et al., 2019; Toepler et al., 2020). As a result of these developments and others we examine in Part IV of this textbook when we look at state–society relations and advocacy, nonprofit organizations have become part of a complex set of policies and often find themselves in contradictory roles.

Analysts have come to see nonprofits as strategic components of a middle way between policies that put primacy on "the market" and those that advocate greater reliance on the state.

At the *local* level, nonprofit organizations have become part of community-building and empowerment strategies, and policy-makers and rural and urban planners regularly engage nonprofit and community organizations for local development and regeneration. These range from community development organizations in Los Angeles or Milan to organizations among slum dwellers in Cairo or Mumbai, and from neighborhood improvement schemes in London or Berlin to local councils in Rio de Janeiro where representatives of local nonprofit groups sit next to political and business leaders.

At the *national* level, nonprofit organizations are increasingly involved in welfare, healthcare, education reform, and public–private partnerships. Prominent cases include

the expansion of nonprofit service providers for the elderly in the US, the establishment of private hospital foundations to modernize the National Health Service in the UK, the transformation of state-held cultural assets into nonprofit museums in the former East Germany, and the privatization of daycare centers and social service agencies in former state-socialist countries more generally. In some countries, the greater role of nonprofits in welfare reform is aided by laws that facilitate their establishment and operations for better social services or to encourage social innovations or philanthropic giving. Since the 1990s, most developed market economies in Europe, North America, and the Asia-Pacific have seen a general increase in the economic importance of nonprofit organizations as providers of health, social, educational, and cultural services of many kinds.

At the *international* level, we observe the rise of international nongovernmental organizations (INGOs) and an expanded role in the international system of governance. According to the Union of International Associations, the number of known active and inactive INGOs increased from about 22,200 in 1990 to 63,000 by 2020. What is more, formal organizational links between NGOs and international organizations like the United Nations Development Program (UNDP), the World Health Organization (WHO), or the World Bank have increased substantially in recent years.

At the *global* level, recent decades have witnessed the emergence of an international civil society and transnational nonprofits of significant size and with complex organizational structures that increasingly span many countries and continents (Schofer & Longhofer, 2020). Examples include Amnesty International with millions of members, subscribers, and regular donors in over 150 countries and territories. Care International is an international NGO with over 11,000 professional staff. Its US headquarters alone has income of some US$600 million. The International Union for Conservation of Nature brings together more than 1,200 NGOs, more than 200 government agencies, and some 18,000 scientists and experts from 160-plus countries in a unique worldwide partnership.

All these developments suggest that nonprofit organizations are part of the transformation of societies from industrial to post-industrial, and from a world of nation-states to one of transnational, even globalizing economies and societies, where the local level nonetheless achieves greater relevance and independence. The full recognition of the elevated position and role of nonprofit organizations in the early part of the twenty-first century is the main difference from the latter part of the previous century, when nonprofits were "(re)discovered" as providers of human services in a welfare state context.

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Nonprofit organizations are now seen as a part of the wider civil society and welfare systems of societies generally irrespective of their level of development. In developed market economies as well as in transition and emerging economies, nonprofit organizations form a third set of institutions next to the complexes of the state or public sector on the one

hand, and the market or the world of business on the other. Being private, voluntary, and for public benefit, nonprofits combine a key feature of the public sector, i.e., serving public benefit, with an essential characteristic of the forprofit sector, i.e., its private and voluntary nature.

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Even though they have been recognized as a distinct group or sector only in recent decades, nonprofit organizations have long been integral parts of the social, economic, and political developments in many countries. What is more, this set of institutions has become more central to policy debates in most parts of the world, in particular since the end of the Cold War and attempts to reform welfare systems, government budget priorities, and labor markets. This involves four main aspects that inform the chapters of this book:

1. The nonprofit sector is now a *major economic and social force* at local, national, and international levels. Its expansion is fueled by, among other factors, greater demands for human services of all kinds, welfare reform and privatization policies, the spread of democracy, and advances in information and communication technology with subsequent reductions in the cost of organizing.
2. Even though the *research agenda has expanded significantly*, our understanding of the role of these institutions is still limited, and data coverage frequently remains patchy. Whereas theories of nonprofit institutions developed largely in the field of economics and organizational theory, social capital and civil society approaches have expanded the research agenda on nonprofits in important ways and invited contributions by sociology and political science.
3. Whereas in the past, the nonprofit sector frequently constituted something close to the "terra incognita" of policy-making, it has now become the *focus of major policy initiatives*. These policy debates will undoubtedly have major implications for the future of nonprofits around the world; they could, in the end, amount to a highly contradictory set of expectations that push and pull these institutions into very different directions.

Whereas in the past, the nonprofit sector frequently constituted something close to the "terra incognita" of policy-making [in many countries], it has now become the focus of major policy initiatives.

4. Likewise, whereas in the past the *management of nonprofit organizations* was seen as esoteric and irrelevant and their organizational structures as trivial, there is now much greater interest in understanding how private institutions operating in the public interest

ought to be managed and organized—bringing more attention not only to aspects of management models and styles appropriate to nonprofits but also to questions of governance, accountability, and impact.

Like much else, the nonprofit sector is part of how the internet and the new communication technologies are changing society (McNutt, 2020). Social media use has become pervasive, extending the reach of nonprofits for general communications, attracting donors and volunteers as well as advertising (see Chapter 14). Moreover, new cyber communities and internet platforms have sprung up, and some are able to gain such an organizational permanence that they incorporate as nonprofit organizations, while others remain informal and run by volunteers only. Some like Attac (www.attac.org) achieved early successes as international advocates of greater oversight of financial markets; others help facilitate local government and civic engagement alike (www.mysociety.org) or help in information management during crises (www.ushahidi.com). Others still offer primarily ways and means of donating time and money and of seeking funding, such as the various crowdfunding platforms (Han et al., 2020). It is an altogether still emergent part of the nonprofit sector, with many innovative proposals and projects underway.

STUDYING NONPROFIT AND VOLUNTARY ASSOCIATIONS: A BRIEF HISTORY

When the foundations of nonprofit sector research were laid by scholars just over a generation ago, it would have been difficult to anticipate the significant growth not only in the social, economic, and political importance of the nonprofit sector, but also in the advancement of research in the area. Indeed, until then, social scientists did not pay much attention to the nonprofit sector and related topics. This has changed, and a highly active research agenda has emerged since the early 1980s, in particular after a group of social scientists loosely connected to the Program on Non-Profit Organizations at Yale University, among others, began to address the role of nonprofit organizations in market economies in a systematic way.

The primary interest of the Yale program at that time was to study American philanthropy and to help shape its present and future role in US society. Yet in a curious way, the renewed interest they encouraged soon connected with lines of inquiry first pursued during the founding period of modern social science in the nineteenth century—an intellectual trail that, though becoming thinner over time, can be traced well into the mid-twentieth century.

The renewed interest [in the nonprofit sector] soon connected with lines of inquiry first pursued during the founding period of modern social science in the nineteenth century.

Indeed, there were promising beginnings in the way the social sciences examined aspects of the nonprofit sector and identified it as a central element of modern society. For example, the French sociologist Durkheim (1933 [1833]), in writing about the division of labor, suggested that voluntary associations serve as the "social glue" in societies with high degrees of professional specialization, economic competition, and social stratification. The German sociologist Weber (1924) focused on organizational development and saw the voluntary organization as a potentially unstable but highly dynamic and adaptable form that tries to balance the value-rationality that is characteristic of religious or political organizations with the technocratic means-rationality of businesses or public agencies. The French writer de Tocqueville (1969 [1835]), traveling through the US in the 1830s, observed the highly decentralized nature of American government and society and noted the prominent role of voluntary associations in the daily life of citizens. Voluntary associations encouraged social participation and the inclusion of people from different backgrounds and with different preferences in local societies. In de Tocqueville's terms, voluntary associations served as a remedy against the "tyranny of the majority." Writing a century later, Schlesinger (1944) spoke of the "lusty progeny of voluntary associations" in the US. What is more, sociologist Coser (1965) suggested that the overlap in associational membership reduces divisive social conflicts and class cleavages; with individuals being members of several groups and associations, conflicts in American society are less likely to coalesce around major cleavage lines such as class or religious differences.

But no "field" of nonprofit or voluntary sector studies as such emerged. Economics focused on markets and the business firm; political science on government and public administration; sociology on social classes, race, and gender; and policy studies on elections, public policy, and the welfare state. Cross-cutting, interdisciplinary fields like organizational studies focused on either businesses or public agencies. Business schools as well as public policy schools rarely examined nonprofit organizations, and one prominent twentieth-century sociologist, Perrow (1986), declared nonprofits as "trivial" from the perspective of organizational theory and management.

Yet while nonprofit topics were relegated to the background of social science theorizing and research, interesting work kept emerging, albeit without being considered in the context of a common framework or approach. Urban studies began to identify the importance of community organizations for the success or failure of urban planning processes; historians learned of the important role foundations played in social innovation, research, and educational advances; social work emphasized the continued relevance of charities in health and social services despite the expansion of the welfare state; political science acknowledged the impact of interest associations in policy-making and the significance of political movements for the political process; and sociology examined the close connection between status seeking, membership in associations, and social stratification.

Generally, however, a "two-sector worldview" dominated, i.e., the "market vs. state model" of industrial society. It was an "either-or" perspective that was challenged only by circumstances of the late 1980s: the crisis of the welfare state, the limits of state action in dealing with social problems, the political challenge of neoliberalism, and the end of the Cold War. Specifically, as we see in the various chapters of this book, greater interest in nonprofits and the nonprofit sector can be attributed to:

- The rise in its economic importance in social services, healthcare, education, and culture, and the emergence of nonprofit organizations that increasingly operate beyond local levels, even across national borders, combined with a withdrawal of the state in providing welfare and related services.
- An opening of political opportunities outside and beyond conventional party politics at the national level, and internationally, due to an end of the Cold War and a superpower, the US, in favor of "small government."
- Major reductions in the cost of communication, in particular for telecommunication and internet access, which increases information sharing while reducing coordination costs overall. The development of communications technologies, especially the internet, has decreased the costs of organizing locally, nationally, as well as internationally.
- Generally favorable economic conditions in major world economies since the 1950s and a considerable expansion of populations living in relative prosperity.
- A value change in most industrialized countries that emphasizes individual opportunities and responsibilities over state involvement and control.
- A major expansion of democracy across most parts of the world, with freedom of expression and associations granted in most countries, although we are now experiencing what some analysts call a "democratic recession."
- The "thickening" of the domestic and international rule of law since the 1970s that has greatly facilitated the growth of civil society organizations worldwide and across national borders.

The modern field of nonprofit studies emerged first in the US, and then quickly expanded and took root in other countries. The Commission on Private Philanthropy and Public Needs (1973 to 1975), better known as the "Filer Commission" after its chair John H. Filer, produced the most far-reaching and detailed report of American philanthropy ever undertaken until then (Brilliant, 2000), and it became the stepping-stone for further developments. Five volumes of specialized studies by scholars and other experts supplemented the discussions of the 28 commissioners, whose report and recommendations were published under the title "Giving in America." The privately-funded commission was the brainchild of John D. Rockefeller III and several of his closest advisers; they are also credited with being the source of a new conceptual framework of American society, a framework which added a "third sector" of voluntary giving and voluntary service alongside the first sector of government and the second sector of the private economic marketplace.

The "Filer Commission" . . . produced the most far-reaching and detailed report of American philanthropy ever undertaken until then.

The scholarship produced by the Filer Commission also generated the intellectual interest that led to the establishment of the previously mentioned Program on Non-Profit

Organizations (PONPO) at Yale University. PONPO was founded in 1978 to foster interdisciplinary research on issues relevant to understanding nonprofit organizations and the contexts in which they function. Originally an initiative of then Yale president Kingman Brewster, PONPO was the first such center and hosted many of the foremost scholars in the field. John Simon of the Yale Law School and Charles Lindblom of Yale's Political Science Department first directed it, to be joined by scholars like Paul DiMaggio, Walter (Woody) Powell, and Peter Hall soon thereafter.

Since then, research and teaching programs have expanded greatly in the US and elsewhere, and led to a veritable boom in dedicated centers around the world in the 1990s and early 2000s. At present hundreds of teaching programs exist in the US, Europe, and other countries, with many thousands of students and numerous alumni. Over time, academic journals (e.g., *Nonprofit and Voluntary Sector Quarterly*, *Voluntas*, *Journal of Civil Society*, *Nonprofit Policy Forum*), scholarly associations (ARNOVA, ISTR), PhD programs, fellowships, and book series were established; dictionaries, handbooks, and encyclopedias compiled; and many monographs and edited volumes published—all indications that the field has become increasingly established and recognized as an important academic specialty.

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Supporting this is an infrastructure of research and data providers like Candid, the product of a merger between the Foundation Center in New York and the information clearinghouse Guidestar, and independent research institutions like the National Center for Charitable Statistics at the Urban Institute in Washington, DC, with similar organizations in other countries, notably Australia, Canada, the UK, Germany, and Japan.

The field of nonprofit studies has emerged as a fundamentally interdisciplinary field; even though the initial theoretical thrust in the 1980s came predominantly from economics and other social sciences, intellectual bridges were quickly built. While much has been achieved in recent years both conceptually and empirically, as demonstrated throughout this book, there remain major challenges that relate to the future role of nonprofit organizations in welfare reform, their relations with the state, increased competition and substitutability with forprofit corporations, and globalization, to name a few.

The field of nonprofit studies has emerged as a fundamentally interdisciplinary field.

OVERVIEW

The book is divided into four major parts and 18 chapters, including this introduction. The first part deals with background information and questions of definition, history, and the sector's major contours in terms of size and scope. The second part offers an overview of the theoretical issues. The third section addresses aspects of organization and management. Part IV deals with policy questions, especially nonprofit–government relations as well as current policy issues. Specifically:

Part I: Studying Nonprofit Organizations

Chapter 2: Historical Background

This chapter introduces the historical background to the development of the US nonprofit sector in the context of the wider civil society, and then compares the American experience to other countries. It shows the path dependency of the nonprofit sector and the development of distinct types of nonprofit regimes. The chapter also links the historical study of the nonprofit sector to notions of state–society relations, forms of democracy, economic development, and community.

Chapter 3: Concepts

This chapter discusses the various types of organizations (charities, foundations, associations, social enterprises) and institutions (charity, philanthropy, social economy, community, solidarity) that make up or relate to the nonprofit sector, and looks at the various attempts to define the area between the market, state, and household sectors. The chapter also explores how the nonprofit sector relates to the concept of civil society and the social economy, to social capital approaches, and to terms such as social investment, social entrepreneurship, social economy, and social movements.

Chapter 4: Dimensions

First, this chapter presents an overview of the size, composition, and revenue structure of the nonprofit sector in the US and other selected countries. In a second section, the chapter offers an empirical portrait of individual giving and philanthropy; and, in a third section, a profile of civic engagement in terms of volunteering, membership, and social participation. Finally, the chapter reviews international nonprofit activities, especially NGOs.

Part II: Approaches

Chapter 5: Theories of Nonprofit Organizations

This chapter offers an overview of various economic, sociological, and political science approaches that address the origins, behavior, and impact of nonprofit organizations. It

compares these approaches with one another, highlighting their strengths and weaknesses, and points to new and emerging theoretical developments.

Chapter 6: Approaches to Giving and Philanthropy

This chapter introduces different perspectives on giving and philanthropy in modern society, in particular the roles and contributions that have been suggested in the literature about philanthropy in the US, Europe, and other parts of the world. Why do individuals make donations, why do foundations exist, what functions do foundations perform, and what has been their impact?

Chapter 7: Studying Civic Engagement and Volunteering

This chapter discusses sociological and economic approaches to civic engagement and volunteering and their relationship to the nonprofit sector, civil society, and social cohesion. What is civic engagement, and what are its determinants? Why do people volunteer?

Chapter 8: Social Entrepreneurship and Social Innovation

This chapter deals with two closely related phenomena. It first addresses the concept of social entrepreneurship and the role of social entrepreneurs. Why is social entrepreneurship important, and how does it relate to other forms of entrepreneurship? In a second part, the chapter looks at the concept of social innovation, what it is, and how it comes about, illustrates how it differs from other types of innovations, and shows the relationship with the nonprofit sector.

Part III: Organization and Management

Chapter 9: Organizational Behavior and Performance

This chapter looks at organizational theory and its contributions to understanding nonprofit organizations. The chapter also explores the factors involved in shaping the development of nonprofit organizations over time and more specific aspects of organizational structure. It examines the behavior and contributions of nonprofit organizations in different fields and explores how they cope with uncertainty. This includes a discussion of performance measurement models and approaches.

Chapter 10: Management Approaches and Tools

Building on the previous chapter, this one introduces the rise of nonprofit management approaches against the background of the special characteristics of nonprofit organizations: their values base, the presence of multiple stakeholders, and the multiple revenue

sources that support them. The chapter then reviews a number of basic management approaches and tools with an emphasis on strategic management and planning techniques appropriate for nonprofits.

Chapter 11: Financing Nonprofit Organizations

Introducing different business models and revenue-generating strategies, this chapter offers an overview of how and for what nonprofit organizations use financial resources to achieve their objectives. The chapter reviews revenue strategies, including fundraising, and concludes with an introduction to financial management and business plan development.

Chapter 12: Governance

This chapter first explores the special requirements that arise for the governance of nonprofit organizations from a multiple stakeholder perspective. Against this background, the chapter reviews various governance approaches and their applicability to nonprofit organizations. Then, it considers the role of the board and the relationship between the board and management, examines different forms of accountability, and addresses the issue of transparency.

Chapter 13: Leadership and Human Resources

In a first part, this chapter offers an overview of the theory and practice of leadership in nonprofit organizations from a multiple stakeholder perspective. The remainder of the chapter presents an overview of human resource management in the nonprofit sector, with emphasis on both paid employees and volunteers.

Chapter 14: Marketing, Communication, and Social Media

This chapter introduces the concept of marketing in the nonprofit context. It discusses the major target audiences that nonprofits market to, the elements of the marketing mix, and the role of branding. The chapter then covers how nonprofits use social media to interact with their target audiences and to extend the reach of their advocacy.

Chapter 15: Collaboration

This chapter examines various forms of collaboration such as partnerships, alliances, and mergers, all of which continue to gain in importance for nonprofit organizations. First, the chapter reviews collaborations between nonprofits and then it sets the focus on cross-sector collaboration between nonprofits and government, especially public–private partnerships, and between nonprofits and business.

Part IV: Policy and Current Developments

Chapter 16: State–Nonprofit Relations

This chapter considers the different models and types of relationships nonprofit organizations have with the state in terms of funding and contracting, regulation, and consultation. The chapter also discusses the advantages and disadvantages of relations with governmental bodies and takes a closer look at the US and several other countries.

Chapter 17: Advocacy and Lobbying

This chapter discusses the various kinds of advocacy activities that nonprofits engage in to seek improvements for their clients, stakeholders, and communities or to pursue broader policy initiatives and social change. The chapter differentiates between political activism, advocacy, and lobbying activities.

Chapter 18: Longer-Term Developments and Current Trends

This chapter first takes a more comparative-historical look at macro-level changes that have affected and are likely to continue to affect the nonprofit sector over time, in particular the supply and demand conditions for nonprofit development. Next, the chapter looks at factors behind current developments, in particular the regulatory environment or space for civil society and nonprofit organizations in a cross-section of countries, with an emphasis on policy neglect and the need for new regulatory frameworks. In a closing section, the chapter briefly returns to broader, long-term issues and explores different scenarios for the future of the nonprofit sector.

CONCLUSION

The nonprofit sector is wide in scope and reaches deeply into the social life of societies around the globe. Having emerged as a recognized force, next to government and business, in dealing with society's most significant challenges, nonprofit organizations are operating in increasingly complex environments. This has been driving a major push towards professionalization and increased organizational and managerial capacity. While this has become a universal trend, the experience of nonprofits continues to be rooted in historical-institutional contexts that show significant variations across nations and world regions.

REVIEW QUESTIONS

What are some of the reasons why the nonprofit sector has become more recognized in recent years?

What could be some of the reasons for the immense diversity of nonprofit organizations?

Why did the social sciences pay little attention to nonprofit organizations and related topics such as civil society and social capital for much of the twentieth century?

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CHAPTER 2

Historical Background

This chapter introduces the historical background to the development of the US nonprofit sector in the context of the wider civil society, and then compares the American experience to other countries. It shows the path dependency of the nonprofit sector and the development of distinct types of nonprofit regimes. The chapter also links the historical study of the nonprofit sector to notions of state–society relations, forms of democracy, economic development, and community.

LEARNING OBJECTIVES

Historians argue that their craft guides us in making decisions for the future, but more often, the best role of historical analysis is to make the present more meaningful. Looking at the historical development of the nonprofit sector helps us understand why certain cultural, social, and political features are the way they are, what they mean, and how they came about. After reading this chapter, the reader should:

- be able to understand the historical development of the nonprofit sector in the United States;
- be able to identify key patterns of nonprofit sector development;
- know how the US pattern differs from that in other countries, and have an understanding of how the nonprofit sector emerged in other countries;
- have a sense of how historical patterns influence current developments.

Some of the key terms covered in this chapter are:

- American exceptionalism
- Associationalism
- Autocratic regimes
- Charity
- Communitarianism
- Liberal model
- Self-organization
- State-centered model
- Subsidiarity

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- Varieties of nonprofit sector development
- Welfare state models

INTRODUCTION

In this chapter we first consider the United States to show how closely the notion of a civil society and nonprofit, voluntary activities is tied to the fundamentals of America as a society. In other words, to look at how the nonprofit sector emerged and developed in the wider context of American civil society is to look at central social and political developments of the country as such. Indeed, the nonprofit sector/civil society "lens" is useful for understanding the critical and distinct aspects of American history and contemporary US society. For this purpose, we will, in a second step, put the US experience in contrast to historical patterns and developments in other countries, ending with China and Russia as its polar opposites.

THE EMERGENCE OF THE NONPROFIT SECTOR IN THE US

While the concept of civil society as such is not common currency in the US, there is nonetheless a deep-seated cultural understanding that civil society finds its perhaps clearest expression in this country. Indeed, a strong political as well as cultural current running through American history sees the US as an ongoing "experiment" in civility, community, democracy, and self-governance—all this notwithstanding the many social ills and injustices afflicting the country and irrespective of its higher violence and incarceration rates by international standards. Not only the country, but cities like New York, Chicago, Miami, and Los Angeles in particular have regarded themselves as the "social laboratories" of modern urban life: among the most diverse in the world in ethnic, religious, and social terms, with large portions of immigrant populations, small local government, and high levels of community organizing and individualism.

A strong political as well as cultural current running through American history sees the US as an ongoing "experiment" in civility, community, democracy, and self-governance.

A strong expression of this cultural self-understanding is that the US—and despite a long history of discrimination and injustices—has nonetheless long regarded itself as the embodiment of human, political, as well as social progress. This ideological current assumes sometimes-mythical dimensions, perhaps because it is so closely linked to, and rests on, major symbols of US political history. In countless political speeches and in popular culture as well, frequent references are made to highly symbolic events and documents that provide deep roots of legitimacy to nonprofit organizations and the notion of self-organization. Among the most prominent of such cultural-political icons are:

- The *Declaration of Independence* of July 4, 1776, which establishes legal equality and unalienable rights (life, liberty, pursuit of happiness), and that "to secure these rights governments are instituted . . . deriving their just power from the consent of the governed."
- The US *Constitution*, which begins with the forceful sentence, "We, the people of the United States, in order to form a more perfect union . . ."
- The *Bill of Rights* (First Amendment to the Constitution), which limits the power of government vis-à-vis society and declares that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof."
- The *Federalist Papers* (Volume 39), in which Madison speaks of the "great political experiment" and the "capacity of mankind for self-government"; and in Volumes 10 and 15, argues that in a republic equipped with adequate checks and balances, special interests (economic, political, religious, etc.) should be encouraged to compete on equal terms and to lobby governments.
- President Lincoln's *Gettysburg Address*, which includes the emphatic wish "that government of the people, by the people, and for the people, shall not perish from the earth."
- Martin Luther King, Jr.'s speech *I Have a Dream*, in which he speaks about his vision of the US as a "table of brotherhood" and evokes strong biblical images—a not at all uncommon reference in US political discourse.
- President Reagan, who led the rollback of the federal government by encouraging Americans "to take back from government what was once ours," referring back to the *Declaration of Independence* and reconfirming that the US is first a society of and for individuals and their communities, and only secondarily a national political entity defined by power.

Together, these cultural icons suggest a culturally and politically compelling portrait of the US as a self-organizing and self-governing civil society—a society of citizens based on the rule of law, and not on the power of the state. Indeed, the US political tradition reflected in these cultural icons understands government in a broad sense: not only government by a "state," but also social governance as an expression of formal political liberty, participation, and communal and individual obligations. Governance, the constitution of society, and the rights and obligations of citizens are interlinked and part of the US political canon.

What are the historical roots of the cultural self-understanding fueled by these and other icons, and that invite the popular notion among Americans that the US is a distinct, exceptional society, different from others? In the balance of this section, we identify some of the major factors involved, which are summarized in stylized form in Table 2.1, together with what are implied features of societies outside the US, the "state-oriented" societies of Europe, as well as Canada and Australia. Of course, the distinctions in Table 2.1 serve to emphasize characteristics that are tendencies, and that are sometimes even contradicted by prevailing socio-economic and political conditions.

TABLE 2.1 US civil society in comparative perspective

Factors encouraging civil society as associationalism in the United States	*Factors discouraging civil society as associationalism elsewhere*
Religious diversity with emphasis on local congregations rather than institutional hierarchy	Long history and legacy of dominant state religion with hierarchical institutional structures
Local elite do not rely on control of government for power; alternative spheres of influence exist	Weak local elites; few alternative power strata
Concentrations of wealth and political power overlap but are neither identical nor dependent on each other	National political and economic elite networks overlap significantly
Ethnic, linguistic, and cultural heterogeneity as "default value"	Ethnic, linguistic, and cultural homogeneity as "default value"
Decentralized government, weak federal government with strong division of power at center and primacy of rule of law	Centralized government and state apparatus; limited capacity for local taxation and policy-making
Bridging capital, higher interpersonal trust	High bonding capital, lower interpersonal trust
"Diversity in unity" creates social innovation	Homogeneity and political control stifle innovation

Civil Society as Associationalism

As a society, the development of the US—and its emergent civil society—is rooted in a profound and successful reaction against eighteenth-century European absolutism, the power of state–church relations, and the rigidities of what the "Founding Fathers," in the true spirit of the Enlightenment, saw as the dying political and social order of the "old world." In its place, the US sought to develop a complex political system of direct and indirect democracy based on checks and balances. The young republic put constraints on government, instituted clear separation of power at federal and state levels, allowed for a distinct economic class structure based on mobility that departed from the symbols of hereditary ranks, encouraged a religious system based on voluntarism with strict separation of church and state, and lodged educational, cultural, social, and welfare responsibilities at local community levels rather than with some form of central governmental structure.

In the course of the next nearly 250 years, many prominent observers—from de Tocqueville (1969 [1835–40]) to modern-day analysts like Skocpol (1999)—have tried to come to terms with what G. K. Chesterton (1922) long ago identified as the "American

Creed," a set of beliefs that set this country apart from others. Similarly, social scientists use the term "American exceptionalism" to suggest a profound departure of the US from its European origins and a qualitative difference in the development of the US from that of British, French, or German society (e.g., Lipset, 1996). This departure, however, is not always seen uncritically. Wuthnow advises a pensive approach about what the American Creed and exceptionalism as "guiding myths" mean today when he writes that "cultural narratives and collective methodologies play such a powerful role in the shaping of social life that we must be more reflective about them" (2006, p. 3). Jacobs and Skocpol (2005, p. 1) sound a cautious note arguing that while "equal political voice and democratically responsive government are widely cherished American ideals" the US promotes abroad, "these principles are under growing threat in an era of persistent and rising inequalities at home."

Indeed, one way to interpret US history is to view its course as an ongoing struggle to balance its founding mythology with prevailing reality over time: the cultural narrative that all citizens are equal and have equal chances of success versus the de facto inequality in terms of life chances and access to opportunities. The struggle to achieve, let alone maintain, such a balance fueled conflicts of many kinds and characterized the development of the US as a society, be it the exclusion of particular population groups (e.g., Catholics, African-Americans, various immigrant communities) and their fights to be recognized, or political issues like civil rights and the role of women in society.

One way to interpret US history is to view its course as an ongoing struggle to balance its founding mythology with prevailing reality over time.

Early on in US social and political history, philanthropy, civil society, and democratic inclusion became closely linked to the very constitution of US society. Indeed, expanding on Chesterton's theme of the American Creed, McCarthy (2003) has shown how during the nineteenth century, philanthropy became a factor in the abolitionist movement and in the struggle for social justice in the broadest sense, and against the exclusion of women and minorities from effective political voice. According to Lipset (1996, p. 19), US society rests on the five basic ideological factors of classical liberalism, which together have provided American society with significant political stability despite profound changes in its social and economic structure:

- *Liberty*, i.e., freedom from arbitrary interference in one's pursuits by either individuals or government, as stipulated in the Bill of Rights and the 13th, 14th, and 15th Amendments to the US Constitution.
- *Egalitarianism* as a formal legal principle.
- *Individualism*, which originated with the ideas of Adam Smith and Jeremy Bentham and was identified by de Tocqueville as a fundamental element of American society. It includes a value system whereby the individual is of supreme value, and all are morally equal. Individualism opposes authority without consent and views government as an institution whose power should be largely limited to maintaining law and order.

- *Populism*, a seemingly non-ideological movement that combines elements of the political left and the right, opposes corporate power and large financial interests, and favors "home-grown," "hands-on" local solutions. It was strongest in the late nineteenth century and arose from agrarian reform movements in the Midwest and South, but continues to surface in popular political movements such as the Tea Party movement that emerged in 2009, anti-federal government and militia activities in the West and Midwest, and the nativism and white nationalism that helped fuel Trumpism.
- *Laissez-faire* policies, which favor a minimum of governmental action in economic affairs beyond that necessary for the maintenance of peace and upholding of property rights. A basic principle of economic policy in the US throughout its history, laissez-faire assumes that individuals primarily pursuing their own preferences also contribute to society as a whole.

Early on in US social and political history, philanthropy, civil society, and democratic inclusion became closely linked to the very constitution of US society.

In a very profound sense, the US Constitution is a product of classical liberalism, as is US civil society itself, both historically and today. Only in the US, and neither in Europe nor in countries like Canada or Australia, much less in countries like China or Russia, did these factors come to join forces to shape society and polity as clearly and as unchallenged. These factors are at the root of American civil society from the nineteenth century onward, and are also central for the development of the modern nonprofit sector throughout the twentieth century.

McCarthy (2003) shows how philanthropy helped shape the American Creed and argues that philanthropy is very closely related to achieving a positive combination among the various ideological currents of early nineteenth-century America. McCarthy argues that in the early periods of US history many of the defining features of US civil society and the nonprofit–government relationship evolved in a highly political and contested process that involved three distinct phases:

- The first spanned the last two decades of the eighteenth century and the first two of the nineteenth and saw a growing associational infrastructure for charity, the beginnings of American associationalism, a revival missionary fervor, and the spread of religious organizations of many kinds.
- The second phase, partially described in de Tocqueville's travelogues, witnessed American associationalism and participatory democracy at its height, but the years between 1820 and 1830 were also a period of political tension around social responsibilities over poverty and other social problems, violence, and racism. Jacksonian America was, as McCarthy shows, the beginning of modern advocacy and political lobbying for diverse and conflicting interests by means of voluntary associations.
- The third period sees nascent US civil society severely tested by the growing tensions between North and South and the ensuing Civil War as well as around the removal of native Americans from vast regions of the country—all leading a broader political

> mobilization of different population groups, and in particular the beginning of women's and civil rights movements.

It is, however, the complex mix of these factors that accounts for many of the seemingly contradictory patterns of American society and that over the decades has filled many pages of social analysis (e.g., Bellah, 1985; Skocpol, 2011; Jacobs & Skocpol, 2005; Wuthnow, 2006). Centrally among these contradictions are: egalitarian social relations coexisting next to large inequalities in living standards across the population; deep-seated preferences for meritocracy despite persistent ethnic and religious discrimination; and high levels of tolerance for significant disparities in life chances combined with a deep-seated belief in individual advancement and responsibility (the "American Dream").

In today's parlance, the US developed a prototype of a *liberal model* of civil society and state–society relations, where a low level of government spending (social welfare, health, education, culture) is associated with a relatively large nonprofit sector that is engaged in both actual service provision and advocacy. This outcome, as Salamon and Anheier (1998; see Chapter 5) argue, is most likely where broad middle-class elements are clearly in the ascendance, and where opposition either from traditional landed elites or strong working-class movements has either never existed or been effectively held at bay. This leads to significant ideological and political hostility to the extension of government in scale and scope and a decided preference for local, voluntary approaches instead—irrespective of effectiveness and equity considerations.

However, despite or perhaps because of these contradictory elements, US society has not only proven more resilient against some of the despotic, autocratic, or dynastic ills that have befallen many other countries. In fact, the sometimes arduous and even violent path of US history (displacement of indigenous populations; slavery and civil war; ethnic discrimination; extreme "moralist" policy measures such as the Prohibition in the 1920s; McCarthyism in the 1950s; race riots in the 1960s; the militia movements and domestic terrorism in the 1990s; Trumpism in the late 2010s and into the 2020s) has shown up to now a remarkable capacity for "self-correction" or "self-mobilization." These processes typically happened through the electoral process and the system of checks and balances, or, failing that, through the mobilizing power of numerous social movements that have shaped the political and social development of the country.

Much of this capacity for self-organization and self-correction is seen in the social power of associationalism, or what amounts to a perspective that features *local* civic society as a community of individuals that through their actions support a network of political, philanthropic, and voluntary associations in pursuit of specific interests. Early reference to this capacity for self-organization was made in de Tocqueville's travelogue from the 1830s in now famous passages such as:

> Americans of all ages, all stations of life, and all types of dispositions are forever forming associations . . . In every case, at the head of any new undertaking, where in France you would find the government or in England some territorial magnate, in the United States you are sure to find an association.
>
> (de Tocqueville, 1969, p. 513)

Much of this capacity for self-organization and self-correction is seen in the social power of associationalism.

After all, as Lipset (1996) reminds us, the US is the only Western country where in the late nineteenth and early twentieth century government and voluntary associations did not have to deal with preexisting, inert social formations and barriers to mobility, be they autocratic states (e.g., Germany), a centralized administration (France), or a rigid, quasi-aristocratic class system carried over from feudalism (England). Writing in the mid-twentieth century, Schlesinger speaks of the "lusty progeny of voluntary associations," that he saw largely as a product of the religious voluntarism of the antebellum period, thereby keeping alive the Tocquevillian spirit of associationalism as a characteristic feature of American life:

> Traditionally, Americans have distrusted collective organizations as embodied in government while insisting upon their own untrammeled right to form voluntary associations. This conception of a state of minimal powers actually made it easier for private citizens to organize for undertakings too large for a single person.
>
> (Schlesinger, 1944, p. 24)

The implicit comparison with Europe is also present in a variant of associationalism, i.e., its communitarian tradition rooted in some form of moral community of virtuous citizens (Etzioni, 1996). Communitarianism is a social philosophy that views community as a voluntary grouping of individuals who come together to identify common goals and agree to rules governing the communal order. The community is created in part by recognizing common policies, or laws, that are set to meet legitimate needs rather than having been arbitrarily imposed from "above" and "outside" the groups. Members of such communities, e.g., neighborhood, city, or nation, accept responsibilities, both legal and moral, to achieve common goals and greater collective well-being.

Communitarianism is essentially a variant of the view that sees the US as a society of self-organizing communities. Again, frequent reference is made to another European thinker, this time Weber (1935 [1905]) who emphasized the close link between the Protestant (Puritan) ethic of capitalism, moral communities, and economic development. Religious congregations, and the voluntary associations they formed, provided the bonds that held early American society together and, in political ideology, social structure, and economic behavior, complemented the five principles of American liberalism.

Religious congregations, and the voluntary associations they formed, provided the bonds that held early American society together.

Following Weber's reasoning, Ladd (1994) suggested that the political and the religious ethos reinforced each other most clearly in the case of Puritanism: since the Protestant

congregations, in contrast to Catholicism, fostered individualism and egalitarianism, populist values could take root that were pro-community but anti-state and that favored local over central decision-making. As Bellah and colleagues (1985) argue, the American Protestant tradition again and again spawned movements for social change and social reform, most notable in the Progressive Era between 1893 and 1917 and in the civil rights movement in the 1950s and 1960s.

State–Society Relations

Of course, there is more to US society than associationalism, and analysts like Skocpol (2002, 2011), Hall (2006), and others have challenged the voluntaristic, communitarian view of social history. According to de Tocqueville's view of Jacksonian America, the inclusionary capacity of voluntary associations, the formal egalitarianism they espoused, and the prevention of tyrannical majority rule through the "art of association" facilitated both democratic and social development. Yet, as Skocpol and colleagues (2000; see also Skocpol, 2011) have shown, they were not locally isolated developments, as the potential for collective action was much greater if local groups came together and cooperated across state boundaries. In fact, many associations formed federated structures and assumed national presence early on.

Between the eighteenth and the end of the nineteenth century, nearly 40 large-scale membership organizations emerged, most of them as federations of local and state chapters, and each comprising at least one percent of the population at some time between 1800 and 1900 (Skocpol et al., 2000). They became an instrument of social inclusion that cut across regional boundaries while expressing particular values and often religious preferences. Examples include:

- American Temperance Society founded in 1826 in Boston
- American Anti-Slavery Society, 1833, Boston
- Young Men's Christian Association, 1851, Boston
- Benevolent and Protective Order of the Elks, 1867, New York
- Knights of Columbus, 1882, New Haven, Connecticut
- Women's Missionary Movement, 1888, Richmond, Virginia
- National Congress of Mothers, 1897, Washington, DC

The interplay between national polity and federated structures of civil society continued into the late nineteenth and early twentieth centuries. In addition, alternative spheres of power developed, e.g., the Masonic movement and other "secret societies" and fraternities like the Elks, the Rotarians, or alumni associations of many kinds.

The women's movement offers perhaps the clearest example of how the nonprofit sector and the wider civil society created opportunities for influencing policy (McCarthy, 2003; Clemens, 1997). In the US the women's suffrage movement arose from the anti-slavery movement and as a result of the emergence of such leaders as Lucretia Mott and Elizabeth Cady Stanton, who believed that equality should extend to women as well as blacks and organized the Seneca Falls Convention (1848). In 1850, Lucy Stone established the movement's first national convention. Stanton and Susan B. Anthony

formed the National Woman Suffrage Association in 1869 to secure an amendment to the Constitution, while Stone founded the American Woman Suffrage Association to seek similar amendments to state constitutions. In 1890 the two organizations merged as the National American Woman Suffrage Association. Following Wyoming's lead in 1890, states began adopting equal rights amendments; by 1918 women had acquired suffrage in 15 states. After Congress passed a women's suffrage amendment, a vigorous campaign brought ratification, and in August 1919 the 19th Amendment became part of the Constitution.

What is more, Hall (1999) argues, the late twentieth-century distinction between the public, forprofit, and nonprofit sectors did not apply to the US institutional landscape until the Great Depression. Civil and public governance intermingled, and many hybrid organizational forms existed. This was the true institutional innovation of the US: a self-confident civil society works with, and neither for nor against, government. Hall concludes that "while the Depression underscored the limited capacities to deal effectively with widespread unemployment and social and economic desolation, New Deal policies affirmed rather than diminished the importance of voluntary organizations and philanthropy" (2006, p. 50).

The late twentieth-century distinction between the public, forprofit, and nonprofit sectors did not apply to the US institutional landscape until the Great Depression.

This development has to be put in the context of Arendt's (1963, p. 152) profound insight that "the true objective of the American Constitution was not to limit but to create more power, actually to establish and to duly constitute an entirely new power center." Large-scale institutional innovations brought the rise of philanthropic foundations, privately endowed universities, and think-tanks as independent centers of wealth, knowledge, and power. By mid-twentieth century, the density and diversity of civil society were such that, in the aggregate, civil society served to defuse social conflicts by the very complexity of the institutional structure created. Indeed, this was the pattern sociologist Coser (1965) observed in his analysis of the question why American society did not follow the British class structure. In his answer, Coser pointed to the implications of multiple individual memberships in voluntary associations of many kinds. They create overlapping membership clusters that reach across many social boundaries, and thereby prevent the emergence of dominating social cleavages such as rigid class structures. The crisscrossing of membership patterns was not only beneficial for conflict defusion, it also provided the organizational infrastructure of social movements and facilitated the self-organizing capacity of US society. Indeed, the civil rights movement, the women's movement, and the environmental movement could develop in the context of rich and varied networks of civil society institutions.

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The wake of the Great Depression and the political response to the mounting social and economic costs of World War II saw a period of greater involvement of federal government programs, most prominently in the field of social security and healthcare, although welfare systems remained patchy and incomplete, with Medicare and Medicaid as the single largest initiatives. In some ways, the Filer Commission of the 1970s can be seen as part of a search for alternatives to the patchy American welfare state that had developed since World War II, probing into the capacity of nonprofit organizations to perform welfare and related functions. Conversely, the reform movements of the last three decades of the twentieth century were fueled by "tax revolts" and a more conservative agenda aimed at reducing the role of government in social welfare.

The late twentieth century saw a revival of Tocquevillian perspectives of a "strong and vibrant civil society characterized by a social infrastructure of dense networks of face-to-face relationships that cross-cut existing social cleavages such as race, ethnicity, class, sexual orientation, and gender that will underpin strong and responsive democratic government" (Edwards et al., 2001, p. 17). Norms of reciprocity, citizenship, and trust are embodied in networks of civic associations. Sirianni and Friedland (2001) argue that these interpersonal and inter-associational networks are a key source of social, cultural, and political innovation in the US, linking the future of American democracy to their constant "renewal," just as Putnam (2000) links them to the survival of community, and others like Fukuyama (1995) to economic prosperity.

Thus, the vibrancy of the US is ultimately the vibrancy of its civil society—a vibrancy that according to the American Creed is good for society and economy alike. For neo-Tocquevillians, civil society is not only a bulwark against a potential overly powerful state or a vehicle for democracy. It is much more than that: a general principle of societal constitution. Not surprisingly, political efforts to revitalize civil society either assume a voluntaristic tone that emphasizes social participation and mutual, interpersonal trust (see Putnam, 2000), or appeal to moralist, even religious, sentiments of civic virtue (Etzioni, 1996). Recently, however, the realization of greater divisions in American society and increasing political polarization has brought greater attention to the need to invest in the country´s civic infrastructure, along with a renewed emphasis on civic education, to make sure that the voluntary spirit and capacity for self-organization are not lost (see, for example, American Academy of Arts and Sciences, 2020).

The vibrancy of the US is ultimately the vibrancy of its civil society.

HOW THE HISTORY OF THE NONPROFIT SECTOR IN THE US DIFFERS FROM OTHER COUNTRIES

When looking at the development, and indeed positioning, of the nonprofit sector in other countries, it is useful to keep two broad classifications in mind: the "worlds of welfare capitalism" and the "varieties of capitalism." The former, first introduced by Esping-Andersen (1990), has spun a large body of literature that seeks to explain how and why

countries cluster in three distinct welfare state models or "worlds," depending on the extent of deep-seated policy preferences for liberalism, conservatism, or socialism, and the degree to which welfare services are seen as commodities to be traded on the market or as entitlements:

- *Liberal welfare countries* with high levels of service commodification—with the US, Canada, the UK, Australia, and New Zealand as examples.
- *Conservative welfare countries* with moderate levels of service commodification—with France, Germany, and Italy as prime exemplars.
- *Social democratic welfare countries* with low levels of commodification and near-universal benefits and emphasis on equality. The Scandinavian countries are examples of this type.

As we discuss in Chapter 5, Esping-Anderson's typology forms a basis for the social origins theory introduced by Salamon and Anheier (1998), as it helps understand the scale and scope of the nonprofit sector in relation to the nature of the welfare state in each country.

The varieties of capitalism approach first formulated by Soskice (1999) and Hall and Soskice (2001) is the second major typology, which we encounter in Chapters 4 and 5. It has become an influential version of the idea that sector-specific competitive advantages of companies and countries heavily depend on country-specific institutional conditions. Hall and Soskice (2001) posit that among affluent economies two main types of capitalism exist:

- liberal market economies (LMEs), exemplified by the US; and
- coordinated market economies (CMEs), exemplified by Germany and France.

Whereas the latter emphasize regulation of the main input markets of the capitalist economic system, especially labor and finance, and put greater stress on redistribution through tax and contribution systems, the former tend to operate based on an almost opposite policy stance: maximize the space for markets and minimize regulation and state involvement.

In the balance of this chapter, we first look at a set of countries that still fall in the same cluster as the US does, i.e., the liberal cluster, even though the nonprofit sector has taken somewhat different trajectories in each. After this, we will explore the conservative welfare systems and coordinated market economies of Germany and France, which, again, tell a different story about the positioning and development of the nonprofit sector. This is followed by a look at Sweden, a coordinated market economy with a social democratic welfare state, before presenting the emergence of the Japanese nonprofit sector as a case where the cultural and historical distinction between the public and private spheres is very different from the West, and where for most of the twentieth century the nonprofit sector has developed under close state supervision.

We then explore the positioning and development of the nonprofit sector in a set of developing and emerging market economies. Together, they roughly represent the major cultural and geographical areas of the world: Brazil for Latin America, Egypt for the Middle East, Ghana for Africa, and India for southern Asia, plus China and Russia as autocratic

states. They also show the great diversity in institutions and organizations that make up the nonprofit sector in these countries and, indeed, the potential the sector harbors in such markedly different cultural, economic, and political circumstances.

The UK

In contrast to the US, the history of the nonprofit or voluntary sector in the UK is not one of associationalism, self-organization, and anti-statism; it is largely a history of how social welfare provision is to be organized in a liberal yet traditionally class-based society, in which the roles of voluntary action and the state changed over time in response to social, economic, and political needs (see Kendall, 2003; Ishkanian & Sretzer, 2012). It is a rich history in terms of voluntary sector–government relationships and is characterized by profound changes: from a church-dominated system of welfare provision in the seventeenth and eighteenth centuries; to a system of "parallel bars" in the nineteenth and early twentieth centuries, with government and the voluntary sector performing separate but distinct roles; the "extension ladder" model of the British welfare state of the 1930s onward, where the voluntary sector acts as a complement to public provision; the modernized Third Way approaches of the Labour governments in the late 1990s that viewed market, government, and voluntary associations in a potentially synergistic relationship in solving social welfare problems of advanced market economies; and more recently the Big Society vision of the Tories in the 2010s.

The history of the nonprofit or voluntary sector in the UK . . . is largely a history of how social welfare provision is to be organized in a liberal yet traditionally class-based society.

In the UK, the development of the nonprofit sector was less linked to the constitution of society than it was in the US; instead it was more closely tied to changing social needs and political constellations. For example, until the early seventeenth century, the family, the local community, and the church were the main providers of social services. The so-called Poor Laws were enacted at a time when Britain had suffered through the religious uncertainties of the Reformation and the economic and social upheavals that led to the emergence of a landless class of people. The Poor Laws, in effect a whole body of legislation, provided relief for the poor, including care for the aged, the sick, infants and children, as well as work for the able-bodied through local parishes. Also in that body of legislation was the 1601 Elizabethan Statute of Charitable Uses, which provided a legal framework for charities and began the formalization and secularization of philanthropy.

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Industrialization in the eighteenth and nineteenth centuries brought a new set of problems such as urban poverty and population growth, with a significant problem of homeless children. The government did not have enough resources to meet increasing demands for social services and, with the reform of the Poor Laws in 1834, delineated the state's responsibility towards the "undeserving poor" by establishing the "workhouse," while the voluntary sector was called upon to provide for the "deserving poor." The emergent class of industrialists and entrepreneurs formed most of the increasingly non-religious philanthropic organizations of the time. Some of these organizations were not only service providers but also advocates for social justice, highlighting inequities. Some of the Victorian organizations became prototypes of modern-day professional voluntary service organizations, such as Barnardo's, a major social welfare agency for children.

During the Victorian period, the working class also began to establish voluntary organizations. In particular, this included mutual aid organizations such as friendly societies, trade unions, consumer cooperatives, building societies, and housing societies. The British government gave early formal recognition to friendly societies already in 1793, and other mutual aid organizations were recognized by the Royal Commission of 1871–74 as important agents against "pauperism." In the nineteenth century, these voluntary associations were recognized as the "bulwark against poverty."

At the level of politics, the system of charitable service provision faced increasing political opposition from a strengthening Labour Party which favored socialist, i.e., state-financed and state-run, institutions. Among socialist groups generally, the Victorian approach to charity was seen not only as paternalistic, moralistic, and self-serving, but ultimately as pre-modern and inefficient. Because charity carried no rights of entitlement for the poor, it was part of the status quo and an instrument of oppression and injustice, irrespective of its moral underpinnings and good intentions.

In the 1930s and 1940s, and largely in reaction to the Great Depression and two world wars, the strong reliance on private charity was replaced by a comprehensive system of public welfare services, most prominently in the form of universal national healthcare financed through general taxation and the central government budget, but also education and income maintenance. As a result, the voluntary sector was no longer responsible for serving one "group" of the population while the state was in charge of another. Rather, services of the voluntary sector played a more complementing and supplementing role. As expected, some organizations were marginalized, but others were invigorated by the reforms. Yet, once the state-funded and state-run welfare apparatus became established, government failures became apparent, and the voluntary sector, once again, was seen as filling the void. Government funding for the sector's activities increased in the 1960s and 1970s.

Throughout the 1970s and beyond, various factions of government—the Labour Party, the radical left, and the Conservative Party—have defined the voluntary sector to suit their political ideologies and goals and used it as a strategic weapon in political struggles. A growing notion that government agencies were ineffective prompted the Thatcher premiership in 1979 to roll back the "boundaries of state social provision," with the Thatcher government replacing public sector activity with private sector activity whenever it could. In the 1990s the Major and Blair premierships continued this trend of contracting-out government activities and creating "quasi-markets." The Labour governments (1997–2008)

saw the voluntary sector as a partner in modernizing the welfare state and sought to put in place private–public partnerships whenever possible. The subsequent coalition government under Cameron went a step further and positioned the voluntary sector as a constituting element of society as such. Its Big Society framework was a vision that borrowed heavily from the US system of self-organization. However, the framework was enacted under austerity policies and declining public funding, and ultimately failed to meet its aspirations. Nonetheless, it fitted a tendency in UK policies towards new public management approaches in social care and service provision, a policy stance that continues into the post-Brexit era.

Canada

Canada's nonprofit sector history is closer to that of Britain than to that of the US and signals less of a break with the British model than a gradual development away from it. The origins of nonprofits and charities can be traced, as in most other countries, to the church and other religious traditions. However, secularization of charity work occurred early in Canada's colonial period when in the late eighteenth century the people in the town of Halifax raised 750 pounds to build a public school, and communities in northern Canada established a residence for the homeless.

Secularization of charity work occurred early in Canada's colonial period.

Indeed, prior to the twentieth century, individuals and local groups were the main impetus for charity and mutual aid (McMullen & Schellenberg, 2002). In the twentieth century, however, the government began taking a more active role in formalizing income security and the social welfare system. Government-sponsored programs created in the last century included a universal pension system for workers, universal healthcare, and unemployment insurance. In contrast to Americans, as Lipset (1996) suggests, throughout the country's history, Canadians seem to have a stronger sense of social rights and see a more positive and more proactive role of government to eliminate the impediments to full social participation such as poverty and other inequalities.

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Following the American Revolution, while the US successfully seceded, Canada remained part of the British Empire. Lipset (1996) describes the development of Canada's social economy as the "counter revolution" to America's independence movement. According to Lipset, "Conservatism in Canada is descended from Toryism and monarchical statism; in the United States, it is derived from Whiggism, classical anti-statist liberalism" (1996,

p. 91). Immediately following the revolution, a migration occurred during which 50,000 Tory Americans moved to Canada and where many Anglican priests moved north and Congregational ministers moved south. Lipset describes the consequence of this move northward:

> In Canada, the Tory tradition has meant support for a strong state, communitarianism, group solidarity, and elitism. Most provinces continue to finance church-controlled schools. Public ownership, much of it instituted under Conservative Party administrations, is considerably more extensive than in the United States. Canadian governments spend more proportionately on welfare. Canadians are more supportive of narrowing income differences, while Americans put more emphasis on equal opportunity or meritocratic competition.
>
> (Lipset, 1996, p. 92)

As such, it is not surprising that Canada introduced major social welfare programs earlier and more comprehensively than the US. Interestingly, the development of this welfare state in the decades following World War II did not diminish the growth of the nonprofit sector. In fact, in the last four decades of the twentieth century, the number of registered charities more than tripled, which can be attributed to strong government support and funding of the nonprofit sector (Jiwani, 2000). Hall et al. find that "government funding is particularly prominent in the fields of health, education, and social services reflecting the special form that the welfare state has taken in Canada and echoing what is found in a number of European countries" (2005, p. iv). Compared to the US, Canada developed a more highly pronounced and comprehensive pattern of what Salamon (1995) identified as "third-party government," whereby the state subcontracts service delivery to nonprofit providers.

Australia

In contrast to the US, government has always played a highly visible role in Australia, but less so than in Canada (see Lyons, 1998). Nonetheless, from the early days of Australian political history, the government was very active in building infrastructure and providing education, a tradition carried over from the nineteenth century when Britain granted its Australian colonies limited self-government. With the passing of the act federating the colonies into an independent commonwealth in the early 1900s, the new Australian government assumed a positive stance toward voluntary associations, very much in line with prevailing policy frameworks in Britain. In social policy areas such as assisting the poor and sick, the government encouraged the formation of voluntary organizations and provided subsidies for service delivery. At the same time, government regulation was positively related to the level of subsidy nonprofits received.

In the late nineteenth century, Australia's open, democratic political system was an ideal environment for the formation of associations and voluntary organizations based on shared interests aside from religious interests. In fact, the "bifurcation of parliamentary politics" or the creation of the Liberal Party and the Labor Party can be traced to

associations organizing for a common interest. The Labor Party was created by the Trades and Labor Council, and the Liberal Party was created by trade associations, women's associations, and Protestant religious groups.

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During the 1920s and 1930s conservative business interests dominated Australian politics. Thus there was a growth of professional and trade associations and the start of business-related groups like the Rotary Club. However, the Great Depression ultimately weakened traditional charities and friendly societies and stunted the growth of business and professional associations. In response to growing social needs, the government encouraged new mutual finance institutions such as building societies and credit unions in the late 1930s, and increased its contribution to pensions, healthcare, and social services. Soon, the government took over nonprofit hospitals, which, in turn, led to a diminution of philanthropy, as they were the main recipients of individual donations at that time.

From 1949 to 1972, the Conservative Party in power curtailed direct government services. Instead, it reverted to subsidizing nonprofits to provide an expanding range of services, and government became funder rather than provider for meeting social and healthcare needs. In education, support of Catholic and other private schools expanded, which proved vital for the timely expansion of secondary education in the 1970s and 1980s. Less pronounced than Canada but more comprehensive than the US, Australia developed a system of third-party government as the characteristic model for nonprofit sector–government relations.

Less pronounced than Canada but more comprehensive than the US, Australia developed a system of third-party government as the characteristic model for nonprofit sector–government relations.

From the 1970s, feminism, the community development movement, and the various rights movements influenced government thinking, thus encouraging the formation of new nonprofits and community-based organizations that provided a wide range of social services locally. What is more, for the first time, the government also funded nonprofit professional arts organizations engaging in theater, opera, and ballet. In the latter decades of the twentieth century and into this century, the demographics of the population changed with an increase in immigration from Europe and Asia. Thus, an even wider range of nonprofits formed, including cultural and educational organizations, religious groups, and social welfare organizations. At the same time, tension between many nonprofit advocacy groups and the federal government arose around the restrictive immigration policies.

France and Germany

With these two countries, we leave the world of liberal welfare states and liberal market economies. Both France and Germany, with highly developed capitalist systems and comprehensive welfare states, represent a different regime type that implies a different positioning and development of the nonprofit sector. What is more, whereas the countries examined so far shared a common root, i.e., the 1601 Statute of Charitable Uses, the nonprofit sectors in France and Germany had a different starting point and evolution (Anheier & Seibel, 2001).

Let us begin with France. Long before the revolution of 1789 took place, France had been a centralized nation-state, and it was the very centralization of the state that had facilitated the revolution's effectiveness. The *ancien regime* was replaced by a new ruling class that used the existing centralized state structure as a tool for rebuilding the country's political system and societal order. In accordance with the strict individualistic, anticorporatist ideology of the revolution, the influential *Loi Le Chapelier* (1791) stipulated that no "intermediary associations" were allowed to exist between the individual as citizen and the state as the clearest expression of the *volonté générale* or public will.

No "intermediary associations" were allowed to exist between the individual as citizen and the [French] state as the clearest expression of the **volonté générale** or public will.

The revolution and its *Loi Le Chapelier* had a negative long-term influence on the growth of voluntary and self-organized associations. Throughout the nineteenth century, the very idea of associations faced political opposition. The political conservatives feared that associations would strengthen the working class, and the liberal Republicans were equally fearful of the influence of the Catholic Church. Both positions had an impact on the development of intermediary and voluntary associations to such an extent that France at that time was considered to be a "civic desert" (see Barthélémy, 2000a, 2000b; Mayer, 2003).

In the second half of the nineteenth century, associations and larger social movements started to exert a stronger role in France. The *Ligue de l'enseignement* (Education League) was established in 1866, and the *Ligue de la paix* (International League of Peace) a year later. Furthermore, worker cooperatives were formed even if only partially recognized legally (Barthélémy, 2000a). Full legal recognition came in 1884 for labor unions, and in 1901 for associations more generally, the latter in the form of a law named after the French statesman Pierre Waldeck-Rousseau. In his speech promoting the law, he recalled having tried to pass such a bill in 1882, and again in 1883. Interestingly, his winning argument in 1901 was that, with such a law, religious associations would indeed be subjected to stronger regulations and that the object of the bill was to ensure the supremacy of *civil* power over religion. In effect, it legitimized the civic activities of the urban upper classes in learned societies and leisure associations, on the one hand, and the cooperative and mutual societies of the working class on the other, which together constituted "two

important historical sources of the contemporary French associative movement" (Worms, 2002, p. 142). The 1901 law is still in force today.

As we have seen, individualism provided the basis of America's revolution and subsequent political development. But in contrast to the French case, and with the exception of the slave-holding plantation system in the southern states, American society was for much of the eighteenth and nineteenth centuries quasi-stateless and pragmatically oriented towards the maintenance of individual mobility and free choice, with a general mistrust of central state power. Accordingly, as de Tocqueville and others have argued, voluntarism and associational life evolved as an appropriate compromise between individualism and political collectivity. Whereas the French state had been conquered by a revolutionary regime that saw associationalism as a pre-modern element of the feudal and clerical order, the state in the US emerged only gradually, while local community and associational life remained the focus of a democratic identity.

The French state had been conquered by a revolutionary regime that saw associationalism as a pre-modern element of the feudal and clerical order.

In both France and the US, *either* state *or* associational structures formed the basis of political progress and initial democratic identity. In this respect, the German case is fundamentally different. Politically, Germany's history during the eighteenth and nineteenth centuries is one of compromises between a "self-modernizing" feudal order on the one hand and the emergent civil society on the other. In contrast to France, Germany witnessed neither a successful anti-feudal revolution nor the building of a central nation-state. Its 300 kingdoms, dukedoms, and baronies remained religiously and politically divided, with the Protestant Kingdom of Prussia and the Catholic Empire of Austria as two dominant and autocratic powers. When elements of a civil society first evolved in the eighteenth century, government and state administration, however, continued to remain under the exclusive control of the aristocracy. The new middle class, or *Bürgertum*, did not share political responsibilities.

The latent tension between the aristocratic and autocratic state on the one hand, and the emergent middle class with its political aspirations and associations, on the other, never led to ultimate rupture (as it did in France or the US), despite serious conflicts during the nineteenth century. Especially in Prussia, where the state was the main driving force of modernization, an increasingly stable and later more widely applied pattern of cooperation provided the seed for what was to become a major aspect of the nonprofit sector in Germany. To a large extent, the German nonprofit sector did not develop in antithesis to the state, but in interaction with it.

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Two key notions explain the historical path of the German nonprofit sector during the late nineteenth century, an important period that coincided with the country's rapid industrialization and rise to power: first, the so-called "cultural conflict" (or *Kulturkampf*) which mainly took place from 1871 to 1878; and second, the challenge of socialism or the search for an alternative between the modern capitalist and pre-industrial forms of economy (Anheier & Seibel, 2001; Borutta, 2010).

In the 1880s in the wake of the *Kulturkampf*, Otto von Bismarck's expanding nation-state in Prussia and the Catholic Church agreed to a compromise in which the state would gain more control of the education system, while the Catholic Church and the Protestant churches would manage large parts of the social welfare system in place at that time. The Catholic Church and its elite, however, remained traumatized by the Prussian government's restrictions during the *Kulturkampf* and suspicious of the dominant role of the modern state. The papal response to this conflict came in the 1930s in the form of Pope Pius XI's encyclical *Quadragesimo anno*, which defended the priority of individual and communal solidarity over state-run welfare programs. This development sparked the notion of subsidiarity, which became a synonym for institutional alternatives to the state as the primary social welfare provider (Anheier & Seibel, 2001) and the dominant principle underlying the German welfare state today.

The second challenge was about finding alternatives to the capitalist economy. From this search arose the notion of "communal economics," expressed especially in the form of cooperatives, mutual associations, and local institutions like savings and loans associations. Such organizations were largely formed to counteract persistent rural and urban poverty and the exclusion of large parts of the population from the emerging industrial economy as consumers. In 1847, Friedrich Wilhelm Raiffeisen created the first cooperative among the poverty-stricken rural population, and over the next decades hundreds more followed both in rural and urban areas among producers and consumers alike, resulting in a vast network of cooperative societies and mutuals that emerged in Germany in the late nineteenth and early twentieth century, many still existing today.

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In both Germany and France the history of the nonprofit sector is much more closely tied to the state than in the other countries reviewed thus far, in particular the US. As we explain in Chapter 5, France and Germany developed a corporatist nonprofit sector, where major components of the sector are in a subsidiary relationship to the state. This pattern was reinforced and expanded through the welfare state policies of the twentieth century and created some of the largest networks of nonprofit providers in the world. Indeed, the major nonprofit organizations providing social and health services in France and Germany are among the largest employers in their respective countries.

Sweden

As in France, the Swedish nonprofit sector is to be seen in relation to the state, but it is much less a history of conflict and domination than it is one of gradual evolution and accommodation. As in other Scandinavian countries and continental Europe, until the Reformation period, the Catholic Church was the central provider of charity, healthcare, and poor relief, and various forms of guilds secured the welfare of those in the trades and crafts (Carlsson & Rosén, 1962; Dahlbäck, 1987, 1992).

Until the Reformation period, [in Sweden] the Catholic Church was the central provider of charity, healthcare, and poor relief, and various forms of guilds secured the welfare of those in the trades and crafts.

With the beginning of the nineteenth century, new kinds of charitable organizations emerged apart from the church and the guilds. These early associations were not the type of open democratic organizations that today's Swedes think of as typical for associations (*förening*). They were most often exclusive organizations for the elite of the emerging capitalist society and were typically active in serving the needs of the poor (Lundström & Wijkström, 1997). The nonprofit and state spheres were closely intermingled. "Voluntary activities and state poor relief were closely connected by personal, organizational and economic ties" (Qvarsell, 1993, in Lundström & Wijkström, 1997, p. 58).

The founding of the *Centralförbundet för socialt arbete* (National Association for Social Work) or CSA in 1903 represented a turning point for organized charity. CSA focused on changing state policies on poor relief, child welfare, and other welfare policies, and succeeded in placing leading members of nonprofit organizations in prominent political positions within the state administration. This development laid the groundwork for the links between the state and an independent nonprofit sector that exist to this day.

During the period of industrialization (1870s to 1930s), the popular mass movements emerged. These new forms of associations included free churches, the modern temperance movement, the labor movement, consumer cooperatives, the sports movement, and adult education institutes. Over time such movements became stable, professionalized organizations and they have continued to consolidate their institutional presence to this date.

By contrast, service delivery, a significant element of the nonprofit sector in all countries reviewed so far, including the US, took a strikingly different path. At one level, Swedish charity organizations were influenced by the German system of charities coordinating with local authorities, with volunteer organizations working more and more with state-regulated poor relief. Yet at another level, service-providing nonprofits were largely displaced by an expanding welfare state during the twentieth century, though they continued to play an innovator role, exploring alternatives in social service delivery. Still, while the number of service-providing nonprofits declined over time, many membership organizations grew (Engberg, 1986), and new social movements emerged to advocate for or encompass people with disabilities, immigrants, women's rights, and the environment.

As a result, the Swedish nonprofit sector is largely based on membership, and less on service provision.

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Japan

The earliest reports of charitable activities in Japan date back to the seventh and eighth centuries. Hospitals and charities were built in the vicinity of Buddhist temples upon the initiative of high-ranking monks and benevolent nobles and in the interest of the rulers or powerful clans. Buddhist temples also raised funds for the running of orphanages, homes for the elderly, and other charitable purposes. Although the temples were moved under the control of political authorities after the seventeenth century, charitable activities continued but remained rare, even through part of the twentieth century.

The 1896 Civil Code provided the legal basis for *kōeki hōjin*, the main legal form for charitable organizations in Japan. Yet the main impetus for charity remained with the public authorities and the emperor: in 1911 the *Saiseikai* (imperial relief association) was the first of several *Onshi zaidan* endowments, which were established by a cabinet minister at the behest of and with the financial support of the emperor (Yamaoka, 1998). The emperor expected other prefectural governors and leading industrialists to follow his example. In the following years, other similar endowments were established. Indeed, as Japan's economy expanded in the early twentieth century, wealthy families, especially those who owned one of the *Zaibatsu*, or large business conglomerates, established grant-making foundations, some of them very large. By the 1930s and 1940s, all nonprofit organizations were subordinated under imperial power: single national organizations were formed, coordination bodies for the various industrial sectors were centrally organized, and religious organizations were moved under a common umbrella.

The main impetus for charity [in Japan] remained with the public authorities and the emperor.

After its defeat in World War II, Japan adopted a new constitution, and with it also laws that allowed new types of nonprofit organizations such as labor unions and women's organizations. Nevertheless, these laws were state-centered and implied far-reaching government oversight and control, provisions initially intended to prevent imperial and anti-democratic forces from regaining influence. In effect, they stifled the growth of Japan's nonprofit sector for decades to come.

The system of local entities, the *chichi-kei*, best understood as local neighborhood associations, could also be considered to have had a stifling effect. Rooted in Japanese traditions of community, they were used as instruments of political and social control

at the local level during imperialism. These entities continued to operate after the war and under the new constitution, in effect being more part of local government than civil society. Although they functioned to serve local communities, their compulsory nature may have prevented voluntary civic engagement from developing outside the framework established by them.

In the 1950s and 1960s social movements arose, strongly influenced by Western political concepts, particularly socialist and communist ideologies. By the 1970s, the peace movement, the anti-nuclear movement, and the human rights movement became influential. Owing to the often highly confrontational manner of these movements in Japan, the business community developed a strong distrust of movement-based nonprofit organizations. Yet, over time, the civic movements matured gradually, and general affluence, increased leisure time, and growing diversity fostered growing engagement.

Foundations, mainly established by large corporations, remained distant from both state and society, restricting their activities essentially to science and technology. Due to the division between social movement-based nonprofits on the one hand and the corporate grant-making foundations on the other, the development of Japan's nonprofit sector had a bifurcated nature that left little space for other nonprofits to develop.

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However, several events expanded the social space for Japan's nonprofit sector. The first, the Great Hanshin Awaji earthquake in 1995, mobilized more than one million volunteers, mainly working outside of registered organizations, to help with relief efforts. A second was the passage of the new nonprofit organization law in 1998, which envisioned a simple application process and minimal state intervention, prioritizing member and public accountability. These and other developments represent a "bottom-up movement toward 'civil society' where citizens play a larger role in the promotion of the public interest rather than a top-down structure where government agencies dictate the activities of nonprofit and nongovernmental organizations" (Yamaoka, 1998, p. 56f).

In sum, Japan looks back to a long history of charity, rooted in religion and premodern power structures; its modern nonprofit sector, however, is largely based on the experiences of the twentieth century, albeit culturally shaped by long-standing traditions (Amenomori, 1997).

Brazil

Brazil's nonprofit sector, too, emerged through a complex set of forces and must be seen in the larger historical context of a strong state and a weak civil society (Landim, 1998).

> Important factors in this context are the dominant role that the Catholic Church historically played as an ally of the state, and Brazil's economic modernization under an authoritarian political system that ended only in the late 1980s after a long period of instability.
>
> (Anheier & Salamon, 1998, p. 24)

Brazil's nonprofit sector, too, emerged through a complex set of forces and must be seen in the larger historical context of a strong state and a weak civil society.

During the colonial period (1500–1822), the Catholic Church and its institutions provided the forum for social life outside the family. In this function, the church de facto served as an extended arm of government because it had put itself under the patronage of the Portuguese crown. Next to the official, co-opted church, popular Catholicism stemming from a medieval Iberian tradition of patron saints took root. C*onfrarias*, local, parish-based initiatives, were formed to provide social services, financial and medical assistance, and generally help members of the community in times of crisis.

The symbiosis between state and church was weakened during the independence period (1822–1930). The proclamation of the Republic in 1891 finally brought the separation of church and state, with the latter now prohibited from providing financial assistance to religious communities. To maintain its influence, the church propagated the formation of schools, hospitals, and charities, as did other denominations and religions.

At the end of the nineteenth century, mutual aid societies began to form, strongly influenced by European immigrants, providing their members with medical aid and assistance in case of illness, unemployment, or death. At the same time other types of voluntary associations multiplied in major cities all over the country. Broader political and professional interest groups spread on national and regional levels, gradually transforming these organizations from more religious and local to more open and wide-ranging initiatives.

At the beginning of the twentieth century a nascent nonprofit sector had established itself, although under the close tutelage of governments with authoritarian tendencies. What is more, the state began to build a new alliance with the Catholic Church, considered by the governmental elite as an important policy tool to influence social order, by granting tax exemptions and by providing funding to church-related hospitals and schools. Such measures excluded most associations linked to the so-called popular movements as these were regarded as part of the political opposition. Gradually, trade unions began to form and gather influence.

In 1964, a military coup in reaction to what the new military government labeled the "trade union republic" marked the beginning of an authoritarian era that lasted until 1985. Although at first the Catholic Church supported the coup, three years later, in the aftermath of political persecution, the church began to openly support social movements. This was especially important as the church was the only institution whose infrastructure remained relatively intact, while other organizations like universities and unions were suppressed.

During that period the so-called "People's Church," inspired by Latin American liberation theology, became active in rural and urban areas alike. Christian base communities (CEB) were founded throughout the country and provided a social base for the emergence of political leaders, social movements, and grassroots organizations. Nongovernmental organizations (NGOs) followed in the 1970s mostly combining religious belief with Marxism and militancy with professionalism.

Christian base communities (CEB) were founded throughout the country and provided a social base for the emergence of political leaders, social movements, and grassroots organizations.

After the end of military rule, civil society organizations expanded in number and activities. Since the mid-1990s, many have become concerned with broader forms of public participation and have engaged with the state in promoting public deliberation on policy. There remains a more autonomous segment of church-related associations and service providers, some more traditional and some stemming from the organizing efforts of the 1960s and 1970s. In the first two decades of the twenty-first century, many nonprofit organizations were caught in an increasingly tense political struggle between left- and right-wing politics, made more difficult as the economy declined. The populist regime under President Bolsonaro in particular reduced the space for nonprofit organizations and civil society generally. At the same time, a prolonged economic crisis puts increasing pressure on nonprofit service providers as public agencies suffer under austerity measures.

Egypt

The nonprofit sector in Egypt comprises a diverse mixture of institutional types. Associations are by far the most frequent category, but there are foundations, professional groups, clubs, youth centers, business associations, and many traditional Islamic organizations as well. Until the rebellion against Hosni Mubarak in 2011, one pressing and long-standing issue was the tension-filled, challenging relationship between a secular, autocratic state and organized Islam as well as a restless middle class. This tension was replaced then by an at least equally pressing one: the relation between Islam, democracy, and civil society.

Religion has exerted a strong influence on nonprofit sector development in Egypt for centuries (Kandil, 1998). Early Islam did not separate religious and secular functions. By the twelfth century Sufi monastic orders had developed a broad network of hospices providing their members guidance and education. Furthermore, the Islamic practices of *zakat*, similar to tithing in the Christian tradition, and *al waqf*, i.e., bequests of properties that generate income for charitable purposes, have also underpinned the financial health of charitable activities and organizations to varying degrees over time.

Religion has exerted a strong influence on nonprofit sector development in Egypt for centuries.

The modern Egyptian nonprofit sector's development started in the nineteenth century. During British colonization, religious groups, especially Islamic and Coptic missionaries, fostered the establishment of educational, cultural, religious, and social work organizations. Immigrants from Greece, France, Italy, and other European countries founded their own organizations, and Egyptians created associations and societies. Religious competition continuing through to the initial period following independence in 1936 encouraged the further development of nonprofit organizations. Women's groups appeared and cultural associations became more important. Islamic bodies and religious associations gained power in shaping the social and political agenda, especially the Muslim Brotherhood and the Christian Youth Association.

With the 1952 revolution, the monarchy was abolished, and a secular regime under Abdel Nasser came into office. The state dominated civic life in general and grew increasingly authoritarian. Reflecting this, the state enacted Law 32 in 1964 and assumed the right to disband private associations and intervene in their activities. Its economic policy prohibited the formation of business associations in general, and professional interest groups were effectively discouraged. The Nasser regime and its one-party system weakened the nonprofit sector.

After Nasser's death in 1970, gradual liberalization took place, an arduous development that continued unevenly until the fall of Mubarak. While a more liberal economic policy and a multi-party system revitalized the economy and politics somewhat, the nonprofit sector remained under state tutelage. In the 1980s and 1990s, some laws regarding nonprofit organizations were liberalized, particularly in the field of business and professional associations. However, Law 32 remained in force. At the same time, the growth of Islamic organizations, especially the political influence of the Muslim Brotherhood, increased significantly, threatening the position of the secular state. As a result, Egypt's non-profit sector traditionally had at least three conflicting components: the organizational infrastructure of Islam, itself divided into a charitable (i.e., the *waqfs*) and a politicized segment (i.e., the Muslim Brotherhood); a segment of service-providing, state-controlled nonprofits long dominated by Law 32; and a restive civil society with movements and associations of many kinds in the making.

Egypt's nonprofit sector [comprises] at least three conflicting components: the organizational infrastructure of Islam, itself divided into a charitable ... and a politicized segment ... a segment of service-providing, state-controlled nonprofits ... and a restive civil society with movements and associations of many kinds in the making.

The Muslim Brotherhood continued to have profound effects on Arab politics, both inside and outside Egypt. The short-lived Mohamed Morsi government that rose to power in the brief democratic aftermath of the Arab Spring from 2011 to 2013 was Islamist-dominated and Morsi was a Muslim Brotherhood affiliate. Mass protests against the Islamist turn of the democratically elected government in 2013 ushered in a military coup, which eventually brought a new government under General el-Sisi into power. El-Sisi returned Egypt to

authoritarianism and significantly reduced the space for nonprofit organizations and civil society generally (Herrold, 2020).

Ghana

The nonprofit sector in Ghana reflects elements of African, Western, and, to a lesser extent, Islamic cultures (Atingdui et al., 1998). Many traditional forms of charities and voluntary associations existed prior to the colonial period. The British colonial policy of indirect rule as a main tool of governance either instrumentalized some of these indigenous institutions for administrative purposes, or left them untouched. Similar patterns of use of existing institutions occurred during and after the independence period, as well as during the structural adjustment policies of the 1980s and 1990s, when the country became a hallmark case for turning around stalled and declining developing economies.

The British colonial policy of indirect rule as a main tool of governance either instrumentalized some of these indigenous institutions for administrative purposes, or left them untouched.

During the colonial period, the urban economy expanded, as did rural extraction industries and the informal sector. Various *susu* savings associations as well as trade unions came into being in the growing urban areas, as did numerous craft and trade associations. Religious groups, both Christian and Muslim, established religious societies and charitable branches. These religious communities and missionaries all over the country often collaborated with the colonial administration, but usually government did not interfere with or assist them.

In 1957, Ghana became the first African country to achieve independence. It had an export-oriented agricultural economy and severe deficits in terms of technology and human capital. During the initial independence period, the government's development policies were geared to reaching out to local associations, both formal and informal, and encouraging self-help. Cooperation between government-organized development committees and the nonprofit sector led to several thousand projects to build schools, infrastructure, and health clinics and to provide essential services.

Political and economic difficulties ultimately overshadowed this seeming progress. Ghana experienced a vicious cycle seen in many post-colonial African countries whereby poor economic performance leads to political instability and regime change (via coups) leading to further economic decline. What is more, Ghana's economy declined between 1960 and 1985, and was turned around at great social and political costs in the 1980s and 1990s. Nevertheless, some "cooperation" between government and the nonprofit sector continued throughout, with church-related organizations and NGOs among the main providers of emergency relief, healthcare, and education.

Despite a period of government crackdown on religious organizations in the 1980s and various levels of restrictions under different regimes, there was significant growth during

the 1980s and 1990s, at local levels in particular, in the number and activities of religious-affiliated organizations from Presbyterian, Catholic, Anglican, and Methodist churches. Many foreign NGOs entered the country when development assistance funds became available through bilateral and multilateral agencies.

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Since then, at least two factors have influenced the size and role of the nonprofit sector in Ghana. First, although international development assistance increased significantly in the wake of the economic adjustment programs, it declined just as significantly after 2010 when Ghana was declared by the World Bank to be a lower middle-income country. The rather drastic change revealed what some called an unhealthy dependence on foreign funds and spurred local NGOs to adopt new sustainability strategies (Arhin et al., 2018). Second, government policies have sought to encourage rural development and provide aid for the poorest population groups, leading to increased state spending for education, health, and social welfare services. The question remains whether a more balanced government–nonprofit organization cooperation will emerge, or whether the pattern of instrumentalization that characterized the early development of Ghana's nonprofit sector will continue.

India

Owing to its immense complexity and long history, no single underlying theme or pattern can easily characterize the development of the nonprofit sector in India (Sen, 1998). There is a long-standing tradition of voluntarism and organized charity that developed in the context of the country's intricate caste system. What is more, unlike most countries that experienced colonialism, Indian independence did not lead to authoritarian tendencies. To the contrary, except for a brief period in the 1980s, India has been and remains the world's largest democracy, with one of the world's more vibrant civil societies, even though authoritarian tendencies have gained much momentum in recent years.

> There is a long-standing tradition of voluntarism and organized charity that developed in the context of [India's] intricate caste system.

Voluntarism was first mentioned in the *Rig Veda* in 1500 BC. Throughout the many centuries of Indian pre-colonial history, non-family support for the disadvantaged and the poor was organized mainly by guilds, caste associations, and religious philanthropy. During the colonial period, Christian groups and missionary societies added a new strain of voluntary

organization. Between the 1860s and the 1940s, some missionary societies expanded from their urban bases and founded rural "colonies," planning to modernize communities while spreading the Gospel. Other religious and ethnic groups formed socio-religious movements and organizations as well. In 1873, for instance, followers of Sikh movements established the *Singh Sabha* in Amritsar as a social reform organization, which later created schools, orphanages, and Sikh historical societies. Business associations and nascent forms of trade unions also emerged during the colonial period.

In addition to religious competition, Gandhi's promotion of voluntarism was a major factor in the Indian nonprofit sector's development. He was convinced that India could only be developed through voluntary action, and that any attempt to address rural poverty had to start in the countryside. Indeed, the emergence of Gandhian nonprofit organizations became a turning point in the history of the country's nonprofit sector, uniting traditional and Western elements. On the one hand, the ashrams emphasized a holistic approach rooted in local communities and their cultures; on the other hand, they focused on economic development rather than religious aspects. Throughout the early post-independence period, Gandhian nonprofit organizations expanded as part of the Indian state's development agenda.

In addition to religious competition, Gandhi's promotion of voluntarism was a major factor in the Indian nonprofit sector's development.

The 1960s and 1970s saw increased differentiation and politicization within the Indian nonprofit sector. Welfare-oriented nonprofit organizations mainly worked in disaster relief, while indigenous nonprofits created by international NGOs and by underemployed middle-class professionals, as well as community-based organizations, focused to varying degrees on development and empowerment. At the same time, thousands of action groups emphasizing empowerment emerged, mainly out of disillusionment with existing development models. By the end of the period, advocacy and empowerment were firmly on the country's political agenda, as was the Foreign Contribution Regulatory Act of 1976 that was meant to control foreign influence of Indian NGOs.

During the 1980s and 1990s, professional NGOs emerged as the predominant type of nonprofit organization, further fueled by expanding education and technological change that began to enhance the capacity of Indian NGOs to tap into support by the Indian diaspora. The more radical action groups lost influence, and fundamentalist and ethnic movements experienced a resurgence. Contributing to the growth of the subgroup of NGOs was the government's stricter regulation of the relation between political parties and nonprofits that reduced the role of action groups and the activist state's focus on promoting service-providing nonprofit organizations. By the end of the twentieth century, India had one of the most developed nonprofit sectors among the world's major emerging market economies.

Yet, beginning in 2010, first the Singh and then the Modi governments revived the Foreign Contribution Regulatory Act to launch crackdowns on NGOs that pursue minority rights, act against the government to protect interests of the disadvantaged, and

otherwise seek social change with foreign assistance. These moves led to revocations of tens of thousands of NGO operating licenses and cast a chill on the human rights NGO community. India has become one of the major democracies that has sought to close the space for NGOs (see Chapters 16 and 18) by limiting foreign support for them.

China

Compared to India, the development of the nonprofit sector in China could not be more different. Of course, both countries have long and complex histories, but throughout the many thousands of years involved, what could be identified as the nonprofit sector in China was closer to authorities in power and was seen less in the context of self-organization and more as part of a hierarchy. Today, two main strands characterize the nonprofit sector and civil society in China: first, the devolution and privatization of state agencies into some form of nonprofit organization, and often as a public–private partnership, especially in social services, healthcare and education; and, second, the modernization of the notion of the harmonious society in an effort to find a Chinese equivalent to the Western notion of civil society.

Throughout China's history, civil society has always been seen in close proximity to the state and has been based on ties that were part of a particularly hierarchical relationship guided by state supremacy. This pattern reached its apex during the rule of Mao Zedong (Gallagher, 2004). Party-controlled mass organizations were the only way of associational life in Maoist China. Other social organizations apart from those created through the Chinese Communist Party (CCP) were either co-opted or strictly controlled.

Throughout China's history, civil society has always been seen in close proximity to the state and has been based on ties that were part of a particularly hierarchical relationship guided by state supremacy.

After the Cultural Revolution (1966–76), though the economy grew and private life opened up, no political liberalization took place, and associational life continued to be constrained persistently by the CCP. The state also proactively created new groups and associations that were ostensibly social organizations but remained linked to the creators, so-called GONGOs (government-organized NGOs). Through such entities, the state reduces its size and budget, while manifesting its influence and sovereignty of interpretation. In addition to extensive regulations, government officials or party cadres are put into leadership positions within social organizations (Gallagher, 2004). The CCP's stated goal was to forge a more effective and efficient way of service delivery that spans the entire social, healthcare, and educational fields. Towards these ends, government agencies also started to set up the first foundation-like entities in China with the goal of absorbing international aid and other foreign support (Chan & Lai, 2018)

Although neoliberal economic reforms led to greater windows of opportunity for social organizations, the political-legal framework remained largely restraining (Levy & Pissler, 2020). After the democracy protests in 1989, the dual management system was

introduced, which requires NGOs to work with two different government agencies: the registration authority and the professional supervision unit. The dual management system has generally been the most significant impediment to nonprofit development in China and is the reason for the existence of gray-area grassroots organizations (GROs), which are active in areas that are considered less central by the government. Despite the lack of legal status for GROs, local governments have long unofficially cooperated with them to receive social services and technical expertise (Spires, 2011).

The dual management system has generally been the most significant impediment to nonprofit development in China.

Since 2012 with Xi Jinping's ascendancy, however, the environment for GROs has become harsher, and it has become more difficult for them to work without official registration. State and party control have grown, but the state has also created new opportunities. The Charity Law of 2016, for example, allows a broader range of legally registered NGOs to raise funds publicly, but excludes the vast number of GROs as well as NGOs engaged in advocacy, legal services, labor and human rights, and religious groups (Spires, 2020).

China has recently also sought to bolster the involvement of nonprofits in social service contracting, and Chinese nonprofits generally welcome the potential influx of funding. This is particularly the case in areas that the government and CCP consider essential, i.e., trade and commerce, science and technology, public welfare and charity, as well as urban and rural community services (Levy & Pissler, 2020).

Russia

Similar to China, the history of civil society in Russia is influenced by its totalitarian past and recent turn to authoritarianism. Historically, charities and philanthropic activities in Russia emerged in close coordination with the absolutist state. The Orthodox Church was subjugated to the state, which maintained control over its charitable institutions as well. The pattern continued with the emergence of secular philanthropy at the beginning of the nineteenth century. Effectively a combination of private foundations and governmental agencies, these new philanthropic entities emerged under the patronage of the royal family and with involvement of the high aristocracy (Jakobson et al., 2018). A precedent was set by the Benefaction Society, founded in 1802 by Imperial Decree, with Tsar Alexander I and his mother serving as primary benefactors. Created to serve the poor, the Society also solicited private donations more widely. As it evolved, it became increasingly integrated in the state bureaucracy, and its employees ultimately became civil servants. Additional philanthropic entities continued to be created throughout the nineteenth century, driven by the high aristocracy and wealthy merchant class and conducted in conjunction with the state.

The socialization of private property after the 1917 revolution extended to these philanthropic and charitable entities, which were abolished, and became state responsibilities. With few exceptions, charity and voluntary activities beyond the control of the party-state were discouraged until the final years of the Soviet Union under Mikhail Gorbachev, when private citizen initiatives were again allowed to emerge.

After the 1917 revolution . . . charity and voluntary activities beyond the control of the party-state were discouraged.

After the collapse of the Soviet Union in 1991, the Russian government under Boris Yeltsin soon introduced a new civil code, re-establishing the legal basis for the creation of nonprofit organizations, and had new laws on NGOs and charitable activities on the books by the mid-1990s (Jakobson et al., 2020). However, preoccupied with the political and economic chaos, Yeltsin did not attend to the needs of the emerging nonprofit sector. The 1990s consequently turned into a prolonged period of detrimental policy neglect (see Chapter 18), in which the lack of oversight enabled widespread abuse of charities for business purposes and even as cover for criminal activities (Jakobson et al., 2018).

When Vladimir Putin took over as President in 2000, he first approached civil society cautiously, trying to assess the potential for resistance. A public chamber was created as a mechanism for dialogue between civil society and the state. But realizing that civil society lacked the unity to be a major obstacle, he soon started to target rights-based NGOs, beginning with the 2006 NGO Law, which in effect curtailed foreign funding by allowing only government-approved foreign funders to be active in Russia. This led to an overall decline of foreign support for Russian NGOs and a curtailing of democratization efforts (Benevolenski & Toepler, 2017). Civil society space was further restricted by the 2012 Foreign Agents Act and the 2015 Undesirable Organization Law, both of which serve to put a damper on the political and advocacy activities of Russian NGOs and foreign nonprofit actors.

But a seemingly contradictory second stream of policy measures from 2011 on created a more supportive environment for a broad swath of Russian nonprofits. Most prominently, the federal government launched several initiatives to bolster government support for service-providing nonprofits, including grants for capacity building, cofunding of regional government programs, and presidential grants to nonprofits for the implementation of socially important projects (Benevolenski & Toepler, 2017; see also Chapter 16).

Taken together, these measures suggest that, despite dissimilar historical trajectories, Russia is pursuing an approach not unlike China's: attempting to emulate Western patterns of government/nonprofit cooperation for nonprofit service providers that have seen more enabling regulatory environments and more financial opportunities, while controlling and constraining civil society advocacy.

Russia is . . . attempting to emulate Western patterns of government/nonprofit cooperation for nonprofit service providers . . . while controlling and constraining civil society advocacy.

CONCLUSION

What these brief historical comparisons show is that the nonprofit sector is embedded in a country's or region's broader political and social development, which in turn is shaped by political cultures and forms of government, as well as by cultural and sociological factors. As reflected in the social origins theory (see Chapter 5), Salamon and Anheier (1998) suggest that cross-nationally, the nonprofit sector has different "moorings" that reveal different social and economic factors at work. They help create the diversity and the richness of the organizational forms and institutions located between the state and the market. The recent historical developments in this sample of countries, however, also suggest the extent to which the operating spaces for nonprofits and civil society have been closing in the recent past, which we examine further in Chapters 16 and 18.

[The nonprofit sector's development] is shaped by political cultures and forms of government, as well as by cultural and sociological factors.

REVIEW QUESTIONS

What are some of the major patterns underlying the development of the US nonprofit sector and how do they differ from Canada?

How does the history of the US nonprofit sector differ from the experiences of European countries and other developed market economies like Japan?

What is distinct about the historical development of the nonprofit sector in Brazil, China, Egypt, Ghana, India, or Russia?

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CHAPTER 3

Concepts

This chapter discusses the various types of organizations (charities, foundations, associations, social enterprises) and institutions (charity, philanthropy, social economy, community, solidarity) that make up or relate to the nonprofit sector, and looks at the various attempts to define the area between the market, state, and household sectors. The chapter also explores how the nonprofit sector relates to the concept of civil society and the social economy, to social capital approaches, and to terms such as social investment, social entrepreneurship, social economy, and social movements.

LEARNING OBJECTIVES

Concepts are important tools for understanding and communicating. They are the building blocks of theories, and the meanings they convey become highly relevant in the policy-making process. Together, the concepts and terms introduced in this chapter are the key pillars of a new approach that goes beyond the state versus market perspective that dominated social science thinking and policy-making for much of the twentieth century. After reading this chapter, the reader should:

- be able to point to the various definitions of nonprofit organizations;
- be familiar with different types of nonprofit organizations and the various institutions located between state and market more generally;
- have an understanding of the concepts of civil society, philanthropy, and social capital, as well as social investment, social entrepreneurship, and social economy, and how they relate to the nonprofit sector.

Some of the key terms covered in this chapter are:

- Benefit corporation
- Charity
- Civil society
- Cooperative
- Co-production
- Foundation

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- Hybrid legal forms
- Independent sector
- L3C
- Mutual society
- Nongovernmental organization
- Nonprofit organization
- Philanthropy
- Social capital
- Social economy
- Social entrepreneurship
- Social investment
- Social movements
- Third sector
- Voluntary association
- Volunteering and voluntary work

THE NONPROFIT SECTOR

In the introductory chapter, we briefly review the great diversity of organizational forms and activities in the nonprofit sector, be it in the United States or elsewhere. Indeed, as Salamon and Anheier (1997) argue, coming to terms with the diversity and richness of organizations located between the market and the state is a first challenge involved in gaining a better understanding of this set of institutions. Complicating this task is the vast array of terms that have emerged in scholarship and practice over the years to describe the sector as a whole and related institutions. These include, among others: "nonprofit sector," "charities," "third sector," "independent sector," "voluntary sector," "nongovernmental organizations," "associational sector," "philanthropy," "social enterprises," and "hybrid organizations," and in the European context, "social economy." Not surprisingly, the different terms often emphasize one aspect of the social reality of the sector without capturing its entirety. For example:

The different terms often emphasize one aspect of the social reality of the sector without capturing its entirety.

- *Charity* emphasizes, on the one hand, the kind of work such organizations are assumed to do, e.g., helping the needy, and, on the other hand, what is assumed to be their main source of support, i.e., charitable donations. However, many nonprofit organizations are not "charitable" but advocate special interests or seek to promote their members' interests through lobbying. Furthermore, as shown in other chapters, private donations are neither the only nor the main type of resources nonprofits have at their disposal.

- *Independent sector* highlights the role these organizations play alongside government (i.e., political power) and private business (i.e., the profit motive). The term overlooks. however, the sector's reliance on government and, to a lesser extent, business for revenue and ignores the involvement of elites from the other sectors in the organizations' governance.
- *Third sector* is a convenient shorthand and pragmatic convention to draw interest to organizations located between the market (the first sector) and the state (the second sector). However, it lacks conceptual rigor as it ultimately becomes a residual category for all organizations that for one reason or another do not fit into the dichotomy of forprofit versus public sector.
- *Voluntary sector* emphasizes both the major involvement of volunteers in the sector and the non-compulsory nature of participation in terms of membership. In reality, a good deal of the activity of voluntary organizations is carried out by paid staff, not by volunteers, and many nonprofits have no membership base at all.
- *NGO (nongovernmental organization)* is a term used especially in the Global South and international relations. In many settings, however, the term refers mainly to professionalized organizations promoting economic and social development, as differentiated from more grassroots, community-based associations.
- *Philanthropy* refers to the use of personal wealth and skills for the benefit of specific public causes and is generally applied to philanthropic foundations and similar institutions. Yet, as in the case of charity, the sector relies more heavily on earned income and government support than philanthropy and includes self-interested behavior, pecuniary or otherwise, and interest organizations that lobby on behalf of their members rather than for the common good.
- Even *nonprofit sector*, the term used by the United Nations System of National Accounts and economic theories, only depicts part of the reality. "Nonprofit" gives the impression that these organizations do not generate any surplus, i.e., more revenues than expenses, though they sometimes do. What is more, the term suggests more about what an organization is not, than what it stands for, prompting one analyst to ask, "If not for profit—for what?" (Young, 1983).
- *Social economy* refers to a broader range of organizations than what is commonly understood in the Anglo-Saxon world to be nonprofit. Indeed, the social economy would go beyond associations to include cooperatives, mutual societies, social enterprises, and other business-type organizations characterized by prioritization of service to members or the community over profit and of people and work over capital in the distribution of revenues.
- Most recently, interest in *hybrid organizations* has been growing and has even generated new legal forms, such as the benefit corporation and the low-profit limited liability company (L3C) in the US, the community interest company in the United Kingdom, or the South Korean social enterprise form (Abramson & Billings, 2020). Common to these efforts is the intention to combine the advantages of both nonprofit and forprofit forms in one entity. Although some argue for referring to a "Fourth Sector" of "for-benefit organizations" (Sabeti, 2011), most of the new hybrid forms so far fall short of their ambition and effectively provide only minor modifications of the basic nonprofit and forprofit forms.

Different Approaches

Behind these many terms are, of course, different purposes. Definitions are ultimately judged by their usefulness in describing a part of reality of interest to us. Specifically, a definition must be simpler than the reality it seeks to describe. In the social sciences, we are particularly interested in definitions that facilitate communication, generate insights, and lead to better understanding. In this respect, we can either use existing definitions, such as the legal and functional definitions reviewed below, or propose new ones, as is the case for the structural-operational definition, which was inductively developed by comparing the terminologies used in a wide range of different countries (Salamon & Anheier, 1997; see United Nations, 2018).

Definitions are ultimately judged by their usefulness in describing a part of reality of interest to us.

The Legal Definition

UNITED STATES AND COMMON LAW TRADITION

A location's laws and regulation provide one starting point for defining the nonprofit sector. In the US, for example, nonprofit organizations are incorporated under state laws, which typically provide for nonprofit-specific variations of the basic corporation as legal form. There is no requirement that nonprofits seek incorporation; they may remain informal associations of members or be constituted as trusts around capital assets without separate legal personality, but also without the liability protections that incorporation offers. At the federal level, the US Internal Revenue Code designates nonprofits primarily in section 501. There are 27 different categories of nonprofit organizations in total that cover a great diversity of entities. However, two major types—501(c)(3) and 501(c)(4) organizations—account for more than three-quarters of all IRS-registered nonprofit organizations (Chapter 4, Table 4.1).

All these organizations are exempt from federal income taxation, but only 501(c)(3)s, the so-called public charities, can receive tax-deductible contributions from individuals and corporations, with few exceptions, such as veterans' organizations or fraternal organizations if used for charitable activities.

Only 501(c)(3)s, the so-called public charities, can receive tax-deductible contributions from individuals and corporations.

As there are no nonprofit-specific legal forms in the US, the tax classification and regulation serve as stand-ins for legal definitions, although the tax treatment has considerable overlap with functional approaches to defining nonprofits. With differences in detail, the same is largely true also for other common law countries such as Australia, Canada, and the UK. While some have dedicated charity legislation (Australia, the UK) and charity commissions as opposed to relying on the tax code and the tax-collecting agencies for

regulating these organizations, commonalities include the lack of dedicated legal forms, the reliance on traditional English law for defining charitable activities, and similar borderline issues. Like in the US, corporations, trusts, and unincorporated associations are the main legal form choices across common law countries with limited carve-outs for specific types of historical (e.g., friendly societies, which are mutual insurance associations) and more modern types of nonprofits such as community interest companies. As does the US, many common law countries limit political activities of charities and attempt to regulate permissible business activities along the borders with politics and the market, respectively (Phillips, 2020).

As there are no nonprofit-specific legal forms in the US, the tax classification and regulation serve as stand-ins for legal definitions.

CIVIL LAW SYSTEMS

In contrast to common law countries, civil law countries such as France, Germany, and Japan take a different starting point in defining nonprofit organizations. Civil codes determine what legal forms are available and then regulate rights and responsibilities among individuals and private legal persons. Civil law systems have three principal types of organizations: associations, foundations, and companies or corporations. Organizations that would generally be considered "nonprofit" could take any of these forms to pursue public benefit purposes. The principal difference between the former two legal forms in civil law is that associations are member-based, while foundations are asset-based organizations. To achieve legal personality, a nonprofit must be registered in some association or foundation registry which, depending on the country's administrative system, is typically maintained either locally at city or county courts or nationally at the Ministry of the Interior.

However, registration does not necessarily imply tax exemption. Conferral of public benefit status involves an additional legal act separate from registration. What is more, while many civil law countries have relatively simple registration procedures for associations and corporations, the achievement of public benefit status and its advantages is much more demanding and restricted. In France and Japan, for example, there are many more nonprofit organizations than tax-exempt nonprofit organizations.

While many civil law countries have relatively simple registration procedures for associations and corporations, the achievement of public benefit status and its advantages is much more demanding.

What becomes clear from looking at the legal definitions of what constitutes a nonprofit organization is the implicit assumptions about the purposes and objectives nonprofits serve. This points to the importance of what we call the functional definition, to which we now turn.

The Functional Definition

The functions or purposes of nonprofit organizations offer yet another way of defining the nonprofit sector. As Salamon and Anheier (1997) suggest, the most common type of function attributed to the nonprofit sector is the promotion of what is called the "public interest" or "public purposes."

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At a broad level, the public interest in the work of nonprofits typically manifests itself in a set of special roles and functions that distinguish them from other sectors. Kramer (1981, 1987) distilled these distinctive functions into four key roles:

Service Provider Role: Since government programs are typically large-scale and uniform, nonprofit organizations perform various important functions in the delivery of collective goods and services. They can be the primary service providers, where neither government nor the business sector is either willing or able to act. They can provide services that complement the service delivery of other sectors, but differ qualitatively from it. Or they can supplement essentially similar services, where the provision of government or the market is insufficient in scope or not easily affordable (see Chapter 5 for related theories).

Vanguard Role: Nonprofit organizations innovate by experimenting with and pioneering new approaches, processes, or programs in service delivery. In their fields, they serve as change agents. If innovations prove successful after being developed and tested by nonprofit organizations, other service providers, particularly government agencies with broader reach, may adopt and scale them up (see Chapter 8 on social innovation).

Value Guardian Role: Governmental agencies are frequently constrained—either on constitutional grounds or by majority will—to foster and help express diverse values that various parts of the electorate may hold. Businesses similarly do not typically pursue the expression of values, since this is rarely profitable. Nonprofit organizations are thus the primary mechanism to promote and guard particularistic values and allow societal groups to express and promulgate religious, ideological, political, cultural, social and other views and preferences. The resulting expressive diversity in society in turn contributes to pluralism and democratization and is embodied in the concepts of civil society (Chapter 5) and social capital (Chapter 7).

Advocacy Role: In the political process which determines the design and contours of policies, the needs of under-represented or discriminated groups are not always considered. Nonprofit organizations thus fill in to give voice to the minority and particularistic interests and values they represent. In turn, they serve as critics and watchdogs of government with the aim of effecting change or improvements in social and other policies (Chapter 17).

Despite this common core of features and functions, the nonprofit sector is nevertheless marked by its notable diversity, including the diversity of organizational types: not all nonprofits are alike and not every nonprofit performs each of Kramer's four roles. But the great significance of Kramer's role conception is that it focuses attention beyond the economic aspects of service delivery and towards the value base that underlies all nonprofit activity. Legally, these functions are embodied to varying degrees in the public benefit provisions that confer preferential tax treatment, especially of donations, which again differ between common and civil law countries.

The great significance of Kramer's role conception is that it focuses attention beyond the economics aspects of service delivery and towards the value base that underlies all nonprofit activity.

COMMON LAW COUNTRIES

The functional definition dominates the notion of charity in most common law countries, as embodied in the British case of Income Tax Special Purposes Commission v. Pemsel 1891:

> Charity in its legal sense comprises four principal divisions: trusts for the relief of poverty; trusts for the advancement of education; trusts for the advancement of religion; and trusts for other purposes beneficial to the community, not falling under any of the preceding heads.

In England and Wales, the Pemsel case ruling was modernized with the Charities Act 2006 (later consolidated into the Charities Act of 2011) which sets out 13 categories of charitable purposes, also known as public benefit requirements:

1. The prevention and relief of poverty
2. The advancement of education
3. The advancement of religion
4. The advancement of health or the saving of lives
5. The advancement of citizenship or community development
6. The advancement of the arts, culture, heritage, or science
7. The advancement of amateur sport
8. The advancement of human rights, conflict resolution or reconciliation, or the promotion of religious or racial harmony or equality and diversity
9. The advancement of environmental protection and improvement
10. The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship, or other disadvantage
11. The advancement of animal welfare

12. The promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services
13. Other purposes currently recognized as charitable and any new charitable purposes which are similar to another charitable purpose

The notion of public benefit is critical to the definition of charity. The Charity Commission for England and Wales (2013) in its guidance on *Public Benefit: The Public Benefit Requirement* offers a useful set of criteria indicative of public rather than private benefit of organizational purposes. Specifically, the public benefit is comprised of two discrete aspects:

- A public aspect: the activity benefits the public at large or at least a sufficiently large section of it and does not confer personal benefits beyond the incidental.
- A benefit aspect: the benefit created under the above purposes must outweigh any harms or detriments that may result from it.

The notion of public benefit [in common law systems] is critical to the definition of charity.

In the US, the equivalent is the public charity status. To qualify for a 501(c)(3) status, an organization must be organized and operate exclusively in one or more of eight functional purpose areas:

- Charitable
- Religious
- Educational
- Scientific
- Literary
- Testing for public safety
- Fostering national or international amateur sports competitions
- Prevention of cruelty to children or animals

The requirement to be organized and operated exclusively for one or more of these charitable purposes encompasses both a prohibition of profit distribution and limitations on business activities that do not substantially relate to the charitable exempt purpose. In addition, organizations with 501(c)(3) status face prohibitions on participation in the political, electoral process of promoting any specific candidates for office and restrictions on their lobbying activities (see Chapter 17). By contrast, 501(c)(4) organizations have no restrictions on their lobbying activities as long as they are related to their exempt purpose. Participation in political campaign activities is permissible as long as it does not constitute their primary activity.

CIVIL LAW SYSTEMS

In most civil law countries, the legal status of associations was at the center stage in the emergence of civil society in the nineteenth century and became enshrined in a country's civil code, with the definition of what constitutes public benefit essentially defined by provisions in various tax laws.

Public benefit status is today foremost a fiscal term. Its definition and application serve to differentiate tax-exempt organizations from those liable to various forms of taxation. For example, the German tax code, revised in 2007 to reflect the "Law to Further Strengthen Civic Engagement," stipulates that:

> A corporation shall serve public benefit purposes if its activity is dedicated to the altruistic advancement of the general public in material, spiritual or moral respects.

The code further distinguishes "public benefit" from other types of purposes by stipulating that the beneficiaries of the activities cannot be limited to a specific group, e.g., family members or employees of a particular firm, and that the activities have a broad reach beyond a specific geographical area or professional branch.

Public benefit status [in civil law systems] is today foremost a fiscal term.

Against this rather general description, the German tax code lists no less than 25 sets of activities as examples of what constitutes public benefit, though the state-level government's revenue authority is ultimately responsible for determining it. These include support of very broad activities, such as science and research, religion, animal protection, development aid and the like, as well as support for quite specific types of activities, such as animal husbandry, airplane modeling, dog shows, and chess (which is defined as a sport).

What is more, the tax code stipulates that private activities for public benefit must be carried out in a certain manner:

- Selfless, in the sense of altruistic, whereby members of the organization are neither allowed to receive profits nor other profit-like compensations. This strict nondistribution constraint excludes many mutual membership associations, as well as business and professional associations. It also implies that the cost behavior of nonprofits must be "reasonable" in terms of salaries and fringe benefits.
- Exclusive, in the sense that the organization pursues only purposes defined as public benefit. If an organization carries out other activities, it may lose the nonprofit tax status altogether. In practice, the organization may declare some of its activities as public benefit and others as "commercial." This has the effect that those activities classified as public benefit receive preferential tax treatment, whereas commercial activities may be subject to taxation.

- Direct, in the sense that the charitable purpose has to be served by the organization itself rather than through third parties. This provision contains many exceptions that basically relate to inter-organizational structures, financing, and special institutions, whereby a third party may provide services on behalf of a tax-exempt organization.
- Timely, in the sense that the organization has to spend its resources for the specified purposes within a certain time period, usually a given fiscal year. This implies that many nonprofit organizations are not allowed to build up financial reserves or accumulate capital for investment. Again, there are many exceptions to this rule.

Civil society advocates continue to demand further reforms, as the handling of public benefit provisions arguably shows their roots in nineteenth-century thinking. This was exemplified by revocations of tax exemptions for civil society initiatives that worked outside the traditional notions of public benefit, most prominently among them the German chapter of Attac, the international anti-globalization movement (Anheier & Toepler, 2019).

Another illustrative and important example of how civil law systems treat nonprofits is the French case. The French civil law system knows two general forms of nonprofit organizations, namely associations and foundations. Establishing foundations has historically been very difficult in France, although in the recent past new laws for foundations (public utility foundations, corporate foundations, sheltered foundations, research and university foundations, and so on) have contributed to a more flexible process for creating and administering foundations. Associations in France in general have to get recognized as general interest associations or public utility associations to receive tax advantages.

In order to receive the status of a general interest association, its services must be provided to a large, undefined group of individuals, and be nonprofit in nature. That means that the association must engage primarily in cultural, educational, humanitarian, scientific, social, or sporting activities; activities aimed at the promotion of artistic heritage or the promotion of environmental protection; or activities dedicated to the promotion of French culture, language, and scientific knowledge, i.e., fields of activities explicitly recognized by the French tax code.

Furthermore, the nonprofit nature of the activity will depend on its compliance with the "four P rule" ("*la règle des 4 P*") defined in the 1998 Tax Instruction and renewed in 2006. Basically, what matters is that:

- the [P]roduct (*le produit*) offered satisfies a need not met by the private sector;
- the [P]ublic (*le public*) is unable to afford the product offered by the private sector;
- the [P]ricing (*le prix*) is lower than in the private sector; and
- the [P]romotion (*la publicité*) of a public interest mission may not use advertising or marketing tools in the same manner as corporations.

These broad rules help the ministries to determine whether an association is nonprofit or forprofit for tax purposes.

The status of a public utility association entitles the organization to the benefits of general interest status as well as additional tax and fiscal advantages. French associations of public utility (*associations reconnues d'utilité publique*, also called "ARUP") must, however, in addition to being active in specific general interest activities, adopt statutes that comply

with the model statutes provided by the C*onseil d'Etat*, which contain requirements and restrictions regarding internal structure, use of funds, and distribution of assets upon dissolution. That associations can be recognized as being of public utility by decree in Council of State goes back to article 10 of the Law of 1901 (see Chapter 2).

Both common and civil law definitions that focus on the functions nonprofit organizations are expected to perform have a common core: the notion that nonprofit organizations are identifiable by their financial behavior, in particular their lack of a financial profit motive or restriction of profit distributions. This is also the starting point for the economic definition.

The Economic Definition

According to the economic definition, the key feature that sets the nonprofit sector apart from the others is the revenue structure of nonprofit organizations. According to economic definitions, nonprofit institutions, or NPIs, receive the bulk of their income neither from the sale of goods and services in the market, nor through taxation, but from the voluntary dues and contributions of their members and supporters. Importantly, this basis for defining NPIs, which focuses on the common characteristic that they do not pursue profits, is a central feature of most definitions of "the nonprofit sector" in legal and social science literature, which we review in Chapter 5.

According to the economic definition, the key feature that sets the nonprofit sector apart from the others is the revenue structure of nonprofit organizations.

The economic definition is laid down in the System of National Accounts (SNA) (European Communities et al., 2009), the international economic standard used for economic reporting and forecasting purposes of many kinds. Within this structure, the 2008 SNA distinguishes nonprofit institutions (NPIs) from other institutional units principally in terms of what happens to any profit that they might generate. In particular:

> Nonprofit institutions are legal or social entities created for the purpose of producing goods and services but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control or finance them. In practice their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units.
>
> (European Communities et al., 2009, para. 4.83)

National accounting groups similar kinds of economic entities into institutional sectors. The 2008 SNA states that "corporations, NPIs, government units and households are intrinsically different from each other in that their economic objectives, functions and behavior are different" (European Communities et al., 2009, para. 4.16).

However, only a small subset of all nonprofit organizations, i.e., those that receive most of their income and support from households in the form of charitable contributions, are ultimately found in the NPI sector. Those nonprofit organizations that receive significant shares of their income from fees and service charges are, under SNA guidelines, typically merged into the corporate sector, while those receiving a large portion of their income from government grants and contracts are allocated to the government sector. In this sense, the economic definition recognizes a large number of nonprofit organizations, but a more limited nonprofit "sector." Fortunately, the 2008 revision to the SNA (Tice, 2010) now explicitly recommends that nonprofit organization subsectors be defined within the corporations and government sectors so that they may be pulled out. Where these recommendations are followed, statistical offices can then produce satellite accounts for the sector, and these seemingly minor changes allow for more comprehensive analysis of the full range of NPIs regardless of what sector they are allocated to based on the economic definition.

Thus, from an economic perspective, nonprofits are primarily defined by their revenue structure. As institutions barred from being a source of income to their owners or equivalents, they neither rely on sales and fees from market transactions nor do they depend on tax revenue. Within the logical framework of the SNA, they are defined as residual economic entities, i.e., as organizations that are left over once market firms, public agencies, and households have been identified.

The Structural-Operational Definition

The structural-operational definition emphasizes not the purpose of the organization or its sources of income but its basic structure and operation. According to this definition, which was first introduced by Salamon and Anheier (1997), an organization is defined as a nonprofit entity if it has the following five characteristics:

1. **Organized, i.e., institutionalized to some extent**
   The critical point here is not necessarily that an organization is formally incorporated or has a charter, although this is a clear signal. Other signs of institutional reality include having rules of procedures, regular meetings, membership, and other aspects that distinguish the group's collective activity from ad hoc or temporary gatherings.

   This criterion also requires meaningful organizational boundaries, e.g., some recognized difference between members and nonmembers; awareness of the distinction between organizational and individual responsibilities; and an understanding of the difference between the organization and other entities such as family, friendship circles, and loose networks among individuals.
2. **Private, i.e., institutionally separate from government**
   Nonprofit organizations are not part of the apparatus of government. They are "nongovernmental" in the sense of being structurally separate from the instrumentalities of government. What is important from the point of view of this criterion is that the organization has an institutional identity separate from that of the state, that it is not an instrumentality of any unit of government whether national or local, and that it

therefore does not exercise governmental authority. It may, however, receive various sorts of revenue or other support from government agencies or have government representatives present on its board or committees.

While such separate institutional identity is relatively easy to identify in most cases, there are numerous borderline cases. The most obvious of these are the many "QUANGOS," or quasi-nongovernmental organizations, found in a number of European countries as well as elsewhere. The critical point in all such borderline cases is the extent to which such organizations operate as extensions of government exercising governmental authority, albeit through separate institutional structures.

3. **Self-governing, i.e., equipped to control their own activities**
   Some organizations that are private and nongovernmental may nevertheless be so tightly controlled either by governmental agencies or private businesses that they essentially function as parts of these other institutions even though they are structurally separate. To eliminate such situations, Salamon and Anheier (1997) add the further criterion that nonprofit organizations must be self-governing. To meet this criterion, organizations must be in a position to control their own activities to a significant extent. This implies that they must have their own internal governance procedures and enjoy a meaningful degree of autonomy.

   Under this criterion, the presence of government or corporate representatives on the boards of nonprofit organizations does not disqualify the organizations from being nonprofit. The question is the degree of authority these representatives wield and the degree of autonomy the organization retains.
4. **Non-profit-distributing, i.e., not returning profits generated to their owners or directors**
   According to this criterion, nonprofits ensure that whatever surplus revenue might be generated is devoted to their mission and activities and is not distributed to their owners, members, founders, or governing board. The fundamental question is: how does the organization handle profits? If profits are not distributed as income, what happens to them? If they are reinvested or otherwise applied to the stated purpose of the organization, the organization would qualify as a nonprofit institution, assuming the purpose is charitable or in the public benefit. Thus, nonprofit organizations, unlike private businesses, do not exist primarily to generate profits, either directly or indirectly, and are not primarily guided by commercial goals and considerations.
5. **Voluntary, i.e., involving some meaningful degree of voluntary participation**
   To be included within the nonprofit sector, organizations must embody the concept of voluntarism to a meaningful extent. This involves two different, but related, considerations:
   - First, the organization must engage volunteers in its operations and management, either on its board or through the use of volunteer staff and voluntary contributions. Volunteers may be involved in providing services directly by ladling food at a soup kitchen or coaching an amateur soccer team, or support the organization by serving on the organization's governing board. Furthermore, voluntary contributions must not necessarily constitute the majority of an organization's revenue. But some sort of voluntary input must be present.
   - Second, "voluntary" also carries the meaning of "non-compulsory." Organizations in which membership is required or otherwise stipulated by law would be

excluded from the nonprofit sector. For example, some professions (medical, legal) may require compulsory membership in a particular professional association; owners of small-scale industries may be required to join the local chamber of commerce; or employees may be required to join a union. In such cases, the criterion of "voluntary" would not be met, and the associations consequently excluded from the nonprofit sector. Similarly, "voluntary" implies that contributions of time (volunteering) and money (donations) as well as contributions in kind may not be required or enforced by law, or otherwise be openly coerced.

Basic Forms and Variations

Irrespective of their actual legal treatment across different constituencies and variations among and between common and civil law countries, there are three basic types of nonprofit organizations that can be found nearly everywhere: associations, corporations, and foundations. Specifically:

Associations

Voluntary associations are private, membership-based organizations in which membership is non-compulsory. This form allows individuals to become members of an organization that facilitates the pursuit of a common interest. Associations may or may not be formally registered, but like other nonprofits, the association should have identifiable boundaries to distinguish members from nonmembers, be self-governing, and noncommercial in objective and behavior. The defining governance structure of an association is the relationship between a board and the membership as such. Members form a kind of demos and elect the board which represents their interests and, in turn, is accountable to the association's members. Associations are distinct from many nonprofit organizations such as hospitals, social service agencies, or art museums that are typically formed as corporations and that may have a governing board but no broad membership base.

Voluntary associations are private, membership-based organizations in which membership is non-compulsory.

There are many different types of associations, and they differ mostly in emphasis and "at the margins," i.e., along the demarcation lines to related forms such as businesses (partnerships, cooperatives, mutual organizations, business and professional associations), compulsory organizations (craft guilds, bar associations, and, in some countries, chambers of commerce), political organizations (parties, political action committees, interest groups), and quasi-governmental institutions (mass membership organizations in autocratic societies, state churches).

Foundations

In contrast to associations, foundations are based not on membership but on an ownerless asset, held in trust and dedicated to a specific purpose. The asset can be financial or in the form of property that has monetary value. A foundation is established through the transfer of an asset from a donor to a separate entity overseen by some kind of governance structure, typically a trustee or board of trustees. The defining relation here is between the asset and those holding the asset in trust, and the key idea is to provide a protected and independent vehicle for the asset to pursue its specified objective.

The various legal systems define foundations rather differently; and registration, legal practices, and oversight regimes vary accordingly, as do the size and scope of foundation fields (Chapter 4). Despite these differences, the basic concept of a foundation shares common images: a separate, identifiable asset (the root meaning of the Latin-based *fund* or *fond*) donated to a particular purpose, usually public in nature (implying the root of charity or philanthropy). In fact, most legal systems incorporate the ancient Roman law differentiation between foundations based on some core asset (*universitas rerum*) and associations (*universitas personarum*) based on membership.

The basic concept of a foundation shares common images: a separate, identifiable asset . . . donated to a particular purpose, usually public in nature.

Working from the structural-operational definition outlined above, foundations are private assets that serve a public purpose, with five core characteristics:

1. *Not a membership-based organization*, possessing significant assets from one or more donors who intend that the resulting income, and sometimes the assets themselves, will be given away for purposes deemed "charitable";
2. *Private entity* institutionally separate from government, and "nongovernmental" in the sense of being structurally separate from public agencies;
3. *Self-governing*, equipped to control its own activities in terms of internal governance procedures and enjoying a meaningful degree of autonomy;
4. *Non-profit-distributing* by not returning profits generated by either use of assets or the conduct of commercial activities to their owners, members, trustees, or directors; and
5. *Serving a public purpose* that goes beyond a narrowly defined social group or category, such as members of a family, or a closed circle of beneficiaries. Foundations hold private assets in order to serve a public purpose or to provide a benefit as specified in tax law and other relevant regulations.

The nature of the assets can be stock and other shares in business firms, financial assets, real estate, patents, artwork, etc. There are basic categories that group the most common types of foundations according to type of activity:

- **Grant-making foundations**, i.e., endowed organizations that primarily engage in grant-making for specified purposes.
- **Operating foundations**, i.e., foundations that primarily execute their own programs and projects.
- **Corporate foundations** such as the company-related or company-sponsored foundations based on corporate assets, which vary by the closeness to the parent corporations in terms of governance and management.
- **Public foundations**, i.e., grant-making and operating foundations that pool revenue and assets from a variety of sources (individual, corporate, public) for specified communal or other purposes. This category includes both community foundations as well as fundraising foundations that largely operate without endowments.
- **Government-sponsored or government-created foundations**, i.e., foundations that are either created by public charter or enjoy high degrees of public sector support for endowment or operating expenditures.

Corporations

Whereas an association may or may not be formally registered, a nonprofit corporation is created only through the act of incorporation, whereby it becomes a legal entity enabling the organization to have legal personality and own property, enter into contracts, and conduct business. Moreover, in contrast to associations, which are structurally defined by the relationship between members and a board, a corporation is based on limited liability, which means that board members are not personally liable for the corporation's actions but only to the extent of its assets. The board is typically self-perpetuating (see Chapter 12 on governance). The key idea here is to form an organization that allows for the pursuit of an objective while limiting the liability of the individuals involved in it.

Nonprofit hospitals, social service providers, museums, schools, and universities typically are established as nonprofit corporations. As is the case for associations, there are many variations of the liability model. Some corporations do in fact have members and allow some membership input, and others apportion voting rights according to board member contributions to base capital. While the corporate form has long dominated in the US, liability concerns have driven the conversion of many assets held by European associations into corporations or companies with limited liability in recent decades. This ranged from major healthcare institutions, like religiously affiliated hospitals or nursing homes, to professional soccer teams. The association that had served as holding entity before typically retains full or partial ownership, but liability shifts from members to the corporation.

Special Cases

Beyond these three basic forms there are some variations and special cases. Cooperatives and mutuals as economic associations and self-help and similar grassroots associations represent variations of the voluntary association form. These types share some, if not most, of the defining features of a nonprofit organization, and constitute a gray area between

the nonprofit sector and the forprofit sector. In some countries, they are considered legally to be nonprofits; in others, not. However, they are often included in the concept of social economy, discussed in greater depth later in the chapter. Among these:

- **Cooperatives or cooperative societies** are organizations formed freely by individuals to pursue the economic interests of their members. The basic principles of cooperatives include (i) democratic control, i.e., one-person, one-vote; (ii) shared identity, i.e., members are both owners and customers; and (iii) orientation to provide services to members "at cost." While the SNA treats most cooperatives as part of the corporate sector, and while economic theory views cooperatives as businesses among independent producers or purchasers interested in reaching a more profitable market position (e.g., the Land o' Lakes dairy corporation), the term cooperative can also carry a slightly different connotation, in particular among low-income groups and in developing countries more generally. Here, some cooperatives may operate as "grassroots organizations," whose primary aim is less the generation and distribution of actual profit for members than the struggle for members' subsistence and the improvement of basic services in the community to which the members belong.
- **Mutual societies** are, like cooperatives, organized by individuals seeking to improve their economic situation through collective activity. Mutual societies differ from cooperatives in that they are mechanisms for sharing risk, either personal or property, through periodic contributions to a common fund. Examples are retirement, sickness, and burial funds, or savings and loan associations. Ideally, mutual societies also hold to the patron-owner principle, whereby depositors formally control their operations.
- **Self-help groups** are similar to both cooperatives and mutual societies in that individuals join to accomplish goals of mutual support that would be unattainable on an individual level. They differ from both, however, in that they are not principally engaged in commercial activities. Many self-help groups are informal, and some develop into more formal organizations over time.

Special Characteristics

Irrespective of their form, nonprofit organizations typically show a combination of three characteristics:

First, most nonprofits are based on values and have a distinct normative foundation. These values can be religious, political, humanitarian, moral, and even highly esoteric. The realization of these values is the *raison d'être* of nonprofits. These values can be deeply embedded in the organization, and their role is complex. As seen in Chapter 9 on organizational behavior, Chapter 10 on management, and Chapter 13 on human resources, from a management perspective, values can be enabling or restraining, protecting or stifling, leading or misleading, as well as invigorating or distracting.

Second, to a greater extent than business firms and public agencies, nonprofits have and are subject to the presence and influence of multiple stakeholders (see Chapter 10 and Chapter 12 on governance). These include trustees, staff, volunteers, users, clients, members, public and private funders, and regulatory agencies, among many others. These

stakeholders can have very different expectations of nonprofit operations and performance that reflect their respective normative foundations. As a result, many nonprofits become inherently political organizations.

Finally, managing nonprofits means managing multiple revenue sources—from market or quasi-market income to membership fees and sales, from various forms of transfers from and contracts with government to different kinds of monetary and in-kind donations, private funders, etc. (see Chapter 11 on financing). At the same time, price mechanisms, the best indicators of performance, are absent, which means that nonprofits manage multiple revenue streams under performance uncertainty.

With the resulting managerial and governance complexities, nonprofits are fundamentally motivated by solidarity based on some kind of normative value base rather than purposive or material motivations (Etzioni, 1975). The key task of the nonprofit manager is to maintain their organization's own distinguishing characteristics in order to protect the value-based core of nonprofits from getting crowded out by often predominant political considerations and economic necessities.

Which Definition Is the Right One?

Definitions do not exist in the abstract. They serve specific purposes and objectives. Because social scientists, practitioners, and policy-makers serve different purposes when defining nonprofit organizations, and because they are likely to have different objectives in mind, the complex terminology in the field should not surprise us (Anheier et al., 2020). At the beginning of this chapter, we stated that definitions are neither true nor false, and we should judge them by their usefulness in describing a part of reality of interest to us. Specifically, we ask: does the definition facilitate communication, generate insights, and lead to better understanding?

Definitions do not exist in the abstract. They serve specific purposes and objectives.

Against this background, the legal and functional definitions of what constitutes a nonprofit organization may well be useful in the context of a given country or legal system, but it would make little sense to apply IRS definitions of 501(c)(3) organizations to countries like Russia or Brazil that see themselves in a different legal tradition. Working with legal and functional approaches seems therefore best for domestic rather than comparative, international purposes.

The economic definition of a nonprofit organization, as suggested by the UN System of National Accounts, and as proposed by most economic theorists in the field, provides a good platform for the microeconomic approaches we review in Chapter 5. It is a highly focused definition based on financial behavior, and therefore, it necessarily leaves aside characteristics others might find important for their purposes. The structural-operational definition is best suited for comparative work in the field, in particular cross-national and cross-sector comparisons.

While several definitions of what constitutes nonprofit organizations may exist side by side in the field of nonprofit studies, legal definitions will continue to be relevant at the national level and serve as key elements in policy debates. For international and comparative purposes, however, the blurring borderlines between nonprofits and the state, market, and civil society will challenge efforts to clearly segregate the conceptual core of the nonprofit sector and the growing numbers of hybrid forms overlapping sector boundaries (Anheier et al., 2020).

Classification

Definition and classification are closely related tasks. Whereas defining specifies what entities or phenomena have in common, and on that basis assigns them to a group under a particular concept, classification spells out the dimensions on which they differ. Given the diversity of nonprofit organizations and their governance, purposes, and activities, knowing what they have in common and knowing how they are different are equally important.

Given the diversity of nonprofit organizations … knowing what they have in common and knowing how they are different are equally important.

The task of classification is central to economic analysis and reporting. Therefore, parallel to the process of better defining what constitutes nonprofit organizations and how they are different from other types of organizations, researchers have developed classification schemes for the nonprofit field to help group nonprofit activities, beneficiaries, and other aspects. In the US, the National Taxonomy of Exempt Entities (NTEE) is widely used to classify nonprofit organizations by major activities. The NTEE is matched by a classification of nonprofit programs that describes how activities are implemented and achieved, and a classification of nonprofit beneficiaries. The various classifications as well as the methodological and technical descriptions are available on the website of the Urban Institute's National Center for Charitable Statistics (https://nccs.urban.org/project/national-taxonomy-exempt-entities-ntee-codes).

At the international level and for comparative purposes, the International Classification of Nonprofit Organizations (ICNPO) was developed through a collaborative process involving the team of scholars working on the Johns Hopkins Comparative Nonprofit Sector Project (Salamon & Anheier, 1997). The system took shape by beginning with the International Standard Industrial Classification (ISIC) system developed by the United Nations and elaborating on it as needed to capture most succinctly the reality of the nonprofit sector in the different countries participating in the project. The ICNPO was first adopted within the United Nations *Handbook on Nonprofit Institutions* (United Nations Statistics Division, 2003), and an updated International Classification of Non-Profit and Third Sector Organizations was developed with minor changes for the UN 2018 Handbook (Einarsson & Wijkström, 2019). Table 3.1 shows a summary of the major groups and subgroups of the ICNPO.

TABLE 3.1 The International Classification of Nonprofit Organizations (ICNPO)

GROUP 1: CULTURE AND RECREATION
1 100 Culture and Arts
1 200 Sports
1 300 Other Recreation

GROUP 2: EDUCATION AND RESEARCH
2 100 Primary and Secondary Education
2 200 Higher Education
2 300 Other Education
2 400 Research

GROUP 3: HEALTH
3 100 Hospitals and Rehabilitation
3 200 Nursing Homes
3 300 Mental Health and Crisis Intervention
3 400 Other Health Services

GROUP 4: SOCIAL SERVICES
4 100 Social Services
4 200 Emergency and Relief
4 300 Income Support and Maintenance

GROUP 5: ENVIRONMENT
5 100 Environment
5 200 Animal Protection

GROUP 6: DEVELOPMENT AND HOUSING
6 100 Economic, Social and Community Development
6 200 Housing
6 300 Employment and Training

GROUP 7: LAW, ADVOCACY AND POLITICS
7 100 Civic and Advocacy Organizations
7 200 Law and Legal Services
7 300 Political Organizations

GROUP 8: PHILANTHROPIC INTERMEDIARIES AND VOLUNTARISM PROMOTION

GROUP 9: INTERNATIONAL

GROUP 10: RELIGION

GROUP 11: BUSINESS AND PROFESSIONAL ASSOCIATIONS, UNIONS

GROUP 12: [NOT ELSEWHERE CLASSIFIED]

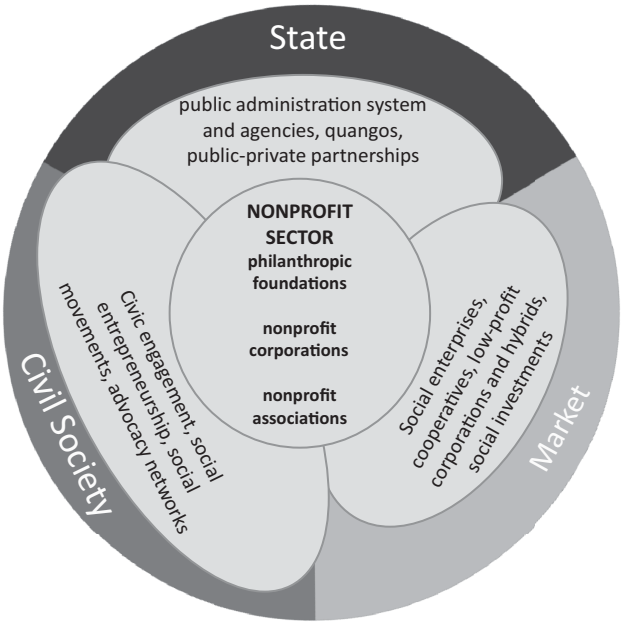


FIGURE 3.1 Institutional embeddedness of nonprofits

Source: Adapted from Anheier et al., 2020.

CONCEPTS RELATED TO THE NONPROFIT SECTOR

As Figure 3.1 illustrates, the various nonprofit forms do not exist in isolation from the three institutional complexes of state, market, and civil society. And as seen in Chapter 2, the nonprofit sector emerged over time in ways that involved complex and conflictual interactions with other institutions. In many cases, it created overlaps with them: markets with social enterprises or cooperatives; the state with quangos and public–private partnerships; and civil society with philanthropy, social movements, and forms of civic engagement. In other words, it is useful to think about the different nonprofit forms and their institutional embeddedness. We now turn to various concepts close to the nonprofit sector that illustrate the embeddedness of nonprofit organizations and help contribute to our understanding of the nonprofit sector.

Civil Society

The term civil society has a long intellectual history, reaching back to the Enlightenment period in eighteenth-century Europe. It played an important role in intellectual debates about the role of the state and its citizens until the early twentieth century, but was then caught in the ideological battles of the times between authoritarianism and liberalism, fell into disuse, and seemed relegated to the history of ideas with little contemporary relevance. In many ways, the term civil society suffered from the same intellectual neglect

as the voluntary or third sector, largely as a consequence of dominant "state vs. market" thinking in the social sciences as well as in the world of politics.

In many ways, the term civil society suffered from the same intellectual neglect as the voluntary or third sector.

The term civil society was rediscovered in the 1980s among Eastern European and Latin American intellectuals and civil rights activists, who were looking for an alternative public sphere outside that of a dominating, autocratic state. The basic insight of these Eastern European and Latin American intellectuals was that society needs "space" for citizens to engage with each other, and that this space or sphere should be respected and not controlled by any state. The term brought forward the idea that society is more than government, markets or the economy, and individuals and their families. There had to be society—a civil society—where citizens, under the rule of law but otherwise self-organizing and self-directed, could come together to pursue their interests and values (Keane, 1998, 2020).

The term became a successful shorthand for the broader context for civic actions for the common good and values such as tolerance, respect for others, and philanthropy. It also became seen as the context in which nonprofit organizations operate and in which organized citizen interests are expressed and sometimes clash with each other. Above all, the term became increasingly used in the social sciences and in political discourse alike, and definitions multiplied.

[Civil society] became a shorthand for the broader context for civic actions for the common good and values such as tolerance, respect for others, and philanthropy.

Like in the nonprofit field more generally, many different definitions of civil society exist, and there is little agreement on its precise meaning, though much overlap exists among core conceptual components. While civil society is a somewhat contested concept, definitions typically vary in the emphasis they put on some characteristics of civil society over others: some definitions primarily focus on aspects of state power, politics, and individual freedom, and others more on economic functions and notions of social capital and cohesion. Nonetheless, most analysts would probably agree with the statement that modern civil society is the sum of institutions, organizations, and individuals in which people associate voluntarily to advance common interests other than pure economic or political gain.

Modern civil society is the sum of institutions, organizations, and individuals in which people associate voluntarily to advance common interests other than pure economic or political gain.

As in the case of nonprofit organizations, some definitions, like Gellner's (1994), are akin to what we called functional definitions and see civil society as a countervailing force keeping the forces of market and state in check: "That set of nongovernmental institutions, which is strong enough to counterbalance the state, and, whilst not preventing the state from fulfilling its role of keeper of peace and arbitrator between major interests, can, nevertheless, prevent the state from dominating and atomising the rest of society" (Gellner, 1994, p. 5). Similarly Keane (2009, p. 461) defines civil society as a "complex and dynamic ensemble of legally protected nongovernmental institutions that tend to be nonviolent, self-organising, self-reflexive, and permanently in tension, both with each other and with the governmental institutions that 'frame', constrict and enable their activities." By contrast, Anheier, Glasius, and Kaldor (2001) propose an abstract definition similar to the structural-operational definition of nonprofit organizations, to facilitate cross-national comparisons: "a sphere of ideas, values, institutions, organizations, networks, and individuals located between the family, the state and the market."

Civil society is primarily about the role of both the state and the market relative to that of citizens and the society they constitute. The intellectual history of the term is closely intertwined with the notion of citizenship, the limits of state power, and the foundation as well as the regulation of market economies. The prevailing modern view sees civil society as a sphere located between state and market—a buffer zone strong enough to keep both state and market in check, thereby preventing each from becoming too powerful and dominating, as suggested in Gellner's definition above. According to that view, civil society is not a singular, monolithic, separate entity, but a sphere constituted in relation to both state and market, and indeed permeating both.

Civil society is self-organization of society outside the stricter realms of state power and market interests. For Habermas (1991), civil society is made up of more or less spontaneously created associations, organizations, and movements, which find, take up, condense, and amplify the resonance of social problems in private life, and pass it on to the political realm or public sphere. Dahrendorf (1991) sees the concept of civil society as part of a classical liberal tradition and as characterized by the existence of autonomous organizations that are neither state-run nor otherwise directed from the center political power.

As a concept, civil society is essentially an intellectual product of eighteenth-century Europe, in which citizens sought to define their place in society independent of the aristocratic state at a time when the certainty of a status-based social order began to suffer irreversible decline. The early theorists of civil society welcomed these changes. For Adam Smith, trade and commerce among private citizens created not only wealth but also invisible connections among people, the bonds of trust and social capital in today's terminology. Others like Locke and de Tocqueville saw civil society less in relation to the market but more in political terms and emphasized the importance of democratic association in everyday life as a base of a functioning polity. Hegel sounded a more cautionary note about the self-organizing and self-regulatory capacity of civil society and emphasized the need of the state to regulate society. For Hegel, state and civil society depend on each other, yet their relation is full of tensions and requires a complicated balancing act. The role of the state relative to civil society was also emphasized in the writings of Montesquieu, von Stein, and other thinkers, who saw the rule of law as the essence of state–society and society–market relations.

From the twentieth century onward, civil society became associated with notions of civility (Elias, 1998), popular participation and civic mindedness (Putnam, 2000), the public sphere (Habermas, 1991), culture (Gramsci, 1971), community in the sense of communitarianism (Etzioni, 1993), and citizenship (Anderson, 2020). The various concepts and approaches, many of them discussed in Chapter 7, emphasize different aspects or elements of civil society: values and norms like tolerance in the case of civility; the role of the media and the intellectual; the connections among people and the trust they have in each other; the moral dimensions communities create and need; and the extent to which people constitute a common public space through participation and civic engagement.

The complexity of civil society and the many relations and intersections it has with the economy, the state, and institutions like the family, the media, or culture make it not only possible but almost necessary to examine the concept from different perspectives and orientations. Some analysts adopt an abstract, systemic view and see civil society as a macro-sociological attribute of societies, particularly in the way state and society relate to each other. Others take on a more individualistic orientation and emphasize the notions of individual agency, citizenship, values, and participation, using econometric and social network approaches in analyzing civil society. There is also an institutional approach to studying civil society by looking at the size, scope, and structure of organizations and associations and the functions they perform (as in Chapter 4, for example). Note that the different perspectives of civil society are not necessarily contradictory, nor are the various approaches to understand it necessarily rival; on the contrary, they are often complementary as they differ in emphasis, explanatory focus, and policy implications rather than in principle.

Philanthropy

Philanthropy is a worldwide phenomenon as cultures almost everywhere exhibit traditional practices that can be described as philanthropic in nature. But philanthropy has also become a transnational and global force, as mostly Western philanthropists and their philanthropic foundations have directed some of their largesse to other parts of the world. In the early twentieth century, the Rockefeller philanthropies began to work in China, and the Ford Foundation played an important role internationally from the mid-twentieth century on. New super-philanthropies emerged around the turn of the millennium, including the ones created by Bill Gates for global health and development (through the Bill and Melinda Gates Foundation), George Soros for democratic development and human rights (through the Open Society Institute), and Ted Turner for a range of global issues (through the United Nations Foundation).

Derived from the Greek word meaning "love of humankind," the term philanthropy at the most general level describes private acts of benevolence toward other people or actions for the benefit of the common good. The term is frequently used loosely to describe a wide range of such activities, and sometimes its meaning overlaps with related terms such as charity and voluntarism. In common parlance, charity generally refers more to almsgiving and other acts primarily directed at helping the poor. Although this is also part and parcel of philanthropy, the latter also includes support

for public benefit purposes that may not necessarily target or serve the poor. Providing funding for research or high culture, for example, would thus be philanthropic but not necessarily charitable. Another distinction between the two terms emerged at the dawn of the US grant-making foundation in the early twentieth century: whereas prior foundations had mostly concentrated on ameliorating social ills (a charitable focus), the earliest of the modern foundations—the Russell Sage Foundation established in 1909, the Carnegie Corporation in 1911, and the Rockefeller Foundation in 1913—adopted a philanthropic approach by directing their efforts at examining the root causes of these social ills in hopes of finding structural solutions that might lead to the social problem's eradication and thus eliminate the need for continuing amelioration (Karl & Katz, 1981, 1987).

The term philanthropy at the most general level describes private acts of benevolence toward other people or actions for the benefit of the common good.

Another use of the term philanthropy is to refer to all forms of private financial support for public benefit purposes by individuals or private institutions, such as foundations and corporations (Sulek, 2010; see Chapter 6). Distinctive here is that such private gifts and grants are not based on a direct quid pro quo between donor and donee (which differentiates philanthropy from fees for services and other commercial income of nonprofit organizations) and that philanthropy is voluntarily given rather than coerced (as is the case with taxes). With the voluntary nature of the philanthropic gift, the term also intersects with voluntarism—the willingness to become active for the common good. *Voluntarism* typically refers to volunteering, the provision of free, uncompensated labor on behalf of public benefit purposes, which in turn is considered an integral part of civil society development and social capital generation (see Chapter 7 for approaches to understanding volunteering). Efforts to quantify voluntarism by attaching a monetary value to the volunteered time have shown that the value of volunteered labor is often substantial even compared to financial donations (see Chapter 4).

Social Movements

Social movements provide a broader context embedding the nonprofit sector within civil society. As della Porta (2020) argues, research traditions have largely kept social movement, civil society, and nonprofit research apart. Each concept emphasizes different aspects, but they interrelate closely and build on each other. Social movements are loosely structured, informal groups with no legal status that over time become more institutionalized and, in order to be able to absorb financial support limited to formal entities, may eventually splinter into nonprofit organizations in a process often referred to as NGOization. Social movements begin first with private concerns and private action. As momentum builds, the movement may evolve into formal organizations and incorporate hundreds or thousands of individuals and organizations. Ultimately, successful social movements may influence government policy by translating private concerns into public issues.

Well-known examples of social movements in the US include the women's movement, the civil rights movement, the environmental movement, and the more recent social justice movement, which each spawned hundreds of formal legal entities such as advocacy organizations, e.g., the National Organization for Women (NOW), the National Association for the Advancement of Colored People (NAACP), Greenpeace, and Black Lives Matter (BLM), as well as direct service organizations such as legal aid offices, domestic violence shelters, rape crisis centers, and nonprofit nature reserves. In short, social movements are often the impetus for the creation of nonprofits, from advocacy organizations that directly lobby the government and seek to influence public policy, to service organizations that provide counseling and assistance. Smith and Grønbjerg (2006) state that social movements provide the organizational and political mechanism for translating private concerns into public issues. This translation process makes social movement perspectives so critical for understanding policy change as well as government–nonprofit relations in general.

Social movements provide the organizational and political mechanism for translating private concerns into public issues.

The government–nonprofit relationship (Chapter 16), as viewed through a social movement perspective, can be described as a cycle: private actions are translated into public concerns via formal entities evolved from the initial social movement; these formal legal entities also influence government policy and government responds either by directly addressing the issue, or—a more frequent response—funding nonprofits that in turn address these public concerns. But at that point nonprofit organizations must adjust their behavior and programs to reflect public policy and government priorities.

Current developments in public service delivery, however, suggest the possibility of a reversed trend as well. The integration of nonprofits in service delivery collaborations, the politicization of social issues, and political polarization may force them to adopt strategies and tactics commonly used by social movement activists, such as issue coordination across networks and direct political action as opposed to traditional reliance on insider advocacy tactics (see Chapter 17 for more on political activity). Della Porta (2020) thus suggests that a growing social movementization, or SMOization, of nonprofits is underway that may bring the sector back to its civil society roots.

Social Capital

Whereas civil society provides the wider context for the nonprofit sector and social movements, the concept of social capital speaks to its micro-sociological foundation at the individual level. According to this line of thinking, economic growth and democratic government depend critically on the presence of "social capital," on the existence of bonds of trust and norms of reciprocity that can facilitate social interaction (Coleman, 1990). Without such norms, contracts cannot be enforced or compromises sustained. Hence markets and democratic institutions cannot easily develop or flourish.

The concept of social capital speaks to its micro-sociological foundation at the individual level.

The notion of trust embedded in interpersonal and institutional relations has become one of the most topical issues in current social science, and, as shown in Chapters 5 and 7, forms a critical component in theories about nonprofit organizations and civic engagement, respectively. In many Western countries, this higher profile may stem, in part, from the seeming erosion of people's trust in institutions such as government, the media, churches, or the family, frequently documented in public opinion polls in recent years. For example, general interpersonal trust levels in both the US and Britain were lower in the 1990s than they were in the 1980s, as was confidence in government, the press, and large corporations (Pharr & Putnam, 2000; Putnam, 2002; Inglehart, 1999). These trends had not reversed significantly at the start of the 2020s (Independent Sector, 2021). What is more, the experience of widespread popular distrust in the political and economic systems of Eastern and Central Europe, and their ultimate breakdown in the late 1980s, may have contributed to a general sentiment that trust is a fragile element of modern societies (Beck, 1992). Although we could add many more examples—from political scandals to fraudulent business deals and professional malpractice—contemporary "cultural diagnoses" suggest that trust is a problematic element of the modern *zeitgeist* (Habermas, 1985).

Contemporary "cultural diagnoses" suggest that trust is a problematic element of the modern **zeitgeist**.

Three widely cited publications of the 1990s and 2000s have further increased the attention social scientists pay to trust. In contrast to the problematic notion of trust in cultural discourse, these books try to show how the vibrancy and developmental potential of society is rooted in everyday mechanisms that generate and maintain trust. In *Making Democracy Work*, Putnam (1993) suggests that dense networks of voluntary associations are the main explanation for northern Italy's economic progress over the country's southern parts. In *Bowling Alone*, Putnam (2000) looks at participation in voluntary associations in the United States and argues that a dramatic decline in both membership rates and other forms of civil engagement led to lower levels of trust in society and, consequently, to general increases in social ills such as crime. Fukuyama (1995) suggests that differences in economic success among the US, Germany, and Japan are predicated on reservoirs of "sociability" and social trust, which, in turn, depend on some kind of "associational infrastructure."

Such formulations tend to be suggestive of a significant relationship between voluntary associations and trust—be it in Putnam's analysis of Italy, his diagnosis of US culture, Fukuyama's study of major industrial economies, or other work on social capital (Dasgupta

& Serageldin, 2000; Halpern, 1999)—although the issue has not been empirically settled (van Ingen & Bekkers, 2015). According to this thinking, voluntary associations form part of the civic infrastructure of society that makes the generation of trust possible, and that at least makes it easier for trust relations and trusting attitudes to develop and to reinforce themselves within the population. A report by the American Academy of Arts and Sciences (2020) calls for massive investments in civic infrastructure as part of renewal of constitutional democracy.

More generally, research has examined social capital as a resource from two perspectives: as an individual resource with aggregate effects at the group or community level and as an emerging structural phenomenon. The individual perspective on social capital suggests that ties of trust and social cohesion are beneficial to members and groups alike (Coleman, 1988). The argument Coleman made is that "connectivity and trust" among members of a given group or society more generally increase aspects associated with cohesive groups: lower delinquency, more collective action, and better enforcement of norms and values. Putnam (1993, 2000) applied this kind of thinking to economic development and social inclusion and linked it to the realm of civil society. This is related to what we called the neo-Tocquevillian perspective in which norms of reciprocity, citizenship, and trust are embodied in networks of civic associations.

Ties of trust and social cohesion are beneficial to members and groups alike.

By contrast, Burt (1992) has argued that the absence rather than the presence of ties among individuals accounts for the true value of social capital at the individual level. The value of social capital is therefore in its unequal distribution, such that some people in a society have more than others. The uneven distribution of social capital, measured as the number and reach of social ties, creates "structural holes" between unconnected individuals. These gaps in social ties allow the *tertius gaudens*, i.e., the person who benefits, to identify the "structural hole" and to make the connection among otherwise disconnected individual actors. This "gap-filling" social capital becomes the bridging material of modern society and a key target for social entrepreneurs and voluntary associations as they try to bridge different groups of society.

In this kind of structural analysis, social capital is a scarce and valued resource, and basically a private good, not the quasi-public good with many positive externalities as in Coleman's and Putnam's thinking. However, while Burt (1992, 2000; see also Padgett & Ansell, 1993; Podolny & Baron, 1997) examines the structural effect of variations in the stock of social capital in specific networks, Bourdieu (1986) takes a different, though complementary route and thereby lays the foundation for an alternative to the Coleman/Putnam model. He links the unequal dispersion of social capital to other forms of inequalities in modern society. In other words, the distribution of social capital does not exist in isolation of the larger society: the network configurations that create structural holes and opportunities for social entrepreneurs endowed with scarce social capital exist in a broader economic and cultural context.

Indeed, Bourdieu operates with a much broader concept of capital. It is broader than the monetary notion of capital in economics, and also broader than the concept of social capital in Coleman's and even Burt's sense. In Bourdieu's thinking, capital becomes a generalized "resource" that can assume monetary and nonmonetary as well as tangible and intangible forms. Bourdieu (1986, p. 243) distinguishes between three major types of capital—economic, cultural, and social—that differ in liquidity, convertibility, and loss potential. These differences entail different scenarios for actors in social fields. High volumes of economic capital, yet lower volumes of cultural and social capital, characterize some positions. *Nouveau riches*, for example, are typically well-endowed with economic capital relative to a paucity of cultural capital. Others will rank high in terms of cultural capital, yet somewhat lower in other forms. International business consultants rely on high degrees of social capital, relative to cultural and economic capital, and intellectuals typically accumulate higher amounts of cultural and social capital than economic assets.

A preliminary insight to be gained from looking at different perspectives on social capital suggests that the Coleman and Putnam approaches see social capital closely related to a sense of community, whereas Burt and Bourdieu would argue that social capital is part of a wider system of social inequality and linked to stratification and status competition.

Putnam established a useful distinction between two types of social capital that differ in their structural implication for society. Bonding capital, also called exclusive social capital, is the sociological super-glue for in-group cohesion and solidarity. Bridging capital or inclusive social capital refers to outward-looking networks across different groups, class and political cleavages. A function of voluntary associations is to serve both as a cohesive device for members with similar interests and as an inclusive mechanism by being open to different segments and groups of the community.

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Social Investment

Social investments are private contributions to public benefit. Two aspects are central here. First, the term makes the implicit distinction that these contributions are investments rather than current expenditures intended for consumptive purposes. In this respect, the notion of social investment is identical to what investments are in the conventional economic sense: they are expenditures for the purchase by an investor or the provision by a donor of a financial product or other item of value with an expectation of favorable future returns; or they are expenditures for the purchase by a producer or the provision by a donor of a physical good, service, or resource with a use value beyond that current fiscal year.

Social investments are private contributions to public benefit.

Second, the statement also emphasizes the public benefit aspect of such investments: first, in the sense that such private actions benefit a wider community, however defined, and of which the investor may or may not be a part; and second, in the sense that not only monetary but also contributions in kind count as investments. The latter would include voluntary work (e.g., investing time and knowledge to teach students, transferring skills), civic engagement (e.g., investing time, land, materials, and skills for developing a community park), even generating social capital (e.g., investing time and existing social relations for building advocacy networks or citizen action groups). Thus, the major difference between social and conventional economic investments is that they are to yield intended returns beyond those benefiting the investor or donor and that both investments and expected yields involve more than monetary transactions and transfers as well as pecuniary expectations generally.

In recent years, the term social investment has gained currency over alternatives for several reasons. Among them are (Anheier et al., 2006):

- The desire to have a positive definition rather than a negative one on the range of private institutions, organizations, and actions that provide public benefits: despite their wide use and utility, terms like nonprofit or nongovernmental nonetheless suggest what they are not rather than the core of their *raison d'être*; in the same vein, the term seeks to signal its substantive meaning more clearly than technical terms such as third sector.
- The need for a term that includes the individual level (e.g., civic engagement, volunteering, donations), the organization level (e.g., nonprofit organizations, voluntary associations, social movements), and the institutional level (e.g., philanthropy, charity).
- The need to have a modern umbrella term for activities that seek to produce both financial and social value and returns in situations where concepts like charity or philanthropy may be too limiting.
- The need for a neutral term to enhance comparisons across countries and fields, as existing concepts such as tax-exempt entities (US), charity and voluntary sector (United Kingdom), public benefit sector (Germany), social economy (France), and Japanese or Italian conceptions are too closely tied to particular national experiences and circumstances.
- The motivation to link the current research, teaching, and policy agenda on nonprofits, philanthropy, and civic engagement to mainstream concerns of academia, in particular in the social sciences, legal studies, and management.
- The aspiration to shift the debate about public benefit and responsibilities from an emphasis on fiscal expenditures and revenues to social investments, asset creation, societal problem-solving capacity, and ultimately sustainability. For example, in public policy, educational expenditures are typically classified as current costs or expenses in annual budgets, and not as investments. Similarly, allocations for the restoration of environmentally devastated areas are seen as expenditures rather than investments.

Social investment can be understood in both a narrow and a more comprehensive sense. The narrow understanding corresponds to the provision and management of capital assets to social enterprises, i.e., nonprofit organizations with business activity, cooperatives,

mutuals, and some employee-owned firms that seek to combine social and economic returns. While they might be profit-oriented, they either produce significant positive communal externalities or have a communal-distribution requirement written into their articles of incorporation. In some European countries, this notion of social investment is close to cooperative economics and the notions of social economy, *economie sociale* (France, Belgium, and Spain), or *Gemeinwirtschaft* (Germany, Austria, and Switzerland).

The narrow sense also refers to the activities of grant-making foundations and nonprofit organizations. For example, the Charity Commission in the UK offers a definition that puts social investments close to financial activities that are focused on, or part of, a particular program carried out by a charity. Accordingly, social investments are described as investments which

> may generate a financial return, but the charity's main objective in making them is to help its beneficiaries . . . Social investment is not 'investment' in the conventional sense of a financial investment. Conventional investments involve the acquisition of an asset with the sole aim of financial return which will be applied to the charity's objects. Social investments, by contrast, are made directly in pursuit of the organisation's charitable purposes. Although they can generate some financial return, the primary motivation for making them is not financial but the actual furtherance of the charity's objects.
>
> (quoted in Anheier, 2010)

The term social investment also takes into account the changing relation between market-driven investments and social (public benefit) investments. Examples are public benefit contributions based on concessionary reduction of interest rates or return on investment expectations below market rates. Rather than thinking in categories of "gifts" in public benefit contexts and "investments" in market situations, this approach suggests looking into the gradual transformation of the one into the other, as is the case in the fields of micro-finance and micro-insurance. Both started initially as philanthropic endeavors in response to market failures, but are now beginning to draw market capital.

Emerson (2002) makes a similar point for grant-making foundations when he writes that their purpose is not simply to engage in grant-making, but rather to invest in the creation of social value, i.e., a value other than monetary gains. A philanthropic investment is therefore a grant invested in a nonprofit organization with no expectation of return of principal, but expectation of social return on investment (see Chapter 11 on financing). Emerson goes on to argue that available foundation assets for supporting this process of social value creation should be part of an overall investment strategy for both core assets and philanthropic investments. In this sense, foundations maximize their social impact if input and output strategies are oriented towards creating social value.

A philanthropic investment is . . . a grant invested in a nonprofit organization with no expectation of return of principal, but expectation of social return on investment.

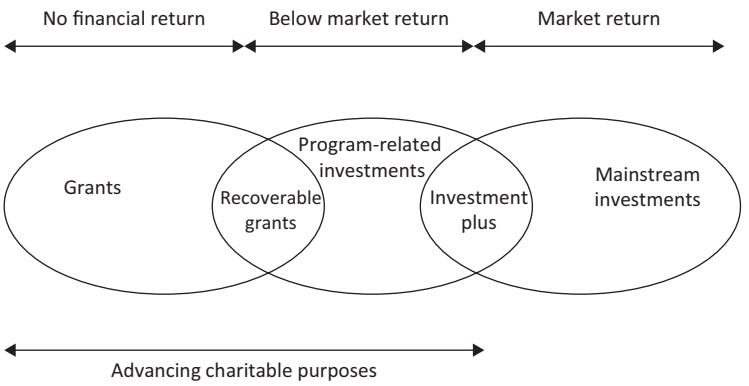


FIGURE 3.2 Investment typology

Source: Bolton 2005.

Foundations and nonprofit organizations may consider a wide range of financial investment options for creating such social value. Bolton (2005) suggested a classification scheme for investment options, as shown in Figure 3.2, that ranges from mainstream investments intended to yield some desired external effects other than shareholder returns, to program-related investments, to grants. In between are recoverable grants, which involve some financial return to the donor, albeit below market rate, and "investment plus," which allows for market-rate returns on investment and advances the charitable purpose of the organization. Bolton (2006) adds another refinement, used by individuals and corporations as well: socially responsible investments (SRIs). SRIs are capital investments made with the primary aim of producing revenue, but with screens to select appropriate investment opportunities and vehicles.

Kramer and Cooch (2006) introduce the term proactive social investments (PSIs). Such investment activities provide direct financing to create or expand enterprises that deliver social or environmental benefits in furtherance of the investor's programmatic goals.

> In economically distressed regions, any enterprise that creates jobs, increases income and wealth, or improves the standard of living can be considered socially beneficial. In mature markets, this category is typically limited to new products or services with specific social or environmental benefits, such as workforce development or solar energy installations.
>
> (Kramer & Cooch, 2006, p. 12)

Anheier et al. (2006) go beyond such a pragmatic approach and propose to define social investment using five characteristics:

- Autonomy in decision-making about risks and benefits
- Voluntary, discretionary nature of activities
- Nondistribution constraint in terms of returns on investment

- Positive externalities associated with decisions and activities
- Normative value base that links investment decisions and activities to intended outcomes

Such a more comprehensive understanding of the term sees social investment less tied to specific types of economic firms or activities but links it to a broader range of institutions generally, including individual behavior.

Social Economy

The notion of social economy has historical and contemporary relevance, both interlinked and connected. Historically, the idea of a social economy has a long tradition and two prominent founding fathers. One of them, Charles Gide, was primarily an economist and a moral philosopher who announced in 1889 the formation of a new economic school of solidarity. He argued that consumer associations are the preeminent form of cooperatives and that they can enable working people to find a better way of life with more independence and freedom. The second founding father, Léon Walras, who published in 1896 his *Studies in Social Economy*, conceptualized economies in three complementary spheres as Bidet (2010, p. 1406) pointedly describes: economy has not only a political and an applied sphere, but a social one, which describes the "realm of what is fair" and which aims at a moral appreciation of concrete economic applications. In a nutshell, Walras and his followers studied how the traditional "logic of interest" can be supplemented by a "logic of justice" that will serve to organize the distribution of wealth. In introducing social justice into the economic rationale, thinking on social economy marks a break with the classical economic approach that focused on the economic outcome but neglected the social problems resulting from the economic activity. This brings us to the contemporary relevance of social economies.

The intellectual roots are still present in modern understandings; even so, different aspects of the social economy are emphasized in different contexts. Today, the notion of social economy describes cooperatives, mutual societies, associations, and social enterprises (Borzaga et al., 2020). Social economy plays a prominent role in market-oriented activities such as agriculture credit and banking, insurance, or commerce, as well as predominantly non-market-oriented activities that have been proved socially useful but not profitable, such as the provision of health, social services, and education. The International Co-operative Alliance estimates that 12% of the world's population is involved in cooperatives, which account for 10% of employment around the world (www.ica.coop/en/cooperatives/facts-and-figures).

Today, the notion of social economy describes cooperatives, mutual societies, associations, and social enterprises.

Social economy is about activities whose ethics convey strong principles (Bidet, 2010) such as placing service to the organization's members or to the community ahead of profit; autonomous management; democratic decision-making processes; and the primacy

of people and work over capital in the distribution of revenues (Defourny, Develtere, & Fonteneau, 1999; Borzaga et al., 2020). Unlike the narrower conceptions of the nonprofit sector such as those described previously in this chapter, the social economy concept also embraces cooperatives, mutuals, and social enterprises even though these organizations may distribute their profits to the organizations' members. Unlike forprofit firms, however, the distribution is based on membership rather than contributed capital (Anheier & Salamon, 2006; see also Chapter 8).

Social Entrepreneurship

Social entrepreneurship is a relatively young concept that first appeared in the 1980s in both academia and praxis. Since the mid-1990s, it has been increasingly taken up within the nonprofit sector and by philanthropists, often in the context of the search for solutions to social problems and a need for innovation (Bornstein, 2004; Nicholls, 2006).

Entrepreneurship is an established concept in economics and management studies and is most strongly associated with the economist Joseph Schumpeter, writing in the early twentieth century. For Schumpeter, the essence of entrepreneurship is innovation, and this acts as a "gale of creative destruction" driving capitalism and economic progress and resulting in the transformation or establishment of new industries and ways of life. It is often embodied in the motives, actions, and force of personality of individual entrepreneurs. Such entrepreneurial individuals found new organizations and are rewarded for their efforts and the risks they take with financial profit, status, and personal satisfaction.

As explained in greater depth in Chapter 8, social entrepreneurship is a unique form of entrepreneurship. It is the process of creating value by combining resources in new ways to meet social needs. Social entrepreneurship involves the offering of services and products as well as the creation of new organizations (Mair & Marti, 2006).

[Social entrepreneurship] is the process of creating value by combining resources in new ways to meet social needs.

Social entrepreneurship necessarily requires (at least) one social entrepreneur. Definitions of social entrepreneurs vary from "individuals who develop economically sustainable solutions to social problems" (Tracey & Phillips, 2007, p. 264) to more critical analyses of the social entrepreneur as a person whose aim "is to make the society believe that [the person's] endeavor is to bring about a social change" (Vasakaria, 2008, p. 39). According to Schumpeter, entrepreneurs are the innovative force in capitalist economies. They are part of the "creative destruction" that drives the capitalist system: they innovate by introducing new ways of seeing and doing things, and thereby displace old ones. Social entrepreneurs are different because their focus is the creation of social value, rather than the creation of monetary or economic value for the firm, although the latter may also be part of the resulting organizational model. Whatever they do and in whatever legal form they do it, their success is measured primarily by their social impact.

Social Enterprise

As the vehicle through which social entrepreneurs pursue innovation, social enterprise is often conceptualized in two different ways (Kerlin, 2020): some scholars focus on the revenue-generating activities of nonprofits, while others consider social enterprises as distinct entities that may take nonprofit, forprofit, or mixed/hybrid legal forms but have in common the pursuit of their social missions through business activities. Business activities do not just generate income to finance mission-based activities, but directly support mission goals. So-called work integration social enterprises (WISEs), like New York's often noted Greyston Bakery, offer disenfranchised populations opportunities to gain work experience and job skills that will allow them to eventually reintegrate into the "real" labor market (Cooney et al., 2016).

With these different schools of thought, social enterprise continues to be a broad umbrella term that encompasses a significant variety of organizational models and approaches between the ideal typical donative nonprofit, on the one hand, and the strictly profit-maximizing business enterprise, on the other. Some analysts (e.g., Alter, 2007; Mitchell et al., 2008; Fruchterman, 2011) have attempted to capture this variety in the form of social enterprise or hybrid spectrum models (see Table 3.2). These models overlap to a significant degree, but generally range from commercialized nonprofits which heavily use fees-for-service and business ventures to finance their activities, over to social

TABLE 3.2 Social enterprise/hybrid spectrum models

	Donative nonprofit	*Commercial nonprofit*	*Social enterprise*	*Social business/ hybrid forms*	*CSR*	*Forprofit*
Alter (2007)	Traditional nonprofit	Nonprofit with income-generating activities	Social enterprise	Socially responsible business	Corporation practicing social responsibility	Traditional forprofit
Mitchell, Kingston, & Goodall (2008)	Charity with fundraised/ grant income	Charity with "on mission" trading/ contracting; Business generating profits for charitable spending	Social benefit enterprise	Social purpose business	Socially responsible business	Commercial enterprise
Fruchterman 2011	Nonprofit	Nonprofit with a mission-related enterprise	Hybrid	Forprofit with a social overlay		Forprofit

enterprises of the WISE type, which may also include cooperatives or mutuals belonging to the social economy, and beyond to various types of forprofit enterprises. The latter include businesses with social purposes, which include most of the newly emerging hybrid legal forms, and the corporate social responsibility activities of regular business corporations.

Hybrid Organizations

While the cooperatives and mutuals of the social economy represent traditional bridges between the pursuit of economic and social purposes, the social enterprise boom in recent years has led to a growing interest in hybridity and a proliferation of various new legal forms available to social entrepreneurs. In the US, two principal forms of hybrids have emerged, both designed as forprofit entities: the low-profit limited liability company (L3C) and the benefit corporation (and minor variations).

L3Cs took their motivation from the expectation that private grant-making foundations could be enticed to make capital investments in social enterprises adopting this legal form. In addition to making grants, US foundations have the possibility of making so-called program-related investments (PRI) for charitable purposes, which can count towards fulfilling their minimum payout requirements. Foundations may in principle provide support to forprofit entities for the explicit pursuit of charitable purposes, but are then subject to onerous expenditure accountability regulations that make doing so both risky and unappealing. The L3C was intended to provide a remedy for this issue by providing a legal construct where the pursuit of social purposes that satisfy PRI regulations takes priority over profit motivations. However, the legal soundness of the concept was questioned from the beginning, and after initial successes convincing some states to adopt the form, its proliferation soon began to fizzle (Schmidt, 2018).

The basic concept of the benefit corporation is to protect directors from shareholder suits, when the corporation sacrifices profit maximization or shareholder value creation for the pursuit of other social or environmental objectives. By requiring directors, by way of the corporate charter, to take general and specific public benefits into account when making business decisions, the fiduciary duties of corporate directors are not limited to financial objectives any more; and this allows the pursuit of social objectives without fear of recrimination. As such, the benefit corporation was intended as a specific solution to a specific fiduciary problem in corporate law. The form has however also been embraced as a potential solution to the perceived drawbacks of nonprofits because it allows the pursuit of nonprofit missions with forprofit means. Among the most commonly referenced problems nonprofits face are difficulties raising capital, the inability to remove and rededicate capital, and cumbersome restrictions on political and business activities. But like with L3Cs, the very basis of its legal concept, as well as its utility for nonprofit purposes, has been called into question (Toepler, 2018).

Beyond the US, a few other countries have experimented with new legal forms (Abramson & Billings, 2020). Italy, which also introduced a version of the American benefit corporation in 2015, created the social cooperative form in the early 1990s, a variation of traditional cooperatives that requires engagement in child or nursing care or workforce integration programs rather than a strict focus on member benefits. Since 2007 South Korea has been providing a social enterprise certification that grants tax exemptions

to qualifying forprofits, nonprofits, and cooperatives engaged in workforce integration or social service provision. In the UK, the community interest company (CIC) was introduced in 2005; CICs must pursue some kind of reasonable community benefit and involve stakeholders in their governance. Many of these new forms require an asset lock—that is, any assets in the organization must remain devoted to the purpose in case of dissolution and may not be reappropriated by members, directors, or others—but also allow some limited distribution of profits.

CONCLUSION

Though the ideas of social economy, civil society, and social movements have longer trajectories, the concepts social capital, social investment, social entrepreneurship, and social enterprise—like the nonprofit sector concept—are relatively new additions to the social science vocabulary. Together, they point to quite different aspects, reflecting different starting points and addressing different concerns.

The terms nonprofit sector, civil society, and social capital in particular describe distinct phenomena, which are nevertheless intimately connected: civil society is a macro-level concept, whereas the nonprofit sector is organizational, located at the meso-level, and social capital a micro-level phenomenon that describes individual actions and characteristics. Yet they overlap in many important ways: the nonprofit sector, with its many groups, associations, and organizations, can be understood as the infrastructure of civil society, for which social capital provides the micro-sociological foundation. Taken together, the three concepts highlight a long-neglected but crucial aspect of society: a functioning government and a functioning economy need a robust civil society to make it possible. In other words, these concepts are the pillars of an approach that tries to go beyond the state versus market perspective that dominated social science thinking and policy-making for much of the twentieth century.

The nonprofit sector, with its many groups, associations, and organizations, can be understood as the infrastructure of civil society, for which social capital provides the micro-sociological foundation.

REVIEW QUESTIONS

What are some of the major terms used to depict nonprofit organizations and philanthropic institutions?

Why do so many terms exist to describe the institutional area between the market, the state, and the family?

How are the terms nonprofit sector, civil society, and social capital related? How do they differ from each other?

How do social investment and social entrepreneurship relate?

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CHAPTER 4

Dimensions

First, this chapter presents an overview of the size, composition, and revenue structure of the nonprofit sector in the United States and other selected countries. In a second section, the chapter offers an empirical portrait of individual giving and philanthropy; and, in a third section, a profile of civic engagement in terms of volunteering, membership, and social participation. Finally, the chapter reviews international nonprofit activities, especially nongovernmental organizations.

LEARNING OBJECTIVES

Having a good understanding of the main dimensions of nonprofit activities, while important in and of itself, is relevant for theory-building, management, and policy-making alike. After reading this chapter, the reader should:

- be able to understand the major contours of the nonprofit sector in the United States and a select number of other countries;
- know how the nonprofit sector differs across countries in terms of its scale, scope, and revenue structure;
- be familiar with the dimensions of giving, philanthropy, volunteering, and civic engagement;
- be familiar with the main international dimensions of nonprofit and philanthropic activities.

This chapter is primarily about facts, and less about introducing new concepts. Nonetheless, and in view of the following chapters which address a range of theoretical issues, a number of key terms are covered in the following pages:

- Civic engagement
- Formal and informal volunteering
- Foundations (e.g., grant-making, operating, corporate)
- High net worth giving
- Individual giving
- International nongovernmental organization
- Market economies: liberal, coordinated, and emerging

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- Membership
- Nonprofit sector composition
- Nonprofit sector employment
- Nonprofit sector scale
- Nonprofit sector wages
- Public-serving versus member-serving
- Religious congregations
- Revenue types

DIMENSIONS OF THE NONPROFIT SECTOR

For a long time, the dimensions of the nonprofit sector in most countries were among the most "uncharted territories" in standard social and economic statistical reporting. While far from perfect, the data situation has improved, reflecting in part the greater policy relevance of the sector itself, which brings with it a need for more comprehensive and better data. Of course, nonprofit sector statistics remain much less developed and are much less detailed than those for business and government. In many countries, data on nonprofit activities are not systematically collected, if at all. As a result, more comprehensive information is available only for some countries. Nonetheless, it is possible to present at least partial portraits of major dimensions of nonprofit activity, even though truly comparable data for comparative purposes remain all too rare.

The dimensions of any sector or field can be measured in different ways. The system of national accounts (SNA) is the most comprehensive and widely used for measuring the main components of the economy and the relationships among production, consumption, and investments. As shown in Chapter 3, in the SNA, the category nonprofit institutions serving households represents a limited set of nonprofit organizations and is therefore not a valid source of information for the sector as a whole. Nonetheless, the SNA offers several key economic indicators such as full-time equivalent (FTE) employment, wage bill, and total expenditures.

Many dimensions of nonprofit activity are outside the SNA's scope. They relate to philanthropy and civic engagement, specifically information on donations (who gives, how much, and for what purpose), volunteering (who volunteers, how much, and for what purpose), and memberships (who is member of what type of organization). The Satellite Account on Nonprofit and Related Institutions and Volunteer Work (United Nations, 2018), introduced in Chapter 3, offers a more comprehensive portrait in these regards. However, it has so far been implemented in few countries only.

Of course, we cannot cover all countries and territories in this chapter, even if data were available. We therefore focus on certain types of countries as exemplars of larger groups. While there are many ways to classify countries, the distinction between liberal and coordinated market economies has gained much currency in the field of comparative political economy since it was introduced by Hall and Soskice (2001). They describe basic aspects of the relationship between the state and the private business sector: in

a liberal market economy, the state is less involved in the overall economy, shoulders less social responsibility, and puts a premium on competitive market arrangements. By contrast, in coordinated market economies, the state is more involved in managing the economy, spends more on social needs, especially welfare, and emphasizes cooperative relations with business. Emerging market economies are somewhere in between these two models. Despite great differences, they share some of the characteristics of developed and developing economies and can exist under democratic or autocratic forms of government.

While we focus on national economies first, we will at the end of this chapter take a look at the international dimension of the nonprofit sector. Such activities have grown significantly in recent decades, and, to a certain degree, the nonprofit sector too has become part of a general process of globalization.

LIBERAL MARKET ECONOMIES

The United States

Scale

There are different ways in which the organizational universe of nonprofit organizations in the United States can be presented. One way is to look at the tax status of organizations. In the US, as explained in Chapter 3, the Internal Revenue Service refers to nonprofits as tax-exempt entities and groups them into several categories (Table 4.1). There are over 1.5 million tax-exempt entities in the US, or roughly one per every 300 people. Nearly 1.2 million are 501(c)(3) organizations, over 80,000 (c)(4) social welfare organizations, and about 47,000 (c)(7) social and recreational clubs, to name a few.

There are over 1.5 million tax-exempt entities in the US, or roughly one per every 300 people. Nearly 1.2 million are 501(c)(3) organizations.

Salamon (1999) uses the distinction between (c)(3) and (c)(4) organizations as a starting point to show the relative weight of nonprofits that are typically public-serving, i.e., benefiting third parties other than members and supporters, versus those that are member-serving, i.e., contributing primarily to the welfare of those supporting the organization through membership fees, dues, or other contributions. In Table 4.1, of the total of tax-exempt entities registered in 2015, three-quarters are primarily public-serving and one-quarter member-serving (mostly the (c)(4) to (c)(8) categories).

The distinction between public- and member-serving nonprofit entities is one of tendency, of course, and while it conveniently summarizes a basic principle of US legal treatment of nonprofit organizations (i.e., public-serving organizations receive more beneficial tax treatment than member-serving organizations), it also opens up questions. Why are the civic leagues classified as member-serving and religious organizations as public-serving?

TABLE 4.1 Active entities on IRS Business Master File of Tax-Exempt Organizations, US, 2015

Tax code number	*Type of tax-exempt organization*	*Entities registered with the IRS*
501 (c)(l)	Corporations organized under an act of Congress	638
501 (c)(2)	Title-holding corporations for exempt organizations	4,480
501 (c)(3)	Religious, charitable, and similar organizations*	1,179,739
501 (c)(4)	Civic leagues and social welfare organizations	83,768
501 (c)(5)	Labor, agricultural, and horticulture organizations	46,348
501 (c)(6)	Business leagues, chambers of commerce, real estate boards, and trade boards	63,468
501 (c)(7)	Social and recreational clubs	47,594
501 (c)(8)	Fraternal beneficiary societies and associations	45,898
501 (c)(9)	Voluntary employee-beneficiary associations	6,426
501 (c)(l0)	Domestic fraternal societies and associations	16,258
501 (c)(11)	Teachers' retirement fund associations	8
501 (c)(12)	Benevolent life insurance associations, mutual ditch or irrigation companies, mutual or cooperative telephone companies, etc.	5,293
501 (c)(13)	Cemetery companies	8,972
501 (c)(14)	State-chartered credit unions and mutual reserve funds	1,842
501 (c)(15)	Mutual insurance companies or associations	694
501 (c)(16)	Cooperative organizations to finance crop operations	14
501 (c)(17)	Supplemental unemployment benefit trusts	99
501 (c)(18)	Employee-funded pension trusts created before June 25, 1959	2
501 (c)(19)	War veterans' organizations	29,588
501 (c)(20)	Legal services organizations	3
501 (c)(21)	Black lung benefits trusts	0
501 (c)(22)	Withdrawal liability payment funds	0

(*continued*)

TABLE 4.1 Cont.

Tax code number	*Type of tax-exempt organization*	*Entities registered with the IRS*
501 (c)(23)	Veterans' associations created before 1880	3
501 (c)(24)	Trusts described in section 4049 of the Employment Retirement Security Act of 1974	0
501 (c)(25)	Title-holding corporations or trusts with multiple parents	784
501 (c)(26)	State-sponsored organizations providing health coverage for high-risk individuals	11
501 (c)(27)	State-sponsored workers' compensation reinsurance organizations	15
501 (c)(29)	Qualified nonprofit health insurance issuers	22
501 (d)	Religious and apostolic organizations	216
501 (e)	Cooperative hospital service organizations	9
501 (f)	Cooperative service organizations of operating educational organizations	0
501 (n)	Charitable risk pool	1
527	Political organizations	13
4947(a)(1)	Nonexempt charitable trusts	
	4947(a)(1) treated as public charity	840
	4947(a)(1) treated as private foundations	6,217
Total tax-exempt organizations		1,549,263

Source: Based on McKeever et al., 2016.

* Not all 501(c)(3) organizations are included because certain organizations, such as churches, integrated auxiliaries, subordinate units and conventions or associations of churches, need not apply for recognition of exemption unless they desire a ruling.

The reasons for this treatment are found in US history as well as the legal system. As seen in Chapter 2, religion is a major component of the US nonprofit sector. Indeed, the US has the largest and most diverse landscape of religious organizations in the world. And even though the degree of religious affiliation among Americans is decreasing (Pew Research Center, 2019), the US is still among the most religious of developed market economies (Fahmy, 2018).

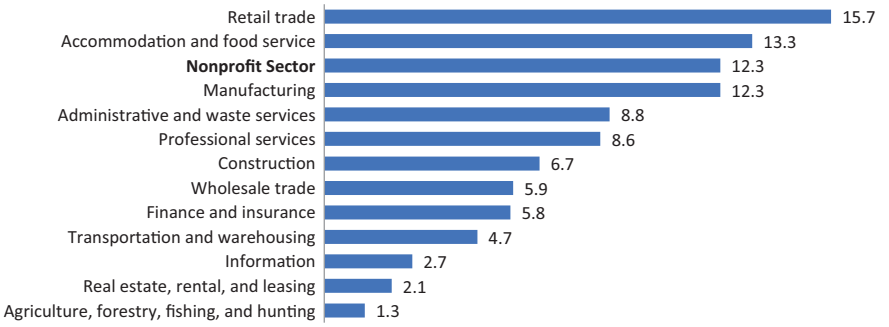


FIGURE 4.1 US employment in nonprofits vs. other industries, millions of employees, 2016

Source: Based on Salamon and Newhouse, 2019, p. 5.

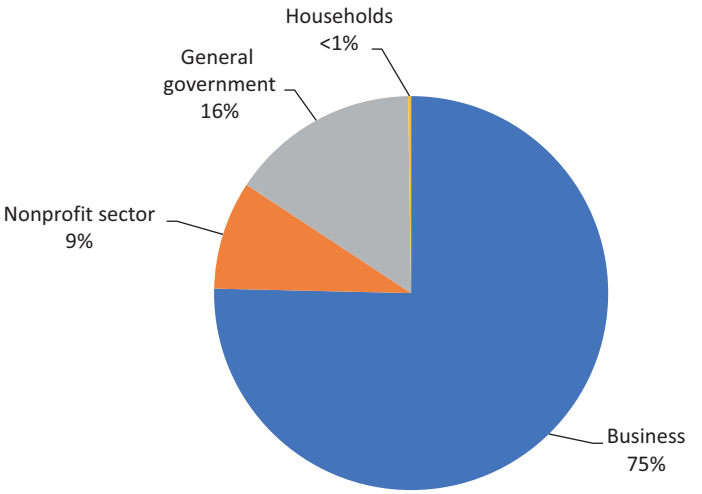


FIGURE 4.2 Distribution of paid earnings by sector, US, 2013

Source: Based on McKeever et al., 2016, p. 36.

Employment and Expenditures

The nonprofit sector employs an estimated 12.3 million people, or 10.2% of total private employment in the US in 2016 (Salamon & Newhouse, 2019). Indeed, the number of paid workers in the nonprofit sector was on par with that of the manufacturing sector and exceeded employment in the administrative and professional services as well as in the construction industry (Figure 4.1). Nonprofit expenditures, including the total wage bill and other operating costs, amounted to some US$1.32 trillion in 2014 (McKeever et al., 2016), and in 2016 represented a share of nearly 6% of the country's GDP, a share that has been more or less constant over the 2014–19 period. Meanwhile, business accounted for 76% and government for 11% of GDP. In terms of wages, as Figure 4.2 shows, nonprofits

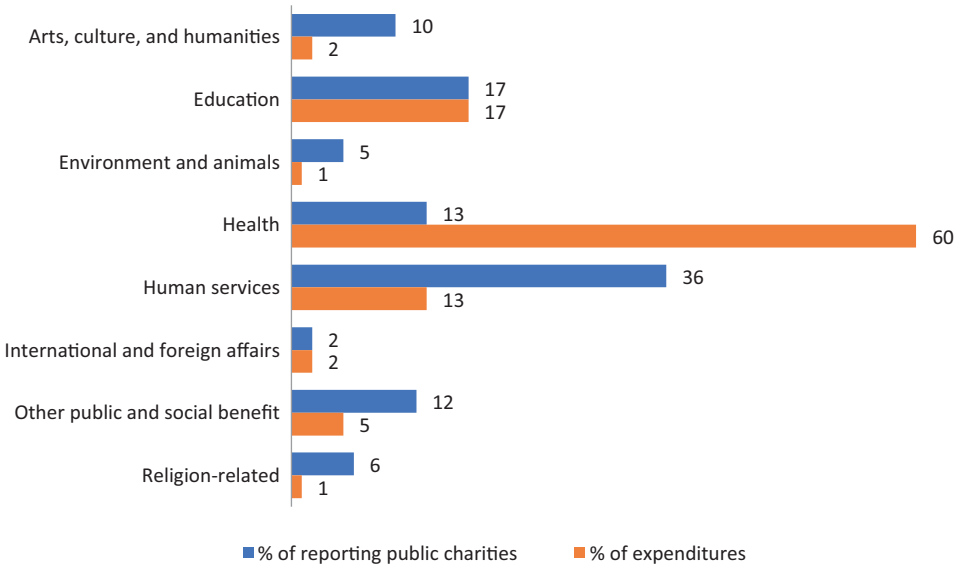


FIGURE 4.3 Organizations and expenses in the nonprofit sector, by field, US, 2013

Source: Based on McKeever et al., 2016, pp. 165–82.

accounted for 9% of all paid wages in 2013, the forprofit business sector for 75%, and government for about 16%.

Composition

As noted in Chapter 1, nonprofit organizations are active in a wide range of fields. More than half (55%) of nonprofit jobs in the US are in healthcare, with about one in three nonprofit jobs in hospitals. Education and social assistance also make up a large share of nonprofit jobs at 16% and 12%, respectively. Smaller shares are found in civic organizations (7%) and in arts and recreation (3%) (Salamon & Newhouse, 2019).

In economic terms, the service-providing component of the nonprofit sector accounts for the great majority of the sector's expenditures (Figure 4.3). Healthcare fields alone account for nearly 60% of expenditures, mostly in hospitals; education including higher education accounts for 17%; human services for 13%; and arts and culture for 2% of the sector's expenditures. Religion-related organizations take up less than 1% of total nonprofit expenditure, and other public and societal benefit organizations 5%. However, we should recall that religion-related organizations are not necessarily required to report to the IRS, which means that their true share of the US nonprofit sector is under-reported.

In economic terms, the service-providing component of the nonprofit sector accounts for the great majority of the sector's expenditures.

Comparing the share of expenditures to the number of organizations in a particular field of nonprofit activity reveals a somewhat different picture (Figure 4.3). For example, health-related entities, including hospitals, account for more than half of total nonprofit expenditures (60%), but 13% of all nonprofit organizations. By contrast, human services organizations generate only 13% of expenditures but represent 36% of nonprofits. Arts and culture, environment and animals, and religion-related categories of nonprofit organizations exhibit a similar pattern.

Revenue

Nonprofit organizations can vary greatly in terms of their reliance on different types of support:

- Public sector payments, which include grants, contracts and transfers, and reimbursements from public agencies such as Medicare or social welfare programs.
- Private giving, which includes individual giving next to foundation grants and business and corporate donations.
- Private fees and charges ("program fees"), which essentially cover fees for service, dues, proceeds from sales, and investment income.

As reflected in Figure 4.4, based on McKeever et al. (2016), private giving turns out to be the least economically important source of the nonprofit sector's revenue, comprising only 13% of the total estimated $1.3 trillion in revenues in 2013. By contrast, over half (54%) of all nonprofit income is derived from private fees and sales. Finally, some 33% of nonprofit income consists of public sector payments, including government grants and third-party payments through, for example, Medicaid and Medicare.

> Private giving turns out to be the least economically important source of the nonprofit sector's revenue [in the US].

Figure 4.4 also shows that the various fields of nonprofit sector activity vary greatly as to the importance of each revenue source, and that government, the private sector, and philanthropy come together in contributing to nonprofit revenue. Significantly, it may be wrong to think about the nonprofit sector as a part of the economy supported by philanthropy and charity. While such private giving is more important in some fields than in others, it is the least important in terms of the sector's revenue sources overall. In the economically largest nonprofit field, i.e., healthcare services, it accounts for only 4% of revenue. It is thus more useful to think of nonprofit activities as part of a mixed economy that draws in revenue from philanthropy, government, and commercial sources. We return to this topic in Chapter 11 on nonprofit financing.

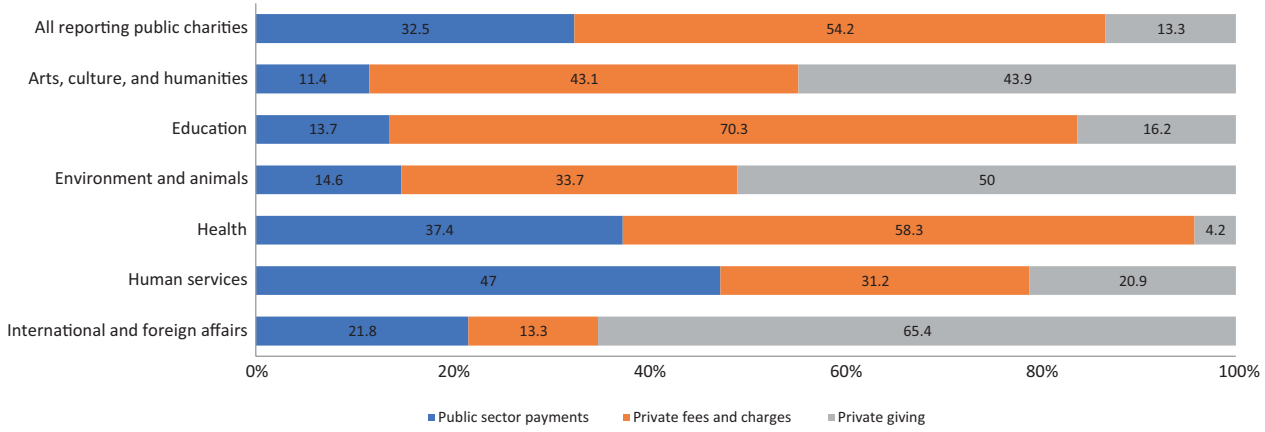


FIGURE 4.4 Nonprofit sources of revenue, by field, US, 2013

Source: Based on McKeever et al., 2016, pp. 166–219.

It is more useful to think of nonprofit activities as part of a mixed economy.

Wages and Workforce

In general, wages in the nonprofit sector are lower than in both the public and the forprofit sectors. According to the Bureau of Labor Statistics, the average hourly wage in the nonprofit sector ($20.17) in 2014 was well below the average of that in the forprofit sector ($25.30). Recent studies, however, reveal a complex pattern and find that significant differences exist within and across fields. For example, Salamon and Newhouse (2019) find that nonprofit wages are *higher* than those in forprofit establishments in most fields where nonprofits are concentrated (Figure 4.5). Nonprofit educational institutions pay on average 45% more than forprofit educational institutions, and nonprofit hospitals pay 14% more. Arts and recreation nonprofits, on the other hand, pay slightly less. This would seem to confirm Salamon and Sokolowski's (2006, p. 10) argument that "the overall lower average wage for nonprofit workers is an industry phenomenon, not a sector phenomenon." By contrast, a study of graduates of the Ivy League university Cornell (Butler, 2009) indicates that those who enter professional or managerial positions in the forprofit sector earn 59% more than those who enter similar positions in the nonprofit sector.

Nonprofit wages are higher than those in forprofit establishments in most fields where nonprofits are concentrated.

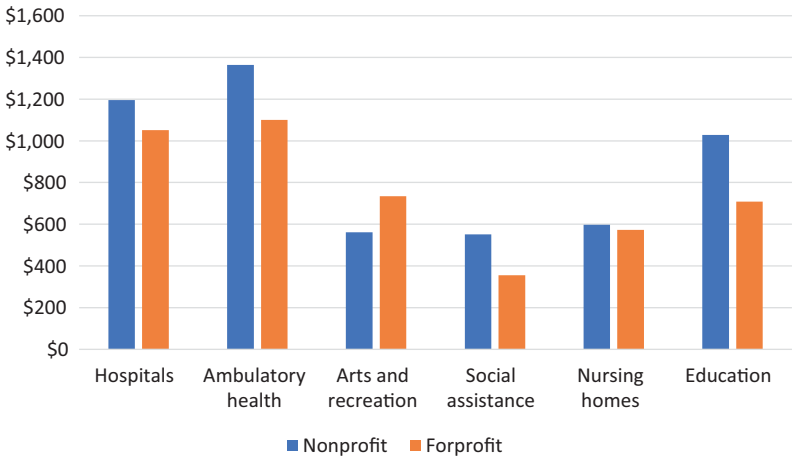


FIGURE 4.5 Average weekly wages in selected fields of nonprofit and forprofit activity, US, 2016

Source: Based on Salamon and Newhouse, 2019, p. 10.

In terms of composition, we find that female employees make up 71% of the workforce in the US nonprofit sector as opposed to 47% in the economy as a whole. The pattern in terms of ethnic background is mixed: whereas 42% of organizations have female executive directors, nearly nine out of ten of all executive directors or presidents were white, with only minimal representation of African-Americans, Asians, and Hispanic individuals (Battalia Winston, n.d.; see also McCambridge, 2014).

Change

The nonprofit sector in the US expanded significantly during the 1980s and 1990s and somewhat more slowly in the first and second decades of the twenty-first century. Specifically:

- While the number of nonprofit organizations increased by approximately 23% in the decade between 1987 and 1997, the number of 501(c)(3) organizations rose by 64% (Weitzman et al., 2002). Between 2005 and 2015, the number of registered nonprofits rose only 10%, while the growth of 501(c)(3) organizations slowed to 28% (McKeever, 2018).
- Employment increased from just under 6 million in 1977 to 11 million in the late 1990s and to 12.5 million in 2019 (Roeger et al., 2012; Salamon & Newhouse, 2020).
- The employment growth trend in the nonprofit sector from 2000 to 2019 masks losses in nonprofit market share in particular fields. In fact, forprofit providers are growing in fields where nonprofits have traditionally dominated. Between 2000 and 2019, employment growth in forprofits outpaced that of nonprofits in education, social assistance, and the general health field (Salamon & Newhouse, 2020).
- Current operating expenditures of nonprofits increased from an equivalent of 2.2% of GDP in 1960 to 4.7% in 2000 and 6% in 2019 (Roeger et al., 2012; Bureau of Economic Analysis, 2019).

Although the US is frequently seen as the prototype of the modern nonprofit sector, the sector is important in other countries as well and plays significant roles.

Canada

In Canada the nonprofit sector appears to be larger—in relative terms—than that in the US. For example, in 2015, nonprofit organizations accounted for 13% of employment in Canada compared to 10% in the US. In total, there are about 170,000 nonprofit organizations in Canada. When we compare nonprofit expenditure as a percentage of GDP, Canada's nonprofit sector accounted for 8.5% of GDP in 2017, as opposed to 6% for the US in the same year (Statistics Canada, 2019). Canadian nonprofits derive most of their revenue from the government (52%), followed by sales (29%), membership fees (9%), and donations (6%). Health and education are the two largest fields of nonprofit activity in Canada, comprising 41.5% and 30.1%, respectively, of nonprofit activities.

United Kingdom

In the UK, the National Council of Voluntary Organisations (NCVO) uses a narrow definition of the nonprofit sector with a focus on voluntarism, charity, and public benefit that excludes universities, health-related organizations, and the like because of their limited independence from statutory bodies, as well as what in the US are referred to as member-serving organizations. As a result, UK data are not directly comparable with US data. Nonetheless, they point to a sizable sphere of economic activity: in 2020, the nonprofit sector as NCVO defines it employed more than 900,000 workers, a number which had grown by 17% since 2010. Likely due to the largely state-run healthcare and education systems, the composition of nonprofits in the UK is quite different from that in the US or Canada. The largest categories are social services (19%), culture and recreation (14%), religion (9%), grant-making foundations (8%), parent-teacher associations (7%), development (6%), and education (5%). As in many countries, most UK nonprofits are small: around 75% have annual income of less than £100,000 (roughly US$130,000). UK charities are heavily reliant on individual donations. In 2017/18, private giving continued to be the largest income source for the sector, accounting for almost half (47%) of its total income, followed by government (29%) (Hornung et al., 2020).

Australia

In 2013, Australia had nearly 57,000 nonprofits, which accounted for 3.8% of total gross value added. More than a million people were employed in the sector that year, representing almost 9% of overall employment in Australia. In terms of composition, among the largest fields were culture and recreation (accounting for 20% of all nonprofit expenditures), religion (20%), social services (13%), and education and research (11%). The nonprofit sector received 38% of its revenue from government, 33% from private households (including fees and charges as well as donations), and the balance from other sources such as businesses and foundations (ABS, 2015).

COORDINATED MARKET ECONOMIES

France

In 2017, there were some 1.5 million registered associations in France. Since 2011, their number had increased by an average of 2.4% per year, with most of the new associations being small and run by volunteers. In 2017, only 11% of all associations had paid staff. The nonprofit sector contributed 3.3% to French GDP in 2017. Some 1,758,500 people worked for nonprofits, while 31,272,000 did volunteer work equal to approximately 1,425,000 FTE employees (Tchernonog, 2018). Public sector grants represent 20% of nonprofit revenues but have decreased significantly in the 2000s because of a reduction of public spending overall. Other revenue sources include fees and charges (42%), public sector contracts (24%), and membership fees (9%). The most common organization types are sports (24%), culture (23%), leisure (2%), humanitarian/social/health (14%), and

defense of rights and causes (11.5%). However, in terms of expenditure, social services, healthcare, and education dominate.

Germany

The German nonprofit sector employed 3.7 million people in 2016, or 9.9% of total employees, which represents a slight rise from the 9.5% share recorded for 2007 (Krimmer, 2019). Of the more than 650,000 organizations legally designated as nonprofits, some 600,000 are associations, 21,800 foundations, 25,300 corporations, and more than 8,700 cooperatives. The most common fields of activity according to an organization's stated purpose are sport (23%), education (18%), and culture/media (16%). Associations derive their revenue primarily from membership fees (38.6%), private fees and charges (20.1%), donations (18.8%), and government funding (11%). For nonprofit corporations, however, the share of government funding is much higher at over 60%: many are part of a decentralized welfare system by which health and social services are delivered by nonprofit organizations supported by public sector funds. Indeed, some of the largest private employers in Germany are nonprofit conglomerates like Caritas and Diakonie.

Italy

The Italian nonprofit sector consists of 359,574 organizations (ISTAT, 2020) employing in 2018 more than 850,000 workers, or 6.9% of the workforce. The number of nonprofit organizations has grown at a rate of about 2% per year since the 2000s, but the nonprofit sector's share of employment has remained steady: thus, the sector's growth is largely attributable to small organizations. The vast majority of nonprofits in Italy are involved in culture, sport, and recreation (64%). The next most common purposes include social assistance and civil protection (9%), trade union relations and interest representation (7%), religion (5%), and education and research (4%).

Japan

Using a broad definition of what constitutes a nonprofit, the Japan Association of Charitable Organizations (n.d.) reported a total of some 373,000 nonprofit organizations in Japan for 2017. The approximately 4.9 million employees engaged by nonprofits represent 7.3% of Japan's total workforce. The most common activity types in terms of expenditures are welfare (14%), education (11%), individual support (11%), community development (10%), and youth activities (10%). Most nonprofits are funded by individuals (61% of all revenue comes from fees), and corporate foundations play a role as well. Relatively few nonprofits receive funding from the government, although government support makes up a total of 38% of total revenue.

Sweden

Of the more than 257,000 nonprofit organizations recorded to be in Sweden in 2017, nearly 100,000 were "economically active." Total output was 3% of Sweden's GDP. A total

of 202,136 people were employed in the sector, equaling 3.8% of Sweden's workforce. The most common fields of activity organizations reported working in were housing, social and societal development (29%), recreation and culture (26%), and opinion formation and politics (9%), with 3% each for education and research, social security, religious activities, and industry/professional organizations and trade unions (SCB, 2019). In terms of revenues, Swedish nonprofits depend more on membership fees than on government funding.

EMERGING MARKET ECONOMIES

Brazil

In 2015, Brazil had a total of nearly 237,000 nonprofit organizations, employing more than 2.2 million people, or 2.2% of the total workforce. Religion is by far the most common type of activity, with 35% of nonprofits focusing on religious activities. The next most common types are culture and recreation (13.6%), development and defense of rights (12.8%), and professional or employers' associations (12.2%). Fees and charges constitute the largest share of nonprofit revenue (84.5%), with philanthropic giving accounting for 9.7% and government 5.7% (IBGE, 2016).

China

Compared to many emerging market economies, China's nonprofit sector is small. In 2016, nonprofits contributed 0.4% of GDP. This output comes from 800,000 employees, about 0.1% of China's total workforce, spread across 816,000 organizations in fields ranging from rural development, social services, and culture, to sports, research, and disaster relief. Despite the relatively small numbers overall, there has been significant growth. Thirty years ago, there were a mere 4,000 nonprofits in China (Fang, 2019).

India

In 2008–09, India had more than 694,000 nonprofit organizations, with a workforce of 2.7 million people, or about 0.5% of total employment. The most common types of activities that organizations are involved in include social services (37%), education and research (24%), culture and recreation (15%), and business and professional (7%). Nonprofits in India derive their revenue primarily from grants (54%; about half of the grant sum comes from government), donations and offerings (16%), and fees and charges from their own operations (16%) (MSPI, 2012).

Mexico

In 2020, it was estimated that there were 42,585 nonprofit organizations in Mexico, accounting for some 2.4 million jobs, or 6.5% of total employment. The nonprofit sector contributes roughly 3% of total Mexican GDP, of which education and research nonprofits contribute nearly half (INEGI, 2021).

Russia

In 2017, there were more than 213,000 registered nonprofits in Russia, 142,641 of which were considered "socially oriented." More than 630,000 people worked in this latter category of organizations, accounting for 0.8% of the total labor force. Organizations are spread across a wide range of fields, including physical culture and sport (8%), education and science (7%), social services (7%), and education of children and youth (5%). The main revenue sources include donations (49.5% of total sector revenue), fees and charges (33.3%), and government grants (10.5%) (Russian State Statistics Office, 2017).

South Africa

The number of nonprofits in South Africa grew from 70,315 in 2010 to 120,227 in 2014. Organizations report that they focus on social services (40%), development and housing (21%), religion (12%), health (10%), education (8%), and culture and recreation (6%). They derive their income mainly from government subsidies (44%), fees and charges (21%), and local private donations (25%), as well as sales (6%) and membership fees (4%) (Statistics South Africa, 2017).

COMPARATIVE ASPECTS

These brief portraits of the nonprofit sector illustrate two key aspects. First, the nonprofit sector is a sizable economic force in many but not all countries, although it has generally grown in most. It also has diverse revenue sources and combinations thereof, and it is involved in different fields to varying extents from country to country. Second, because countries (and statistics offices and researchers) use different definitions of what constitutes a nonprofit organization, and hence the nonprofit sector, and employ different approaches to measuring and reporting on their activities, expenditures, and revenues, valid comparisons are impossible. The Johns Hopkins Comparative Nonprofit Sector Project (CNP) was intended to remedy that situation and develop an approach that would generate comparative statistics. As mentioned in Chapter 3, the structural-operational definition is a common denominator cutting across the complexities of the different functional conceptualizations, legal systems, levels of development, and national traditions. According to that definition, nonprofit organizations are organized, private, and self-governing entities that are not profit-distributing and are voluntary. The sum of entities so defined constitutes the nonprofit sector of a given country. This approach, together with a standardization of how to measure revenue sources, work, volunteer activities, and the like, allowed for initial cross-country comparisons.

Size: Wide Variations among Countries and Regions

Figure 4.6 shows the relative size of the nonprofit sector measured as the share of its workforce among the economically active population in all 41 countries covered by the

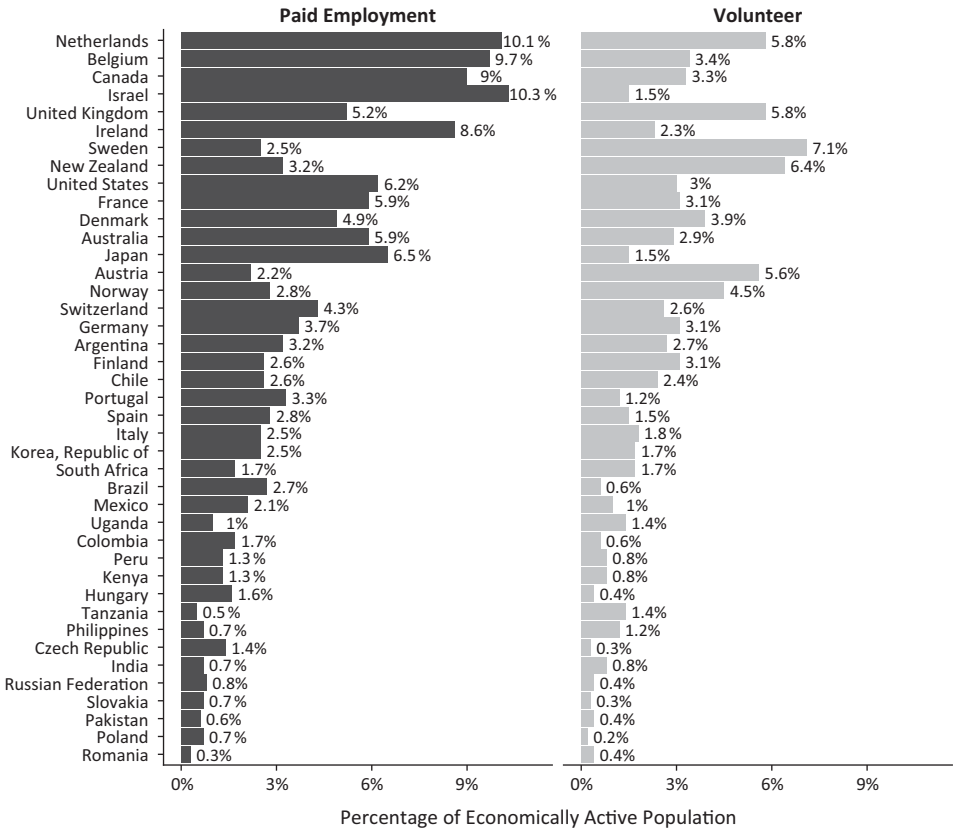


FIGURE 4.6 Size of nonprofit sector paid vs. volunteer workforce, by country, various years

Source: Based on data reported in Salamon et al., 2017, pp. 276–9; see also Anheier et al., 2020.

CNP database as of 2016.[1] Nonprofit sector size varies between 15.9% in the Netherlands and 0.7% in Romania. To arrive at these percentages, the CNP adds together the shares of both FTE paid employees and volunteers working in the nonprofit sector relative to the economically active population (e.g., 10.1% + 5.8% in the case of the Netherlands; 0.3% + 0.4% in Romania). The 41-country average of this key measure of economic size is 5.6%. In a small number of countries in the sample, including Poland and Romania, the nonprofit sector so measured is below 1% of the economically active population, while in several, such as the Netherlands, Belgium, and Canada, the size of the nonprofit sector exceeds 10%. However, among this selection of 41 countries, smaller nonprofit sectors are somewhat more common than larger ones.

Smaller nonprofit sectors are somewhat more common than larger ones.

Composition: Social Welfare Services Dominate

The roles that nonprofit organizations play and the activities in which they engage are multiple in the US and elsewhere. Looking at the activity distribution of total nonprofit paid employment for 22 of the CNP countries (Figure 4.7), the fields of education, health, and social services account for the largest share (68%), while all other fields combined make up less than a third of paid activity. But when looking instead at FTE employment estimates that also count volunteer activity, employment in culture, which includes recreational activities and amateur sports as well, turns out to be a larger share of the total (18%) than the share without volunteers (14%). Indeed, when volunteer input is also considered, culture (and recreation) becomes the third most economically significant nonprofit field after education and social services and ahead of health in the 22-country sample. Other smaller fields also gain in economic significance through the inclusion of volunteers.

When volunteer input is also considered, culture (and recreation) becomes the third most economically significant nonprofit field after education and social services.

The CNP data (Salamon, Sokolowski, & List, 2004) offer other ways to look at the composition of nonprofit activity. For example, healthcare activities at the time of the study absorbed a significant share of the nonprofit workforce (paid and volunteer) in the US (34%), Japan (37%), and the Netherlands (30%), while education commanded the largest share in Ireland (43%), Israel (41%), and South Korea (40%), along with four (Argentina, Brazil, Colombia, and Peru) of the five Latin American countries included in the study at

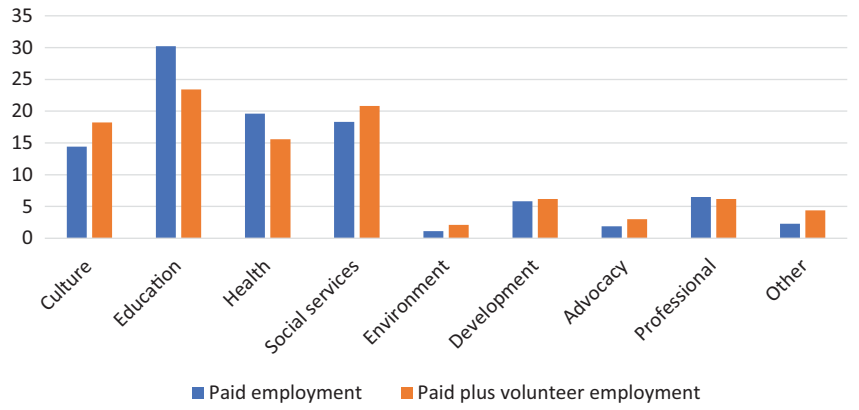


FIGURE 4.7 Distribution of nonprofit paid employment and paid plus volunteer employment, by field, 22 countries, various years

Source: Based on data reported in Salamon et al., 1999, Appendix B; see also Anheier et al., 2020.

that stage. Furthermore, in Germany, France, Italy, and Spain, social services employed the largest portion of the nonprofit workforce, though still less than a third (26% to 30%) of the total (Salamon, Sokolowski et al., 2004, Table A3).

By contrast, the expressive functions of the nonprofit sector are far more prominent than the service ones in the Nordic countries and in the transition societies in Central Europe. For example, 41% of the Norwegian and 45% of the Swedish nonprofit workforce are in the areas of culture and recreation. By the same token, the share of nonprofit employees and volunteers working in culture and recreation activities in Central Europe ranges from 32% in Poland to 37% in Slovakia (Salamon, Sokolowski, & List, 2004). This is most likely a reflection of the more dominant role the state has played in providing social welfare services in these countries and, in the Scandinavian context, the vibrant heritage of citizen-based social movements and citizen engagement in advocacy, sports, and related expressive fields.

Revenue: A Mixed Economy

As already seen in the case of the US (Figure 4.4), private giving and philanthropy are rarely the principal source of income for the nonprofit sector. In fact, among the 34 developed and developing countries on which comparable revenue data were available, about half of all revenue (54%) on average comes from private fees and charges, 34% from public sector payments, and 12% from private giving (Salamon, Sokolowski, & List, 2004).

This basic pattern holds for most countries included in the CNP from Latin America, Africa, and Central and Eastern Europe, as well as the US, Australia, and Japan, in which fee income is a particularly important source of nonprofit sector revenue. By contrast, public sector support—grants and third-party payments, primarily from public social insurance funds—is the most important source of income for the nonprofit sector in most of the Western European countries. Of the African countries, South Africa is the only emerging market economy where fee income is less important than government funding, likely reflecting the long-standing post-apartheid policy of supporting nonprofit institutions as a means of strengthening civil society.

When volunteer time is factored into the equation and treated as a part of private giving, the picture of nonprofit sector finance changes significantly. In fact, philanthropy, whose share of total revenue increases from 12% to 31%, becomes the second most important source of nonprofit sector income, displacing public sector support. This is an indication of the significance of contributions of time to the support base of third sector institutions. This is particularly true in less developed regions, where financial resources are limited. But it also holds in the Nordic countries, where volunteer work is particularly marked, as well as in the US.

When volunteer time is factored into the equation and treated as a part of private giving . . . philanthropy . . . becomes the second most important source of nonprofit sector income [for the group of CNP countries].

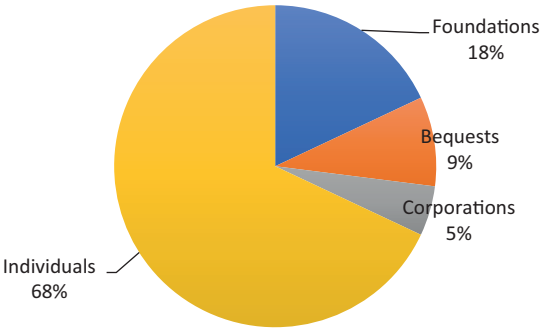


FIGURE 4.8 Philanthropic giving in the US, by source, 2018

Source: Based on Giving USA, 2019, p. 21.

INDIVIDUAL GIVING

The United States

In 2018, a total of US$427.7 billion was donated for charitable purposes. As Figure 4.8 shows, this amount includes giving from individuals, corporations, bequests, and foundations. Individual giving totaling US$292.1 billion accounts for 68%, or more than two-thirds, of total philanthropic giving in the US (Giving USA, 2019).

> Individual giving . . . accounts for 68%, or more than two-thirds, of total philanthropic giving in the US.

In 2018 the greatest amount of all private giving by far was donated to religion, with 29% of the total, followed by the education and human services subsectors with 12% each. These were followed by health organizations (10%), public benefit purpose organizations (7%), and arts, culture, and humanities organizations, as well as the international affairs subsector, each with an approximately 5% share. The least was given to environmental causes (3%) and animal welfare (2%) (Giving USA, 2019).

The amount of total giving in current US dollars has risen steadily since 1970, with the exception of four years: 1987, 2008, 2009, and 2013, the first three of which corresponded with economic recessions. Though total inflation-adjusted giving either remained flat or declined in or close to recessionary years, the rising trend continued shortly thereafter. The global financial crisis (2007–09) was considered the worst since the Great Depression, but as occurred following previous recessions, inflation-adjusted giving increased by 2.1% in 2010. Total giving returned to pre-crisis levels by 2012, then dropped slightly in 2013, but rose every year thereafter (Giving USA, 2019). If patterns from earlier recessions hold, the large economic downturn due to the COVID-19 pandemic that began spreading in 2020 may cause another drop in giving.

Individual Giving Elsewhere

Individual giving is not unique to the US, of course. In Canada, for example, donations totaled some CAD$9.8 billion (US$7.4 billion) in 2016 (CanadaHelps, 2018). Nearly two-thirds of Canadians (65%) donated money in 2018 (CAF Canada, 2019). Helping the poor was the most popular cause, receiving 29% of donations. While overall donations have been largely stagnant, the median amount donated in 2018 was CAD$150, up from CAD$104 in 2017.

Individual giving is not unique to the US.

For their part, 68% of Australians donated money in 2018. They gave AUS$12.5 billion (US$8 billion) in 2016. Supporting children is the most popular cause to donate to (30% of respondents had donated in the past year), followed by helping the poor (25%) and medical research (21%) (Good2Give, 2019).

In the UK the total amount of giving to charity by individuals in 2018/19 was £10.1 billion (US$13.2 billion). The largest donations on average were attracted by animal welfare and child-focused organizations. However, the proportion of the population who give has declined slightly, from 69% in 2016 to 65% in 2018 (CAF United Kingdom, 2019). Skepticism toward charities has increased somewhat in the UK since 2016, with only 48% of surveyed individuals saying that they find charities to be trustworthy (down from 51% in 2016). This may be the result of several highly publicized scandals in the UK charitable sector.

In Europe, according to Charities Aid Foundation's (2016) international comparison of charitable giving, if we look at individual giving as a percentage of GDP, the UK has the highest giving levels in Europe with 0.5% of GDP, followed by Italy and the Netherlands, each with 0.3%, and Ireland, Germany, and Sweden at about 0.2% of GDP. Despite much higher personal taxation levels in the Netherlands, France, and Germany than in the UK, the report finds no correlation between taxation rates and the amount given to charity (CAF, 2016, p. 8).

According to CAF's 2018 World Giving Index, based on a Gallup poll covering some 146 countries with over 150,000 respondents, the average share of people donating tends to hover around 30% since polling began in 2013 (CAF, 2018). When individual giving is measured this way, i.e., as a share of the population making charitable donations, the US does not even make the top ten countries.

"High Net Worth" Giving

Wealthy individuals have been giving away portions of their fortunes to charitable causes throughout history. Prominent examples include Andrew Carnegie and the Rockefellers in the past and Bill and Melinda Gates and Warren Buffet today. Indeed, the Giving Pledge among some of the world's billionaires launched in 2010 is a modern-day version of a program to spur sizable giving by the rich. Today's high net worth (HNW) households are

defined as those with incomes greater than US$200,000 or assets in excess of US$1 million. The 3.1% of total US households that fall in this category are responsible for 65% to 70% of all individual charitable giving and 49% to 53% of giving from all sources in the US (U.S. Trust, 2018).

In 2017, nine out of ten HNW households donated cash to charities (U.S. Trust, 2018). Nearly half of HNW households gave to five or more charities, with average giving per household reaching $29,269. At the time of the 2018 study, 84% of HNW households said they wished to maintain their current level of giving after the 2017 Tax Cuts and Jobs Act, and about half (51%) said that tax benefits sometimes serve as a motivation for giving.

In 2017, nine out of ten HNW households donated cash to charities.

The U.S. Trust report (2018) found that 54% of HNW households gave for basic needs, 49% for religious or spiritual purposes, 36% for healthcare and medical research, 24% for primary and secondary education, and 22% for higher education. Other studies (e.g., Havens et al., 2006) find that education tops the purpose ranking for HNW donors, followed by religion and human services.

FOUNDATIONS

Historically, foundations are among the oldest existing social institutions, dating back thousands of years. Equally as impressive as their longevity as an organizational form is, however, the significant expansion the field of foundations has experienced in recent decades when institutional philanthropy thrived both in the US and internationally.

United States

A brief look at US grant-making foundations (Figure 4.9) shows a consistent rise in the number of foundations after a period of relative stagnation for much of the late 1970s and early 1980s. Indeed, more than half of all existing foundations in 2013 were established in the previous two decades, a finding that has also been shown in other countries including, for example, Germany. Yet, the changes in assets have been even more pronounced than the growth in the number of foundations, suggesting that foundations have not only become more numerous but also overall richer in terms of endowment, despite downturns in value during economic crises. Much of the increase in assets, represented in constant US dollars in Figure 4.9, took place in the 1990s. Though assets rose to record highs in 2007, they had fallen back down to approximately 1999 levels by 2008 (McKeever et al., 2016). Due to the decade-long period of economic growth between 2010 and the COVID-19 pandemic that began in 2020, foundation assets recovered to pre-crisis peaks. By 2013, foundation assets were once again higher than in 2007, and reports indicate that foundation assets may have surpassed US$1 trillion for the first time in 2019 (Candid, 2020).

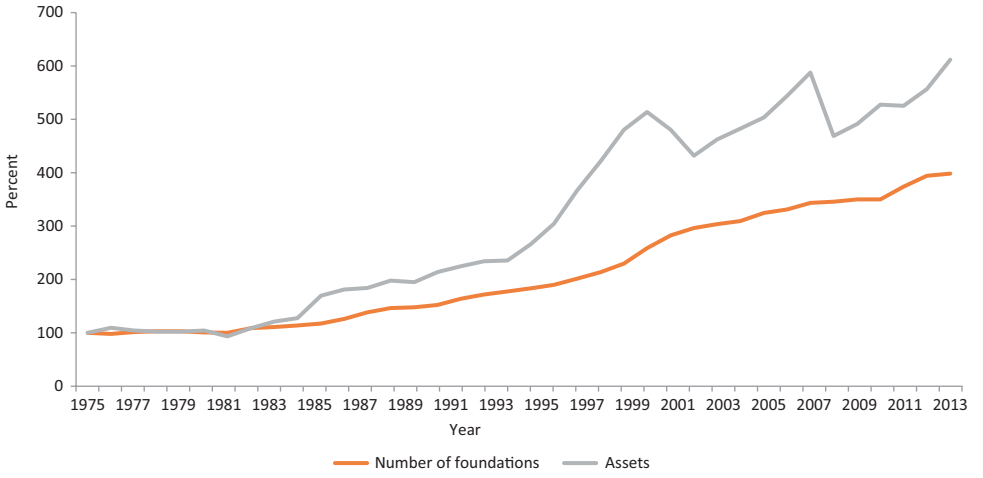


FIGURE 4.9 Growth of foundation numbers and assets (1975 = 100), US, 1975–2013

Source: Based on McKeever et al., 2016, p. 113.

More than half of all existing foundations in 2013 were established in the previous two decades.

In 2013, nine in ten US foundations were grant-making, and 4.8% were operating foundations (Figure 4.10a). In terms of numbers, community foundations make up only a relatively small segment of US foundations (<1%), as do corporate foundations with 3%. However, in terms of assets, community foundations are relatively larger, commanding 9.2% of total assets (Figure 4.10b). Over time, the composition of the US foundation sector has not changed much, although the share of assets held by community foundations has grown.

In 2013, nine in ten US foundations were grant-making.

The most prominent grant-making fields are health, education, human services, and public affairs/societal benefit, which together account for nearly three-quarters of the $22 billion in total grants spent in 2012 (Figure 4.11). Other significant fields are arts and culture (9.7%) and environment and animal welfare (7.1%). As compared to 2010, nearly all categories received more donations. The lone exception is arts and culture, for which foundation grants declined from $3.3 million to under $2.2 million (McKeever et al., 2016).

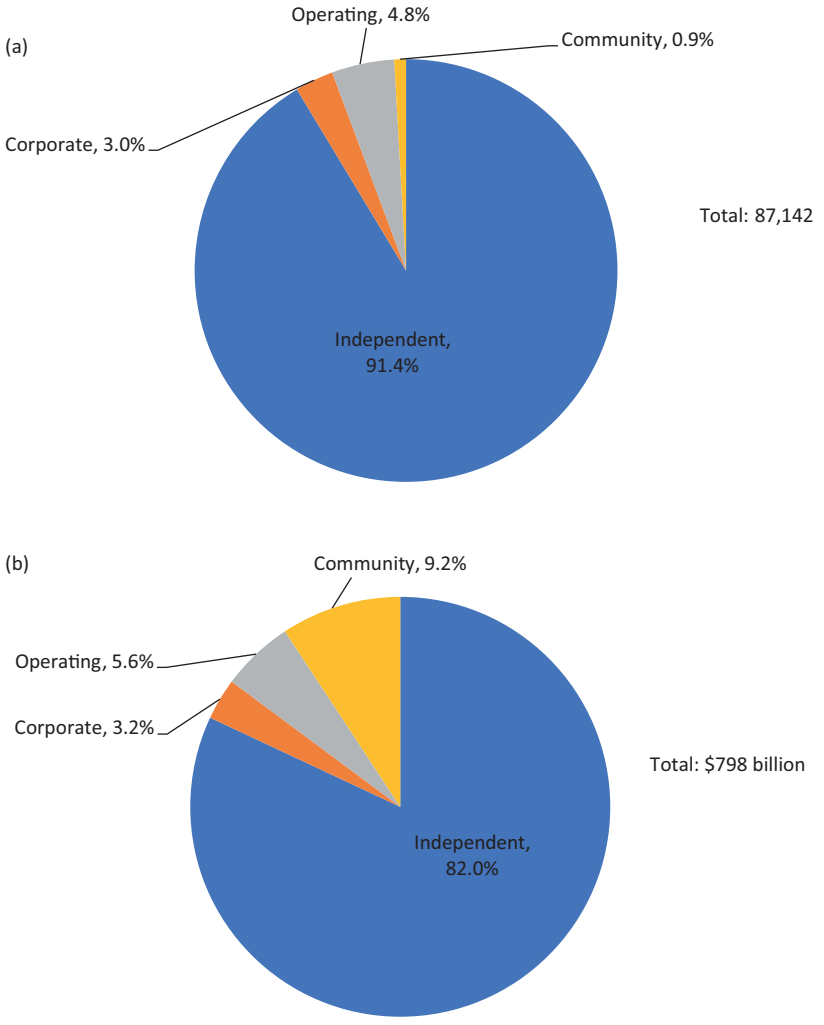


FIGURE 4.10a Foundation types, by share of total number, US, 2013
FIGURE 4.10b Foundation types, by share of total assets, US, 2013

Source: Based on McKeever et al., 2016.

The most prominent grant-making fields are health, education, human services, and public affairs/societal benefit.

"Social justice" grant-making, defined as "providing support to domestic and international social justice activities," represents a growing area of foundation activity (Lawrence, 2009, p. xv). Specifically, social justice giving includes such areas as human rights and civil

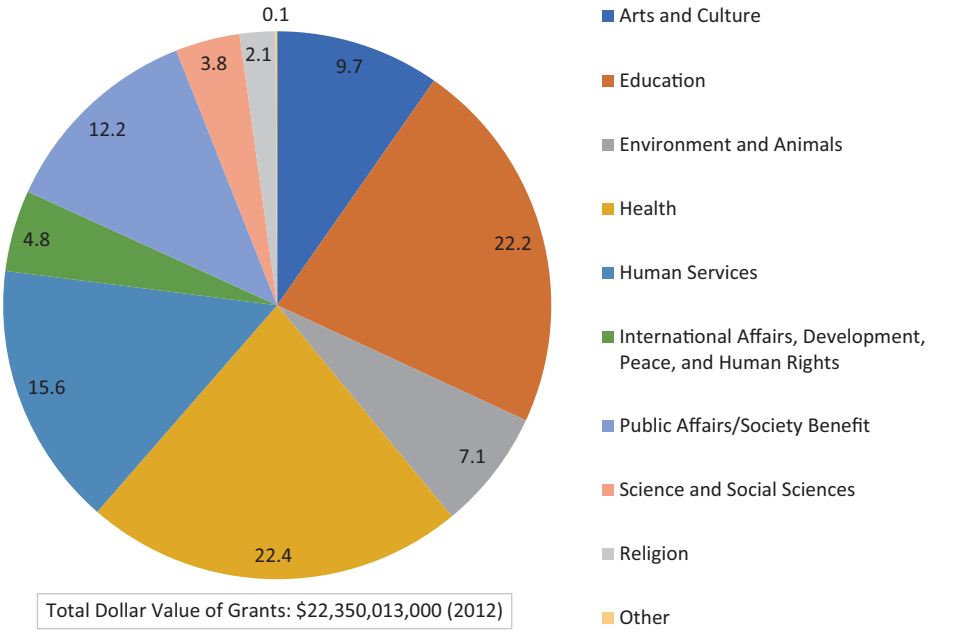


FIGURE 4.11 Distribution of foundation grant dollars by subject categories, in percent, US, 2012

Source: Based on McKeever et al., 2016, p. 125.

liberties, economic development, educational reform and access, environment, and social science research. Between 2002 and 2006, the number of foundations engaged in social justice grant-making increased by 16.3%, from 749 to 871. As a share of total giving, social justice grant-making represented $15.9 billion or 11% of total grant dollars in 2008 and $19.1 billion or 12% of the total in 2009. Nearly 80% of independent foundations are engaged in social justice grant-making, while only 20% of corporate foundations and less than 10% of community foundations are so engaged (Lawrence, 2009).

Comparative Profile of Foundations

Already by the turn of the twenty-first century, there were more foundations holding more assets in more countries than ever before. In 2013, the then roughly 86,000 US foundations had assets of US$612 billion (McKeever et al., 2016). The nearly 11,000 private and public foundations in Canada held assets of CAD$91.9 billion (some US$72.3 billion) (PFC, n.d.). Beginning in the 1980s, Europe experienced a veritable foundation boom, with the majority of its estimated 110,000 foundations having been created in the last two decades of the twentieth century. In 2019, there were more than 23,000 entities registered as foundations in Germany alone (Bundesverband Deutscher Stiftungen, 2021). Although asset values dropped in 2001 and 2008 in many countries, they recovered and remain at historically high levels in most developed market

economies, even though there remain uncertainties as to the long-term impact of the COVID-19 pandemic.

There is great variation among countries in the number of foundations (Table 4.2), ranging from some 90,000 in the US, roughly 14,500 in Sweden, 12,500 in Japan, approximately 13,000 in Switzerland, and over 14,000 in Spain, to fewer than 500 in Portugal (excluding foundations registered under canonical law) and 665 in Belgium. As noted, the data suggest that there are around 90,000 to 110,000 foundations in Europe as a whole (excluding Turkey), or an average of around 400 foundations per million inhabitants (Hopt et al., 2009).

As also shown in Table 4.2, the economic weight of operating institutions, programs, and projects tends to be more significant than actual grant-making activities among many European foundations. For example, France, Greece, Ireland, Spain, Italy, and Portugal all have more operating or mixed foundations than grant-making foundations.

The economic weight of operating institutions, programs, and projects tends to be more significant than actual grant-making activities among many European foundations.

Asset estimates are the most difficult data to obtain on foundations, especially cross-nationally, given the influence of different valuation measures and techniques and information availability. Irrespective of these difficulties, available estimates reveal significant cross-national variations. For example, in 2012, the assets held by the 20 largest Japanese foundations amounted to 8.1 billion yen (US$71 million) (Japan Foundation Center, 2012). Estimates of the assets of German foundations are €68 billion (about US$76.7 billion), of United Kingdom foundations €74.6 billion (US$84.2 billion), of Italian foundations €39.8 billion (US$44.9 billion), and of Swedish ones €27.6 billion (US$31.1 billion) (Philea, n.d.).

In terms of activities, the priority fields for European foundations on average are education (28% of foundations responding), human services (23%), poverty alleviation as well as arts and culture (17% each), and the balance spread across a wider range of purposes (Johnson, 2018). In Africa, Asia, Latin America, and the Middle East, foundations tend to focus on education first and health second, with the other fields generally less important.

Foundation sectors can be grouped into three classes: small, medium, and large, with the middle group further divided into subcategories. Given the data situation, it is not possible to construct a strict and consistent ranking of countries in terms of foundation sector size. Yet, taken together, the various size indicators suggest three groups or clusters, and even such an admittedly crude classification involves some qualitative judgments. The relative size of the foundation sectors of European countries, selected other countries, and the US can be classified as follows:

- Countries with a small foundation sector: Ireland, Belgium, Portugal, and Romania, as well as most Central and Eastern European countries and developing countries and autocratic regimes generally.

TABLE 4.2 Estimated number and types of foundations in selected countries, various years

Country	*Number*	*Grant-making foundations*	*Operating foundations*	*Mixed type*
Australia	~7000	~50%	~50%	
Austria	3,390			Majority
Belgium	665	Few		Majority
Canada	~11,000			
China	4,870			
Denmark	14,000			
Estonia	638			
Finland	2,600	50%	30%	20%
France	1,226		Majority	
Germany	23,000	~50%	~25%	~25%
Greece	489	Few	Majority	Few
Ireland	107	27%	70%	3%
Italy	6,220	20%	50%	30%
Japan	~12,500			
Netherlands	~6,000	Majority		
Norway	~7,000			Majority
Portugal	485		Majority	
Russia	11,000			
Spain	14,120	25%	69%	5%
Sweden	14,500			
Switzerland	13,170		Majority	
UK	~13,000	100%		
US	~90,000	Majority		

Sources: For most of Europe, Hopt et al., 2009; for Japan, The Japan Foundation Centre; for Norway, The Gaming and Foundation Authority; for Canada, PFC Canada, n.d.; for Germany, Bundesverband Deutscher Stiftungen, 2021; others in Anheier, 2018.

- Countries with a medium-to-small foundation sector: Austria, Greece, Norway, Sweden, and Turkey; and countries with a medium-to-large foundation sector: Australia, Canada, Finland, France, Japan, and the Netherlands.
- Countries with a large foundation sector: Switzerland, Germany, Italy, Spain, the UK, and the US.

In Europe foundations are largely a product of the period following the Second World War, and a veritable foundation "boom" seems to have set in, beginning in the late 1980s, facilitated by legislative changes. More foundations were created in the 1980s and 1990s than in the three preceding decades, and more of the foundations existing at the end of the first decade of the 2000s were established after 1950 than prior to that date.

In Europe foundations are largely a product of the period following the Second World War, and a veritable foundation "boom" seems to have set in, beginning in the late 1980s.

CIVIC ENGAGEMENT

Civic engagement encompasses a broad spectrum of ways in which individuals and groups engage in order to improve conditions for others or their communities. Here we look at some of the more prevalent types of engagement, in particular formal volunteering, informal volunteering and caring activities, and social participation and membership in organizations.

Formal Volunteering

Formal volunteering is any contribution of unremunerated time to the activities of a formal organization, for example, volunteering for the Red Cross, a social service provider, or an environmental protection group. Informal volunteering is any assistance given directly to individuals outside one's household, extended family, and friends that are not part of a formal organization, for example, helping an elderly couple living in one's neighborhood with household chores or taking the initiative to clean up a local park with friends.

Formal Volunteering in the United States

Volunteers are an important component of the nonprofit sector almost everywhere. Some 25% of Americans volunteered in 2017, contributing roughly 8.8 billion hours, or the equivalent of US$195 billion in wages (McKeever, 2018). Demographically, volunteers are more likely to be female, white, and middle-aged (Figure 4.12). In 2014, 28% of women volunteered, while only 22% of men did. In the same year, 27% of whites volunteered, the only ethnic group to exceed 20%. In terms of age, individuals between the ages of 35 and 54 were the most likely to volunteer (McKeever et al., 2016).

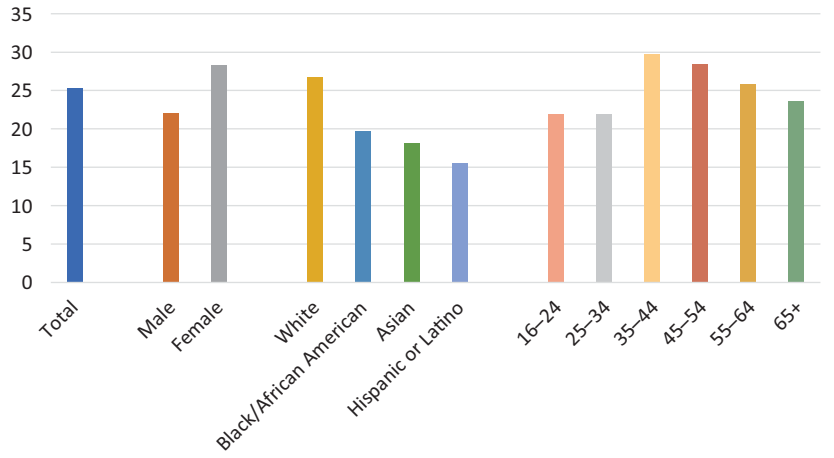


FIGURE 4.12 Volunteering rates by demographic categories, US, 2014 (%)

Source: Based on McKeever et al., 2016, pp. 128–9.

Volunteering shares vary substantially with respect to what types of organizations volunteers donate their time to. Religious groups and educational/youth services organizations are the two most popular types of nonprofits to volunteer for, attracting 33% and 25% of the number of volunteers, respectively (Figure 4.13). They are followed by social and community service groups and health organizations (McKeever et al., 2016).

Americans with higher levels of education engaged in volunteer activities at higher rates than did those with less education. Among those over 25 years of age, 38.8% of people with a bachelor's degree and higher volunteered, versus 26.5% of people with some college, 15.6% of high school graduates, and 8.1% of those with no diploma (Bureau of Labor Statistics, 2016). Wilson (2000) suggests that higher educational levels increase the likelihood of volunteering because education heightens awareness of problems, increases empathy, and builds self-confidence. This effect may also derive from the higher incomes that tend to come with greater education, as those with higher incomes have the ability to volunteer more.

Americans with higher levels of education engaged in volunteer activities at higher rates than did those with less education.

Employment status also is a factor differentiating those who are more likely to volunteer. Americans who are employed demonstrate a higher rate of volunteering (27.2%) than those who are unemployed (23.3%) and those, such as retirees, students, and stay-at-home parents, who are not in the formal labor force (21.4%). As might be expected, part-time employees tend to be more engaged in volunteer activities than full-time employees (31.1% versus 26.3%) (Bureau of Labor Statistics, 2016).

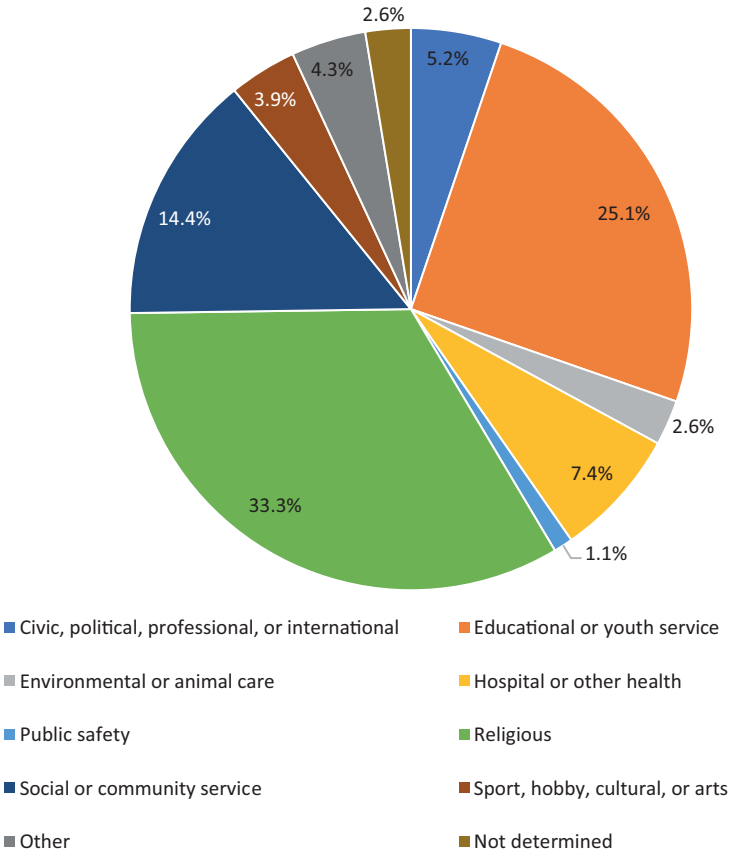


FIGURE 4.13 Volunteers by main organization type, US, 2014 (% of total volunteers)

Source: Based on McKeever et al., 2016.

Formal Volunteering Elsewhere

Because of the myriad understandings of volunteering in different national and cultural settings and methods used to collect and interpret data, cross-national comparisons are difficult at best. Nevertheless, and with this in mind, we offer information about volunteering activity and volunteers in several countries, which shows that Americans are not the most engaged in terms of formal volunteering.

We start with the closest US neighbor, Canada. As shown in Table 4.3, four out of ten Canadians aged 15 and older engaged in formal volunteering in 2018, a volunteering rate that is a drop from the 47% and 45% Vézina and Crompton (2012) calculated for 2010 and 2004, respectively. In all, some 12.7 million Canadians volunteered formally in nonprofit organizations in 2018, contributing approximately 1.7 billion volunteer hours. Top volunteers, i.e., the 25% of volunteers who contributed the most hours, volunteered 132 hours or more in the 12 months preceding the survey (Hahmann et al., 2020).

TABLE 4.3 Volunteering in Canada, 2018

	% of population volunteering	*Number of volunteers*	*Number of hours*	*Full-time equivalent*
Formal volunteering	41% (15 and older)	12.7 million	1.7 billion hours in total / 130 hours on average	858,000 full-time year-round jobs
Informal volunteering	73% (15 and older)	22.7 million	3.4 billion hours in total / 140 hours on average	1.7 million full-time year-round jobs

Source: Hahmann et al., 2020.

In 2018, Canadian volunteers donated most of their time to hospitals, religious organizations, and sports and recreation (Hahmann et al., 2020). These priorities differ slightly from those of American volunteers, who, as noted above, are involved more often with religious and educational organizations. What volunteers do, however, is quite similar. Some 45% reported being involved in fundraising, 44% in organizing events, 30% in teaching or mentoring, and 28% in preparing or delivering food or other products (Vézina & Crompton, 2012).

Unlike in the US, the highest rates of volunteering were found among Canadians who were younger: 52% of "iGens" (those born in 1996 or later) reported volunteering for charities, nonprofits, or community organizations, contributing an average of 82 unpaid hours in 2018 (Hahmann et al., 2020). GenXers (38- to 52-year-olds), 44% of whom volunteered, were followed by millennials (40%) and baby boomers (39%). That being said, "matures," those born before 1946, and baby boomers were about twice as likely as iGens to spend 132 hours or more on formal volunteer activities. Women were only slightly more active than men (45% vs. 42%) (Sinha, 2015).

The significance of educational level and employment status is also evident in Canada. As in the US, the volunteering rate of those with a university degree was higher than for any other educational category. The difference between the rates for those holding a university degree (55%) and those without a high school diploma (39%), however, is not as stark as in the US (39% versus 8%). In 2013, employees were as likely to volunteer as the unemployed (45% vs. 46%), a change from previous years reflecting a decline in volunteering rates of employed Canadians (Sinha, 2015).

The significance of educational level and employment status is also evident in Canada.

In Australia, where questions about volunteering are periodically included in the General Social Survey conducted by the Australian Bureau of Statistics (ABS), some 5.9 million

people, or 29% of the Australian adult population aged 18 years and above, engaged in voluntary work through an organization in 2019 (Volunteering Australia, 2021). Volunteering was somewhat more common among those living in parts of Australia outside the capital cities. The volunteer rate was 30% in the capital cities compared with 34% in areas comprising the rest of the state or territory. Though the ABS-estimated volunteering rate is lower than that of 2010 (36%), other sources suggest a slight increase.

Of those people who volunteered, almost two-thirds (63%) did so for only one organization. Almost a quarter (24%) did voluntary work for two, while 15% volunteered for three or more. The most common types of organizations for which people volunteered were those relating to sport and physical recreation (39% of volunteers), religious groups (23%), and education and training (22%). Volunteering rates were highest for people aged 40–54 years (36%), 55–69 years (29%), and 15–24 years (39%). Australian men and women volunteer at roughly similar rates (31% versus 29%) (Volunteering Australia, 2021).

People employed part-time had a higher volunteer rate (34%) than those employed full-time (30%) or not in the labor force at all (25%). People living in households in the middle/third quintile of gross household income volunteered the most, at a rate of 33%, compared with 26% of people living in households with the lowest income and 30% of those in households with the highest income. As in Canada, the volunteering rate in Australia was lower for people who had not completed a school qualification (25%) than for those who had completed a bachelor degree or above (33%), with the gap again not quite as stark as it is in the US (Volunteering Australia, 2021).

Moving on to Europe, a survey on social participation in the European Union (Eurostat, 2015) found that 19.3%, or nearly one in five, of the adult population aged 16 and over in the 28 European Union member states at the time had engaged in volunteer work (Figure 4.14). Behind this average rate are wide ranges, reflecting the differences in traditions and stage of nonprofit sector development. The Netherlands and the Nordic countries are consistently featured as having very high rates of volunteering, i.e., above 30% of the population. By contrast, countries such as Bulgaria, Hungary, and Romania rank among those with the lowest volunteering engagement.

Sport and recreation are by far the most favored type of organization for engaging as a volunteer in these European countries, as in Canada and Australia (GHK, 2010). Some 24% volunteered in a sports club, while 20% did so at a cultural, educational, or artistic organization. In the UK, this type of activity was mentioned by 22% of the volunteers. Of course, priorities vary between the European countries. Sports clubs were top choices in Ireland, Denmark, and Germany, while cultural associations were mentioned the most in Italy, Greece, France, Austria, and Portugal, and charitable organizations were popular in Luxembourg, Poland, and Spain.

Volunteers in Europe are involved in a broad variety of tasks. Unlike in the US, Canada, and Australia, where fundraising is typically cited as the task in which volunteers engage the most, administrative and supporting tasks are the most commonly reported activity. Other consistently mentioned activities across the continent include helping or working directly with people, preparing and supporting voluntary activities, managerial and coordination tasks, campaigning and lobbying, and the organization of events (GHK, 2010).

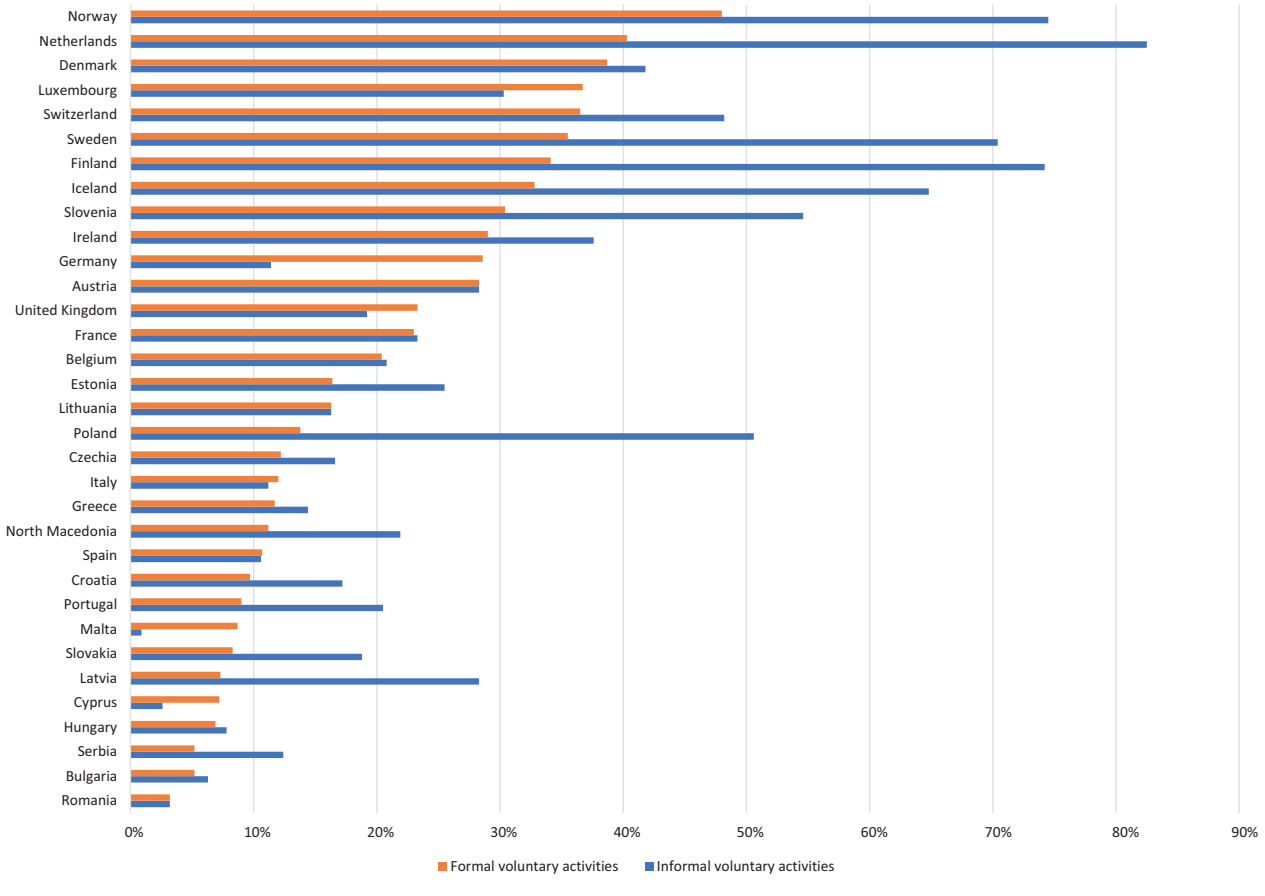


FIGURE 4.14 Participation in formal and informal voluntary activities in Europe, by country, 2015

Source: Eurostat, 2015.

At the same time, volunteering rates expanded, though not uniformly. Increases in the rates of volunteering and the number of volunteer hours were evident almost everywhere. Germany, for example, recorded a rise in the rate of volunteering from 34% in 1999 to 36% in 2009 to 44% in 2015 (Simonson et al., 2015). Furthermore, an overview of volunteering in the EU (GHK, 2010) indicates a general upward trend in volunteering. The majority of EU countries covered by that study experienced at least modest increases in rates of volunteering as a result of changes in attitudes and rising concern for public problems, initiatives to promote volunteering (e.g., Estonia), increased involvement of older people, and increased need due at least in part to growing numbers of organizations.

As the rate of volunteering rose in some places, in England it declined from 44% in 2005 to 39% in 2011, with a further drop to 36% in 2018 (Clark et al., 2012; Hornung et al., 2020). The US likewise saw a slight decline in the percentage of population volunteering, from 29% in 2005 to 26% in 2010, then a further decline to 25% in 2017 (Roeger et al., 2012; McKeever, 2018). And while Australia's rate of volunteering increased from 24% in 1995 to 34% in 2006, it then declined to 31% in 2014 (ABS, 2007; ABS, 2015). Some speculate that the Great Recession of 2008–09 and the ensuing economic crisis contributed to the decline because the capacity of voluntary organizations was restricted and because the unemployed are less likely to volunteer (Clark et al., 2012). However, this is not universally the case: volunteering hubs elsewhere in Europe, e.g., Ireland and the Netherlands, report that the crisis represented an opportunity and led to increased volunteering (GHK, 2010).

As we have seen, formal volunteering as a form of civic engagement manifests in various patterns in different countries, depending on culture, tradition, public policy, and many other factors. We discuss some approaches to understanding the "why" of volunteering in Chapter 7, but now we turn to related, but less formal forms of civic engagement: informal volunteering and caring.

Formal volunteering as a form of civic engagement manifests in various patterns in different countries, depending on culture, tradition, public policy, and many other factors.

Informal Volunteering and Caring

Unlike formal volunteering, informal volunteering and caring take place outside of organizations, but nevertheless involve individuals offering their unpaid time for the welfare of others. Whereas informal volunteering refers mainly to actions taken for persons or groups outside the household, caring most often refers to helping a particular individual, often within the household. Of course, these definitions vary, and concrete information about these types of activities is scant at best.

Typically, more people volunteer informally than formally through an organization. There are invariably more opportunities to "help out" a neighbor or someone else in need, whether spontaneously or regularly, than to engage with an organization. In 2018, though 25% to 30% of Americans volunteered formally, some 51% reported doing favors for

neighbors (Americorps, 2018). The picture is similar in Australia, the UK, and Canada as well. Some 33% of Australians aged 15 years and over had provided direct assistance to someone outside their own household in the month before being surveyed (compared with a 30% formal volunteering rate) (Volunteering Australia, 2021).

The Canadian survey (Sinha, 2015) covered many aspects of informal volunteering, including the "what?" and "who?" questions. In 2013, compared to the proportion engaged in formal volunteering, nearly twice as many Canadians (82%) provided informal direct help to people living outside the household including relatives, friends, and neighbors. Most of the help was related to everyday activities, e.g., housework or yardwork (59%), health-related or personal care (49%), or running errands and getting to appointments (45%), but also paperwork (27%) and coaching or tutoring (15%). The profile of those providing such help is similar to those engaged in formal volunteering: in 2013, informal volunteers were more likely to be better-educated, to be employed, to have higher household income, and to have children under 18 living at home.

In terms of caregiving, about one in five (21%) Americans had provided unpaid care to an adult or child with special needs in 2020 (AARP & National Alliance for Caregiving, 2020). The vast majority of caregivers (89%) support a family member, typically a parent or parent-in-law. In the case of adults, such caregiving usually involves helping with an activity of daily living such as getting the recipient dressed, bathed, or showered, or assisting with any supporting instrumental activity of daily living such as transportation, housework, or grocery shopping. For children with special needs, care activities include (in order of frequency) monitoring the severity of the condition, making sure people know about his/her needs and how to deal with them, advocating for the child, doing or participating in therapies or treatment, and medicating/injecting.

Three in five (61%) caregivers are female, and the average age of all caregivers is 49. While 46% report that they care for someone by choice, the remainder feel they did not have choice in taking over their responsibilities. This raises the question whether the latter group would be counted among those engaging in voluntary action.

As is the case in the Anglophone countries, informal volunteering is more prevalent than formal volunteering in nearly every continental European country (Figure 4.14). In the 28 countries that constituted the EU in 2015, 22% of the populace engaged in informal volunteering, while, as noted previously, 19% did so formally. Despite this overall trend, there were some notable exceptions. In smaller EU countries like Cyprus, Malta, and Luxembourg, formal volunteering was slightly more popular (albeit at very low levels for the two Mediterranean countries). Interestingly, Germany is the only large European country where participation in formal volunteering is significantly more frequent, outstripping informal volunteering nearly threefold (29% versus 11%). In several countries, including Austria, Belgium, and France, participation rates in the two types are about equal.

As is the case in the Anglophone countries, informal volunteering is more prevalent than formal volunteering in nearly every continental European country.

TABLE 4.4 Membership in voluntary associations, by share of adult population, US, 2017

	Total	*Active*	*Inactive*
Church or religious organization	64%	35%	29%
Political party	44%	15%	29%
Charitable/humanitarian organization	30%	16%	14%
Sport or recreation	27%	15%	12%
Professional organization	27%	12%	15%
Art, music, educational	24%	13%	11%
Environmental organization	18%	5%	13%
Labor union	16%	7%	9%
Self-help group/mutual aid group	12%	5%	7%
Consumer organization	12%	4%	8%
Any other organization	16%	9%	7%

Source: Haerpfer et al., 2020.

Membership

Americans, recalling de Tocqueville, appear to be a nation of joiners. World Values Survey (Haerpfer et al., 2020) data that combined active and inactive participation or membership in an organization showed that in 2017, nearly two-thirds of Americans were members of a religious organization (more than half of those actively) and 44% belonged to a political party (but less than a third as active members). Between 20% and 30% of Americans are active or inactive members of an organization working in the field of humanitarian aid, sports and recreation, professional interest, or art, music, and education (Table 4.4).

As do volunteering rates, membership rates, i.e., the proportion of individuals who are active or inactive members in at least one organization, vary widely from country to country (Table 4.5). Perhaps not surprisingly, Sweden ranks at the top in terms of membership rate among the countries in which the seventh wave (2017–20) of the World Values Survey was conducted: almost every Swede (96%) is a member of at least one organization. In many countries, including Australia and the UK, about three out of four individuals are members. However, when focusing on active members, i.e., those that engage in the organization beyond signing up, the ranking evens out so that active membership rates for all these high membership countries lie between 61% and 67%.

TABLE 4.5 Membership in voluntary organizations, by type of organization and country, 2017–20

Country	*Population belonging to at least 1 organization*	*Religious or church organi-zation*	*Cultural activities*	*Trade union*	*Political partiy/ group*	*Environment, ecology, animal rights*	*Professional association*	*Sports/ recreation*	*Consumer organization*	*Other group*	*Humanitarian or charitable organization*	*Self-help group, mutual aid group*
Austria	63%	32%	14%	12%	8%	4%	7%	27%	3%	9%	9%	4%
Australia	80%	38%	34%	19%	10%	14%	27%	43%	9%	6%	29%	14%
Czechia	60%	12%	19%	8%	5%	12%	10%	38%	5%	6%	10%	7%
Denmark	91%	59%	13%	52%	5%	13%	11%	43%	6%	9%	19%	5%
Germany	75%	38%	19%	14%	5%	10%	11%	44%	2%	9%	13%	7%
Greece	26%	6%	9%	6%	5%	4%	6%	12%	2%	2%	4%	4%
Hungary	36%	17%	10%	4%	2%	5%	6%	12%	1%	5%	5%	3%
Italy	26%	5%	5%	3%	1%	2%	2%	7%	0%	3%	5%	1%
Norway	80%	23%	14%	35%	9%	6%	14%	33%	6%	20%	19%	3%
Poland	27%	8%	5%	5%	1%	2%	4%	5%	1%	4%	5%	2%
Romania	36%	21%	9%	9%	7%	5%	5%	10%	3%	4%	7%	5%
Russia	23%	7%	5%	6%	2%	1%	4%	7%	1%	2%	2%	1%
Serbia	51%	25%	10%	9%	12%	5%	5%	17%	4%	5%	8%	3%
Slovenia	72%	35%	23%	13%	4%	13%	14%	35%	4%	5%	23%	11%
Spain	31%	7%	9%	6%	4%	5%	5%	11%	2%	5%	8%	2%
Sweden	85%	29%	16%	42%	7%	13%	12%	40%	11%	17%	23%	4%
Switzerland	80%	39%	26%	9%	8%	20%	23%	41%	6%	15%	18%	5%
United Kingdom	56%	14%	14%	9%	4%	7%	12%	22%	1%	8%	11%	4%
United States	76%	n/a	30%	18%	49%	20%	32%	24%	16%	24%	33%	15%

Note: US data may differ from that in Table 4.4 due to use of different data releases and weighting.

Source: EVS/WVS, 2021.

INTERNATIONAL ACTIVITIES

While the great majority of nonprofit activities are typically domestic, the scope of the nonprofit sector is also increasingly international, and some larger nonprofits have grown into veritable global actors. Oxfam, Save the Children, Amnesty International, the Red Cross, and Greenpeace have become "brand names" among international nongovernmental organizations (INGOs) that operate in two or more countries, with significant budgets, political influence, and responsibility.

The internationalization of the nonprofit sector is not a recent phenomenon. The Catholic Church and Islam have long had transnational aspirations and have maintained far-reaching operations for centuries. The modern, internationally active NGOs emerged from anti-slavery societies, most notably the British and Foreign Anti-Slavery Society founded in 1839, and from the International Committee of the Red Cross (ICRC), founded by Henri Dunant in 1864 after his experiences in the Battle of Solferino. By 1874, there were 32 INGOs (Chatfield, 1997), which had increased to 804 by 1950 (Tew, 1963), although with significant fluctuations between 1914 and the end of World War II.

The internationalization of the nonprofit sector is not a recent phenomenon.

What seems new, however, is the sheer scale and scope that international and supranational institutions and organizations of many kinds have achieved in recent years (Schofer & Longhofer, 2020). Many NGOs have become large-scale organizations operating in many countries. Some, such as Médecins Sans Frontières, Save the Children, and World Vision, manage collective annual budgets of over $1 billion (Table 4.6).

The CNP Project (Salamon et al., 2017) attempted to measure basic economic indicators of the size of nonprofit organizations engaging in international activities, including exchange and friendship programs, development assistance, disaster and relief, and human rights advocacy, in a broad cross-section of countries. These data allow us to fathom at least some aspects of the scale of international nonprofit activities, albeit from a country-based perspective. For the 41 developed and developing countries for which such data were available, INGOs accounted for about 1% of total nonprofit sector employment and slightly more with volunteers included. In the US, the Center for Global Prosperity estimated that in 2014 Americans contributed $4.3 billion (up from $3.5 billion in 2007) worth of volunteer time for relief and development assistance causes abroad and for internationally oriented US-based organizations.

In terms of revenue structure, the internationally oriented nonprofits, as measured by the CNP (Salamon et al., 2017), received 28% of their income through fees and charges, including membership dues, 34% from both national and international governmental organizations in the form of grants and reimbursements, and 38% through individual, foundation, and corporate donations. With volunteer input factored in as monetary equivalent, the donation component increased to 60% of total "revenue," which makes the

TABLE 4.6 Major INGOs and NGO networks, various years

NGO network	*Turnover or related monetary figure in US dollars*	*Operating in number of countries*	*Other size indicators, information*
Amnesty International (www.amnesty.org)	2017 Income Report: €279 million (US$315 million) revenue	159	2,500 full- and part-time staff; 69 offices; over 3 million supporters, members and activists
CARE International (www.care-international.org)	2017 Annual Report: €841 million (US$950 million) revenue, €811 million (US$916 million) expenses	104	21 organizational members (including 6 candidate and 1 affiliate)
Caritas Internationalis (www.caritas.org)	2019 Annual Report €5.1 million (US$5.6 million) revenue, €4.9 million (US$5.4 million) expenses	200+	162 national member organizations
Greenpeace (www.greenpeace.org)	2019 Financial Report: $12 million expenses	55+	4,000 staff; 15,000+ volunteers
International Federation of Red Cross and Red Crescent Societies (www.ifrc.org)	2019 Annual Report: $2 billion expenditures	190	190 national societies; 18,800 staff
Médecins sans Frontières (www.msf.org)	2019 Activity Report: €1.62 billion (US$1.81 billion) total income, €1.68 billion (US$1.88 billion) expenses	70+	Over 65,000 staff (45,000 FTE), roughly 90% in field, 10% at headquarters
Oxfam International (www.oxfam.org)	Annual Report 2018–19: €1,018 million (US$1,137 million) income, €998 million (US$1,114 million) expenditure	90+	19 affiliate organizations; 245 secretariat staff
Save the Children International (www.savethechildren.net)	2019 Annual Report: $2.2 billion raised	117	29 national organizations
World Vision International (wvi.org)	2019 Annual Report: $2.9 billion total income	90+	37,000 employees
WWF International–World Wildlife Fund for Nature (wwf.panda.org)	2019 Annual Report: 201 million Swiss francs (US$202 million) income, 198 million Swiss francs (US$199 million) expenditure	~100	Offices in 80+ countries; support of 5 million+ people; 5,000+ staff worldwide

Source: Annual reports from agencies listed above.

international nonprofit field the most voluntaristic and donative part of the nonprofit sector after religious congregations.

The international nonprofit field [is] the most voluntaristic and donative part of the nonprofit sector after religious congregations.

The Rise of International Nongovernmental Organizations

Figure 4.15 depicts the growth pattern of active INGOs since the beginning of the twentieth century and shows a remarkable expansion after the 1970s. This growth coincided with the proliferation of developmental aid activities in the 1970s, market liberalization in the 1980s, the opening up of political space following the fall of the Berlin Wall, and a general and significant reduction in the cost of international communication and activities. The expansion continues into the twenty-first century, albeit at a somewhat lower rate.

One major indicator for the rise of INGOs is their role in developmental and humanitarian assistance. Governmental and multilateral funds channeled through INGOs for development and relief activities have increased significantly since the 1970s. In 1980, the share of total aid disbursements allocated to and through INGOs by OECD's Development Assistance Committee (DAC) members (excluding the EU institutions) was less than 1% (Agg, 2006). By 2002, the share had risen to 6%, and by 2009 the share had more than doubled to 13%, or some $15.5 billion (DAC, 2011). Though the share of official development assistance (ODA) going to or through NGOs rose to a peak of 13.7% in 2014, it declined back to 12.3% in 2018 (Table 4.7).

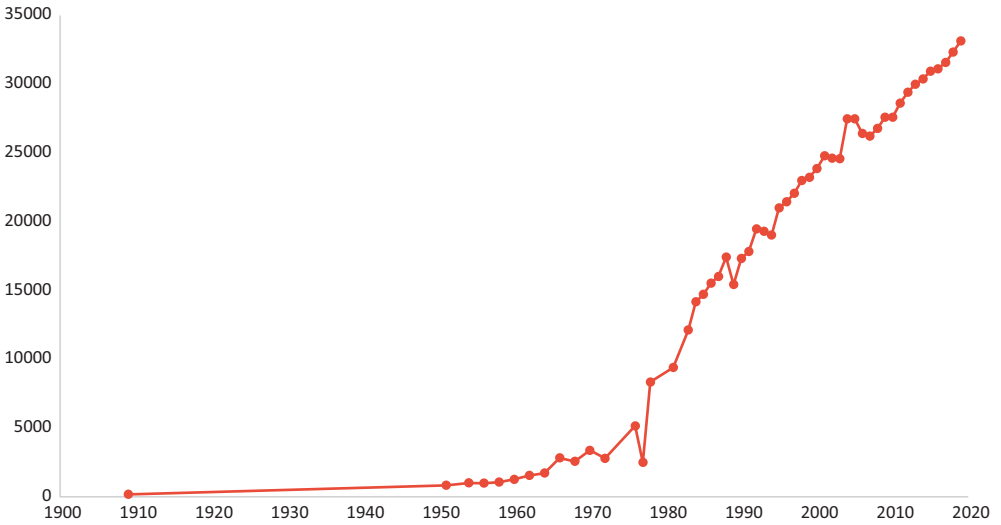


FIGURE 4.15 Number of active international NGOs, by year

Source: Union of International Associations, 2020, Figure 2.9.

TABLE 4.7 Official development assistance (ODA) from the DAC countries (excluding EU institutions) in million US$ (constant prices 2018)

Year	*Total ODA flow*	*ODA through CSOs*	*ODA to CSOs*	*ODA to and through CSOs*	*Share (%) of total ODA to and through CSOs*
2010	127,857	14,720	2,131	16,851	13.2%
2011	126,688	14,939	2,036	16,975	13.4%
2012	121,854	14,431	2,088	16,519	13.6%
2013	128,281	14,449	2,465	16,914	13.2%
2014	130,331	15,132	2,687	17,819	13.7%
2015	138,461	15,119	3,520	18,639	13.5%
2016	153,653	15,396	3,344	18,740	12.2%
2017	153,361	15,953	3,142	19,095	12.5%
2018	150,059	15,387	3,059	18,446	12.3%

Source: OECD, 2020.

The growth of INGOs and their organizational presence is unequally spread across the world. Not surprisingly, Europe and North America host more INGOs than other regions of the world. However, even though, as we show below, cities in Europe and the US still serve as the INGO capitals of the world, a long-term diffusion process has reduced the concentration of INGOs to the effect that they are now more evenly distributed around the world than ever before.

A long-term diffusion process has reduced the concentration of INGOs to the effect that they are now more evenly distributed around the world than ever before.

As shown in Figure 4.16, INGO memberships increased in all world regions, but more in some than in others. The highest expansion rates between 2002 and 2018 were in Europe and East Asia. Much of the growth in Eastern Europe in particular had taken off in the decade following the fall of state socialism and the introduction of freedom of association, with the pace of growth already slowing in the first decade of the twenty-first century. A similar phenomenon of rapid growth over the 1990s that slowed during the 2000s occurred in Asia, but the growth can be explained in large part by economic expansion in many countries of the region.

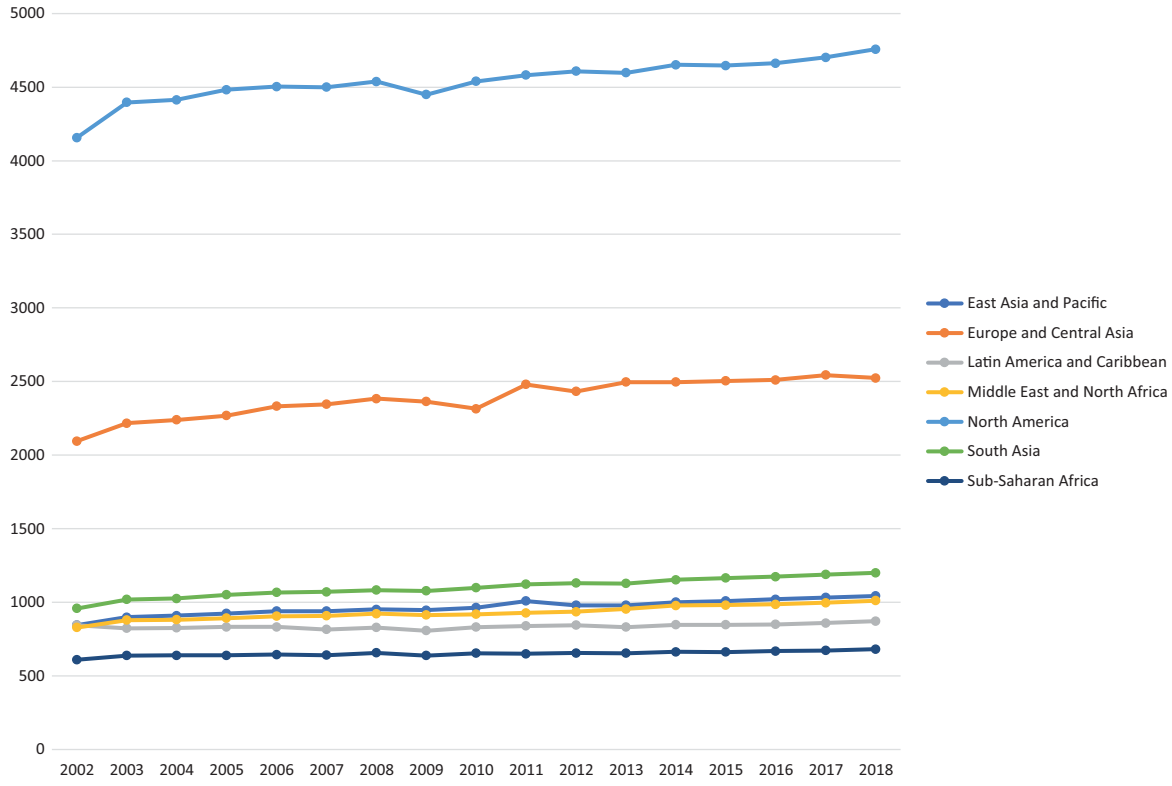


FIGURE 4.16 International NGO memberships, average number of memberships per year, by world regions, 2002–18

Source: Union of International Associations, 2019, Figure 3.1.

Note: "Memberships" refers to the number of organizations in which the country itself or a person or organization in that country is a member. In the case of international NGOs, for example, the participation of all individuals living in the US in Amnesty International would count as a single membership for the US.

Together, these data indicate that the growth of the organizational infrastructure of global civil society does not involve concentration but rather dispersion, and points to inclusion rather than exclusion. In organizational terms, global civil society today is less a Western-based phenomenon than in the past, and the significant growth rates of recent years have contributed to its expansion outside North America and the European Union. In the terms of Held and colleagues (1999), the organizational infrastructure of INGOs has attained wider reach (extensity) and higher density (intensity), a finding also supported by Anheier and Katz (2003).

To illustrate the process of dispersion, it is useful to review some basic patterns of INGO location over time, and to go back briefly to the beginnings of modern INGO development. In 1906, only two of the 169 INGOs had their headquarters outside Europe; by 1950, with a significant increase of US-based INGOs, and with the establishment of the United Nations, 124 of the 804 existing INGOs were not based in Europe. With the independence movements leading to de-colonization and the generally favorable economic climate of the 1950s and early 1960s, the number of INGOs increased to 1,768, of which 83% were located in Europe, 10% in the US, and the remainder scattered among other regions (Tew, 1963).

By 2018, much of this concentration gave way to a more decentralized pattern around an emerging bipolar structure of INGOs with two centers: Europe and North America. Europe still accounts for the majority of INGO headquarters, followed by the US, but other regions like Asia, Latin America, and Africa have gained ground. Although the top countries hosting the greatest number of intercontinental organization headquarters in 2018 were still European, Argentina, Brazil, Japan, Mexico, and South Africa were each host to more than 100 such organizations (UIA, 2019, figure 3.13). Though Brussels remained the main hub of international associations, Mexico City, Seoul, Nairobi, Bangkok, and Moscow were each likewise home to more than 50 INGO headquarters (UIA, 2019, figure 3.20).

When looking at the "subject" on which INGOs focus as determined from their organization name and description in the 2019/20 Directory of the Union of International Associations, "society" (women, youth, minorities, the disadvantaged, etc.), recreation, industry, and research are prominent fields (Figure 4.17). The pronounced presence of research activity among international associations may be unexpected, yet it is in such fields that the need for some form of international cooperation, exchange of information, recognition, and standard-setting has been long felt. There are thousands of scholarly associations and learned societies that span the entire range of academic disciplines and fields of human learning.

Thousands of scholarly associations and learned societies span the entire range of academic disciplines and fields of human learning.

International Philanthropy

Philanthropy has been perhaps the least internationalized component of the nonprofit sector; at the same time, foundations are among its most visible components internationally, especially since the expansion of the Bill and Melinda Gates Foundation's

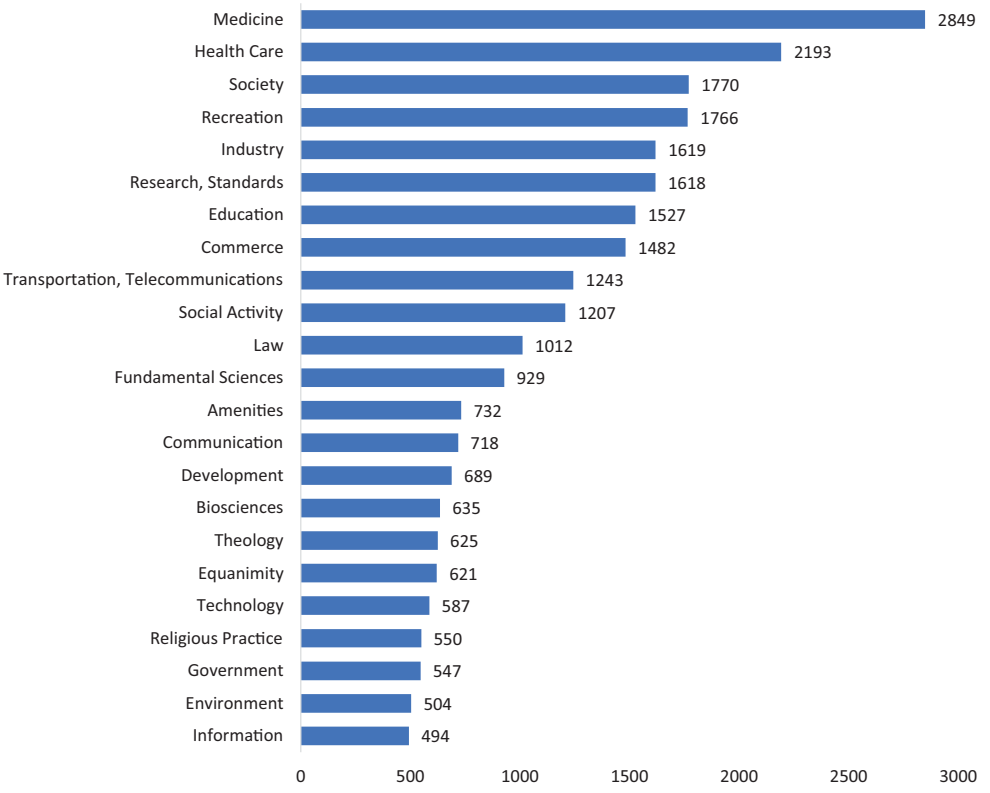


FIGURE 4.17 Number of international associations by field, 2018

Source: Union of International Associations, 2019, Figure 5.3.

activities in the first decade of the twenty-first century. Large foundations such as the Ford Foundation, the Rockefeller Foundation, and the Gates Foundation, the network of Soros-backed foundations, the Robert Bosch and Bertelsmann Foundations in Germany, and the Rowntree Foundation in the UK enjoy high international recognition. Prominent examples of historic and recent philanthropic gifts for international causes are the Rockefeller Foundation's investment (joined later by the Ford Foundation) in launching the Green Revolution in Latin America and Asia in the 1940s and 1950s; the Rockefeller Foundation and the Bill and Melinda Gates Foundation's Alliance for a Green Revolution in Africa, announced in 2006; the Gates Foundation's programs in global health, especially for the development of vaccines for malaria and the HIV/AIDS virus; the John D. and Catherine T. MacArthur Foundation's grant-making program in environmental protection and natural resource management; the Hewlett Foundation's multi-million-dollar investment together with the Packard and McKnight Foundations in the Climate Works Foundation; and the Ford Foundation's long-standing support of the human rights movement worldwide (Heydemann, 2010; Hammack & Anheier, 2013). Significantly, in 2014

US philanthropic giving to the developing world ($43.9 billion) outstripped official aid ($33.1 billion) (Center for Global Prosperity, 2016).

Philanthropy has been perhaps the least internationalized component of the nonprofit sector; at the same time, foundations are among its most visible components internationally.

Systematic data on international philanthropy is limited, but recent efforts have attempted to shed some light on the scope of cross-border giving also outside of the US. For example, the Center for Global Prosperity (2016) finds that philanthropic giving from 39 countries (DAC and non-DAC) to developing countries totaled US$64.4 billion in 2014, a much higher figure than the OECD's (2017) estimate of US$19.5 billion in 2013–15. Additionally, in 2018, the European Foundation Centre found that while 64% of its member foundations work internationally, only 38% have offices in more than country and 48% fund in other countries (without international offices) (EFC, 2019). While much of this activity appears to be on a relatively small scale in terms of expenditures, many spend or grant sums well over €2 million (US$2.8 million) annually and some report budgets of over €10 million (US$10.4 million) for international activities (Hopt et al., 2009). Still, like in the US, many European foundations remain by-and-large domestic actors, being constrained by their deed and held back by the higher transaction costs of operating across borders.

REVIEW QUESTIONS

What are some of the major contours of the nonprofit sector scale and revenue structure in the United States, and how do these differ from those of other countries?
What are some of the main patterns of giving and volunteering?
What are the main facets of international nonprofit activity?

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NOTE

1 The estimates reported in Figure 4.6 can deviate from those countries covered previously due to different time periods and methodologies.

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PART II

Approaches



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CHAPTER 5

Theories of Nonprofit Organizations

This chapter offers an overview of various economic, sociological, and political science approaches that address the origins, behavior, and impact of nonprofit organizations. It compares these approaches with one another, highlighting their strengths and weaknesses, and points to new and emerging theoretical developments.

LEARNING OBJECTIVES

The task of theory is to explain and to help us understand the world around us. The nonprofit field is rich in theories that offer important insights into the role of nonprofit organizations and the functioning of modern economies and societies more generally. After considering this chapter, the reader should be able to understand:

- why nonprofit organizations exist in market economies, pointing to the demand and supply conditions that encourage their existence and growth;
- the conceptual foundations of the major theories, including their assumptions and implications;
- the strengths and weaknesses of the theories presented in this chapter;
- how the various theories relate to each other; and
- what some of the theoretical potentials and current developments in the field are.

In contrast to Chapters 1 through 4, this one is primarily concerned with theory. Consequently, a number of new and important terms are introduced throughout this chapter:

- Adverse selection
- Collective action
- Co-production
- Demand heterogeneity
- Entrepreneurs
- Externalities

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- Free-rider problem
- Gift relationship
- Government failure
- Hybridity
- Information asymmetry
- Market failure
- Median voter
- Moral hazard
- Nondistribution constraint
- (Non)Excludability
- Nonprofit regimes
- (Non)Rivalry
- Path dependency
- Private goods
- Product bundling
- Public goods
- Quasi-public goods
- Stakeholder
- Transaction costs
- Trust
- Voluntary failure

WHAT IS TO BE EXPLAINED? THE NONPROFIT RESEARCH AGENDA

In a 1990 article in the *Annual Review of Sociology*, DiMaggio and Anheier suggested a "road map" for nonprofit sector research that remains useful today. It is a simple map, and indeed the agenda proposed has only a few points or areas in it. When we think of the range of research topics that come within the compass of nonprofit organizations, three basic questions come to mind:

- Why do nonprofit organizations exist?—which leads to the question of organizational origin and institutional choice.
- How do they behave?—which addresses questions of organizational behavior.
- What impact do they have and what difference do they make?—which points to the famous "So what?" question.

Three basic questions: Why do nonprofit organizations exist? How do they behave? What impact do they have and what difference do they make?

We can ask these questions at three different levels:

- the organization and case, or a specific set of organizations;
- the field or industry (education, health, advocacy, philanthropy); and
- the economy and society.

The proposed agenda took the unit "nonprofit organizations" as its starting place. The wider institutional embeddedness of nonprofit organizations and the role of civil society and civic engagement entered the explanatory concerns of nonprofit theories only later, as seen in Chapter 1. The proposed agenda, while interdisciplinary in intent, invited economic approaches first and foremost, and the majority of available theories of nonprofit organizations are still economic in nature, i.e., involve some notion of utility maximization and rational choice behavior.

The years since that 1990 article was written have been fruitful ones for theories of nonprofit organizations, and a number of answers have been worked out for the "why" questions in Table 5.1. Research is currently concentrating on questions of organizational behavior ("how") and impact ("so what"), and available results and theories remain less "solid" than for the "why" questions. While we will deal with questions of behavior and impact in other chapters, we will focus for the time being on theories that seek to answer why nonprofit organizations exist in market economies. After all, if market economies are about profit, why do some organizations elect *not* to make profit? Of course, in Chapter 3, we point out that the correct way to refer to nonprofits would not be "non-profit-making" but rather "non-profit-distributing." Therefore, we ask: why do some organizations in market economies choose not to distribute residual income as profit?

If market economies are about profit, why do some organizations elect **not** to make profit?

Before presenting the range of theories that have been proposed in response to this question, it is useful to introduce some fundamental concepts of economic and sociological theory. We will do so by way of a famous example of social policy suggested by Richard Titmuss in his treatise on the "Gift Relationship" (1970). Titmuss explores a seemingly perplexing question: if the value of goods and services in market economies is mediated through the price mechanism that balances supply and demand, how is it possible that some of the most valuable things have no market price and are not exchanged via market mechanisms? His example was the giving of blood, and he asked: why is blood not collected via markets, but by a voluntary system of individual gift-giving? Although Titmuss worked through this example before the impact of the HIV/AIDS crisis on blood donations, it is still useful to explore his reasoning as it introduces concepts that help understand the background to economic theories of nonprofit organizations.

In essence, Titmuss suggests that the voluntary supply of blood is a response to actual and assumed market "failures," i.e., unfair outcomes. Specifically, six aspects are important

TABLE 5.1 Basic nonprofit sector research questions

	Level of analysis and focus		
Basic question	*Organization*	*Field/Industry*	*Economy/Country*
Why?	Why is this organization nonprofit rather than forprofit or government? ***Organizational choice***	Why do we find specific compositions of nonprofit, forprofit, government firms in fields/industries? ***Field-specific division of labor***	Why do we find variations in the size and structure of the nonprofit sector cross-nationally? ***Sectoral division of labor***
How?	How does this organization operate? How does it compare to other equivalent organizations? ***Organizational efficiency, etc.; management issues***	How do nonprofit organizations behave relative to other forms in the same field or industry? ***Comparative industry efficiency and related issues***	How does the nonprofit sector operate and what role does it play relative to other sectors? ***Comparative sector roles***
So what?	What is the contribution of this organization relative to other forms? ***Distinct characteristics and impact of focal organization***	What is the relative contribution of nonprofit organizations in this field relative to other forms? ***Different contributions of forms in specific industries***	What does the nonprofit sector contribute relative to other sectors? ***Sector-specific contributions and impacts cross-nationally***

to suggest that a free market system for blood may lead to such failures (see also Young & Steinberg, 1995, pp. 196–8):

- *Information asymmetry*: Potential donors with contaminated blood may conceal this fact in order to receive money. Information asymmetries exist when either the seller or the buyer knows more about the true quality of the product or service offered. Under market conditions, there would be strong incentives to conceal such knowledge and use it to one's advantage, a phenomenon economists call *adverse selection*, i.e., people hide information to gain utility. For example, smokers buying life insurance have an incentive not to reveal their smoking habit to obtain a lower premium. A related phenomenon is *moral hazard*, which refers to behavioral change after a transaction has taken place. For example, people start smoking after buying a non-smoker life insurance policy.

Information asymmetries exist when either the seller or the buyer knows more about the true quality of the product or service offered.

- *Trust*: For blood collectors and the ultimate recipients, inherent information asymmetries require some level of trust in the purity of the donated blood. They seek assurances that, due to their relative ignorance of the true quality of the blood, money-seeking contributors or careless altruists are not taking advantage of them. As we will see below, trust goods like donated blood, child care, social services, but also cultural performances and used cars, are prone to market failures unless market-correcting mechanisms such as prohibition of profit distribution, government oversight, insurance coverage, or liability laws are in place.

Trust goods . . . are prone to market failures unless market-correcting mechanisms . . . are in place.

- *Externalities*: Transmission of infection from donor to recipient in a market situation can yield "negative" externalities, and others not party to the initial blood transaction might get infected. Externalities exist when either a benefit or a cost is not directly accounted for by the market price but passed on to third parties. Air pollution is an example of a negative externality, as the sales price of a car does not include the car's lifetime contribution to lowering air quality. A private arboretum in a densely populated urban area would be an example of a positive externality, as the costs for maintaining the park would be borne by the owner but the fresher, cleaner air would benefit a much wider group of residents in the area.

Externalities exist when either a benefit or a cost is not directly accounted for by the market price but passed on to third parties.

- *Transaction costs*, i.e., the cost of exchange, doing business, and contracting. Of course, "bad" or contaminated blood can be detected, but this could be expensive and was only introduced in the wake of the HIV/AIDS crisis in the 1980s. However, if possible, markets seek to minimize such costs, as they take away from the efficiency of market exchange by adding to the cost of transactions. As economists have argued, consumer trust in the assumed quality of the good or service being provided can reduce transaction costs under conditions of information asymmetry.
- *Limitation of market* arises from a combination of information asymmetries, moral hazard, and transaction costs, and it is important to appreciate that market failure would likely lead to an oversupply of blood: if donors are paid, the blood supply will contain the blood of untainted altruists and both tainted and untainted money-seekers.

Yet this oversupply would not be associated with a drop in the price of blood, as expensive screening and testing would increase transaction costs that would be passed on to consumers.

- *Limitation of a voluntary system* of blood donation is the mirror image of market failure. If all blood is donated through voluntary individual action, a *free-rider problem* arises that creates a potential undersupply of blood. As blood would be available to anyone in emergencies and time of need regardless of actual contributions to available blood banks, individuals have no incentive to donate blood themselves to what is de facto a public reserve bank of blood. As a result, a voluntary system may not be efficient from a societal perspective.

The tensions between private and public benefits and individual incentives to contribute to some common good relative to moral hazards and free-riding potentials come together in a basic distinction between public goods and private goods.

- *Pure public goods* are goods to which no property rights can be established and that are available to all irrespective of contribution; whereas
- *Pure private goods* are goods with individual property rights, and their production, exchange, and consumption generate no externalities.

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Pure private goods are goods with individual property rights, and their production, exchange, and consumption generate no externalities.

Pure public goods have two essential characteristics inherent in the nature of the good or service in question:

- *Nonexcludability*, i.e., once produced, consumers cannot be prevented from benefiting except at great cost. For example, it is very costly, if not impossible, to exclude nontaxpayers from benefiting from national defense, public art, or urban green belts; and
- *Nonrivalry*, i.e., individual use does not reduce the amount available for use by users or potential customers. For example, the presence of other people in the audience of a symphony hall typically does not diminish a person's enjoyment of a musical performance.

Only if nonexcludability and nonrivalry are both present in the nature of the good or service do economists speak of pure public goods. Conversely, excludability and rivalry become the essential characteristics of a pure private good:

- *Excludability*, i.e., once produced, only consumers with property rights can benefit, and others can be prevented from benefiting at no or little cost. For example, food

purchased in a supermarket is typically consumed by household members; others are easily excluded unless invited for lunch or dinner; and

- *Rivalry*, i.e., individual use limits and can even exhaust potential use by others. For example, only one person can wear a particular piece of clothing at a time, and food items are consumed by one person only, even if they share the same meal.

Excludability and rivalry are often a matter of degree, and they may not necessarily be manifest at equal levels in the same good or service. If only one of the characteristics of a public good is present, and the other either not at all or much less so, we are dealing with what are called *quasi-public goods*. As Table 5.2 shows, they come in two basic varieties:

> If only one of the characteristics of a public good is present . . . we are dealing with . . . quasi-public goods.

- *Nonexcludable quasi-public goods* are also referred to as common-pool goods or congestion goods. These goods are rival, but exclusion is possible only at a certain price. For example, the fish in the village pond are rival, and exclusion becomes an issue only if over-fishing should occur; a dramatic example is the world's oceans, where fish stock is rival and mechanisms for exclusion and controlling over-fishing are costly and difficult to enforce.
- *Excludable quasi-public goods* or toll goods are basically nonrival goods where exclusion of nonpayers is possible, i.e., associated with lower transaction costs, and enforceable. For example, museum exhibitions, theater performances, or symphonies are typically toll goods. Patrons, once admitted, can enjoy the show or performance irrespective of others being admitted to the same event.

A basic tenet of economic theory is that markets best provide pure private goods and that pure public goods are best provided by the state or public sector (see Table 5.3). The state has the power to set and enforce taxation and thereby counteracts free-rider problems associated with the supply of public goods through private mechanisms. Markets can handle individual consumer preferences for private goods efficiently, and thereby avoid the high transaction costs associated with the public sector provision of rival, excludable goods. Finally, nonprofit organizations are suited for the provision of quasi-public goods, i.e., where exclusion is possible and significant externalities exist.

TABLE 5.2 Types of goods

	Excludable	*Nonexcludable*
Rival	Pure private good, e.g., food	Common-pool good, e.g., air, fishing
Nonrival	Excludable public good or toll good, e.g., museum	Pure public good, e.g., defense, lighthouse

TABLE 5.3 Types of goods and providers

	Private goods	*Quasi-public goods*	*Public goods*
Markets	**Yes**	*contested*	No, due to market failure
Nonprofit organizations/ sector	*contested*	**Yes**	No, due to voluntary failure
State/public sector provision	No, due to government failure	*contested*	**Yes**

By implication, markets, governments, and nonprofit organizations are less suited to supply some types of goods. Economists refer to such situations as "failures." Specifically:

- *Market failure*: A situation characterized by a lack of perfect competition, where markets fail to efficiently allocate or provide goods and services. In economic terms, market failure occurs when the behavior of agents, acting to optimize their utility, cannot reach a Pareto optimal allocation. Sources of market failures include monopoly, externalities, and asymmetrical information.
- *Government failure*: A situation in which a service or social problem is not or cannot be addressed by government. In economic terms, government failure happens when government interventions in the economy create inefficiencies that lead to a misallocation of scarce resources. It can be the result of unanticipated consequences of a government intervention, or happen deliberately when inefficient outcomes are politically more acceptable to the government in power than Pareto improvements.
- *Voluntary failure*: This refers to situations in which nonprofits cannot adequately provide a service or address a social problem at a scale necessary for its alleviation. In economic terms, voluntary failure results from the inability of nonprofits to marshal the resources needed over prolonged periods of time. Since they cannot tax and cannot raise funds on capital markets, nonprofits rely on voluntary contributions that in the end may be insufficient for the task at hand.

While there is general agreement among economists and public policy analysts that markets are to provide private goods and the public sector public goods, the situation for quasi-public goods is more complex, even though many nonprofits operate to provide such goods and services. The key point is that the area of quasi-public goods allows for multiple solutions: they can be provided by government, by businesses, and, prominently, by nonprofit organizations. For example, healthcare can be offered in a forprofit clinic, a hospital owned and run by a city or local county, or a nonprofit hospital.

Indeed, one of the key issues of nonprofit theory is to specify the supply and demand conditions that lead to the nonprofit form as the institutional choice, as opposed to a public agency or a business firm, and the theories we will review next speak to this very topic.

Even though economic reasoning presents a very useful classification of goods and services, it also becomes clear that, to some extent, the dividing line between public, quasi-public, and private goods is ultimately political, particularly when it comes to the treatment of quasi-public goods. In this sense, economic theories imply important policy issues: depending on whether we treat education, health, culture, or the environment as a private, quasi-public, or public good, some institutional choices will become more likely than others. For example, if we treat higher education more as a public good, we assume that its positive externalities benefit society, and by implication, we are likely to opt for policies that try to make it near universal and funded through taxation. If, however, we see higher education as primarily a private good where most of the benefit incurs to the individual with very limited externalities, then we would favor private universities financed by tuition and other charges, and not through taxation. Many of the policy changes affecting nonprofit organizations are linked to political changes in how goods and services are defined and how policies set guidelines on excludability and rivalry of quasi-public goods, be it in welfare reform, education, or arts funding.

THE MAJOR THEORIES

Against the background provided by Titmuss's reasoning and the concepts introduced above, we will now present the major theories that have been proposed over the last several decades. In each case, we will focus on the key elements of the theory, including important assumptions made, and highlight strengths and weaknesses. Even though we will look at the theories as "stand-alone" bodies of thought, they tend to relate to each other and are more complementary than rival. In other words, even though a particular theory may have major shortcomings when taken by itself, its explanatory power is significantly strengthened when combined with other approaches.

Two additional aspects are worth considering. First, the theories presented here address primarily the "why" questions in Table 5.1, i.e., the origins of nonprofit organizations and the institutional choices involved. At the same time, they lead to expectations about organizational behavior and impact and insights into the role of nonprofits more generally—topics which we cover in Chapter 9.

Second, most of the economic theories we present were developed against the backdrop of the United States, which means that they apply to developed, liberal market economies first and foremost, and have limited applicability in other economic systems such as developed welfare states, developing countries, transition economies, and, indeed, autocratic regimes. Nonetheless, they help us understand the different roles of nonprofit organizations in various parts of the world.

Public Goods Theories

In 1975, the economist Weisbrod was among the first to publish a theory that attempted to explain the existence of nonprofit organizations in market economies. The paper entitled "Toward a Theory of the Voluntary Nonprofit Sector in a Three-Sector Economy"

became very influential and laid the groundwork for what became known as the "public goods theory of nonprofit organizations"—a theory that has been expanded and revised and, perhaps most importantly, has influenced the development of other theories in the field (Ghatak, 2020; Young et al., 2019).

Weisbrod's theory of nonprofit organizations is an extension of the public choice theories where public goods problems are resolved by the collective action of the individuals affected. Similarly, the public goods theory of nonprofit organizations provides an economic rationale for the formation of nonprofit organizations to provide public goods. Although the theoretical background and terminology involved in the basic model refer to public goods and assume altruistic donors will compensate for any undersupply, the key policy relevance of the theory applies typically not to the pure public goods we discussed above but to quasi-public goods primarily.

The Weisbrod model explains the existence of nonprofit organizations with the help of two basic concepts: demand heterogeneity for the provision of public goods, and median voter. Demand heterogeneity refers to the existence among different population groups of divergent demands in terms of quality and quantity for public and quasi-public goods; demand homogeneity then reflects the extent to which this demand is broadly speaking similar across the population. The median voter represents that largest segment of the demand for public and quasi-public goods within the electorate. Another way to define the median voter is to think of the statistically average person and the demands that person would make on governmental spending policies.

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In a competitive liberal democracy, government officials, in seeking to maximize their chances of re-election, will strive to provide a given public good at the level demanded by the median voter. This strategy of public goods provision, by which the government satisfies the demand of the median voter, leaves some demands unmet. This would be demand by consumers who require the public good at quantitative and qualitative levels higher than expressed by the median voter. This unfilled demand for the public good is satisfied by nonprofit organizations, which are established and financed by the voluntary contributions of citizens who want to increase the output or quality of the public good. In other words, nonprofit organizations are gap-fillers; they exist as a result of private demands for public goods not offered by the public sector. By implication, due to market failure, the public good would unlikely be supplied by forprofit organizations.

Nonprofit organizations are gap-fillers; they exist as a result of private demands for public goods not offered by the public sector.

The basic model of nonprofit organizations considers the production of a single public good in situations of demand heterogeneity. In reality, of course, the situation is more complex, as quasi-public goods vary in quality and come in different versions or models. For example, there is not one healthcare or education service, but many different kinds. But the important point Weisbrod identifies applies to the basic as well as the more elaborate models of public goods provision: in a heterogeneous society, one would expect more nonprofit organizations than in homogeneous societies where the median voter segment of the demand curve for public goods would be much wider. Thus, the number of nonprofit organizations is hypothesized to be positively related to the increase in the diversity of a population, not just in terms of ethnicity, language, or religion, but also in terms of age, lifestyle preferences, occupational and professional background, income, and so on.

In a heterogeneous society, one would expect more nonprofit organizations than in homogeneous societies.

Proponents of this theory point to the US as a "living example" of Weisbrod's theory (Kingma, 2003). The vast array of nonprofit organizations in existence in the US can be attributed to its mixture of religious, political, ethnic, and racial backgrounds. James (1993) and Chang and Tuckman (1996) show that the heterogeneity in a population is related to an increase in the size of the nonprofit sector in terms of number of organizations. However, Paarlberg and Zuhlke (2019) summarize that extensive testing of the theory of demand heterogeneity offers mixed empirical support. They conclude that earlier efforts to test this theory did not take the mediating relationship between government and diversity into account, a point to which we return later in this chapter when discussing the interdependence theory and, more generally, in Chapter 16 on state–nonprofit relations.

Since then, scholars have increasingly focused on the geographies of nonprofit activity. Among findings from these studies are that affluent communities tend to have ample voluntary resources and highly diverse voluntary landscapes (Bielefeld, 2000; Wolpert, 1993), while low-income communities generally have far fewer voluntary resources as well as a lack of key civic institutions (Grønbjerg & Paarlberg, 2001; Joassart-Marcelli & Wolch, 2003; Corbin, 1999). These differences in the local safety net of communities have had a number of implications not only on the locational dynamics of the nonprofit sector, but also on public accessibility to nonprofit services. Indeed, Allard (2009) found that individuals living in high poverty neighborhoods in Chicago, Los Angeles, and Washington, DC have far less access to nonprofit social service providers than individuals living in low poverty neighborhoods. During the COVID-19 pandemic, a report on how nonprofits were able to serve different neighborhoods came to similar conclusions (Committee for Greater LA et al., 2020).

Salamon and Anheier (1998) provide cross-national evidence for the theory for some countries but not for others. They found a general tendency for the size of the nonprofit sector to increase with the religious heterogeneity of countries. At the same time, there are important exceptions, e.g., Ireland, Belgium, Israel, and the Czech Republic. We will

follow up on the limited cross-national applicability of the heterogeneity theory below, as this point is taken up by the social origins theory.

Hansmann (1987) argues that Weisbrod's theory works best when applied to near public goods, for example, the services provided by the American Heart Association or the National Trust in the UK. In such situations, nonprofit provision is substitutional to government provision under conditions of demand heterogeneity for the public good in question. But how would the theory deal with the many nonprofit services that are quasi-public goods and allow for exclusion and rivalry? For Hansmann (1987, p. 29), the critical weakness in Weisbrod's theory when applied to quasi-public goods is that it "stops short of explaining why nonprofit, rather than forprofit, firms arise to fill unsatisfied demand for public goods." As we will see below, Hansmann's trust-related theory, or contract failure theory, picks up on precisely this point.

Ben-Ner and Van Hoomissen (1991) address a related issue. They argue that it is not just enough to have a heterogeneous society; what is needed is the actions of groups of "stakeholders" who care enough about the public good to assume control over its production and delivery. Importantly, these stakeholders require common preferences distinct from governmental preferences or market interests to create sufficient social cohesion for the formation and operation of nonprofit organizations. This line of thinking becomes important in the stakeholder theory, which we will review later in the chapter.

Weisbrod's pure public goods theory states that nonprofit organizations provide public goods through donative support, which otherwise would have been provided by the government. Following this reasoning, donor support should change if the government begins either to supply the good itself or to fund nonprofit organizations for its provision. In other words, government spending will "crowd out" donor contributions. However, studies by Bergstrom, Blume, and Varian (1986) reveal that the "crowding out" may not be dollar for dollar but influenced by other incentives such as tax considerations, inertia, as well as information asymmetries. The important point to keep in mind is that the crowd-out effect, however partial, rests on some notion of a trade-off relation between public sector and nonprofit provision: an increase in government services to address non-median voter demand will affect the scale of private nonprofit activities.

Major extensions of Weisbrod's model concentrate on the output or the goods produced by the nonprofit sector. These models incorporate the preferences of stakeholders other than donors, such as managers, volunteers, and employees. They also allow for more than one type of good produced. The result of adding other stakeholders and other goods into the model is an explanation of why certain nonprofit goods and services differ from those of government-provided goods and services. Matsunaga et al. (2010), for example, applied Weisbrod's model to examine the size of the nonprofit sector cross-nationally. Indeed, the power of Weisbrod's model derives, in part, from its ability to offer a basis for other theorists to build upon (Paarlberg & Zuhlke, 2019).

The result of adding other stakeholders and other goods into the model is an explanation of why certain nonprofit goods and services differ from those of government-provided goods and services.

Weisbrod (1998) himself has extended this model to create a "collectiveness index" for measuring the degree of "publicness" in the demand for a public good. The index takes account of how much revenue nonprofit organizations receive from voluntary donations as opposed to private fee income and public subsidies. The greater the revenue from donations, the higher the index score will be. Weisbrod argues that the index is a good measure of public demand for a specific public good not provided by government. Donors "vote" with their financial support and express their preferences for public goods not demanded by the median voter.

Trust-Related Theories

In contrast to the public goods theory, which addresses the rise of nonprofit organizations in response to governmental undersupply of public and quasi-public goods, trust-related theories take a different starting point: information problems inherent in the good or service provided and the trust dilemmas associated with them. For example, for parents, the quality of services actually provided by a daycare center can be difficult to judge and very costly to monitor on an ongoing basis. Likewise, the donation made to a charity to help child soldiers in war-torn countries involves trust on behalf of the donor in the charity to "deliver" on its promise.

Arrow (1963) and Nelson and Krashinsky (1973) suggested that asymmetries in information between provider and clients in healthcare and social services might lead to fears on the part of consumers about being taken advantage of and to a demand for "trustworthy" organizations. Nelson and Krashinsky (1973) argued that this demand could be connected to the strong presence of nonprofit organizations in fields such as daycare. By implication, forprofit providers would have an incentive to take advantage of information asymmetries to the detriment of consumers, resulting in an unfair exchange. In the aggregate, this would lead to what we defined as market failures above.

Hansmann (1980) took the market failure thinking further and suggested that nonprofits typically

> arise in situations in which, owing either to the circumstances under which the service is purchased or consumed or to the nature of the service itself, consumers feel unable to evaluate accurately the quantity and quality of the service a firm produces for them. (1987, p. 29)

The advantage nonprofit organizations have over forprofit firms is the signal of trustworthiness that arises from the nondistribution constraint, i.e., the prohibition of distributing profits to owners and equivalents. Constrained in their ability to benefit from informational asymmetries, nonprofits have less incentive to profit at the expense of consumers than do forprofit organizations.

Constrained in their ability to benefit from informational asymmetries, nonprofits have less incentive to profit at the expense of consumers than do forprofit organizations.

The advantage of nonprofit organizations is however only a relative one, as lower incentives to profiteer from information asymmetries may be part of a larger incentive structure that tends to reduce both cost- and revenue-related efficiencies. In other words, nonprofit organizations have a comparative advantage over forprofit organizations where the value of consumer protection signaled by the nondistribution constraint outweighs inefficiencies associated with the nonprofit form, in particular limited access to capital markets (because of disincentives for profit-seeking investors) and lower incentives for managers to impose strict cost minimization.

The nondistribution constraint makes nonprofit organizations appear more trustworthy than forprofit organizations under conditions that make monitoring expensive (e.g., high transaction costs) and profiteering likely (e.g., strong moral hazard). When and where are information asymmetries that require some trust relation between supply and demand to avoid market failures more likely? One such scenario arises when the ultimate beneficiaries of a service are unknown to donors. This would be the case in a charitable donation by a person from New York or Melbourne to help rehabilitate former child soldiers in Africa. The information asymmetry exists between the donor and the collecting charity, as it would be financially most inefficient to monitor the actual delivery of the donation to some unknown child many thousands of miles away.

The nondistribution constraint makes nonprofit organizations appear more trustworthy than forprofit organizations under conditions that make monitoring expensive and profiteering likely.

Another scenario of information asymmetry and trust is related to situations when inadequate feedback loops exist between the actual recipient and the customer demanding and paying for a service. For example, children are typically not well positioned to judge the quality of daycare, nor are individuals with intellectual disabilities, the frail elderly, or terminally ill cancer patients. These are client groups that may be unable to give full testimony of the quality of care provided. For customers, i.e., those paying for the service, such situations pose a dilemma, leading to a search for trust-engendering signals such as the nondistribution constraint.

When individual contributions cannot be matched with collective services provided, another wide arena for information asymmetries and trust issues arises. This is a version of the collective action and free-rider problem, where those collecting contributions and responsible for service delivery could exploit the informational disparities and try to take advantage and succumb to the moral hazard involved. Finally, another common class of information asymmetries and trust problems refers to provider–recipient relations that involve complex services with high risks attached for the consumer.

In essence, trust-related theories are based on asymmetric information between supply and demand that could be exploited to the disadvantage of the customer or recipient. In Hansmann's case, the theory assumes that actors affiliated with the nonprofit sector (e.g., managers, founders, board members, employees, etc.) are not motivated by opportunistic behavior and that their interests are perfectly in line with those of the organization and

the funders. Ortmann and Schlesinger (2003) provide the broadest evaluation of the conceptual and empirical underpinnings of Hansmann's reasoning by posing three challenges:

> [Hansmann's] theory assumes that actors affiliated with the nonprofit sector are not motivated by opportunistic behavior and that their interests are perfectly in line with those of the organization and the funders.

- The nondistribution constraint must affect incentives within the nonprofit firm in ways that are compatible with trustworthiness (incentive compatibility challenge).
- Nonprofit behavior must not be adulterated by individuals taking advantage of the perceived trustworthiness (adulteration challenge).
- Nonprofit status must be treated as a reliable predictor of organizational behavior by consumers, when the reputation of individual firms is not seen as reliable (reputational ubiquity challenge).

Ortmann and Schlesinger (2003) assert that these three challenges must be met simultaneously in order for nonprofit organizations to be less opportunistic than their forprofit counterparts; otherwise consumers may not trust a nonprofit any more than they do a commercial firm. Yet are consumers aware of differences in ownership among the organizations that provide them with services? If so, do consumers expect nonprofit organizations to behave in a more trustworthy manner than their forprofit counterparts? Studies show that people have an idea of the ownership of the services they use, but their impressions are not always reliable. And depending on the industry, people do indeed tend to view nonprofit providers as more trustworthy.

The trust-related theories point to an important set of factors that explain why nonprofit organizations might exist in market economies. At the same time, critics have pointed out two major shortcomings. First, Salamon (1987) points to the failure of trust-related theories to take account of government and the possibility that information asymmetries may find a response through public sector rather than nonprofit sector action. But while the heterogeneity or public goods theory answered the question why private, and not government, the trust-related theories help us understand why non-market rather than market solutions. In this sense, the two theories are complementary rather than rival.

The second main criticism of trust-related theories was suggested by James (1987, 1989) who argued that the centrality of the nondistribution constraint finds no corresponding weight in the legal and tax systems of most countries. In fact, she finds that the nondistribution constraint may be overstated as organizations can cross-subsidize, i.e., use surplus revenue from one line of activities to support another to effect an internal profit distribution to cover deficits, or engage in indirect profit-taking by increasing expenses, e.g., lush offices or generous travel budgets and personal accounts. Moreover, many legal systems have fairly light oversight regimes in place to monitor adherence to nondistribution, and penalties for violations tend to be relatively mild.

Despite these and other criticisms (see Ortmann and Schlesinger, 2003), the trust-related theories have influenced many subsequent developments in the field. The basic

tenet is that the nonprofit form emerges when it is more efficient to monitor financial behavior, in particular the treatment of potential profits, than it is to assess the true quality of output. The nondistribution constraint serves as a proxy insurance signaling protection from profiteering.

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Entrepreneurship Theories

In contrast to the heterogeneity and trust-related theories, which emphasize aspects of the demand for services, entrepreneurship theories try to explain the existence of nonprofit organizations from a supply-side perspective, and with a focus on the value base of nonprofit organizations. As seen in Chapter 3 and Chapter 8, an entrepreneur is defined as an individual with a specific attitude towards change and whose function is to "carry out new combinations." According to Schumpeter (1934), the Austrian-American economist, entrepreneurs are the innovative force in capitalist economies. They are part of the "creative destruction" that drives the capitalist system: they innovate by introducing new ways of seeing and doing things, and thereby displace old ones. Thus, if entrepreneurs drive missions and objective functions, their inputs and outputs, one would expect to see not only innovations in goods and service delivery arise from nonprofit organizations, but also competition between alternatives.

In classical economic terms, the entrepreneur is understood as the one who assumes the risk of organizing and managing a new business venture or enterprise. Psychologists who have analyzed entrepreneurs argue that entrepreneurs have a persistent opportunity orientation and think in terms of how things can be done instead of why things cannot get done. Dees et al. define entrepreneurs as "innovative, opportunity-oriented, resourceful, value-creating change agents" (2001, p. 4).

As we explain in more detail in Chapter 8, social entrepreneurs are different from business entrepreneurs in that social entrepreneurs, instead of creating monetary value or economic value for the firm, create social value and behave in the following ways: adopting a mission to create and sustain social value; recognizing and pursuing new opportunities to serve that mission; engaging in a process of continuous innovation, adaptation, and learning; acting boldly without being limited to resources currently in hand; and exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.

Even though entrepreneurship approaches to understanding economic behavior and developments have a long history in the social sciences, with frequent reference made to Schumpeter and also to the economist Leibenstein, the most influential supply-side theorists in the nonprofit field have been James (1987), Rose-Ackerman (1996), and Young (1983). In a series of papers in the 1980s and 1990s, they laid out

the basic argument for what became known as the entrepreneurship theory of nonprofit organizations.

To appreciate entrepreneurship approaches, one has to consider that they take a very different starting point from the theories we have reviewed so far. They question the emphasis trust-related theories place on nondistribution and the way heterogeneity theories emphasize demand for public and semi-public goods. While these aspects are acknowledged as important, they also, in the eyes of entrepreneurship theorists, miss two critical points. First, nonprofit organizations may not be interested in profits in the first place; in fact, their objective function may lie elsewhere and assume nonmonetary forms. Second, the provision of services may not at all be the real, underlying reason for the organization's existence, and these activities may serve only as the means for achieving some other goal as the ultimate *raison d'être* or objective.

According to James, nonprofits try to maximize nonmonetary returns such as faith, believers, adherents, or members; they are primarily interested in some form of nonmaterial value maximization, and the nondistribution constraint of monetary profits is only secondary to their organizational behavior. This reasoning points to the importance of religion and other value bases and ideologies. Indeed, James suggests that entrepreneurs, or ideologues in Rose-Ackerman's terms, populate nonprofit fields eager to maximize nonmonetary returns.

According to James, nonprofits ... are primarily interested in some form of nonmaterial value maximization, and the nondistribution constraint of monetary profits is only secondary to their organizational behavior.

The motives of the entrepreneur play an important role in the organization's development, outputs, and mission. This role is most pronounced in the field of religion. As James writes (1987, p. 404):

> Universally, religious groups are the major founders of nonprofit service institutions. We see this in the origins of many private schools and voluntary hospitals in the United States and England, Catholic schools in France and Austria, missionary activities in developing countries, services provided by Muslim wacfs (religious trusts) and so on.

Indeed, James points out that nonprofits are strategically located throughout the life course in areas of taste formation: in primary socialization (daycare, nurseries, schools), but also in critical life situations (hospitals, hospices, homes for the elderly) and situations of special need (disability, divorce, and other major life events). Entrepreneurship theories argue that during such phases and situations, we are more open to questions relating to religion than we would be under "normal" circumstances. Hence, nonprofit entrepreneurs seek out such opportunities and combine service delivery with religious or otherwise ideologically colored "messages" in an effort to garner adherents, believers, or recruits.

> Nonprofit entrepreneurs . . . combine service delivery with religious or otherwise ideologically colored "messages" in an effort to garner adherents, believers, or recruits.

Whether nonprofit entrepreneurs try to maximize quantifiable aspects such as members or abstract concepts such as "salvation" or some ideology is irrelevant; what matters is that they often seek to combine such maximization efforts with service delivery. In this sense, many value-based nonprofits bundle products, or are product bundlers: one product that is the true and preferred output (e.g., salvation) and the other the necessary or auxiliary co-product, a means rather than the ultimate objective. Rose-Ackerman (1996) suggests that the value-based or ideology-based nonprofits tend to develop into multiple product firms, and Weisbrod (1998) argues that product bundling is a key aspect of the revenue behavior of many nonprofit organizations, as discussed also in Chapter 11 on financing.

In a sense, entrepreneurship approaches complete demand-side theories because nonprofits always need an actor or a group of actors to create the organization. Yet it is often difficult to differentiate between entrepreneurship and nonprofit management. This has consequences when trying to test the validity of the theory and may cause confusion with terminology. Moreover, it may be difficult to tell if the cause of innovations is from entrepreneurship or from other factors. The problem with the innovation argument is that it can be applied and observed in entrepreneurs in almost all other types of organizations—a critique picked up by the stakeholder theory reviewed next.

Finally, as Badelt (2003) comments, original entrepreneurship theories tried to explain the existence of nonprofits; modern theories of organizational development try to extend this approach by describing and explaining the process of institutional change, in particular product bundling, thus ending up with a theory of behavior of organizations.

Stakeholder Theories of the Nonprofit Sector

The stakeholder theory, associated primarily with the work of Ben-Ner, is rooted in organizational economics and economic theories of institutions. The theory builds on Hansmann's trust argument, in which a variety of problems might make it difficult for the consumers of a particular commodity to police the conduct of producers by normal contractual or market mechanisms, thus resulting in contract or market failure. According to this reasoning, as we have seen, nonprofits exist because some demand for trust goods in market situations is not met by private firms.

Ben-Ner et al. (2011) have applied variants of nonprofit theory, or what the authors term "intrinsic motivation" and "agency theory," to understand wage differentials in human service organizations across the three sectors. They use Hansmann's idea of asymmetric information to describe why intrinsically motivated workers would choose to work for

lower wages in nonprofit organizations as opposed to forprofit organizations. Similar to consumers, intrinsically motivated workers can use the nonprofit form as a signal of the "trustworthiness of the organization, assuring them that they can engage their high effort in confidence that the organization will not exploit it for proprietary gain" (Ben-Ner et al., 2011, p. 611).

Ben-Ner and van Hoomissen (1991) also acknowledge the supply side and recognize that nonprofits are created by social entrepreneurs, religious leaders, and other actors who are not motivated by profit primarily. They refer to these and all other interested parties on both the demand side and the supply side as "stakeholders." The theory Ben-Ner and van Hoomissen develop is built upon the interests and behaviors of stakeholders in the provision of trust-related goods.

The stakeholder theory begins with Hansmann's reasoning: the trade of trust-related goods typically entails a conflict of interest between seller and buyer. The buyer wants the lowest possible price at the best quality, while the seller wants the highest possible price at the lowest quality in order to maximize profits. In a perfect market with perfect information flows, the buyer knows how much it costs to produce the product and other relevant information, and firms know consumer preferences, therefore both parties maximize their utility and transactions occur at the most efficient price. Unfortunately, under conditions of information asymmetry, consumers are at a disadvantage and subject to profiteering by profit-seeking firms. The nondistribution constraint enables nonprofits to resolve this conflict because they are not motivated by profit and therefore are less likely to degrade their products to maximize profits.

The stakeholder theory also relates to Weisbrod's theory of public goods and demand heterogeneity in which limits to government provision drive demand-side stakeholders to seek institutions to fill their needs. Similar to Hansmann's approach, Ben-Ner argues that nonprofits are created by consumers and other demand-side stakeholders in order to "maximize control over output in the face of informational asymmetries."

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The key demand-side stakeholders are those who feel so strongly about the quality of the service provided and protection from moral hazard that they decide to exercise control over the delivery of service themselves. They thus become demand- and supply-side stakeholders at the same time. For example, parents may decide to start a daycare center for their children to achieve greater control over daycare services. The situation for stakeholder control applies to nonrival goods primarily, as providers cannot selectively downgrade the services provided. Ben-Ner suggests that the combination of information asymmetry, nonrivalry, and stakeholder control sends much stronger signals of trustworthiness than the "milder" formulation by Hansmann. In this sense, Ben-Ner's argument is a stricter theory than the trust-related theory and describes a narrower range of demand- and supply-side conditions under which nonprofits emerge.

The Interdependence Theory

Whereas the approaches reviewed so far establish some notion of conflict between governmental provision and nonprofit provision, most clearly in the case of the heterogeneity theory, the interdependence theory takes a different starting point and begins with the fact, supported by the data presented in Chapter 4, that government and the nonprofit sector are more frequently partners rather than competitors. We saw this most clearly in the significant portion of public sector funding that is made available to nonprofit organizations not only in the US but also in many other countries. We also see it in the increasingly frequent use of public–private partnerships.

The interdependence theory . . . begins with the fact . . . that government and the nonprofit sector are more frequently partners rather than competitors.

The thrust of Salamon's (1987) argument is that government does not "supplant" or "displace" nonprofit organizations; rather, in line with the empirical evidence in Chapter 4, he argues that government support of the third sector is extensive and that government is a "major force underwriting nonprofit operations." He outlines the scope and extent of government support for nonprofits in terms of direct monetary support, indirect support, and variations in support with regard to where the nonprofit is located and the type of service it provides.

Salamon criticizes economic theories in their failure to describe this symbiotic relationship between the nonprofit sector and government, in particular Weisbrod's public goods theory and Hansmann's trust theory, which view nonprofits as institutions apart from government and perhaps even better than government—in essence, picking up the pieces in areas where government fails. In reality, the extensive government support of the third sector can be understood if we consider what is labeled "third-party government." It describes a pattern where government uses nongovernmental entities for carrying out public purposes such that these entities have a substantial degree of discretion both in terms of spending of public funds and the exercise of public authority.

Opposite of the market failure theory in which nonprofit organizations exist where the public sector fails, the voluntary failure theory argues that voluntary action exists because of people's natural tendencies for collective action and sense of social obligation. It is assumed that people volunteer out of choice (see Chapter 7 on civic engagement and volunteering), which thus explains the vibrancy and sustainability of the sector. Because of lower transaction costs, at least initially, voluntary organizations based on collective action typically precede government programs and other activities in addressing social problems of many kinds. For example, this was the case with the HIV/AIDS crisis, but also with domestic violence, drug abuse, and social welfare services more generally.

Voluntary failure theory argues that voluntary action exists because of people's natural tendencies for collective action and sense of social obligation.

However, voluntary action is limited, sporadic, unorganized, and at times inefficient. There are four main areas of weakness in the voluntary sector:

- **Insufficiency** (resource inadequacy) suggests that the goodwill and charity of a few cannot generate resources on a scale that is both adequate enough and reliable enough to cope with the welfare and related problems of modern society. A reason for this insufficiency, aside from the sheer size of the population in need, is the fact that third sector goods are quasi-public goods, and thus subject to the free-rider problem whereby those who benefit from voluntary action have little or no incentive to contribute.
- **Particularism** refers to the tendency of voluntary organizations and their benefactors to focus on particular subgroups or clients while ignoring others. This leads to problems such as addressing only the needs of the "deserving" poor; inefficiency due to duplication of efforts whereby each particular subgroup wants their "own" agency or service; service gaps in the population; and favoritism on the part of those who control the organization's resources.
- **Paternalism** means that voluntary associations may lack sufficient accountability, and discretion on behalf of donors may lead to activities that benefit issues or needs close to the donor's interest but not necessarily reflective of wider social needs. After all, voluntary contributions and charitable giving depend on individual goodwill; they do not represent a right or entitlement.
- **Amateurism** points to the fact that voluntary associations frequently do not have professional teams of social workers, psychologists, and the like, since they can ill afford to pay for such expertise. Therefore, they rely disproportionately on amateur volunteers in dealing with social problems.

In short, the voluntary sector's weaknesses correspond well with government's strengths, and vice versa. The government can provide a more stable stream of resources, set priorities through a democratic process, discourage paternalism by making access to care a right and not a privilege, and improve quality of care by setting benchmarks and quality standards. The interdependence theory moves away from the zero-sum thinking that characterized some of the economic theories presented earlier, shows nonprofit–government relations less in a competitive light, and emphasizes collaboration instead. Government and the nonprofit sector complement each other and compensate each other's strengths and weaknesses—a theme to which we turn in Chapter 16.

The interdependence theory moves away from the zero-sum thinking that characterized some of the economic theories.

Supply and Demand Conditions for Nonprofit Organizations

We have looked at a range of economic theories that try to explain the existence of nonprofit organizations in developed market economies (see Table 5.4). To a large extent, the various theories are complementary rather than rival and, taken together, offer a convincing answer in terms of demand and supply conditions.

TABLE 5.4 Major theories explaining the nonprofit sector

Theory	*Summary*	*Key terms*	*Key strengths*	*Key weaknesses*
Heterogeneity theory ***a.k.a.: Public goods or governmental failure theory***	Unsatisfied demand for public and quasi-public goods in situations of demand heterogeneity leads to emergence of nonprofit providers	Demand heterogeneity; median voter; government; quasi-public goods	Explains part of government–private institutional choice dynamics in liberal democracies in the context of public fund shortages; why nonprofits become "gap-fillers"	Assumes inherent conflict between government and private nonprofit provision
Trust theory ***a.k.a.: Contract or market failure theory***	Nondistribution constraint makes nonprofits more trustworthy under conditions of information asymmetry, which makes monitoring expensive and profiteering likely	Nondistribution constraint; trustworthiness; information asymmetry	Explains part of nonprofit–forprofit institutional choice from supply-side perspective, with focus on inherent problems in "nature" of good or service	Other institutional responses possible (e.g., government regulation); nondistribution constraint weakly enforced; indirect profit distribution possible (forprofits in disguise)
Supply-side theory ***a.k.a.: Entrepreneurship theory***	Nonprofit organizations are a reflection of demand heterogeneity served and created by entrepreneurs seeking to maximize nonmonetary returns	Social entrepreneurship; nonmonetary returns; product bundling; demand heterogeneity	Explains close link between value base of many nonprofits and choice of service field such as health and education (to maximize value impact and formation)	Assumes neutral state; equates religious and secular value-based behavior; what about non-value-based nonprofits?

Stakeholder theory	Given information asymmetries between provider and consumer, stakeholders decide to exercise control over delivery of service	Nonrival goods; information asymmetry; trust	Introduces tripartite relation as basic theoretical problem and goes beyond simple principal–agent issues: stakeholder–provider–recipient	Scope of theory limited to experience of informational problems faced by deeply concerned stakeholders—what about more conventional nonprofits?
Interdependence theory ***a.k.a.:*** ***Voluntary failure theory or third-party government theory***	Because of (initially) lower transaction costs, nonprofit organizations precede government in providing public benefit goods, but due to "voluntary failure" develop synergistic relations with the public sector over time	Philanthropic insufficiency, particularism, paternalism, and amateurism; third-party government	Moves away from zero-sum, competitive relation between voluntary sector and government; explains frequent pattern of public–private partnerships	Assumes neutral, yet well-meaning state; equates value-based and non-value-based behavior; when will synergies develop and when not—conditions unclear
Social origins theory	The size and structure of the nonprofit sector are a reflection of its "embeddedness" in a complex set of relationships, classes, and regime types	Comparative-historical approach; path dependency; state–society relations	Moves away from emphasis on microeconomic models and puts interdependence theory in context	Difficulty in testing counter-factual as nonprofit form varies significantly over time and across countries/cultures

To a large extent, the various theories are complementary rather than rival.

Suppose that we commence from the hypothetical situation of a developed market economy in which production is based on unregulated forprofit firms. Consider first the interface between consumers and forprofit sellers. Forprofit provision is problematic for consumers when goods and services are not purely private but have public attributes and are provided under conditions of asymmetric information. Public attributes include nonrivalry—one user's welfare is not affected by the others' usage—and nonexcludability—not all users can be compelled to pay for their use. Asymmetric information exists when consumers do not know all that they may care about with respect to the goods and services they wish to obtain until after payment takes place.

Under conditions of asymmetric information consumers may pay for goods and services that are of lower quality (or less of other desirable attributes) than that which is implied by the seller—unless there is an effective market for reputation whereby the discovery that a firm has taken advantage of its customers would damage the firm's future profits more than the gain from taking advantage of them. With nonexcludability, forprofit firms cannot charge for their goods or services and will therefore not provide them. And with nonrivalry, forprofit firms cannot properly identify the demand of different consumers and will therefore aim at what they perceive to be the average consumer, to the detriment of others, especially high-demand consumers—unless they have access to individual information (e.g., mobile phone service and similar metered services supplied directly to individual customers).

Notice that consumers' concern for being exploited is due to their limited information; were it not for this concern, consumers would not care about the organizational form of the provider of child care, seller of food, provider of medical treatment, dispenser of medicines, or provider of public safety, nor would employees worry about the type of organization in which they work. Consumers would be happy to convey their specific demands to a seller to ensure that what is made available on the market by way of a nonrival good or service is what they need, without fearing that the forprofit seller would turn this information into a pricing advantage. But not only the fear of the forprofit firms' profit motive prevents consumers from revealing their true demands: their own self-interest induces them to not reveal their true economic demand in order to pay lower prices for what they really want, or not to pay at all in the case of nonexcludable goods and services. And similar considerations apply to employees regarding the workplace.

Numerous goods and services are affected, albeit to various degrees, by nonrivalry, nonexcludability, or asymmetric information. From this perspective, there is a demand for organizations that do not pursue profit at the expense of consumers: government organizations, nonprofit organizations, or consumer cooperatives. And numerous aspects of the workplace are likewise affected by nonrivalry, nonexcludability, and asymmetric information, giving rise to a demand by employees for organizations that are operated within economic constraints but not for the pursuit of profit at the expense of inappropriate

provision of workplace characteristics. Which types of organization, if any, will actually emerge to satisfy such demands depends on the satisfaction of the supply conditions:

- First among these conditions is the existence of entrepreneurial initiative for the establishment of the organization. Since an organization that emerges as an alternative to forprofit firms will not pursue the profit objective, it cannot attract entrepreneurs who wish to make profits. The initiative must therefore come from some value base and one of two sources: entrepreneurial individuals who are concerned with the welfare of the parties with demand for alternative forms of organization, or members of the groups with such demand who can themselves act as entrepreneurs or hire entrepreneurs to work in their service.
- The second condition for the emergence of an organization is the feasibility of funding, which again must come from either the parties with demand for the organization or those who care about those parties.
- Third, for organizations that emerge in response to problems between forprofit firms and consumers, production must be funded not only through the ordinary sale of goods and services on the market, but also through additional contributions. Such contributions must be forthcoming for an organization to survive.
- Fourth, the organization must be able to commit credibly to its stakeholders—consumers or employees, depending on the nature of the organization—to maintain its form as an alternative to the forprofit type of organization, in order to retain their support.
- And the fifth and final condition for the survival of the organization is its ability to produce efficiently, at least to the degree that any of the advantages it enjoys due to its special form relative to the forprofit firm will not be eradicated due to production and distribution disadvantages.

These supply conditions rest to a considerable extent on the ability of those with demand for the type of organization in question to engage in collective action. Each of the conditions mentioned earlier is vulnerable to free-riding by members of the groups with demand for the type of organization in question. Individuals may elect to let others incur the costs of entrepreneurship, of funding the establishment of the organization, of revealing their true demand for the organization's goods or services, of making additional payments beyond the payment for goods and services required on the market, and of controlling management to ensure both the pursuit of the organization's objectives and its efficient operation.

The ability to control and check free-ridership tendencies depends largely on the cohesion of a group: if members can apply social pressure or impose costs on free-riders, the extent of free-riding will be lessened. The relationship among the members of the group with demand for a particular type of organization is crucial here: if they are part of a cohesive group, for example, their ability to enforce codes of behavior that are conducive to collective action in the common interests of the group is greater than if the members are unrelated to each other, since they may care more about each other's welfare and opinions, as well as being more easily observed by each other in their contributions to the common organization.

The Social Origins Theory

Though these economics-based theories answered many questions, they remained limited, as did conventional welfare state literature. The social origins theory, a comparative-historical approach, was developed by Salamon and Anheier (1998) as a response. After its introduction, it was further developed by Anheier (2003), Anheier and Salamon (2006), and Salamon et al. (2017). The aim of the theory is to explain variations in the size and composition of the nonprofit sector cross-nationally. To do so, the theory identified those social factors that would lead to the development of a sizable, economically important nonprofit sector as opposed to a smaller, less economically significant sector.

It is an institutional theory, based largely on the notion of path-dependent development. Salamon and Anheier (1998) suggest that the nonprofit sector across countries has different historical "moorings" and reveals different social and economic "shapes." Its intellectual grounding lies in the varieties of capitalism and comparative welfare state approaches.

The nonprofit sector across countries has different historical "moorings" and reveals different social and economic "shapes."

The varieties of capitalism approach (Hall & Soskice, 2001) postulates that two main types of capitalism exist among developed countries: liberal market economies and coordinated market economies (see also Chapter 4). In contrast to liberal market economies, governments in coordinated market economies are more proactive and assume a greater regulatory stance vis-à-vis the private sector, and private actors show a significant degree of self-organization (Schneider & Paunescu, 2012). In between are regimes that show some of the characteristics of the liberal or coordinated market economies.

Next, the theory draws on modifications of Esping-Andersen's analysis of the welfare state (1990; see also Huber et al., 1993) to incorporate the nonprofit sector. The social origins theory identifies four more or less distinct models of nonprofit development, four types of "nonprofit regimes." Each of these types is characterized not only by a particular state role, but also by a particular position for the third sector; and, most importantly, each reflecting a particular constellation of social forces. Social origins theory suggests that nonprofit regime types as well as the policies and the policy-making style associated with them help account for cross-national differences in the nonprofit sector scale and structure.

As shown in Table 5.5, these regimes can be differentiated using two key dimensions—the extent of government social welfare spending and the scale of the nonprofit sector. At one extreme with low government social welfare spending and a relatively large nonprofit sector is the *liberal model*, represented by the UK and the US. Here the middle class, as opposed to traditional landed elites or the working class, is particularly strong, and voluntary approaches are preferred over government interference to solve social problems and ensure social welfare. Thus, government social welfare spending is limited, and the nonprofit sector is expansive.

TABLE 5.5 Nonprofit sector size and government social spending

Government social spending	*Nonprofit sector size*	
	Small	*Large*
Low	**Statist** (Russia)	**Liberal** (US, UK)
High	**Social democratic** (Sweden, Norway, Denmark, Finland)	**Corporatist** (France, Germany)

Source: Based on Salamon & Anheier, 1998.

At one extreme with low government social welfare spending and a relatively large nonprofit sector is the liberal model, represented by the UK and the US.

At the opposite extreme is the *social democratic model*, exemplified by Sweden and most other Nordic countries. In this model, the state's role in financing and delivering social welfare services is significant, leaving little room for the type of service-providing nonprofit organizations so prominent in the US and the UK. The historical trajectory likely leading to this type of model is quite different. Indeed, working-class elements were relatively strong and were able to exercise political power. This is particularly true in the case of Sweden, where working-class political parties were able to push for extensive social welfare benefits as a matter of right in a context of a weakened, state-dominated church and a limited monarchy. This does not mean, however, that the nonprofit sector in such countries plays an insignificant role. Rather, the nonprofit sector performs a different function in social democratic regimes—an advocacy and personal expression rather than a service-providing role. In Sweden, a very substantial network of volunteer-based advocacy, recreational, and hobby organizations turns out to exist alongside a highly developed welfare state. In this kind of setting, in fact, the nonprofit sector may actually come closest to the ideal of a "civil society" sector functioning to facilitate individual and group expression.

The nonprofit sector performs a different function in social democratic regimes—an advocacy and personal expression rather than a service-providing role.

In between these two models are two additional ones, both characterized by strong states. In one, the *statist model*, which seems to characterize Japan, autocratic countries like Russia, and many developing countries, a state bureaucracy controls social policies but provides only limited government welfare protection. Indeed, it exercises power on its own behalf, or on behalf of business and economic elites, but with a fair degree of

autonomy. In such settings where the middle class is weaker and working classes are divided, a larger nonprofit sector does not emerge in the wake of lower government social welfare spending. Rather, both government social welfare spending and nonprofit activity remain limited.

> In … the statist model … both government social welfare spending and nonprofit activity remain limited.

In the other model characterized by a strong state, the *corporatist model*, the state has been either forced or induced to make common cause with nonprofit institutions. In this way, as in Germany and France, nonprofit organizations have come to function as "one of the several 'pre-modern' mechanisms that are deliberately preserved by the state in its efforts to retain the support of key social elites while pre-empting more radical demands for social welfare protections" (Salamon & Anheier, 1998, p. 229). This was the pattern, for example, in late nineteenth-century Germany, when the state, confronting radical demands from below, began to forge alliances with the major churches and the landed elites to create a system of state-sponsored welfare provision that over time included a substantial role for nonprofit groups, many of them religiously affiliated (Seibel, 1990).

> In … the corporatist model, the state has been either forced or induced to make common cause with nonprofit institutions.

Whereas the initial formulation of the theory emphasized the economic size and revenue structure, further developments address, for one, the relationship between the nonprofit sector and civil society and, second, the composition of the sector in terms of civil society and advocacy components vs. service delivery components. Specifically, the theory tries to account for systematic variations in the relative share of these two components across nonprofit regimes: a service-delivery function that is largely shaped in relation to the role of the state and a civil society component of advocacy, interest mediation, and cultural and other expressive activities.

A first extension of the theory was to relate economic measures of size, in this case in terms of paid workers, to the overall importance of volunteer input by regime type (see Table 5.6). Liberal nonprofit regimes have both a relatively large nonprofit sector and relatively high levels of volunteering; corporatist regimes exhibit lower levels of volunteering combined with larger scale; social democratic regimes show the opposite characteristics; and, finally, statist regimes have relatively lower levels of both.

As hinted at earlier in the description of the social democratic regime type, we could divide the composition of the nonprofit sector in terms of advocacy components vs. service delivery components and assume that this composition should vary by regime type. One way to express this duality of nonprofit sectors is to collapse the fields of health, social services, and education into one service delivery set, and contrast this

TABLE 5.6 Nonprofit regime type, economic scale, and volunteering

Nonprofit sector type	*Size of paid labor force*	*Volunteer input*
Liberal	**High**	**High**
Corporatist	**High**	**Low**
Social democratic	**Low**	**High**
Statist	**Low**	**Low**

group's scale and revenue structure to that of the rest of the sector. This, then, indicates to what extent the sector serves traditional service fields that are tied to potential welfare state provision. This service component ranges from a low of 42% of total nonprofit employment in Sweden, a social democratic regime, to a high of 87% in statist Japan, with the other countries around the 80% mark. This distinction between a more economic social-service component and a civil society component highlights the differences among regime types and their correspondence between nonprofit sector scale and revenue structure.

These findings are presented in Figures 5.1 and 5.2. Whereas Figure 5.1 shows the structure of revenue for education, health, and social services combined (EHSS), Figure 5.2 shows the same for all other parts of the nonprofit sector. The liberal regime, represented by the US, shows two very different shapes for the structure of nonprofit revenue depending on the EHSS component on the one hand, and what could be called the civil society component on the other. For the former we see that significant flows from a plurality of sources support nonprofit activities in the fields of education, health, and social services. In the other parts of the nonprofit sector, however, public sector payments play a very limited role, providing only 14% of the funds. This part of the liberal nonprofit sector seems largely financed by either private giving (48%) or fees and charges (38%). Thus, the US nonprofit sector contains two rather distinct revenue structures.

This conclusion that two separate revenue structures exist in the nonprofit sector applies also to the social democratic case—yet with opposite implications. In Sweden, the EHSS component is in fact predominantly financed by public sector money (52%), with private charges playing a secondary role (35%). The civil society part, in contrast, is largely financed not by private giving, but by private fees and payments (74%), reflecting the importance of membership dues in Sweden's vast network of associations.

Germany offers a different scenario yet. Here, in accordance with the country's corporatist pattern, public sector payments dominate the fields of education, health, and social services (81%), *and* they are also important in other parts of the nonprofit sector (46%), as Figure 5.2 shows. Importantly, private fees and charges are of limited significance for the EHSS component, yet important for fields like culture, recreation, and advocacy. They rely to a much greater extent on private income than do organizations in EHSS, though the share of private giving remains limited throughout.

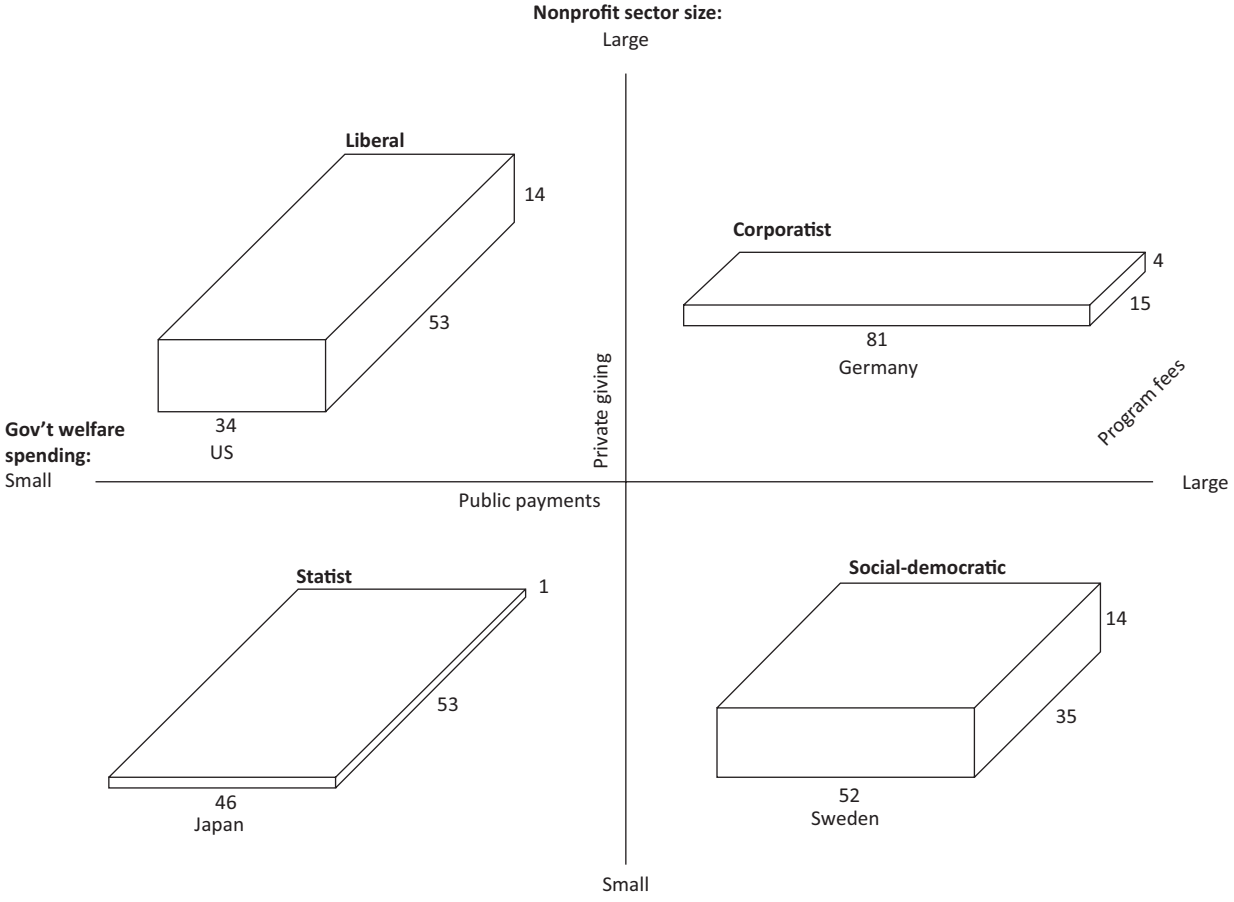


FIGURE 5.1 Dimensions of the nonprofit sector in four countries: revenue structure of education, health, and social services combined (as % of total revenues)

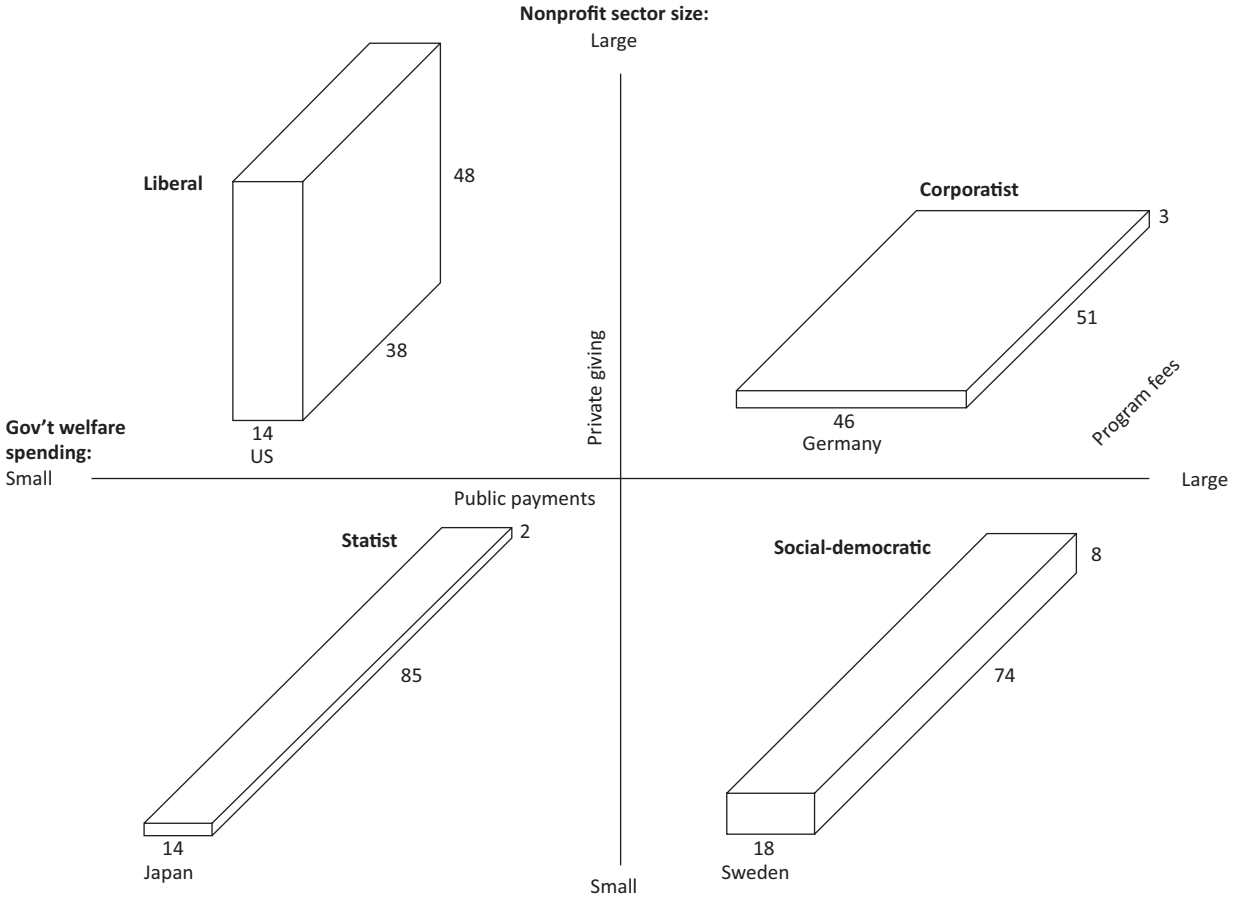


FIGURE 5.2 Dimensions of the nonprofit sector in four countries: revenue structure for other parts of nonprofit sector activity (as % of total revenues)

Finally, Japan with a statist nonprofit sector shows a very flat structure for the EHSS group, with almost equal shares being contributed by public sector payments and private fees and charges. The role of private giving remains insignificant. This latter finding also holds for other parts of the nonprofit sector (Figure 5.2). Here we find a very limited role of public sector payments, with 14% equal to that of the US case, and a dominance of private fees and charges.

In summary, the social origins theory assumes that regime types correspond to distinct shapes of nonprofit sector scale and revenue structure that in the aggregate account for characteristic "maps." These maps, according to path dependency arguments, result from past social constellations and policy-making. However, while the theory has been applied to many countries, it has yielded inconclusive results (Anheier et al. 2020, appendix A). One explanation is the complexity and relative amorphousness of the factors the theory identifies as important. This makes it more difficult to test empirically than the other theories discussed above, in particular the microeconomic theories. Furthermore, it lacks the parsimony of economic theories and calls for difficult qualitative judgments about the relative power of broad social groupings such as the commercial middle class or landed elites. Even then the resulting consequences establish only "propensities" and "likelihoods" rather than fully determined results (Steinberg & Young, 1998; Ragin, 1998).

What is more, the four patterns identified by this theory are primarily archetypes, and many of the actual cases may really be mixed cases or hybrids that encompass features from more than one pattern (see Anheier et al., 2020). For example, Lee and Haque (2008) have applied Salamon and Anheier's (1998) social origins theory to describe the nonprofit regimes in two Asian country states, Singapore and Hong Kong. They find that those two nonprofit regimes can appropriately be called "statist-corporatist" and differ from European "societal-corporatist" countries.

Regime types correspond to distinct shapes of nonprofit sector scale and revenue structure that in the aggregate account for characteristic "maps."

In essence, the social origins theory faces challenges that are common in comparative-historical approaches that rely on longer-term institutional developments to make causal inferences about the present. In many instances, over the *longue durée*, co-evolutionary patterns are at work (Mahoney & Thelen, 2010), sometimes triggered or taken into a different direction by epoch-making events, critical junctures, or less fundamental but nonetheless influential developments. So, when Wollebæk and Selle (2008) question the applicability of the social democratic model to Norway by referring to long-standing patterns unrelated to the core facets of social democracy, they are pointing to co-evolution. Mahoney and Thelen's (2010) insight that institutions, once created, not only change in often subtle, gradual ways over time, but also influence adjacent institutions and organizational fields, applies to the nonprofit sector as well. Again, based on the Norwegian case, Wollebæk and Selle (2008) point to global trends such as individualization and marketization that began to reduce the uniqueness of the Scandinavian model through the gradual and subtle ways Mahoney and Thelen (2010) suggest.

New Developments

These pioneering theories have indeed laid the groundwork for a new generation of researchers in the field. Specifically, recent research has begun to address the "how" and "so what" questions stated in Table 5.1. Studies in comparative organizational behavior and performance between nonprofit, forprofit, and public organizations have ranged from job service providers (Heinrich, 2000) to nursing homes and contracting services (Amirkhanyan, 2010) and to HIV testing and child care organizations (Kershaw et al., 2005). Grønbjerg and Smith (2015) and the various regional chapters in Part 1 of Anheier and Toepler (2020) point to systematic differences across policy fields in the respective relationships between the nonprofit, government, and market sectors.

Additionally, theories have been developed to refine our understanding of nonprofit behaviors and management specifically. In the area of nonprofit finance and revenue composition, Young (2007) developed a normative model of nonprofit finance that is based on the beneficiaries of the organization's activities. Essentially, Young's model uses aspects of Weisbrod's conception that nonprofits are "multiproduct" firms as well as aspects of the public/private/quasi-public/quasi-private goods arguments to understand the composition of nonprofit revenue structures or "revenue portfolios" (see Chapter 11). The model posits that the benefits of nonprofit activities stemming from the organization's mission can be grouped into the following types: individual, group, public, and trade. Individual benefits are best financed with earned income, group benefits with philanthropy and donations, public benefits with government funds, and trade benefits with nonmonetary barter transactions.

Another new set of theories has emerged to explain the "blending" or "blurring" of sector lines. Organizations that combine both nonprofit and forprofit attributes are referred to as low-profit corporations or social enterprises (Ghatak, 2020; see also Chapter 8) and their activities as co-production. The latter term describes joint action between nonprofit or public organizations and their customers, users, or clients in service delivery, for example citizens contributing to public safety by participating in neighborhood watch programs in close cooperation with local police departments (Brandsen et al., 2020). Implicit in the theories discussed in the preceding sections of this chapter is that each organizational form (nonprofit, forprofit, and public) is distinct from the others and thus has distinct qualities that lead to specific behaviors. Emerging theories, however, seek to explain the evolution of organizations and organizational fields from their distinctiveness to their "hybridity" (Marwell & McInerney, 2005; Krlev & Anheier, 2020).

CONCLUSION

This chapter has reviewed major theoretical approaches to explain the existence of nonprofit organizations in market economies. Two aspects are worth emphasizing. First, the complementarity of the microeconomic approaches is a great strength of the field of nonprofit theorizing. Next steps in the field's theoretical development include better links between the microeconomic approaches like the public goods or trust-related theory, on

the one hand, and the macro-level approach of the social origins theory, on the other. At present, they remain somewhat disconnected. More generally, the next major task is to proceed further in developing theories that not only explain the existence of nonprofits but their behaviors, impacts, and life cycle as well.

However, before we look at approaches to studying other aspects relating to the nonprofit sector (Chapters 6 and 7) and organizational behavior (Chapter 9), we briefly mention the second important aspect of the theories presented in the chapter: simplicity. We should recall that all social science theories are abstractions, and therefore simpler than reality itself. Indeed, parsimony, i.e., the capacity to explain the essential characteristics of a phenomenon in simple terms, is a major sign of quality in theories. As we have seen, parsimony applies to almost all of the theories presented above. They typically operate with a rather limited number of key terms and concepts to explain the existence of nonprofit organizations in market economies. But by being parsimonious, they cannot by themselves take account of the full richness and variety of the third sector. However, other and future theories can build on the fundamentals of the approaches presented here and branch out into more specific aspects of nonprofit activity.

REVIEW QUESTIONS

What does the statement mean that nonprofit theories are complementary rather than rival?

What are some of the major strengths and weaknesses of the social origins theory?

What are the supply and demand conditions for nonprofit organizations?

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CHAPTER 6

Approaches to Giving and Philanthropy

This chapter introduces different perspectives on giving and philanthropy in modern society, in particular the roles and contributions that have been suggested in the literature about philanthropy in the US, Europe, and other parts of the world. Why do individuals make donations, why do foundations exist, what functions do foundations perform, and what has been their impact?

LEARNING OBJECTIVES

Giving is a central part of the nonprofit economy, and philanthropy an age-old tradition of most cultures and societies, past and present. In Chapter 4, we offer an empirical look at giving and philanthropy, examining the dimensions of individual giving and the shape of institutional philanthropy, especially foundations. Here we focus on the various explanations behind the numbers, including approaches to explain giving as well as the existence and the various functions of foundations. We also look at new trends in the field of philanthropy. After considering this chapter, the reader should be able to understand:

- the nature of the gift;
- different conceptual approaches to giving;
- why people give;
- some of the major patterns in giving behavior;
- the different roles and contributions of foundations in modern society;
- some of the major differences in philanthropy across countries and regions.

Some of the new and important terms introduced throughout this chapter include:

- Altruism budget
- Charitable deduction
- Community foundations
- Complementarity
- Corporate foundations
- Donor-advised funds
- E-philanthropy

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- Foundation triangle
- Gift relationship
- Government-sponsored foundations
- Grant-making foundations
- Operating foundations
- Reciprocity
- Redistribution
- Spend-down foundations
- Strategic philanthropy
- Substitution
- Venture philanthropy

INTRODUCTION

In Chapter 5, we encounter the notion of the gift: Titmuss (1970) investigated the gift relationship in situations when donor and recipient do not know each other. It brings us to consider aspects of information asymmetry, moral hazard, and adverse selection, and to explore the conditions associated with the under- and over-supply of public goods. In this chapter, we first take a more sociological view and address the nature of the gift more generally, not in view of market and state failures, but in relation to social settings in which gift-making takes place. This is followed by a look at charitable giving and the institution of philanthropy, especially foundations.

THE NATURE OF THE GIFT

There are two seemingly opposing views on the nature of the "gift": the utilitarian perspective of self-interest and the non-utilitarian one based on altruism. The utilitarian perspective is about rational actors making gifts according to an underlying preference ranking in order to maximize their utility. Actors donate money, time, or some other gift because it benefits them, if not immediately, then perhaps in the longer term, and not necessarily in terms of money but mainly in nonmonetary ways such as devotion, social status, or the expectation of salvation. Of course, the utilitarian gift may also benefit the receiver, but this is not the necessary condition motivating gift-giving. Vesterlund (2006, p. 573) suggested that, "at the most extreme level, the private benefit of donating is no different from that of buying any other private good." By contrast, the non-utilitarian perspective assumes that altruism and freedom are the central features of giving. Here, actors donate because their donation benefits others, not necessarily them. At most, they seek to achieve a "warm glow" as Andreoni (1990) refers to the individual satisfaction donors derive from giving.

Both perspectives, however, are limiting and suffer from their isolated view of the gift as a singular act rather than a specific kind of a social relationship embedded in a wider community. In this sense, Komter (2007) argues that the nature of the gift cannot be reduced

to either the pure utilitarian or the pure non-utilitarian, and, in reference to anthropologist Marcel Mauss, proposed that the gift transcends both perspectives. In *The Gift* (1966 [1925]), Mauss points to the principle of reciprocity as the central process established through gift exchanges. The gift is the initiator of reciprocity and finds its purpose neither in self-interest nor in altruism, but rather in creating a system of social relations.

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Mauss investigated traditional societies and focused on giving behavior in local communities, where "giving, taking, and reciprocating are the basic activities through which archaic societies reproduce themselves" (Adloff, 2010, p. 756). According to Mauss, gift-giving involves three obligations: to give, to receive, and to reciprocate. Through these obligations social ties are initiated and reproduced, also beyond generations. Refusing to give, to receive, and to reciprocate means separation and ultimately exclusion from the community.

Sahlins (1974) expands on the interactionalist perspective on giving, in particular Mauss's concept of reciprocity, and distinguishes between three different types of gift relations. First, generalized reciprocity refers to the kind of gifts where one gives not in order to receive something in return in the short to medium term but views the gift as a generic investment in a relationship, typically among members of family or a close-knit local community. Next, balanced reciprocity aims at equality of gift exchanges within a much shorter timeframe, as would be the case of acquaintances from across different communities. Finally, negative reciprocity is exchange among strangers where one party wants to maximize its advantage at the expense of the other. According to Sahlins (1974), the gift is a special kind of social relationship that in its meaning depends on the social distance between the parties. Krausman (2008) detected these various forms of reciprocity in the context of early modern England where a wide range of material and nonmaterial assets circulated within and between communities to generate complex networks of giving that varied in density, duration, and content. The overall result was an intricate system of mutual aid and support, trust and loyalty, social status differences, and hierarchies of power and prestige.

The gift relationship is thus a principle of what sociologists call *Vergemeinschaftung*, the making of community. In modern societies, the system formed by gifts and counter-gifts, while retaining some of its traditional functions, takes on additional aspects. For one, it exists alongside the systems of markets and the state and is part of familial, community, and friendship networks. Next, for sociologists like Bourdieu, the practice of gift-giving is closely linked to social status and the way social classes reproduce themselves. The exchange of gifts shapes the position of giver and receiver "through codes of honour, debt, and gratitude" (Bowden, 2010, p. 761).

As we will see later, those who belong to a religious congregation are more likely to give. Charitable giving is encouraged in all major religions, but it is less the religious obligation or conviction than the sense of community that is generated through the act of

sharing. Religious congregations provide the organizational setting "to hear about needs in the community, social networks that can be used to recruit volunteers and subgroups that plan helping activities" (Wuthnow, 1990, p. 12), and also for giving.

A gift is an expression of identity and boundary with certain groups or people one feels a certain affinity or solidarity with. The giver shows affiliation not only with the groups one belongs to but also those with whom one wants to belong. Although gifts might be given without expectations and often anonymously, rewards from peers can be strong motives. While the religious congregations mentioned previously are one example, many other institutions operate in similar ways, be they community action groups, social clubs like Rotary, giving circles, or country clubs. In elite clubs and associations, potential and actual members express identity and display social bonds through giving, and they exchange, in a Bourdieuian sense, economic capital for new social and cultural capital (see Chapter 7 for more on social capital). Ostrower (1995) shows the close relationship between philanthropic patronage in the arts as an expression of an elite culture on the one hand, and status-seeking and affirmation on the other. Michalski (2003) finds that donations benefit those social groups that are close to the donor in an emotional, cultural, and social sense. More generally, Schervish and Havens (1997) suggest that the scale and scope of charitable giving depends on the involvement of the donor in imagined or real communities and networks.

The scale and scope of charitable giving depends on the involvement of the donor in imagined or real communities and networks.

Thus, in modern societies, gift-giving is not only an instrument of *Vergemeinschaftung* but also part of *Vergesellschaftung*, i.e., the make-up of institutions and organizations through which society as a multitude of many communities is constituted. This means that the gift relationship has become more abstract and an embedded principle: for the nonprofit sector, it features for example in the form of fundraising and has become an organized form of revenue generation mediating between a pool of donors and a pool of recipients; for philanthropy, it has become institutionalized in the form of foundations, donor-advised funds, and giving circles; and in the case of civic engagement (see Chapter 7), the gift relationship is expressed in volunteering and membership, in other words, a major component of civil society. All three are enactments of the basic nature of the gift and its fundamental component, the gift relationship.

GIVING BEHAVIOR

Why do people give to help others? Research on giving across the social sciences and across societies has aimed to find answers to this and related questions. The most prominent attempts have been undertaken in economics and sociology to investigate why people donate (primarily money but also time and other resources) to charitable organizations,

yet contributions also come from anthropology, political science, psychology, marketing, and organizational studies as well as biology and neurology (Breeze, 2020; Paxton, 2020; Wiepking & Bekkers, 2012).

As we have already seen, giving is a relationship involving at least two actors: the one who gives, i.e., the donor, and the one who receives, i.e., the recipient or beneficiary. Both actors are embedded in a wider socio-economic environment and "communities of participation," a term suggested by Schervish and Havens (1997). Donors and recipients actively shape this environment and are simultaneously shaped by it, which means that the environment influences the likelihood of a donor giving by providing, increasing, or diminishing material and nonmaterial (i.e., social, cultural, or religious) incentives. In other words, as described by Wuthnow (1990) for religious congregations, the environment sends important signals to both donors and recipients. In considering the intersection of characteristics of donors and recipients on the one hand, and those of the environment on the other, we distinguish between two types of factors that influence giving behavior: endogenous factors that are inherent characteristics of the donor or the recipient, and exogenous factors originating from the environment.

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Endogenous Factors

Endogenous factors influencing giving behavior can be subdivided into five cluster areas: awareness of need; altruism, personal values, and religion; income, wealth, and education; age, gender, and marital status; and benefits.

Awareness of Need

Awareness of need refers to the perception that support is necessary or at least beneficial (Bekkers & Wiepking, 2011a). It is therefore a necessary, yet not necessarily sufficient condition for charitable giving. Need is perceived by the donor and is therefore not an objective but rather a subjective matter. Making actual and potential donors aware of needs is, of course, one of the main purposes of fundraising (see Chapter 11). Gift-seeking organizations send signals to the donor community, sometimes aided by the media in the case of broader appeals. In this sense, the relationship between needs and donations resembles a market situation.

People's propensity to give also hinges on the information they have about a charitable organization's goals, impact, effectiveness, and efficiency. Booth (2013) found that 10% of mainstream donors and 13% of high-net-worth donors in the UK would give more if

charitable organizations provided better information, especially about their impact and how donations are used. People tend to give more when they feel that their contribution makes an actual difference (Arumi et al., 2005).

Altruism, Personal Values, and Religion

To economists, charitable giving means that some individuals voluntarily make themselves poorer to make someone else richer. Individuals may therefore differ in their propensity toward altruism, that is, they may care to different degrees about their social environment in general and about contributing to the betterment of conditions for those in need or the goals of charitable organizations. Some might not care at all, while others may experience a reward in the form of a "warm glow" from actively supporting others (see Andreoni, 1990). The level of altruism may correlate with other personal values that have been found to influence charitable giving such as egalitarianism, post-materialistic political goals, (anti-)materialism, the moral principle of care, and social justice (Bekkers & Wiepking, 2011a).

Religion is a major factor for charitable giving, with individuals who regularly attend religious services more likely to give to charitable organizations than those attending less frequently or not at all (Havens et al., 2006). However, in the US, giving to religion has decreased in relative terms in recent decades: up to the 1990s, it was about 50% of total contributions, but it declined steadily to about 30% by 2017 (Giving USA, 2018). This drop likely reflects deep-seated cultural trends, increased secularization, and a declining attachment to religious institutions (Soskis, 2017; Fulton, 2020).

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Income, Wealth, and Education

The relationship between income and giving has been a central focus of research, in large measure owing to its policy implications and the tax treatment of donations. If, as Figure 6.1a suggests, the share of giving to income is constant as incomes increase, the distributional outcome would be relatively regressive, as poorer households would contribute relatively more than richer ones. If the relationship is such that the relative share of giving rises as incomes increase, giving can be viewed as a voluntary progressive tax dedicated to charitable purposes deemed worthwhile by donors (Figure 6.1b). Conversely, if relative giving declines as household incomes increase, the outcome would be a regressive voluntary redistribution in absolute terms (Figure 6.1c).

Next to these scenarios, empirical evidence suggests a more complicated relationship: first, research on the determinants of wealth has found some, but less clear, evidence for a U-shaped association between household income and charitable giving as shown in

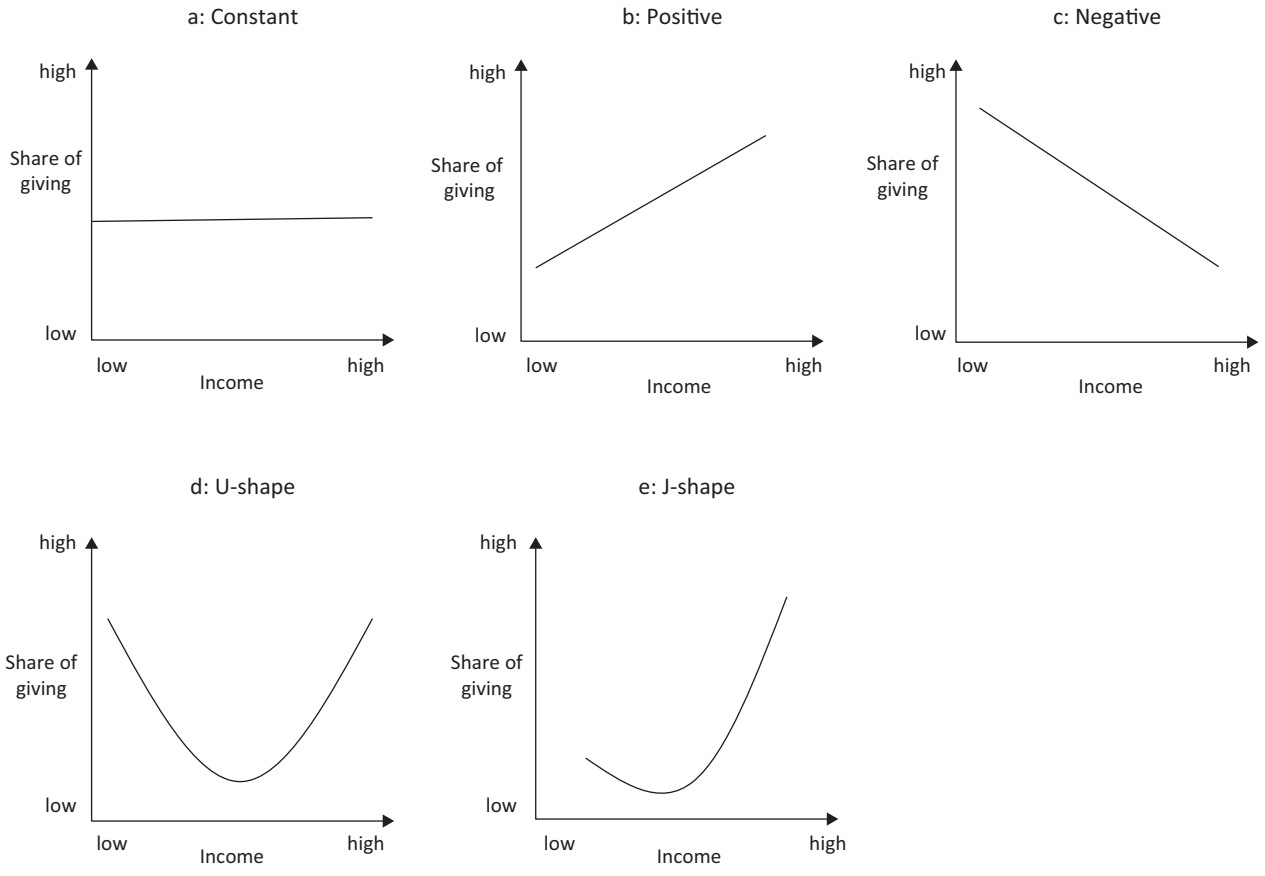


FIGURE 6.1 The relationship between income and share of giving

Figure 6.1d. List (2011) reports that households with incomes in the range of US$20,000–40,000 donated 5% of their income to nonprofit organizations, those in the $40,000–75,000 income bracket 2%, and those with higher incomes 3%. This would imply that low-income households give relatively more than middle-income households, and that the share of giving would again rise for higher-income households.

A study of high-net-worth donors in the US has shown that those with annual incomes greater than $200,000 or a net worth of more than $1 million contribute 7% to 8% of their income (U.S. Trust Report, 2014). This finding lends some support for a J-curve relation (Figure 6.1e), where relative shares initially decline slightly as income levels rise, but then show a steady increase of philanthropic contributions with rising income that accelerates at the upper end. The same holds true for household wealth so that a "small number of families at the highest end of the distributions of wealth and income contributes a dramatically high proportion of total annual charitable giving" (Havens et al., 2006, p. 546). The reason is simple: it is less costly for high-net-worth individuals to donate financial resources than for those in lower income brackets.

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While income and wealth frequently correlate with educational attainment, scholars have found an independent effect of education on giving (Bekkers & Wiepking, 2011b). Individuals with college degrees are more inclined to donate than persons with a high school diploma, who in turn have a higher propensity to give charitably than their counterparts without a high school diploma (Havens et al., 2006).

Age, Gender, and Marital Status

There is a positive relationship between age and giving since disposable income increases as people get older. As a result, in many countries, giving is more frequent among those 50 and older, who also account for the majority of the total sum of donations. A study in the UK found that the over-60s accounted for more than half of donations and that they are twice as likely to give as those under 30 (Smith, 2012). Yet there are also intergenerational differences. Research in the US reports that older people donate to more traditional forms of charity, to established nonprofit organizations, and through conventional means such as writing a check (Goldseker & Moody, 2017). By contrast, the millennial generation (typically those born between 1980 and 1995) is more likely to give to specific causes rather than organizations, using more diverse ways of giving, especially crowdfunding and online tools.

Gender differences exist in giving behavior. Rooney et al. (2005, p. 178) show that gender—albeit not race—significantly influences the propensity to give and that gender differences matter "with respect to both the reported probability of giving at all and the

dollars given," but the effect is different in different countries. In the US and the UK, women tend to be more likely to donate to charity than men, and they tend to donate larger amounts (Mesch & Pactor, 2016). This holds true for both single and married households. In Canada, by contrast, men are more likely to donate than women and to donate more (Lasby & Barr, 2018).

Experimental evidence suggests, however, that the picture is slightly more complicated and that either gender can be found to be more altruistic depending on the costs of giving. While men donate more when the price of giving is low, women give more when doing so comes with significant costs (Andreoni & Vesterlund, 2001). Wiepking and Bekkers (2012) report that gender differences in giving decrease as levels of education and income increase, although women prefer to give to different causes.

Gender—albeit not race—significantly influences the propensity to give.

Being married also affects the inclination to give for charitable purposes. Individuals in married households in the US tend to give more than their single counterparts (Rooney et al., 2005), and married households overall have a higher propensity to give (92.5% of such households donated to a charity) than single, widowed, divorced, and separated households. This effect might be explained by the fact that marriage seems to be "an engine of wealth formation" (Havens et al., 2006, p. 551).

Benefits

Charitable giving clearly reduces the donor's material resources. However, it can also entail intangible benefits that may offset the material costs. Such benefits can include personal emotional well-being, access to privileged enjoyment, groups, or forums, or enhanced reputation. We have already mentioned the "warm glow," but charitable giving may also further emotional well-being when donors fulfill their aspirations ("being successful") or their own role expectancy by donating. They may, however, also derive more tangible benefits by being granted access to exclusive sport or cultural events, as well as dinners, balls, and meetings where the donor is newly introduced into a circle to which there was previously no access (Bekkers & Wiepking, 2011a).

As mentioned above, individuals are embedded in communities and come into contact with philanthropic activities through family, friends, or co-workers. Thus giving increases one's reputation, while refusal to give can damage it (Bekkers & Wiepking, 2011a). This might be one of the reasons why most high-net-worth individuals favor charitable giving during their lifetimes rather than via estates (Schervish & Szántó, 2006).

Giving increases one's reputation, while refusal to give can damage it.

Exogenous Factors

Three main exogenous factors affect an individual's likelihood to give to a charitable organization: solicitation, tax treatment and the charitable deduction of donations, and what has been labeled the altruism budget of giving.

Solicitation

Solicitation refers to a charitable organization's decision to ask some individuals or groups but not others. Several studies show that individuals are more likely to donate when asked, and are more likely to give charitably the more often they are solicited (Bekkers & Wiepking, 2011a; Paxton, 2020). Such solicitations can vary from simply a letter, phone calls, or being approached at a public event, to a very personal request. Havens et al. (2006) report that more than two-thirds of Hispanic (67%) and Afro-American (68%) households, which generally have a lower donation average (in both propensity to give and amount given), responded that they did not donate because they were not asked to do so. Individuals may not merely react to the solicitation itself but may feel pressured to respond to a request, in particular a personal one, due to feelings of personal obligation.

> Individuals are more likely to donate when asked, and are more likely to give charitably the more often they are solicited.

Taxation and Charitable Deduction

Many countries, including the US, allow donors to deduct some or all of the amount donated to a charitable organization or cause from their tax liability. The deduction is based on the rationale that such donations would enable nonprofit organizations to produce quasi-public goods and hence contribute to general welfare. As Reich argues, the tax deduction produces a social value that is greater "than what the state could have produced on its own" (2010, p. 182). For example, given a marginal tax rate of 30%, a $100 donation costs a donor effectively $70, as $30 is offset by a lower tax burden. Yet for society, the nonprofit would produce a greater social value than the state would have with the $30 in forgone tax.

Tax deduction of donations is a form of state subsidy as it reduces what economists call the "price of giving" (Clotfelter, 1985). But what if this subsidy were taken away? Auten and colleagues (2002) use a simple example: for a taxpayer facing a marginal tax rate of 30% as in the case above, elimination of the charitable deduction would raise the price of giving from $70 to $100 and the taxpayer's likely contributions would therefore diminish. Yet to what extent do changes in tax deductibility affect decisions about giving, and hence the amount donated to nonprofits? An effective or price elastic deduction means that it raises more donations per dollar for nonprofit organizations than it costs the tax authorities to administer the deduction. In his review of research on this issue, List (2011) concludes that there is indeed a tendency towards price elasticity, especially among higher income groups.

Another way in which political-legal frameworks affect the propensity to give is through the provision of public goods by the state, in particular welfare services. Such provisions are commonly believed to "crowd out" philanthropic contributions, although this effect might be confined to particular issue areas, as some empirical studies have found supporting evidence, some contradictory evidence ("crowding in"), and some no effect at all (Bekkers & Wiepking, 2011a).

Altruism Budget

Related to the issues of how state provision of services and private giving relate is what has been called the altruism budget and the question about the limits of the overall amounts that could flow into the nonprofit field. At the individual level, the budget refers to the question of how much donors are able and willing to contribute to what causes within a given time period. In other words, will the support of one cause come at the expense of others, and will donations in one period impact later ones? At the level of the nonprofit sector, it is about the aggregate amounts that are potentially available to the sector and the question whether the altruism budget is more or less fixed given actual and potential donor pools, or whether it can be expanded given the right incentives or urgent needs. Gee and Meer (2020) conclude that evidence relating to the altruism budget at both levels is mixed. Whereas the impact of gifts across causes within a given period can involve crowding out tendencies, research also suggests that gifts at one point in time do not seem to lead to lower contributions in later periods.

THE EVOLUTION, RATIONALES, AND FUNCTIONS OF PHILANTHROPIC FOUNDATIONS

Historically, foundations are among the oldest existing social institutions, dating back thousands of years. Equally as impressive as their longevity as an organizational form is, however, the significant expansion the field of foundations has experienced since the 1990s when institutional philanthropy thrived both nationally and internationally. As seen in Chapter 4, the US, Canada, and many European countries experienced a veritable foundation boom, with the majority of foundations having been created since the 1990s. Although endowment values drop and rise cyclically with each economic downturn and upswing, they remain at historically high levels in most developed market economies. What lies behind this expansion? What roles do foundations play in modern society, and what are some of the challenges and opportunities they face? In this section we will explore these questions by looking at the US experience in the context of the developments in other countries.

Historical Background

It is difficult to point to the precise moment when the first foundation was established, or which of the existing foundations today can look back farthest in time. Scholars trace the "genealogy" of foundations back to antiquity, proceeding in various distinct phases. The

roots can be traced to Plato's Academy in Greece and the library of Alexandria in Egypt, and later to Rome and Constantinople, where the foundation became an important institution in both Christianity and Islam. Throughout the Middle Ages, foundations were largely synonymous with religious institutions such as orphanages, hospitals, and schools. Indeed, foundations were the prototypical institutional mechanism for the delivery of educational, health, and social services under the feudal order.

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Beginning with the High Middle Ages, however, we find a stronger presence of the emerging urban middle class among founders of foundations, often linked and dedicated to particular trade or craft guilds. For example, the bakers' guilds in numerous European cities maintained foundation houses where retired bakers and those members no longer able to work their craft could live for some token rent. Gradually, the emerging bourgeoisie began to replace the gentry and clergy, and then the guilds, as the dominant donor group—a trend that amplified with industrialization in the nineteenth century.

However, depending on state–society relations, not all countries saw growth in the number and influence of foundations during the early industrialization phase. As Archambault and colleagues (1999) show, being identified with the *ancien regime*, foundations and associations remained banned in France after the revolution of 1789 and faced a highly restrictive legal environment until the twentieth century (see Chapter 2). Indeed, the state kept a watchful, frequently distrustful, eye on foundations in many countries. For example, in Austria, the state attempted to appropriate foundation assets to fill budget gaps at various times from the seventeenth century to the nineteenth century.

The state kept a watchful, frequently distrustful, eye on foundations in many countries.

By contrast, the American experience has been very different (Hammack & Anheier, 2013). Significantly, while Europe's foundations faced great uncertainty and frequent decline, the American foundation moved to the forefront of organized philanthropy. While foundations in various forms have existed throughout its history, perhaps the most important development occurred in the US at the beginning of the twentieth century with the emergence of large-scale philanthropic foundations. The first of these new foundations, such as the Carnegie or Rockefeller Foundations, did not adopt the more traditional charity approach of directly addressing social and other public problems, but aimed at exploring the causes of such problems systematically to generate long-term solutions (Fleishman, 2007; Zunz, 2012). Given the significance of this new orientation of foundation work and the significant resources that went into it, these early foundations came to symbolize a new era of institutional philanthropy.

While Europe's foundations faced great uncertainty and frequent decline, the American foundation moved to the forefront of organized philanthropy.

The signature characteristics of the early twentieth-century American foundations—the search for the root causes of social problems, professional staff, and evolving program goals—amounted to a successful innovation. Indeed, the modern foundation is often perceived as a genuinely American invention. As one American scholar (Lindeman, 1988 [1936], p. 8) noted, foundations are a "unique American answer" to the problem of excess wealth in a society with limited income redistribution: "In no other civilization have such instruments been utilized so widely as in the United States. It may even be said that the foundation had become the ascendant American device for disposing of large accumulations of surplus wealth."

Foundations are a "unique American answer" to the problem of excess wealth in a society with limited income redistribution.

It becomes clear that the rise of the American foundation in the early part of the twentieth century highlights their financial, redistributive function as well as their potential for triggering social change in addressing social problems. However, the service delivery function that was one of the major *raisons d'être* of the European foundations was much less pronounced. Against the backdrop of low government social spending and a rudimentary social welfare system, foundations in the US occupy a more prominent role in public life than in other countries. In addition, the international presence of the Ford and Rockefeller Foundations and more recently the Bill and Melinda Gates Foundation, among others, has further accentuated this particular variant of "American exceptionalism" (see Chapter 2) not only in the US, but also in many parts of the world.

However, as we will see below, the presence and role of foundations in the US is no longer unquestioned, and concerns are arising as well in other societies characterized by growing social and economic inequality. Therefore, before addressing issues of equity, fairness, and responsibility in societies that have become more unequal, it is important to get a better understanding of foundation types as well as their roles and contributions to society.

Definitions and Prevailing Types

In its most basic form, the foundation is based on the transfer of property from a donor to an independent institution whose obligation it is to use such property, and any proceeds derived from it, for a specified purpose or purposes over an often-undetermined period of time. Since this process involves the transfer of property rights, most countries provide a regulatory framework which usually also holds some measure of definition.

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Under common law, which is prevalent in most Anglo-Saxon countries, foundations typically take the form of a trust, which is legally speaking not an organization but a relationship between property and trustees. Most common law countries, including the UK and Australia, use this rudimentary legal definition and leave the actual development of foundation law to case law. One exception is the US, which, in 1969, established a specific, though negative, definition: foundations are tax-exempt organizations under section 501(c)(3) of the International Revenue Code that are neither public charities nor otherwise exempted organizations. This basically means that under American tax law, foundations are those charitable organizations that receive most of their resources from one source and are as such considered to be donor-controlled.

By contrast, in civil law countries such as Germany and the Netherlands, the essence of a foundation as a legal personality is its endowment, which is the fundamental difference from the other major type of nonprofit organization, the member-based voluntary association. In most civil law countries, however, legal definitions of foundations are usually very broad. In the German case, for instance, the Civil Code falls short of an explicit definition but mentions three necessary characteristics: foundations need to have (i) one or more specific purposes; (ii) an asset base commensurate with the need for the actual pursuit of the purpose(s); and (iii) some kind of organizational structure for carrying out activities. Similarly broad is the Dutch legal definition, according to which foundations are organizations without members with the purpose of realizing objectives specified in their charters by using property allocated to such objectives.

The term foundation covers different forms, as briefly mentioned in Chapter 3:

- **Grant-making foundations**, i.e., endowed organizations that primarily engage in grant-making for specified purposes. They range from multi-billion-dollar endowments such as Ford, Carnegie, Kellogg, or Gates, to very small family foundations. Other examples include the Leverhulme Trust in the UK, the Volkswagen Stiftung in Germany, and the Bernard van Leer Foundation in the Netherlands.

  Grant-making foundations are usually regarded as the prototype of the modern foundation, which, as argued above, is largely a reflection of the US experience and its post-war dominance in the field of philanthropy (Toepler, 1999, 2018). Whereas in the US, 90% of the existing foundations are grant-making, the majority in Europe either are operating foundations or pursue their objectives by combining grant-making activities with the running of their own institutions, programs, and projects.

Grant-making foundations are usually regarded as the prototype of the modern foundation.

- **Operating foundations**, i.e., foundations that primarily operate their own programs and projects. Examples include the Russell Sage Foundation in New York (social science research), the Institut Pasteur in France (chemistry), the Pescatore Foundation in Luxembourg (home for senior citizens), and the Calouste Gulbenkian Foundation in Portugal (the arts).

  Historically, as noted earlier, foundations were operating institutions primarily, e.g., hospitals, orphanages, and universities, although many did distribute money (almsgiving) and contributions in kind (food or firewood, for example). The sharp distinction between grant-making and operating foundations is for both the US and Europe largely a product of the nineteenth and early twentieth centuries.
- **Corporate foundations** come in several subtypes. The most prominent type is the company-related or company-sponsored foundation. Corporate foundations vary in the extent to which they maintain close links to the parent corporations in terms of governance and management. Examples include the Motorola Foundation, the Cartier Foundation in France, the LEGO Foundation in Denmark, or the Wallenberg Foundation in Sweden (Roza & Meijs, 2020).
- **Community foundations**, i.e., grant-making organizations that pool revenue and assets from a variety of sources (individual, corporate, and public) for specified communal purposes. The US city Cleveland, Ohio is the birthplace of the modern community foundation. They exist today in all US states as well as in countries including Germany, the UK, Poland, Russia, Slovakia, and Australia (Harrow et al., 2016).
- **Government-sponsored or government-created foundations**, i.e., foundations that fit the structural-operational definition but are either created by public charter or enjoy high degrees of public sector support for either endowment or operating expenditures. Examples include the Inter-American Foundation and the Asia Foundation in the US, the Federal Environmental Foundation in Germany, the Fondation de France, the Government Petroleum Fund in Norway, or the public foundations in Turkey.

Of course, other forms exist, and many foundations are mixed types, i.e., they engage in grant-making, initiate their own projects, and operate their own institutions. Examples include the Getty Trust in Los Angeles, the Fundación BBVA in Spain, and the Robert Bosch Stiftung in Germany. In most cases, however, one area of fund disbursement or use dominates.

Foundation Purpose, Approaches, and Roles

It is useful to separate what foundations want to achieve (purpose) and how (approach) from what they actually do (activity/role). This is shown in Figure 6.2 as the "Foundation Triangle." The basic idea is that foundations choose, and can consequently be examined and clustered in, specific combinations of purpose–approach–role sets. The triangle suggests that there are many combinations possible among foundation purposes, approaches, and roles, which accounts for the great diversity of this set of institutions.

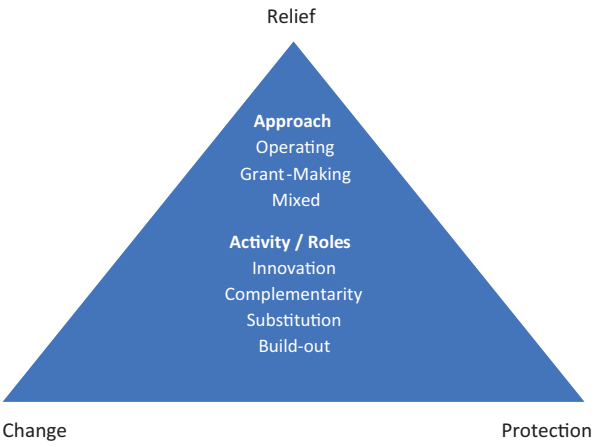


FIGURE 6.2 The Foundation Triangle

There are many combinations possible among foundation purposes, approaches, and roles, which accounts for the great diversity of this set of institutions.

Looking at purposes first, **change** means that foundations seek to promote structural changes and reforms of existing systems or help bring about new ones; they help give voice, fostering recognition of new needs and seeking empowerment for the socially excluded. For example, foundations play a policy change role if they support advocacy work to change public policy around the issue of homelessness. **Protection** refers to foundations whose objective is to defend certain communities or practices, shield traditions or works of art, and seek to maintain the status quo. An example would be a foundation seeking to protect art objects in war zones from being looted. Finally, **relief** refers to the purpose of alleviating suffering and meeting needs, often by providing shelter or medicines, feeding the hungry, or helping families in distress.

These purposes can be pursued via different approaches. Foundations might enable third parties, usually through grants and other ways and means; set up organizations dedicated to the cause and operating specific programs; or undertake a mixture of both. These approaches correspond to the differentiation between **grant-making** foundations, **operating** foundations, and **mixed** foundations, as mentioned earlier.

In pursuing their purpose and through their activities, foundations can assume different roles, i.e., general patterns by which they attain goals. These roles include:

- **Innovation** and the promotion of innovation in social perceptions, values, relationships, and ways of doing things. For example, foundations play an innovative role if they support new approaches to avoid or reduce homelessness or to promote intercultural dialogue.

- **Complementarity**, whereby foundations serve otherwise undersupplied groups and their needs. For example, foundations play a complementary role if they help provide food and shelter for the homeless or complement the foreign ministry's efforts to promote cultural diplomacy.
- **Substitution**, whereby foundations take on financial functions otherwise or previously supplied by the state, particularly the local government. For example, foundations play a substitution role if they step in to provide food and shelter for the homeless or to underwrite cultural programs to improve intercultural understanding in the face of public sector cutbacks.
- **Build-out**, whereby foundations create something new but with known ways and means, a role that can be described as "building out" the facilities of a community or region, for example supporting the creation, extension, or enhancement of a library, museum, or school.

The literature associates different comparative advantages or strengths as well as disadvantages or weaknesses with philanthropic foundations (Anheier & Leat, 2006; Hammack & Anheier, 2013; Leat, 2016). These are rooted in a dual independence: foundations are relatively independent from both market considerations and political expectations. This independence rests to a considerable extent on the fact that foundations have their own assets. However, the dual independence of foundations is both their greatest strength and weakness.

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Among the advantages or strengths of foundations are:

- **Social entrepreneurship**, whereby foundations identify and respond to needs or problems that for whatever reason are beyond the reach or interest of market firms, government agencies, and existing nonprofit organizations (see Chapter 8). An example would be the Gulbenkian Foundation which saw an opportunity for certifying medical staff from overseas to work in the Portuguese healthcare sector to solve two problems: the shortage of medical personnel in hospitals and the misemployment of trained medical staff.
- **Institution-builder**, whereby foundations create new institutions and identify coalitions of individuals and organizations capable of action; they can offer financial resources as well as knowledge and insights to help new entities become self-sustaining. Examples include classic cases such as the public library system or research universities in the US, or the projects of many American and European foundations to help build civil society organizations in post-socialist countries in the 1990s.
- **Bridge-builder**, whereby foundations form coalitions in order to find common solutions to social and other problems. As independent brokers, they can overcome institutional borders and open up new possibilities. For example, the Rowntree

Charitable Trust in the UK brought conflicting parties together in a series of efforts later leading to the Good Friday Agreement in Northern Ireland. Another example is the LA Urban Funders initiative set up by Los Angeles-based foundations after the 1994 riots to help a divided community come together.

- **Risk-absorber**, whereby foundations invest where there is great uncertainty and returns are doubtful. Foundations can be especially well placed to support new ventures in social investments, research, scholarship, writing, and the arts, as well as in vital questions that have not yet entered the mainstream. The community development projects of the Ford Foundation in US cities and the Charles Stewart Mott Foundation's support for local business in war-torn Bosnia-Herzegovina in the early 2000s serve as examples, as do social impact bond (see Chapter 11).

By the same token, it is possible to derive four essential weaknesses arising from the dual independence of foundations that can affect their performance (Hammack & Anheier, 2013). These weaknesses mirror those identified in Chapter 5 as sources of voluntary failure:

- **Insufficiency**, whereby foundations are ineffective when they lack the resources needed to meet their goals. This disadvantage becomes acute when the foundation fails to recognize its own limitations. For example, a foundation seeks to fight the cause of hunger in developing countries, but with limited resources is only able to provide funds for short-term relief in a few disaster areas.
- **Particularism**, whereby foundations disproportionately favor one specific group of beneficiaries based on value preferences. For example, a foundation offers extracurricular activities for students with a migration background from particular regions now living in a specific catchment area. However, they do not include other students, for example, those with learning disabilities, from the same area.
- **Amateurism**, whereby (often well-meaning) foundation boards make decisions despite having only a cursory understanding of the fields and issues they address. For example, a foundation donates a building, e.g., an opera house, without a proper evaluation of local needs and longer-term cost implications, thereby provoking local resistance.
- **Paternalism**, whereby the foundation relies on its own judgment rather than that of its beneficiaries. It refers in particular to the attitude that the foundation knows what is good for those it seeks to support. For example, a foundation issues recommendations on integration and migration without including or considering the opinions of migrant communities themselves.

Why Foundations?[1]

In his 2018 book, *Just Giving: Why Philanthropy Is Failing Democracy and How It Can Do Better*, Reich examines the current state of philanthropy in the US and asks if it is too much of an exercise of private power that ultimately exacerbates inequality rather than redressing it and with objectionable public consequences. Part of the problem is

that private philanthropy has grown in a period where economic inequality in the US has also increased. This relationship becomes even more problematic because of the way the charitable deduction operates: it costs the US Treasury roughly US$60 billion every year, with the overwhelming majority of those benefits tilted toward the wealthiest, according to Reich (2018). The highest earners not only have the highest subsidy rate, but they can also exert significant influence over the public sphere.

Given the growing controversy about the real value of philanthropic foundations (see also Giridharadas, 2018), we have to ask the fundamental question of why foundations exist in the first place. What theoretical and empirical arguments can be made for and against their existence? What is the relationship between philanthropy, politics, and inequality (Reckhow, 2020)? Against the theoretical discussion in Chapter 5, we explore these questions by posing two opposing answers, first generally and then from the perspectives of founders, government, and civil society at large.

***Claim**: Foundations exist because they leverage private money for public benefits and thereby provide additional options to state/market provision*. Specifically:

- *Founders*: As a form, foundations respond to existing demand and provide philanthropists with a legal instrument for expressing and pursuing their philanthropic interests.
- *Government*: Foundations provide additional resources (funds, expertise, direct services, and so on) that supplement government action, thereby achieving a more optimal use of both public and private funds.
- *Civil society*: Foundations are an independent source of funding that helps civil society counterbalance the forces of market and state, preventing both from dominating and atomizing the rest of society.

***Counterclaim**: Foundations may have some useful features, but they are ultimately elitist and undemocratic. The privileges they receive and reinforce may well surpass the wider benefits they create.* Specifically:

- *Founders*: Foundations exist to provide a solution to the problems as seen by the rich without reflecting the needs of the electorate or the population at large.
- *Government*: Foundations interfere with democratic processes and suck wealth out of the nation's tax base; they represent a misallocation of public funds.
- *Civil society*: Foundations continue to exist not because there is evidence that they do anything valuable or that they command widespread support, but because of ignorance, lack of political will, and interest and belief in foundations' myths about themselves.

To put claim and counterclaim into perspective, it is useful to take a closer look at some of the theoretical thinking about foundations.

One very general argument for the existence of foundations is that they provide vehicles for the expression of individual altruism and the means of leveraging private money for public purposes (Phillips & Jung, 2016). On the assumptions of varying levels of philanthropic values and of an unequal distribution of assets in a population, some people will

have both high assets and high philanthropic values. For some, in particular for those with larger fortunes, setting up a foundation for the distribution of grants (or for providing a service) will be economically efficient. In other words, it may be cheaper and less demanding to disburse money for a dedicated purpose with the help of a dedicated organization, that is, a foundation, than through the agency of the individual founder alone.

One very general argument for the existence of foundations is that they provide vehicles for the expression of individual altruism and the means of leveraging private money for public purposes.

In terms of leveraging private funds for public purposes, the standard argument comes in two versions. One is that foundation money would otherwise be spent or passed on to often already advantaged heirs. The other is that foundations give grants that encourage others to give additional sums. These leverage arguments remain weak, however, unless two critical outcomes can be demonstrated empirically:

- The public benefits generated by foundation activities outweigh the opportunity costs of loss of tax income that could also be generated with direct giving to charity.
- Additional monies leveraged by foundation grants come from private sources, including existing foundations, and not from tax revenue via public bodies.

Many of the explanations of foundations' existence at the broader societal or cultural level are derived from the US and, given the very different attitudes to the proper role of the state, may be of questionable relevance to countries outside the liberal nonprofit regime according to the social origins theory (see Chapter 5). It is argued that foundations exist to provide an alternative to some kinds of state responsibilities. The reasoning is clear: exclusively state provision of the wide range of welfare, educational, and cultural services would violate the liberal precept of limited government. Along similar lines, "(f)or the state, foundations tend to be vehicles for semi-privatizing certain tasks that are not as easily or as efficiently accomplished within the bounds of state administration" (Strachwitz quoted in Anheier & Toepler, 1999, p. 4). It has also been suggested that foundations "reclaim societal space for a functioning civil society from what conservative observers . . . regard as an overextended welfare state" (Anheier & Toepler, 1999, p. 5).

Another way to approach the question is to ask the counter-factual: what would the nonprofit sector lose if foundations were abolished? Would we reinvent something like them? As before, claim is posited against counterclaim.

***Claim**: Foundations provide social benefits that outweigh their costs, and this value added would be lost if foundations were abolished or not encouraged through tax legislation.* Specifically:

- *Founders*: Among the forms of philanthropic activity, the foundation has proved more beneficial and reliable for donors, trustees, and beneficiaries than alternative forms, in particular "unorganized" individual philanthropy.

- *Government*: Foundations are doubly useful: they add to government activities where needed and politically expedient, and they can be used as tools of government policy.
- *Civil society*: Foundations are the venture capital funds of civil society; they help fund innovative, risky projects that neither market nor state would support. A functioning civil society needs independent financial institutions.

***Counterclaim**: Foundations are an expensive way to allocate private funds for public benefit; rather than generating added value, they are a net cost to the taxpayer. Public policy should not encourage the creation of foundations.* Specifically:

- *Founders*: While foundations may have been useful instruments in the past, there are now more efficient and flexible options available for philanthropic activities.
- *Government*: Foundations fall into the class of tax-inefficient means of achieving public benefits; their tax-exempt status seems difficult to justify unless they meet clearly specified public needs and conform to government programs.
- *Civil society*: Foundations are continued expressions of high social inequality, and even though they do make some useful contributions, they are, for society, ultimately more part of the problem than the solution.

Why do foundations continue to exist? The simplest answer is: they exist because they are valued by society. However, arguments for the existence of foundations require proof that the benefits outweigh the costs. In this context, it is worth outlining the broad criticism of foundations presented by Porter and Kramer (1999) who suggest that foundations have a responsibility to achieve a social impact disproportionate to their spending, not least because some of the money they give away "belongs to the taxpayer." Consider the following illustration. When individuals (as opposed to foundations) contribute $100 to nonprofit organizations, the government loses $40 in forgone tax revenue (assuming a 40% tax rate), but the recipient charity has $100 to devote to some specified public benefit. Thus, the benefit is 250% of the lost tax revenue. But the case for foundations is different: on average, US foundations donate 5.5% of their assets a year, slightly above the prescribed payout rate of 5%. When $100 is contributed to a foundation, the government loses the same $40 but the immediate social benefit is only $5.50, that is, less than 14% of the forgone tax revenue. At a 10% interest rate the present value of the foundation's cumulative contribution after five years would be only $21, or just over 50% of the lost tax revenue, and after 100 years it would be $55, or some 133% of the tax lost a century earlier.

Arguments for the existence of foundations require proof that the benefits outweigh the costs.

These figures demonstrate that taxpayers and not only the donor contribute up front for much of the expected social benefit that could be attributed to foundations over time. Furthermore, the delayed social benefit has to be put in the context of two additional sets of costs: administrative costs incurred by the foundations and costs to grantees in

complying with application and reporting processes. Taking all these factors into account, Porter and Kramer (1999) suggest that foundations may be a socially expensive and hence inequitable way of allocating private funds to public purposes.

The need to prove that the benefits achieved outweigh the costs to society in terms of tax forgone is one major reason, alongside equity and efficiency considerations, for a greater emphasis on performance and impact measurement (Schnurbein, 2016). Indeed, it led, in the words of Brest (2020), to a veritable "outcomes movement" in philanthropy. The basic reasoning is that proof of added value strengthens the legitimacy of foundations in highly unequal societies, which brings up the question of democracy: are foundations necessary for modern democratic societies to function? Once more, claim is presented against counterclaim:

***Claim**: Whatever the drawbacks of foundations, the roles they play provide benefits for society that outweigh the disadvantages associated with them*. Specifically:

- *Founders*: Foundations offer a way for philanthropists to provide "voice" and political space for those who would otherwise be excluded and less heard in the political process.
- *Government*: Foundations open new political options and can search for answers and approaches outside the limits of party politics; they add independent voices to the policy process.
- *Civil society*: Foundations are independent bastions against the hegemony and controlling attitudes of government and big business; they provide the pluralism needed and support the dynamic political forces of today: think-tanks and NGOs.

***Counterclaim**: There is no systematic evidence that foundations fulfill the roles claimed. Furthermore, it is doubtful whether foundations have the financial and organizational capacities to perform those roles.*

- *Founders*: Foundations are the province of self-righteous, self-appointed groups of do-gooders, and ultimately represent the voice of the elite and upper middle class.
- *Government*: Foundations interfere with the democratic process; they represent special interests, and rarely the public good, and should be treated as such. Foundations have no political legitimacy, nor are they democratically controlled.
- *Civil society*: Foundations are undemocratic, quasi-aristocratic bastions in a modern, formally egalitarian society. Foundations' elitist, fossilizing, and bureaucratic characteristics create obstacles for a dynamic, inclusive civil society.

The very fact that foundations can operate outside the political system of parties, government, and public administration creates opportunities for support of causes that are either bypassed by or unwelcome to mainstream politics. This would include ethnic, religious, or cultural minorities, the socially excluded, or any other disadvantaged group that finds it hard to be heard by, and to get access to, political institutions. In such cases, foundations can provide support and compensate for democratic deficiencies. Pertinent examples are the support of the civil rights movement in the US by Ford and other foundations,

assistance to the anti-apartheid movement in South Africa by US, Dutch, and Scandinavian foundations, and the funding of Sinti and Roma causes by the Lautenschläger Foundation in Germany.

> The very fact that foundations can operate outside the political system . . . creates opportunities for support of causes that are either bypassed by or unwelcome to mainstream politics.

On the other side of the political spectrum, one could mention the role of conservative US foundations in sponsoring "traditional family policies" in Congress, in promoting religious education and prayer at state schools, or in paving the way for President Reagan's neoliberal agenda in the 1980s or the Koch brothers' various foundations' support of the Tea Party. In the UK various foundations played a similar role in supporting Thatcher's market agenda in the 1970s, New Labour policies in the 1990s, and the Brexit movement in the 2010s. These and other instances point to a fundamental problem of institutional philanthropy: to what extent can and do different political systems allow foundations—as independent and tax-privileged private institutions—not only to operate in the public realm but also to influence political agendas in the broader sense?

Context Matters

To address this fundamental question, it is useful to refer to a classification Anheier and Daly (2007), influenced by the social origins theory, developed based on a comparison of foundations in 18 European countries and the US (Toepler, 2007):

- In the *liberal model*, foundations form a largely parallel system next to government, frequently seeing themselves as alternatives to the mainstream and safeguards of non-majoritarian preferences, with the US as the prime exemplar. Foundations exist in a highly unequal society with significant elite control. Most foundations are grant-making and support nonprofit organizations and causes of many kinds, including advocacy.
- In the *social democratic model*, exemplified by countries such as Sweden and Finland, foundations exist in a highly developed welfare state. Most foundations are small grant-making entities catering to minority demands. As part of a well-coordinated relationship with the state, a few larger operating foundations either complement or supplement state activities. The broader political relationship is less pronounced, and foundations are largely seen as useful but marginal to society at large, including the political system.
- In the *corporatist model*, foundations are by and large in some form of subsidiarity relation with the state. Operating foundations are part of the social welfare, health, and educational system, and many combine grant-making and operative dimensions. Germany and the Netherlands are traditionally cases in point. However, foundations have become more active in "pre-political fields," i.e., not in terms of electoral politics,

but by picking up issues neglected by mainstream political parties. In such cases, the fundamental problem of institutional philanthropy becomes more acute.

- In the *state-controlled model*, foundations are ultimately subservient to the government in power and its public administration system. Restrictive laws, complicated administrative procedures, and extensive oversight establish a relatively tight control regime for foundations. This was traditionally the case in France and Japan until the foundation reforms of the 1990s onwards; today, illiberal democracies like Hungary and Poland resemble this model. In a state-controlled context, the fundamental problem of institutional philanthropy is settled by state supremacy.
- The *peripheral model* sees foundations in a minor role and as largely insignificant yet ultimately worthwhile institutions as long as they do not challenge the status quo. Greece, Romania, and Cyprus would be examples.

NEW TRENDS

In recent years, several new developments have taken root in the field of philanthropy that may have a profound effect on the foundation world and the nonprofit sector more generally. These trends emerged in particular with the expansion of wealth since the 1990s that created an entirely new set of potential philanthropists. So too, the intergenerational transfer of wealth within families with established traditions of philanthropy finds younger heirs distinguishing themselves from the "family business" of philanthropy by establishing and directing their own grant-making foundations or other giving mechanisms.

But it is not only the large fortunes that are transformed into philanthropic assets. The success of small and mid-sized business operators, including women and ethnic minorities, is also expanding the social base of philanthropy. These younger, more ethnically diverse philanthropists may be less inclined to support "traditional" institutions such as operas and museums, and more interested in the environment and emerging causes.

Venture Philanthropy

"Venture philanthropy," the "new philanthropy," and "entrepreneurial philanthropists" are terms that refer to the way funds are distributed (Defourny et al., 2016). The rapid accumulation of new wealth since the 1990s enabled many individuals to increase their philanthropy or to engage in formal philanthropy for the first time. For many of these "new philanthropists," philanthropy is an investment, not charity, designed to create social wealth. It is considered advantageous from the point of view of both good business and good citizenship, not to mention the tax advantages that can be realized with the appropriate strategies. However, one novelty that seems to prevail is that the new philanthropists view themselves as "results-oriented"; they want to see the impact and the results of their giving immediately. This is often in direct conflict with the realities of the nonprofit sector and the systemic problems that exist in cultures and communities, as well as historical information about the development of social movements. Nevertheless, there seems to be some indication that aspects of the new "bottom-line thinking" are proving to be a

valuable addition to the nonprofit sector's operations because it creates a new way of "thinking" and operating that, long term, could add value.

For many of these "new philanthropists," philanthropy is an investment, not charity, designed to create social wealth.

Strategic Philanthropy

Strategic philanthropy refers both to the working philosophy and the program strategies of a foundation. It originates from an entrepreneurial view of foundation activities that focuses on strategy, key competencies, and striving for effective contributions to social change. The concept has been taken up by some foundation leaders and potential philanthropists to help orient their grant-making. Essentially, it involves (1) setting clear, measurable goals, (2) developing sound, evidence-based strategies for achieving them, (3) measuring progress along the way to achieving them, and (4) determining whether the goals were successfully achieved (Brest & Harvey, 2008; Brest, 2020). While the concept has gained attention and attracted some controversy, especially in relation to the "business-like" approach to philanthropic giving, time will tell whether and how the foundation sector takes it up.

Strategic philanthropy refers both to the working philosophy and the program strategies of a foundation.

Spend-Down Foundations

Time-limited, spend-down, or spend-out foundations have existed in the US and other countries for some time. Their growth in numbers can be seen as a reaction to a number of pressures that have affected institutional philanthropy more generally (Soskis & Madoff, 2022).

First, in both the US and Europe, historically low interest rates since the 2008–09 global financial crisis require additional and greater efforts to yield adequate returns on asset investments in order to maintain grant-making activities at a constant level and to avoid the erosion of nominal endowment values. In such a situation, potential donors might prefer spending down assets over a given period to achieve the desired impact sooner and would do so by allocating larger sums in the shorter term.

Furthermore, foundations established in perpetuity face built-in, often underlying, tensions between the original donor intent and its interpretations over time. Boards may question the practicality and even the relevance of deeds formulated for an indefinite time period. At the core of such tensions is the question whether private funds of considerable size can address public purposes better if donor intent can be reinterpreted and changed in part or completely over time, or if donors can decide on time horizons other than perpetuity.

Finally, the US and other countries have seen the rise of smaller foundations, many with endowments of less than US$100,000 in assets. The social ecology of institutional philanthropy is changing, raising two central questions: first, one of efficiency and how to deal with growing numbers of smaller foundations that may not be well-managed in terms of financial performance and governance; second, one of effectiveness and how smaller foundations can still achieve some impact and maintain relevance as well as legitimacy over time.

Time-limited or spend-down foundations can be seen as one answer to these pressures. Representing a different form of institutional philanthropy, they innovate by attaching to the endowments of grant-making foundations a dual conditionality. In terms of purpose, they are usually dedicated to addressing more specific needs and reaching clear objectives. In terms of time, they seek to do so in a set period after which funds are fully expended and the foundation is wound down before it eventually ceases to exist. Among the most prominent examples of time-limited foundations in the US are Atlantic Philanthropies (www.atlanticphilanthropies.org), which closed its doors in 2020 after some 38 years of operation, and the Bill and Melinda Gates Foundation (www.gatesfoundation.org), which is set to expire 20 years after the death of its namesakes.

New Philanthropic Institutions

There are a variety of new or non-traditional vehicles for giving that are enabling and empowering the new philanthropists:

- **Donor-advised funds** (DAFs) offer philanthropists an alternative to establishing and operating their own foundations. Though such funds have been available since at least the dawn of the community foundation, they have become increasingly popular because they allow individuals to direct their own giving and bring a growing number of individuals of moderate wealth into philanthropy. According to the National Philanthropic Trust (2020), in 2019 charitable assets of some US$141.95 billion were held in more than 870,000 individual DAF accounts by a range of organizations including community foundations, national charities, and single-issue charities. The amount of contributions, assets, and grant payouts and the number of funds have all been growing over the last decade, as have debates about their benefits and attempts to regulate the field (Phillips et al., 2021).
- Likewise, formal **interest- and identity-based funds** and **giving circles** more broadly are increasingly common and target specific donor interests rather than serving a broad geographic community. As vehicles for collective giving, individuals pool their donations (cash or otherwise) and decide how and where funding is given, usually in support of specific causes and particular interests. Such funds began taking off in the 1970s in the wake of the civil rights movement and in tandem with other social and empowerment movements of the time, and the pace of establishment seems to have increased since. In a study of giving circles, Bearman et al. (2017) identified more than 1,000 independently run, active giving circles, plus more than 500 chapters associated with national groups; this was three times more than counted in a study ten years prior. Some 60% of these were organized around identity, whether gender (women's

groups being most common), sexuality, ethnicity, or age. Their giving focused primarily in the areas of human services, women and girls, and education.

- **E-philanthropy** relates primarily to using the internet to conduct philanthropy, whether it is a nonprofit seeking to attract donors or an individual seeking the best organization to donate to and even making the donation online (see Chapter 14). In between the two, many intermediary platforms have emerged to facilitate the process. The Blackbaud Institute's *Charitable Giving Report* (Blackbaud Institute, 2021) reported that in 2020 online giving had grown by 21% over the previous year for the nearly 5,000 US nonprofit organizations analyzed. Such growth comes perhaps as little surprise given the COVID-19 pandemic and other events that hindered many fundraising activities, but that year's expansion is no anomaly: the three-year trend shows growth of 32% occurring across all sizes of organizations, though higher among small and medium-sized charities. Some 13% of total funds raised came from online donations, the highest yet recorded in the Institute's 20 years of measurement. Human services, religion, and animal welfare organizations experienced the highest levels of growth. In the UK and Canada, while total giving declined in 2020, online giving increased over the previous year. Nevertheless, online giving remains less than 5% of total donations analyzed in the UK, and just over 10% in Canada.

Foundation-Like Organizations

The growth of foundations and similar philanthropic intermediaries, or "foundation-like organizations," appears to be at least as dramatic in developing and transition countries as in the US and Europe. The foundations at work today in developing and transition economies are different in a number of critical aspects. In the first place, few are founded by a wealthy family or individual, although a good number are founded and funded by corporations or groups of corporations. Furthermore, few have endowments that are large enough to support both their administration and grant-making programs, and many have no significant endowment at all. As a result, most rely on diverse funding from public and private sources, both domestic and international.

The growth of foundations and similar philanthropic intermediaries, or "foundation-like organizations," appears to be at least as dramatic in developing and transition countries as in the US and Europe.

In this way, it is the lack of resources rather than their availability that spurs foundations and "foundation-like organizations" in developing and transition countries to take risks and to innovate themselves (Anheier & Winder, 2004). They have little choice but to be strategic and entrepreneurial in programming and in mobilizing resources within their own philanthropic cultures. But unlike independent foundations in the US and Europe, most foundations in poorer and transition countries have no inherent freedom of action.

Instead they must respond to many stakeholders—donors, community members, political leaders, and, often, leaders of the broader nonprofit sector. The successful ones, however, turn this requirement into a resource rather than a hindrance, drawing on these ties to influence policy, mobilize additional resources, and raise awareness of underrecognized issues.

CONCLUSION

This chapter first looked at the nature of the gift, offered different perspectives on giving and philanthropy in modern society, and then looked at institutional philanthropy, especially the role of foundations. The giving of money and giving in kind are closely related to the giving of time, i.e., volunteering and, more generally, civic engagement. Why people volunteer, why they engage in their local communities, and related questions are the subject of Chapter 7.

REVIEW QUESTIONS

What is the nature of the gift?
What are determinants of giving?
Why do foundations exist?
What roles do foundations perform?

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NOTE

1 This section draws on Anheier and Leat (2006).

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CHAPTER 7

Studying Civic Engagement and Volunteering

This chapter discusses sociological and economic approaches to civic engagement and volunteering and their relationship to the nonprofit sector, civil society, and social cohesion. What is civic engagement, and what are its determinants? Why do people volunteer?

LEARNING OBJECTIVES

The two main terms that are the subject of this chapter are closely related yet depict quite distinct facets of the nonprofit sector, the wider civil society, and, indeed, the social cohesion of society at large. Specifically, and recalling Chapters 1 and 3, civic engagement is the enactment of a civic culture outside the realm of politics and evokes the imagery of informed and involved citizens caring about social issues of many kinds, trusting of major social and political institutions and concerned about the common good. Volunteering, we should recall, is the donation of time for a wide range of public benefit purposes such as helping the needy, distributing food, serving on boards, or cleaning up local parks. After considering this chapter, the reader should:

- be able to understand the meaning and patterns of civic engagement;
- have an awareness of the role of civility in modern society;
- be familiar with the main forms volunteering;
- have a basic knowledge of why people volunteer;
- be able to understand the importance of social cohesion in modern societies.

Important terms covered in this chapter are:

- Civic culture
- Civic engagement
- Civic mindedness
- Civility
- Service learning
- Social capital
- Social cohesion

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- Trust forms and trust radius
- Volunteering

INTRODUCTION

Civic engagement is about social and political participation, about caring for the common good, and about trusting in others as well as in major social and political institutions. It is closely related to giving and philanthropy, recalling Chapter 6, but carries a broader connotation of participation in local communities and beyond.

Civility, as we will see in the next section, is a related but distinct term. It is about respect for the dignity of others and a reciprocal expectation that others are respectful as well. Civility requires empathy in terms of putting one's own immediate self-interest in the context of the larger common good and acting accordingly. Social capital, as explained in Chapter 3, captures the norms of reciprocity and trust that are embodied in interpersonal networks and civic associations and that reach back to the gift relationship described in Chapter 6. It is an individual characteristic and refers to the sum of actual and potential resources that can be mobilized through membership in associations, groups, and personal networks. It is also a collective characteristic of social groups and communities in terms of bonding, bridging, and linking capital. Ultimately, collectively, civility, trust, and social capital are closely related to the social cohesion of a society.

Civic engagement is . . . about caring for the common good, and about trusting in others as well as in major social and political institutions.

UNDERSTANDING CIVIC ENGAGEMENT

Civic engagement in the broadest sense refers to the ways in which people participate in public life, and typically around a set of collective issues. More specifically, it is about how people participate in order to improve conditions for others, address common problems, or help shape their community's future. The term presupposes an involvement with a "reference community," as in the classical meaning of "citizen" in antiquity, which described people who lived in the city (at that time excluding women, slaves, and others from the status of citizen). It is indeed with explicit reference to the Latin word "*civis*" that Ronan (2004) defines civic engagement in relation to the public: "The word civic, when connected to engagement, implies work, work that is done publicly, and benefits the public, and is done in concert with others" (Ronan quoted in Adler, 2005, p. 4; see also Theiss-Morse & Hibbing, 2005). Thus, civic engagement includes two key elements:

- The reference to "civic" suggests an involvement in, and concern with, public affairs; it is therefore political behavior without being tied to party politics or specific political agendas.

- Engagement is more than holding membership in an organization, paying dues, or occasionally attending meetings; engagement implies action such as taking part in public meetings and debates or volunteering.

> [Civic engagement] is about how people participate in order to improve conditions for others, address common problems, or help shape their community's future.

In other words, civic engagement is action, assumes some continuity, and requires information about, and understanding of, problems facing communities as well as proactive involvement in addressing, solving, and shaping public concerns. The "civic" stands in close affinity to the "civil," and "civic engagement" relates closely to the term "civility."

Civility

Civility is a set of behaviors and attitudes learned and embedded in the social and cultural codes of societies. Three elements illustrate the way civility can be understood (Billante & Saunders, 2002; Anheier & Labigne, 2012). The first is respect for others, or as Shils (1997) elaborated, respect for and the desire for the dignity of others. This diverges from the conceptualization of respect as obedience, given that one can be disobedient while remaining respectful.

A second element is civility as a public attitude towards strangers. Neither love nor hate is needed in order to be civil towards others in everyday life. It is initial neutrality towards the generalized other based on an underlying notion of trust. For sociologist Simmel (2013 [1908]), trust in others becomes a condition of modernity. He writes, "We only have to know a person's certain external qualities in order for the trust required for our joint venture … we no longer need actual personal knowledge" (Simmel, 2013 [1908], p. 323). As Giddens (1990) and others point out, such generalized trust reduces the complexity actors would otherwise face in deciding when and whom to trust on an ongoing basis. The trust element of civility is important for the social cohesion of diverse modern societies. For example, people typically trust physicians as professionals without necessarily knowing them personally or having observed them beforehand.

A third element refers to self-regulation in the sense that civility requires putting one's own immediate self-interest in the context of the larger common good and acting accordingly. Hence, civility is an attitude that expresses readiness to moderate particular, individual, or parochial interests and a mode of action that attempts to strike a balance between conflicting interests and demands. As Dekker (2010) points out, it is required when agreement cannot be reached, and people must continue to co-exist despite their conflicting interests and views of the common good.

> Civility is an attitude that expresses readiness to moderate particular, individual, or parochial interests and a mode of action that attempts to strike a balance between conflicting interests and demands.

The psychologist Zaff and his collaborators argue that civic engagement involves more than action alone—indeed, it presupposes a cognitive and emotional dimension. They ask rhetorically:

> Are we as a society satisfied with volunteers who show-up [sic] for a community service activity because their friends attend but who are not otherwise connected to the community? Or, do we as a society aspire to have citizens who feel a sense of duty to give back to their community, feel a deeper connection to their community, and who feel they are competent to affect change in their community?
>
> (Zaff et al., 2010, p. 736)

Civic engagement therefore entails civic mindedness: a cognitive and emotional disposition that involves a developed awareness of others and empathy with them, forms a sense of community, and understands rights and powers as well as duties and obligations that accompany citizenship.

Civic Mindedness

Civic mindedness can be understood as the belief that

> a morally and civically responsible individual recognizes himself or herself as a member of a larger social fabric and therefore considers social problems to be at least partially his or her own; such an individual is willing to see the moral and civic dimensions of issues, to make and justify informed moral and civic judgments, and to take actions when appropriate.
>
> (Ehrlich, 2000, p. xxvi)

Such civic mindedness is learned through socialization and "transmitted" within families through everyday interactions and role modeling. One in three Americans who hears and participates in regular political discussions at home is likely to volunteer (35%) as opposed to only one in eight from homes where political discussions never occur. Likewise, youths growing up in households with family member volunteers are more likely to volunteer themselves, more attentive to political news, and more likely to engage in ethical consumerism (Keeter et al., 2002). Similarly, formal education is positively related to civic engagement: education provides civic skills and fosters civic mindedness. Teachers offer civic skills training by requiring students to give speeches or oral reports in class, partake in debates, or write letters to someone they do not know. Even, by simply encouraging open discussion about community and political matters, teachers can profoundly impact the civic engagement of their students, as Figure 7.1 illustrates.

Civic mindedness is learned through socialization and "transmitted" within families through everyday interactions and role modeling.

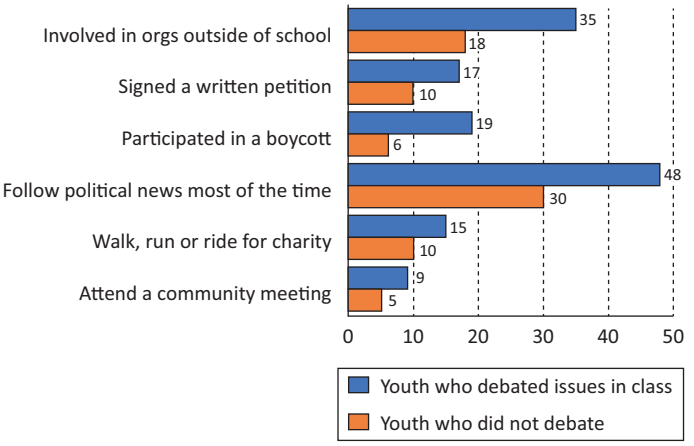


FIGURE 7.1 Class debate and civic engagement

Source: Keeter et al., 2002, p. 32.

It is therefore not surprising that civic learning aspects have been widely introduced into high school and college curricula and that initiatives to support this trend have mushroomed. One higher education example is the American Democracy Project (www.aascu.org), a collaboration of the American Association of State Colleges and Universities (AASCU), *The New York Times*, and the Carnegie Foundation begun in 2003, whose nearly 300 members focus on the integration of civic engagement in higher education curricula primarily by disseminating innovative civic education courses and hosting meetings, webinars, and other events (Mehaffy, 2005; see also Box 7.1). The Campus Compact (https://compact.org/) challenges its more than 1,000 mostly US college and university institutional members to make civic and community engagement an institutional priority. It encourages members to develop campus civic action plans to prepare students for lives of engaged citizenship in pursuit of the public good. Such initiatives have also emerged elsewhere at both national (e.g., Campus Engage in Ireland and Australian Universities Community Engagement Alliance) and international (International Consortium for Higher Education, Civic Responsibility, and Democracy) levels.

BOX 7.1

Advancing Civic Learning and Democratic Engagement on Campus

What might a civic minded campus look like? According to the organizers of the annual Civic Learning and Democratic Engagement Meeting, co-sponsored by the American Association of State Colleges and Universities' American Democracy Project, colleges and universities would foster:

- **Civic Ethos** (of campus): The infusion of democratic values into the customs and habits of everyday practices, structures, and interactions; the defining character of the institution and those in it that emphasizes open-mindedness, civility, the worth of each person, ethical behaviors, and concern for the well-being of others; a spirit of public-mindedness that influences the goals of the institution and its engagement with local and global communities.
- **Civic Literacy & Skill Building** (as a goal for every student): The cultivation of foundational knowledge about fundamental principles and debates about democracy expressed over time, both within the United States and in other countries; familiarity with several key historical struggles, campaigns, and social movements undertaken to achieve the full promise of democracy; the ability to think critically about complex issues and to seek and evaluate information about issues that have public consequences.
- **Civic Inquiry**: The practice of inquiring about the civic dimensions and public consequences of a subject of study; the exploration of the impact of choices on different constituencies and entities, including the planet; the deliberate consideration of differing points of view; the ability to describe and analyze civic intellectual debates within one's major or area of study.
- **Civic Action** (as lifelong practice): The capacity and commitment both to participate constructively with diverse others and to work collectively to address common problems; the practice of working in a pluralistic society and world to improve the quality of people's lives and the sustainability of the planet; the ability to analyze systems in order to plan and engage in public action; the moral and political courage to take risks to achieve a greater public good.
- **Civic Agency** involves the capacities of citizens to work collaboratively across differences like partisan ideology, faith traditions, income, geography, race, and ethnicity to address common challenges, solve problems and create common ground; requires a set of individual skills, knowledge, and predispositions; also involves questions of institutional design, particularly how to constitute groups and institutions for sustainable collective action.

Source: Hoffman et al., 2018, p. 5. Reprinted with permission from the American Democracy Project, American Association of State Colleges and Universities.

The link between education and civic mindedness is seen as essential for democracy and social cohesion. Civic mindedness increases attention to public matters and activities and serves as a prerequisite to civic engagement. Like volunteering, it can be encouraged through service learning and similar mechanisms as part of the education process. Service learning is a method of teaching at primary, secondary, and college levels to combine formal instruction inside or outside the classroom with community service. The actual kind of community service can vary and ranges from visiting eldercare homes and cleaning

up parks to tutoring other children to help them achieve better math or reading scores. The US Community Service Act of 1990 describes service learning as:

> a method under which students or participants learn and develop through active participation in thoughtfully organized service that is conducted in and meets the needs of a community; is coordinated with an elementary school, secondary school, institution of higher education, or community service program, and with the community; and helps foster civic responsibility; and that is integrated into and enhances the academic curriculum of the students, or the educational components of the community service program in which the participants are enrolled; and provides structured time for the students or participants to reflect on the service experience.
>
> (42 U.S. Code 12511; see also www.nylc.org, National Youth Leadership Council)

Civic mindedness increases attention to public matters and activities and serves as a prerequisite to civic engagement.

Civic mindedness is also reinforced through deliberative civic engagement, i.e., "processes that enable citizens, civic leaders, and governmental officials to come together in public spaces where they can engage in constructive, informed, and decisive dialogue about important public issues" (Nabatchi, 2012, p. 7). In Figure 7.1 the influence of classroom dialogue and discussion on civic engagement among adolescent students is quite evident. Deliberative civic engagement assumes a similar effect on adult individuals and stresses that action-oriented behavioral measures of civic engagement (all too) often neglect deliberative practices.

Nabatchi (2012) lists several practices and approaches in which citizens interact with elected officials, politicians, and a variety of other stakeholders:

- Processes designed to explore issues such as conversation cafés or wisdom circles and others aiming to more pointedly facilitate problem-solving and political decision-making such as 21st Century Town Meetings (http://americaspeaks.org/services/21st-century-town-meeting/).
- Deliberative methods ranging from short and moderated dialogues to complex multi-stage decision-making processes.
- Locus of action, where the primary impact is directed towards, for example, a particular neighborhood, a specific social network, or the influence of policies on a local, regional, national, or even international level.
- Connection to the policy process, with some practices entailing explicit links to political decision-making bodies while others aim at broad cognitive or framework changes bottom-up.

Deliberative civic engagement consists of actions that may fall outside the traditional canon of civic engagement activities. Yet, by fostering interaction on collective problem-solving,

they also exhibit a positive impact on civic mindedness by increasing mutual understanding, empathy, and trust.

Social Capital and Trust

Research on civic engagement and trust has blossomed since Putnam put the term on the academic and public agenda in several influential works (Putnam, 1993, 1995, 2000). Note that the notion of trust in the context here is different from the notion of trust in trust-based theories of nonprofit organizations, reviewed in Chapter 5. The literature suggests several main factors facilitating or inhibiting civic engagement, in particular:

- Social capital and interpersonal trust
- Socio-economic factors
- Value dispositions

The social capital thesis argues in essence that voluntary action or participation in voluntary activity furthers civic engagement by providing individuals with social skills and by engendering trust in institutions and on an interpersonal basis. In the seminal study *Making Democracy Work*, Putnam (1993) posits that voluntary action in social networks improves individuals' social skills which they subsequently utilize to further engage civically. Based on evidence from (the) 20 Italian regions, Putnam argues that voluntary activity also furthers trust throughout networks and (an understanding of) reciprocity.

To understand the important role of trust in relation to social capital, it is useful to recall that sociologists emphasize trust as an indispensable element of modern society. They differentiate between three types of trust:

- Basic trust, which is about ontological security, the notion of self, and self-confidence, and mostly acquired during primary socialization.
- Interpersonal trust, also referred to as horizontal trust, which can be of a particular type within one's family, kinship, and friendship networks; or generalized trust based on membership in a specific group, community, or association.
- Institutional trust, also called vertical trust, which is about more abstract and complex systems such as the government, the law, the media, business, or nonprofit organizations, but also trust in professional groups like medical doctors, lawyers, or teachers.

The term trust radius summarizes a person's trust composition. A narrow trust radius consists mostly of familial and particular interpersonal trust and is typical for groups that rely mostly on bonding capital. By contrast, a broader radius is predominantly made up of generalized interpersonal and institutional trust, characteristic of linking social capital. Finally, a layered trust radius combines the various forms of trust (particular and generalized interpersonal, professional, and institutional) and connotes bridging capital.

TABLE 7.1 Interpersonal trust by active membership in voluntary associations

Statements about trust:	*Number of memberships held*			
	none %	*one* %	*two* %	*three or more* %
Most people can be trusted	24	27	31	33
Cannot be too careful	76	73	69	67
Total N = 79,805	48,294 (100%)	16,918 (100%)	7,579 (100%)	7,014 (100%)

Source: Inglehart et al., 2014.

As noted in Chapter 3, the link between nonprofits and trust was first suggested in Putnam (1993), in which he reasons that dense networks of voluntary associations are the main explanation for northern Italy's economic advantage over the country's southern parts. Other works by Putnam (2000) and Fukuyama (1995) argue along lines that correlate participation and associations with generalized personal trust. As Anheier and Kendall (2002) report, the relationship between interpersonal trust and membership in voluntary associations is a persistent research finding cross-nationally. The fifth wave of the World Values Survey (Inglehart et al., 2014) shows for 57 participating countries a generally positive relationship between membership in charitable or humanitarian organizations and interpersonal trust (Table 7.1). Indeed, respondents who are active members are more likely to state that they trust people than those who are nonmembers.

Nor is this finding limited to the specific question about interpersonal trust used in the World Values Survey. In the US, a similar pattern emerges in relation to the question, "Do you think that most people would try to take advantage of you if they got a chance, or would you say that most people try to be fair?" Results showed that 60% of respondents with no memberships felt that people were more likely to try to take advantage, as opposed to over a third (35%) for those with three memberships (both active and inactive), and 38% for those with five or more memberships. Vice versa, 62% of respondents with five or more memberships felt that people tend to be fair, compared to only 39% for those holding no membership (Inglehart et al., 2014).

The main argument is that participation in voluntary associations creates greater opportunities for repeated "trust-building" encounters among like-minded individuals, an experience that is subsequently generalized to other situations such as business or politics. Thus, the neo-Tocquevillian case for nonprofits is largely an argument based on the positive and often indirect outcomes of associationalism. Putnam (2000) linked de Tocqueville's nineteenth-century description of a largely self-organizing, participatory local society to issues of social fragmentation and isolation facing American and other modern societies today (Hall, 2002). This made his work so attractive to policy-makers in

the US and elsewhere: it identified a problem (erosion in social capital) and offered a solution from "the past" (voluntary associations, community), suggesting tradition and continuity to deal with an unsettled presence. Whether generalized trust is actually a product of civic engagement or a characteristic of the people who tend to engage and stay engaged remains a question of academic debate (see, e.g., Bekkers, 2012).

Participation in voluntary associations creates greater opportunities for repeated "trust-building" encounters among like-minded individuals, an experience that is subsequently generalized to other situations such as business or politics.

Trust is not a given, and the extent to which members of society trust each other and its institutions varies over time and across different groups. There are trust generators (e.g., primary socialization and learning to trust others as well as institutions); trust maintainers (e.g., successful encounters with strangers as generalized others; being treated fairly in professional contexts); and trust reducers (e.g., social isolation; experience of corrupt behavior or violence). Variations in trust affect the degrees of civility, civic mindedness, as well as civic engagement, and, ultimately, the social cohesion of society.

Civic Culture

The term civic culture was introduced by Almond and Verba (1963) in their seminal study on the relationship between culture and democracy. They were concerned with the question why some democracies survive while others collapse. In their research, they identified the important role of involved, active citizens who are informed, analytic, and rational in their political and collective behavior (Almond & Verba, 1980).

In their 1963 study of five countries, they found three distinct civic cultures:

- Parochial, where citizens are largely passive and remain disconnected from governments, a culture that makes democracy difficult, if not near impossible, to establish and maintain.
- Subject, where despite higher levels of awareness and interest in public affairs, citizens are largely passive, a culture that presents great obstacles to democracy.
- Participant, where relationships between citizens and governments are well developed and citizens can and do influence collective decision-making; this is the civic culture that nurtures a democratic order.

Dalton and Welzel (2015), Verba (2015), and others have argued that countries can contain elements of each type and that civic cultures can change over time. Thus, there are recurrent fears that the civic culture of liberal market economies suffers: "Widespread feelings of social mistrust, citizens turning away from prime institutions and political authorities, and engaging less in informal interactions are seen as indicators of the decline of the traditional civic ethic" (Ester et al., 2006, p. 17).

Who Engages Civically? Socio-Economic Factors

Studies in the US and the UK found that class and education have a significant positive correlation with an individual's propensity to engage civically. Belonging to the middle-class bracket in socio-economic terms increases civic engagement, as do higher levels of formal education. Data from the 2010 *Civic Life in America* report (Corporation for National Community Service (CNCS) and National Conference on Citizenship (NCoC), 2010) provide a vivid illustration of the effect of level of education on civic engagement (see Table 7.2).

Belonging to the middle-class bracket in socio-economic terms increases civic engagement, as do higher levels of formal education.

A similar effect holds true for higher incomes, although receiving higher wages shifts the preference of individuals to engage in one-on-one activities such as contacting a politician or media outlet—a tendency not present with either middle class or formal education as factors (Pattie et al., 2003). Smith (2013) examined both online and offline civic behaviors: those who live in higher-income households and those with higher levels of education were more likely than those with lower income or education levels to engage

TABLE 7.2 Civic engagement by educational attainment, US

Activity	*Less than a high school diploma*	*High school graduates, no college*	*Some college or associate degree*	*Bachelor's degree or higher*	*High school graduates (all)*
Voting, 2000 election	31.3%	53.1%	67.7%	73.7%	64.5%
Participating in one or more non-electoral political activities	9.3%	17.8%	30.5%	42.3%	30.1%
Volunteering with an organization	9.0%	18.5%	30.4%	42.2%	30.2%
Working with neighbors to fix a community problem	3.0%	5.5%	9.4%	14.2%	9.6%
Exchanging favors with neighbors (at all)	50.1%	57.7%	61.3%	64.7%	61.2%
Participating in one or more groups	16.5%	26.5%	39.3%	52.3%	39.4%

Source: CNCS & NCoC, 2010, p. 12.

in most of the activities examined. Among those using social networking sites, however, political participation is about the same regardless of income. However, higher individual income may lead to lower civic engagement on the whole when it contributes to or is accompanied by high levels of income inequality.

In their meta-analysis of 15 studies regarding community heterogeneity and civic engagement, Costa and Kahn (2003, p. 104) found that "in more diverse communities people participate less as measured by how they allocate their time, their money, their voting, and their willingness to take risks to help others." Analyzing heterogeneity patterns of race, ethnicity, and income of US metropolitan areas between the 1970s and 1990s, their analysis confirmed the trend of markedly lower civic engagement within communities that exhibit higher degrees of heterogeneity, in particular income inequality.

Higher individual income may lead to lower civic engagement on the whole when it contributes to or is accompanied by high levels of income inequality.

Motivations for Engaging Civically: Value Dispositions

We should expect value dispositions to influence an individual's actions. But do values such as wanting to help others or patriotic pride indeed influence civic engagement? The answer is mixed. Examining data from 23 countries in the 2006 European Values Study, Purdam and Tranmer (2012) found not only a marked discrepancy between "helping" as a value and the act of helping in practice, but also only a limited influence of the latter on civic engagement. While helping others is considered important by a majority of citizens in most European countries (value), the percentage of individuals who do actively help (practice) is markedly lower. With regard to civic engagement, the value of helping has no significant effect on the propensity to engage, and helping in practice was only significantly associated with volunteering, yet not with voting or taking part in a demonstration.

Less complicated is the relationship between patriotism and civic engagement, which especially in the American context deserves special attention given the close proximity between the nation's self-understanding and the Tocquevillian ideal of the engaged citizen and active communities (see Chapter 2). Richey (2011) distinguishes between "blind" and "constructive" patriots, the latter recognizing shortcomings in social, economic, and political affairs. Based on survey data from the 2004 American National Election studies, he argues that the degree of constructive patriotism is significantly associated with civic engagement: the more constructive or critically patriotic an individual is, the more willing he or she is to engage in the community. Conversely, blind patriotism is negatively correlated to civic engagement. In addition, the constructive patriotism–civic engagement arrow runs in both causal directions as civic participation also exhibits an independent effect on constructive patriotism. It seems that the more individuals engage in their communities, the more they confront apparent political, economic, or social deficits, and the more likely they are to learn about problems and explore remedies.

The more constructive or critically patriotic an individual is, the more willing he or she is to engage in the community.

As we have seen, civic engagement takes many forms well beyond political voting. Several of the studies from which we have drawn much of the information above have also sought to point out linkages among the various activities. For example, in the US, those who serve others by volunteering through or with an organization are more likely to participate in other aspects of civic engagement: joining in political activities, participating in every kind of group, connecting to news and current events, and connecting socially with others. Furthermore, people who are socially engaged are more likely to be civically engaged in more conventional ways such as participation in electoral and non-electoral political activities, formal and informal service activities, and groups or associations. Finally, adults who participate in service activities are especially more likely to attend political meetings (CNCS & NCoC, 2010).

In the US, those who serve others by volunteering through or with an organization are more likely to participate in other aspects of civic engagement.

An Australian study on voluntary work (ABS, 2011) similarly found that volunteers were more likely to be involved in other aspects of community life more generally than those who had not volunteered. For example, more volunteers (82%) than non-volunteers (55%) had attended a community event in the six months prior to the survey. Volunteers were also more likely to have ever provided a service or activity in the local area (44% versus 15%). Similarly, Alexander et al. (2012) conclude that while associational intensity is positively related to civic engagement, the number of group memberships per person is a more influential determinant of the level of civic and political participation.

In their cross-national study covering the US and 19 Western and Eastern European nations, Howard and Gilbert (2008) also found a relationship between participation in voluntary organizations and political action (e.g., contacting a politician, signing a petition, boycotting a product, etc.), as well as life satisfaction and interpersonal trust. Indeed, people with higher levels of involvement in (voluntary) organizations are more engaged in political action overall. Their point is that it is not membership alone, but active engagement through, for example, volunteering that relates to greater civic engagement.

UNDERSTANDING VOLUNTEERING

In Chapter 3, we discuss the definition of volunteering and in Chapter 4 offer an empirical portrait. The way in which volunteering is defined has massive implications for the apparent scope and scale of this work form. To recall: voluntary work is defined as work

without monetary pay or legal obligation provided for organizations or persons living outside the volunteer's own household.

A continued problem in research on volunteering is the multi-dimensionality of the term, which involves aspects of choice, remuneration, structure, and the impact of the activity in question. Reviewing a range of meanings of the terms "volunteering" and "volunteers," Eliasoph concludes that "it is hard to draw a clear line between volunteer and coerced—to distinguish between volunteers who are controlled by the state, the market, or the moral order and those who are free" (2020, p. 578). Some people volunteer because they are expected to do so by the state or public institutions (think of the volunteer requirements in American high school curricula); others volunteer because they anticipate advantages in the labor market if they can show various volunteer activities; and others yet volunteer because it is expected of them for religious or other moral reasons.

Most volunteers have mixed motives, and Cnaan et al. (1996) examined a wide range of forms of volunteering and arrived at the classification provided in Table 7.3. These four dimensions involve different net costs to the volunteer irrespective of the benefits contributed to particular groups or society at large. The greater the net cost to the individual relative to the generalized benefit created through voluntary activities, the more altruistic volunteering becomes. Conversely, the less the net cost, and the more personal the benefits, the less the activity can be classified as volunteering and the more it resembles selfish, pecuniary action. For example, a highly paid manager working for an AIDS charity in her spare time would have higher net costs relative to the benefit generated than a college student doing community service as part of graduation requirements.

Thus, one would expect volunteering to decrease during periods of economic decline, since people must prioritize their limited resources and the cost of volunteering would seem to increase. However, Chambre and Einolf (2011) found that this did not occur in

TABLE 7.3 Dimensions of volunteering

Dimension	*Characteristics*
Free choice	1. Free will 2. Relatively uncoerced 3. Obligation to volunteer
Remuneration	1. None at all 2. None expected 3. Expenses reimbursed 4. Stipend/low pay
Structure	1. Formal 2. Informal
Intended beneficiaries	1. Strangers 2. Friends, relatives 3. Oneself

Source: Cnaan et al., 1996, p. 371.

the economic downturn of 2007–09. The assumption that in hard times people "cannot afford" to volunteer does not seem to find undisputed empirical evidence in recent studies.

The assumption that in hard times people "cannot afford" to volunteer does not seem to find undisputed empirical evidence.

There are several sets of factors that influence an individual's propensity to volunteer as well as the opportunities available to do so. Here we discuss motivational factors, an individual's availability and assets, the role of social networks, and finally regime types that set the broader context for volunteering.

Motivational Factors: Personality and Context

So why do people volunteer? Barker's (1993, p. 28) classical differentiation between altruistic, instrumental, and obligatory motives serves as a simplifying overview:

- Altruistic motives include notions of:
  - solidarity for the poor;
  - compassion for those in need;
  - identification with suffering people;
  - hope and dignity to the disadvantaged.
- Instrumental motives are:
  - to gain new experience and new skills;
  - something worthwhile to do in spare time;
  - to meet people;
  - personal satisfaction.
- Obligation motives are:
  - moral, religious duty;
  - contribution to local community;
  - repayment of debt to society;
  - political duty to bring about change.

Clary et al. (1998; see Chacon et al. (2017) for empirical validation) introduced the Volunteer Functions Inventory, a 30-item scale which measures the motives individuals have for choosing to volunteer. The scale is divided into six separate factors:

1. Protective motives—a way of protecting the ego from the difficulties of life.
2. Values—a way to express one's altruistic and humanitarian values.
3. Career—a way to improve career prospects.
4. Social—a way to develop and strengthen social ties.
5. Understanding—a way to gain knowledge, skills, and abilities.
6. Enhancement—a way to help the ego grow and develop.

Of course, these motivations rarely occur in isolation of each other. In reality, we find different combinations among them. The factor that bound these motivations in the past was frequently religion, or more specifically religiosity, i.e., belief and involvement in religion. In fact, many studies (e.g., Wuthnow & Hodgkinson, 1990) suggest that the degree of religiosity is one of the most important factors explaining variations in volunteering both within countries and cross-nationally. It is also the factor that seems to be declining in its importance, particularly in Europe, Australia, and other parts of the developed world with pronounced secularization trends. In these countries, instrumental orientations seem to have gained in relative weight since the 1980s, while religious values and selfless motivations appear to have lost ground (Inglehart, 1990).

The degree of religiosity is one of the most important factors explaining variations in volunteering both within countries and cross-nationally.

Despite this, Einolf (2011) still found a positive link between religiosity, prosocial orientation, and volunteering, as did Bennett (2015) in a cross-national study. In exploring the robust association between religion and volunteering, as well as education and volunteering, Son and Wilson (2011) interpret the link in developmental terms as a function of socialization. Churches as well as schools instill attitudes, among them the desire to help and do something good for future generations, that predispose the individual to volunteer.

Nonetheless, the Barker classification fits well with the approach developed by Penner (2004), who argues that personality traits help differentiate volunteers from non-volunteers. Specifically, he identifies several trait bundles. The first is "other-oriented empathy" and primarily concerns prosocial thoughts and feelings. People who score high on this factor are empathetic and feel responsibility and concern for the welfare of others. The second trait is called "helpfulness" and addresses helpful actions and an absence of self-oriented reactions to others' distress. These personality traits have to be seen in a broader social context. To understand the initial decision to volunteer, personality traits as individual attributes interact with socio-demographic characteristics (i.e., social status, education, gender, age, ethnic background) and social pressure to volunteer (see Figure 7.2).

Thus, at the individual level, the motivation to volunteer (Wilson, 2000) is influenced by two main dimensions: objective social positions including various resources, i.e., the socio-demographic factors in Figure 7.2, and subjective dispositions, which include altruistic and self-interested elements. This distinction was verified by Hustinx et al. (2010) in a sample of university students from six countries.

At the individual level, the motivation to volunteer is influenced by two main dimensions: objective social positions including various resources . . . and subjective dispositions, which include altruistic and self-interested elements.

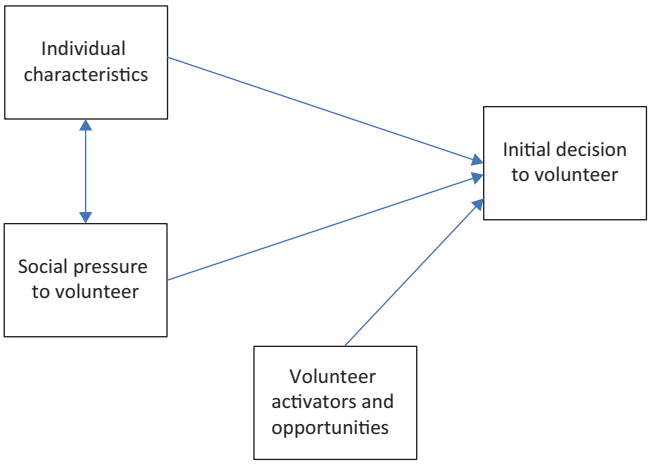


FIGURE 7.2 Schematic model of the decision to volunteer

Source: Based on Penner, 2004, p. 648.

But what turns these motivations and dispositions into the act of volunteering? Research (e.g., Musick & Wilson, 2007) has found that among the most important factors are social contact and actually being asked to do so, much like the case of giving (Chapter 6). Indeed, a survey among more than 3,200 adults in the US in 2002 found that six out of ten individuals of the millennial generation responded to an external impetus to engage in voluntary work: 39% were directly recruited by a specific group or association while another 20% were introduced to volunteer opportunities by a facilitator (Keeter et al., 2002). By the same token, not everyone is as likely to be asked—hence, there is a structural selection bias built into the demand for volunteer labor, suggesting that nonprofit organizations tend to target people with high "participation potential" (Musick & Wilson, 2007, p. 290).

Volunteer Types: Availability and Assets

Meijs and Brudney (2007) see a change in volunteering patterns from traditional to episodic, the former referring to regularly scheduled intervals and the latter denoting sporadic volunteering without an ongoing commitment. The availability of the volunteer is (relatively) high in traditional volunteering, while it is (relatively) low for episodic volunteers. Cross-tabulating the level (high vs. low) of the availability as well as the assets (e.g., experience, skills, and the like) of volunteers, Meijs and Brudney (2007) developed profiles of four types of volunteers, as depicted in Table 7.4:

- **Service** (volunteer): Backbone volunteers whose primary responsibilities lie in carrying out tasks for which little specific knowledge is required and where general competencies suffice. They volunteer on a regular basis, thus availability: high, assets: low.

TABLE 7.4 Emerging types of volunteers

Traditional/ Episodic	*Assets*	*Availability*	*Emerging type of volunteer*
Traditional	Low	High	Service
	High	High	Star
Episodic	Low	Low	Sweat
	High	Low	Specialist

Source: Meijs and Brudney, 2007, p. 69.

- **Star**: Highly available volunteers "that host organizations engage precisely to benefit from their assets, such as high levels of professional training or accomplishment, influence in the community, association with important decision-makers, etc." (Meijs & Brudney, 2007, p. 70).
- **Sweat**: Younger volunteers, such as high school or college students, who have low availability and—often due to lack of experience—relatively few assets to contribute to the nonprofit.
- **Specialist**: Specialist volunteers have high assets and are usually accomplished professionals such as doctors, engineers, attorneys, or similar. Their busy work schedules prohibit them from contributing continuously but they engage episodically in volunteer work.

Social Networks and Volunteering

Associated with social structure more generally, people's social networks and thus group membership also help explain why individuals volunteer. On average, individuals who tend to be more outgoing, referring back to the personality traits mentioned above, and socially involved, i.e., engaged in various groups, also tend to be more likely to step forward and are more often asked to volunteer (Bekkers, 2005). Simply put, friends and acquaintances recruit volunteers, thus the broader a person's social network and the greater the number of different groups a person belongs to, the higher is the likelihood that the person will volunteer. If social capital is taken in basic terms as "group membership" (including ties to friends/family/work colleagues), then it is best understood as an independent variable in explaining volunteering.

Forbes and Zampelli (2014) study the interaction between friendship networks, education, and religion. They conclude that more diverse friendship networks and higher levels of educational attainment increase the likelihood of volunteering; that more intense religious beliefs increase the level of volunteerism; and that more informal social networks, formal group membership, and greater religious participation increase both the likelihood and level of volunteering.

Nonprofit Regime Types and Volunteering

In their classical study, Almond and Verba (1963) assert that a "context of participation" is what helps explain volunteering. This assertion is not tautological. Rather, as we have seen above, their approach focuses on using various types of civic culture (parochial, subject, and participant) as independent variables in research on volunteering. In a "participant" culture, for example, a strong relationship between citizens and government is a hallmark. In such a type of civic culture, they contend, volunteering should be higher, a pattern confirmed in a 13-country study by Grönlund et al. (2011).

A related approach argues that the scale of the nonprofit sector (see Chapter 5, especially Table 5.6) and volunteering are interwoven. Depending on the nonprofit regime, volunteer rates will differ. Thus, in a liberal nonprofit regime, both paid labor and the input of volunteers will be high, and, conversely, in a statist regime, both paid and unpaid labor (volunteers) will be low. In between these extremes, the corporatist type, with higher levels of paid labor and lower levels of volunteering, and the social democratic type, with lower levels of paid labor but high volunteer input, bring into question the assumption that higher levels of volunteering are necessarily associated with high levels of paid staff in nonprofit organizations. The link between volunteering and regime type is connected with the civic culture model, but focuses more on nonprofit regimes and policies than on culture and attitudes: volunteering is an institutional outcome of regime type.

Depending on the nonprofit regime, volunteer rates will differ.

Regimes are important for more recent interpretations of volunteering as well, and volunteering is becoming a significant public policy tool in many countries, especially Western ones, where governments are actively engaged in initiatives to increase the volunteer pool so as to achieve their goals at relatively little cost. Whether such efforts will change the relationship between paid and volunteer workers in the above-mentioned regime types is an open question.

THE ISSUE OF SOCIAL COHESION

As we have seen, many authors establish a relationship between civic engagement and the constitution of society at large. Indeed, reflecting about the role of citizens in establishing their community goes back to Aristotle and antiquity. Many political thinkers throughout the ages have addressed the question of what kind of citizen is needed for what kind of society to emerge, and vice versa, be it Machiavelli, Kant, or de Tocqueville, and what this all means for questions of social justice, legitimacy, and equality (Lechterman & Reich, 2020).

The concept of social cohesion looms large in this context. Dragolov et al. (2016, p. 6) define social cohesion as "the quality of social cooperation and togetherness of a collective . . . that is expressed in the attitudes and behaviors of its members." They view a cohesive society as one characterized by "resilient social relationships, a positive emotional connectedness between its members and the community, and a pronounced focus on the common

TABLE 7.5 Dimensions and main indicators of social cohesion

Dimensions	*Indicators*	
Values	Civility	Respect for others Empathy Tolerance Dignity Initial neutrality towards others
	Compassion	Solidarity Helpfulness
Trust	Trust radius	Basic Interpersonal Institutional
Behaviors	Civic engagement	Volunteering Social and political participation Caring behavior
Connections and networks	Social capital	Bonding Bridging Linking

good" (2016, p. 6). More from a policy perspective, the OECD (2011, p. 7) defines social cohesion in terms of what it does: "A cohesive society works towards the well-being of all members, minimising disparities and trying to avoid marginalization within and between groups." Pursuit of a cohesive society then entails the three policy actions of: (i) fighting discrimination, social exclusion, and inequalities; (ii) fostering cohesion by building social capital; and (iii) enabling upward social mobility.

Clearly, the question of social cohesion goes well beyond the realm of civic engagement that is the main topic of this chapter, as, for example, in the OECD's emphasis on antidiscrimination and social mobility. At the same time, as Table 7.5 shows, there are clear overlaps between the various dimensions of social cohesion and the various elements of civic engagement. Value dispositions, forms of trust, behaviors, and connections clearly point to the role civic engagement plays in this regard. Put differently, without civic engagement, social cohesion is hard to achieve. However, comparative studies of social cohesion have emphasized the significant and negative impact of poverty and ethnic discrimination, whereas the degree of cultural and racial diversity as such shows no clear discernible effect (Bertelsmann Stiftung, 2018).

Finally, Croissant (2020) in reviewing a range of studies of social cohesion in Asia and deeply divided societies arrives at a cautionary note: while we generally hold social cohesion as something positive, there are also examples of social cohesion as a source and amplifier of conflict. He refers to Colletta and Cullen's (2000) analysis of the 1994 Rwanda genocide and how exclusionary, strong communal bonds enabled violence, and to Rossteuscher's (2010) examination of social capital formations in 78 countries, including 28 autocracies, which found that they generally helped stabilize authoritarian regimes. In Asia, Croissant (2020, p. 226) observes a positive correlation

between authoritarian political structures and social cohesion, and points to its Janus-faced quality: "it may be the glue that holds societies together . . . but it is also a source of authoritarian durability."

Thus, whether social cohesion contributes to a vibrant civil society and a democratic order or becomes a source of deeper social divisions, conflict, and autocratic tendencies depends on the wider social and political contexts. In other words, referring back to Almond and Verba (1963), social cohesion can exist in societies with parochial, subject, or participant civic cultures and may not necessarily connote democracy.

CONCLUSION

This chapter reviewed closely related but distinct concepts—civic engagement and volunteering—and the various phenomena associated with them like civility, civic mindedness, civic culture, and trust. We also examined their relationship with the concept of social cohesion and the complex interactions among them. These attitudes and behaviors fit rather squarely within what is considered the realm of civil society, but other related phenomena either defy efforts to confine them within that border or clearly go beyond it. Indeed, concepts from what is typically the world of business or "market" are used to describe such phenomena as social entrepreneurship and social innovation. We turn to these in Chapter 8.

REVIEW QUESTIONS

What factors influence civic engagement?
Why do people volunteer?
Why does social cohesion matter and how does it relate to civic engagement?

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CHAPTER 8

Social Entrepreneurship and Social Innovation

This chapter deals with two closely related phenomena. It first addresses the concept of social entrepreneurship and the role of social entrepreneurs. Why is social entrepreneurship important, and how does it relate to other forms of entrepreneurship? In a second part, the chapter looks at the concept of social innovation, what it is, and how it comes about, illustrates how it differs from other types of innovations, and shows the relationship with the nonprofit sector.

LEARNING OBJECTIVES

Social entrepreneurship blends social and economic aspects in creating, leading, and managing social ventures of many kinds. As a term, it is seen in close proximity to social innovation. After considering this chapter, the reader should:

- be able to understand the role of social entrepreneurship, and how it differs from other forms of entrepreneurship;
- have knowledge of the various types of social entrepreneurship;
- be able to understand how it relates to the nonprofit sector;
- be familiar with the main aspects of social innovations, their origins, purpose, and patterns;
- appreciate the close connection between social innovation and the nonprofit sector;
- be able to understand how social innovation differs from other types of innovation.

Important terms covered in this chapter are:

- Creative destruction
- Creativity
- Invention

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- Social entrepreneur
- Social entrepreneurship
- Social innovation
- Types of entrepreneurs
- Types of innovations

INTRODUCTION

Why should students of nonprofit organizations need to know about social entrepreneurship and social innovation? In Chapter 3, we explore the various roles nonprofits perform, and where they have a comparative advantage relative to other organizational forms. One such function is the vanguard role, which posits that nonprofit organizations innovate: they experiment with and pioneer new approaches, processes, or programs. Often the vanguard role is combined with other roles and activities, for example service delivery or advocacy. Nonprofits can serve as "change agents" with the capacity to change organizations and even entire fields or ways of doing things, be it in social services, education, housing, or development assistance overseas.

Yet how do innovations come about? Strictly speaking, organizations do not innovate; people or groups of people do. Who, then, are the innovators? Here is where social entrepreneurs come in. In other words, to understand social innovation, we need to look at social entrepreneurship. However, social entrepreneurship is also of interest for the organizational and financial sustainability of nonprofits, as social entrepreneurs typically try to balance social and economic goals. In the terms we introduce in Chapter 11 on resourcing and finance: how can nonprofits pursue and achieve a social objective while generating sufficient economic resources to do so?

SOCIAL ENTREPRENEURSHIP

The current interest in social entrepreneurship began to emerge in the 1980s from the work of Bill Drayton, the founder of Ashoka, an organization dedicated to supporting social entrepreneurs (www.ashoka.org/en-us). The global recognition of social entrepreneurship as a phenomenon is due largely to the awarding of the 2006 Nobel Peace Prize to Muhammad Yunus, along with the Grameen Bank (www.grameen.com), for their efforts to promote social and economic development, especially in the field of microfinance. To many, Yunus represented the social entrepreneur par excellence: a seemingly innovative idea, realized in small microfinance initiatives at first, and then built over time into a social franchise and network of organizations—all with the aim to solve a long-standing set of social problems in developing countries. Box 8.1 presents other examples of social entrepreneurs from around the world.

BOX 8.1

Examples of Social Entrepreneurs

Michael Young, Young Foundation (UK)

Key idea: Young was instrumental in shaping the post-war British welfare state, but also wanted to fight inequality outside of government through innovative policies. He established the Institute of Community Studies (ICS) as an urban studies think-tank in 1954. It was merged with the Mutual Aid Centre in 2005 and renamed the Young Foundation.

Outcomes/Achievements: ICS/The Young Foundation encourage social research and have supported and founded more than 80 organizations, including: The Open University, the Economic and Social Research Council, Social Innovation Exchange (SIX), and the School for Social Entrepreneurs.

Motivation: Young was an intellectual, activist, and politician who was active in the UK Labour Party and who famously coined the term "meritocracy" as a dystopian concept. He sought to identify, understand, and combat unmet social needs both inside and outside of government.

Kate Jakubas, Meliora Cleaning Products (USA)

Key idea: To offer environmentally sustainable products, including disclosing all ingredients in their products.

Outcomes/Achievements: Meliora offers a range of successful products, and business has been growing, earning a place on B Lab's "Best for the World" list. It has also successfully lobbied for "Right-To-Know Acts" such as the successful California B-258 campaign, which requires ingredient listings on cleaning products.

Motivation: Jakubas first wanted to know about what is in cleaning products when she was a master's student in 2012. In 2013, she decided to found a company to provide sustainable and environmentally friendly products.

Sharad Vivek Sagar, Dexterity Global (India)

Key idea: To use education to elevate people of all socio-economic backgrounds in order "to solve some of the most pressing problems of our times."

Outcomes/Achievements: Serves over 6.5 million children per year across rural areas in India. This includes leadership training, talent identification, and scholarships. Concrete programs range from a dedicated school, to the Young Professionals Development Programme, to a direct platform to connect students and role models. Sagar was listed on the Forbes 30 under 30 and has received numerous awards and much recognition.

Motivation: Sagar's parents struggled to pay for their children's education, so he wanted to create a world where access to education would be truly democratized and where no parent would have to choose between skipping meals and sending kids to school.

Ellen Chilemba, Tiwale (Malawi)

Key idea: To provide opportunities that allow women to remain in education and out of poverty. Originally offering employment and microloans, Tiwale has expanded to vocational training, supporting entrepreneurship, and community building.

Outcomes/Achievements: As of 2020, Tiwale had directly supported 313 women and girls in business opportunities and reached over 20,000 youth in digital events and workshops.

Motivation: Women in Malawi are among the most vulnerable and marginalized in Africa, with low primary school completion rates, low socio-economic markers, and high maternal mortality rates. Many young women are forced to leave school and marry at 12 or 13. Chilemba wanted to address these issues and the resulting poverty and lack of mobility by empowering women.

Abel Cruz, Peruvians Without Water (Peru)

Key idea: To enable rural and urban peripheral communities, which often rely on expensive, trucked-in water, to harvest water from the air. Nets capture water from fog, building water resilience in underserved communities.

Outcomes/Achievements: Along Peru's southern coast, there are now 2,000 fog catchers in 14 rural communities, helping over 30,000 people. The Peruvian government now recognizes air capture as a valid system. Some residents estimate that the new methods allow them to save up to 60% in their cost of living.

Motivation: 3.8 million Peruvian citizens lack access to drinking water, 2 million in the capital of Lima alone. Up to 1 million risk diseases from poor water sources. Bottled water costs up to 15 times more than locally collected water. Cruz had grown up himself having to fetch water from afar, and once he became a community leader, he set about seeking practical, affordable solutions.

Claudia Thomas Riche, Nursing Educational Collaborative for Haiti

Key idea: To develop a coalition of nurses to provide healthcare by partnering with North American educational institutions and sharing standards and proper procedures with nurses in Haiti.

Outcomes/Achievements: NECH-CIEH has now partnered with all 900+ healthcare facilities in Haiti. It also works with the Ministry of Health, sharing copies of the 72-page manual that the organization has developed for nurses. Videoconferences are also used to share best practices and conduct educational activities.

Motivation: Haiti ranks very poorly on health indicators, with 80% of its residents below the poverty line and a very low concentration of nurses. Riche herself is from Haiti and trained as a nurse in Canada. Establishing NECH-CIEH allowed her to match her professional background with her mission of helping her home country with healthcare.

Social entrepreneurship is a relatively young concept that first appeared in the 1980s in the management literature. Since the 2000s, it has been increasingly taken up within the nonprofit sector and by philanthropists, often in the context of a search for solutions to social problems and a need for innovation (Short et al., 2009). We also come across the concept of social entrepreneurship in Chapter 5 when discussing the entrepreneurship or supply-side theory, which views these entrepreneurs as different from conventional business entrepreneurs: instead of creating a monetary economic value for themselves or a firm, social entrepreneurs aim at some nonmonetary value such as the number of believers or members. They are social, cultural, religious, or political "ideologues" who use the nonprofit form to propagate a particular value or belief system through product bundling.

The social entrepreneurs and social entrepreneurship that are the topic of this chapter, however, are broader and less tied to religious or other ideological motivations; rather they are more oriented towards finding solutions to public problems of many kinds. These solutions often, though not necessarily, lead to the creation of nonprofit organizations or take place in an already existing nonprofit context. Social entrepreneurship, however, is one of many kinds of entrepreneurship: economic, political, or cultural. Therefore, to better understand what social entrepreneurs are and what their roles might be, it is useful to look at entrepreneurs more generally first.

What Is an Entrepreneur?

The entrepreneur is a central figure of the liberal-capitalist order which personifies the leadership, coordination, and delivery capacity required for success in market economies. The concept of entrepreneurship was first developed in the early twentieth century by sociologists Werner Sombart and Max Weber, though certainly entrepreneurs existed before then.

Sombart (1909) saw entrepreneurship as a force of economic development through a combination of charisma and rationality. The entrepreneur is a figure who invents new technologies, advances new processes and business models, finds new markets and the like, and does so with determination and frequently against opposition, resistance, and the risk of being misunderstood. Sombart's depiction reveals a certain double character of the

entrepreneur: on the one hand, there is the highly motivated and daring risk-taker, and on the other the rationalist who pursues a vison through careful planning and organizing. As Prisching (1996) writes, Sombart feared that as businesses became successful, the rational component would come to dominate, and entrepreneurs would be replaced by managers, taking away the creative impulse that ultimately drives the capitalist economy forward.

Unlike Sombart, Weber stressed the value base of entrepreneurship as a rational pursuit for economic gain and emphasized the importance of values and beliefs that drive entrepreneurs to adopt a certain lifestyle, to take risks, and to innovate. In his seminal work *The Protestant Ethic and the Spirit of Capitalism* (1935 [1905]), Weber showed how pietist religious convictions encouraged believers of Calvinism, in search of signs of God's grace, to adopt a rational lifestyle and methodically pursue some vocation in the form of one profession or another. This rationality of individual life conduct became the behavioral bedrock of the capitalist economy. In the entrepreneurship theory of nonprofit organizations outlined in Chapter 5, we see a version of this reasoning: as James (1987) argues, founders of religious charities, schools, and hospitals are driven by religious motivations, and they use the services offered to reach out to actual and potential believers.

Today, the notion of entrepreneurs is closely associated with the economist Joseph Schumpeter, who was strongly influenced by Sombart and Weber. Unlike Sombart, who feared that entrepreneurial capitalism would be replaced by managerial capitalism, and hence become more static, Schumpeter (1934) took a more dynamic view of economic development. And unlike Weber, his focus was less on the individual value base of entrepreneurship and more about its role. For Schumpeter, the essence of entrepreneurship is innovation. Entrepreneurs are the innovative force in capitalist economies and part of the "creative destruction" that drives the capitalist system: they innovate by introducing new ways of seeing and doing things, and thereby displace old ones. Entrepreneurs create new products and services; they establish new processes and organizations. In return, they are rewarded for their efforts and the risks they take with financial profit, status, and personal satisfaction. Their innovations make established products, services, processes, and organizations obsolete, only to be replaced by new innovations at some point in the future. This is the cycle of creative destruction.

For Schumpeter, the essence of entrepreneurship is innovation.

The innovative entrepreneur, exemplified by Thomas A. Edison, Henry Ford, Robert Bosch, Estee Lauder, Steve Jobs, or Elon Musk, is, according to Leibenstein (1978), a gap-filler and input-completer connecting supply and demand. Entrepreneurs fulfill two functions: first, that of recognizing and exploring market opportunities, and second, that of enhancing factor inputs through new processes and organizations. Both functions are either closely related to market imperfections such as high degrees of information asymmetries, access barriers, and rent-seeking, or part of market-making. For example, retail innovations like the suburban shopping mall challenged the market position of high-street shops in the 1970s just as the rise of online merchandizing today threatens the shopping malls. In terms of market-making, the entrepreneurs behind the personal computer or the internet in the past, or artificial intelligence today, had to create both input and output markets where none existed before.

A Unique Form of Entrepreneurship?

Three trends have supported the emergence of social entrepreneurship as a distinct form of entrepreneurship. One is the impact of management thinkers such as Peter Drucker (1990), who applied entrepreneurship theories not only in business, but also to the public and nonprofit sectors. A second is the influence of neoliberal political agendas that have sought to encourage individual enterprise, self-reliance, and self-governance throughout society and to develop an outcome-oriented entrepreneurial spirit or culture in both public and private sectors (Brest, 2020). And a third is the rediscovery of Schumpeter's approach to entrepreneurship and its extension to social rather than economic realms (Swedberg, 2009).

Not surprisingly, there are many definitions of social entrepreneurs or social entrepreneurship. Dacin et al. (2010) list some 37, ranging from "individuals who develop economically sustainable solutions to social problems" (Tracey and Phillips, 2007, p. 264) to more critical analyses of the social entrepreneur as a person whose aim "is to make the society believe that his endeavor is to bring about a social change" (Vasakaria, 2008, p. 39). Brouard and Larivet (2010, p. 45) describe social entrepreneurs as "individuals who with their entrepreneurial spirit and personality will act as change agents and leaders to tackle social problems by recognizing new opportunities and finding innovative solutions, and are more concerned with creating social value than financial value." Mair (2020) defines social entrepreneurship as the practice of addressing social problems in new ways and with new means, which involve new services and products as well as the creation of new processes and organizations.

Whether the entities through which social entrepreneurs work are conventional nonprofit organizations, social enterprises, or forprofit businesses, the success of their activities is measured first and foremost by their social impact.

Social entrepreneurs are different from business entrepreneurs in that their focus is the creation of social value, rather than the creation of monetary or economic value for the firm, although the latter may also be part of the resulting organizational model. But like economic entrepreneurs, they are change agents, who see problems as opportunities and are skilled at attracting resources. Whether the entities through which social entrepreneurs work are conventional nonprofit organizations, social enterprises, or forprofit businesses, the success of their activities is measured first and foremost by their social impact.

The economic sociologist Swedberg (2009) expands on the differences between business and social entrepreneurs and identifies five key elements of social entrepreneurship along Schumpeterian lines: the motivation of the social entrepreneurs, the role of innovation, the resistance to change, the nature of the benefit, and the evolutionary implications. Specifically:

- **Motivation**: Social entrepreneurs are not motivated by economic gain primarily but have complex motivations, centered around a profound and deeply felt sense of

mission to create social change. This coincides with Schumpeter's description of the entrepreneurs who "dream to found a private kingdom," to seek a "sense of power," and to be successful, fueled by the "joy of creation" (Schumpeter, 1934, p. 138).

- **Innovation**: As we will see below, social innovations are "new combinations that produce social change" (Swedberg, 2009, p. 102) and that involve conceiving new ways of doing things, be it financing, organizing, resourcing, delivering services, producing, or marketing. This aspect of social entrepreneurship relates to Schumpeter's (1934) notion of innovation as new factor combinations.
- **Resistance**: Innovations typically face resistance from established interests. The kinds of resistance facing social entrepreneurs include "habits, customs, tradition, norms, routines and orders" (Swedberg, 2009, p. 102) that are part of economic, political, or cultural interests. The same holds for the Schumpeterian economic entrepreneurs who face competitors, uncertain demand and supply, as well as misunderstandings as to the value or use of a new process or product.
- **Benefit**: From a Schumpeterian perspective, "making a profit is decisive for the entrepreneur, and it marks off a successful and 'correct' combination from a failed combination" (Swedberg, 2009, p. 81). In the case of social entrepreneurship, profit takes the form of a public or social benefit. In terms of longer-term outcomes, this typically entails the creation of new organizations, institutions, or laws that help to create some value and generate benefits for the innovator as well as society on a sustainable basis.
- **Link to macro-level change**: Entrepreneurship, according to Schumpeter, is an evolutionary mechanism of economic development that triggers business cycles via basic innovations that launch technological revolutions that in turn create leading industrial or commercial sectors. Swedberg follows Schumpeter and sees the ultimate purpose of social entrepreneurship as social innovations leading to creative destruction on social problems of many kinds, thereby contributing to society's evolution.

Thus, according to Swedberg (2009), social entrepreneurs are a version of the Schumpeterian entrepreneur. Yet how do they fit into the potential domains or activity fields for entrepreneurs in modern societies? Santos (2009) foresees a particular niche for social entrepreneurship among the spectrum of institutional actors in modern capitalist economies (see Table 8.1). What separates social entrepreneurship from commercial entrepreneurship is a focus on value creation as opposed to value appropriation. The primary

TABLE 8.1 Domains of entrepreneurial activity

	Potential of economic profit creation lower	*Potential of economic profit creation higher*
Potential of social value creation lower	Neglected fields by both business and social entrepreneurs	Domain for economic/ business entrepreneurs
Potential of social value creation higher	Domain for social entrepreneurs	Competition between social and business entrepreneurs

domain of social entrepreneurs is where the potential for social value creation is higher than the potential for profit generation, for example, in the case of microcredit lending schemes to low-income women, providing social services to the poor, or the social finance models we review in Chapters 9 and 11. As shown in Table 8.1, commercial enterprises focus on activities with a perceived high level of value creation and value appropriation, i.e., returns on their investments. There are also fields where social and economic entrepreneurs compete as the potential of both social benefit and profit creation are high, with healthcare, continuing education, and housing as cases in point.

What separates social entrepreneurship from commercial entrepreneurship is a focus on value creation as opposed to value appropriation.

For Santos (2009, p. 37), the defining role of social entrepreneurship—and one not necessarily picked up by the other types of institutions—is the empowerment of actors (e.g., beneficiaries, users, members, or partners) to enable them to become part of the solution; in other words, self-organization. In this way, such entrepreneurial endeavors overcome resource constraints and are better able to tackle larger-scale problems. Social entrepreneurs internalize positive externalities in the economic and social system by delivering sustainable solutions through empowerment (Table 8.2). In Santos's view, the role of social entrepreneurs is distinct from that of the nonprofit sector as well as that of the public sector and business.

The defining role of social entrepreneurship ... is the empowerment of actors (e.g., beneficiaries, users, members, or partners) to enable them to become part of the solution.

From a different perspective, Austin et al. (2006) traced a set of four key differences between commercial and social entrepreneurship:

- Market failures create differing opportunities for social and commercial entrepreneurship. Indeed, the scope of opportunities for social entrepreneurs is wider than that for commercial ones, in part because the demand for social entrepreneurial programs and services usually exceeds the capacity to supply them.
- Mission differences are manifest in multiple areas of enterprise management and personnel motivation.
- The human and financial resources required for success are similar across commercial and social entrepreneurship, but social entrepreneurs tend to face more constraints, including limited access to the best talent; fewer financial institutions, instruments, and resources; and scarce unrestricted funding and inherent strategic rigidities, which hinder their ability to mobilize and deploy resources to achieve the organization's ambitious goals.

TABLE 8.2 Social entrepreneurship's role in the wider economic system

Characteristics	*Public sector*	*Forprofit sector*	*Nonprofit sector*	*Social entrepreneurship*
Distinct role	Centralized mechanisms through which the infrastructure of the economic system is created and enforced and public goods are provided	Distributed mechanism through which society's resources and skills are allocated to the most valued economic activities	Distributed mechanism through which economic and social outcomes are made more equitable despite uneven resource endowments	Distributed mechanism through which neglected positive externalities are internalized in the economic and social system
Dominant institutional goal	Public interest, political advantage	Profit-making, economic advantage	Support disadvantaged populations and the underserved	Deliver sustainable solution to social problems
Dominant logic of action	Rule of law	Market control and economic efficiency	Charity and value enforcement	Self-organization and empowerment

Source: Based on Santos, 2009, p. 41.

- Performance measurement of social impact remains a fundamental differentiator, complicating accountability and stakeholder relations.

Mair et al. (2012) applied a content analysis to a sample of 200 social entrepreneur organizations. In terms of issues social entrepreneurs take on, economic problems, civil engagement, law and rights, environment, education, and health represented the great majority of cases, with food, housing, technology, and cultural issues much less prominent. The target constituencies were mostly communities, civil society organizations, and the public at large. The concrete actions of social entrepreneurs are training, networking, education, and counseling. When Mair et al. (2012) found that social entrepreneurs typically cluster multiple issues around a primary one and engage in various forms of actions, they performed a cluster analysis and arrived at four stylized empirical models or groups:

- The law and rights group uses mostly counseling and training and targets civil society organizations. Given the frequently contested nature of the actual cause, social entrepreneurs rely significantly on their political capital in addressing concrete issues. Mair et al. (2012) cite social entrepreneurs in the human rights field as a prime example of this.

- The environment, education, and health group engages predominantly in educational activities in targeting the general public. They focus on human capital formation (individual awareness, knowledge, expertise, and practical skills) in their efforts to generate social change. Social entrepreneurs working on HIV-AIDS prevention and creation of awareness of environmental problems or climate change are cases in point.
- The economic group tackles issues such as poverty, unemployment, exclusion, and poor working conditions. Generating or gaining access to economic resources is essential, and entrepreneurial activities focus on opening opportunities by encouraging self-help, improving public support systems, or changing policies. The microfinance scheme developed by Yunus exemplifies this group of social entrepreneurial activity.
- Finally, there is the civic engagement group of entities which seek to leverage networking activities at the community level. The aim is to create, strengthen, and mobilize social capital as a means for social change by empowering individuals and their communities. For example, social entrepreneurs can connect local citizen groups with each other and with other organizations or professionals that can help them better manage resources or become more effective in community development.

Of course, these four groups do not exhaust the great variety of entrepreneurial issues, constituencies, and activities. Yet they delineate the main dimensions of social entrepreneurship: people's rights and generating political capital; specific policy fields and human capital formation; economic issues and resourcing; and civic engagement and creating social capital.

But what leads to social entrepreneurship? Again, we are reminded of the entrepreneurship theory which states that the presence of social and religiously motivated entrepreneurs reflects religious diversity and cultural heterogeneity. Referring to the social origins theory (see Chapter 5), Mair (2010) argues that liberal regimes produce most social entrepreneurs, largely due to greater institutional flexibility and hence more opportunities to become active. By contrast, statist regimes would have a chronic undersupply of social entrepreneurs. In other words, the institutional context is important in the supply of social entrepreneurship.

Institutional context is important in the supply of social entrepreneurship.

Nicholls (2006) looks at a broad range of supply- and demand-side factors that seem to determine the extent and growth of social entrepreneurship (see Table 8.3). Among the supply-side factors are general improvements in well-being (wealth, health, and education) and better communications at lower costs. Both extend the supply of potential entrepreneurs and resources as they lower basic barriers to become entrepreneurial. On the demand side are growing and more complex social problems such as environmental degradation, income inequality, or other social problems of many kinds.

TABLE 8.3 Supply- and demand-side factors of social entrepreneurship

Limits to Social Entrepreneurship

Of course, the sometimes rather optimistic views projected in writings on social entrepreneurship have met with criticism. Some, for example, Sud et al. (2008), argue that social entrepreneurship cannot be expected to solve large-scale problems for at least two reasons: legitimacy and isomorphism. In terms of legitimacy, if social enterprises are closer (ideologically and even operationally) to forprofit enterprises than to nonprofit organizations, they risk not being accepted by the broad set of stakeholders they are supposed to serve because commitment to the social mission might be questioned. The rise of social enterprises and similar organizational forms is one indication of a trend towards addressing social problems through market-like service delivery to meet diverse social demands rather than through policy reform (Mair, 2020). Successful social entrepreneurs of social enterprises would become managerial entrepreneurs in the sense of Sombart and Schumpeter rather than advocates of a particular cause first and foremost.

Social entrepreneurs are often torn between being managers or advocates. In the former case, they are more process- and output-oriented, and in the latter, they are focused on the final outcome and become political or social movement entrepreneurs (see Chapter 17 on political activities). Furthermore, if social entrepreneurs become managers, they will become less the innovators and ultimately amplify trends towards conformity and invite the isomorphic tendencies which we describe in Chapter 9 on organizational behavior. Isomorphism could constrain the innovative work of social entrepreneurs and limit their role as drivers of change.

Social entrepreneurs are often torn between being managers or advocates.

In this context, Vasi (2009) argues that social entrepreneurship should be analyzed the way social movements are, not by focusing on the entrepreneurs in a narrow sense, but by looking at the political and organizational context more broadly when judging their impact. Similar to the way in which a social movement is successful when it secures medium- and long-term collective benefits for its constituents, social entrepreneurship is successful when it creates long-term solutions to the social problems it seeks to address, and not only by creating a sustainable nonprofit organization or social enterprise as such.

Social entrepreneurship is successful when it creates long-term solutions to the social problems it seeks to address.

SOCIAL INNOVATION

Similar to entrepreneurship, the concept of social innovation can be traced back to Sombart, Weber, and others who reflect on the impact of deviations in expected social behavior that lead to profound social changes over time, affecting the general social order. The concept is also a reaction to the grand designs of social reforms like socialism and expresses a certain preference for incrementalism, with "piecemeal strategies" and step by step "social engineering." The first targeted research on the topic, however, only emerged in the 1980s. Since 2000, however, it has attracted attention across the social sciences and contributed to a growing body of literature (Anheier et al., 2019; Moulaert & MacCallum, 2019). The concept has also gained the attention of policy-makers, since social innovations are seen as an option to find solutions for social problems of many kinds (Anheier & Fliegauf, 2013).

Social innovations are seen as an option to find solutions for social problems of many kinds.

Most definitions include a multitude of aspects that are relevant for social innovations. For instance, in its *Guide to Social Innovation*, the European Commission describes it as follows:

> Social innovation can be defined as the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations. It represents new responses to pressing social demands, which affect the process of social interactions. It is aimed at improving human well-being. Social innovations are innovations that are social in both their ends and their means. They are innovations that are not only good for society but also enhance individuals' capacity to act.
>
> (European Commission, 2013, p. 6)

Thus, the term social innovation refers to a complex set of phenomena. For a better understanding of what social innovations are, and how they relate to nonprofit organizations, it is useful to take a closer look at the concept of innovation first.

What Is Innovation?

There are numerous definitions of innovation. Drucker defines it as "a change that creates a new dimension of performance" (quoted in Garcia, 2009, p. 89). Greenberg and Baron (2003, p. 536) specify innovation as "the successful implementation of creative ideas within an organization," distinguishing it from creativity, which is "the process by which individuals or teams produce novel and insightful ideas" (p. 529). Similarly, Kuhlmann et al. (2010, p. 1) see innovation more broadly as "the development and adoption of new and improved ways of addressing social and economic needs and wants."

All these definitions share a common core: innovation is some novelty based on the application of insights and knowledge to a problem rather than happenstance and sheer luck alone. Indeed, the notion of novelty as progress is closely associated with knowledge as some precondition for innovations to take place and become recognized as such.

> Innovation is some novelty based on the application of insights and knowledge to a problem rather than happenstance and sheer luck alone.

Yet, both novelty and knowledge are also key features of a different, yet closely related concept: invention. Fagerberg (2004, p. 4) notes: "Invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice." The distinction between invention and innovation was first drawn by Schumpeter already in the 1930s who insisted that while the inventor generates ideas, it is the innovator who "gets things done" (1947, p. 152, quoted in Kern & Nam, 2008, p. 7).

Garcia (2009) identified five major distinctions in classifying innovations:

- Product or service innovations versus process innovations, in which the former delivers enhanced performance for consumers, members, or users, while the latter benefits primarily the provider as it lowers costs and increases efficiency.
- Radical versus incremental innovation is based on the degree of "innovativeness" or change that the innovation yields. Incremental innovation refers to the refinement or improvement of existing innovations and stresses the continuity of a dominant design, while radical innovations result in the transformation of existing markets or the creation of a new one altogether and thus disrupt a status quo.
- Technical compared to administrative innovations locate the primary object of innovation at a specific technical application rather than changes of an organization's managerial structure.

- Disruptive versus sustaining innovations are qualitatively similar to radical incremental innovations. Disruptive innovations are marked by a set of superior features which gradually supersede the existing product. Ettlie (1999) estimates that 6 to 10% of all innovations can be regarded as disruptive.
- Architectural versus modular innovation focuses on the exact locus of a product's innovation, that is either its components (modular) or the linkages between them (architectural).

For Rogers (2003), five attributes are largely responsible for how well an innovation is perceived and subsequently succeeds through an adaptation phase:

- Relative advantage: the degree to which an innovation is judged by potential adaptors as superior to what is currently the case.
- Compatibility: the degree to which an innovation is seen as consistent with existing values, needs, and past experiences.
- Comprehensibility: how simple an innovation is to understand and use.
- Trialability: the degree to which an innovation can be tested and experimented with, and how easy it is to return to the status quo ante.
- Observability: the ability of an innovation to generate ready visible results for others, especially potential adaptors.

Clearly, given these demands, not all innovations succeed. Kanter (2006) points to four major mistakes or traps that often arise in the management of innovations. First, strategy mistakes occur, in that decision-makers seek only blockbusters, thus setting the hurdles too high and the scope for innovations too narrow. Second, innovations can fall into the control trap, meaning that they use the same planning, budgeting, and review processes as those in the existing business and discourage adaptation. Third, when decision-makers do seek to adapt by creating ambidextrous organizations to accommodate the old and the new, they often take a correct first step in establishing separate operations, but then create such a sharp division that communications flows ebb while cultural clashes increase. Lastly, leaders may undervalue or underinvest in the nontechnical qualities of members of innovation teams, ignoring leadership, interpersonal, and communication skills and often resulting in dysfunctional teams and lack of uptake of otherwise promising ideas.

Kelman (2005, p. 6), observing US procurement reforms, finds that the "conventional explanation—that people resist change—is often oversimplified and misleading" and argues that in every formal organization a minority unsatisfied with the status quo may support changes induced top-down. Thus, the success of change may depend on the activation of these "discontented" groups. Referring back to the discussion of social entrepreneurship above, Kelman identified such groups as "change vanguard" (Kelman, 2005, chapter 3). In other words, people become innovators and support innovations out of dissatisfaction with the status quo.

People become innovators and support innovations out of dissatisfaction with the status quo.

As innovations are rarely static, their outputs are likely to be transformed and even reinvented during the diffusion process. Thus, Kline and Rosenberg (1986, p. 283) stress "[t]he fact … that most important innovations go through drastic changes in their lifetimes—changes that may, and often do, totally transform their economic significance." Subsequent reinventions and a myriad of incremental innovations may make a product more user friendly and thus speed its diffusion, greatly contributing to its economic success. Illustrative examples are the personal computer and the smartphone leading to the internet of things. Hall's (2004, p. 460) verdict holds true that

> diffusion is not only the means by which innovations become useful by being spread throughout a population, it is also an intrinsic part of the innovation process, as learning, imitation, and feedback effects which arise during the spread of a new technology enhance the original innovation.

When Is an Innovation Social?

Until recently, much of the innovation research and innovation policy had a strong emphasis on technology and the economy and neglected social innovations (Young Foundation, 2012). Three underlying perspectives on innovations dominated: first, their motivational character is grounded in competitiveness and frequently dissatisfaction with the status quo; second, the underlying image of innovation is of a dynamic nature, yet the innovation process needs managing; and third, the primary impact of innovations consists in increasing overall performance and economic returns.

The intensified practical and policy discussion on social innovation mainly arose from the dissatisfaction with the persistence of many social problems like poverty, homelessness, and environmental pollution. Social innovations came to be seen as the solutions. Consequently, several authors (e.g., Nicholls & Murdock, 2012; Moulaert & MacCallum, 2019) state that social innovation inherently differs in many ways from technological and economic innovation. Most importantly, social innovations are oriented towards a specific social problem and geared to serving social needs. This criterion appears not only in the European Commission's definition cited above but is included in other definitions as well. According to Phills et al. (2008, p. 39), social innovation "becomes important as a way to fill needs that would not otherwise be met and to create value that would not otherwise be created."

> Social innovations are oriented towards a specific social problem and geared to serving social needs.

Box 8.2 offers examples of social innovations. As pointed out in Chapter 6, the early twentieth-century American foundation could also be considered a social innovation, a new means for channeling philanthropic resources to solve social problems. Other prime examples include social finance models such as impact bonds introduced in

Chapter 11, which are new ways of financing nonprofit organizations to address complex social problems.

BOX 8.2

Examples of Social Innovations

Developing career skills in underserved areas: Citizen Schools (Boston, MA, USA)

- Citizen Schools was founded in 1995 to strengthen education at the middle school level in low-income areas. Its mission is based on the idea that opportunity is not equally distributed. Accordingly, more effort must be made to bolster education, particularly in science, technology, engineering, and math (STEM) fields, in underserved communities.
- They identify key gaps in STEM education. For example, black and Latinx adults make up a full third of the US population, but represent only 13% of the entire STEM workforce. This has cost the US economy hundreds of billions of dollars in output over the last decade.
- As of 2021, Citizen Schools was working in 22 US states, with a variety of different models, providing after-school hands-on learning programs, in-school teaching modules, and mentoring. To institutionalize their approach, they also launched a teacher development program and a mentor network. They are funded through corporations, foundations, and government organizations.
- They work on a wide range of objectives, from building intrapersonal relationships and skills, to workforce development, to more recent efforts to combat COVID-19 learning loss.
- They have been highly successful in achieving their goals: 92% of their students expressed intention to attend college, most students scored around the 80th percentile in self-efficacy, and 76% of their students expressed interest in STEM careers. They served over 11,000 students during the 2019–20 academic year.

Building understanding of child development: Roots of Empathy/ Racines de l'empathie (Toronto, Canada)

- Roots of Empathy was founded in 1996 with the goal of enhancing elementary students' empathy. It brings 2–4-month-old babies into classrooms to teach about child development.
- The typical program is comprised of 27 weekly classes. The core of the Roots of Empathy program is a classroom visit from a local infant and parent every three weeks. Children observe and comment on the baby's development, discussing their reactions to it.

- In addition to the specifics of child development, the program is designed to reduce violence and build empathy, playing into their goal to "change the world, child by child."
- In addition to the core program, they also have programs related to child literacy and professional development, providing a broad base of educational support. They are active in many indigenous communities.
- They have reached over 1 million children worldwide. Several studies found an increase in participants' prosocial behavior and a reduction of aggressive and difficult behavior, in some cases, several years after participating in the program. It has won dozens of awards from sponsors ranging from the Canadian government to foundations, nonprofits, and educational groups.
- It draws upon a wide range of funding, including governments, foundations, and individual and corporate donations.

Innovation in social services though telecare in Spain (Rey-Garcia et al., 2019)

- In Spain, telecare was used to expand the possibilities for independent living. The Spanish Red Cross took this idea, which was not yet widely adopted in the country, and encouraged its proliferation across the country in the 2000s.
- This had a particular relevance for previously underserved communities, as remote healthcare enables elderly people and people with disabilities to more easily access care. Additionally, the services were extended to victims of gender-based violence.
- Overall, the project enabled more personalized, less institutionalized care by keeping patients in their homes and their supportive social environments.
- By remote monitoring and telehealth, elderly citizens were also able to maintain greater autonomy and reduce isolation and loneliness.
- The program was carried out as a public–private partnership, with funds from the government but delivery through private groups, including social enterprises and nonprofits.

Social innovations can be viewed from a functionalist and a transformationalist perspective. From the functionalist perspective they serve demands which neither the state nor markets would or can meet. By contrast, the transformationalist approach understands social innovation as a process that provokes an institutionalization of new practices, standards, and rules. This perspective sees social innovation more preoccupied both with the actions of involved actors and the effects on them. This has two general consequences.

First, social innovations have an open, collaborative character where people engage largely (but not exclusively) outside market structures and public governance mechanisms. This involvement and the social needs orientation give social innovation a higher degree of grassroots and bottom-up character than other innovation types. Actors and initiatives are

often found at the periphery of social systems (Young Foundation, 2012), and the contexts in which social innovations occur are based on self-organization and forms of social solidarity as well as cultural and social movements.

Second, this circumstance makes social innovation also vulnerable. Unlike technological innovation that can lead to disruptive change by generating market demands guaranteeing a stable financial inflow, many social innovations are not self-financing. The beneficiaries of social innovations are often distinct from both innovators and funders. Therefore, sustainable financial support requires the commitment of funders such as foundations or social investors. In the absence of support, sustainability gaps emerge that threaten the survival of the social innovation.

When interrelated, both aspects, i.e., marginality and vulnerability, point to the critical importance of the legitimacy of social innovations as a core determinant of their success in terms of performance and impact (Nicholls, 2010). Unlike technological innovations, social innovations cannot compensate for legitimacy deficits by creating demand on markets. Thus, legitimacy as a license to operate, essential to the successful diffusion of innovations in general (Rogers, 2003), is especially important for social innovation.

Unlike technological innovations, social innovations cannot compensate for legitimacy deficits by creating demand on markets.

To summarize, social innovations tend to:

- be based on motivations to meet neglected social needs;
- combine functionalist and transformationalist approaches;
- see their primary impact in the well-being of beneficiaries;
- involve bottom-up and grassroots activities;
- require external financial support; and
- rely significantly on legitimacy for sustainability.

Social Innovations and Governance Innovations

Unlike technical innovations in market settings, and similar to social innovations, the kinds of innovations addressing public problems and issues around the supply of public and quasi-public goods are rarely such that they are driven by incentives to maximize the utility or improve the fitness of one actor alone, be it government agencies, business corporations, or civil society organizations.

Governance innovations refer to shifts in the relative actor constellations involved in addressing public problems, the involvement of new parties, or the application of new tools utilized to achieve specific policy goals (Anheier & Korreck, 2013). An example is the emergence of modern accounting standards that are actively promoted by the state as a means of regulation across fields and sectors. Others would be affirmative action policies or environmental standards enforced by a regulatory agency.

When do governance innovations happen? Borins (2000) suggests several triggers:

- Initiatives stemming from the political system such as explicit election mandates or pressures from politicians.
- New leadership in public agencies.
- Visible crises or policy failures.
- New opportunities either created by new technological advances (e.g., e-governance) or otherwise (e.g., adoption of sustainable development goals).
- Internal administrative problems leading to the formation of coalitions pushing for innovation.

Next to public agencies, nonprofit organizations are among the key actors in both social and governance innovation. The role of social movement organizations and advocacy nonprofits to protect and further interests of many kinds has long been highlighted in national contexts (see Chapter 17), including the role of endowed foundations to prepare and advance agendas (see Chapter 6). Wise et al. (2014) point out that the two main reasons behind the increased interest in governance innovations are the decline of the capacity of the state and the emergence of new public problems and governance challenges. Indeed, as we argue below, nonprofit organizations have assumed a greater role in this context by proposing social innovations that require governance innovations in response. For example, the full potential of social impact bonds (see Chapter 11) would require governance innovation to support the emergence of social investment markets in terms of risk management und consumer protection.

Nonprofit organizations are among the key actors in both social and governance innovation.

Social Innovation and the Nonprofit Sector

Thus, we can see the potential role of the nonprofit sector in social innovation not only in the cases of social movements such as the feminist, environmental, peace, or social justice movements, but also in civil society activities and grassroots associations that advance the interests of various social groups through advocacy. For instance, we can discern the innovative capacity of the nonprofit sector when observing organizations that significantly influence multinational corporations to be more environmentally and socially responsible thus contributing to the development of new standards and practices (Seelos & Mair, 2017).

Why exactly are nonprofit organizations likely to contribute to, or engage in, social innovation? We suggest that there are structural as well as values-based properties that make them likely to play key roles in this respect. The first characteristic social innovation and nonprofit organizations have in common is their social needs orientation. The fact that some nonprofit organizations give voice to minority groups and point out their concerns is not only bound to their advocacy function, which plays a critical role in communicating and lobbying needs. Nonprofit organizations are also well positioned for

detecting these needs in the first place: "The change potential of civil society stems from its structural location: close to the grassroots and the local level, civil society actors are usually the first to become aware of social problems of many kinds" (Anheier & Korreck, 2013, p. 85).

It is the proximity to target groups on the ground that sensitizes these organizations, not only for problems but potential solutions. What is more, research stresses that the multiple stakeholder structures of nonprofit organizations allow a multiplicity of signals to reach them and enable them to disseminate innovative ideas or projects (Young Foundation, 2012). Nonprofit organizations thus exhibit a "receiving" as well as a "sending" function, which together amount to a characteristic openness that has been identified as a critical factor facilitating innovation in a broad range of studies (Hogan & Coote, 2014).

Nonprofit organizations exhibit a "receiving" as well as a "sending" function, which together amount to a characteristic openness that has been identified as a critical factor facilitating innovation.

The positioning of nonprofit organizations within society is not only relevant as a detecting device, but also important in terms of stakeholder mobilization. One reason why nonprofit organizations can accomplish tasks the state and the market cannot (in particular with regard to social innovation) is their legitimacy and that they are accepted as the organizational embodiment of civil society: "NPOs encourage social interaction and help to create trust and reciprocity, which leads to the generation of a sense of community" (Donoghue, 2003, p. 8). They build connections between groups of individuals and the larger society and integrate those groups into that society, Donoghue argues, thereby contributing to the initiation of change and the distribution of power. They are described as "facilitators of social learning" (Valentinov et al., 2013, p. 372). This in turn increases acceptance of innovations and thus serves as a significant variable in building and maintaining their legitimacy, which, as discussed above, is crucial for the sustainability and ultimately the impact of innovations.

Furthermore, the service-providing and advocacy functions of nonprofits described in Chapter 3 can mutually reinforce innovative behavior. Because of this, nonprofit organizations are likely to be able to cater to both the functionalist and the transformationalist aspects of social innovation, discussed earlier. Valentinov et al. (2013, p. 368) see nonprofit organizations as a "main mechanism of societal problem-solving in implementing institutional and ideational innovations that help to overcome dysfunctional discrepancies."

With respect to the functional perspective, the fact that nonprofit organizations are not subject to the same pressure as commercial organizations is interpreted as beneficial: this comes along with the (relative) freedom to test new approaches or advocate new issues. The nondistribution constraint (see Chapter 5) is a critical moderator in this. It encourages longer-term approaches and enhances third sector organizations' ability to "endure," a trait which is crucial with regard to the longer time needed for establishing sustained social innovation in comparison with technological innovation, where market pull can accelerate the process.

> The nondistribution constraint ... encourages longer-term approaches and enhances third sector organizations' ability to "endure," a trait which is crucial with regard to the longer time needed for establishing sustained social innovation.

There is some evidence on relations between nonprofit organizations and social innovation which suggests that the actual realization of the innovation potential of nonprofits is to a considerable degree a contingent phenomenon. In a study on nonprofit organizations in the UK, Osborne (1998) found that their innovative capacity was less a function of their organizational characteristics, and rather a result of their interaction with local and central government, findings replicated ten years later (Osborne et al., 2008a, 2008b). The study emphasizes the need to understand innovative capacity as a variable of organizational capacity, with its key contingencies in the institutional environment rather than an inherent element of these organizations themselves. Osborne et al. (2008a) caution researchers, policy-makers, and practitioners not to take the innovative capacity of nonprofit organizations for granted but pay attention to the wider environment is which they operate, in particular state–nonprofit sector relations (Chapter 16).

In a study of 17 local authorities in the UK, Damanpour and colleagues (2009) found that a strong focus on innovation could be detrimental to short-term performance as it detracts management from steady-state, everyday tasks. Looking at longer-term developments, Sirianni and Friedland (2001) argue that civic innovation—which they define as the mobilization of social capital to build the civic capacities of communities and institutions to solve problems—is an extended learning process for engaged citizens, community organizers, and professional practitioners. They mention congregation-based community organizing, community development corporations, and neighborhood associations as three types of organizational forms that spurred social innovation in the US in the 1980s and 1990s. In this context, we agree with Nicholls (2013) who argues that a systems-based perspective of innovation processes rather than an analysis of single organizations will likely be more fruitful for developing a deeper understanding of social innovation.

> A systems-based perspective of innovation processes rather than an analysis of single organizations will likely be more fruitful for developing a deeper understanding of social innovation.

CONCLUSION

This chapter presented two closely related concepts: social entrepreneurship and social innovation. A main role for social entrepreneurs is innovation, although there are underlying tensions between that role and the tasks of everyday management, as we see in

Chapter 13 on leadership and human resources. A main role attributed to nonprofit organizations is their capacity to innovate, although that capacity seems more fragile than in the case of technical innovations and contingent on the wider environment. Both conclusions point to the importance of organizational theory and management, topics to which we turn in Chapters 9 and 10.

What is more, as argued in Chapter 3, civil society has many voices expressing many different interests and preferences. This is a great strength of civil society, and one that generates and percolates many new ideas and approaches about how to address a wide range of public problems. Yet it is also a weakness when it comes to finding out whose voices count and whose ideas are worthwhile, and for whom. We return to the issue of governance and state–civil society relations in Chapter 16, and, in particular, the role of government in helping scale and mainstream social innovations.

REVIEW QUESTIONS

How does social entrepreneurship differ from other types of entrepreneurship?
What factors influence social entrepreneurship?
How do social innovations differ from technical innovations?
What roles do nonprofit organizations play in social innovations?

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PART III

Organization and Management



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CHAPTER 9

Organizational Behavior and Performance

This chapter looks at organizational theory and its contributions to understanding nonprofit organizations. The chapter also explores the factors involved in shaping the development of nonprofit organizations over time and more specific aspects of organizational structure. It examines the behavior and contributions of nonprofit organizations in different fields and explores how they cope with uncertainty. This includes a discussion of performance measurement models and approaches.

LEARNING OBJECTIVES

What contribution can organizational theory make to our understanding of nonprofit organizations: how do they behave, how are they structured, what are their component parts, and what dynamics and factors are involved in shaping their development over time? Using a variety of examples, this chapter reviews the theory of bureaucracy, human relations, contingency theory, neoinstitutionalism, and population ecology approaches. Against the background of the economic theory of nonprofit organizations presented in Chapter 5 and the organizational theory presented here, what can we say about the behavior and impact of this set of institutions? After considering this chapter, the reader should:

- have a basic understanding of organizational theory;
- know some of the major phases of organizational development;
- understand the importance of the organizational task environment;
- be familiar with the specific aspects of organizational structure;
- have a basic understanding of the organizational behavior of nonprofits;
- be familiar with the close relationship among organizational values, visions, and missions;
- be able to discuss whether institutional form matters for organizational behavior;
- understand how nonprofit organizations cope with uncertainty;
- understand the difference between efficiency and effectiveness;
- be familiar with some approaches to measuring nonprofit performance.

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Some of the key terms introduced or reviewed in this chapter are:

- Balanced scorecard
- Benchmarking
- Bounded rationality
- Bureaucracy
- Centralization/decentralization
- Contingency theory
- Corporate dashboard
- Coupling/interaction
- Economies of scale/scope
- Environmental uncertainty
- Franchise
- Goal displacement
- Human Relations School
- Isomorphism
- M-form
- Mission statement
- N-form
- Neoinstitutionalism
- Niche
- Population ecology
- Resource dependency
- Social return on investment
- Task environment
- Taylorism
- Triple bottom line
- U-form
- Vision vs. mission

INTRODUCING ORGANIZATIONAL STUDIES

Nonprofit organizations share some characteristics with business firms and public agencies (Young and Steinberg, 1995; Young, 2017; Ghatak, 2020):

- Like any business firm, nonprofit organizations must "balance their books" such that revenues and expenditures match over time. Of course, nonprofits can make losses and profits each year, but over a period of time discrepancies between the two items must be reasonable.
- Like businesses, nonprofit organizations are private initiatives and rely on the participation and contributions of individuals for their establishment and ongoing operation. They are voluntary entities, not mandated by law.

- Like governments, the mission, objectives, and activities of nonprofits are not to benefit a narrow group of owners but a broader public, and serve the public interest rather than the pecuniary interests of owners or their equivalents.
- Like governments, nonprofits have to observe the nondistribution constraint in the treatment of financial and other surplus.

At the same time, nonprofit organizations are different not only because of the nondistribution constraint but also because values (religious, political, humanitarian, moral) are a distinct feature of many. According to the entrepreneurship theory (Chapter 5), nonprofits try to maximize nonmonetary returns such as faith, believers, adherents, or members, and may be less interested in monetary performance criteria. The extent to which such values influence organizational behavior varies across nonprofit organizations, but the significant presence of values implies at the very least a more complex means–goal relationship between operational and ultimate objectives. We should recall that nonprofits, owing to the nature of the goods and services they offer, have multiple stakeholders and revenue streams.

Nonprofit organizations are different not only because of the nondistribution constraint but also because values . . . are a distinct feature of many.

However, before we look more closely into questions of organizational structure and behavior, it is useful to review some of the basic facets of organizational theory. Organizational theory is among the most developed branches of the social sciences and is located at the intersection of sociology, economics, and management studies. In fact, the interest in organizations is as old as the social sciences themselves, and some of the central problems organizational theory addresses have very much remained the same since the early twentieth century, although the answers suggested have changed significantly as the field developed:

- **What is the relationship between organizational structure and task environment?** In other words, what is the best way to structure an organization for what type of purpose, and for dealing with specific sets of tasks? Should the organization be centralized or decentralized, democratically run or with top-down decision-making? Should the organization be large or small, capital-intensive or labor-intensive? What kind of leadership is needed, what degree of participation or formality relative to a given task environment?
- **How rational are organizations?** Organizations are tools for achieving specific missions and sets of objectives. For example, nonprofits are set up to reduce child abuse, protect the environment, or promote music or the performing arts. Obviously, the organization should act in a rational manner to achieve set objectives, i.e., operate efficiently and effectively, and for the benefit of the mission primarily—and only secondarily for the benefit of the board, managers, or staff.
- **What shapes organizations and their evolution?** What makes some organizations succeed and others fail? Why are some organizations long-lived, and why do others become defunct after a relatively short period of time? Indeed, some of the longest-living organizations are in the nonprofit field, going back hundreds of years, but also

some of the frailest. Some manage to evolve over time and adapt to changing environmental conditions, while others find it much harder to respond to changes. Are organizations shaped by their environment and do they react to environmental conditions primarily, or is the relationship the other way around, where organizations forge their own future and destiny?

Of course, addressing these issues implies some agreement about what organizations are. However, there are many different conceptions, and "organization" is variously seen as:

- a group of people occupying different roles designed to achieve goals;
- a system of coordinated and purposive activities;
- a legal entity; or
- the act of organizing itself.

For most organizational theorists, several components define "organization" and set it apart from other forms of regular social activity:

- a social entity that includes people, some form of resources, and technology;
- a goal-directed entity that serves an explicit purpose;
- a structured arrangement, i.e., tasks are divided into separate activities and coordinated; and
- a bounded entity with an identifiable boundary that makes it possible to distinguish the organization from its environment.

Naturally, there are difficulties with each of these components, and addressing them fills many volumes of research publications. Indeed, the history of organizational studies tells the story of how analysts over time dealt with these conceptual problems in addressing the three key questions mentioned earlier, i.e., the relationship between organization and environment; the rationality of organizations; and their evolution. However, and of critical importance to our understanding of nonprofit organizations, the various theories rarely looked at organizations other than business firms or public agencies. Nonetheless, understanding them is important for nonprofit organizations, since management models based on these theories influence nonprofit management as well.

A PRIMER OF ORGANIZATIONAL THEORY

Bureaucracy and the Rise of Organization Theory

Max Weber's (1924) essay on bureaucracy represents the beginning of the modern theory of organizations. By bureaucracy, Weber meant organizations with the following characteristics:

- Activities are divided into a systematic division of labor.
- Employees are selected and promoted on the basis of professional and technical competence.

- Positions and the job descriptions they entail are arranged into a hierarchy.
- Written rules provide guidelines for best practice and job performance.
- Records are kept on administrative decisions, rule and guidelines, and organizational activities.
- Officers are entrusted with responsibilities and receive a salary in return, but they cannot appropriate the positions and offices they occupy.

Weber's central argument was that bureaucracy is best suited for stable, routine task environments. For example, if the task can be divided into a process of separate and relatively distinct steps, if the volume and the nature of the task are stable and predictable, and if performance of office holders can be easily monitored and translated into reporting requirements, then bureaucracy is a suitable organizational form. Motor vehicle registration, healthcare administration, insurance companies, social service providers, the Catholic Church, and department stores are examples of bureaucracies. It is important to keep in mind that forprofits, nonprofits, as well as public agencies can be bureaucracies. It is the task environment that matters, and not organizational form in terms of profit status or ownership.

Weber's central argument was that bureaucracy is best suited for stable, routine task environments.

Conversely, bureaucracy is less suited for organizations in changing task environments with high degrees of uncertainty. Examples include the technology start-up industry, research and development, disaster relief agencies, or small businesses. Of course, elements of bureaucracy, e.g., written rules, formal job descriptions and performance criteria, and hierarchies, exist in most organizations. The difference between a bureaucratic versus a non-bureaucratic organization is one of degree, and not a dichotomy. Indeed, organizational age and size are closely related to the extent of bureaucratization: larger organizations tend to have more bureaucratic elements, in particular a more formal administration, and older organizations tend to be more routinized and stable in their task performance.

Organizational age and size are closely related to the extent of bureaucratization.

Mintzberg (1979) introduced the distinction between machine bureaucracies and professional bureaucracies. Machine bureaucracies are designed as "mechanized" systems with high degrees of specialization and formalization. Most decisions are preprogrammed and implemented in the organization's structure. Employees tend to perform highly standardized tasks and have very little autonomy in task performance. By contrast, in professional bureaucracies, e.g., hospitals, universities, and social service agencies, employees have greater autonomy and coordinate task performance in more decentralized ways. Based on their expert knowledge, commitment to professional ethics, standards, and social status,

physicians, college professors, teachers, and social workers have more control over the organization than in machine bureaucracies.

Weber's argument stressed the efficiency of the modern bureaucracy, and its power as a managerial tool that allowed the development of large-scale organizations, be it in manufacturing, particularly continuous processing, or administration. Bureaucracy creates an internal task environment in organizations that is more stable, more routinized than the external environment. The emphasis on internal efficiency has been associated with a certain "blindness" to wider changes in the environment and the charge that bureaucracies are insensitive to needs. Indeed, Weber (1924) spoke of the "iron cage" of bureaucracy and its tendency to dominate not only other organizational forms, but also human initiative and independence.

The bureaucratic management model emphasizes the need for organizations to operate in a rational manner with specialization of labor, formal rules, and regulation, based on impersonality, well-defined hierarchy, and career advancement based on merit. The key factors are stability of the task environment and the possibility of standardized procedures and well-defined, hierarchically arranged job descriptions.

Theories of Organization and Management

The focus on bureaucratic efficiency was, of course, related to the expectations of owners and managers in terms of cost minimization, particularly in the field of production. The theory of scientific management developed by Taylor (1967) was one of the first attempts to use scientific methods to organize the workplace more efficiently, i.e., achieving the greatest possible output with the least input in a given time period. This led to the development of time-motion studies and similar approaches to optimizing organizational tasks. At the center of Taylorism is the direct link between output and pay and the assumption that workers would accept highly directive management as well as fractionated and routinized jobs in exchange for higher pay. Another assumption of Taylorism is based on acceptance theory, a notion introduced by Barnard (1938). His administrative management model, which focuses on principles that can be used by managers to coordinate the internal activities of organizations, states that authority in organizations does not rest on managerial capability alone but primarily on the willingness of subordinates to accept orders.

At the center of Taylorism is the direct link between output and pay.

The human relations model challenged both assumptions of Taylorism: first, the simplistic motivational model that reduced worker motivation to pay alone; and, second, the emphasis on hierarchy and authority relations between management and workers. Instead, human relations approaches include a broader set of motivations, in particular self-fulfillment, autonomy, and social needs. They introduced the importance of small group behavior and pointed to the critical match between formal and informal structures in organizations. Furthermore, they emphasized the difference between leadership and

control and suggested that adequate and accepted leadership is more beneficial to performance than top-down, impersonal control (see Perrow, 1986).

Human relations approaches include a broader set of motivations, in particular self-fulfillment, autonomy, and social needs.

The tension between Taylorism and the Human Relations School is well reflected in McGregor's distinction between Theory X and Theory Y (1960):

- Theory X states that most people dislike work and will try to avoid it; most people need to be coerced, controlled, directed to work toward organizational goals; most people want to be directed, shun responsibility, have little ambition, and seek security above all.
- Theory Y states that people do not inherently dislike work; rewards are more important than punishment; people will exercise self-direction if given the chance and favor self-control over external control; people accept but also seek responsibility; people value creativity and seek ways to express it.

In the 1970s, McGregor's dichotomy expanded to include a Theory Z, which emerged from analyzing American and Japanese management models and the theories underlying the assumptions. The American model is characterized by short-term employment, individual decision-making and responsibilities, explicit and formalized hierarchical control, high specialization, and segmented organizational cultures; by contrast, the Japanese model includes lifetime employment, consensual decision-making and shared responsibilities, implicit and informal control, less specialization, and holistic concerns. Thus Ouchi and Price (1978) proposed Theory Z, which can be reformulated to reflect the dictums of McGregor:

- Theory Z states that people seek long-term employment, consensual decision-making, and individual responsibility; a combination of informal control with explicit and formalized evaluation criteria; moderately specialized job descriptions that allow for personal advancement; and a holistic concern for the organizational culture, including the well-being of employees and their families.

Two popular management styles are related to the Theory Z model of organization, and are worth mentioning here. Management by Objectives (MBO), developed by Drucker (1981), is a process by which goals are set collectively for the organization as a whole and on the basis of thorough consultation and review involving all units and levels of hierarchy. These goals then form the basis for monitoring and evaluation.

In contrast to the goal emphasis of MBO, more recent approaches such as Total Quality Control Management (TQM) focus more on employee commitment and dedication rather than numerical performance criteria. Deming (2000) saw TQM as a quality

control approach based on organization-wide commitments and the integration of quality improvement with organizational goals. The emphasis is on shared decision-making and responsibility.

Together, Taylorism and the human relations approach suggest a key insight of modern management theory (Perrow, 1986): management approaches are ideologies that interpret, analyze, and legitimize the way organizations are set up and run. Indeed, a look at the development of management approaches, which we review in Chapter 10, shows that they evolved from an emphasis on command-type structures that viewed organizations as machines in the sense of Weber's bureaucracy or Taylor's manufacturing plants, to the importance of informal groups in how organizations operate and the idea of organizations as some "quasi-family" in the Human Relations School. The notion that organizations are symbiotic systems that require commitment, participation, and common problem-solving is also based on strong ideological foundations about how we view organizations, and in particular how we judge people's motivations for performance and how we see the role of authority relations.

Management approaches are ideologies that interpret, analyze, and legitimize the way organizations are set up and run.

Organizations as Rational and Political Institutions

Recognizing the intrinsic political nature of management and organizational design, theories moved away from the assumption of administrative rationality that underlies Weber's bureaucracy and Taylor's manufacturing plant to the notion of limited or bounded rationality (Simon, 1976). The concept puts emphasis on a greater understanding of decision-making under conditions of incomplete information and uncertainty and the trial and error behavior of management in problem-solving. Moreover, bounded rationality suggests that managers:

- have inadequate information not only about the decisions they reach but also about alternative options and their implications;
- face considerable time and cost constraints in decision-making; and
- have certain preset frames of reference that lead them to overlook some aspects while over-emphasizing others.

Bounded rationality . . . puts emphasis on a greater understanding of decision-making under incomplete information and uncertainty and the trial and error behavior of management in problem-solving.

Together, this suggests the image of more complex organizational behavior than under the rationality model, and notions such as "satisficing" and incremental approaches to

management ("muddling through") challenged the concept of rational planning and optimization strategies:

- The **rational model** holds that managers engage in completely rational decision-making that is in the best interest of their organization, and reach optimal decisions with the wealth of full information available to them at the time.
- The **satisficing model** suggests that managers seek alternatives until they find one that appears satisfactory rather than continue searching for optimal solutions. Behind this model is the trade-off between increased search costs and the risk of not making a decision in time, on the one hand, and the risk of making a suboptimal decision, on the other.
- The **incremental approach** states that managers seek the smallest response possible to reduce a perceived problem to a tolerable level. The emphasis here is on short-term fixes rather than longer-term goal attainment.

The response to organizations as rational constructions invited the view of organizations as political systems. This view is strongest in a perspective introduced by Cohen et al. (1972), in which they describe organizations as organized anarchies and "garbage cans." They argue that conflicts over means and goals characterize the behavior of many organizations. Many managers and organizational subunits find it difficult to separate their own interests from that of the organization and therefore pursue self-interested strategies. Cohen and colleagues suggest an image of organizations in which rationality plays little role. They evoke not only the contingent nature of decision-making, but also the ambiguity of means–ends relations and confusion between problems and solutions. Some managers pick "goodies" from a garbage can (the organization) and discard their problems, which others then pick as their solutions to actual or perceived problems. The garbage can notion points to the scheming, seemingly chaotic behavior of organizations.

Related to but distinct from political system and garbage can models is neoinstitutional theory (Powell & DiMaggio, 1991). It is called "institutional" because the theory focuses on the socially constructed, script-bound, embedded nature and the importance of mundane everyday behaviors. Neoinstitutionalist theories have made significant inroads in a variety of disciplines, ranging from economics to political science and sociology (North, 1990), and have also deeply influenced management and organizational thinking (Academy of Management Journal, 2002).

At the heart of neoinstitutionalist thinking lies the belief that the rational actor model of organizations is insufficient and that organizational actions are formed and shaped by institutions, that is, prevailing social rules, norms, and values that are taken for granted. Institutions constrain and also form individual and organizational behavior by limiting the range of available options that are perceived as legitimate. Legitimacy, understood as conformance with institutional expectations, thus becomes the central resource that organizations require for long-term survival.

At the heart of neoinstitutionalist thinking lies the belief that . . . organizational actions are formed and shaped by institutions, that is, prevailing social rules, norms, and values that are taken for granted.

In addition, since all organizations in a particular organizational field are subject to the same institutional expectations and constraints, they will tend to become homogeneous over time, a process that is called isomorphism. Powell and DiMaggio (1991) differentiate between three mechanisms of institutional isomorphic change:

Since all organizations in a particular organizational field are subject to the same institutional expectations and constraints, they will tend to become homogeneous over time, a process that is called isomorphism.

- **Coercive isomorphism** appears as a reaction to direct or indirect pressure to abide by institutional expectations; such pressures are typically exerted by organizations on which the pressured organization depends. For example, coercive pressures exerted by government and other funders help explain how nonprofit organizations change from informal, voluntaristic, and amateuristic groups to increasingly bureaucratic and professionalized organizations through the coerced adoption of accounting, monitoring, performance, and certification requirements.
- **Mimetic isomorphism** occurs in situations of technological or environmental uncertainty. Faced with uncertainty, organizations may mimic, or model themselves after, other organizations that are perceived as successful. For example, mimetic pressures help explain why nonprofits facing considerable financial uncertainty begin to utilize business techniques and profit-making activities. More broadly speaking, isomorphic trends are also largely responsible for the increased "borrowing" of American nonprofit management techniques, such as fundraising, that has taken place around the world, as well as the modernization of nonprofit legal frameworks in Central and Eastern Europe after 1989.
- **Normative isomorphism** derives from professional norms and standards that guide the work of professionals in organizations and thus shape organizational behavior. For example, the rules, regulations, and ethics of the social work profession contribute to similarities across social service and welfare agencies, irrespective of organizational form. The same holds for the medical profession, teachers, or airline pilots. In Mintzberg's terms (1979), professional bureaucracies are prime examples of normative isomorphism.

Neoinstitutionalism is concerned with rational and nonrational actions, organizational-environmental relations, and taken-for-granted ideologies and behavioral patterns. Indeed, one of the key challenges neoinstitutionalists address is the tension between economic models that strive for simplicity and emphasize rationality on the one hand, and sociological, cognitive models that view organizations as more complex and multi-faceted phenomena. They argue that the economic model of rational decision-making is just another, albeit important one, competing for the attention of managers who find themselves having to reconcile many conflicting demands, contradictory and incomplete information, as well as time pressures. For example, the new economics of organizations, pioneered by

Williamson's theory of transaction costs (1975), sees organizations as a response to market failure. Organizations arise when the marginal cost of market transactions is higher than the marginal cost of organizing, and vice versa. For neoinstitutionalists this argument becomes relevant for understanding organizational behavior once managers apply such abstract market-based thinking in their decision-making and view organizations as an alternative to markets.

Organizational Environments and Evolutionary Perspectives

Several approaches address the relationship between organizational evolution and the organization's environment. One of the earliest examples is contingency theory, which views organizations as systems of interrelated parts, stresses the importance of environmental factors, and suggests that there is no one best way to manage. In contrast to scientific management, contingency theory argues that rather than seeking universal principles that apply to all or most organizations, the task of analysts is to identify contingency principles that reflect the demands of particular types of task environments organizations work in. An example of contingency thinking would be the insight that bureaucracy is an organizational model that applies better to stable task environments than to volatile and uncertain conditions.

Contingency theory . . . views organizations as systems of interrelated parts . . . and suggests that there is no one best way to manage.

One of the most influential schools is population ecology, which models systems of organizations. Its key insight is that much change occurs as a result of variation in the birth and death rates of organizations, through selection rather than adaptation (Aldrich, 1999). The notions of niches, environmental carrying capacities, comparative advantages, and resource dependencies are concepts to explain organizational development over time both at the individual and aggregate level.

Yet where do new organizational forms come from? Organizational theory points to two basic processes that lead to the development of new forms, or speciation: recombination and refunctionality (Romanelli, 1991). Recombination involves the introduction of new elements into an existing organizational form, for example, benchmarking, franchising, branding, and other corporate management tools in nonprofit organizations, or corporate responsibility programs in businesses. Refunctionality means the relocation of one form in a different context, e.g., the migration of forprofit providers into fields previously populated primarily by nonprofits, as in social services.

Niches are relatively distinct combinations of resource sets that organizations use as inputs and which make them less prone to competition from others. Finding, defending, and optimizing niches on either the demand or the supply side becomes a key task of organizational survival. Organizations that fail in these tasks are more prone to extinction over time. The term niche is a relative one, as the resource conditions

on the demand and supply side are relative to those of other organizations and potential competitors. For example, an art museum's niche refers to its revenue structure (endowment, giving, admissions fees), holdings (number of items and genres), visitor, membership, and volunteer profile, its use by the artistic and art history community for research and teaching purposes, as well as the political and artistic support it enjoys among key stakeholders.

Niches are relatively distinct combinations of resource sets that organizations use as inputs and which make them less prone to competition from others.

Next to organizational niches, there are form niches, which consist of the various social, economic, and political conditions that can support the operations of particular organizational forms (Hannan and Carrol, 1995). Nonprofit organizations would constitute one such form; the survival of nonprofits generally and irrespective of particular fields and organizational niches depends on the extent to which general form conditions can be maintained. For example, greater restrictions in the law of tax exemption could put large populations of nonprofit organizations at risk, as it would alter a basic condition of form maintenance. As a more concrete example, making it easier for nonprofit saving and loan associations to operate like commercial banks triggered a migration of nonprofits into forprofit niches and created greater competition and far-reaching changes at the aggregate and the organizational level.

Related to the term niche is the notion of environmental carrying capacity, which refers to the number of organizations that can be supported by the social, economic, and political conditions, given available resources. To the extent that existing or newly founded organizations can draw on resources without competing against each other, the limits of the environment's carrying capacity have not been reached. However, once resources become scarcer, or some organizational forms become more efficient in resource use, the survival of other organizations will be put in question. For example, the significant growth of nonprofit organizations noted in Chapter 4 would suggest that the carrying capacity circumscribed by social, economic, and political conditions has not been reached. However, in the aftermath of the 2009 financial crisis, some European countries and US states with severe budgetary problems, such as California at that time, faced changed environmental conditions, and thereby also a lower carrying capacity of the social services and assistance field.

Environmental carrying capacity … refers to the number of organizations that can be supported by the social, economic, and political conditions, given available resources.

Behind this reasoning is a basic insight of organizational population ecology, which sees organizational forms basically in more or less open competition with each other

(Aldrich, 1999). While policies define the rules of the game, mismatches develop over time between the potentials and constraints they impose on forms, and thereby either increase or decrease their competitive edge over others. Some of the underlying forces responsible for mismatches are related to the heterogeneity and trust theories discussed in Chapter 5: changes in the definition of goods and services, changes in information asymmetries, and policy changes more generally affect the environmental carrying capacity of given fields.

Over time, this dynamic leads to shifts in the composition of organizational fields in terms of form. Yet why do we find varying compositions across different fields? For example, why do nonprofit, forprofit, and public agencies exist in fields such as education, healthcare, social services, or the arts? The answer offered by population ecology theory is threefold: first, for some periods, the carrying capacity of organizational fields may be such that different forms can survive, each operating with a comparative advantage that reduces direct competition; second, once conditions change, however, some organizations may be more favored in their survival than others and begin to expand, while others yet may succeed in establishing niches that allow them to continue to exist; third, new organizations may enter, being enticed by new opportunities and other considerations.

Given that virtually all fields in which nonprofit organizations operate have undergone major policy shifts over time, it becomes clear that form diversity and different form composition are a function of environmental changes. Recent examples are welfare reform and healthcare reform in the US, which make it easier for forprofit organizations to enter into fields traditionally dominated by nonprofits. Examples outside the US can be found in the housing market in Britain, the long-term social care field in Germany, and the Italian banking industry. In each of these cases, policy changes implied increased comparative advantages for some and worsened conditions for other forms.

Form diversity and different form composition are a function of environmental changes.

Resource dependence approaches recognize the contingent, open systems nature of organizations (Pfeffer and Salancik, 1978). Resource dependence theory argues that organizations face environmental constraints in the form of external control over resources the organization needs to ensure operational efficiency and continued survival.

Resource dependence theory argues that organizations face environmental constraints in the form of external control over resources the organization needs to ensure operational efficiency and continued survival.

Since few types of organizations are resource independent, they necessarily become interdependent with their environments. At the same time, external actors in control of critical resources will attempt to influence the organization and threaten managerial autonomy.

Organizations will, however, not simply comply with external demands, but attempt to employ various strategies to manage dependencies and regain managerial freedom and autonomy. In the process, the organization influences and changes its environment as well. Pfeffer and Salancik (1978) suggest that among the strategies organizations employ are various types of interorganizational linkages, including mergers, joint ventures, interlocking directorates, and the movement of executives within industries. This may either help reduce dependence on given critical resources or help obtain other resources that are in turn critical to the external actors trying to exercise control.

In the nonprofit context, the resource dependence perspective is particularly useful in understanding the perpetual quest for a balanced mix of revenue sources. In both Western Europe and the US, the overly heavy reliance of some types of nonprofits on government financing has given rise to concerns about governmentalization, bureaucratization, loss of autonomy, as well as goal deflection (Smith and Lipsky, 1993; O'Regan and Oster, 2002). All of this can be understood as a failure of nonprofit organizations to manage and neutralize dependency on government resources. It may also partially explain the revived interest in fostering philanthropy and civic engagement in many countries (see Chapters 6 and 7) as an attempt to regain resources with "no strings attached" that increase the managerial scope of action.

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Yet, organizations develop not only in response to external forces inherent in the organizational environment; internal forces, too, shape organizations and their structures and cultures. Organizational theorists speak of life cycles and developmental stages through which organizations typically pass (Kanter et al., 1992; Scott, 2002). Most of the stages organizational theorists have identified reflect the experience of forprofit businesses, but they are to some extent also applicable to nonprofits, as shown in Tables 9.1 and 9.2.

At the founding stage of organizations, few formal procedures are in place; the culture and mode of operation are largely entrepreneurial and informal, with a premium on survival. Relations among staff are often trust-based, and leadership is based on creativity, even charisma. As the organization continues to grow and to implement a bureaucratic structure, formalization and standardization set in to improve efficiency and streamline administrative procedures. Staff relations become more contract-based, and mission statements rather than entrepreneurial vision guide the organization. Each of the four stages included in Table 9.1 points to typical crises that prompt the organization in its transitions from one stage to the next. Table 9.2 shows how the role of planning and management changes as the organization moves from an initial entrepreneurial state to a phase where managers take on the role of the founders and become consolidators and strategists.

TABLE 9.1 Organizational life cycle

	Birth stage	*Youth stage*	*Midlife stage*	*Maturity stage*
Bureaucracy	Non-bureaucratic	Pre-bureaucratic	Bureaucratic	Post-bureaucratic
Emphasis	Creativity, survival	Growth	Control, efficiency	Renewal
Structure	Informal, overlapping tasks	Formalization, specialization	Formal procedural control systems; centralization	Extensive financial controls; push towards decentralization
Management style	Entrepreneurial	Mission-driven	Accountability	Enabling, team approach
Transition requirements	Leadership crisis	Control crisis	Red tape crisis	Turn-around crisis

TABLE 9.2 Organizational development and stages

	Entrepreneurial stage	*Collectivity stage*	*Control stage*	*Elaboration stage*
Structure	Little	Informal	Centralization	Decentralization
Focus	Survival	Growth	Efficiency	Restructuring
Innovation	Invention	Enhancement	Implementation	Renewal
Planning	Little	Short-term	Long-range	Strategic
Commitment	Individual	Group	Complacency	Recommitment
Managers	Entrepreneurs	Entrepreneurs as managers	Managers as consolidators	Managers as strategists

A particular phenomenon that influences the organizational development of nonprofit organizations has been identified by Gregory and Howard (2009) as the nonprofit starvation cycle (see Chapter 11). Public funding agencies, philanthropic foundations, and individual donors share "unrealistic expectations about how much running a nonprofit costs," which starts a cycle that "result(s) in nonprofits misrepresenting their costs" (Gregory & Howard, 2009, p. 49). Central here are pressures by funders to demand low overheads and reactions by nonprofits in the form of incomplete costing. The overall consequence is that nonprofits have weak organizational structures and little slack. Unless such starvation cycles are broken, they lead to lower effectiveness and the potential failure of nonprofit organizations, and lower impact for the sector as a whole.

ORGANIZATIONAL STRUCTURE AND BEHAVIOR

At the beginning of this chapter we mentioned that a key problem of organizing is the relationship between the organization and the nature of the task environment. In other words, what organizational model is best for what kind of task? Or, following contingency theory, what conditions suggest what kind of organizational structure? How formal or informal, centralized or decentralized, large or small should the organization be? To answer these questions, let us first look a bit closer at what we mean by task environment.

The Organizational Task Environment and Uncertainty

The term "task environment" refers to the specific elements with which the organization interacts in the course of its operations. This includes first and foremost the nature of the product or service provided. Clearly, it will make a difference for organizational design if the organization produces pencils or other mass products or is a hospital, church, or disaster relief agency. Within the context of the product and service range, the task environment includes customers, clients, users, members, volunteers, staff, the board of trustees, suppliers, competitors and collaborators, supervising and government agencies, and professional associations, but also the level of technology, information, communication, and logistics available to each. Each element can make different demands on the organization and harbors varying expectations, yet the key point is that the various elements can introduce either uncertainty or stability in the organizational task environment—which the organization would have to reflect in its structure and operations.

> "Task environment" refers to the specific elements with which the organization interacts in the course of its operations.

Environmental uncertainty refers to a situation in which future circumstances affecting an organization cannot be accurately assessed and predicted. Obviously, the more uncertain the environment, the more effort management has to invest in monitoring, and the more likely decisions are to be short-term and tentative. The degree of uncertainty includes two major components:

- **Complexity** refers both to the number of elements in the organizational task environment and to their heterogeneity in terms of demands and expectations. If an organization has few task elements and all are fairly similar, such a homogeneous task environment would be less complex than a situation with many more elements that vary in their demands.
- **Dynamism** refers to the rate and predictability of change of the elements. If the elements change rarely or slowly and are relatively predictable, then the task environment is stable; however, if they change often, fast, and in unpredictable ways, then the task environment is unstable or volatile.

Environmental uncertainty refers to a situation in which future circumstances affecting an organization cannot be accurately assessed and predicted.

If we combine both dimensions, we arrive at four uncertainty scenarios, which are presented in Table 9.3.

- In low uncertainty scenarios, a small number of relatively homogeneous elements remain the same over an extended period of time, exhibiting low complexity and low dynamism. The funeral home industry, car registration, daycare centers, and elementary schools are examples of such situations.
- Task environments with a large number of heterogeneous elements and low dynamism lead to medium-low uncertainty. The insurance industry, savings and loans associations, higher education, and culture and the arts are prominent examples.
- Moderately high uncertainty exists in cases where a small number of homogeneous elements change often and unpredictably, as with the fashion industry, catering, and many social and healthcare services.
- Large numbers of heterogeneous elements, and therefore complexity, with high dynamism constitute high uncertainty task environments. Software and internet-based companies are prime examples, as are disaster relief and humanitarian assistance programs.

From a structural perspective, organizations in low uncertainty environments are best organized as small, relatively bureaucratic organizations; small, to maintain a relative degree of homogeneity, and bureaucratic, to enhance the efficiency of operations. By contrast, organizations in high uncertainty environments are best organized as entrepreneurial organizations with a minimum of bureaucracy and a premium on flexibility and innovation. Organizations operating under moderately low or moderately high uncertainty have the challenge of finding a balance between bureaucracy for efficiency's sake and flexibility for being able to cope with changing conditions.

While the complexity–dynamism dimensions tell us how bureaucratic or entrepreneurial an organization should be, Perrow (1986) goes one step further and introduces two additional aspects of the organizational task environment in discussing organizational design: the degree of coupling and the complexity of interactions. His primary interest is in the degree of centralization, i.e., the extent to which decision-making authority resides

TABLE 9.3 Environmental task environments and uncertainty

	Low complexity	*High complexity*
Low dynamism	Low uncertainty	Medium to low uncertainty
High dynamism	Medium to high uncertainty	High uncertainty

at the organization's top level, and decentralization, i.e., the delegation of such authority to lower levels.

- Loose vs. tight coupling refers to how close to each other organizational units are arranged in terms of time, proximity, sequencing, etc. It addresses the degree of slack or flexibility in operations. For example, there is usually much flexibility in the way in which universities or research units are organized, but less so for continuous manufacturing, or railroad companies.
- Linear vs. complex interaction refers to the extent to which interaction sequences in operations are well known, predictable, unambiguous, and recoverable among organizational units. For example, the way airline or train schedules interact is usually well known and predictable, but family counseling or drug treatment programs face greater challenges in these respects.

The key insight suggested by Table 9.4 is that the type of organizational structure in terms of centralization and decentralization depends on the relationship between coupling and interaction. What is more, some of the basic dilemmas of organizing are borne out in this table:

> The type of organizational structure in terms of centralization and decentralization depends on the relationship between coupling and interaction.

- Loose coupling and complex interactions are best accommodated by decentralized organizational structures, as decisions are best reached at lower levels where knowledge is greatest and organizational slack prevents "wrong" decisions from affecting the entire system. Social service providers, healthcare facilities, and research institutions are examples of such task environments.
- Tight coupling and linear interactions are best organized as centralized structures; since operations are well known in terms of interactions, and lower-level autonomy in decision-making could be detrimental to the system's stability, centralized

TABLE 9.4 Coupling and interactions of organizational design

	Complex interactions	*Linear interactions*
Tight coupling	Incompatibility: Tight coupling suggests centralization, and interaction complexity decentralization	Centralization
Loose coupling	Decentralization	Centralization and decentralization possible

bureaucracies are the preferred structure. Rail systems and continuous processing such as assembly plants are cases in point.
- Loose coupling and linear interactions allow for either centralization or decentralization, and thereby invite political and cultural preferences to influence organizational structure. Universities are in this category, but also many nonprofit organizations in the fields of arts and culture, education, the environment, advocacy, philanthropy, housing and development, and religion.
- The combination of tight coupling and complex interactions suggests an incompatibility in organizational design. Tight coupling would require centralization of decision-making, while complexity would point to decentralized structures. Nuclear power plants are an example.

An important implication of the typology in Table 9.4 is that many voluntary organizations (though not all) would fall in the loose coupling/linear interactions combination. Because both centralization and decentralization are possible, it makes these nonprofits subject to cultural and political preferences of board or organizational elites more generally. In other words, by virtue of their task environment, many nonprofits can afford to operate with flexible and changing organizational structures.

By virtue of their task environment, many nonprofits can afford to operate with flexible and changing organizational structures.

Scale and Scope

So far we have considered the relationship between the task environment and organizational structure, and primarily the impact of uncertainty. A different perspective for understanding organizational structure is offered by economics, in particular the importance of cost considerations. Business historian Alfred Chandler (1990) studied the development of the modern corporation and found two cost elements that are important for organizational design: economies of scale and economies of scope.

- **Economies of scale** refer to per unit cost reductions as output increases. This is the law of mass production and states that goods will be cheaper when produced in higher numbers, as fixed costs are shared across more output units.
- **Economies of scope** refer to overall cost reductions achieved by combining the production or distribution of related products and services. Scope economies take advantage of synergies across products and markets, and thereby reduce combined total costs.

Chandler's main argument is that the development of the modern corporation in the nineteenth century saw first an expansion based on scale economies, both in terms of mass production and the emergence of large-scale bureaucracies. Beginning in the early twentieth century, corporations increasingly began to develop along scope economies and

TABLE 9.5 Scale and scope economies for nonprofit organizations

	Limited scope	*Scope*
Limited scale	Elementary school, kindergarten *Size: small*	Theater *Size: small to medium*
Scale	University *Size: medium to large*	Development NGO *Size: large*

designed organizations to take advantage of synergies in the production and distribution of products. The chemical and pharmaceutical industries were among the first to develop along scale and scope economies; retail firms such as the supermarket were soon to follow along the same lines.

As Table 9.5 shows, Chandler's reasoning can be applied to nonprofit organizations. Some nonprofits operate in fields or provide services that allow for scale and/or scope economies. For example, nonprofit theaters obviously have scale limitations due to capacity restrictions, but the stage itself as well as the production and marketing units can be put to multiple uses. The theater can be rented out to other companies or used for concerts or dance, the production unit can stage performances off-site, and the marketing department can serve other cultural institutions. As a result, theaters can grow into medium-sized organizations, with a relatively complex structure.

Universities are an example of institutions with scale but limited scope potential. Clearly, adding degree programs, classes, and students increases the scale of operations, but at the same time, possibilities for joint teaching or research between, let us say, the English Department, Economics, and Chemistry are few, and even within the humanities, the social sciences, or the natural sciences, few cost-effective synergetic relationships emerge. As a result, universities are medium- to large-scale operations, sometimes for thousands of staff, with rather complex organizational structures.

Other nonprofits are in fields that allow neither for scale nor for scope economies, and are consequently smaller in size and simpler in organizational structure. Kindergartens and primary schools are good examples; their scale is limited by the school's catchment area (and commuting distances) and their scope limited by educational requirements and parental choices.

Finally, there are nonprofits that operate in fields that make both scale and scope economies possible. They tend to be the largest and most complex among nonprofit organizations, and they include religious institutions, healthcare organizations and social service providers, housing organizations, and international development and humanitarian assistance organizations. In each of these cases, it is possible to combine various product and service lines and develop synergies across organizational units: religious services and social services for Catholic or Jewish charities; relief work and developmental assistance for organizations like Oxfam, World Vision, or Save the Children; and housing and employment services combined with assisted living arrangements.

Basic Structures

The structure of an organization should balance the economic advantages of specialization with the problems and costs of coordination and motivation. The costs stem from supervising, monitoring, coordinating, and information management. There are four generic structures, in addition to various hybrid forms:

- U-forms (unitary or functional structures)
- M-forms (multi-divisional or matrix structures)
- F-forms (franchise structures)
- N-forms (network structures)

The **U-form** was the first to emerge. With the possibility of scale and scope economies came increases in organizational size and managerial complexity, which in turn necessitated shifts in organizational structure. The organizational structure of many forprofit corporations, public agencies, as well as nonprofits resembled that of the simple bureaucratic organization, with a president, a board, and a chief executive officer. Depending on the size of the organization, the organizational structure would include additional top, middle, and lower management positions (Figure 9.1a). The structure is based on functional criteria such as finance and accounting, service provision, purchasing, and personnel, and follows the unit-of-command principle.

With the possibility of scale and scope economies came increases in organizational size and managerial complexity, which in turn necessitated shifts in organizational structure.

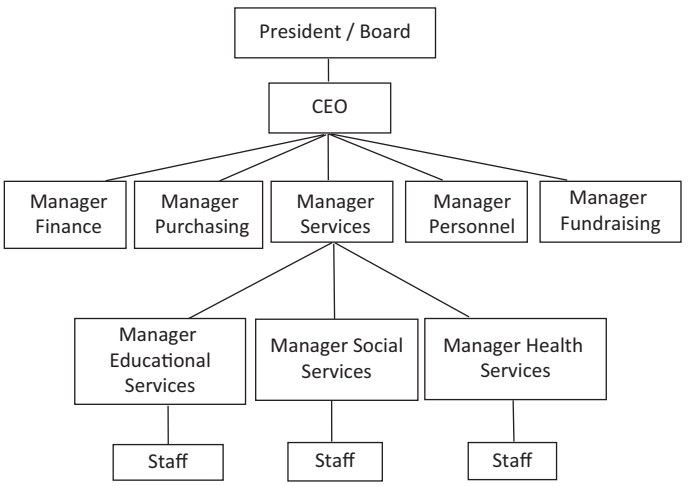


FIGURE 9.1 Basic organizational structures
FIGURE 9.1a Functional structure: U-form

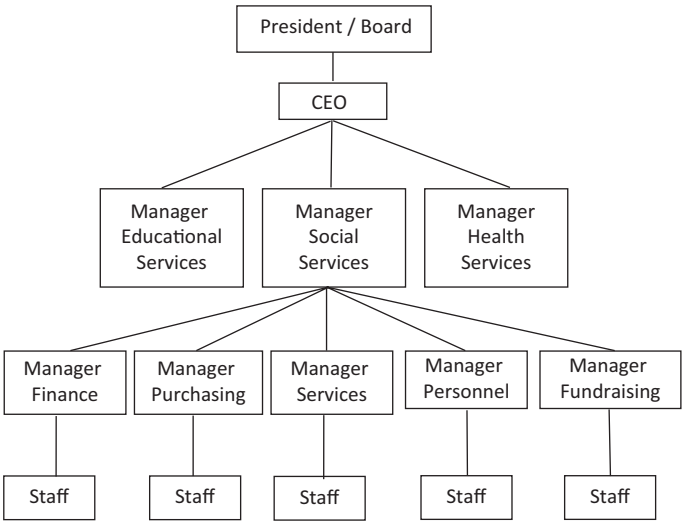


FIGURE 9.1b Multi-divisional structure: M-form

The **M-form** or multi-divisional form is a structure with functionally integrated hierarchies along product and service lines (Figure 9.1b), but also by geographic regions or user/customer groups. This form allows for combined economies of scale and scope and the development of synergies across related services. In contrast to the unitary form, it devolves the organization into different units and allows for better information flows and the establishment of internal cost and revenue centers.

The U-form is best used for stable task environments, routine technology, and a relative interdependency within functions. Its strengths are efficiency in resource use, in-depth expertise, centralized decision-making, and efficient coordination within functions. Disadvantages associated with the U-form include poor coordination across functions, backlog of decisions at the top, unilateral information and decision flows that discourage innovation, and information deficits among top management about actual performance at lower levels.

The M-form is better suited for unstable and uncertain task environments, specialized services and markets, changing technology and consumer preferences, and technical interdependence between functions. Its advantages include faster response to environmental changes, client and user focus, better coordination between functions, more easily identified responsibility and performance, and the option to train staff across a range of tasks. Among the disadvantages are the obvious duplication of functions in each division, the higher overall administration costs, less control by top management, and the potential of neglecting overall goals.

Many hybrid forms exist that try to combine features of both the U-form and M-form by seeking better alignments of divisional and corporate goals, while keeping administrative and transaction costs to a minimum. The **matrix** structure, a hybrid form most akin to the M-form, superimposes a horizontal set of divisional reporting relationships onto

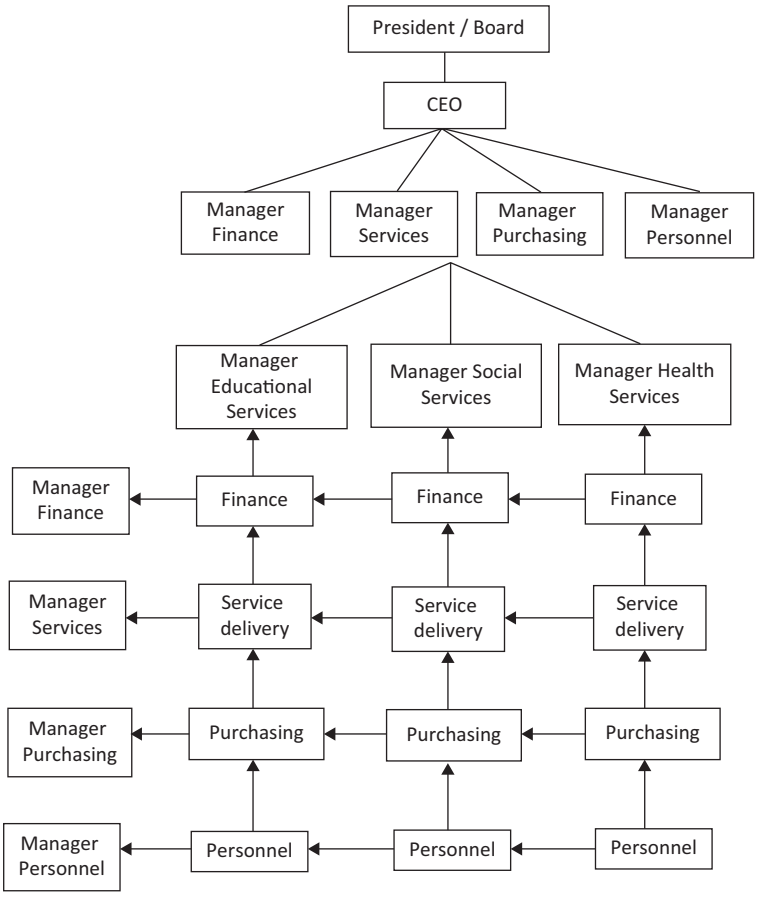


FIGURE 9.1c Matrix organization

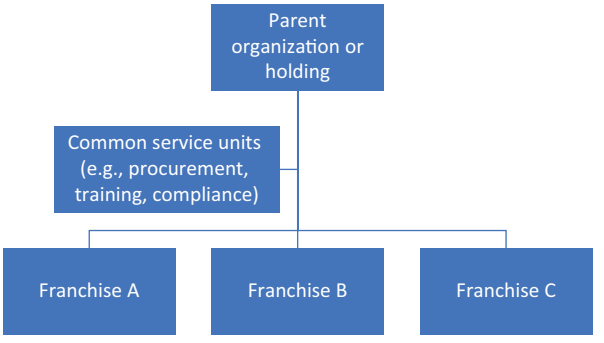


FIGURE 9.1d Franchise structure

a functional, hierarchically arranged organizational structure. It provides for simultaneous coordination across central functions and product/service lines, and, as Figure 9.1c shows, it aggregates information both horizontally and vertically. The matrix form is best applied in task environments that are highly uncertain and complex, and where information is time-sensitive. Its disadvantages are the high administrative and transaction costs and potential loyalty issues that could lead to conflicts between a division and the corporation.

Franchise structures first emerged in retailing and in the hospitality and fast-food industries. Terms that would more commonly be associated with the nonprofit sector include chapter, affiliate, branch, and division. They are multi-site organizations with numerous local operations or "chains" under a common holding or parent corporation (Figure 9.1d). While the individual franchisees operate relatively independently, they are contractually bound to highly standardized product and service requirements and performance criteria. Franchises put a strong emphasis on branding, standardization, coordination, and monitoring. These aspects are also the main advantages of franchising, whereas inflexibility in relation to local circumstances and demands is among the disadvantages. In the nonprofit sector, franchises have emerged in the fields of social services, healthcare, and education when organizations are dispersed across cities or states (or even countries) but unified by a common mission. The American Red Cross and the YMCA are cases in point. There are also numerous federated structures like the United Way of America.

The newest to emerge are **network** structures, or the N-form, which are devolved and integrated systems of organizations and individual contractors (Figure 9.1e). It was first



FIGURE 9.1e Network structure: N-form

identified in organizational theory by Powell who observed that "many firms are no longer structured like medieval kingdoms, walled off and protected from hostile outside forces. Instead, we find companies involved in an intricate latticework of collaborative ventures with other firms, most of whom are ostensibly competitors" (Powell, 1990, p. 301). He referred to this structure as the N-form, a network of organizations and individuals engaged in reciprocal, preferential, mutually supportive interactions involving neither explicit criteria of markets nor the paternalism typical for hierarchies but relying on know-how, demand for speed, and trust.

N-organizations can take the form of either public–private partnerships involving nonprofit, forprofit, and public agencies (see Chapter 15) as well as individual subcontractors, or targeted projects to address a specific issue or problem such as rising homelessness in an urban area. N-organizations are well suited to dynamic and fast-changing task environments with high degrees of uncertainty, where actors bring in their specific comparative advantages.

BOX 9.1

Value Statements by Nonprofit Organizations

Americans for the Arts

www.americansforthearts.org/about-americans-for-the-arts/2018-2020-strategic-plan (accessed May 2021)

To accomplish our work, we are committed to the following values:

- Creativity and Innovation
- Diversity and Inclusion
- Collaboration and Community Building
- Integrity, and
- Access to the arts for all

The Charles Stewart Mott Foundation

www.mott.org/about/values/ (accessed May 2021)

Fundamental to all Mott grant-making are certain values:

- Nurturing strong, self-reliant individuals with expanded capacity for accomplishment.

- Learning how people can live together to create a sense of community, whether at the neighborhood level or as a global society.
- Building strong communities through collaboration to provide a basis for positive change.
- Encouraging responsible citizen participation to help foster social cohesion.
- Promoting the social, economic and political empowerment of all individuals and communities to preserve fundamental democratic principles and rights.
- Developing leadership to build upon the needs and values of people and to inspire the aspirations and potential of others.
- Respecting the diversity of life to maintain a sustainable human and physical environment.

World Wildlife Fund

www.worldwildlife.org/pages/our-values (accessed May 2021)

Across the many cultures and individuals that represent WWF, we are unified by one mission, one brand, and one common set of values:

- Courage: We demonstrate courage through our actions, we work for change where it's needed, and we inspire people and institutions to tackle the greatest threats to nature and the future of the planet, which is our home.
- Respect: We honor the voices and rights of nature and people, and we work to secure a sustainable future for both.
- Integrity: We live the principles we call on others to meet. We act with integrity, accountability and transparency, and we rely on local knowledge and science to guide us and to ensure we learn and evolve.
- Collaboration: We deliver impact at the scale of the challenges we face through the power of collective action and innovation.

VALUES, VISIONS, AND MISSIONS

The values of nonprofit organizations find their expression in missions, or, more precisely, in mission statements. The mission is the principal purpose of the organization and the very reason for its existence. Mission statements serve boundary functions, act to motivate staff, volunteers, and members, and help in evaluation and orientation. A good mission statement articulates:

- The organization's purpose and long-term goals
- The needs that the organization fills
- The organization's core values and operating principles (sometimes also formulated separately as value statements; see Box 9.1)
- The organization's aspirations for the future (vision statement)

Mission statements both constrain and enable; they constrain because they set the boundaries of the organization's work, and they enable because they help prioritize objectives and tasks. A mission statement answers the questions: "What do we stand for?" and "Why do we exist?" In other words, a mission statement brings out the value base of the organization and thereby offers guidance for its operations.

A mission statement answers the questions: "What do we stand for?" and "Why do we exist?"

As Bryce (2000, pp. 31–2) suggests, good nonprofit mission statements have five characteristics:

- *A social contract* between the organization and its members and society at large that spells out what the organization stands for and what it seeks to achieve.
- *Permanence* in the sense that the mission is adopted with a long-term vision in mind that will make frequent mission changes unnecessary.
- *Clarity* in its formulation.
- *Approval* in the sense that the mission is seen as legitimate and relevant by the board and key constituencies, and in compliance with legal requirements.
- *Proof*, meaning that the mission's achievement, or lack thereof, is demonstrable, i.e., can be examined or monitored with the help of performance and impact measures.

Box 9.2 provides examples of mission statements. They are succinct descriptions of the basic purpose of the organization; they help guide decision-making, in particular strategic decisions, and serve as useful descriptions of what the organization seeks to do and stands for.

BOX 9.2

Examples of Vision and Mission Statements

Goodwill Industries International

www.goodwill.org/wp-content/uploads/2020/11/2019-GII-Annual-Report.pdf (accessed May 2021)

Vision

Every person has the opportunity to achieve his/her fullest potential and participate in and contribute to all aspects of life.

Mission

Goodwill works to enhance the dignity and quality of life of individuals and families by strengthening communities, eliminating barriers to opportunity, and helping people in need reach their full potential through learning and the power of work.

Independent Sector (an umbrella and advocacy organization for US nonprofit organizations)

https://independentsector.org/about/what-we-do/ (accessed May 2021)

Vision and Purpose

We envision a world of engaged individuals, robust institutions, and vibrant communities working together to improve lives and the natural world and strengthen democratic societies. To help create this future, we lead and catalyze the charitable community, partnering with government, business, and individuals to advance the common good.

Catholic Charities of Los Angeles

https://catholiccharitiesla.org/vision/ (accessed May 2021)

Vision

Through the power of the Holy Spirit, Catholic Charities of Los Angeles commits to serve the vulnerable and to strive for a just society.

Mission

Catholic Charities is committed to manifesting Christ's spirit by collaborating with diverse communities, providing services to the poor and vulnerable, promoting human dignity and advocating for social justice.

The Metropolitan Museum of Art

www.metmuseum.org/about-the-met (accessed May 2021)

Mission

The Metropolitan Museum of Art collects, studies, conserves, and presents significant works of art across all times and cultures in order to connect people to creativity, knowledge, and ideas.

The World Wildlife Fund

https://help.worldwildlife.org/hc/en-us/articles/360007905494-WWF-s-Mission-Vision (accessed May 2021)

Vision

Our vision is to build a future where people live in harmony with nature.

Mission

WWF's mission is to conserve nature and reduce the most pressing threats to the diversity of life on Earth.

Vanderbilt University

www.vanderbilt.edu/about/mission/ (accessed May 2021)

Mission

Vanderbilt University is a center for scholarly research, informed and creative teaching, and service to the community and society at large. Vanderbilt will uphold the highest standards and be a leader in the quest for new knowledge through scholarship, dissemination of knowledge through teaching and outreach, and creative experimentation of ideas and concepts.

Americans for the Arts

www.americansforthearts.org/about-americans-for-the-arts/2018-2020-strategic-plan

Vision

Our vision is that the arts are recognized as integral to the lives of all people and essential to healthy, vibrant and equitable communities across the nation.

Mission

Our mission is to build recognition and support for the extraordinary and dynamic value of the arts and to lead, serve, and advance the diverse networks of organizations and individuals who cultivate the arts in America.

Behind every mission is a vision, either explicitly formulated as in vision statements (see also Box 9.2) or implicit. A vision conveys the ideal future of the organization, its aspirations and hopes of what it will become, achieve, or contribute. The purpose of the vision statement is to inspire and help frame the wider context in which the organization's mission is formulated. For example, the vision of Americans for the Arts is "that the arts are recognized as integral to the lives of all people and essential to healthy, vibrant and equitable communities across the nation." In the context of this vision statement, the organization's mission is "to build recognition and support for the extraordinary and dynamic value of the arts and to lead, serve, and advance the diverse networks of organizations and individuals who cultivate the arts in America" (Americans for the Arts, www.americansforthearts.org/about-americans-for-the-arts/2018-2020-strategic-plan). Vision and mission statements speak to the hearts and to the minds of organizational members, but they are also important planning tools, as indicated in Chapter 10.

THE BEHAVIOR OF NONPROFIT ORGANIZATIONS

The growing literature on the behavior of nonprofit organizations picks up predictions that follow from some of the basic theories reviewed in Chapter 5, and focuses on one central question: does organizational form matter? In other words, does the nonprofit form make a difference? We review here three major and now classical studies that have examined this question from different perspectives and in different fields.

Child Daycare in Canada

Krashinsky (1998) extends Hansmann's trust theory (see Chapter 5) to examine the relevance of the nondistribution constraint in Canada's child daycare industry. He makes the assumption that managers in all institutional forms are profit-seekers and that in the absence of effective enforcement mechanisms for the nondistribution constraint, the attributes of the nonprofit form disappear and resemble those of the forprofit firm. Krashinsky conducted a study of quality of daycare by surveying the consultants employed by the Canadian provinces to inspect daycare centers in order to ensure compliance with regulatory standards. He concluded, "The results on quality of auspice are striking . . . [T]he nonprofit centers provide on average a higher standard of care than the forprofit centers . . . In contrast, 1/10 of the nonprofits fall below regulatory standards, compared with ¼ of the independent forprofits" (Krashinsky, 1998, p. 117). In addition, "The spread of quality within each category of auspice is considerable, however, so that variation in quality within each auspice is more important than the differences in average quality of care among the auspices" (Krashinsky, 1998, p. 117).

However, in a different survey he found that parents cannot judge daycare services for their children accurately and that some were not able to differentiate between forprofit and nonprofit. "If they could, of course, then, following Hansmann, there would hardly be a stronger argument for the existence of nonprofit centers in this sector" (Krashinsky, 1998, p. 120).

So does auspice matter? According to Krashinsky, the answer is that it does in the case of the daycare centers he examined but that using this finding for the formation of public policy is somewhat problematic. The results suggest that nonprofit daycare centers do appear to offer somewhat higher quality than forprofit centers, but nonprofit centers can nonetheless be low quality, and forprofit centers can be high quality.

Krashinsky argues that there is reason to believe that the nondistribution constraint is indeed difficult to enforce when firms are small, as is the case for daycare in Canada or homes for the elderly in countries like the UK. What is more, if governmental direct (e.g., grants) and indirect (e.g., tax exemption) subsidies are provided only to nonprofit daycare centers but not to forprofits, or if governments decide to bar forprofit centers from entering the daycare market, there could be a significant risk that forprofit entrepreneurs would incorporate as nonprofits. Because enforcement mechanisms are lax, such policy-created nonprofit supply monopolies could lead to a situation where forprofit entrepreneurs infiltrate the nonprofit form. They would then operate what are called "forprofits in disguise," i.e., commercial entities under the cover of charitable organizations.

More generally, disguised profit-seeking behavior emerges in situations where disguised profit distribution is possible (James & Rose-Ackerman, 1986, p. 50). Managers may, for example, decide to divert revenue to increase staff salaries and emoluments; do little to avoid x-inefficiencies such as empire-building among staff or pursuing displaced incentives; engage in shirking, i.e., avoiding work, duties, or responsibilities, especially if they are difficult or unpleasant; or downgrade the quality of one service to support another, preferred one. In other words, the nondistribution constraint alone may not be a perfect predictor of a nonprofit's organizational behavior.

Nursing Homes and Facilities for Individuals with Intellectual Disabilities

In a series of studies, Weisbrod (1998), too, explores the effects of institutional form on economic behavior. Does the nondistribution constraint reduce efficiency because managers have no incentive to enforce efficiency since they cannot share in any profits? On the other hand, does it also motivate managers not to engage in socially inefficient activities such as polluting the air or cheating consumers? Do profit-maximizers supply to the highest bidder, while nonprofits supply to those most in need?

Weisbrod looks at behavioral differences between proprietary firms and two types of nonprofit organizations, church-related and non-church-related, and in two industries, nursing homes and facilities for the mentally disabled. Specifically, he examines: (1) opportunistic behavior by providers who are more knowledgeable than their consumers about the quality of service being provided; (2) consumer satisfaction with services, especially with those that are difficult to monitor; and (3) the use of waiting lists rather than prices to distribute outputs.

In one test, he takes the use of sedatives in nursing homes to examine if nonprofits or forprofits are more likely to take advantage of informational disparities. He finds that proprietary homes used sedatives almost four times more than church-owned nonprofit homes. Taking other factors into consideration such as medical needs, this finding could

suggest that proprietary homes use sedatives to control their patients because it is less costly than labor. In testing for differences in input utilization and consumer satisfaction, he found little difference across form; however, when looking at outputs, results revealed that nonprofit facilities are significantly and substantially more likely than proprietary facilities to have a waiting list. For nonprofit organizations, having a waiting list becomes a signal of reputation, whereas for commercial firms it represents an opportunity to raise prices or expand capacity, or both. Thus, relative to forprofits, nonprofits appear less responsive to demand changes.

Healthcare Providers

Schlesinger (1998) examined the organizational behavior of nonprofit and forprofit firms in a variety of circumstances, largely using US healthcare providers as the empirical test case. His research on the extent and nature of ownership-related differences brought up a number of important findings. Among them are that factors of the organizational environment have different effects on the behavior of nonprofit and forprofit organizations. More specifically, regulators such as governmental and industry supervisory and monitoring agencies as well as community-based interest groups show a larger influence on nonprofit than they do on forprofit behavior, and a greater compliance rate among nonprofits. Thus, combined with Weisbrod's findings, this suggests that nonprofits appear more sensitive to government requirements and community interests (i.e., being a good corporate citizen), but less responsive to increased demand (i.e., being an efficient provider of services demanded).

Schlesinger also finds that:

- In industries in which philanthropy plays virtually no role in the sense that donative income of nonprofits is insignificant and in which government assumes a major role in purchasing services provided by either nonprofit or forprofit firms, there will be little difference in performance between them.
- In markets in which proprietary behavior is the norm (for example, there has been substantial forprofit entry), nonprofit behavior will become more like their forprofit counterparts. In markets in which nonprofit behavior remains the norm, the reverse is true.
- As competitive market pressures increase, professionals may use their power to keep the organization from deviating from its mission. As competition reduces the magnitude of ownership-related differences, the declines will be smallest in those dimensions of performance most favored by professionals and larger in others.
- What is more, the effects of professionalization can change the nature of competition altogether. Instead of competing for clients, the organization may compete for professionals who bring along with them clients. One example is physicians who bring with them a loyal patient roster; therefore hospitals compete for the physicians themselves instead of the clients. Thus, if professionals are a primary source for attracting clients, competition will increase ownership-related differences in dimensions that are most favored by professionals but decrease them in dimensions that have less professional support.

- Because government regulators will be most concerned with issues of accountability, they will favor quantifiable measures of performance. In markets with more regulatory influence, ownership-related differences will therefore be more closely associated with measurable sorts of non-pecuniary aspects of organizational behavior, such as the number of indigent clients the organization serves.
- Because philanthropists are motivated in part by self-aggrandizement, they will favor more concrete forms of organizational performance. For this reason, in markets with more pronounced influence of community-based interests, the differences between nonprofit and forprofit behavior will emphasize readily observed features, such as new services, buildings, and the like.
- Because government purchasing agents will be most concerned with assuring access for government-funded clients, the larger the influence that the purchasing agent has, the more similar will be the behavior of nonprofit and forprofit providers in providing services used particularly by the clients of that agency. For example, healthcare agencies that rely heavily on government funding will become more alike, irrespective of their forprofit or nonprofit status.

In a case study of hospitals providing inpatient psychiatric services, Schlesinger (1998) looks more closely at some of the similarities and differences in nonprofit and forprofit behavior. When comparing the relative performance of nonprofit and forprofit hospitals in industries where the influence of both community groups and state regulators is high, nonprofit hospitals were more likely to treat state-financed patients, those with chronic conditions, and patients with no insurance at all. There were no discernible differences in the degree of innovation between nonprofit and forprofit hospitals. However, in environments with neither strong governmental monitoring nor watchdog groups, but strong competition, nonprofit organizations seem to shift their attention to the private sector and are no more inclined to address chronic illness or indigent care than are their forprofit counterparts. By contrast, in environments with low competition and limited influence by medical professionals, nonprofit hospitals differentiate themselves substantially by their treatment of the poor, are more innovative than forprofits, and are also more likely to establish contracts with the private sector.

Schlesinger (1998) concludes that the differences in legal ownership and its consequences relate directly to the environment in which an organization operates, and he reframes the question, "Does ownership matter?" to "Under what conditions does ownership matter?" The answer will depend on the field or industry in question (Grønbjerg & Smith, 2021), but the work by Krashinsky, Weisbrod, and Schlesinger has provided an initial idea of the factors involved: the degree of competition, professionalization, the funding mix, and the role of government and philanthropy.

Differences in legal ownership and its consequences relate directly to the environment in which an organization operates.

Niche Control

Galaskiewicz and Bielefeld (1998, 2001) use the term "niche control" to describe the extent to which performance and resource allocations are monitored and sanctioned by external agencies, be they government or watchdog groups. They differentiate between two types of control, process and output, and two organizational forms, forprofit and nonprofit (although one could extend the analysis to include public agencies). While many nonprofits are exempt from strong process and output controls, some, for example, general hospitals, are not. Those that are in highly controlled niches find themselves competing on quality and price not only with other nonprofits, but also with forprofits and public agencies. In these niches or market segments, the behavior of the two organizational forms will become more similar over time, whereas in niches with low controls, form differences will be more pronounced.

The term "niche control" ... describe[s] the extent to which performance and resource allocations are monitored and sanctioned by external agencies.

Galaskiewicz and Bielefeld explore how organizations react to controls by employing two arguments: the efficiency argument makes a case based on cost and revenue considerations; whereas the legitimacy argument rests on values, greater trustworthiness, and reputation. Specifically:

- Strong process and output control: Nonprofits and forprofits compete against each other and become more similar (e.g., hospitals, savings and loan associations, and banks). Both emphasize efficiency, as legitimacy will have little resonance among users and consumers.
- Strong process control and weak output control: Nonprofits will emphasize that they do "things the right way and for the common good," i.e., calling attention to conformity with process and emphasizing legitimacy, whereas forprofits will stress their efficiency of operations. Thus the two forms will employ different tactics. Nursing homes are a case in point.
- Weak process control and strong output control: Both nonprofits and forprofits stress the efficiency of their operations, but nonprofits will also try to show that they are the more trustworthy and reliable provider by employing the legitimacy argument. Social services and daycare centers illustrate this scenario.
- Weak process and output control: Being left to themselves, and except in crisis situations, neither forprofits nor nonprofits need to employ strong arguments to maintain their respective niches. Advocacy and community groups and religious institutions are examples.

Coping with Uncertainty

Above, we stressed the importance of uncertainty in shaping organizational behavior. What can we say about the reaction of nonprofit organizations to uncertainty? The following

strategies have been observed (Galaskiewicz & Bielefeld, 2001; Powell & Friedkin, 1987; DiMaggio & Anheier, 1990):

- Goal displacement is a process by which the original objective, while still being formally upheld, is replaced by new or secondary goals. For example, rather than working towards poverty alleviation, the organization may focus primarily on fundraising for its own survival and maintenance.
- Uncertainty often leads to a search for stability, either in terms of new niches to which the organization seeks to migrate, or in the form of copycat behavior, whereby the organization models itself after those organizations it perceives as successful. For example, nonprofits may copy the behavior of forprofits they regard as financially more successful.
- Stronger stakeholders crowd out weaker or protected constituencies in organizations under distress, leading to new hegemonies and changes in the organization's balance of power among stakeholders. For example, financial managers rather than curators typically gain organizational power in efforts to save troubled art museums.
- In the face of cutbacks in government subsidies or drops in giving, some service providers redirect programs originally aimed at the poor to middle-income groups to lower costs and increase fee income.
- Some nonprofits drop controversial programs and add more conventional ones in the hope of attracting donors and fitting better into governmental funding priorities; it is a "taming" effect that has been observed not only in controversial social service programs and healthcare (e.g., abortion) but also in the arts and culture, where theaters and orchestras choose standard repertoires with broader appeal rather than avant-garde works.
- Uncertainty also increases pressure toward professionalization and invites more technocratic control of the organization—a process frequently related to the phase transitions of the organizational life cycle, e.g., the replacement of charismatic leadership by managers in an effort to consolidate operations.

Uncertainty . . . increases pressure toward professionalization and invites more technocratic control of the organization.

Research has also identified the revenue structure as critical for avoiding the development of uncertainties in nonprofit organizations: as suggested by Galaskiewicz and Bielefeld (1998) and others, legitimacy is an important resource by which nonprofits maintain funding relations. Legitimacy is closely related to reputation, particularly in some nonprofit fields like education, research, and arts and culture. Nonprofits prefer to stay with routinized funding mixes, and both private and public funders seek providers with a proven track record. This political economy based on stability and reputation can put newcomers and innovators at a disadvantage.

Dealing with Crises

Organizations face periods of acute crisis when the task environment changes rapidly, perhaps unexpectedly. Financial and economic crises are cases in point as are pandemics or prolonged periods of political uncertainty. So how do nonprofits respond to such challenges? What is a possible range of organizational behavior? And which policy responses might support nonprofit organizations in dealing with crises? Here, organization theory points to some useful answers, summarized in Table 9.6.

Neoinstitutionalism assumes that organizations form themselves according to the requirements of their environment to gain legitimacy (DiMaggio & Powell, 1983). In times of crisis not only do these requirements turn out to be unclear and uncertain, but legitimacy can also become the central commodity determining the survival or failure of organizations. Faced with these high levels of uncertainty, organizations may model themselves after or mimic other organizations that are perceived as successful. Those

TABLE 9.6 Approaches and reactions to crises

Approach	*What crisis means for organizations*	*How organizations could react and find a solution*	*Organizational field responses or reactions*
Neoinstitutionalism	Because legitimacy bases may dwindle in times of crisis, organizations are faced with high levels of uncertainty.	Organizations seek to regain legitimacy by either copycat behavior or increased incorporation of stakeholders to secure legitimacy.	Present viable organizational and business models.
Contingency theory	Crisis implies volatile environments to which organizations have to adapt in order to guarantee efficiency for the future.	Organizations modify their structure in order to ensure efficiency and adjust to better fit the environment.	Reduce barriers for reorganization and transaction costs for mergers and acquisitions.
Resource dependency	Because resource dependencies may heighten in times of crisis, organizations have to react proactively to influence the environment.	Organizations primarily seek to secure resources by acting proactively to reduce dependency.	Diversify business models available for nonprofits; encourage public–private partnerships.
Evolutionary theory	Crisis increases selection pressures and incentives for organizations to adapt to changing environments.	Organizations try to adapt to the changed environments through niche building, refunctionality, and recombination.	Allow for ease of exit and entry; minimize cost of founding and dissolution.

mimetic processes can be either intended or unintended. So according to neoinstitutionalism, copycat behavior might be one possible reaction of nonprofits to secure legitimacy during a crisis.

Also dealing with the relationship between organizations and their environments, contingency theory proposes another possible form of organizational crisis behavior. In contrast to neoinstitutionalism, this approach focuses on efficiency requirements and argues that the efficiency of the organizational structure is dependent on the fit to its environment and therefore suggests that there is not one single best way to manage. According to the thesis of Burns and Stalker (1961), for an environment with changing conditions, organic or flexible organizational structures are appropriate. Hence, organizations have to adapt to the volatile environments arising from the crisis in order to guarantee efficiency for the future. Therefore, organizations loosen their structures to reflect the environment in order to be able to react in more flexible ways.

Like these two approaches, the resource dependence approach also recognizes the open system and contingent nature of organizations and focuses on the context to understand the behavior of organizations. Following Pfeffer and Salancik's (1978) argumentation, organizations have to react proactively to environmental changes; otherwise they might not survive. In times of crisis, resource dependencies may increase. For example, in an economic downturn, organizations may primarily seek to secure especially critical resources, such as funding, be it private or public, to reduce their dependency.

Studying the question of how organizations evolve, analysts Romanelli and Tushman (1994) introduce the notion of punctuated equilibriums to refer to discontinuous transformations. They assume that organizations pass through relatively long periods of stability in terms of structure and activity which are punctuated by short bursts of fundamental changes, triggered when several key organizational domains are threatened or become critically uncertain, particularly in terms of available resources. In response, some but not all organizations seek to adapt by introducing changes in terms of strategy, structure, incentives, and control systems as well as power relations that are more far-reaching than would have been the case without the pressures resulting from a crisis.

Organizational theorists such as Gersick (1991) suggest that revolutionary periods are times of greater innovation in organizations that manage to break the structural and cultural inertia of embedded routines. Specifically, such periods involve changes in the "deep structure" of organizations, i.e., a set of fundamental, interdependent choices about rationales, activities, and the environment. They come about when two types of disruptions occur simultaneously: internal changes that misalign the deep structure with its environment, and environmental changes that threaten the system's overall ability to obtain resources. It may well be that crises offer such a "rare" combination of external and internal disruptions to the deep structure.

We also owe the notion of niches (Hannan & Freeman, 1989; Aldrich, 1999) to this theoretical school. As mentioned above, niches are recognized as comparatively distinct combinations of resources that organizations use. Especially in times of crisis, the finding, defending, and optimizing of these organizational niches, on the demand as well as the supply side, can become a key task for organizational survival. Operating within a niche makes nonprofit organizations less vulnerable to competition.

ORGANIZATIONAL PERFORMANCE MEASURES

Already in the early 2000s, a survey by Light (2002) found that 92% of executive directors of nonprofit organizations surveyed reported increased emphasis on outcome measures. The measurement and assessment of organizational performance and impact constitutes a vast field of social science research, and a clutch of different tools and approaches have been suggested in the literature. Unfortunately, it is also a field that offers somewhat inconclusive advice to applied fields like nonprofit organizations, in large measure due to the diversity of organizations and tasks involved.

For nonprofit organizations, the problem is complicated by the absence of a fully tested and accepted repertoire of performance and assessment measures. Many available measures derive from public sector management and business applications. Nonetheless, recent years have seen significant development in the field.

The key insights for the selection and use of performance measures from this and similar work are:

- Numbers are important "yardsticks" for planning and for measuring performance and goal attainment, but they are not an end in themselves, and they should not be taken out of context. Numbers need interpretation, and making them meaningful is a management task.
- Performance metrics have to be smart measures, and tied to bottom lines, and as most organizations are multi-faceted and have multiple bottom lines, we need multiple performance measures.
- Measures should link the organization's mission with its activities to the greatest extent possible.
- Measures should be tested over at least one business year before implementing them fully.
- Comparing performance measures of even similar programs across different organizations can be misleading; many performance measures are organization- and program-specific.
- Most measures gain greater usefulness over time and with the availability of time series that track improvements.
- There is a risk that performance measures attract efforts to areas that are more easily measured, but less in need of resources.
- Performance measures can encourage "short-termism" and lead to a neglect of longer-term achievements.

As most [nonprofit] organizations are multi-faceted and have multiple bottom lines, we need multiple performance measures.

Hudson (2003) shows that a relatively small number of well-chosen indicators can provide critical information on organizational performance. Table 9.7 offers an example from

TABLE 9.7 Example of performance indicators: Toolworks

Measure	*Data source*	*Goal*	*Outcome*
Effectiveness			
No. of clients placed in new jobs	Placement reports	72	73
% earning $8 or more per hour	Placement reports	75%	67%
% maintaining job for 90 days or more	Placement reports	85%	84%
% securing subsidized housing	Case records	25%	30%
No. of new contracts secured	Contract files	0.1	0.12
Efficiency			
No. of clients with reduced reliance on public benefits	Case records	175	219
% of clients placed within 90 days of intake	Placement reports	80%	74%
% of clients receiving support from generic resources	Case records	50%	64%
% of employees maintaining an accident-free workplace	Claim reports	95%	91%
Satisfaction			
% of clients who are satisfied with the service	Satisfaction surveys	75%	76%
% of satisfied staff	Staff surveys	75%	86%
% of satisfied referring agencies	Survey	75%	89%

Source: Hudson, 2003, p. 72.

the San Francisco-based organization Toolworks (www.toolworks.org/about), which specializes in finding employment for the long-term unemployed (Hudson, 2003, p. 72).

The measures chosen by Toolworks are a good example for Magretta's (2012) suggestion that performance indicators be "smart measures" tied to bottom lines and matched to the organization's mission. Over the years, organizations like the United Way of America, Independent Sector, and the UK's National Council of Voluntary Organisations have compiled inventories of performance measures and tools that can be used by organizations and adapted to their specific needs and circumstances.

The Urban Institute joined with the Center for What Works to identify a set of common outcomes and outcome indicators or "common framework" in the measurement of performance for nonprofits. Based on examination of 14 different program areas, the project team not only developed sets of potential outcome indicators for these specific areas,

but also began to develop a common framework for outcomes, one that might provide other programs with a starting point for identifying outcomes and outcome indicators for themselves. Table 9.8 offers a sample list of indicators based on this work (Urban Institute and Center for What Works, 2006).

TABLE 9.8 Nonprofit Taxonomy of Outcomes (NPTOO): selected indicators

Outcome type	*Common indicators*
I. PROGRAM-CENTERED OUTCOMES	
1) Reach	
a) Outreach	Percent of target constituency enrolled Percent of target constituency aware of service Participation rate Number of service requests/month
b) Access	Percent of target constituents turned away Percent of target constituents reporting significant barriers to entry Percent of services offered at no charge
2) Participation	
a) Attendance/utilization	Percent of capacity enrolled/registered Percent who enroll for multiple services/offerings Attendance rate Average attendance rate at events
b) Graduation/completion	Percent who successfully complete program Recidivism rate (back into program) Average length of time in program Percent who continue to next level
II. PARTICIPANT-CENTERED OUTCOMES	
1) Knowledge/Learning/Attitude	
a) Skills (knowledge, learning)	Percent increase in scores after attending Percent that believe skills were increased after attending
b) Readiness (qualification)	Percent feeling well-prepared for a particular task/undertaking Percent meeting minimum qualifications for next level/undertaking
2) Behavior	
a) Incidence of desirable activity	Success rate Percent that achieve goal Rate of improvement

TABLE 9.8 Cont.

Outcome type	*Common indicators*
b) Maintenance of new behavior	Number weeks/months/years continued Percent change over time Percent moving to next level/condition/status Percent that do not reenter the program/system
III. COMMUNITY-CENTERED OUTCOMES	
1) Policy	
a) Awareness/understanding of issue	Percent of target constituents aware of issue Number of people reached through communications Percent of target constituents taking desirable action
b) Stakeholder support of issue	Number of stakeholders convened Percent of key stakeholders as partners

Source: Adapted from Urban Institute and The Center for What Works, 2006.

In addition to performance indicator collections, several approaches have been developed that help in the selection and adaptation of such measures, in particular triple bottom line accounting, social return on investment, the balanced scorecard, the corporate dashboard, and benchmarking. We will briefly present each in turn.

Triple Bottom Line Accounting

Triple bottom line accounting (TBL) goes well beyond financial reporting (see Chapter 11) and extends into nonmonetary dimensions. It is a holistic performance approach—not simply bookkeeping (Elkington, 2018)—that incorporates two dimensions in addition to finance: the social and the environmental. The three TBL dimensions are also frequently referred to as the three Ps: people, planet, and profits (which some are now calling "prosperity").

> Triple bottom line accounting is a holistic performance approach … that incorporates two dimensions in addition to finance: the social and the environmental.

First introduced by Elkington (1994), most efforts to develop applications for TBL concern the measurement of the social and the environmental dimensions, the latter in particular in terms of frameworks for measuring sustainability. The three Ps do not have a

common metric: while economic performance is measured in currency units like dollars or Euros, the social dimension can be measured in terms of social capital or social equity indicators, while the environmental dimension can be measured in terms of carbon emissions or footprints.

Thus far, no generally accepted standard method for calculating TBL has emerged, nor is there agreement whether to combine the three measures, and if so, how each measure should be weighted (Savitz, 2006). For a nonprofit organization, the range of measures could include:

Economic measures

- Adequate cash flow
- Achieving cost targets
- Building reserves
- Maintaining corporate credit rating
- Increasing fundraising targets
- Diversifying revenue streams

Environmental measures

- Lower carbon footprint through commuting
- Improving waste management through better recycling
- Using renewable energy
- Green building design
- Avoiding hazardous waste

Social measures

- Gender equity in staff and board composition
- Family-friendliness
- Staff development
- Community relations
- Functioning whistleblower policies

Social Return on Investment (SROI)

Social return on investment (SROI) involves the assessment of various outcomes by translating them into some metric, preferably a monetary indicator (see Then et al., 2017 for detailed introduction). SROI methods were first introduced by the Roberts Enterprise Development Fund in 1996 in the process of trying to measure the social benefits of reintegrating unemployed individuals into the labor market. Emerson (2003) introduced the concept of "blended value," with the central idea that assessing the value of any activity requires integrating different dimensions of economic, social, and environmental factors. In other words, the value itself is a "blend" of these varied factors.

Social return on investment (SROI) involves the assessment of various outcomes by translating them into some metric, preferably a monetary indicator.

In general, SROI can be applied before or after a project or set of activities. As an evaluation, SROI is conducted retrospectively and based on actual inputs, outputs, and outcomes over a given period. By contrast SROI as a forecast tries to predict how much value could be achieved, assuming inputs are available and activities take place to meet intended objectives.

In general, SROI involves three core dimensions:

- **Economic value**: economic performance measures similar to standard return on investment measures.
- **Socio-economic value**: quantifiable costs such as taxes or social security contributions that accrue to the wider community; it also includes estimated opportunity costs, i.e., the implied costs of not conducting a particular activity or investment.
- **Social value**: the non-quantifiable nonmonetary revenue, for instance an improvement in quality of life or social capital effects.

Indicators for each SROI dimension as well as the actual method may vary across projects or organizations (Cooney & Lynch-Cerullo, 2014). The process and the calculation involved can be quite elaborate and require extensive stakeholder consultations and monitoring. Indeed, building indicators fitting the circumstances of the project and organization and its environment is part of the SROI process (Mildenberger et al., 2012). In nonprofit organizations, SROI approaches are best linked to and developed as part of strategic management and the various tools presented in Chapter 10, such as theories of change, back-casting, and logical frameworks.

The Balanced Scorecard

The balanced scorecard is a tool used to quantify, measure, and evaluate an organization's inputs, activities, outputs, and outcomes. Originally developed by Kaplan and Norton (2001) for the forprofit sector, it is based on the idea that traditional measures of performance, which track past behavior, may not measure activities that drive future performance. A balanced scorecard is a *results-oriented* approach to measuring organizational performance, with the assumption that "*inputs* of resources support *activities* that lead to service or policy *outputs*, which in turn produce the desired *outcome*" (Hudson, 2003, p. 83).

Balanced scorecard indicators, then, consider performance over a range of dimensions and force managers to evaluate both outcomes and the status of the organization producing them. There are four types of measures on a balanced scorecard:

- **Service users/policy changes**: measuring achievement of the organization's mission.
- **Internal processes**: measuring planning and service delivery processes.
- **Learning and growth**: measuring organizational capacity, evaluation, and learning.
- **Financial**: measuring fundraising, cost control, and productivity improvements.

Balanced scorecard indicators ... consider performance over a range of dimensions and force managers to evaluate both outcomes and the status of the organization producing them.

The balanced scorecard shifts the focus from programs and initiatives to the outcomes they are supposed to accomplish and brings mission-related measures in contact with operational, learning, and financial aspects.

Corporate Dashboards

Corporate dashboards are a "snapshot" of key performance indicators and give an overview of the organization's progress. The idea behind them is that managers are normally overwhelmed with performance data and therefore need something that is quick and can be read, like a car dashboard, at a glance. Dashboards can be produced quarterly and given to board members and staff. Often viewed as an overview of an organization's balanced scorecard, the corporate dashboard also incorporates the idea that a range of indicators is needed to get an accurate overview of performance.

Corporate dashboards are a "snapshot" of key performance indicators and give an overview of the organization's progress.

As an example, the dashboard of Jewish Vocational Services (JVS) San Francisco contains only 12 of its over 100 performance indicators and is derived from its balanced scorecard (Hudson, 2003). It is published quarterly and sent to all staff with comments from the CEO. The publication also coincides with their board meetings for immediate feedback. JVS also has a volunteer performance measurement committee that meets three to four times a year to help analyze and refine the indicators. In addition, data from their performance system are used for staff evaluations and promotions.

Benchmarking

Benchmarking, a management technique used to measure organizational performance, is a *comparison-oriented* approach as opposed to an *outcome-oriented* approach to performance measurement. The units of measurement used for comparison are usually productivity, quality, and value. Comparisons can be made between similar activities or units in different departments of the same organization or across different firms in the same industry. Three techniques used in benchmarking are listed below:

- **Best Demonstrated Practice** (BDP) is the comparison of performance between units within one organization. This way, superior techniques or greater efficiency can be isolated and identified.
- **Relative Cost Position** (RCP) is a detailed analysis of every element of the cost structure (i.e., supplies, labor, etc.) per dollar of revenue compared between two firms.
- **Best Related Practice** is similar to BDP but extends the comparison beyond a single firm to related firms.

> Benchmarking . . . is a comparison-oriented approach as opposed to an outcome-oriented approach to performance measurement.

Other techniques that complement the above three include: site visits to witness different management styles and procedures, systematic and formal collection of data to compare a range of performances, and the formation of "clubs" to exchange ideas. In the nonprofit field, benchmarking techniques are attractive because many organizations share a common philosophy of social justice and social service and therefore value collaboration in working towards a common good. This is in contrast to the business world where firms view each other as profit-maximizing competitors and therefore may not be willing to share best practices or techniques.

Benchmarking is also particularly important to nonprofit organizations because, due to their limited resources, nonprofit organizations must find innovative and efficient ways to provide services with the least costs. Benchmarking, then, is an organizational learning process that links great ideas and great performance. However, benchmarking requires organizational leadership and, despite a culture of collaboration and shared goals, a willingness to risk exposing their organizations' strengths and weaknesses.

CONCLUSION

The great organizational theorist Perrow once wrote that we live in the age of organizations and that little of public life takes place in non-organizational settings. Fortunately, organizational theory offers us much insight into the operations of organizations, their structure, and leadership.

We reviewed the organizational behavior of nonprofit organizations and highlighted, among other aspects, the importance of values (religious, political, humanitarian, moral) as a distinct feature of many nonprofits, though not all. How much they influence organizational behavior varies, but the significant presence of values implies at the very least a more complex means–goal relationship between operational and ultimate objectives. Indeed, as stated in Chapter 3, values can be enabling or restraining, protecting or stifling, leading or misleading, invigorating or distracting.

The performance of nonprofit organizations is often difficult to measure given the nature of the good or service provided, the blending of economic and social outcomes, and the expectations of multiple stakeholders. The growing "performance and outcomes movement," as some have called it, is not without critics (Brest, 2020; Benjamin & Campbell, 2020). They fear that the movement is driven more by donor demands and less by nonprofits themselves; the performance measures are becoming ritualistic, are often too top-down, and invite satisficing, among other issues. Nonetheless, performance measures are an important management tool and can enhance accountability.

The performance of nonprofit organizations is often difficult to measure given the nature of the good or service provided, the blending of economic and social outcomes, and the expectations of multiple stakeholders.

REVIEW QUESTIONS

How rational are organizations?
What are some of the determinants of organizational structure?
How do nonprofit organizations deal with uncertainty and crises?
What approaches have been suggested to measure nonprofit performance?

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CHAPTER 10

Management Approaches and Tools

This chapter introduces the rise of nonprofit management approaches against the background of the special characteristics of nonprofit organizations: their values base, the presence of multiple stakeholders, and the multiple revenue sources that support them. The chapter then reviews a number of basic management approaches and tools with an emphasis on strategic management and planning techniques appropriate for nonprofits.

LEARNING OBJECTIVES

What is special about managing nonprofit organizations? How can we approach the management of private organizations for public benefit? What does the presence of values, multiple stakeholders, and diverse revenue sources mean for managing nonprofits? This chapter also lays the foundation for other chapters that deal with the issues of financing, leadership and human resources, marketing, and collaboration, among others. After reading this chapter, the reader should:

- be familiar with the basics of nonprofit management;
- understand the differences between nonprofit management and public sector as well as business management;
- appreciate the management implications of value-based organizations;
- be able to make the connection between the particular challenges of nonprofit management and the special characteristics nonprofits have;
- have a good understanding of strategic planning and management planning tools.

This chapter introduces several key management concepts:

- Alignment model
- Gap analysis
- Issue-based planning
- Law of nonprofit complexity
- Logframes

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- Management
- New public management
- PESTEL analysis
- Problem and solution trees
- Scenario planning
- Stakeholder analysis
- Stakeholder mapping
- Strategic management
- Strategic planning
- SWOT analysis
- Theory of change

INTRODUCTION

The need for dedicated nonprofit management knowledge, skills, and training has increased. The proliferation of nonprofit management programs, certificates, and courses is a good indication of this greater need. To a large extent, this increase is due to significant changes in the institutional environments in which nonprofits operate and the greater policy recognition they receive. At the same time, no specific, generic nonprofit management approach has emerged, and the literature continues to debate whether nonprofit management is a variation of business management or of public sector management, or if, indeed, a new managerial discipline of nonprofit management would be needed.

The need for dedicated nonprofit management knowledge, skills, and training has increased, [but] . . . no specific, generic nonprofit management approach has emerged.

Accordingly, nonprofit management thinking has been subject to various ideas and concepts emanating either from the business world or from public administration (Toepler & Anheier, 2020). There are also differences in nonprofit management approaches across countries and regions that reflect broader cultural and political factors and lead to variations in management styles.

For example, Phillips (2020) shows that nonprofit organizations in the United States, Canada, and Australia, and to a lesser extent the United Kingdom (all operating in the liberal model according to the social origins theory: see Chapter 5), are part of extensive and competitive contract regimes. As a result, many nonprofits are more entrepreneurial, even with a certain business orientation in their management style.

By contrast, in the welfare states of Europe, the larger nonprofit organizations enjoy greater public support, and the government is typically a large, if not the largest, provider of funds (see Schnurbein & Hengevoss, 2020). They operate in more stable and less competitive task environments, and their management style is often more administrative than entrepreneurial. In Central and Eastern Europe, nonprofits face more volatile and

resource-poor environments (Vandor et al., 2020), and management means managing still relatively new organizations under scarcity. Likewise, in Asia (Onishi & Yamauchi, 2020), Africa (Mati, 2020), Latin America (Jäger et al., 2020), and other regions of the world, too, nonprofits have developed management styles that reflect specific state–nonprofit sector relations, as we explore in Chapter 16.

However, irrespective of these differences, nonprofits are undergoing significant changes that affect their strategic direction, financing, and modes of operation—and hence management. There is more emphasis on organizational strategy, a growing need to demonstrate impact and achieve greater efficiencies, and calls for more transparency. An important trigger of these changes is new public management (NPM), an approach that developed in response to what was regarded as inefficient and ineffective government administration (Ferlie, 1996; Kettl, 2000) and that has in the course of recent decades changed the way in which public administration operates.

In essence, NPM seeks to change the organizational culture and operations of public agencies from *administration*, based on the Weberian model (as described in Chapter 9), to *management*, approximating a market-oriented model. NPM brought, among other aspects, concerns about outcomes versus outputs, efficiency versus effectiveness, as well as accountability and performance measurement, to public agencies and then also to nonprofit management.

Specifically, Hood (1991, pp. 4–5) identified seven underlying doctrines of NPM:

1. Reorganization of the public sector into corporate units organized along product or service lines—in essence the shift from the unitary, functional form to the multi-divisional and N-form described in Chapter 9.
2. More contract-based competitive provision, with internal markets and term contracts—the introduction of "managed markets" with public agencies as funder and contract manager, and private forprofit and nonprofit providers as contractors.
3. Stress on business styles of management practice, including more flexible hiring and firing, greater use of marketing, and improved budget policies.
4. More stress on discipline and frugality in resource use, including better cost and revenue accounting.
5. More emphasis on visible, hands-on top management, fewer middle management levels, and increased span of control for executive management.
6. Greater use of explicit, formal standards and performance measures.
7. Greater emphasis on output rather than input controls.

NPM brought, among other aspects, concerns about outcomes versus outputs, efficiency versus effectiveness, as well as accountability and performance measurement, to nonprofit management.

While NPM has influenced nonprofit management in organizational structure, strategies, and governance, it contributed *inter alia* to an increased results orientation towards clients, consumers, and members, a greater focus on social entrepreneurship (see Chapter 8), leadership (see Chapter 13), as well as marketing concepts and public relations (see Chapter 14). At the same time, given the special characteristics of nonprofits, NPM also implied management challenges:

- The value orientation of many nonprofits can run up against managerialism and an emphasis on the financial bottom line. "What is more important, realizing our mission or having a balanced budget?" is a common concern for many nonprofit boards.
- Some stakeholders may gain more influence while others become marginalized as a business orientation takes hold. "Why should we listen to our members and their preferences when we know best how to attract donors?" is likewise a frequent tension.
- The revenue structure of nonprofits may focus on shorter-term revenue maximization rather than longer-term funding stability. "Are we as a nonprofit actually serving our mission, not becoming ever more like a business taking money from whoever can afford to pay us?" is again an expression of the potential conflicts NPM and managerialism can bring to nonprofits.

The pressures arising from management approaches like NPM continue to change the way nonprofits are managed and their organizational behavior and dynamics generally (Light, 2000; Meyer, 2020). NPM principles have to be seen in the wider context of two factors. The first is the degree of distinctiveness between public agencies and the private business sector in the sense that public management is based on equity considerations and is primarily about providing public and semi-public goods that carry the potential of market failures, which speaks to the nonprofit/public–forprofit border. The second factor is the need for rules separating political and managerial decision-making to establish and maintain some "buffer" between the world of politics on the one hand and service provision on the other; this need highlights the border between advocacy and politics, in particular regulations on lobbying and electioneering (see Chapter 17 for more on advocacy).

Against this background, the question arises as to whether a specific nonprofit management approach is necessary or desirable in the first place. Could it be that some aspects of nonprofit management are rather close to business management, while others call for models from public administration, including NPM? Importantly, could it also be that yet other aspects that arise from their special characteristics and the functions they perform set them apart from both government and the business sector and are thus specific to the nonprofit form, as we discuss in other chapters? Would such an approach to management not require combining distinct nonprofit managerial elements with those from public sector and business management? Before proceeding to answer these questions, however, it is useful to review some basic management concepts.

The question arises as to whether a specific nonprofit management approach is necessary or desirable in the first place.

WHAT IS MANAGEMENT?

Management is the process of planning, organizing, directing, and controlling activities to accomplish the stated organizational objectives of organizations and their members. Management is different from governance, to which we dedicate Chapter 12, although there is some overlap between the two functions. Management makes an organizational mission operational and works towards achieving the mission's objectives. Some of the core management activities are summarized in Table 10.1.

For Magretta (2012), management involves three critical tasks. First, the chief responsibility of management is "value creation" in relation to the organization's stated mission. For example, if the mission is to help the homeless to gain paid employment, then all management activities are to contribute to the stated objectives around that mission, i.e., "create value" for the organization in fighting homelessness. In this sense, management is all about how that mission is to be accomplished within the guidelines established by the governing board.

The chief responsibility of management is "value creation" in relation to the organization's stated mission.

Second, even within the guidelines established by the board, management involves making critical, clear, and consistent choices. This means weighing trade-offs and establishing boundaries. It is as much about what to do well as it is about what not to do at all. A characteristic trade-off facing many nonprofit service providers is between increasing

TABLE 10.1 Core management activities

Planning	Engaging in long-term strategic planning; making decisions affecting objectives, functions, and operations
Controlling	Allocating human, financial, and material resources
Monitoring	Developing, measuring, and applying performance measures
Supervising	Overseeing the work of staff
Coordinating	Coordinating with other managers and staff outside direct area or span of control
Reporting	Testifying to and informing boards and regulatory agencies
Marketing	"Selling" the product/service to customers; watching field, "market" agencies, etc.
Consulting	Engaging with internal and external stakeholders, peers, and other professionals

program revenue on the one hand and serving those homeless in greatest need on the other. A boundary would be established by setting clear rules regarding who among the homeless would qualify as needy enough to receive services for free and who would have to contribute towards the cost of provision.

Management involves making critical, clear, and consistent choices.

Third, the design of organizations, and the management styles they entail, is contingent upon the task environment (see Chapter 9). No management model fits all circumstances equally well, and like organizational structure, management approaches are context- and task-specific.

No management model fits all circumstances equally well.

Against this background, it is useful to recall the notion that nonprofit organizations typically consist of multiple components and complex internal as well as external coalitions among stakeholders. The structure of nonprofit organizations may require a multi-faceted, flexible approach to management and not the use of singular, ready-made models carried over from the business world or public management. Specifically, nonprofit management includes:

- A *holistic conception* of organization that emphasizes the relationship between the organization and its environment, the diversity of orientations within and outside the organization, and the complexity of demands put on it. A holistic view of organizations is particularly needed in nonprofit organizations that have multiple stakeholders and operate in complex task environments, for example as part of larger public–private systems of service delivery. In such systems, where multiple bottom lines are in operation, information available to management is frequently incomplete, dated, even distorted.
- A *normative dimension* of management that emphasizes the importance of values, especially exemplified by the value guardian and advocacy roles of nonprofits (see Chapter 3), but also for product-bundlers generally. Thus, in addition to management under uncertainty that is the result of incomplete information, we are dealing with organizations whose stakeholders may have different perceptions and projections of reality as well as different assessments and implications for different constituencies (Hvenmark, 2016; Paton, 1996).
- A *strategic-developmental dimension* that sees organizations as evolving systems encountering problems and opportunities that frequently involve fundamental dilemmas for management. This dimension views nonprofit organizations as entities that change over time as they deal with the opportunities and constraints confronting them as part of a larger political economy (Meyer, 2020).

- An *operative dimension* that deals with the everyday functioning of the organization, addressing in particular the management of multiple revenue sources, but also administration and accounting, personnel, and service delivery more generally. This is indeed the part that has largely been the focus of conventional nonprofit management (e.g., Renz & Herman, 2016; Oster, 1995).

Thus, organizations are seen as economic and political systems that have normative, strategic, as well as operative dimensions. As nonprofit organizations evolve, their basic structural features reflect choices about how to combine, integrate, or control the various component parts. In other words, if we understand organizations as systems with various component parts represented by different stakeholders, we can begin to analyze central organizational dimensions as a series of choices made (or not made) by management or the governing body over time and in view of different bottom lines. This is the key to nonprofit management.

As nonprofit organizations evolve, their basic structural features reflect choices about how to combine, integrate, or control the various component parts.

STAKEHOLDERS AND MULTIPLE BOTTOM LINES

Stakeholders are people or organizations that have a real, assumed, or imagined stake in the organization, its performance, and its sustainability. Depending on the organization, stakeholders include members, trustees, employees, volunteers, clients or users, customers, funders, contractors, government, oversight agencies, community groups, and watchdog organizations, among others. Figure 10.1 offers a stakeholder chart for a hypothetical child daycare center (Figure 10.1a) and an art museum (Figure 10.1b) to illustrate the complexity of stakeholder relations in nonprofit organizations.

Stakeholders are people or organizations that have a real, assumed, or imagined stake in the organization, its performance, and its sustainability.

This stakeholder complexity is a good avenue to approach the relationship between what in business firms is called the "bottom line" and the management and governance requirements of nonprofit organizations. The "bottom line" refers to the bottom line of a firm's profit and loss statement, but is more generally used as a reference to what really matters, or the heart of the matter. Clearly, the bottom line for a business is profit, even though other indicators like market share or employee satisfaction are important as well. What could be the bottom line for nonprofit organizations, which, as discussed in Chapter 5, operate under the nondistribution constraint?

One answer is found in conventional approaches to nonprofit management that seem to operate from the assumption that nonprofit organizations have no bottom line at all.

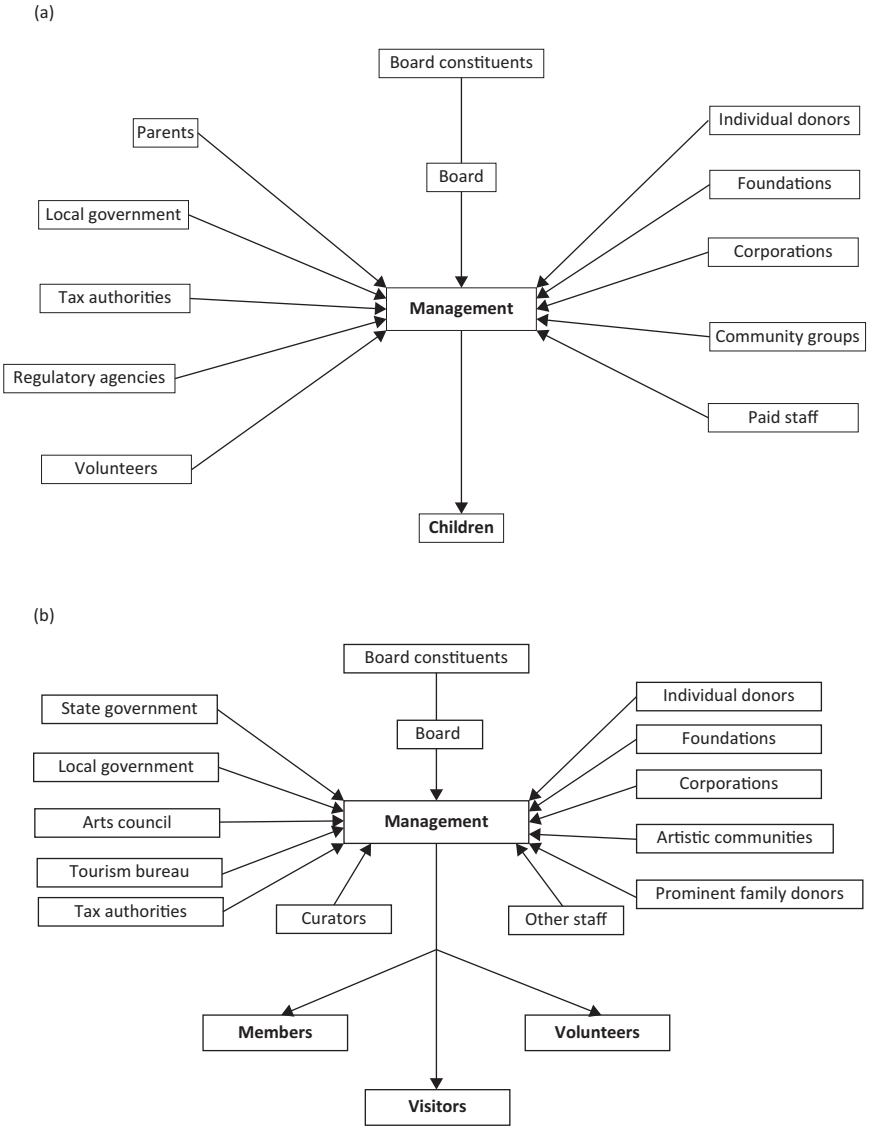


FIGURE 10.1 Stakeholder chart of nonprofit organizations
FIGURE 10.1a Child daycare center
FIGURE 10.1b Art museum

Indeed, Drucker (1990, 1999) once suggested that because of a missing bottom line, nonprofit organizations would be in greater need of management and good governance than forprofit organizations, where performance is often easier to measure and monitor. While this reasoning resonates with economic nonprofit theories, there is a major difference: the management challenge is not that nonprofit organizations have no bottom line at all; the problem is that they have several, and some would say "sometimes too many." A nonprofit

organization has several bottom lines because no price mechanisms are in place that can aggregate the interests of clients, staff, volunteers, and other stakeholders and that can match costs to profits, supply to demand, and goals to actual achievements.

A nonprofit organization has several bottom lines because no price mechanisms are in place.

In the forprofit world, we have market prices for goods and services linking sellers and buyers, wages linking employers and employees (collective bargaining), profits linking shareholders and management, and taxes linking the firm with the general public represented by government. Of course, there are many imperfections in the way such prices are established and brought to market. What is important to see is that at least in principle, all these prices and the financial information associated with them can coalesce into one "bottom line" of the profit and loss statement. Indeed, as Chapter 5 on theories makes clear, prices are the basic medium in transaction costs economics and the economic explanation for the existence of nonprofit organizations as a response to market failure.

Prices as a medium of information for internal and external activities are either lacking, incomplete, or set according to administrative cost considerations or some proxy to market prices and are influenced by value preferences. In the absence of such price signals, performance indicators receive significant attention on the part of nonprofit managers and boards. What is more, in contrast to government, nonprofit managers do not typically have the legitimate authority to set terms and prices outside the narrow realms of their organization.

The result is that several rationales, or bottom lines, operate in nonprofit organizations. Of course, not every nonprofit organization will have two, three, or more such bottom lines; the number will depend on the organization's mission, objectives, task environment, number of significant stakeholders, and structure. Yet management approaches as well as governance structures need to be sensitive to the tendency of nonprofit organizations to have multiple bottom lines and recognize that it may frequently be difficult to judge which ones are more important than others. Such bottom lines are presented by:

- The organization's *mission*, which may not only be ambitious and long-term, but also subject to differing interpretations.
- The frequent *importance of values* and deeply felt convictions held among managers, board members, staff, clients, and other stakeholders.
- The complex *motivational structure* of staff and volunteers with an interplay between altruistic and egotistical goals.
- The often-complex *organizational task environment* in which nonprofit organizations operate, with high degrees of uncertainty (see Chapter 9).
- The interests and needs of *clients and users* who may not be in a position to reveal their preferences (e.g., people with disabilities, children, and older people) nor able to pay prices that cover the cost of service delivery.

In many larger nonprofits, the multiplicity of performance indicators reflects multiple bottom lines and the interests of different stakeholders to monitor and emphasize those performance aspects that are of greatest interest to them. Because these bottom lines are also close to the major normative fault lines of nonprofit operations, we can easily see why the management and governance of nonprofit organizations quickly becomes quite complex.

The missing profit motive and the prominence of substantive missions allow for a great variety of preferences, motivations, and objectives to materialize in nonprofit organizations. As already noted, nonprofits operate in areas that are often "difficult": social services for people with disabilities, the socially excluded, and minorities; hospices and care facilities for frail older people; international humanitarian assistance; advocacy groups; and local community associations. Indeed, as discussed in Chapter 5, the very existence of the nonprofit form is linked to the nature of services they provide and the fields in which they work.

In this context, the "law of nonprofit complexity" refers to the intricacy of managing and governing nonprofit organizations, and states that nonprofit organizations tend to be more complex than business firms of comparable size. In terms of its environment (managing diverse constituencies, stakeholders, and multiple revenue sources including philanthropic donations and grants, fees and charges, and public sector payments such as subsidies and contracts) and its internal components (board, staff, volunteers, members, clients, and users), any nonprofit organization of, for example, 50 employees and 100 volunteers easily surpasses the complexity of managing an equivalent forprofit firm of equal size.

The "law of nonprofit complexity" . . . states that nonprofit organizations tend to be more complex than business firms of comparable size.

Handy (1999) suggested that many voluntary organizations contain three distinct components: mutual support among staff, members, and volunteers, service delivery to third parties, and campaigning or advocacy for a specific cause. These components are weakly coupled and tend to develop their own dynamic and internal culture over time. In fact, we can take Handy's suggestion of a threefold organization one step further and suggest that nonprofit organizations are frequently several organizational components in one. More generally, from a management and governance point of view, a nonprofit organization is a combination of different motivations, standards, challenges, and practices.

From a management and governance point of view, a nonprofit organization is a combination of different motivations, standards, challenges, and practices.

For example, a mid-sized nonprofit organization providing social services at the local level typically has the following components:

- A professional core of managers, including personnel officers, fundraisers, and accountants
- A governing board of experts and community representatives
- A client or user base and their representatives
- A set of relations with foundations and other major donors
- A set of contractual relations with different levels of government
- A set of business contracts
- A volunteer and/or membership component

Each component part or set of stakeholders, while not wholly self-sufficient, puts forward claims on the organization and develops its own culture, routines, and procedures over time. Indeed, Kanter and Summers (1987) suggest that the existence of multiple stakeholder constituencies lies at the core of management and governance dilemmas in many nonprofit organizations.

The key point is that the multiple bottom lines present in nonprofit organizations demand different management models and styles. What is more, the different stakeholder constituencies associated with specific bottom lines are likely to favor, even push for, "their" way of running the organization. The image we gain from this description is that of organizations whose management is subject to "push and pull" among stakeholders.

The multiple bottom lines present in nonprofit organizations demand different management models and styles.

STRATEGIC MANAGEMENT

Strategic management is the process by which organizations develop and determine their long-term vision, direction, programs, and performance. Strategic planning involves various techniques and tools that are to ensure careful formulation, effective and efficient implementation, and evaluation. Strategic management integrates organizational functions and design options into a more cohesive, broader strategy. In most cases, it involves the ability to steer the organization as a whole through strategic change under conditions of complexity and uncertainty. Specifically, strategic management:

Strategic management integrates organizational functions and design options into a more cohesive, broader strategy.

- is inward-looking and encompasses the whole organization (mission, goals, structure, revenue, stakeholders);
- is outward-looking and examines the organization in the context of the larger field or environment for developing strategies for action based on a broader understanding of the organization's position;

- is forward-looking, tries to anticipate the likely conditions in the organizational task environment in the medium to long term, and seeks to identify the major changes that will have to be made if the nonprofit is to pursue its mission effectively in the future.

In essence, strategic management is different from everyday management and standard operations (Figure 10.2). The need for strategic management arises from economic, cultural, legal, political, social, or technological changes, or some combination thereof: most organizations operate in environments that are changing for reasons known or unknown and with uncertain outcomes. This creates a need to understand these changes and their implications for the organization's mission, operations, and accomplishments.

In the business sector, strategic management is used primarily to improve a firm's medium- to long-term profitability; by contrast, in the nonprofit sector, strategic planning is used for (re)formulating a mission and objectives and for achieving them more effectively and efficiently. For example, service-providing nonprofits in the field of healthcare may faces changes in the demographic profile of the patients they treat, or have to adapt to advances in medical research. Advocacy organizations react to changes in the political landscape, and arts organizations to shifts in cultural tastes.

In the nonprofit sector, strategic management is used for (re)formulating a mission and objectives and for achieving them more effectively and efficiently.

Strategic management involves self-examination and reflection, which require the organization to look backward as well as forward and to formulate post hoc as well as ad hoc rationalizations of objectives, programs, and activities. For Mintzberg (1979) and others, the process of strategic planning is as important as its outcome and typically involves nine steps, outlined in Box 10.1.

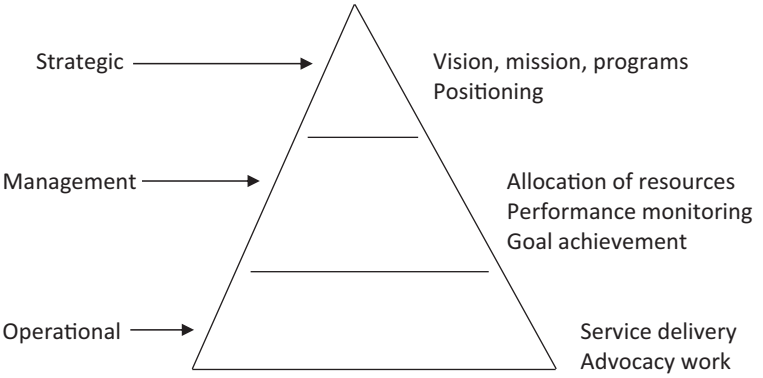


FIGURE 10.2 Management levels

BOX 10.1

Steps of Strategic Planning

Step 1: Getting started and participation

- Formulate a clear mandate and purpose for the process; set feasible goals as well as a realistic timeframe; state agreed-upon outcomes and expectations.
- Involve all major stakeholders; designate focal points in relevant departments and units; involve "champions" to the extent possible.

Step 2: Develop or review the mission of the organization

- Examine whether the organization's vision and mission are still adequate.
- Identify what part of the vision and the mission needs to change and why.

Step 3: Internal scan

- Review the fit between vision, mission, objectives, and organizational structure.
- Examine available human resources and the skill levels and motivations of paid staff and volunteers.
- Examine financial aspects such as assets, liabilities, and projections on costs and revenue.
- Review programs and program alternatives.

Step 4: Environmental and future scan

- Examine organization in context of wider conditions and changes (see PESTEL analysis—politics, economy, society, technology, environment, and legal).
- Conduct stakeholder surveys.
- Conduct organizational field analysis.

Step 5: Analysis

- Combine insights and results from steps 1–4 in an overall assessment; assess strengths, weaknesses, opportunities, and threats.

Step 6: Identifying strategic issues

- Focus on fundamental issues that are relevant to the organization's mission, effectiveness and efficiency, client/user/member profile, stakeholders, financial health, governance and management structure, and organizational design.
- Set priorities and concentrate on these.

Step 7: Strategic development

- For each priority, develop appropriate strategies and actions.

Step 8: Implementation plan

- Formulate timeframe.
- Set goals and specific deliverables.
- Identify and designate focal points for implementation.

Step 9: Further review

Strategic management is about how an organization relates to actual and anticipated change. Hasenfeld (1992) suggests four major action models by which organizations relate to or address change:

Strategic management is about how an organization relates to actual and anticipated change.

- **Proactive action:** the organization actively scans its environment in an attempt to anticipate environmental change.
- **Adaptive action:** the organization becomes aware of environmental change and makes incremental changes to cope with it.
- **Reactive action:** the organization is hit by the implications of unforeseen changes, perhaps thrown into crisis, and changes in response. Attempts to manipulate the environment may follow.
- **Environmentally determined change:** the organization adapts in response to environmental change without any conscious action on the organization's part.

There is no single strategic planning model that applies to all organizations and every situation. The process of strategic planning and the models and tools involved depend on circumstances, type of organization, and field; in many instances, organizations develop their own approach to strategic planning over time and modify models and tools as part of the planning process. The approaches below are illustrative and do not provide an exhaustive inventory of the wealth of management models and tools available.

The process of strategic planning and the models and tools involved depend on circumstances, type of organization, and field.

As explained in Chapter 11 on financing nonprofits, strategic planning is related to but distinct from business plans. While the former is more about mission, objectives, organizational positioning, and design, the latter is more about the resources needed for concrete activities in realizing not only the mission and stated objectives but also any reorganizations or new projects and initiatives.

As we will see next, strategic planning involves a rich array of planning tools, some of which are introduced in Chapter 9 along with organizational performance measures. The purpose of such tools is to help in the gathering, analysis, and interpretation of information. They can be used separately or together and are usually employed at the early stages of the strategic planning process.

Theory of Change

Nonprofits often have aspiring missions and ambitious objectives that need to be linked to actions and expected results. What has been labeled "theory of change" is one way of linking missions, objectives, and activities. Theories of change are essentially a heuristic, a comprehensive description of how and why a desired change is expected to happen given the organization's mission. Specifically, theories of change are about mapping out the connections between the mission and actual activities towards a desired outcome in a logical and ideally measurable way.

Theories of change are about mapping out the connections between the mission and actual activities towards a desired outcome in a logical and ideally measurable way.

Developing a theory of change involves a number of steps, formulated as a series of tasks (Center for Theory of Change, n.d.). These include:

- Listing the key objectives that follow from the organization's mission.
- Identifying the requirements necessary to achieve these objectives.
- Reviewing the basic underlying assumptions linking requirements and proposed activities.
- Stating which activities contribute directly to meeting set objectives and add value to the mission, and why.
- Identifying indicators to measure intermediary and final outputs as well as outcomes for assessing performance and tracking progress.

For example, the mission of a nonprofit advocacy group is to be "the steward of biodiversity" in a suburban community that is undergoing rapid economic development. For a theory of change, the group needs to develop a narrative of how to become an effective "steward of biodiversity" and how best to add value to that mission. Having gone through the five steps above, the group arrived at the following:

- Three key objectives:
  - Limiting land consumption
  - Integrating transport systems
  - Expanding nature preserves

- Necessary requirements:
  - Mapping current biodiversity
  - Obtaining plans for future developments and acquiring know-how on planning alternatives
  - Building the resource base (e.g., fundraising platform, grants)
- Basic underlying assumptions:
  - Local and regional economy stable
  - Local support likely to be found
  - Core leadership in place
- Activities:
  - Information campaign
  - Identification of key stakeholders
  - Systematic lobbying of elected officials and community leaders
  - Preparing and advancing policy briefs and legislative proposals
- Indicators to measure performance and track progress over three-year period:
  - Reduction in land consumption by 5% annually
  - Increase in investment for local transport system by 100%
  - Tripling of acreage under preservation

Theories of change are useful for developing a narrative that stakeholders find convincing. In many cases, this first involves arranging activities in a logical sequence along implicit timelines. This is done through a process called back-casting, as shown in Figure 10.3. Even though the arrows point upwards, the process starts with the outcome (ultimate objective) and works backward. In other words, in the case of a nonprofit agency seeking to serve unemployed at-risk youths, the back-casted theory of change would specify:

- For at-risk youths to find long-term employment at living wages, they must attain the skills needed to cope with their behavior, have marketable skills, and develop appropriate workplace behavior.
- To obtain coping skills, they must know how to get help and learn to deal with their "issues."
- To gain marketable skills and develop appropriate workplace behavior, they must serve and complete their internships.
- To know how to get help and learn to deal with issues, they have to attend peer-to-peer counseling and professional counseling sessions.
- Before attending internships, they have to attend training sessions for workplace behavior and marketable skills, and the agency has to inform and educate potential employers and obtain internship slots.
- And, as the initial requirement, the agency has to develop the appropriate delivery and coordination capacity and engage with relevant stakeholders.

Theories of change are useful for developing a narrative that stakeholders find convincing.

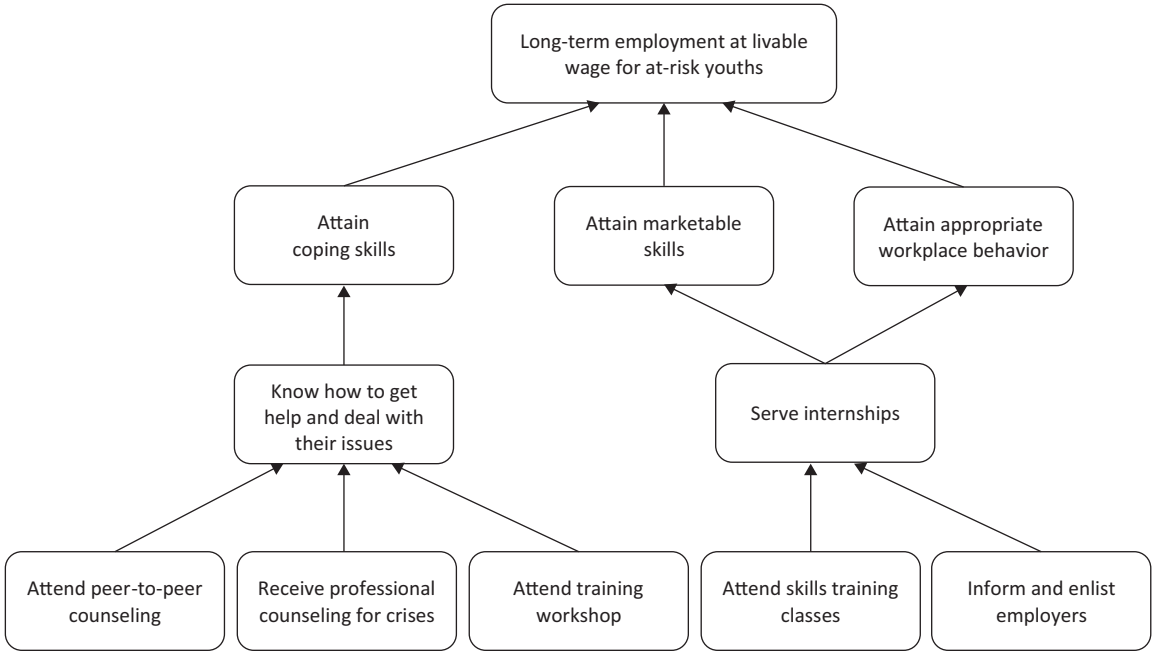


FIGURE 10.3 Theory of change: back-casting approach

Many of the various techniques used for strategic planning (and business plans) include a theory of change, either implicitly (see alignment model later in this chapter) or explicitly (logical framework analysis).

Basic Strategic Planning

A basic strategic planning model is best suited for organizations that are small, with little planning experience and limited resources that can be set aside for planning purposes. Some organizations begin the planning process soon after their establishment to take advantage of initial learning experiences. When the organization is small, planning activities typically involve most members of the board and staff as well as other key stakeholders and are conducted by senior management. The process involves several steps:

1. Identify and revisit the vision and mission statements.
2. Select the goals that follow from the mission statement and prioritize those that the organization must reach if it is to accomplish the mission.
3. Identify specific strategies that must be implemented to reach each prioritized goal and explore synergies across strategies. In newer organizations strategies are likely to change more often than the actual goals.
4. Identify programs and activities for implementing each strategy and specify performance criteria and measures. As in the case of strategies, look for synergies across activities.
5. Monitor and update the plan through ongoing planning and performance monitoring sessions involving board, management, staff, and other stakeholders.

Issue-Based Planning

The issue-based planning approach may not involve the entire organization but focus on particular issues or areas that may require strategic attention and managerial action for medium- to long-term performance and sustainability. While the process may begin with the basic planning model described previously, it may evolve into a more in-depth and concentrated seven-step approach:

1. Conduct a full assessment of the organization using tools such as PESTEL (political, economic, social, technological, environmental, and legal factors; see below) or SWOT (strengths, weaknesses, opportunities, and threats; see below), including financial and other relevant information.
2. Identify and prioritize what emerges as the major issue or issues.
3. Revisit organizational vision and mission, including value statement, in the light of issues identified and assess objectives.
4. Design implementation strategies for each issue, looking for synergies.
5. Establish programs and activities, including performance measures, and assign responsibilities for implementation.

6. Develop an annual operating plan and accompanying budget that can be updated and revised over time for multi-year plans (see the section on business plans in Chapter 11).
7. Monitor plan and conduct annual reviews.

Alignment Model

The alignment model seeks to ensure strong and close alignment between the organization's mission and its available or potential resource base. The basic assumption is that organizational structure, programs, and activities have to reflect both mission and resources. Alignment models are frequently used by organizations experiencing operational inefficiencies or suffering from overreach, overly ambitious plans, or shifts in their resource base. General steps include:

1. Establish a planning group among key stakeholders to revisit the organization's vision and mission and examine them to determine whether objectives, programs, and activities are in line with resources.
2. Identify programs and activities that are not central to the mission and seek to reorganize or reduce them (see discussion of portfolio map and value-return matrix in Chapter 11).
3. Identify programs and activities that are central to the mission and examine their efficiency and effectiveness using the full range of available performance measures.
4. Identify areas that need adjustments and improvements.
5. Identify how these adjustments should be made by designing strategies including programs, activities, and performance measures.
6. Assign responsibilities for implementation and monitor performance.

The alignment model seeks to ensure strong and close alignment between the organization's mission and its available or potential resource base.

Gap Analysis

A gap analysis compares the actual performance of an organization or project and the results achieved with what was initially expected. It is a general method for identifying the causes of and remedies for suboptimal performance and outcomes, be it in terms of misguided strategies, faults in organizational design, lacking skills and capacities, slow processes, or outdated technologies. Its purpose is not only to identify gaps but to seek ways to close the divergence between the current state and the organization's or project's potential.

A gap analysis compares the actual performance of an organization or project and the results achieved with what was initially expected.

A gap analysis typically proceeds in a number of steps:

- Describe the issue at hand, in particular the discrepancy between the current situation and the goals to be achieved. For example, a nonprofit hospital has a high turnover among volunteers and falls short on volunteer recruitment. At this step, the task is to explore and identify the reasons for recruitment and retention problems, and then formulate initial recommendations on how to improve the current situation.
- Revisit the original goals and performance targets to gauge how realistic they are in terms of achievability and sustainability, and under what conditions. The nonprofit hospital may decide to lower expectations in terms of recruitment numbers and adjust performance criteria accordingly, but it might also decide to maintain the targeted retention rate as it is.
- Re-analyze, having revisited goals and performance criteria, the current situation and review those aspects likely to contribute to lower recruitment numbers and higher turnover. What parts of the volunteer management system at the hospital are underperforming; which parts perform according to expectation? For example, volunteer training may be inadequate, leading volunteers to drop out early in the program, or outreach activities to attract potential volunteers may be underfunded.
- Revisit the initial recommendations on how to improve goal achievement and performance. In the case of the nonprofit hospital, the recommendations could be to improve volunteer training to lower dropout rates and to invest more into outreach activities.

Logical Frameworks

Logical frameworks or logframes are a commonly used planning tool providing a structure to help specify the various components and subcomponents of a project and its respective activities (Martinez & Cooper, 2020). They show the connection between activities in terms of inputs, intermediary outputs, final outputs, and outcomes, identifying performance measures for monitoring progress towards set objectives. Logframes were first developed in the context of larger-scale development efforts to assist the US Agency for International Development (USAID) with project planning. It is widely applied by bilateral and multilateral donor agencies as well as larger philanthropic foundations and humanitarian relief and assistance organizations. Several nonprofit organizations, including Catholic Relief Services (Levine, 2007), have commissioned or developed training manuals and guidebooks for developing logframes.

Logframes show the connection between activities in terms of inputs, intermediary outputs, final outputs, and outcomes, identifying performance measures for monitoring progress towards set objectives.

The process starts with an analysis of the problem and potential solution by trying to establish initial cause-and-effect relationships. A problem and solution tree analysis, a more elaborate version of a theory of change, is a useful tool and helps complement an understanding of the nature of the problem at hand with ways to address it. Figures 10.4 and 10.5

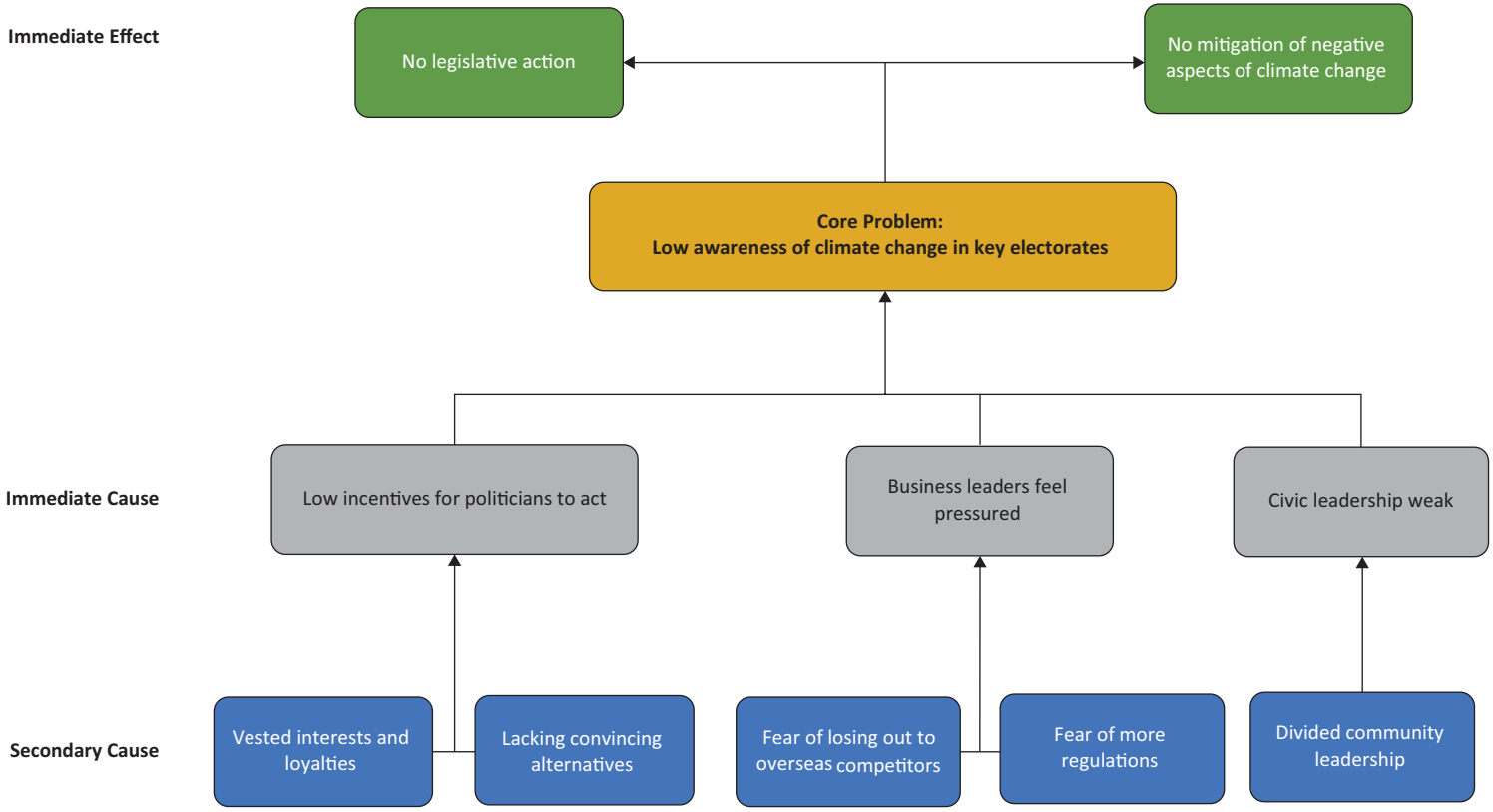


FIGURE 10.4 Sample problem tree for advocacy organization

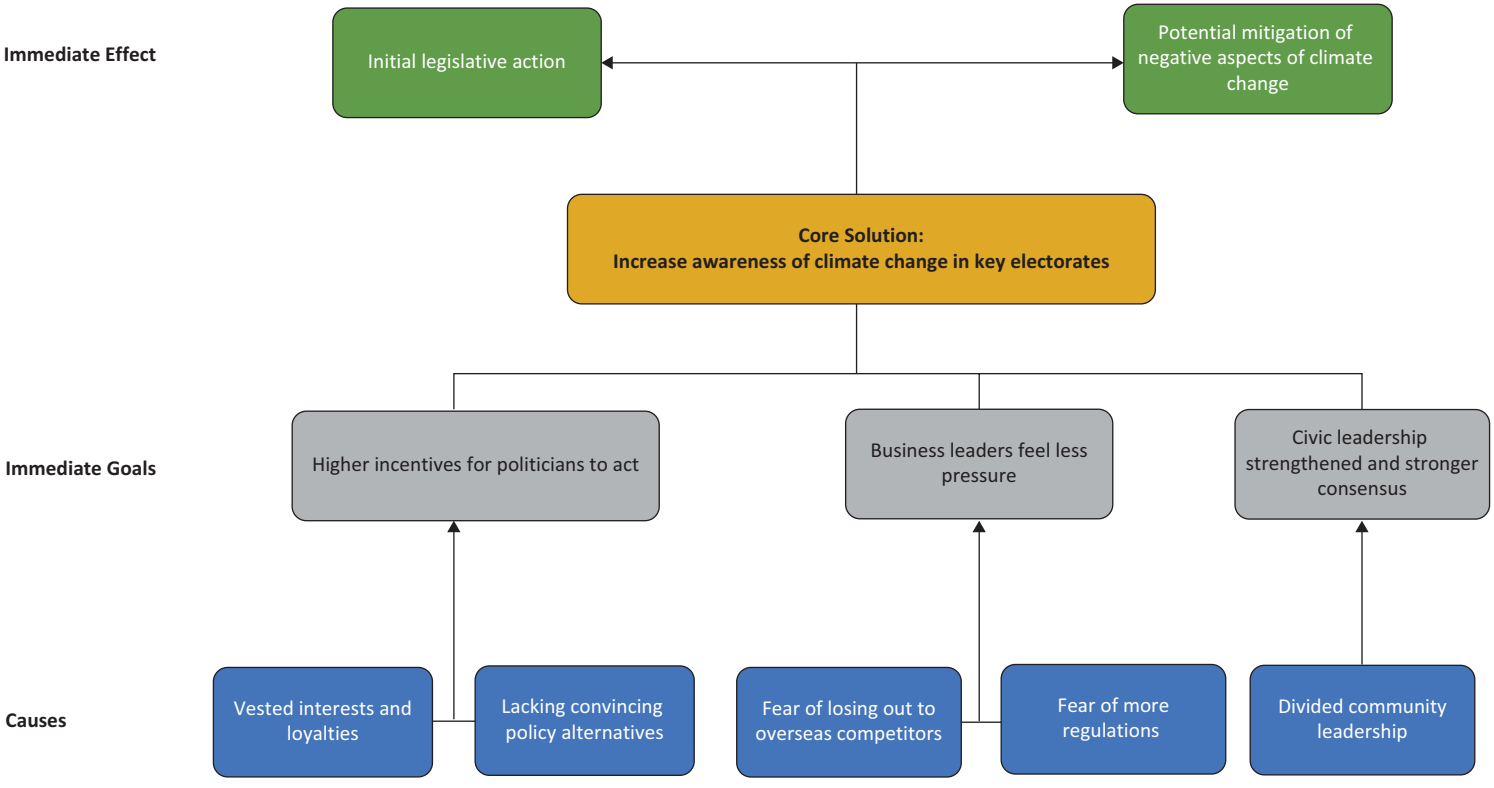


FIGURE 10.5 Sample solution tree for advocacy organization

show simplified problem and solution trees, respectively, for a nonprofit advocacy group seeking to tackle the lacking awareness about climate change among key stakeholders.

Based on the tree analysis, the next step is to focus on cause-and-effect relations by specifying the relationship between inputs needed to produce the desired outcome and the activities that have to be undertaken to achieve certain outputs. Table 10.2 offers the input–output–outcomes relations for a section of the tree analysis depicted in Figures 10.4 and 10.5.

Having identified the links between inputs, outputs, and outcomes in relation to a specific purpose and broader impact of a project, the next task is to attach objectively verifiable indicators, sources and means of verification, and the assumptions involved. Table 10.3 provides a template with questions to guide this task, and Table 10.4 offers an example of a logframe for a nonprofit organization in the field of education trying to improve the performance of grade 5–6 students.

The strength of logframes is that they draw together the key components of a planned project in view of monitoring and evaluating intended and actual results. The main weakness is a certain rigidity in project development and management.

Scenario Planning

Scenarios pose alternative futures for the organization, based on assumptions about current trends and events. Usually best-case scenarios are contrasted with worst-case scenarios and scenarios somewhere in between to explore the range of organizational options in mapping out possible futures. Specifically, scenario planning seeks to identify the drivers of change and the threats and opportunities they might pose for the organization, as well as critical success factors involved (Wilkinson & Kupers, 2014). The main benefit of constructing scenarios is to promote learning across the organization's stakeholders, sensitize board members and management to plausible, though perhaps unlikely, futures, and develop strategies better able to handle most eventualities.

Scenario planning seeks to identify the drivers of change and the threats and opportunities they might pose for the organization, as well as critical success factors involved.

Scenarios should be engaging, interesting, challenging, credible, and logically consistent with the known facts. Guidelines for those engaging in scenario planning sessions should outline:

- Time horizon for the scenarios
- Geographical scope of the scenarios
- Organizational units, programs, activities, and stakeholders to be involved and addressed
- Objectives of scenario sessions and key issues to be explored
- Definition and deadline for deliverables

TABLE 10.2 Input–output–outcome relations

Inputs	*Activities*	*Outputs*	*Outcomes/ impacts*
Resources needed for activities	*Activities required for outputs*	*Outputs necessary for project outcomes and impact*	*Changes or benefits resulting from the project*
For example: • Funds to cover expenditures for: o Staff o Equipment o Travel o Communication • Expertise • Data about information needs	For example: • Staff training • Building website • Designing outreach plan • Launching communication campaign • Conducting awareness building workshops • Holding briefing sessions	For example: • Number of congressional or parliamentary staff trained • Web pages produced • Audiences reached • Briefings held	For example: • Increased staff skills • Better knowledge • Greater awareness • More informed debate • Better legislation

Building scenarios involves a number of steps. A first step would be a brainstorming session to identify different "drivers of change" (funding shifts, technology and socio-economic factors, etc.), explore the possible impact each driver might have, estimate the likelihood of events, i.e., establish what is very likely to happen and should therefore be included in all scenarios, and what is less likely, and finally, identify and focus on critical uncertainties, i.e., drivers whose impact and force may be unknown or difficult to fathom. In a second step, the participants should explore the interrelationships between the drivers, how mutually exclusive and exhaustive possible scenarios are, and whether each scenario constitutes a different version of the future, and, on that basis, develop engaging and succinct descriptions of each scenario.

In a series of workshops or meetings, participants then explore the range of options around each scenario and how to translate these into a strategic plan using one of the techniques above. In the long term, scenario planning will help chart the course of the organization and through learning processes contribute to organizational knowledge and expertise. In the short term, scenario planning can serve as an effective early-warning system for the organization by gauging levels of preparedness for contingent events.

For example, a nonprofit resident theater dedicated to classical plays, facing financial difficulties, decides to engage in a scenario planning exercise in order to explore different options for its future. In a series of brainstorming meetings with its artistic and operating staff as well as selected stakeholders, two main issues ("drivers") emerge: should the theater widen its artistic repertoire to include popular plays that appeal to a larger audience; and should it remain a resident theater or become a touring company?

TABLE 10.3 Project relations, indicators, and assumptions

Project description		*Objectively verifiable indicators of achievement*	*Sources and means of verification*	*Assumptions*
Outcomes: Broader impact	What is the overall broader impact to which the project will contribute?	What are the key indicators related to the overall goal or impact?	What are the sources of data and other information for these indicators?	What are the external factors necessary to sustain the project´s objectives in the long term?
Outcomes: Specific objectives and purpose	What is the more immediate outcome at the end of the project?	Which indicators show that the objective has been achieved, or track performance as the project advances?	What are the sources of data and other information to measure performance?	Which external and internal factors are necessary to achieve that objective?
Outputs	What deliverables are project activities to achieve?	What are the indicators to measure performance in producing outputs?	What are the sources of data and other information for these output indicators?	What external and internal factors are required?
Activities	What inputs are required? What are the key activities to be carried out and in what sequence in order to produce the expected outputs?	What indicators track inputs and activities?	What are the sources of data and other information for these input and activities indicators?	What preconditions must be in place for the project to begin?

Figure 10.6 shows the four possible futures that emerge from the scenario exercise. In each case, the assumptions underlying the scenario have to be spelled out and checked in terms of feasibility and sustainability. Depending on what scenario the group decides to select as its future, the theater might have a changed mission and set of objectives, different stakeholders, and a new mix of revenue sources.

TABLE 10.4 Example of logframe analysis for project planning

	Project summary	*Indicators*	*Means of verification*	*Risks/ assumptions*
Goal	10% increase in the number of grades 5–6 primary students continuing on to high school within 3 years	Percentage of grades 5–6 primary students continuing on to high school	Comparison of primary and high school enrollment records	N/A
Outcome	Improve reading proficiency among children in grades 5–6 by 20% within 3 years	Reading proficiency among children in grades 5–6	Six-monthly reading proficiency tests using the national assessment tool	Improved reading proficiency provides self-confidence required to stay in school
Outputs	1. 500 grades 5–6 students with low reading proficiency complete a reading summer camp	Number of students completing a reading summer camp	Summer camp attendance records	Children apply what they learned in the summer camp
	2. 500 parents of children in grades 5–6 with low reading proficiency help their children read at home	Number of parents helping their children to read at home	Survey of parents conducted at the end of each summer camp	Children are interested in reading with their parents
Activities	1. Run five reading summer camps, each with 100 grades 5–6 students who have low reading proficiency	Number of summer camps run	Summer camp records	Parents of children with low reading proficiency are interested in them attending the camps
	2. Distribute 500 "Reading at Home" kits to parents of children attending summer camps	Number of kits distributed	Kit distribution records	Parents are interested in and able to use the kits at home

PESTEL Analysis

The PESTEL analysis (previously referred to as PEST or STEP analysis; also found under the PESTLE acronym) can be part of both scenario planning and other strategic approaches. It forces the organization to examine its internal and external environment

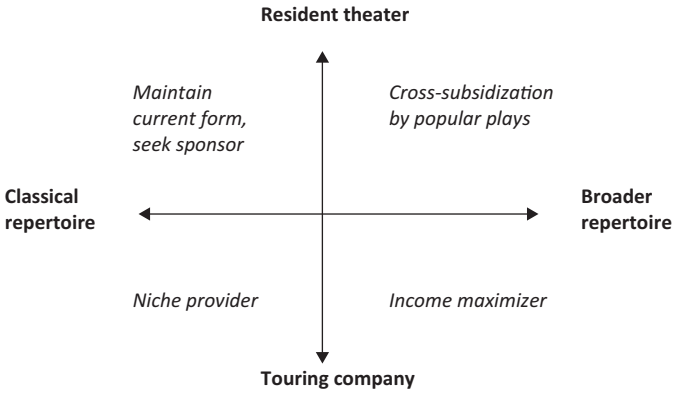


FIGURE 10.6 Scenarios for nonprofit theater

and search for relevant political, economic, social, technological, environmental, and legal factors:

> The PESTEL analysis ... forces the organization to examine its internal and external environment.

- **Political** factors include aspects of the wider policy and regulatory environment in which the organization operates but also the role of key stakeholders. How stable is the overall political environment? Are budget policies shifting, and if so, to what effect? What is on the political agenda of supervisory agencies, umbrella groups, and professional and business associations in the field? What are actual and potential political cleavages on the board? Are there other internal political issues and developments?
- **Economic** factors refer to the long-term prospects for the economy as a whole and in the field in which the organization operates and include a host of issues such as interest rates, unemployment, income levels, and demand- and supply-side aspects, from changing needs for services and expected foundation payouts to the degree of competition and cost developments.
- **Socio-cultural** factors include socio-demographic changes such as population growth and migration patterns, gender issues, and value and attitudinal changes that might affect the organization.
- **Technological** factors refer to technological developments and innovations in the broad sense. Will they affect the organization by creating new needs, changing its mode of operation, or creating shifts in costs and revenue? How will technological advances change communication patterns within the organization and among stakeholders?
- **Environmental** factors include aspects of the natural environment such as climate change, pollution, zoning laws, and health risks.

- **Legal** factors are about current and new laws being proposed that might influence how the organization operates (e.g., fiscal aspects, labor law, welfare reform, laws and regulations specific to nonprofit organizations).

Stakeholder Analysis

Multiple stakeholders are a signature characteristic of nonprofit organizations. A stakeholder analysis allows management to determine how to relate to different stakeholders and thereby aids in management's task of adding value to the organization's mission. The organization gathers and analyzes opinions and assessments from a range of perspectives, which typically includes all the major organizational stakeholders (board members, staff, volunteers, members, users, funders, etc.) but also representatives of other nonprofits, government, and the business community that might be relevant in a particular planning context.

A stakeholder analysis allows management to determine how to relate to different stakeholders and thereby aids in management's task of adding value to the organization's mission.

The stakeholder analysis matrix is the first step. As Table 10.5 shows, the matrix prompts management (and other participants in the process) to identify and list stakeholders and assess them in terms of their level of interest in and influence on the organization. The example in Table 10.5 is about a volunteer unit in a large nonprofit nursing home. Of course, there are more stakeholders than the ones listed, and each would be ranked along these two dimensions. Next are the specific expectations stakeholders have and contributions they can make (or problems they might pose). Finally, the analyst would suggest appropriate strategies and activities that might address or engage each type of stakeholder.

Stakeholder mapping is useful in this regard. It groups stakeholders into four clusters—players, subjects, context-setters, and crowd—according to their respective levels of interest and influence or power. This sorting process yields the power–interest configuration for the organization's stakeholders, as shown in Table 10.6. Note that each group can include internal as well as external stakeholders, public and private organizations, individuals such as powerful donors or community leaders, but also amorphous collectives like the homeless or the poor.

For each stakeholder group, the task is to come up with a targeted strategy. Most important are, of course, the players, and here the challenge is to engage them closely while trying to influence their expectations and actions such that they enable rather than block the organization. Subjects are very often clients, target groups, and beneficiaries of nonprofits, and they (odd as it might seem) tend to carry less voice than the players. For the other two groups of stakeholders, the task is to monitor their interests and expectations and keep them informed.

TABLE 10.5 Stakeholder analysis matrix for volunteer management unit at nonprofit nursing home

Stakeholder	*Interest* (Low, Medium, High)	*Influence* (Low, Medium, High)	*What is important to the stakeholder?*	*How could the stakeholder add value?*	*How could the stakeholder interfere?*	*Ways and means of engaging the stakeholder*
Nurses and Midwives Union	High	High	Maintaining working conditions for nurses	Union to agree to proposed reforms in how volunteers are to be involved	Blocking reform	Monthly roundtable discussions
Volunteer representative	High	Medium	Valuing volunteer contributions	Agree to work with union	Lower motivation, higher dropout rates	Information and feedback meetings every quarter
Insurance corporations	Low	High	Keeping payments low	Recognize value of volunteer input in patient care	Add administrative burden, e.g., more reporting	Engage board members
Etc.						

TABLE 10.6 Stakeholder mapping

	High power/influence	*Low power/influence*
High interest	*The Players* Those with both interest and power to influence the organization and to effect change Strategy: engage closely and influence actively	*The Subjects* Those with interest but little power to influence the organization and to effect change Strategy: keep satisfied by meeting expectations
Low interest	*The Context-Setters* Those with power to influence the organization and to effect change but little interest in the organization Strategy: monitor for changes in interest and expectations, also as potential partners	*The Crowd* Those with neither interest nor power to influence the organization and to effect change Strategy: keep informed

Complementing stakeholder analysis with data on organizational performance is particularly important in complex planning processes. Often stakeholder analysis uses surveys to collect information about the awareness and expectations stakeholders have of the organization or a particular project. However, such surveys carry substantive and methodological challenges including concerns about the social desirability of answers and the potential effect of reinforcing rather than challenging existing "myths" about the organization. Therefore, to correct for biases introduced by subjective opinions and selection effects, it is useful to combine the results of a stakeholder survey with financial and other data, including SWOT analysis.

SWOT Analysis

SWOT analysis is a very effective way of identifying the strengths and weaknesses as well as opportunities and threats an organization faces. Using the SWOT framework helps an organization direct its attention and focus its activities into areas with greater opportunities while being aware of its limitations and external threats:

Using the SWOT framework helps an organization direct its attention and focus its activities into areas with greater opportunities while being aware of its limitations and external threats.

- Strengths and weaknesses are largely internal factors over which the board and management have some influence.
- Opportunities and threats are external factors over which the organization has less influence, and sometimes none.

A SWOT analysis involves a series of direct questions developed in the context of the planning issue or problem at hand. These questions are answered either individually or as part of a group process. Answers are collected, analyzed, and interpreted and fed into the various planning models discussed above. The summary results of a hypothetical SWOT analysis are displayed in Table 10.7.

Strengths:

- What are the advantages of the organization relative to others in the field?
- What is it that the organization does well, better than others?
- What relevant resources are in place and can be relied on?
- What is the organization known for?
- What aspects of organizational structure, governance, and accountability work well?
- What are the strengths of the organizational human resource base, membership base, etc.?

TABLE 10.7 Example of SWOT analysis of hypothetical nonprofit

STRENGTHS	OPPORTUNITIES
• Mission clarity • Good mission–organization fit • Programmatic strengths • Staff (highly skilled, motivated) • Location is good • Size of organization is right • Revenue structure sufficient • Asset base solid • Participation and community links good	• New policies in our favor • Diversification possible • New board members can be brought in • Volunteer potential significant • Other organizations want to collaborate • Government support growing • Business community wants to help • International contacts
WEAKNESSES	**THREATS**
• Some program weaknesses • Recent staff problems (skills, motivation) • Stakeholder conflicts • Inexperience • Board weak, not engaged • Outreach limited • Track record mixed	• Additional resources hard to get • High competition • Community not interested • New policies not in our favor • Other organizations are ahead of us • Government suspicious • Funders attracted elsewhere • Possible conflicts on board • Outreach difficulties

Weaknesses:

- What are the disadvantages of the organization relative to others in the field?
- What is it that the organization does badly, worse than others?
- What relevant resources are volatile and cannot be relied on?
- What aspects of organizational structure, governance, and accountability are problematic?
- What are the weaknesses of the organizational human resource base, membership base, etc.?
- What policies, patterns, etc. should be avoided?

Opportunities:

- Where are the good opportunities for the organization (geographically, programmatically, resources-wise)?
- What are some of the trends that could become or open up opportunities (changes in technology, demand, supply, etc.)?
- Are there changes in government policies?
- Are there changes in social patterns, values, population profiles, lifestyle, etc.?
- Are there events that could open up opportunities?

Threats:

- What are the obstacles that are most likely to emerge?
- Are there old and new competitors that could pose a threat?
- Are supply and demand changes taking place that could threaten the organization?
- What technological changes could pose a threat?
- Are there debt or cash flow problems?
- Could changes in public policy affect the organization negatively?

CONCLUSION

A value base, multiple stakeholders, and diverse revenue sources are the signature characteristics of the nonprofit form. The challenge for management, then, is to develop models that establish some coherence and identity between mission, objectives, activities, and outcomes. Successful nonprofit organizations require a proactive management style and must be aware of the inherent tensions between a value orientation and efficiency demands on the one hand and the push and pull among various stakeholders on the other.

The notion of nonprofits as coalitions of multiple stakeholders contains the possibility that some stakeholders may over time push for a more business-like or market-driven character of the organization. As a result, some parts of the organization (e.g., service delivery, marketing, fundraising) can become dominant, increasing the likelihood of conflicts over mission and the importance of values underlying the organization. At this point, management must consider whether the nonprofit form is still appropriate given prevailing demand and supply conditions. This is the case in the US healthcare field, where many hospitals and clinics are migrating to the forprofit sector, having lost their distinct value base in the pursuit of economic returns. Likewise, organizations may decide to protect their core mission from commercial pressures and find a form and structures suitable for that purpose. These and other challenges involved in generating and managing the resources needed to pursue an organization's mission are discussed in greater depth in Chapter 11.

REVIEW QUESTIONS

What are some of the main challenges of nonprofit management?
How do nonprofit managers address the issue of multiple stakeholders?
Why do nonprofit organizations engage in strategic planning?

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CHAPTER 11

Financing Nonprofit Organizations

Introducing different business models and revenue-generating strategies, this chapter offers an overview of how and for what nonprofit organizations use financial resources to achieve their objectives. The chapter reviews revenue strategies, including fundraising, and concludes with an introduction to financial management and business plan development.

LEARNING OBJECTIVES

Like any other organization, nonprofits need financial resources in order to serve their mission and accomplish their objectives. How do nonprofits allocate and manage resources, and how do they differ from forprofits and public agencies in that regard? After considering this chapter, the reader should:

- be able to identify the principal revenue sources for nonprofit organizations;
- be able to understand the various strategies available for mobilizing and allocating financial resources;
- be familiar with the basic financial relationships in nonprofit organizations;
- be able to understand the notion and purpose of a business plan.

Some of the key terms introduced in this chapter are:

- Balance sheet
- Benefits theory
- Break-even analysis
- Budgets (line-item, performance, zero-based, program)
- Business plan
- Cash flow statement
- Cross-subsidization
- Crowdfunding
- Income and expense statement

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- Preferred vs. non-preferred goods
- Product portfolio map
- Social impact bonds
- Starvation cycle
- Unrelated business income
- Value-return matrix

INTRODUCTION

Broadly speaking, resources can be of three basic kinds: *monetary* like grants, donations, or revenue from sales and fees for services; *in-kind* such as donated food or materials, and *labor*, both paid and volunteer. In this chapter, we focus on the first two, leaving the discussion of labor, i.e., human resources, for Chapter 13.

Unlike forprofit firms, which rely on earned income primarily, and unlike public agencies, which are funded primarily through taxation, most nonprofits have a mix of different revenue streams. As we will see, nonprofits make use of various revenue sources—from grants and fees for services rendered to fundraising and endowment-building.

REVENUE

Nonprofit organizations, forprofit firms, and public agencies alike face a basic problem: how to get the resources to achieve the organization's mission and objectives. The revenue structure of nonprofit organizations is more complex than that of forprofits and public agencies, and nonprofits typically have a mix of different revenue sources that can be classified by

- Origin (public sector, market, organization, individual)
- Kind (monetary vs. in-kind, e.g., time, goods, services)
- Intent (transfers such as gifts and grants versus exchanges of goods and services against money, and other transactions)
- Formality (contract-based exchanges, recording transfers and transactions, informal donation)
- Source (donations, user fees, sale of ancillary goods and services)
- Restrictions (restricted versus unrestricted funds)

The revenue structure of nonprofit organizations is more complex than that of forprofits and public agencies.

Major Revenue Sources

The classification by origin or source (Chapter 4) is the most commonly used one.

Public sector payments include:

- Grants and contracts, i.e., direct contributions by the government in support of specific activities and programs.
- Statutory transfers, i.e., contributions by the government, as mandated by law, to provide general support to an organization in carrying out its public programs.
- Third-party payments, i.e., indirect government payments reimbursing an organization for services rendered to individuals (e.g., health insurance, vouchers, or payments for daycare).

Private giving includes:

- Grants from grant-making, operating, and community foundations.
- Corporate donations, including giving directly by businesses or by corporate foundations.
- Individual donations and bequests, and contributions through "federated fundraising" campaigns.

Earned income, or **private fees and charges ("program fees")**, essentially include four types of business or commercial income:

- Fees for service, i.e., charges that clients of an agency pay for the services that the agency provides (e.g., fees for daycare or healthcare, tuition for educational services).
- Dues, i.e., charges levied on the members of an organization as a condition of membership, which are not normally considered charges for particular services.
- Proceeds from business ventures and activities, which includes income from the sale of products or services, and income from forprofit subsidiaries.
- Investment income, i.e., the income a nonprofit earns on its capital assets or other investments, such as real estate.

Social finance mechanisms include a range of newer approaches to leverage resources for nonprofits:

- Crowdfunding.
- Social impact bonds and other "pay for success" financing schemes.

Complex interactions exist among the different sources, and increases in some may accompany reductions in others. For example, nonprofit organizations that seek to increase the share of service fees and membership dues may experience a drop in donations as members may regard the organization as less needy or worthy of voluntary contributions above the fees and dues already paid. Against the background of the economic and organizational theories presented earlier, there are four key issues nonprofit revenue strategies need to deal with:

- How can nonprofits optimize revenue when they do not wish to maximize profit?
- How can they set a price when no market prices exist?
- How can resource dependencies be avoided?
- How should they deal with negative interactions among revenue sources?

Complex interactions exist among the different sources, and increases in some may accompany reductions in others.

Benefits Theory

Chapter 5 introduces the concept of public and private goods and Young's (2017) normative theory of nonprofit finance, based on the notion of different benefits that nonprofits produce and that can be associated with certain revenue streams. This views nonprofit revenues generally as transactional, with financial and other support being exchanged for the goods and services provided. As illustrated in Figure 11.1, Young

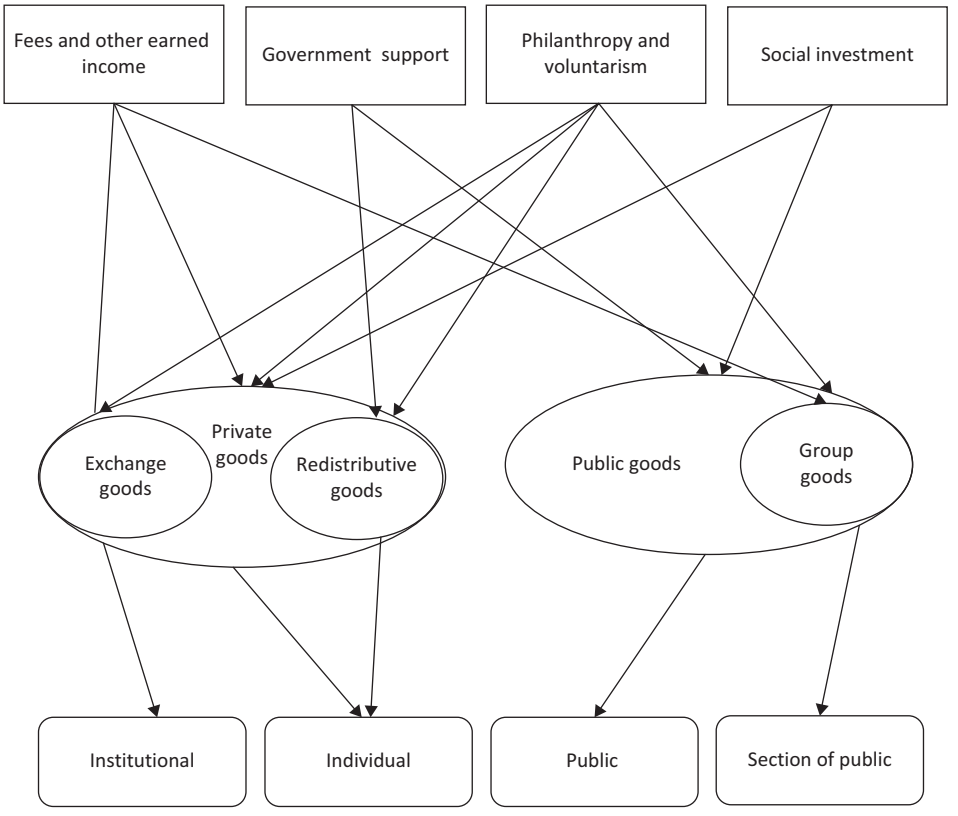


FIGURE 11.1 Benefits theory interactions between revenue sources, goods, and beneficiaries

Source: Based on Young, 2017.

differentiates public and private goods, with redistributive goods and exchange goods as subgroups of private goods and group goods as a subgroup of public goods. Whereas individuals generally pay fees to receive private goods from nonprofits, private redistributive goods are targeted at consumers unable to pay. Private donors or governments may still see a benefit from having those consumers served and thus decide to support the nonprofits serving those populations. Exchange goods are another type of private good that derives from benefits that partnering organizations receive from nonprofits outside of their core service provision, such as advertising or marketing arrangements with corporate sponsors.

Governments support nonprofits primarily in exchange for their contribution to public goods production. However, public goods demanded by minority groups may not be subsidized by government. These "group goods" are of a public nature, but still require private philanthropy and volunteer resources to be produced in addition to fees the interested minority members are willing to pay.

Nonprofits typically offer combinations of these goods. A nonprofit hospital, for example, treats individual patients in exchange for fees or health insurance reimbursement (private good), offers free charity care to the indigent (redistributive good), and contributes to public health (public good). Hospitals may also partner with medical schools in training students or with pharmaceutical companies in testing new drugs or procedures (exchange goods).

Ideally, the revenue mix should approximate the mix of goods and services provided, leading to more diverse revenue streams when nonprofits offer multiple products and benefits and more concentrated ones when they do not. How well the revenue mix matches the mix of goods depends, however, on the organizational capacity, that is the skills, technology, and administrative capabilities, that an organization needs to muster to fully develop the various revenue options. As Young (2017) points out, raising funds to produce goods and benefits invariably involves costs, which make it more difficult especially for smaller and newer nonprofits to afford sophisticated fundraising operations to generate philanthropic support, the business know-how to develop earned income, or the procurement know-how to compete for government contracts.

How well the revenue mix matches the mix of goods depends . . . on the organizational capacity . . . that an organization needs to muster to fully develop the various revenue options.

Young's benefits theory is based on insights from other efforts to understand the quasi-commercial aspects of nonprofit operations and nonprofits' provision of multiple products, some of which may be clearly mission-related, others less so.

Nonprofits as Multi-Product Organizations

Weisbrod (1998, pp. 48–9) suggests that nonprofits are multi-product organizations that can produce three types of goods or services:

- **A preferred collective good**, which is the organization's true output and closely related to its mission. This good is difficult to sell in private markets because of the free-rider problem and difficulties in establishing some form of market price. Examples include basic research, treating environmental pollution, or helping the poor.
- **A preferred private good**, which is mission-related but can be sold in private markets; nonprofits may decide to make it available to some clients or users independent of their ability to pay. Examples of such preferred private goods are education, healthcare, and social services.
- **A non-preferred private good**, which is less mission-related and produced primarily for the purpose of generating revenue for the preferred collective and private goods. Examples include restaurants in museums, charity shops, or lotteries.

From economic theory it follows that nonprofits will face significant problems in raising revenue for collective goods, use a variety of mechanisms to generate revenue from preferred private goods, and make opportunistic use of non-preferred private goods. In trying to cover the deficit for preferred collective and private goods, nonprofits can follow two basic strategies, either exclusively or in combination (James & Rose-Ackerman, 1986):

1. Nonprofits can turn to government and ask for grants for core funding, specific cost subsidies, preferential tax treatment, reimbursement schemes, and similar contract regimes (see Chapter 16).
2. Nonprofits can become multi-product firms, seek efficiencies through product bundling, and engage in cross-subsidization (James, 1986), whereby revenue raised from the production of non-preferred private goods subsidizes preferred goods, as suggested in Figure 11.2. The distinction between related and unrelated business income is essential in this respect.

Unrelated and Related Business Income

For multi-product nonprofits, the choice among different forms of cross-subsidization depends on how close the products and services are to each other and to the mission or charitable purpose of the organization. If the non-preferred private good is very different from the organization's charitable purpose, the revenue achieved through its production may, depending on tax regulations, be classified as *unrelated business income* (UBI), and therefore taxable. For example, nonprofit art museums often operate museum shops that sell merchandise not drawing on their collection and use profits to subsidize art exhibitions, but the two activities are unrelated to each other, and the selling of general merchandise

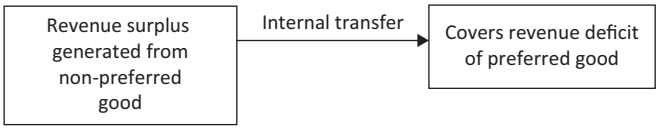


FIGURE 11.2 Cross-subsidization

is unrelated to the museum's educational purpose (Toepler, 2006). Consequently, such transfers of funds from one business activity to another would be taxable revenue.

The tax laws in many countries include provisions on income unrelated to the charitable or tax-exempt purpose of nonprofit organizations. The US Internal Revenue Service (IRS) defines UBI as income (i) generated from trade or business activities that (ii) are not substantially related to the exempt purpose and (iii) are carried out regularly. The concept was introduced in law in 1950 as a direct result of New York University Law School alumni donating the Mueller Macaroni company to the school in 1948 as a way for the school to generate ongoing income. Other pasta makers raised objections, arguing that if Mueller was thus considered nonprofit and would not have to pay corporate income taxes, Mueller could reduce its prices and thus undercut the competition. The rationale behind the UBI rules therefore is to eliminate "unfair competition" with forprofit businesses and subject nonprofits to the same tax basis as commercial competitors.

The rationale behind the UBI rules is . . . to eliminate "unfair competition" with . . . commercial competitors.

In order to qualify for or maintain tax exemption, the guiding rule is that the unrelated business activities of 501(c)(3)s must not constitute a "substantial" portion of a nonprofit's overall activities. To complicate matters, the IRS does not provide an exact measure of "substantial," leaving interpretations largely to court rulings (Hopkins, 2017). In essence, however, the activities of nonprofits should not be like those of commercial entities. Rather than considering the use of income (for charitable purposes), the focus of the US unrelated business income tax (UBIT) regulations is on the source of income.

Internationally, tax regimes differ on whether the use, or source, of income principle is employed, although the tax laws in some countries establish guidelines on the overall extent of UBI relative to total revenue. Tax authorities that do impose taxes on nonprofit organizations engaged in unrelated business activities generally do so at rates similar to corporate income taxes. In the UK, for example, charities can carry out commercial activities only below a certain threshold, known as the "small trading exemption," and are still largely prohibited from directly conducting commercial activity except through a forprofit subsidiary with the profits transferred to the charity tax free (HM Revenue and Customs, 2021).

In Canada, regulations regarding social enterprises and commercial activity by charities have been less supportive compared to the US and the UK (Phillips, 2011). Rather than taxed as income, as in other countries, unrelated business activities are entirely prohibited so that an organization may only engage in activities related directly to its charitable purpose. However, given the increasing popularity of social enterprises and decreases in government support, there is mounting pressure within Canada to reexamine the existing rules and regulatory framework regarding social enterprises and nonprofit business activities.

The regulatory and legal framework concerning the nonprofit sector in Australia has been described as "extensive, complex, and incoherent" (Lyons & Dalton, 2011).

Regulations to target not-for-profit tax concessions to prevent their use for unrelated businesses operated for the purpose of raising money have been an active policy issue for years, while unrelated business income remains untaxed (Murray, 2020).

More generally, at least in the US regulatory system, if the non-preferred private good is close to the charitable purpose and supportive of the production of the preferred private good, then revenues achieved are classified as UBI, but may still go untaxed. An art museum that operates an in-house cafeteria or bookstore would be an example, as would be thrift stores that sell donated goods or are run by volunteers. Non-preferred activities may increase revenue and consolidate organizational finances, but at the same time they can have negative consequences:

- They may distract management from its central mission; so much attention may be spent on seeking revenue for cross-subsidization that mission-related activities suffer.
- They may cause goal displacement, and in seeking financial stability, nonprofits become income-maximizers by trying to generate as much funding as possible without proper regard to its efficient use.
- They may deter donors in the sense that greater reliance on commercial activities may have detrimental effects on giving.
- They may deter some stakeholders who regard themselves as the guardians of the organization's true mission and view cross-subsidization as an unnecessary diversion.

Product Diversification

Yet cross-subsidization is not the only reason why nonprofits produce multiple services. Oster (1995) suggests that, while many nonprofits begin as single-issue or single-product firms, they develop more diversified product mixes over time. For example, colleges that began as undergraduate institutions later added graduate education, PhD, research, and extension programs; museums add education and outreach services; international relief agencies incorporate developmental activities to help prevent future humanitarian disasters; and environmental protection groups expand to include employment opportunities for local populations in an effort to improve natural resource management.

While many nonprofits begin as single-issue or single-product firms, they develop more diversified product mixes over time.

Another reason for product diversification is to take advantage of scope economies and bundle products along shared cost items. By tapping into different revenue sources and co-producing and co-distributing goods, nonprofits capture efficiencies. For example, a college may offer undergraduate education as its core service, but run an extension program on the weekends to reach out to the local adult population, or offer custom training to corporate clients. Teaching staff, lecture halls, registration facilities, and the like are already

available and can be used cost-effectively. Moreover, the undergraduate student pool and extension student pool do not compete with each other. As a result, the college may be able to cross-subsidize across service lines *and* achieve considerable scope economies.

A third reason for product diversification is the need to adjust programs and activities to the organizational mission. Demands for the organization's services can change, lessen the mission–activity fit, and make it necessary to seek programs that are more in line with the organizational purpose. For example, the YMCA evolved from a network of faith-based hostels to multi-service community organizations offering courses, gym facilities, and more. In this sense, product diversification is a vehicle by which nonprofit organizations update their mission and mission–activity fit. Yet how are organizations to decide which programs to add and which ones to discontinue or reorganize?

Product diversification is a vehicle by which nonprofit organizations update their mission and mission–activity fit.

Choosing Viable Programs: Product Portfolio Map and Value-Return Matrix

The product portfolio map (Figure 11.3) and the value-return matrix (Table 11.1) are two complementary tools that help management make decisions about program activities. The product portfolio map has two dimensions for each program (Oster, 1995, pp. 92–3):

- **Contribution to organizational mission**: How much does a particular activity contribute to mission achievement and how close is the link to the core mission? The actual indicators are case-specific but would include quantitative measures such as clients served, number of members, and participation rates, and also qualitative judgments by management, board members, clients, and outside experts.
- **Contribution to economic viability**: How much does a particular activity or program contribute to revenue relative to its cost, and what past investments and future expenditures are involved? In measuring this dimension, the wealth of accounting information and financial indicators can be employed.

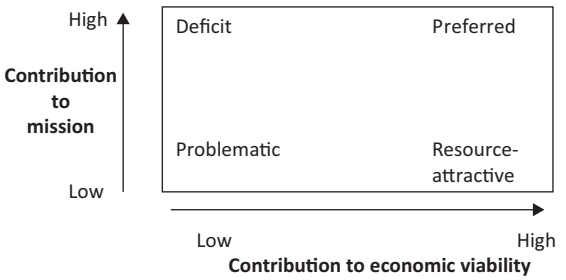


FIGURE 11.3 Portfolio map

TABLE 11.1 Value-return matrix

		Social value of program	
		Low	*High*
Financial return/ resource effectiveness of program	Low	PRUNE *"No redeeming features"*	COOPERATE *"Common good"*
	High	SUSTAIN *"Necessary evil"*	BUILD *"Best of all worlds"*

The primary purpose of portfolio maps is to help the organization find a balance between mission fit and economic viability across different programs and service lines. Activities in the upper right-hand corner of Figure 11.3 are the most attractive both from a mission perspective and in terms of economic viability. These would be the preferred private goods in Weisbrod's terms; they are also the most difficult ones to establish and to maintain, as they are likely to attract competitors. At the other extreme are "problematic" programs that rank low in terms of both mission fit and economic contributions. The organization should exit such programs. In other words, programs around non-preferred private goods and services should be added or discontinued depending on their contributions to revenue and efficiency. Programs in the upper left-hand corner face budget problems, and their operations can only be maintained in the medium to long term if counterbalanced by "resource-attractive" programs in the lower right-hand corner (Oster, 1995).

The primary purpose of portfolio maps is to help the organization find a balance between mission fit and economic viability across different programs and service lines.

The value-return matrix in Table 11.1 offers a similar approach, based on two dimensions:

- **The social value** the board attaches to the program.
- **The financial return and resource effectiveness** management can achieve with the activities the program entails.

The matrix suggests that programs with high financial return and high social value for the organization's mission should be built upon and benefit from cross-subsidization and scope economies; and that programs with high financial returns and low mission values should be judged by their net contribution to other, preferred activities only, even as a "necessary evil." Programs with low financial returns and low mission values should be cut back, if not discontinued. Finally, for programs that rank high in terms of value but low when it comes to financial contribution, the organization may decide to lobby government

for subsidies, apply to foundations for grants to increase revenue, approach corporations to underwrite some of the costs, or seek cooperation with other nonprofits in an effort to reduce costs.

Revenue Options and Allocation Mechanisms

Nonprofits use a broader range of allocation mechanisms relative to market firms for supporting the production of preferred and non-preferred goods; unlike forprofit firms, prices are not the primary allocation mechanism. Of course, forprofits make use of different price models and mechanisms as well, from auctions to temporal price discrimination and sliding fee scales, but the key point is that nonprofits use various allocation mechanisms primarily to further their mission, whereas forprofits use them to increase revenue.

Nonprofits use various allocation mechanisms primarily to further their mission, whereas forprofits use them to increase revenue.

Beyond this basic difference, Steinberg and Weisbrod (1998) ask if nonprofits differ in their use of specific allocation mechanisms from the behavior of forprofit firms, and they extend the question to explore the use of nonprice mechanisms such as waiting lists or product dilution. As shown in Table 11.2, nonprofits and forprofits do indeed use price and nonprice allocations in different ways and for different purposes.

Commercialization

One of the dominant forces shaping the nonprofit sector at the present time in a number of countries, but perhaps most clearly so in the US, is the commercialization or marketization of nonprofit services (Maier et al., 2016). While commercialization as such is nothing new, it is the scale of efforts to generate earned income that seems to have grown significantly throughout the 1990s and into the twenty-first century. Young (2003) suggests that integrating market impulses into nonprofit operations can improve the organization's revenue situation, yet it also comes with consequences that are not completely clear. Young et al. (2012) examine this marketization process within the nonprofit sector and assess both the advantages and the disadvantages it has brought with it.

While commercialization as such is nothing new, it is the scale of efforts to generate earned income that seems to have grown significantly.

Sources of market pressures. There are several pressures propelling nonprofit organizations towards greater engagement with the market system, including changes in government financial support toward ever more commercial-type arrangements, slow growth in private giving, increased service demands from widely disparate population groups, growing

TABLE 11.2 Nonprofit and forprofit use of allocation mechanisms

Allocation	*Example*	*Implication*
A. Price	(Nonprofits only)	For nonprofits and forprofits
Uniform pricing (nonprofits and forprofits charge same price for the same good or service)	Non-preferred goods, e.g., museum shop and cafeteria; all unrelated business income	*Nonprofits* can become forprofits in disguise; less efficient production relative to forprofits due to low mission status of non-preferred good *Forprofits* can claim unfair competition due to nonprofit tax treatment
Sliding-scale fees, interpersonal price discrimination (consumers are charged different fees based on characteristics such as age, income, disability, etc.)	Daycare; dues to professional associations; rent in social housing; tuition	Up to marginal cost level, nonprofits and forprofits may be similar in establishing sliding fees, however: *Nonprofits*: more likely to price-discriminate at lowest price below marginal cost, and offer some services for free *Forprofits*: more likely to price-discriminate at or above marginal cost, and unlikely to offer services for free
Voluntary price discrimination (eligibility for particular prices cannot be determined by seller; consumers are asked to assess their eligibility and select a price)	Supporting member dues; suggested admission fees to museum; volunteering, individual donations	*Nonprofits*: used extensively; tendencies to free-riding avoided, in part, based on value commitment or offset by appeals *Forprofits*: rarely used, invites free-riding
Inter-temporal price discrimination (consumers are charged different fees at some times, or when they commit to purchase)	Free entrance days in museums or zoos; free concerts for children to maintain future membership of classical music societies	*Nonprofits*: more likely to use this mechanism to reach those unable to pay or to reach new and potential users *Forprofits*: use "early-bird" to attract customers at prices at or below marginal cost for low demand period; use top-up fees for high demand periods
Internal, self-selected eligibility requirements (organizations set their own criteria on whom to serve and at what price)	Admissions to university; religious organizations; sheltered workshops	*Nonprofits*: set criteria around inability to pay or lack of consumer alternatives; eligibility mission-driven *Forprofits*: use price discrimination to attract consumer surplus on ability to pay (yield management by airlines to sell excess capacity seats)

(*continued*)

TABLE 11.2 Cont.

Allocation	*Example*	*Implication*
Externally imposed eligibility requirements (organizations set their own criteria on whom to serve and at what price)	Government policy; tax regulations; contract requirements and stipulations	*Nonprofits*: less likely to take advantage of information asymmetries in third-party situations; construe requirements broadly for unprofitable clients; mellow negotiators *Forprofits*: tougher negotiators; more likely to take advantage of information asymmetries; closer to "letter of the contract" for "difficult," "less lucrative" clients
B. Non-price		
Non-cash payments (users supplement cash payment with labor and other nonmonetary contributions)	Habitat for Humanity ("sweat equity" invested in low-income housing by future owner); self-help groups	*Nonprofits*: use labor as payment for service to signal commitment to cause and regard it as part of mission *Forprofits*: prefer cash income, and regard non-cash payments as less efficient
Waiting lists (either on first-come, first-serve basis, or use of priority criteria)	Nursing homes and hospices; daycare; schools; universities; hospitals	*Nonprofits*: more likely to use waiting list than expand capacity; seen as a sign of reputation and quality *Forprofits*: more likely to regard waiting lists as inefficient and seek to expand capacity to meet demand
Quality dilution (reducing the quality of a product or service)	Soup kitchens; homes for the elderly; hospices; food pantries	*Nonprofits*: excess capacity to avoid dilution in cases of demand increases *Forprofits*: more likely to dilute in case of contract failure
Opportunistic quality-sharing (organization changes cost ratios to improve efficiency)	Worker training programs; students–faculty ratio at universities	*Nonprofits*: less likely to engage in opportunistic quality sharing *Forprofits*: more likely to be opportunistic
Product bundling (organizations combine two or more related or unrelated products)	Homeless shelter (shelter plus counseling); schools (teaching plus uniform, food, etc.); religion	*Nonprofits*: very likely to bundle products, and do so around mission and for achieving scope economies *Forprofits*: bundle goods for scope economies and greater profit
Involving target population (organization tries to recruit its actual and potential client/member base into production and distribution)	User involvement in social services; self-help groups; "friends of . . ." organizations; participatory organizations	*Nonprofits*: more likely to seek out and include target population for purposes of value formation, and long-term commitment and loyalty *Forprofits*: less likely to engage in such practices; prefer branding to create consumer loyalty

Source: Based on Steinberg and Weisbrod, 1998, p. 69.

competition from forprofits and among nonprofit organizations, increased accountability demands, and the increasing presence of potential corporate partners.

Growth of fee income. In response, many more nonprofit organizations seek to increase market-based income streams, in particular fee-for-service charges. While most fee income comes from mission-related services, such as tuition for educational institutions and box office receipts for theaters, nonprofits are increasingly deriving revenue from the sale of ancillary goods and services, such as merchandise in museum gift shops and facility rentals by religious congregations.

Incorporation of the market culture. With greater reliance on related and unrelated business income comes frequently a greater incorporation of market culture into the nonprofit field. Contrary to past practices, nonprofits no longer hesitate to engage in advertising or competitive practices and have become increasingly entrepreneurial in their outreach and managerial in their planning. Related to this is the emergence of social enterprise in the form of a greater willingness to use market means to pursue nonprofit objectives—e.g., through work integration social enterprises that operate various kinds of businesses, such as restaurants or bakeries, through which they train disadvantaged populations excluded from the regular labor market (Cooney et al., 2016). Here the market is not simply a source of revenue but a preferred vehicle through which to achieve a social purpose. Finally, the business community itself has found that in exchange for donations, employee volunteer programs, event sponsorship, executive "loans," and equipment, nonprofits can add respectability and trust in reaching out to new market segments, recruiting employees, and public goodwill (see Chapter 15 on nonprofit collaboration with business).

Young et al. (2012) argue that the nonprofit sector has gained many advantages from this closer association with the market: a greater resource base, more diversified revenue, and greater flexibility. At the same time, market pressures can undermine the value base of nonprofits (Eikenberry & Kluver, 2004), leading to mission drift, and also threaten the sector's public support, i.e., reduce donations and political goodwill.

Social Finance

As nonprofits increasingly intermingle business and social logics, legislation and regulations have emerged recently to provide for new financing mechanisms. Among these are social impact bonds or "pay for success" mechanisms, originally piloted in the UK and the US, as well as crowdfunding. These mechanisms essentially finance social impact through private investments.

Social Impact Bonds

In social impact bond (SIB) schemes, the investor, whether philanthropic or commercial, seeking investment return, finances the service provision of a nonprofit intermediary up front. A government agency simultaneously agrees to pay the investor an agreed-upon sum if the nonprofit's service delivery generates pre-determined, quantifiable social progress or impact. These arrangements are also called "pay for success" financing because the government agency is not obligated to pay if the nonprofit fails to deliver the expected

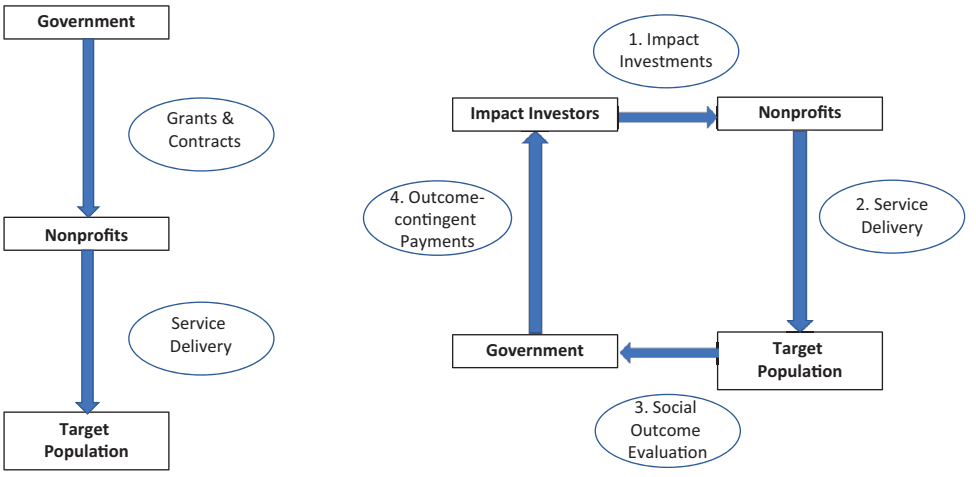


FIGURE 11.4 Traditional government support vs. social impact bonds

Source: Han, Chen, and Toepler, 2020.

results; the risk is borne by the investor. To encourage investors to take this risk, the government payment includes not only a reimbursement of costs, but also a pre-specified annual return over the SIB's lifetime, similar to the interest rate of a financial bond. The bond analogy is nevertheless flawed because SIB returns are contingent (on success) rather than guaranteed as with financial bonds, which also do not involve multilateral contractual obligations (Han et al., 2020). SIBs are considerably more complex than traditional government support for nonprofits through grants, contracts, or statutory subsidies, as shown in Figure 11.4.

> [SIB] arrangements are also called "pay for success" financing because the government agency is not obligated to pay if the nonprofit fails to deliver the expected results.

Some community activists have argued that this is just the latest incarnation of the commercialization trend in which the public sector is shirking its responsibilities of providing for the public good. Indeed, these financing schemes can be seen in the context of new public management (Chapter 10) with its focus on market incentives and measurement in assessing and implementing government support and spending on nonprofits and social services (Albertson et al., 2020).

Crowdfunding

Crowdfunding is also a newer market-based social finance mechanism, one that originated with commercial applications and has since gained traction with social and nonprofit

causes as well (Han et al., 2020; Salido-Andres et al., 2021). There are three major forms of crowdfunding, not all entirely suitable for nonprofit revenue-generating purposes. Some crowdfunding platforms are equity-based, typically requiring substantial investments and offering investors ownership shares in successful ventures. While these could potentially benefit some social enterprises or hybrid organizations in forprofit form, it is principally for commercial rather than social purposes. On debt-based platforms, like the microloan site Kiva, users make loans to beneficiaries which are expected to be paid back. A third type are rewards-based platforms like Kickstarter, where, in exchange for their financial contribution, supporters may receive rewards, ranging from trinkets, to access to products, to "warm glow" where nonprofits essentially seek donations for their work.

As a still emerging tool of social finance, enthusiasm about crowdfunding is great, and the belief in the potential of the crowd is substantial. Early on, however, crowdfunding is still far from being a panacea for the financial woes of nonprofits. Despite the hype and quick growth, estimates of the overall size of the crowdfunding market place its US-based volume at under $20 billion per year in the 2010s (Han et al., 2020). Even if all of it were devoted to social causes, it would only account for a very small fraction of the available philanthropic resources (see Chapter 4).

Fundraising

Even though the great majority of nonprofit revenue is either through earned income or government grants and contracts, private giving remains an important source, contributing about 13% of total revenue in the US (see Chapter 4) and about 12% cross-nationally (Salamon et al., 2004). In the US, most of the more than $471 billion in philanthropic giving in 2020 came from individuals (69%), with foundations (19%), corporations (4%), and bequests (9%) providing the rest (Giving USA, 2021).

Fundraising has become an important aspect of private giving as a nonprofit revenue source, fueled in great measure by the professionalization of fundraisers (Hodgkinson et al., 2002) and, more recently, the convenience, potential reach, and effectiveness of internet-based fundraising campaigns compared to traditional techniques (Bhati & McDonnell, 2020; McNutt, 2020). Many larger nonprofits maintain fundraisers on staff, and smaller ones hire fundraising firms.

Fundraising Process

While surplus from earned income can be used for cross-subsidization of public and quasi-public goods that nonprofit organizations provide, they must still rely on the generosity and contribution of donors to support those. As such, fundraising is an essential component of nonprofit management and deserves as much attention as program services receive. Fogal (2010, p. 505) argues that managers should "integrate fundraising into an organization's life." Using Henry Russo's "Three Stages of Fundraising Development" grid, Fogal (2010) illustrates the evolution of a nonprofit's fundraising program (Table 11.3). While highly stylized, it provides a good illustration of what nonprofits should strive for.

TABLE 11.3 Three stages of fundraising development

Stage	*1. Formative*	*2. Normative*	*3. Integrative*
Who	Vendor	Facilitator	Strategist
What	Product	Relationships	Growth partnerships
Skills	Selling	Soliciting	Building and maintaining relationships
Result	Making sales	Relationships with donors	Assured organizational growth

Source: Fogal, 2010, p. 506.

Fundraising is an essential component of nonprofit management and deserves as much attention as program services receive.

Organizations that embark on a fundraising campaign for the first time begin in the formative stage using "guerrilla"-style techniques such as direct mail or telephone solicitation with the purpose of "selling" the organization's mission and services to potential donors. The emphasis is on generating income, and the organization views fundraising as a "necessary evil."

As organizations become more sophisticated with fundraising, they enter the normative phase in which potential donors are viewed as part of the organization's extended family. As such, fundraising focuses on donors that have some direct or indirect connection or established relationship with the organization (clients, alumni, audience, patients, volunteers, workers, etc.).

The final stage is the integrative phase in which fundraising is focused on the philosophy or mission of the organization and donors are regarded as "central to the building of a human community that achieves a common goal" (Fogal, 2010, p. 507). Thus, every member of the organization, from volunteers to the board of directors, should engage in fundraising by building strong and sustaining relationships.

In order to move the organization to and maintain it in the integrative stage, fundraising should also be viewed as a management process. This involves at least five activities: analysis, planning, execution, control, and evaluation. Questions that should be addressed at each stage include:

Fundraising should also be viewed as a management process.

Analysis:

- Is the organization ready for fundraising?
- Are constituents and gift markets well defined and responsive?
- Are internal resources adequate to meet the costs of fundraising?

Planning:

- How should the case for support be articulated?
- How many gifts in what amount are needed? From whom?
- How should donor prospects be solicited? By whom?
- How much money should be invested to accomplish fundraising objectives?

Execution:

- What should I, as the fundraising executive, do to ensure that everyone involved in our fundraising is successful on our behalf?

Control:

- Do the information systems enable fundraising staff to implement the plan?

Evaluation:

- What factors enabled us to meet (or prevented us from meeting) our objectives?

Table 11.4 summarizes each step of the fundraising management process.

Donors and Motivation

The focus of fundraising strategies differs from organization to organization. While most nonprofits raise funds from a mix of institutional and individual donors, some target specific donor types more heavily than others. Advocacy and policy-focused organizations gear their fundraising often towards grant-making foundations. Nonprofits with national or international presence can develop cause-related marketing or other sponsorship arrangements with large corporations. Prominent educational and cultural institutions have the capacity to offer complex planned giving vehicles to major individual donors for consideration in their estate planning.

As shown earlier, individual giving accounts for the largest share of philanthropic support, which many nonprofits have to solicit from small individual donors. Donors have various internal motivations for giving and also respond to external incentives (Chapter 6). Based on an extensive literature review, Bekkers and Wiepking (2011) suggest eight mechanisms that influence giving and that fundraising strategies need to keep in mind

TABLE 11.4 Fundraising management grid

Fundraising management tasks	*Organizational dimensions*		
	Departmental	*Organizational*	*External*
Analysis	Fundraising history/ gift range chart Gift vehicle productivity Data systems Office space Staff resources	Communicating the case for support	Market needs and social needs Constituencies and gift markets Volunteer resources Feasibility study
Planning	Fundraising budget Gift range chart Gift market identification Gift vehicle selection Timelines	Fundraising goals Internal case statement Gift vehicles and donor markets Expressing the case for support Public information	Leadership training Gift solicitation: to whom, by whom, how much, when Gift incentives
Execution	Communication: letters, phone Staff relationships and tasks	Marketing fundraising internally Staff relationships Staff solicitation	Expressing the case for support Volunteer and donor relationships Donor engagement and solicitation Public information
Control	Gift processing Gift acknowledgment Gift records Gift reports Fundraising costs	Gift reports	Volunteer recognition Donor recognition Timelines Major donor prospect system
Evaluation	Gift vehicles Fundraising budget Staff performance	Effectiveness of programs being supported	Gift markets Volunteer leaders Effectiveness of the case for support

Source: Based on Fogal, 2010, p. 514.

(Box 11.1). The first mechanism is awareness of needs. Donors respond to needs that nonprofits address and that they become aware of. Awareness can come from personal experience, such as friends or family suffering from a medical condition, or from media coverage, such as news of natural or man-made disasters occurring somewhere else. To tap into need

awareness, fundraisers still have to do "the ask." Solicitation, the second mechanism, is therefore crucial to spur donors into action. "Having been asked" is traditionally one of the most frequently given reasons for giving. A third mechanism is cost–benefit considerations that donors factor into their decision-making. The cost side of the equation is influenced by tax incentives that are available to the donor. Since deductible donations contain a tax subsidy in form of the tax share that the donor would have to pay anyway, higher tax rates mean that the donor's "own" share is less than the face value of the donation. On the benefit side, donors reap social and psychological benefits, but may also receive tangible perks in exchange for their donations, ranging from small trinkets to dinners, performance tickets, and so on.

BOX 11.1

Eight Mechanisms Affecting Individual Giving

1. Awareness of needs
2. Solicitation
3. Costs and benefits
4. Altruism
5. Reputation
6. Psychological benefits
7. Values
8. Efficacy

Source: Bekkers and Wiepking, 2011.

Altruism, as the fourth mechanism, is empathic behavior of donors wanting to do good for its own sake. Without concern for material benefits or exchanges, altruistic donors care about the organization's mission or its beneficiaries. A donor's reputation among their peers is a fifth mechanism. Social pressure and peer group approval of charitable actions drive giving behavior of some donors more than pure altruism does. Listing donors in programs, reports, or newsletters is one way for nonprofits to harness this motivation to give. Beyond social benefits, donors also respond to psychological ones, the sixth mechanism. Giving can help satisfy donors' needs for esteem and self-actualization, improve self-image, alleviate any feelings of guilt, express gratitude for one's own material well-being, or just experience a warm glow from doing the right, moral thing. The latter suggests the importance of values, the seventh mechanism. Much giving is religiously motivated, but donors also express other prosocial values through their giving, such as humanitarianism, solidarity, or

social justice. A final mechanism relates to the efficacy of the donation. Donors here look for indications of impact and the efficient uses of their support, often scrutinized through the calculation of financial ratios, as discussed below.

Evolution and Trends

Charitable fundraising has undergone significant changes over the past three decades. Before the technological revolution of the 1990s, fundraising solicitations of small donors were slow and very expensive. Nonprofits relied primarily on direct mail or phone solicitations. Fundraisers had to collect contact information for donors, rent mailing lists to expand their own, have letters and brochures printed, and have envelopes stuffed and mailed using the postal service. The principal alternative to sending letters was to hire call centers or commercial solicitors to call known donors or cold-call prospects by phone to make a pitch for donations.

Though most of these techniques continue to be used, the advent of email and Web 2.0 changed fundraising fundamentally. Email solicitation proved to be highly effective at a mere fraction of the cost of direct mail; organizational websites were an easy and convenient way for donors to find information about charities and to make donations. Social media then opened up additional avenues for nonprofits to engage donors and prospective contributors interactively and use social networks to cast wider nets. Technological change significantly changed the face of small donor fundraising, making it faster, cheaper, and considerably more effective, within the space of only a few years.

Technological change significantly changed the face of small donor fundraising, making it faster, cheaper, and considerably more effective, within the space of only a few years.

As discussed earlier, crowdfunding holds considerable promise as a potential breakthrough in terms of developing much needed new philanthropic revenues for chronically underfunded nonprofit organizations. After all, crowdfunding seems in many ways to be the continuation of fundraising by other means. In both cases, large numbers of prospective supporters "in the crowd" are brought in contact with the nonprofit organization and its programs in hopes of raising funds in typically small tranches. While crowdfunding also requires marketing and social media support, it requires less active solicitation of donors and prospects than traditional fundraising and is also not restricted to prospects for which contact information is known already. Moreover, it is a low-cost/low-risk tool that is as easily accessible to established nonprofits as it is to new charities that do not yet have sufficient resources to launch a sophisticated fundraising program. After direct mail and phone solicitations (Fundraising 1.0), and email and interactive web and social media presence (Fundraising 2.0), crowdfunding has therefore the potential to develop into the next iteration (Fundraising 3.0), although the volume is not nearly there yet.

FINANCIAL MANAGEMENT

Nonprofits, like all other organizations, have to manage their finances and put in place a system that keeps track of financial aspects. Financial management is needed for governance and accountability reasons (see Chapter 16): management has to report to the board on the organization's financial status, and the board reports to the fiscal authorities by filing tax returns, to funders by submitting project reports, or to the general public by publishing an annual report. In the US, many nonprofit organizations required to submit Form 990 to the IRS have to file this annual tax declaration after the end of each fiscal year. In the UK, charities submit annual statements to the Charity Commission, and in Germany to the local tax office.

In addition to its use for external and internal accountability, financial management is needed as a management tool in planning and decision-making and for monitoring performance and everyday operations (Anthony & Young, 2003). Indeed, strategic planning, performance, and finance are closely related: in particular for larger nonprofits, they are part of a larger information management system that includes, in addition to financial aspects, information on mission accomplishments, efficiency and effectiveness, personnel (paid staff, volunteers), as well as member, client, and user-related data.

In addition to its use for external and internal accountability, financial management is needed as a management tool in planning and decision-making and for monitoring performance and everyday operations.

Basic Financial Relationships

Financial reporting standards and fiscal requirements vary by country as well as by the state and local laws in place for nonprofit organizations. They are also different depending on the size and purpose of the organization, the field in which it operates, and its revenue sources. For example, in the US, nonprofits with less than $50,000 of annual turnover are not required to submit a full Form 990 to the IRS, and foundations have greater fiscal reporting requirements than 501(c)(3) organizations, and the latter more than religious congregations. Organizations operating in the healthcare or education field have stricter and more complex reporting requirements (to sometimes multiple supervisory agencies) than nonprofits in the field of culture. Organizations receiving government grants tend to have more complex and time-consuming financial reporting requirements than do organizations relying primarily on individual contributions or foundation grants.

There are two basic kinds of bookkeeping: small organizations in particular simply record when a cash transaction takes place, either as expenditure or as revenue. In contrast to this "cash accounting" method, the "accrual" method factors in future obligations and sets "accounts payable" apart from "accounts receivable," which together offer a more realistic view of the organization's overall financial situation. However, the financial system of a nonprofit organization includes more than expenditures

and revenue: there are assets, loans, investments, depreciation, and many other kinds of flows that affect its financial situation and are, therefore, of interest to the board and management.

While it is useful to think of the finances of a nonprofit organization as a more or less continuous flow of internal and external transactions and transfers, there are four essential components to financial management: the balance sheet, the income and expense (profit and loss) statement, cash flow, and budget (Anthony & Young, 2003; Bowman, 2011).

There are four essential components to financial management: the balance sheet, the income and expense (profit and loss) statement, cash flow, and budget.

The **balance sheet**, also known as the statement of financial position, provides an overview of the financial state of the nonprofit organization on a given date, typically the end of the fiscal year. It includes three major components: assets (what the organization owns and is owed), liabilities (what it owes and is obligated to pay), and the balance in terms of surplus or deficit of assets over liabilities (Figure 11.5). Current assets refer to the fiscal year in question and include cash, accounts receivable for services rendered, prepaid items, or supplies in stock. Long-term assets span more than one fiscal year, and refer to investment, property, equipment, and the like. Current liabilities include wages, salaries, and accounts payable, among other cost items, whereas long-term liabilities are debt and other future payment obligations.

Whereas the balance sheet refers to the financial state of a nonprofit on a given date, the **income and expense statement**, also known as the operating statement, shows the performance over a given period, usually the last fiscal year. In essence, it refers to the organization's operating expenditures and revenues. Expenditures include wages and salaries, including social security charges and other employment-related benefits, and program-related and common costs such as utility charges or rent. Revenue covers items such as

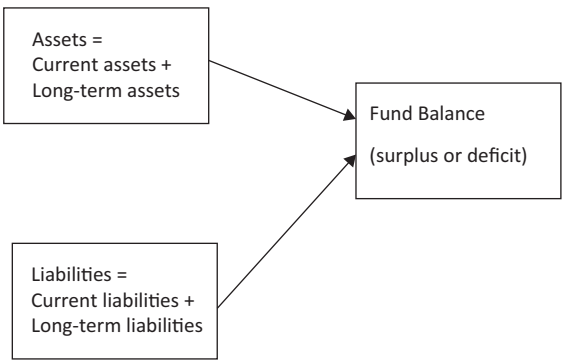


FIGURE 11.5 The balance sheet

admission fees, membership fees, other fees and charges for services, grants, sales, gifts, and royalties.

The **cash flow statement** offers a summary of the cash movements in the organization and indicates its liquidity or readiness to operate as a financial entity. Clearly, a nonprofit with no cash in hand may find it difficult to operate its programs, and a nonprofit with too much cash may use its assets inefficiently. The cash flow statement reports the change in the cash balance over a period, typically the fiscal year, but many larger organizations prefer more frequent statements. It is useful to think of the cash flow balance as the result of two major flows: inflows and outflows.

Inflows include cash:

- generated by the nonprofit by pursuing its charitable purposes and related and unrelated business activities (minus expenditures);
- supplied by donors in the form of gifts and grants (minus grant-seeking and fundraising expenditures);
- supplied by lenders such as banks;
- realized through divestment and asset disposal.

Outflows include:

- investments in assets and acquisitions;
- interest payments;
- reserve funds.

Figure 11.6 shows the basic financial relationships in a generic nonprofit organization. There are three major activity blocks: capital outlays, referring to the organization's net fixed assets such as real estate, vehicles, or equipment that are put to use; revenue with the various revenue sources and associated costs; and total operating costs, i.e., what the organization has to spend to operate, including wages, benefits, and other expenditures.

Next to these activity blocks are two balance blocks, the income and expense statement that balances revenues and expenditures, and the balance sheet with assets and liability statements, and an equity component that factors in the operating surplus or deficit. Finally, this leads to the cash flow block, which relates operating surplus or deficit to fixed assets and other cash flow items.

Budgets

Budgets are different from balance sheets and cash flow statements. They are comprehensive financial work plans covering the organization as a whole, but also specific projects or programs, over a specified period. Budgets are instruments for:

Budgets . . . are comprehensive financial work plans covering the organization as a whole, but also specific projects or programs, over a specified period.

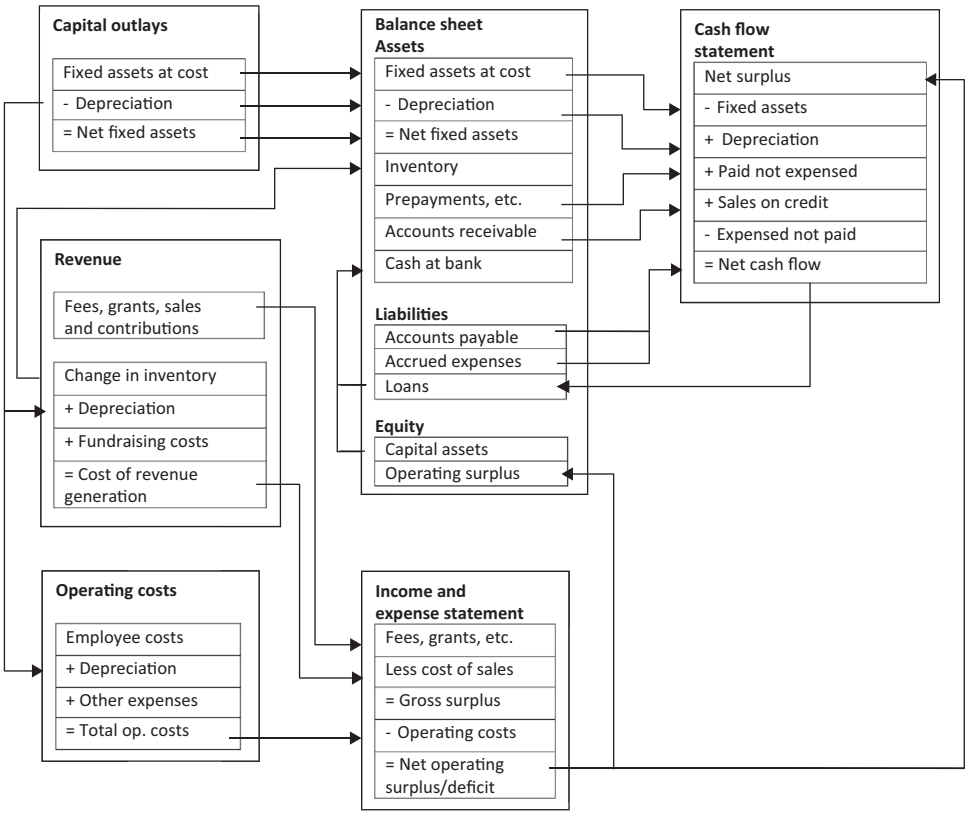


FIGURE 11.6 Basic financial relationships in nonprofit organizations

- Planning—setting goals, priorities, strategies, and coordination. A budget puts plans into an expenditure framework and identifies what activities will take place and at what level.
- Political influence—showing competing scenarios and attempting to influence policy. A budget can help expose underlying assumptions and their implications.
- Social and economic allocation—for granting and denying privileges, changing cost items and funding levels, affecting the growth and capacity of an organization and the community it serves.
- Legal matters—monetary expression of entitlements and fiscal responsibilities such as government payments; they are also tools for accountability and transparency.

There are many different types of budgets or budget approaches, but they share several common line items:

- **Staff or employee-related costs**
  - Direct: salaries, wages, overtime, bonuses, payroll taxes
  - Benefits: termination, pension, allowances, medical, accident and life insurance
  - Other: recruitment, relocation, legal, training, etc.

- **Non-staff items (other than personnel)**
  - Materials, supplies
  - Transportation, travel
  - Communication
  - Bank fees, bookkeeping, payroll services
  - Insurance, legal
  - Rent
  - Utilities
  - Maintenance, repairs
  - Dues

A very common type of budget for nonprofit organizations is the **line-item budget** (Lam & Beatty, 2020). The primary objective of line-item budgets is to account for expenditures, very much along the items listed above. Line-item budgets are used for financial and fiscal reporting, for accountability purposes, and, from a managerial perspective, for calculating units of inputs for staff hours and materials used. By contrast, **performance budgets** are less used for reporting purposes but primarily for estimating the minimum inputs needed to achieve a desired standard of output. Thus in addition to input items, a performance budget requires specified output units. The emphasis in a performance budget is on efficiency such as input/output ratios and other performance measures.

Both line-item and performance budgeting are incremental in the sense that the organization makes use of past cost behavior to estimate future cost behavior. In a sense, the last year's budget becomes the blueprint for next year's budget. Such path-dependent budgeting can create cost increases, as some items are not explicitly examined. To counteract such tendencies, some organizations use **zero-based budgets**, which require that all line items be reviewed and approved every year, with no assumptions made as to the increments of previous base budgets.

Program budgeting takes a different starting point and begins by listing the organization's core programs based on their mission relevance. Each program is then budgeted separately, either using line-item or performance budgets, even if they share common inputs and cost centers. This assumes no scope economies among programs, as the intent is to estimate the stand-alone costs of each program separately and the cost advantages that can be achieved by joint production, i.e., running multiple programs in support of the organization's mission. In a second step, then, these cost links and commonalities are estimated and used to build a cross-program budget.

Break-Even Analysis

Nonprofits have a variety of cost types (Box 11.2), and when developing a budget, it is important to understand the cost and revenue structure of the proposed project, program, or organization. Break-even analysis is a popular planning tool for exploring the financial viability of proposed activities. The break-even point is defined as that level of activity where total revenues equal total expenditures. At that level, the nonprofit will neither realize a surplus nor incur an operating loss.

BOX 11.2

Cost Types

Major cost types relevant for nonprofits are:

- Fixed costs: invariant with scale of operation, numbers produced, served, etc.
- Variable costs: vary with scale of operation and numbers produced, served, etc.
- Semi-variable or step-wise fixed costs: costs that go up in larger increments, not continuously at margin.
- Direct costs: relating to a specific project or activity.
- Indirect costs: relating to group or set of projects and activities.
- Total costs: sum of direct and indirect costs, or fixed and variable costs.
- Overhead costs: indirect costs cutting across set of related activities.
- Common or joined indirect costs: two programs or activities share identical cost factor (scope economies).
- Marginal costs: the increment in variable cost due to production of one additional unit of a good or service.
- Average cost: unit cost per output, total costs divided by the number of units.
- Opportunity costs: true economic costs of applying scarce resources to a particular project rather than another; the cost of doing X and not doing Y.
- Capital costs: costs expended over several years.
- Operating costs: costs associated with putting capital expenditure items to use, usually within specified time period.
- Replacement costs: costs associated with replacing capital expenditure items.
- Sunk costs: expenditure that cannot be retrieved or reversed (applies to capital and operating costs).

Conducting a break-even analysis is relatively simple, and requires that the organization estimate fixed and variable costs for the time period in question and calculate a price for each unit produced. Thus, the break-even revenue would be:

(number of units x unit price) = (fixed costs + variable costs)
Example: sale price is $2 per unit; variable costs are $1 per unit; fixed costs are $3,000.

And the break-even number of units:

fixed costs / unit contribution margin

with the unit contribution margin, or UCM (what the sale of one unit contributes to cost coverage):

(UCM) = selling price minus variable costs

In the above example: $3,000/$2 - $1 = 3,000. In other words, 3,000 units must be sold at $2 per unit in order to just cover costs.

Figure 11.7 shows the relationship between costs and revenue in break-even analysis. In many nonprofits, however, voluntary price discrimination, subsidies, and grants may affect the UCM and change the amount of fixed costs to be covered.

In the course of financial planning and budgeting, it is useful to break the organization down into relatively distinct "centers" of programs and activities. As suggested in Chapter 9, a multi-divisional, decentralized organizational structure allows for such a "centering" and improves financial accounting and oversight. Specifically:

- Cost centers are programs that incur costs (emergency room operations in hospitals; a hospice unit in a home for the frail elderly).
- Revenue centers are programs that generate revenue (fundraising unit; social service delivery to particular client group; also common activities such as a copy center).
- Responsibility centers are linked to mission and core objectives and their implementation into programmatic areas (hospice unit; art education in museum).

Analyzing the performance of cost, revenue, and responsibility centers can improve accountability, governance, and organizational management alike (Anthony & Young, 2003).

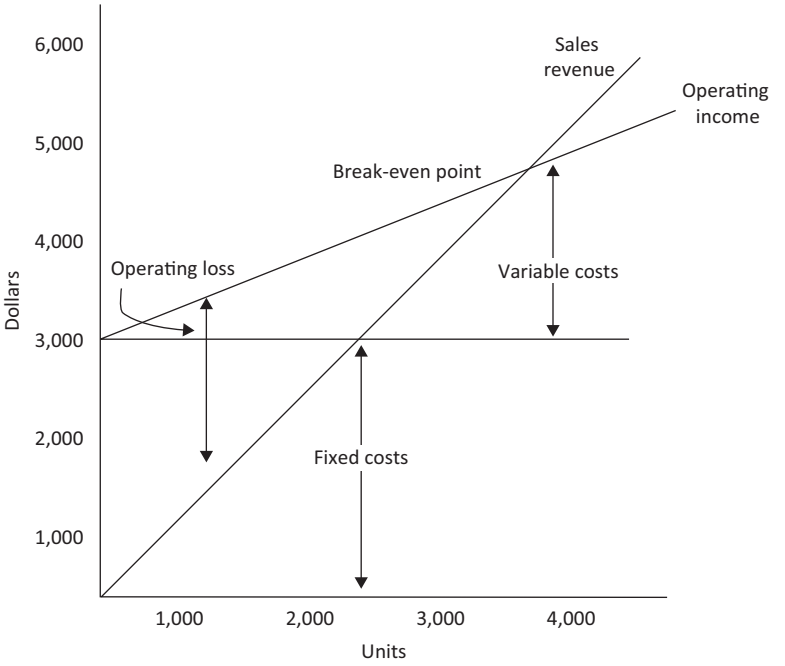


FIGURE 11.7 Break-even analysis

Financial Management Issues

Nonprofit financial management is subject to various pitfalls, which are in part due to requirements of various funders and in part to conventional wisdom that governs the behavior of nonprofit managers.

Contracting Problems

For nonprofits that rely heavily on government support, the pitfalls of the contracting regime are well understood. Contracts are principally not designed to support nonprofit organizations per se, but to achieve the government's service delivery objectives for the targeted beneficiary groups (Toepler, 2018). Consequently, contracts typically fail to cover the contracted nonprofit's full costs for a number of reasons:

> a contract may have declined in inflation-adjusted terms due to government budget cuts and austerity; a nonprofit manager may have underestimated the contract implementation costs; or government may saddle the agency with unexpected expenses or fail to provide the expected revenue. In [the] performance-based contracting environment, the latter is a much greater possibility than in the past. Also, agency expenses may rise unexpectedly and exceed contract revenues.
>
> (Smith, 2016, p. 545)

Contracts typically fail to cover the contracted nonprofit's full costs.

Funding competition forces nonprofits to cut their expenditures and take future budget contingencies (e.g., potential cost increases due to inflation) into account. Underfunding leads to growing reliance on future contracts as the funding gaps need to be bridged by cash flow from the next contract or contract extension.

Nonprofit Starvation Cycle

Financial management pitfalls are not, however, limited to government support. Private funder expectations equally drive financial problems in nonprofits. In particular, competitive pressures exist in donative markets as well, and prominent financial misfeasance scandals since the 1990s coupled with declining donor trust gave rise to various watchdog groups, such as Guidestar and Charity Navigator in the US, that collect available financial information from tax returns and other sources to allow donors to compare the financial information of nonprofits they consider supporting. These comparisons typically focus not on programmatic performance or success, which is difficult to measure and quantify, but on various financial ratios that can be quickly computed. While some ratios can provide meaningful information (see Box 11.3), others are largely misguided. This is particularly the case with overhead ratios, which many donors interpret as an indicator of efficiency, but which say nothing about program effectiveness, mission fulfilment, or even comparative efficiency as cost structures vary widely between organizations.

BOX 11.3

Selected Common Financial Ratios

Contributions and Grants Ratio: (Contributions + Grants) / Total Revenue

Debt Ratio: Total Liabilities / Total Assets

Fundraising Ratio: Fundraising Expenses / Total Expenses

Program Ratio: Program Service Expenses / Total Expenses

Liquid Funds Indicator: ([Fund Balances - Permanently Restricted - Land, Buildings, and Equipment] x 12) / Total Expenses

Savings Ratio: (Total Revenue - Total Expenses) / Total Expenses

Donors being able to access and use financial information forced nonprofits to engineer their finances to generate favorable ratios on overhead or fundraising expenditures. While this often involves a degree of creative accounting—shifting general overhead costs to programs and thus making overhead spending look smaller and program spending larger than they actually are—it also means cutting actual overhead costs to show low overhead ratios to donors concerned that as much of their donations as possible go to programs. This trend ignited a race to the bottom, which was first noted in the early 2000s (Wing & Hager, 2004) and later popularized as the nonprofit starvation cycle (Gregory & Howard, 2009).

The starvation cycle begins with unrealistic donor expectations of how low nonprofit overhead should be, as institutional funders such as foundations like to limit allowable overhead charges and individual donors prefer to have their contributions go entirely to programs. In competitive funding environments, nonprofits feel pressured to conform with donor expectations and show low overhead costs not only through misleading data that hide overhead in program spending, but, significantly, also by cutting costs and thus underinvesting in organizational infrastructure and capacity-building. In their quest to convince donors of their lean and efficient operations, nonprofits thereby hollow out their organizations and their capacity to deliver effective programs. At the same time, it further feeds the unrealistic funder expectations that started the cycle in the first place. Longitudinal research in the US was indeed able to trace a significant downward trend in reported overhead over time (Lecy & Searing, 2015). A replication in Germany was less conclusive, though this may be due to different funding structures, especially with respect to the extent and nature of government support, as well as the public availability of financial information on nonprofits (Schubert & Boenigk, 2019).

In their quest to convince donors of their lean and efficient operations, nonprofits thereby hollow out their organizations and their capacity to deliver effective programs.

Financial "Proverbs"

The perception of charity as an altruistic act and the conceptualization of nonprofits as institutions that do not betray donor trust with selfish behaviors have given rise to financial management norms in the sector that can be expressed in short proverbial form (Mitchell & Calabrese, 2019): minimize overhead; diversify revenue; be lean; and avoid debt. Capturing the conventional wisdom in the field that has been passed down over time, these proverbs are generally taken for granted and are rarely questioned. However, as suggested in the nonprofit starvation cycle argument, following these norms can have significant negative consequences for nonprofits.

While revenue diversification is a standard recommendation to reduce funding dependencies (see Chapter 9), concentration on fewer, larger, and less volatile funders reduces fundraising and transaction costs that are involved in managing multiple revenue streams and often leads to stronger financial growth. The expectation for nonprofits to be financially lean is a corollary to the low overhead maxim and hinders the accumulation of operating reserves. Organizations with significant reserves are often perceived as "wealthy" and undeserving of additional donor support. Yet reserves are crucial for nonprofits to be able to weather economic downturns and crises, as the COVID-19 pandemic in 2020 amply demonstrated (Kim & Mason, 2020). Taking on debt can be another effective short-term strategy to counter the effects of economic downturns or to finance expansions more quickly than launching capital campaigns and saving up donations. Overall, by adhering to these financial proverbs, nonprofits limit their options and with it their programmatic and organizational outcomes (Mitchell & Calabrese, 2019).

While revenue diversification is a standard recommendation to reduce funding dependencies, concentration on fewer, larger, and less volatile funders . . . often leads to stronger financial growth.

BUSINESS PLAN

A business plan is a macro plan on how to implement a mission and the related set of objectives. It is based on a set of assumptions of how the organization will operate and create value around its stated mission and sets out the organization's needs, rationale, governance, and financing. Business plans are generally prepared as part of the start-up of

an organization; however, many organizations update their business plans on a somewhat regular basis to incorporate results of strategic planning processes (see Chapter 10 on strategic planning).

Key elements covered in business plans are:

- Vision, mission, and values guiding the organization
- Organizational description (size, activities, units, etc.)
- Needs assessment, "market" analysis
- Services provided, at what quality and quantity
- Operations (how services will be delivered and why)
- Marketing and outreach plan
- Governance, list of board members
- Management approach and personnel policies
- Financial analysis: funds available and needed, projected costs and income
- Assessment and program evaluation, performance indicators

The business model for nonprofits typically involves a theory of change, i.e., how it proposes to address a need or set of problems (see Chapter 10). In other words, the business plan spells out why the organization's mission and purpose are relevant, and why and how the organization proposes to pursue them. Defining "the problem" is the first step in developing such a theory of change. Rochefort and Cobb (1994) offer a useful checklist of key elements in defining a problem (Box 11.4).

The business plan spells out why the organization's mission and purpose are relevant, and why and how the organization proposes to pursue them.

BOX 11.4

Defining Problems

Causality

- Individual vs. systematic (former stresses choice and culpability; latter stresses impersonal and unavoidable forces).
- Intentional vs. accidental causes.
- Causes due to character of values.
- Complex causal systems vs. simple causal agents.

Severity

- Distinguishes between the acknowledged existence of a problem (e.g., recession) and how serious it is.
- Usually measured against some backdrop or context, such as trend lines (getting better or worse), specific populations (big problem only for group x), or what is considered normal or deviant.

Incidence

- Who is affected generally?
- What subgroups are affected and why?
- What patterns of incidence are most important?

Novelty

- Is the issue or problem new?
- Is it unexpected?

Proximity

- How close does the problem hit home?—this depends on how home is defined, e.g., children valued for any group's survival so anything affecting children negatively is bad.

Crisis

- Largely a rhetorical device to signal urgency.

Problem populations

- Problem definition can also define people who are potential targets of policy interventions.
- Deserving vs. undeserving of help.
- Definitions that emphasize capacities vs. dependency.

Instrumental vs. expressive orientation

- Difference between focusing on ends (the instrumental intent to solve the problem) and means (degree to which what you do expresses an important symbol or value, e.g., refusing to negotiate with terrorists even if hostages harmed).

Solutions

- Solutions sometimes precede problem and help to shape it (e.g., commitment to vouchers as policy instrument to deal with range of problems).
- Are solutions available—can something be done to solve a problem, or merely take action for its own sake?

Source: Based on Rochefort and Cobb, 1994.

The process of business planning for nonprofit organizations involves four main components (Campbell & Haley, 2006).

Strategic clarity: Starting with its mission as the base, the organization needs to develop a concrete description of the impact it aims to achieve and for which it will be held accountable (its intended impact) and the cause-and-effect logic explaining how its work will lead to that impact (its theory of change). Among the questions the organization should ask are:

- Who or what purpose is the organization ultimately trying to serve?
- What are the specific outcomes for which the organization wants to be held accountable?
- What activities must the organization undertake to achieve concrete, measurable results?
- How does the specific portfolio of programs and services lead to change?

Strategic priorities: Next, the organization needs to examine what specific actions and activities must take place to achieve the intended impact. For new organizations, this means identifying possible approaches to solving the problem identified and weighing which ones serve the purpose. Existing organizations that are revising their business plans should determine which programs or projects are working well, what could work better, and what is missing. Related questions for new organizations include:

- What concrete activities align with our mission and contribute to our intended impact?
- What are other organizations doing to solve the problem we wish to address?
- What can we do to complement these or fill existing gaps?

For existing organizations:

- How well does each of our current programs or activities align with our mission and intended impact?
- Are we stretched too thin across different services?
- How well do we perform compared to peers?
- Are there services we should modify or add to maximize impact?

Resource implications: Once the strategic priorities are determined, the organization needs to assess the resources—financial, human, and organizational—needed to pursue them sustainably and develop a plan to secure them. Some of the questions that need to be answered include:

- Do we have the right organizational structure in place to implement the plan?
- How much capacity does our current staff have to take on new work? Do we need to add positions, or scale back our goals?
- How soon do we need to bring new people on board? What is a realistic timeline given our culture and ability to raise funds?
- How much staff and client growth can our current office and program space accommodate?

- What new or improved systems do we need to do our work more effectively (e.g., IT, performance measurement, financial)?
- How is the funding community likely to respond to the spending plan? Can we raise the money we need?

The latter question in particular requires organizations to carefully consider which is the most applicable funding model. Several different models have been identified based on types of funding sources (individual, private institutional, or government); who makes the funding decisions and how many funders are involved; and what their motivations are between altruism, collective interest, and self-interest (Foster et al., 2009).

Performance measures: Finally, the organization needs to set quantitative and qualitative milestones—program, operational, and financial—that make it possible to measure progress toward the intended impact. Program milestones can be measured by tracking outputs (e.g., the number of pregnant women receiving prenatal advisory services) or outcomes (e.g., the health of mother and child after birth). Operational milestones encompass human resources and infrastructure, and financial milestones are the year-by-year budget and revenue projections; both are typically more tangible than program milestones. Monitoring systems should be planned according to the capacity of the staff (or outsiders) to manage it, as well as the desires and needs of stakeholders for performance information.

Agreeing on performance measures or milestones is usually considered the last step in developing a business plan. However, like strategic plans, unless a business plan is revisited regularly, it will remain simply a plan and will not serve the purpose of orienting the organization in its pursuit of its mission.

Unless a business plan is revisited regularly, it will remain simply a plan and will not serve the purpose of orienting the organization in its pursuit of its mission.

Overall, strategy and resources need to be in close alignment. Box 11.5 gives a few illustrative examples of organizations with different purposes and strategies (advocacy, work integration, watchdog) and their chosen revenue streams.

BOX 11.5

Examples of Strategy and Resource Alignment in Nonprofit Organizations

Birmingham Friends of the Earth (BFoE), Birmingham, UK

- **Strategic clarity**: Birmingham Friends of the Earth's mission is to advance the principles of sustainability and positive environmental change. It engages the

community to address local environmental concerns ranging from air quality, energy, and climate change to transport, waste, and recycling and demonstrates sustainability principles in practice.

- **Strategic priorities**: BFoE engages in lobbying and advocacy campaigns on environmental and social issues and maintains a building in an environmentally sustainable way as headquarters and supportive space for a range of different small social enterprises. Operation of the building demonstrates the application of environmental principles in practice.
- **Resource implications**: BFoE is a Community Benefit Society, a legal form that avoids the restrictions on political activities on charities, but maintains nonprofit status and community ownership. Capital funds for maintenance and sustainability improvements are raised through offering shares to the community. Leasing space to local social enterprises generates a constant revenue stream. Ecologically-driven building improvements also improve rental value. Revenue is increased by fees for meeting room usage and other services; grants are only pursued occasionally and no firm fundraising program is in place.
- **Performance measures**: BFoE tracks building improvements and seeks to increase environmental education projects and fundraising performance.

Source: Birmingham Friends of the Earth (2017).

Greyston Bakery, New York, US

- **Strategic clarity**: Greyston Bakery was founded to combat poverty in the Yonkers area of New York City and now provides employment, job training, and supportive services to members of disadvantaged populations with difficulties finding employment in the regular labor market.
- **Strategic priorities**: As a work integration social enterprise, Greyston utilizes open hiring (hiring without applications, interviewing, and background checks) to employ people who would normally not receive job offers elsewhere in its bakery, producing brownies and cookies for New York City establishments and Ben & Jerry's and Whole Foods as major customers. In addition to job experience, skills, and training, Greyston also provides supportive services, such as affordable housing and child care, to its employees to provide a path for them out of poverty and disadvantage.
- **Resource implications**: Greyston Foundation is a public charity, which operates the support and community services and is the sole owner of the bakery, which is a forprofit subsidiary in form of a benefit corporation under New York law and also a certified B-Corporation. The public charity parent raises grants and donations for its mission and community programs and receives management fees and dividend payments from the benefit corporation, which also retains earnings for reinvestment and business expansion.
- **Performance measures**: As the bakery's business operations serve the principal mission of the social enterprise, performance is tracked along multiple bottom

lines: social impact measures, such as hours of training provided, number of people employed and placed in affordable housing, and child care, as well as business objectives involving scaling up operations and financial consolidation.

Source: REDF (2015).

CONCLUSION

Nonprofit organizations are distinct from other organizational forms in that their revenue structure includes different income streams from various sources. As the sector has developed in recent decades, nonprofits have become increasingly diversified in the use of revenue sources, and their financial behavior has become more sophisticated. Business plans, largely unknown in the nonprofit sector some 30 years ago, have become a basic planning tool, and indeed, a necessity demanded by many funders, especially in the US. As we noted in the introduction to this chapter, there is a third kind of resource, i.e., human capital—a topic to which we turn in Chapter 13.

REVIEW QUESTIONS

What are some of the major revenue sources for nonprofit organizations?
What is unrelated and related business income?
What are some of the major allocation mechanisms for nonprofits and how do they differ from forprofits in their use?
What are some of the basic financial relationships in nonprofit organizations?
What are essential issues to address in a business plan?

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CHAPTER 12

Governance

This chapter first explores the special requirements that arise for the governance of nonprofit organizations from a multiple stakeholder perspective. Against this background, the chapter reviews various governance approaches and their applicability to nonprofit organizations. Then, it considers the role of the board and the relationship between the board and management, examines different forms of accountability, and addresses the issue of transparency.

LEARNING OBJECTIVES

This chapter explores the implications of nonprofit characteristics for the governance of private organizations for public benefit. After reading this chapter, the reader should:

- understand governance and the special challenges to nonprofit organizations;
- have an awareness of major differences among corporate governance approaches;
- be able to understand the concept of accountability and its various forms, as well as transparency;
- understand the difference between normative models of governance and actual board behavior.

This chapter introduces or reviews several key terms:

- Accountability
- Audit society
- Board composition
- Board diversity
- Board obligations
- Conflict of interest
- Corporate governance
- Forms of accountability
- Principal–agent problem
- Resource dependency
- Stakeholder theory
- Stewardship theory
- Transparency

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INTRODUCTION

In Chapter 9 dealing with organizational behavior and Chapter 10 on management approaches, we look at the structural and behavioral characteristics of nonprofit organizations. We revisit some of these characteristics in this chapter and build on the notion that most nonprofit organizations have a value base, are mission-driven, have multiple stakeholders, and follow complex performance criteria. What do these characteristics mean for their governance? Before addressing this question, let's review the concept itself.

In essence, corporate governance is the system by which organizations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the organization, such as the board, management, staff, and stakeholders generally. Governance is about the rules and procedures for decision-making on corporate affairs (e.g., mission, strategy, objectives, activities, finance, etc.) and the oversight and sanction mechanisms needed to ensure implementation and compliance.

Governance is about the rules and procedures for decision-making on corporate affairs ... and the oversight and sanction mechanisms needed to ensure implementation and compliance.

Corporate governance has become an important topic in the management literature, especially in the aftermath of major corporate scandals in the early 2000s and the global financial crisis later that decade. The topic is also becoming a major issue among nonprofit experts (Ostrower & Stone, 2015; Brown, 2020; Donnelly-Cox et al., 2020), a development largely based on a greater awareness of the importance of public oversight and regulation as the size and scope of the nonprofit sector has increased in many countries (Cornforth, 2014). It also owes its impetus to a spillover from corporate governance regulations in the aftermath of the Sarbanes-Oxley Act of 2002, passed by the United States Congress after a set of significant corporate scandals. The Act vastly heightened the oversight responsibility of corporate boards, in financial matters especially. Lastly, there were also scandals in the nonprofit sector caused by governance failures. Some were of such proportion that they not only created a greater awareness of the need to improve the governance of nonprofit organizations generally, but they also threatened to undermine public trust in this set of institutions (Donnelly-Cox et al., 2020).

Governance failures in nonprofit organizations and philanthropic foundations can have a variety of causes, but several stand out, if we leave aside acts of willful malfeasance and criminal behavior such as embezzlement or corruption. Governance failures in nonprofits tend to have more to do with making such behaviors possible by creating an organizational environment conducive to self-serving decisions, lack of effective oversight, nepotism, or low morale. A first cause is related to cognitive leadership biases that result from overconfidence and over-optimism, which can compromise ethical capacities and result in poor judgments. They can lead to a defensive posture of holding on to choices that turn out to be wrong either factually or morally (Rhode, 2006). In response, board members,

management, or staff may ignore conflicting information, suppress dissent, cover up or deny mistakes, even destroy evidence. This was the case in the United Way scandal of the 1990s (Glaser, 1993), where a charismatic and successful CEO created a governance and management culture that made wrongdoing possible.

Boards with strong leadership can also fall prey to groupthink (Janis 1991), or the tendency of groups to avoid being too critical of leaders and fellow members and to prefer consensual decision-making, even at the risk of not articulating significant concerns. On nonprofit boards, cohesiveness may lead to groupthink and negatively impact board effectiveness (Jaskyte, 2018). Homogeneous boards are particularly prone to governance problems relating to groupthink, and increasing board diversity is seen as a means of improving board practices (Panel on the Nonprofit Sector, 2005).

On nonprofit boards, cohesiveness may lead to groupthink and negatively impact board effectiveness.

Cognitive dissonance (Festinger, 1957) among an organization's leadership is another source of governance failure. It is the divergence between one's beliefs and what one stands for, i.e., the value base of a nonprofit, and prevailing reality. Such dissonance can lead to sometimes grave misreadings of the organizational task environment: board members and people in management positions are usually highly committed to the values the organization represents, and therefore may have a tendency to ignore and even suppress information and facts not in line with their beliefs, and may end up reconstructing reality such that it fits their values or justifies their actions. Cognitive dissonances create in-group biases and a sense of loyalty at the expense of responsible decision-making. The governance failures of religious communities are often rooted in organizational processes facilitated, if not triggered, by cognitive dissonance. The fact that abuse cases in religious congregations went unreported for years is an example of governance failures grounded, at least in part, in cognitive dissonance.

Yet another major cause of governance failures is linked to organizational reward structures, in particular incentive systems that, while rewarding behaviors beneficial to the nonprofit, can lead to a preoccupation with short-term goals at the expense of long-term values. Managers pressured to generate revenue or minimize costs may engage in misleading conduct, deceive the board, and encourage staff to cut corners.

An inverse case is related to the "satisficing" behavior we address in Chapter 9. For example, lax board oversight caused by free-riding tendencies among board members can encourage managers to do just enough so as to avoid critical questions and negative sanctions but otherwise adjust their performance to some suboptimal level, even avoiding addressing critical issues. An extreme version of satisficing is what Meyer and Zucker (1989) call permanently failing organizations, i.e., organizations that continue to exist even though they fail to reach their goals, sometimes over decades. Permanent failure can result when three factors are present: first, the interest in actual performance diverges from the interest in continued maintenance; second, the respective interests are attached to separate stakeholders such as the board, management, staff, donors, or members; and

third, the maintenance group wields sufficient power to overrule both performance interests and exit options.

A phenomenon related to the disjuncture between organizational structure and values is overreach, which happens when an organization takes on too many tasks relative to its capacity to manage them properly. Overreach afflicts new organizations, which after an initial period of success, become overly confident regarding their resources and capacities. Without proper oversight, such a situation leads to a lack of communication and coordination between various units and management, and ultimately to lack of transparency, which in turn encourages opportunistic and unethical behavior. Overreach can also affect well-established organizations, for example, Oxfam International, where staff engaged in relief efforts in Haiti were not adequately vetted and overseen, leading to inappropriate behavior (Prakash, 2019).

These failures demonstrate the importance of governance. Put differently: good governance would have prevented these and other such failures. Each of the cases above involves the relationship between the board, management, and other key stakeholders and a failure to discharge their respective responsibility to the organization. In the corporate world, governance refers to the system by which firms are directed and controlled, which, in large measure, refers to the relationship between board, management, staff, shareholders, and others such as auditors or regulatory agencies. The most critical of these relationships is the triangle between shareholders, the board, and management. Ultimately, the dominant relationship is between shareholders (as the owners of the corporation) and the board, in the sense that the former entrust and empower the latter to operate on their behalf.

Neither the dominant shareholder/owner–board relationship nor the critical triangle exists in nonprofit organizations. What do we find instead? In contrast to businesses, which are ultimately about financial profit, nonprofit governance and management are ultimately about the organization's mission. Put simply, while the governance of nonprofits and business firms includes aspects of finances and other resources, nonprofit governance is about the realization of its mission, whereas it is the generation of profit for shareholders or owners in the case of commercial entities.

Neither the dominant shareholder/owner–board relationship nor the critical triangle exists in nonprofit organizations.

As we will see, at the core of governance is what economists call the principal–agent problem. How can owners, i.e., the principals, ensure that managers, i.e., the agents, run the organization in a way and with the results that benefit the owners? In the business world, the owners/shareholders delegate the oversight authority to a board of directors. The board is then charged with the responsibility to make sure that management acts in accordance with the principal's goals and interest. In nonprofit organizations, by contrast, the situation is undetermined, and it is unclear who should be regarded or function as the owner. Members or trustees are not owners in the sense of shareholders, and while different parties could assume or usurp the role of principal, such a position would not

rest on property rights (Brown, 2020). The key to understanding the relationship between the special characteristics of nonprofit organizations and their governance—and indeed, nonprofit management generally—is to recognize the special importance of stakeholders rather than owners, a point stressed in Chapter 10.

CORPORATE GOVERNANCE[1]

The corporate governance of business firms is concerned with the consequences when ownership and management of a corporation are separate. Effross (2013, p. 1) pointedly summarizes these issues: "corporate governance is about 'who gets what, when, and how'." Corporate governance is thus about balancing the interests of directors, officers, shareholders, and other stakeholders affected by corporate decisions and behaviors. It can also be defined as "the study of power and influence over decision making within the corporation" (Aguilera & Jackson, 2010, p. 487). Narrowly understood, corporate governance becomes a means to minimize risks resulting from principal–agent problems.

Corporate governance is thus about balancing the interests of directors, officers, shareholders, and other stakeholders affected by corporate decisions and behaviors.

If understood in a broader sense, corporate governance includes the risks to other stakeholders as well and can even extend to aspects of corporate social responsibility (CSR) more widely, thereby relating corporate and societal goals. The underlying models that inform these variations differ as well: shareholder-centric models stress the primacy of the shareholders, while models concerned with stakeholder interests extend the responsibility of a company to a larger group of people.

If understood in a broader sense, corporate governance includes the risks to other stakeholders as well.

Next to a narrow and broader understanding of corporate governance, approaches also vary in terms of primarily economic versus managerial perspectives (Aguilera & Jackson, 2010). For the former, agency theory is the prime example, with the assumptions of microeconomics providing the basis (Dalton et al., 2007). For the latter, it is the stewardship approach introduced by Davis et al. (1997), which uses a set of assumptions different from agent behavior, in particular a preference for contract compliance rather than self-serving behavior.

Approaches to Corporate Governance

These varied perspectives are captured in a set of approaches to understanding corporate governance that also apply to at least some extent to nonprofit organizations.

Agency Theory

Let's first look at agency theory, which assumes that the separation of ownership and management entails inherent problems, since the interests of both parties are not necessarily aligned (Fama & Jensen, 1983; Jensen & Meckling, 1976). These problems must be mitigated by monitoring management and aligning management's behavior with shareholders' interests. However, this monitoring is costly, since shareholders only have imperfect information, and dispersed ownership can cause free-rider problems, which reduce incentives to exercise rights.

To control managerial behavior, and thereby cope with the agency problem, Dalton et al. (2007) identify three approaches: first, the independence approach, which requires boards to be independent of management; second, the equity approach, which gives managers some degree of ownership through equity with the objective of achieving greater alignment of their interests with those of the principals; and third, the discipline or market control approach, whereby management with primarily self-serving motivations ultimately exposes the corporation to acquisition, which would also put their own positions in jeopardy.

Agency theory has a major limitation: it does not account for relationships beyond the principal–agent dyad. Both principal and agent are assumed to have no outside relationships that might influence their behavior—the agent's loyalty is entirely devoted to the principal, while the principal allocates all available resources to the agent. Additionally, agency models often assume long-term relationships in which either party is locked in a given position (Hoskisson et al., 2013).

Agency theory has a major limitation: it does not account for relationships beyond the principal–agent dyad.

These assumptions, however, do not reflect the increasing complexity and diversity in the corporate world. As Hoskisson et al. (2013) point out, private equity funds, hedge funds, and venture capital firms operate as principals in those firms in which they have invested and simultaneously act as agents to those who have provided them with the necessary resources. Accordingly, a distinction needs to be made between agent-owners, i.e. principals in the traditional sense, and those on whose behalf the agent-owners have invested, i.e. the ultimate principals, who invested in the agent-owners. The applicability of the agency model is limited when it comes to corporations working towards the public good, such as nonprofit organizations, philanthropic foundations, and social enterprises, which serve multiple principals.

Overall, agency theory is a good starting point as it addresses the essence of the problem that led to the development of corporate governance: the division of owners and

managers of a firm. However, as companies are increasingly scrutinized for their role in society, agency theory is increasingly too narrow for handling multiple stakeholders. As a result, agency theory is less well equipped to inform the governance of organizations and corporations other than conventional stock corporations. Organizations such as nonprofits and social enterprises do not have a single principal, nor do hedge funds have only one agent. Accordingly, other theoretical approaches, like stewardship theory, could provide a better frame to discuss corporate governance.

Stewardship Theory

From a historical perspective, Stout (2013) argues that for most of the twentieth century, corporate executives and directors understood themselves to be stewards of their companies, serving not just equity investors, but various stakeholders and society as a whole. Yet, this "managerialist" philosophy was replaced by shareholder primacy, because it seemed that the agency cost problem was easier to solve with a focus on shareholder value. While shareholder primacy was mostly successful in closing the gap between managers' and shareholders' interests, other problems emerged. Furthermore, shareholder primacy is criticized from a CSR perspective, highlighting the absence of environmental or social considerations: this "triple bottom line" of social, environmental, and economic sustainability is an increasing demand by stakeholders around the world (Filatotchev & Stahl, 2015; see also Chapter 9).

In contrast to agency theory, therefore, in stewardship theory, managers are not seen as being driven only by self-interest, but rather as wishing to reach the organization's objectives. As Davis and colleagues (1997, p. 24) argue, "the steward places higher values on cooperation than defection." Therefore, stewardship theory highlights motivations beyond economic incentives and stresses the roles of values and purpose. Placing value on cooperation also outlines the relevance of corporate culture and management models that focus on working together instead of the top-down leadership implied by agency theory. Stewardship theory therefore must be combined with a specific corporate culture and a certain type of leadership style. Additionally, corporate governance structures need to support stewards in their mission to achieve the firm's objectives.

Stewardship theory highlights motivations beyond economic incentives and stresses the roles of values and purpose.

Stakeholder Theory

By extending the pro-organizational stewardship approach beyond the principal–agent dyad, the stakeholder theory takes a more holistic perspective on corporate governance. Fundamentally, it is based on the idea that a company has more stakeholders than just executives, directors, and shareholders. The approach states that corporate managers should identify and consider the interests of all stakeholders and include them in the governance process. The concept originated with Freeman (1984), who embedded the concept in management scholarship and practice.

> The [stakeholder] approach states that corporate managers should identify and consider the interests of all stakeholders and include them in the governance process.

Donaldson and Preston (1995) argue that stakeholder theory is managerial, meaning that it requires managers to address the legitimate interests of all appropriate stakeholders when establishing organizational structures, setting general policies, and in case-by-case decision-making. However, they note that the theory is also descriptive, as it describes what the corporation consists of, and instrumental, since it provides a framework to assess the effects of a firm's stakeholder management on its performance goals. Additionally, Donaldson and Preston (1995) suggest that the theory is normative. The interests of stakeholders are of intrinsic value, meaning that every group of stakeholders merits consideration.

Resource Dependency

This approach, discussed also in Chapter 9, is based on the work of organizational theorists Pfeffer and Salancik (1978) and the notion of dependency relationships in organizational task environments that may impact performance and growth. While agency and stewardship theory focus mostly on internal aspects, the resource dependence approach accounts for the multiple external pressures placed upon organizations. It starts from the assumption that organizations are dependent on their environment and that they have to manage these dependencies in order to survive.

> [The resource dependence] approach starts from the assumption that organizations are dependent on their environment and that they have to manage these dependencies in order to survive.

Resource dependency applies to both forprofit and nonprofit organizations. As seen in Chapter 9, resource dependencies for nonprofits can come in the form of high reliance on government contracts or grants by donors that provide the bulk of total revenue, among other sources. To manage such dependencies from a governance perspective, the board can function as boundary spanner between the organization and stakeholders representing or in a position to influence those with control over essential resources (Young, 2011). By co-opting these stakeholders such links can mitigate negative effects that might arise through the organization's precarious resource position. In other words, boards become co-optation mechanisms for "absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence" (Selznick, 1949, p. 13). Another potential remedy is the creation of connections with other organizations through shared board memberships. In analyzing data from nine grant-making organizations, Paarlberg et al. (2020) found that organizations with interlocking board members were more successful in winning grants.

This approach attaches a service function rather than a control function to governance structures and expects the organization to benefit from an alignment with its external environment. As Pfeffer and Salancik (1978, p. 163) put it: "When an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it."

Institutional Theory

Whereas resource dependency theory is mainly about material resources, the institutional approach is about organizational legitimacy. It owes its intellectual origin to the work of DiMaggio and Powell (1991). As outlined in Chapter 9, the external environment exerts pressures on organizations to conform to rules, standards, and procedures to gain legitimacy in the eyes of stakeholders, including regulatory agencies, beneficiaries, volunteers, members, and donors. Together, they build up and impose expectations on the organizations that are legitimized through governance structures and governance codes of practice (Bloodgood et al., 2014). In essence, while resource dependency theory suggests that board membership reflects resource power, institutional theory sees the ability to bring greater legitimacy as a primary force.

Which of these approaches is the right one for best understanding nonprofit governance? As in Chapter 10, where we argue for a multiple rather than a single management approach to nonprofit organizations, we propose that their governance, too, is informed by different approaches and theories. There are parts of nonprofit organizations that make aspects of agency theory useful and applicable, particularly in financial matters. Other components, especially those resting on mission-relevant and value-related qualities, are best handled with a stewardship or stakeholder approach in mind. A co-optation approach suggested by resource dependency theory can be useful to enlist potentially powerful allies for the organization and improve its overall positioning.

Table 12.1 summarizes the main facets and implications of the various theories and approaches. As we can see, they rest on rather different assumptions, propose different functions, and view the motivations and relationships among key actors in rather distinct ways. As a result, they also differ in terms of actual governance mechanisms and the primary directives underlying board recruitment. Against this backdrop, let's take a look at the roles and responsibilities of nonprofit boards.

Roles and Responsibilities of the Governing Board

The legal system in the US and most other countries or jurisdictions requires that incorporated nonprofit organizations must have a governing body. This applies to asset-based as well as membership and liability-based nonprofits. The terminology varies, and the governing body is referred to as board of trustees, board of directors, or simply the board. The board is ultimately responsible and accountable for all activities undertaken by the nonprofit. Importantly, nonprofit boards do not "own" the organization; they hold the organization and its resources in trust, in furtherance of its mission, and guided by its values.

TABLE 12.1 Main facets of governance approaches

Aspects	*Agency theory*	*Stewardship & stakeholder theory*	*Resource dependency theory*	*Institutional theory*
Theoretical basis	Economics	Sociology & psychology	Economics & sociology	Sociology
Dominant view of board	One-tier model: shareholder or dominant stakeholder orientation and composition	Two-tier model: board as some form of co-determination among stakeholders and representatives of the public interest	Governance not principally driven by boards but affected by diverse external forces and power relationships	Governance not principally driven by boards but by external expectations of what is legitimate
Role function	Control and accountability	Functional collaboration with leadership	Securing and managing resource demands through co-optation	Expectation management and isomorphism
Principal–agent relationship	Goal conflict	Aligned goals	Multiple goals	Aligned goals
Agents' motivation	Extrinsic	Intrinsic	Extrinsic/Intrinsic	Extrinsic/Intrinsic
Human behavior	Individualist	Collectivist	Dependent	Mimetic
Governance mechanisms	Monitoring, incentives	Empowering structures	Absorbing external elements	Compliance with expectations
Primary directive for board composition of nonprofits	Independent outside director	Diplomatic skills and managerial competency	Influence over resources	Reputational and representational attributes
Limitations for governance of nonprofit organizations	• Focuses on a single principal or principals with homogeneous interests • Does not account for intrinsic motivation • Focuses on internal agency problems • Assumes goal conflict between principal and agent	• Focuses on a single principal or principals with homogeneous interests • Does not account for differences in motivations • Focuses on internal structures • Assumes goal congruence	• Does not provide solutions for power imbalances and fault lines • May exacerbate risk of mission drift • May create principal–agent problems	• Focuses on external influences at expense of proactive governance • Does not provide solutions for power imbalance and dependencies • May create principal–agent problems

Source: Adapted from Van Puyvelde et al., 2012; Mair et al., 2020; Brown, 2020.

Given that nonprofits are multiple stakeholder organizations, the board, while certainly the central body, is not the only one involved in governing the organization. Ostrower and Stone (2006, p. 624) emphasize this point when they write that "boards are not isolated entities, and governance itself is often undertaken jointly by boards in connection with other parties," such as donors, beneficiaries, or staff. In other words, the board is one but a crucial element in nonprofit governance.

Worth (2018) distinguishes between three types of boards depending on the member selection process:

- **Elected boards** are most common in member-serving and advocacy organizations. Their members are typically selected from within the organization.
- **Self-perpetuating boards** leave the selection of new members to existing occupants of this role; they are especially common in philanthropic foundations and asset-based corporations but found in liability-based nonprofit corporations as well.
- **Appointed** and **hybrid boards** are composed of members selected by some authority outside the organization.

The board represents the organization to the outside world, in particular vis-à-vis legal authorities and the general public. In nonprofits, where no strict equivalents to "owners" exist, the board is entrusted with the organization, i.e., its members are the trustees. The main task of the board is to make sure that the organization carries out its agreed-upon mission "without the objective of making profit and with the promise not to distribute organizational assets to benefit individuals other than the clients the nonprofit was formed to serve. All nonprofits, even associations, have a binding legal commitment to this overall principle" (Bryce, 2000, p. 31). In Box 12.1, we list ten of the basic responsibilities a nonprofit organization's board takes on.

BOX 12.1

Ten Basic Responsibilities of Nonprofit Boards

1. Determine the organization's mission and purpose, and advocate for them. Create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. Select the chief executive. Reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
3. Support and evaluate the chief executive. Ensure that the chief executive has the moral and professional support needed to further the goals of the organization.
4. Ensure effective planning. Participate in an overall planning process and assist in implementation and monitoring.

5. Monitor and strengthen programs and services. Determine which programs are consistent with the organization's mission and monitor their effectiveness.
6. Ensure adequate financial resources. Secure adequate resources for the organization to fulfill its mission.
7. Protect assets and provide proper financial oversight. Assist in developing the annual budget and ensuring that proper financial controls are in place.
8. Build and sustain a competent board. Articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate their own performance.
9. Ensure legal and ethical integrity. Adhere to legal standards and ethical norms.
10. Enhance the organization's public standing. Articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

Source: Based on Ingram (2015) and BoardSource (2010b).

In essence, the board's job is to ensure the fit between the organization's mission and its activities and performance. Kumar and Nunan (2002) examined the various functions and roles of boards, and the responsibilities that follow from them, and developed a useful classification, which is presented in modified form in Table 12.2. The table also shows how some key nonprofit umbrella agencies in the US (BoardSource, 2010a, 2010b) and the UK (National Council of Voluntary Organisations) have operationalized the board functions and role.

In essence, the board's job is to ensure the fit between the organization's mission and its activities and performance.

Underlying this range of responsibilities are fundamental fiduciary and other duties that board members must generally fulfill. These duties may vary by country and jurisdiction, but in the case of the US include the following (Brody, 2006; Hopkins, 2017):

- **Duty of care**: Board members are stewards of the nonprofit's financial and other assets and resources. Accordingly, they must act at all times with the same level of care that a reasonable prudent person would apply to their own affairs in similar circumstances. Exercising due diligence includes closely examining information provided by staff, but also asking timely and important questions to inform board decision-making.
- **Duty of loyalty**: Board members should avoid conflicts of interest and must not use their position of trust to further their own private interests. Any conflicts must be

TABLE 12.2 Core board tasks and responsibilities

	NCVO	*BoardSource*
Core tasks	*Essential board responsibilities*	*Basic responsibilities of nonprofit boards*
Direction	Set and maintain vision, mission, and values	Determine, and advocate for, mission and purpose
	Develop strategy	Ensure effective planning
	Establish and monitor policies	
Oversight	Maintain proper fiscal oversight	Ensure ethical integrity
	Ensure compliance with the law	Ensure legal integrity
	Ensure accountability legally and to stakeholders	Protect assets and provide proper financial oversight
	Promote the organization	Enhance public standing
	Ensure compliance with governing document	
Leadership	Maintain effective board performance	Ensure adequate financial resources
	Respect the role of staff/volunteers	Monitor and strengthen programs and services
	Set up employment procedures	Build and sustain a competent board
	Select and support chief executive	Select the chief executive
		Support and evaluate the chief executive

Source: Based on Kumar and Nunan, 2002; Dyer, 2010; Ingram, 2015.

disclosed, and potential and actual transactions between a member and the organization must be scrutinized and approved by the other non-interested members.

- **Duty of obedience**: Board members must familiarize themselves with, and adhere to, all laws and legal regulations that apply to their organization, including the bylaws.

If board members can show that they acted in good faith, with reasonable basis to believe that their conduct was advancing the organization's purpose, and exercised honest business judgments after due consideration of what they believed to be all relevant information in accordance with these duties, they will not be held liable in legal challenges to board actions (business judgment rule).

Research on board size, composition, and performance has generated some guidelines, as has the attention of policy-makers and umbrella groups (Brown, 2020; Cornforth,

2014). Based on BoardSource (2010a, pp. 100–1), which views building a board as an ongoing process, we can suggest nine steps in guiding board development:

- Step 1: Identify the needs of the board in terms of skills, expertise, perspectives etc. to fulfill its function.
- Step 2: Cultivate a pool of potential board members and involve current board members in identifying candidates.
- Step 3: Recruit prospects, detailing why they are needed and explaining expectations and responsibilities of board members.
- Step 4: Orient new board members, explaining the organization's values, mission, objectives, operations, and financial situation, and introducing them to other board members and key members of staff.
- Step 5: Involve all board members, utilizing their interest, expertise, connections, etc., and by assigning specific tasks.
- Step 6: Keep the board informed, and alert board members early on about issues as they arise.
- Step 7: Evaluate the board as a whole as well as individual board members by providing feedback collected from various stakeholders and by encouraging self-assessment.
- Step 8: Rotate board members and establish term limits; encourage inactive board members to resign.
- Step 9: Show appreciation of board members' work and achievements.

Board Composition and Diversity

To perform their duties well, boards need to be equipped with professional skills and expertise, be able to secure and reflect stakeholder input, be representative of the communities they are serving, and be able to help access resources and connect the organization to relevant networks. The composition of boards thus becomes one key to ensuring effectiveness, innovativeness, and performance in nonprofits (Jaskyte, 2018). To track board member skills and characteristics, many boards utilize board composition matrices, which track current members against a list of skills, expertise, demographics, and other characteristics the organization finds desirable, and help identify gaps to address in recruitment efforts. While a useful tool, such matrices also present pitfalls, as they may encourage tokenism, on the one hand, and a candidate's expertise may still be at odds with the organization's actual needs in that area, on the other (Masaoka, 2012). Nonprofit legal expert Bruce Hopkins, for example, explicitly notes that not all lawyers and accountants are qualified and competent to represent nonprofits because of the highly specialized nature of the needed expertise. Moreover, board composition is subject to a complex interplay of external and internal forces (Brown, 2020) that cannot be fully reduced into a simple matrix. These include the level of turbulence and complexity of the organization's environment, as well as internal complexity, structure, strategy, and culture, as discussed in Chapters 9 and 10.

As nonprofit boards in the US persistently remain predominantly white and majority male (BoardSource, 2017), questions of diversity have particular salience. While race/ethnicity and gender are typically foregrounded, diversity can also take additional dimensions,

including occupation, religion, age, ability, and other socio-economic characteristics. More diverse boards are better positioned to reflect and represent core stakeholder groups and be responsive to the communities an organization serves. Beyond representation, diversity and inclusion in the boardroom can also improve decision-making, leading to more critical discussion and improved policies and procedures (Ostrower, 2007; Buse et al., 2016), and can have positive outcomes in terms of organizational performance (Harris, 2014). However, tokenism will not unlock the performance benefits of diversity, as inclusive behaviors (Buse et al., 2016) and reaching a critical mass of diverse members may be needed as well (Fredette & Sessler Bernstein, 2019).

More diverse boards are better positioned to reflect and represent core stakeholder groups and be responsive to the communities an organization serves.

Conflict of Interest

Conflict of interest situations arise whenever the personal or professional interests of a board member or a group of members are actually or potentially in contradiction to the best interests of the organization. Examples would be a board member proposing a relative or friend for a staff position or suggesting contracting with a firm in which he or she has financial interest. While such actions may benefit the organization and indeed find board approval, they still indicate a potential conflict of interest for the individual board member in discharging his or her duties, and can, consequently, make the organization vulnerable to legal challenges and public misunderstanding.

Conflict of interest situations arise whenever the personal or professional interests of a board member ... are actually or potentially in contradiction to the best interests of the organization.

The distinction between the wider understanding of conflict of interest ("if it looks like a conflict of interest, it most likely is one, and should be avoided") and a legal definition is critical. In most countries, the legal definition of conflict of interest is very specific and covers a limited set of circumstances. However, most conflicts of interest are in a gray area where ethical considerations, stewardship, and public perception may be more relevant than legal aspects. Indeed, loss of public confidence in the organization resulting from conflict of interest situations and a damaged reputation among key stakeholders can be more damaging than the possibility of legal sanctions.

Loss of public confidence in the organization resulting from conflict of interest situations ... can be more damaging than the possibility of legal sanctions.

Foundations are subject to even stricter, more formal conflict of interest rules than other nonprofits. The US Internal Revenue Service's regulations for private foundations prohibit them from engaging in certain transactions (called "acts of self-dealing") with board members, foundation managers, and certain of their family members and affiliated organizations (called "disqualified persons"). Those who engage in such transactions or knowingly approve them are subject to an excise tax. The self-dealing rules absolutely prohibit most transactions between foundations and their board members and foundation managers, without regard to whether the transactions are fair—or even advantageous—to the foundations (BoardSource, 2005).

In Chapter 5, we discuss the centrality of trust, and the importance of public confidence in nonprofit organizations. To safeguard this trust against the potentially harmful impact arising from conflicts of interest, nonprofits seek to avoid the appearance of impropriety and adopt specific policies. Indeed, the IRS asks both applicants for nonprofit status and those filing returns whether they have a conflict of interest policy in place. As noted in Independent Sector's Principles for Good Governance and Ethical Practice (2015), such policies typically include:

- Limitations on business transactions with board members and the requirement that board members disclose potential conflicts.
- Disclosure of conflicts when they occur so that board members who are voting on a decision are aware that another member's interests are affected.
- Requesting board members to withdraw from decisions involving any potential conflict.
- Establishing procedures (competitive bids, asking external agencies to carry out contracting, etc.) to ensure fair value in transactions.

In practice, as Ostrower (2007) found, only half of the public charities she surveyed had a written conflict of interest policy and less than a third required disclosure of financial interests. By 2016, 94% of nonprofits surveyed by BoardSource (2017), including both public charities and foundations, had written conflict of interest policies, but 15% of the boards were not reviewing and signing the disclosure statements on an annual basis. Among Ostrower's survey respondents, larger nonprofits were more likely to have a written conflict of interest policy than smaller ones, but the smaller ones were more likely to report that other board members reviewed and approved financial transactions. In the case of these smaller nonprofits, while board members might review the transactions, there frequently are no written guidelines to inform their review. By contrast, in many larger nonprofits that do have formal policies, their boards are not reviewing transactions beforehand to ensure that the formal policies are being met.

Normative and Analytic Approaches

Murray (1997) and others have questioned the rationality assumption that underlies the common perception of board behavior. The normative approach, according to Murray, is the view that the board has the final authority on governance decisions, and that, in turn, the board is accountable to the organization's stakeholders, for which it acts as trustee. In

other words, the board is both legally and morally obligated to oversee the organization's mission and performance. Normative approaches are modeled on the classic principles of rational strategic planning.

The board is both legally and morally obligated to oversee the organization's mission and performance.

In contrast to the normative approach, the analytic approach is primarily concerned with finding out how boards actually function, make decisions, govern, are constituted, and carry out their obligations. Middleton (1987), Herman and Heimovics (1990), and Ostrower and Stone (2006) move away from normative understandings of boards toward a greater emphasis on board behavior. They find that the challenge to nonprofit governance is not so much one of legal structures; instead recruitment, history, and decision-making characteristics are essential for understanding nonprofit governance.

The relationship between board and CEO is critical in this respect, as it represents the interface between governance and management functions. While the board hires, fires, and supervises the CEO, the latter typically has access to more and more current information and "thus serves as the educator of the board" (Middleton 1987, p. 150); and while the board makes the final decision, functional authority may rest with the CEO. Boards have to avoid becoming "captured" by strong CEOs, and, in turn, must not dominate the CEO either, as this may stifle initiative and dampen performance.

> The board-management relationship is essentially paradoxical. For many important decisions, the board is the final authority. Yet it must depend on the executive for most of its information and for policy articulation and implementation. The executive has these emergent powers but also is hired and can be fired by the board and needs the board for crucial external functions.
>
> (Middleton, 1987, p. 152)

Boards have to avoid becoming "captured" by strong CEOs, and, in turn, must not dominate the CEO either, as this may stifle initiative and dampen performance.

Middleton also challenges the assumption that boards make policy and evaluate organizational performance. Instead she argues that boards frequently simply ratify policies formulated by the CEO and staff and evaluate programs deemed as "safe" and "uncontroversial." Finally, in contrast to the assumption that nonprofit boards are "noisy constituent boards," she finds that "some boards, especially those with strong ties to high-status members, are conflict-averse and do not engage in discussions concerning controversial organizational issues" (Middleton, 1987, p. 150). Long-standing friendship ties and obligations among members may stand in the way of full stewardship of the organization. As a result, boards

can become complacent and a source of inertia rather than renewal (not to mention fertile ground for conflicts of interest).

A 2016 survey on governance in American nonprofit organizations (BoardSource, 2017) revealed much the same picture of board composition and behavior as Ostrower's groundbreaking 2007 survey did, but with several notable differences (though admittedly with different sets of respondents):

- Both surveys found that, on average, some 85% of board members were white/Caucasian; 7% to 8% were African-American or black; and some 5% or less were Hispanic/Latino. Though just over half of nonprofit boards responding to Ostrower's survey were composed solely of white, non-Hispanic members, only 27% of those responding to BoardSource identified as all white. Ostrower (2007) found that while nonprofits that serve higher percentages of minorities were far more likely to include board members from those minority groups on their boards, many of them included no corresponding minority group board members.
- In terms of gender, women constituted on average 48% of board membership among respondents to the 2016 survey, slightly more than the 46% reported by Ostrower's respondents. Among the BoardSource respondents, representation is equal in small organizations, but the balance skews further toward males in larger organizations. More board chairs tend to be male, especially in larger organizations and in foundations.
- Boards of larger, wealthier nonprofits tend to draw more heavily from members of elite groups, as indicated by the fact 80% of those who serve on the boards of larger organizations also serve on corporate boards (compared to 31% among the smallest nonprofits).
- In 2016 some two-thirds of board members of responding nonprofits were between the ages of 40 and 65; 16% were older than 65 and 17% were under the age of 40. This contrasts with Ostrower's findings ten years earlier, in which only 7% of board members were younger than 40.
- Ostrower's survey in the mid-2000s found that among the activities considered among the basic responsibilities of nonprofit board members (see above), setting policy and financial oversight were those in which board members were reported to be most active overall. Board members were much less active in fundraising (except in arts organizations that are more dependent on private donations), educating the public, and community relations.
- Board size did not have a significant effect on board members' engagement overall, contrary to the common assumption that large boards contribute to governance failures and lack of attention to oversight duties. Nevertheless, board size was associated with higher levels of activity in fundraising, educating the public about the organization and its mission, and trying to influence public policy. It seems that "nonprofits use large boards as a fundraising tool" (Ostrower, 2007, p. 17).
- Based on the results of Ostrower's survey, it would seem that having the CEO/executive director serve as a voting board member, a corporate-style practice many nonprofits have adopted, results in a less engaged board and may undermine the very stewardship role with which board members are charged.

In some countries like the US, board members are rarely compensated for their time, but reimbursed for relevant expenses. In Ostrower's (2007) sample, only 2% of respondents compensated board members, though larger nonprofits did so more often, and foundations, which frequently paid their board members, were not covered. In the BoardSource's (2017) sample, only 1% paid board members a salary or honorarium on average, but 5% of foundations and 5% of internationally focused organizations paid honoraria. At the same time, there is a strong expectation that board members make personal financial contributions to the organization and engage in fundraising. On average, some 59% of respondents to BoardSource's survey reported that board members were expected to make such contributions to the organization, with somewhat higher percentages reported by charities and by organizations serving local needs. But in only 40% did board members actively participate in fundraising efforts, leaving most to the organization's management or staff. In other countries, there are no such expectations, and board members can receive an honorarium as compensation for attending meetings and for discharging their duty.

ACCOUNTABILITY

Accountability in a general sense refers to having to answer for one's behavior. In the case of nonprofit organizations, the board is accountable to the multiple stakeholders, which, as noted in Chapter 10, are people or organizations that have a real, assumed, or imagined stake in the organization, its performance, and its sustainability. These stakeholders typically include:

Accountability in a general sense refers to having to answer for one's behavior.

- Members—in the case of membership-based and member-supported organizations, members entrust the board with the governance of the organization, and the board is accountable to them.
- Supporters—such as individual donors, foundations, corporations, government agencies, and other organizations and groups that contributed financially and otherwise.
- Beneficiaries or users—those who in one way or another receive the service or benefit from the activities of the organization, including in cases such as environmental protection where the beneficiary is the public at large.
- Paid and voluntary staff—those who work for the organization either full-time, part-time, or on a voluntary basis.
- Contractors and cooperating organizations—such as suppliers of material or purchasers of services, and other organizations that are part of common or joint programs or projects.
- Public agencies such as oversight and regulatory agencies.

This plurality of stakeholders is thus one of the key characteristics of accountability in nonprofit organizations, since they are accountable to diverse actors and in a variety of directions (Ebrahim, 2010):

- *upwards* to their funders, supporters, and regulators;
- *downwards* to their members, beneficiaries, and clients;
- *externally* to their partners, media, society as a whole, and organizations working in similar fields; and
- *internally* to staff and volunteers, as well as to the fulfillment of their missions.

Koppell (2005) proposes five dimensions of accountability:

1. **Transparency**: Are data and other information that allow for the assessment of the organization's behavior and performance made openly available? As will be discussed in more detail below, transparency is an important tool for assessing organizational accountability.
2. **Liability**: Does the organization or those responsible for it bear the consequences (positive or negative) for its performance?
3. **Controllability**: Is there a clearly defined principal–agent relationship and does the agent do what the principal desires?
4. **Responsibility**: Does the organization follow existing rules, laws, and regulations (including those it set for itself)?
5. **Responsiveness**: Does the organization address and fulfill the expectations and needs of its stakeholders?

Dealing with these diverse and potentially conflicting expectations requires a particular type of governance and management. If an organization tries to deal with all these accountability dimensions on an equal level, its organizational effectiveness could be undermined. Koppell (2005) calls this phenomenon "multiple accountabilities disorder."

The board as a whole and as individual members holds the fiduciary trust that the organization operates in a legal and responsible way. Moreover, there are lines of accountability other than the board's obligations towards stakeholders. There are internal board accountabilities such as the accountability of the treasurer or the chairperson to the board as a whole. Within the organization itself, the executive officers and staff are accountable to the board. Because of the multiple stakeholders and constituencies that nonprofit organizations are accountable to, they have to meet different forms or requirements of accountability:

The board as a whole and as individual members holds the fiduciary trust that the organization operates in a legal and responsible way.

- **Performance accountability** of the mission–activity fit, the performance of the chief executive and the staff, financial aspects (budget, audits, contracts, funds), program oversight, and program development.
- **Legal and fiscal accountability** in terms of laws and regulations, in particular aspects relating to the organization's finances and tax status, but also in areas of labor law, and, depending on the field of operation, health, social welfare, and environmental stipulations.

- **Public accountability** to the public at large as well as representative organizations and regulatory agencies; this includes submission of IRS Form 990 (or equivalents), publication of annual reports, if required, or voluntary measures such as websites and other activities to keep the public informed about the organization's mission and programs.

Leat (1988) differentiated between three analytic types of accountability: explanatory, responsive, and accountability with sanctions.

- **Explanatory accountability** means that one party explains and gives an account of actions to another, either orally or by filing more formal, written statements. For example, watchdogs and voluntary oversight bodies in the field of environmental protection may request reports from businesses or government organizations, but they may have no statutory right to this information, nor can they express formal sanctions. However, they may use public pressure and enforce compliance.
- **Responsive accountability** implies that management and the board are to take into account the views of those to whom they are directly and indirectly accountable, even though there may be no legal obligation to do so and no formal sanctions in place. An example would be a foundation in the process of strategic planning deciding to change its grant-making priorities. To ensure responsive accountability, the board may engage in board-based stakeholder consultations that involve different perspectives and diverse interests. Responsive accountability speaks to the public responsibility of private action for the public good.
- **Accountability with sanctions** refers to the formal, legal aspect of accountability. It is accountability to those stakeholders that have formal sanctions in place, legal or otherwise. This is the requirement for most US 501(c)(3) nonprofit organizations to file tax returns with the IRS, or of English charities to submit reports to the Charity Commission, or of German voluntary associations to clear their tax status with the local tax authorities. Yet formal accountability includes also accountability to funders such as foundations and local governments and the potential sanction to withhold or even withdraw funding.

Several entities have incorporated these many different types of accountability into standards for nonprofit sector organizations. For example, the Minnesota Council of Nonprofits was among the first state associations of nonprofits to develop a set of accountability principles and management practices. The Principles and Practices of Nonprofit Excellence (Minnesota Council of Nonprofits, 2014) are not intended for use by funders or by government to evaluate organizations; rather they lay out a set of accountability principles that need to be adapted to fit each organization. Along the same lines, Maryland Nonprofits, the main umbrella association for nonprofits in that state, developed Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector. These two templates have been adopted and adapted by state associations and their members throughout the US.

There is also a set of similar standards intended mainly to help guide donors in making their giving choices as well as to foster public confidence in the sector. Both the Standards

for Charity Accountability of the Better Business Bureau's Wise Giving Alliance and the Accountability Standards of the Charities Review Council were developed with input from all sizes of nonprofit organizations, grant-making foundations, scholars, and other stakeholders. Though the Charities Review Council's standards are somewhat more prescriptive and comprehensive, including even goals for diversity and inclusivity, both sets cover how an organization is governed, the way it uses its resources, and its willingness to disclose basic information to the general public. This public disclosure aspect is at the core of transparency, discussed in the next section.

TRANSPARENCY

Transparency refers to the provision of, and access to, information about the behavior of an organization's board, managers, employees, volunteers, and members. Transparent organizations provide information directly and in a form that is accessible and understandable to key stakeholders as well as the general public.

Transparency refers to the provision of, and access to, information about the behavior of an organization's board, managers, employees, volunteers, and members.

Transparency serves accountability. As Marschall (2010, p. 1566) puts it, "We behave differently—more responsibly—if we know whatever we do will be subjected to scrutiny by forces beyond our own control." In essence, it is a means that allows the "principal" to hold the "agent" accountable. In its broadest sense, transparency can be considered a norm for good governance. It can thus be applied as a fundamental principle of democracy, which requires an informed citizenry and an open government; as a basic human right so that citizens have access to information; or as a performance standard that enhances accountability, acceptance, and ultimately legitimacy.

Information is power. As discussed in Chapter 5, information asymmetries exist in markets where either the buyer or the seller knows more about the quality of a product or service. Such asymmetries lead to trust dilemmas: how can one be assured that the other is not taking advantage? According to trust-related theories in particular, the question is answered in the nonprofit form through the nondistribution constraint, which ensures stakeholders that the nonprofit organization is not seeking to maximize profit. Aside from this constraint, however, nonprofits lack the accountability structures inherent in governments (to their electorate) and companies (to their owners or shareholders). Thus, according to Marschall (2010, p. 1568), the "accountability minus" of nonprofit organizations must be compensated by a "transparency plus," making transparency a fundamental element leading to and protecting the legitimacy of nonprofit organizations.

The "accountability minus" of nonprofit organizations must be compensated by a "transparency plus," making transparency a fundamental element leading to and protecting the legitimacy of nonprofit organizations.

But how much transparency is sufficient or necessary to meet the goals of accountability and legitimacy? Complete transparency could be quite costly, especially for small nonprofit organizations with little to no administrative capacity. Furthermore, legitimate limits should be recognized, especially those that might affect disclosure of personal information about beneficiaries or donors or, in some cases, those that might affect the organization's competitive edge. Finally, the information shared should, in principle, be useful to stakeholders and the general public. More transparency is not necessarily better. Box 12.2 offers a selection of practices for cultivating a culture of accountability and transparency within nonprofit organizations.

More transparency is not necessarily better.

BOX 12.2

Cultivating a Culture of Accountability and Transparency

Accountability and transparency can be demonstrated by a variety of practices, including:

- Being honest in solicitation materials and truthful and clear in communications with donors about how their gifts will be or have been used.
- Being transparent about who is accountable for the nonprofit's expenditures.
- Adopting expense policies, such as a travel expense reimbursement policy, requiring prior approval and limiting expenditures to what is reasonable and necessary.
- Posting financial information about the nonprofit on the nonprofit's website.
- Having a conflict of interest policy that all board and staff are aware of and review regularly.
- Adopting an executive compensation policy to ensure that the full board is aware of and approves the compensation of the executive director/CEO.
- Ensuring the board's regular review of current financial statements and of the IRS Form 990 (or other required documentation) prior to filing.
- Adopting internal controls to ensure accountability.

- Responding appropriately to requests for copies of financial reports, as required by the IRS public disclosure requirements.
- Adopting an internal complaint procedure for staff and volunteers.
- Establishing a whistleblower policy in accordance with state laws for whistleblower protection.

Source: www.councilofnonprofits.org/tools-resources/financial-transparency (accessed May 2021).

In seeking to find such a balance and to improve both accountability and transparency, the IRS updated its Form 990 "Return of Organization Exempt from Income Tax" to include questions and requirements for disclosing multiple governance policies and practices as of 2009. For example, the form asks whether conflict of interest, whistleblower, and document retention and destruction policies are in place although these are not required by the Internal Revenue Code. Simplified forms ("990-EZ" and "990-N") are available for smaller organizations. In addition, it asks how the organization's Form 1023 (application for tax-exempt status) and Form 990 are made available to the public as required and whether and how other documents, such as governing documents and financial statements, are made available. While the IRS has no ability to enforce adoption, the requirement to disclose is an effort to publicly shame nonprofits into putting such policies in place (Hopkins, 2017).

Private foundations are subject to the same public disclosure rules as other tax-exempt entities, except that the identity of contributors must be made public. Still, many, among them grant-seekers, are calling for greater transparency on the part of grant-making foundations, especially with regard to selection processes and funding decisions, but also with regard to how foundations assess their own performance (Brock et al., 2013). On the other side, some such as Tyler (2013) argue that current tax and other requirements already secure accountability to the public and that further legal requirements for transparency would unnecessarily hinder philanthropic freedom and reduce the effectiveness of private philanthropy. By the same token, as Tyler (2013, p. 65) agrees, foundations could do more to minimize misperceptions in the grantor–grantee relationships by "communicating and informing as much as is strategically and reasonably possible." In an effort to bridge these positions, the Foundation Center (now Candid) launched Glasspockets (www.glasspockets.org), a website that aims to inspire private foundations to seek greater openness and to understand best practices.

CONCLUSION

Demands for better governance and greater accountability have increased significantly in recent years, following, in part, the heightened importance of the nonprofit sector in many countries. At the same time, scandals have rocked the business world, government, and the nonprofit sector, and undermined public trust in many institutions. Prominent examples

include the Enron debacle of 2002, highly publicized corrupt practices in government, be it at the local level or the federal government level, and especially the financial crisis of 2008–09 that revealed serious deficiencies in the way institutions and organizations are regulated and governed.

Yet the nonprofit sector is not immune to wrongdoing. The United Way of America scandal of 1995, the failure of New Era Philanthropy in the same year, questions about the use of funds raised by the American Red Cross in the aftermath of the September 11, 2001 attacks on New York City and the Pentagon, doubts about the use of funds by some international NGOs in Thailand's Aceh province after the 2004–05 tsunami, the Oxfam International scandal in Haiti, as well as other incidents such as the child abuse in Catholic and Protestant institutions over decades, have brought nonprofit governance and accountability closer to the public eye in the US and other countries.

It is important to keep in mind one of the paradoxes of modern society: it is not so much the case that nonprofit organizations, businesses, and government have become more prone to governance failures and accountability lapses than in the past. Most likely, the opposite is true, and even if it is difficult to provide convincing evidence, one can assume that today's governments, businesses, and nonprofits are perhaps somewhat more reliable and trustworthy than they were 100, 50, or 25 years ago. Yet what may have changed more than the actual organizational behavior is the public expectations that favor control over confidence in institutions. Power (1999) uses the term "audit society" to describe a general political and cultural element of modern society: many major institutions are subject to more regular and more comprehensive oversight regimes and public accountability requirements. The nonprofit sector, having become more important and more visible than in the past, is now also more within the compass of the auditing society and its cultural code of public suspicion.

REVIEW QUESTIONS

Why is governance of nonprofit organizations different from that of businesses and public agencies?
What could be some of the tensions between the board and the CEO?
What are some of the basic forms of accountability?
What is the relationship between governance, accountability, and transparency?

RECOMMENDED READINGS

Brown, W. (2020). Composition of Nonprofit Boards: Summary of Factors That Count for Who Governs Nonprofits. In H. K. Anheier and S. Toepler (Eds.), *The Routledge Companion to Nonprofit Management* (pp. 139–151). Routledge.

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NOTE

1 This section draws in part on Anheier and Abels 2020.

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CHAPTER 13

Leadership and Human Resources

In a first part, this chapter offers an overview of the theory and practice of leadership in nonprofit organizations from a multiple stakeholder perspective. The remainder of the chapter presents an overview of human resource management in the nonprofit sector, with emphasis on both paid employees and volunteers.

LEARNING OBJECTIVES

Organizations are made up of people, resources, and technology; they are bounded, structured, and goal-directed and serve explicit purposes. Importantly, they allocate people, resources, and technologies according to specified tasks and activities that require some form of command and coordination. How this can be achieved in nonprofit organizations is the main topic of this chapter. How can nonprofit leaders and managers motivate and engage, direct and supervise paid staff and volunteers? What role do power, leadership, and management play? After considering this chapter, the reader should:

- be able to understand the different facets of power in organizations;
- be able to appreciate the role of leadership and different leadership styles;
- be able to identify the work forms most relevant to nonprofit organizations as well as their management implications;
- be familiar with basic aspects of human resource management.

Some of the key terms introduced or reviewed in this chapter are:

- Charismatic leadership
- Donative labor hypothesis
- Equilibrium wage rate
- Human resource management
- Leadership styles and forms
- Paid versus unpaid staff
- Power, authority, leadership
- Psychological contract
- Public service motivation

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- Transactional leadership
- Transformational leadership
- Volunteer management

INTRODUCTION

The strategic orientation of a nonprofit organization's human resource management is shaped by its mission, values, and objectives. Mission is directly connected with values and purpose. In forprofit organizations, the mission is first and foremost to generate profit for the owner(s), while a nonprofit organization is not "owned" by anybody and often has a variety of sources of funding with the mission to serve a—sometimes broad, sometimes narrow—public purpose. In fact, a nonprofit organization is prohibited from "private inurement." Thus, as suggested in Chapter 9, identifying and articulating a mission statement becomes the organization's first priority, a task closely related to identifying a client population and donor constituency. Yet this task is complicated by the constant threat of mission displacement due to growing competition and rising market orientation. Moreover, nonprofit organizations have multiple constituencies and external as well as internal stakeholders with overlapping and quite often conflicting interests (see Chapter 12). It is this constellation that puts a premium on leadership in nonprofits.

The strategic orientation of a nonprofit organization's human resource management is shaped by its mission, values, and objectives.

The term "leadership" refers alternatively to the upper echelon(s) of an organizational hierarchy or to the process of influencing and mobilizing collective efforts in pursuit of the organization's goals. With regard to the upper echelon view, it usually pertains to the organization's executive officers such as the chief financial officer (CFO) and chief operating officer (COO) but most prominently the chief executive officer (CEO), (executive) director, or president. Executive officers ideally also provide the vision to synthesize stakeholder interests and to produce meaningful outcomes, especially when faced with adaptive challenges as many nonprofits are. Yet, as explained in Chapter 12, the overall governance of most nonprofit organizations is vested in governing boards, which "hold formal legal and moral responsibility to oversee and guide the organization" (Brown, 2020, p. 139).

LEADERSHIP

The issue of leadership—and with it power and authority—is among the most political and complex in any organization, but it appears even more demanding in nonprofits due to the important influence of values on organizational behavior, management style, and

decision-making (see Chapter 9; Simsa, 2020). Working for a supermarket, a computer factory, or a law firm requires relatively little in terms of value commitment on behalf of managers or employees; working for a nonprofit, and indeed becoming a trustee, member, or volunteer, requires a closer examination of value alignment. This is particularly the case for nonprofits that are deeply based on, and guided by, religious, political, or cultural values. In such situations, questions of power, authority, and leadership are not only a matter of goal attainment and job performance but also a matter of personal commitment and expectations.

> The issue of leadership ... appears even more demanding in nonprofits due to the important influence of values on organizational behavior, management style, and decision-making.

The importance of values in nonprofit organizations makes them intrinsically political institutions. Values do not exist in isolation but are imprinted in organizational cultures, enacted through day-to-day activities, and evoked at special occasions and during decision-making. The link between values, power, and politics is critical, and values form one of the bases of power. In Pfeffer's (1981, p. 7) terms: "Power is a property of the system at rest; politics is the study of power in action"; politics are "those activities taken within organizations to acquire, develop and use power and other resources to obtain one's preferred outcome in a situation in which there is uncertainty due to dissensus about choices."

> The importance of values in nonprofit organizations makes them intrinsically political institutions.

Weber defined power as the "probability that one actor within a social relationship will be in a position to carry out his own will despite resistance" (1947, p. 152). Emerson (1962, p. 32) added an important corollary: "The power actor A has over actor B is the amount of resistance on the part of B which can be potentially overcome by A." Power means that one party changes behavior due to the preferences of another, although in most cases the exercise of power does not involve actual threats or force. In modern organizations, power is frequently codified, be it in labor or contract law or staff rules and regulations.

Power and authority are closely related. The latter refers to the right to seek compliance. Authority is legitimate power and is defined in relation to the overall goals and objectives of the organization. For example, the supervisor of a social service agency can ask an employee or a volunteer to take on a particular case, provided it is within the realm of the relevant job description, but she may not ask them to run personal errands. Authority is limited power, and power specific to contractual and work-related circumstances.

More generally, there are several sources of power in organizations:

- *Referent power* is of particular importance in nonprofit organizations. It results from identification with, and commitment and dedication to, a particular organization, cause, or person. Given the value-based nature of many nonprofits, those representing the organization have referent power in addition to formal authority.
- *Legitimate power* stems from the location of a position in the organizational hierarchy and unit-of-command system and represents the authority vested in it.
- *Reward power* is the capacity to provide or withhold rewards from others, including promotions, pay raises, and bonuses, but also recognition, feedback, greater autonomy, challenging projects, and the like.
- C*oercive power* is the ability, vested in one's position, to sanction and punish others for failing to obey orders, meet commitments and contractual obligations, and for underperforming; coercive power includes reprimands, demotions, exclusion from projects, and employment termination. In membership organizations sanctions could imply expulsion, loss of voting rights, or fines.
- *Information power* originates from access to, and control over, information that is critical to the organization's operations and future. In most organizations, including membership-based ones, informational elites emerge that control information flows and thereby organizational decision-making.
- *Expert power* refers to the possession of expertise and knowledge valued by members of the organization. Professions such as physicians, nurses, lawyers, social workers, accountants, and teachers possess expert power, which affords them greater autonomy as well.

The six sources of power differ in the extent to which they are likely to bring about commitment, compliance, and resistance among subordinates, as Table 13.1 shows. Minimizing the use of coercive power and maximizing the use of other power bases are least likely to create resistance to leadership and most likely to reinforce commitment and increase compliance. Relying more on referent and expert power is more likely to increase commitment, and use of legitimate power as well as information and reward power is likely to boost compliance.

Not only are power and authority closely related, so are both to leadership. As noted earlier, leadership is also the ability of one individual (or a board) to exercise influence on people's decisions and behaviors over and above what is required by authority relations and contractual and other obligations. Leadership is a process of influencing others to do what they would not do otherwise. Or, in the words of Tannenbaum et al. (1961, p. 24), "Leadership is a behavioral process in which one person attempts to influence other people's behavior toward the accomplishment of goals." There are several types of leadership:

- *Autocratic leadership* involves unilateral decisions, limited inclusion of employees or members in decision-making, dictating of work methods and performance criteria, and punitive feedback.
- *Democratic leadership* is based on group involvement in decision-making around a commonly shared mission, devolved power, and feedback based on helpful coaching.

TABLE 13.1 Sources of power and likely outcomes

Source of power used	*Type of outcome*		
	Increase commitment to organization	*Increase compliance with requests*	*Create resistance to leader, organization*
Referent	**Likely**, if in line with employee or member values	**Likely**, if in line with employee or member values	Possible, if it involves value contradictions and conflicts
Legitimate	Possible, if request is polite, very appropriate, and reflective of shared values	**Likely**, if seen as legitimate and necessary	Possible, if demands are seen as arrogant and improper, and not based on shared values
Reward	Possible, if used in subtle, personal way and evokes shared values	**Likely**, if used in fair, open, and personal way	Possible, if used in manipulative, scheming way
Coercive	**Very unlikely**	Possible, if used in non-punitive way and seen as necessary	**Likely**, if used in hostile and manipulative way
Information	Possible, if information is very convincing and reinforced by shared values	**Likely**, if request and information are reasonable	**Likely**, if used in secretive, manipulative ways
Expert	**Likely**, if request is persuasive and employees or members share same values and goals	Possible, if request is persuasive and not in violation of shared values	Possible, if request is less persuasive and potentially in violation of shared values

Source: Modified and based on Yukl, 1989, p. 44.

- *Laissez-faire leadership* is largely symbolic and implies that the group has far-reaching freedom in decision-making as long as they are in compliance with agreed-upon values and principles.

These first three types of leadership were suggested by Lewin (1999 [1948]) in the mid-twentieth century and have been refined since by two concepts: initiating structure and consideration. Initiating structure refers to the degree to which leaders define the role of employees and members in terms of organizational mission and goal achievement. Initiating structures are about group inclusion and participation and center largely on task-related issues. Consideration is the degree to which a leader builds commitment and mutual trust among members, respects their opinions and inputs, and shows concerns for their personal life and feelings. In this respect, leadership has a cognitive dimension that is about conceptualizing, guiding, planning, decision-making, and accomplishment; it also

has an affective component that emphasizes emotional, social, and human relations and, indeed, appeals to people's values as well as their frustrations and aspirations. The latter aspects are particularly relevant for charismatic leaders.

- *Charismatic leadership* refers to the personal characteristics of leaders to inspire pride, faith, identification, dedication, commitment, and willingness to follow directives and accept decisions.

Political leaders such as Nelson Mandela, US Supreme Court judges such as Thurgood Marshall and Ruth Bader Ginsberg, religious leaders such as Pope John Paul II, business leaders like Steve Jobs (Apple Inc.), nonprofit leaders such as Bernard Kouchner (Médecins sans Frontières and Médecins du Monde), and philanthropists like Barbara Streisand and Oprah Winfrey are positive examples of charismatic leadership, as are activists like Malala Yousafzai (the youngest recipient of the Nobel Peace Prize) and Greta Thunberg (School Strike for Climate). However, not all charismatic leadership is positive, as the annals of history show many abuses of such leadership as well. Charismatic leadership is most useful in times of organizational uncertainty and transformation.

- *Transformational leadership* involves motivating employees and members to perform beyond normal expectations in order to meet the organization's mission and achieve organizational goals. It inspires staff and members to put aside personal self-interest for the common good of the organization and to have confidence in their ability to achieve the "extraordinary" challenges before them.

Yet, charismatic and transformational leadership can be dysfunctional for "steady-state" organizations that perform in relatively stable task environments. In such circumstances, transactional leadership is more appropriate.

- *Transactional leadership* is about maintaining an alignment between the organization's mission and goals on the one hand, and the motivation and interests of employees and members in achieving set objectives.

As these last two leadership types suggest, there is a connection between organizational life cycle and leadership. Referring to the stages of the organizational life cycle in Table 9.2, transformational leadership is appropriate during the entrepreneurial phase but also during the elaboration phase; transactional leadership applies to the collectivity and control stages. During these latter stages, leaders are more managers and less visionaries or strategists.

There is a connection between organizational life cycle and leadership.

Nanus and Dobbs (1999) suggest that nonprofit leaders need to focus on four dimensions:

- Internal organizational aspects, in particular the board, staff, volunteers, members, and users that the leader has to inspire, encourage, and unite behind a common mission.

- External organizational aspects, in particular donors, policy-makers, the media, and other constituencies whose support the leader needs for financial resources and legitimacy.
- Present operations such as organizational performance and service quality, demand, information flows, organizational conflicts and motivation, and community support.
- Future possibilities, where the leader addresses questions of sustainability and potential threats and opportunities that may have important implications for the organization and its direction.

By combining these dimensions, Nanus and Dobbs (1999) arrive at a typology of nonprofit leadership roles (Figure 13.1), and suggest that effective leaders not only succeed in performing fairly well in all four, but also know when to focus more on some rather than others:

- Focus on outside aspects and present operations requires leaders to generate resources from the environment (fundraiser) and champion the organization's cause among crucial constituencies (politician).
- Focus on present operations and the internal environment of the organization requires the leader to empower and inspire individuals and make it possible for them to realize their potential. In this scenario, the role of the leader is that of a coach.
- Focus on the internal environment and future operations sees the leader less as a coach but more as a change agent who will change structure to fit better with the anticipated future task environment.
- Focus on external aspects and future operations requires leaders to act as both visionaries and strategists: visionaries, because they need to formulate a coherent vision of the organization that can be shared widely among core constituencies and provide legitimacy for changes; strategists, because leaders have to identify and implement strategies that hold promise for achieving future objectives.

As a process, leadership can also refer to mobilizing the collective efforts of an organization's workforce to pursue its goals and mission (Nye, 2008). We turn now to describing the nature of that workforce.

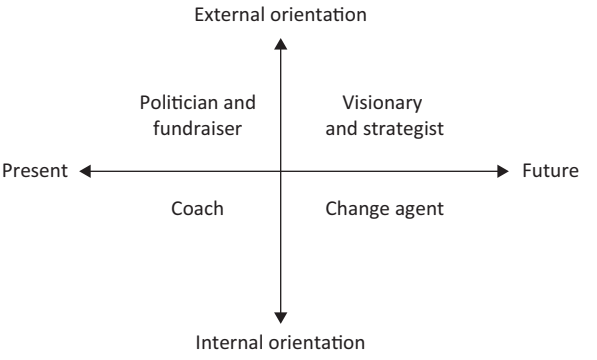


FIGURE 13.1 Leadership roles in nonprofit organizations

HUMAN RESOURCES

The nonprofit organizations that generally come to mind tend to be labor-intensive rather than capital-intensive, due to the nature of the services involved and the fields in which they operate. The nonprofit sector includes numerous different forms of paid and unpaid work. These forms depend heavily on factors including not only the type of economy (developed, transition, developing), industry or field (health and social services, culture, education, political advocacy, international humanitarian assistance), and geographical situation (urban, suburban, rural), but also the size and the age of the nonprofit organization in question. For example, nonprofit organizations may rely exclusively on volunteer work at the beginning of their organizational life cycle and begin to incorporate paid staff positions as the organization grows. Typically, nonprofit organizations have paid and unpaid staff in both service functions (e.g., counseling, befriending, giving care, fundraising, advising) and governance (e.g., board membership, trustees). While there exists a variety of mixed forms of work in the nonprofit sector, the differentiation between paid and unpaid work is one of the most crucial distinctions in the structure and employment profile of nonprofit organizations.

The differentiation between paid and unpaid work is one of the most crucial distinctions in the structure and employment profile of nonprofit organizations.

Paid versus Unpaid Staff

The distinction between paid and unpaid staff is less clear-cut than it first appears. For one, frequently volunteers are compensated for expenses that help offset some opportunity costs, and in some countries, trustees and board members receive honoraria or similar payments in cash or in kind in recognition of services rendered. Indeed, the "pecuniary" aspects of volunteering are receiving more attention by representatives of voluntary organizations in their bid to increase the number of volunteers.

The distinction between paid and unpaid staff is less clear-cut than it first appears.

Conversely, any work performed below the market wage in a given labor market would involve some "voluntary," i.e., non-remunerated, elements regardless of its classification as paid or unpaid labor. Specifically, from an economic perspective, the theoretical reference point is the equilibrium wage rate, i.e., the wage at which all job seekers would find enough jobs available to fill. Thus, volunteering and mixed forms of paid and unpaid work are basically work supplied at wages lower than the equilibrium wage rate. In most cases, and primarily for practical reasons, the existence of a labor contract between employer and employee serves as a reference point to determine the form of work, since the equilibrium wage rate is often difficult to determine, particularly in the nonprofit and public sectors.

There is, however, one additional difference involved. Whereas paid work is typically settled in a labor contract or covered by an organization's standard personnel policies (in terms of wage rate, working time, and other conditions such as fringe benefits), unpaid work is often not covered by a contract or specific organizational policies. Thus, volunteering is not only work either unpaid or paid below the equilibrium wage rate, it is also frequently informal work in the sense that it is not governed by a contract between "employer" and "employee."

Mixed forms of paid and unpaid work occur in many forms and with increasing flexibility and frequency as labor markets in developed, developing, and transition economies seem to become more creative (and less restricted by labor laws and union influence) in finding new combinations between the two types of work. Hence the demarcation line between paid and unpaid is less distinct today than in the past. In the following pages, paid work will be discussed separately from unpaid work conducted by volunteers (also discussed in Chapter 7), although too strict a division can no longer be upheld due to the increasing importance of gray areas between "pure" paid work and "pure" volunteering.

What is more, paid and volunteer staff have to work and collaborate closely together, which often involves significant human resources challenges, as the need to train volunteers is a source of distraction for already overburdened paid staff, priorities for both may be incompatible, and different performance measures might be applied (Russell et al., 2020).

Since volunteering is predominantly in and for nonprofit organizations, the issue of a blurring between paid and unpaid work is most relevant in the nonprofit sector. And since the nonprofit sector is in most countries typically the least unionized part of the labor market, volunteering takes place in a work environment in which organized labor is less present than in other parts of the economy. If unions come into play, they are generally related to public sector unions and dominated by the concerns of career civil servants. Therefore, even in developed market economies, both paid and unpaid work in the nonprofit sector are generally not well represented in terms of unionization and collective bargaining.

Since volunteering is predominantly in and for nonprofit organizations, the issue of a blurring between paid and unpaid work is most relevant in the nonprofit sector.

Public Service Motivation

One reason for the low unionization rate of paid and unpaid workers in nonprofit organizations is an implicit assumption about the distinct characteristics of the nonprofit sector. It assumes that the willingness to work for no monetary compensation or for monetary compensation below the equilibrium rate is based on some kind of special motivation and devotion to the organization's causes, missions, and aims.

In this line of reasoning, volunteering becomes an expression of underlying values, attitudes, and convictions, and social scientists have examined the extent to which such nonmonetary incentives are basically altruistic, or if they indeed involve some form of

calculus that is ultimately selfish in nature, at least in part (see Chapter 7). Nevertheless, values and nonmonetary incentives are almost equally important for paid work in the nonprofit sector.

In fact, work and career choices between nonprofits, government, and the parts of the private sector involved in public service delivery are in large part driven by a person's public service motivation (PSM). While long-debated in the literature, particularly in public administration, a full and widely accepted definition of PSM remains elusive, but it can be best understood as an amalgam of several other related concepts. PSM thus encapsulates altruistic, prosocial, other-oriented, and helping behaviors, values, and motives that steer individuals towards working for the public and the common good. As a consequence, public service-motivated employees derive job satisfaction and fulfillment from intrinsic rewards which they value over extrinsic, monetary, or materialistic rewards and incentives (Ritz et al., 2016).

[Public service motivation] encapsulates altruistic, prosocial, other-oriented, and helping behaviors, values, and motives that steer individuals towards working for the public and the common good.

For nonprofit and public sector organizations, the consideration of PSM has a number of practical applications, as Christensen et al. (2017) discuss:

- Hiring practices and procedures should signal PSM values, and candidate screening should take PSM into account.
- Work environments should be designed to reinforce PSM to increase the job and organizational commitment of workers.
- Opportunities for workers to relate to beneficiaries also strengthen PSM.
- Onboarding and mentoring programs should emphasize public service values.
- Organizational leaders should communicate and model these values.

Originally focused on government, the current consensus sees PSM as applicable to all sectors, but more predominantly in government and nonprofits than in the business world (Bozeman & Su, 2015). Forprofit consultancies and contractors working for and with government, however, can also draw on PSM in ways that may incentivize sector-switching among qualified public and nonprofit employees.

Donative Labor Hypothesis

Researchers focusing on sectoral wage differentials in the paid labor market have argued that other, more structural or institutional factors, *de jure* or *de facto*, may also be relevant in explaining distinctiveness. Some research has found higher pay and better conditions in the nonprofit sector in industries such as higher education and healthcare (Salamon & Sokolowski, 2006; Salamon & Newhouse, 2019), but lower rates of pay and poorer

conditions in other fields. The latter may be the case because employees of nonprofit firms are willing to accept both lower wages and lower fringe benefits because they support the organization's cause—a cause in which they believe—and decide to "donate" some of their time at levels below market rate relative to the skills they have.

This argument, one of the reasons given to explain any wage gaps between the sectors, is referred to as the donative labor hypothesis. It suggests that nonprofit workers derive utility (satisfaction) from contributing to the delivery of collective goods or services that are different from what comparable businesses provide. Because they value the nonprofit provision, they are willing to accept lower pay and benefits and thus "donate" the hypothetical pay differential of what they might alternatively make in a forprofit providing goods and services that are less valued (Leete, 2001). Examples are: a social media specialist working at a local nonprofit versus working in the communications department of some tech giant; a forest specialist working for the World Wildlife Fund rather than a multinational paper company; or a lawyer aiming for a leadership position in a human rights organization instead of becoming a partner of a leading law firm on Wall Street.

Nonprofit workers derive utility (satisfaction) from contributing to the delivery of collective goods or services that are different from what comparable businesses provide.

The donative labor hypothesis is meant to explain wage differentials between nonprofits and forprofits in industries where the two sectors offer different services or differences in quality, such as those covered in Hansmann's contract failure theory (see Chapter 5). In mixed industries where both, or even all three, sectors provide essentially similar services, there is less incentive to forgo higher material rewards, as all sectors can utilize the same public service motivation to attract employees. The donative labor hypothesis is less persuasive in these circumstances, and well-qualified employees in particular are more prone to engage in sector-switching or -hopping. However, nonprofit leaders may have internalized the notion that employees are willing to forgo more generous compensation for the benefit of the cause and offer lower pay levels as a result of social expectations (Kim & Charbonneau, 2020; Pallotta, 2010), which might explain the perpetuation of low pay even in these industries. Such expectations may also be promoted by donors and even public sector contractors believing that nonprofit wages should not be higher than those paid in comparable businesses or government.

More generally, empirical evidence as to whether pay and conditions systematically differ by sector is rare, particularly information that controls for differences in organizational size, kind of industry or field, and the types of occupations and professions involved. This is partly because available labor statistics lack appropriate differentiation between certain forms of work and compensation (e.g., wages, fringe benefits) as far as the paid labor force is concerned. Overall, empirical support for the persistence of a substantial wage differential is not very strong, and "wages (and total compensation) in the nonprofit and for-profit sectors, on average, differ relatively little for similar workers and jobs" (Hirsch et al., 2018, p. 168; see also Chapter 4).

HUMAN RESOURCE MANAGEMENT

Human resource management includes all the activities related to the recruitment, hiring, training, promotion, retention, separation, and support of staff and volunteers. As mentioned earlier, nonprofit organizations tend to be labor-intensive rather than capital-intensive. Because of this characteristic, multiple stakeholder influence, and the complex nature of goods and services produced, human resource management increases in importance.

Personnel Management

Nonprofits compete for workers with forprofits and public agencies using three types of incentives: wages, benefits, and non-wage aspects. As alluded to earlier, nonprofits are presumed to do less well on the first two and better on the third. Nonprofit employment involves "sorting" processes among potential applicants based on value preferences and in a labor market based less on wage considerations alone (Russell et al., 2020). What is more, many nonprofits have flat hierarchies and offer fewer opportunities for advancement within the organization; hence, changing employer as a way of "moving up" is frequent, resulting in high turnover. This is even more so following a trend in the nonprofit sector toward project-based funding, which results in more fixed-term contracts.

Nonprofit employment involves "sorting" processes among potential applicants based on value preferences and in a labor market based less on wage considerations alone.

As noted previously in this chapter, research suggests that some nonprofit wage differentials persist when controlled for job and worker differences, even if only weakly. In this respect, nonprofit staff may explicitly or implicitly donate part of their wages to the organizational mission. At the same time, incentive contracts are rare among nonprofit managers, which in business firms are used to reduce principal–agent problems, which, as explained in Chapter 12 on governance, arise when agents (managers) have impulses not to follow the directives of the principals (board members). Though such incentive contracts might clash with a nonprofit organization's values, many have adopted pay-for-performance systems (Baber et al., 2002), usually in the form of bonus systems that link wages to goals relating to the impact and quality of services delivered or efficiency gains.

However, the pay-for-performance practice faces several problems when transferred from forprofit to nonprofit organizations:

- **Controllability (and attribution)**: Controllability means that individuals will only be evaluated against goals whose attainment they can clearly influence. Yet the "law of nonprofit complexity" described in Chapter 10 means that tasks are more dispersed

among, and thus performance less attributable to, specific units within the organization. Thus, controllability is difficult to establish.

- **Multi-tasking**: Nonprofit workers often multi-task in several domains due to overlapping tasks and less organizational (both vertical and horizontal) differentiation. As Speckbacher (2003, p. 273) observes: "The multidimensional character of results in nonprofits . . . has the effect that agency problems are typically multitasking problems in the sense that agents carry out the multiple activities that cannot be wholly captured by performance measures." It is therefore hard to tie specific individuals to particular performance.
- **Pull effect**: Pay-for-performance strategies may result in an unintended pull effect toward specific tasks and programs within an organization and may informally shift organizational priorities. "If measurement and compensation are restricted to a subset of the relevant dimensions of performance, then agents typically reallocate activities toward those tasks that are measured and rewarded and away from other relevant tasks" (Speckbacher, 2003, p. 273). Moreover, the practice might lead to myopic behavior, for example, if cost-cutting is easily measured and rewarded with wage increases but may actually undermine a nonprofit's long-term effectiveness.
- **Crowding-out effect**: Certain types of employees do not attribute high value to extrinsic, e.g., financial, rewards. A pay-for-performance system may "crowd out" such employees with more intrinsic motivations, who might perceive the system as reducing self-determination or as unfair. Such incentive contracts may therefore actually lower the morale of employees and crowd out value- and mission-driven workers (Deckop & Cirka, 2000).

While the flat hierarchies found predominantly in nonprofit organizations encourage relatively high job turnover, as noted earlier, they also offer an incentive by increasing individual employee control, thereby setting up a wage–autonomy trade-off. In other words, people may decide to work for nonprofits because they value autonomy more than wage maximization. This is especially likely in fields and organizations in which professionals (e.g., social workers, teachers, curators, etc.) can exert a strong influence. As such, nonprofits are the prototype of professional bureaucracies, as opposed to conventional bureaucracy where less autonomy rests with individual professionals (see Chapters 9 and 10). The wage–autonomy relation puts emphasis on coordinating and collateral relationships, which make human resource management in nonprofits more complex than in firms that rely on line and supervisory relationships.

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Moreover, many new nonprofit organizations, especially those at the grassroots level, nurture a more egalitarian organizational culture. As Rothschild and Stephenson Jr. (2009,

p. 801) remark: "The central claim in these organizations is that all of those who would be affected by a decision have a right to be invited to take part in making it."

Much of human resource management is concerned with motivation. Locke's theory (1991) suggests that staff and volunteers are motivated when they have clear and challenging goals to achieve; are involved in setting the goals themselves; and are provided with feedback on progress en route to agreed-upon goals. By contrast, few challenges, little involvement, and little feedback may lead to passivity, dependence, and a sense of "psychological failure."

Hackman and Oldham's job satisfaction theory (1975) offers a complementary set of insights into personnel management. They suggest that a number of basic dimensions are closely related to job satisfaction and high performance:

- Skill variety—jobs require a variety of skills and abilities.
- Task identity—the degree to which the job requires the completion of a whole and identifiable piece of work.
- Task significance—the degree to which the job has substantial and perceived impact on the lives of people.
- Autonomy—the degree to which the job gives freedom, independence, and discretion in scheduling work and in determining how it will be carried out.
- Feedback—the degree to which the worker gets information about the effectiveness (and not only efficiency) of performance.

Ensuring job satisfaction however is complicated by the mixed motivational structure of many paid staff. Often, employees—like volunteers—are also stakeholders and identify with the vision and mission of the organization and the values it represents. What is more, the variety of work forms, e.g., full-time, part-time, temporary, self-employed, and the like, add to the complexity of human resource management in nonprofit organizations.

Human resource management focuses on the contribution of the workforce to organizational performance (Boxall et al., 2007), reflecting a shift in importance away from monetary to human capital as a factor of competitive advantage and thus predominant driver of organizational success. Human resource management should be of particular importance to nonprofit organizations as they face pressures to efficiently use their typically scarce resources to fulfill their missions and produce high-quality services. At the micro-level, it refers to the management of individuals and small groups within an organization to enhance their and the organization's performance. Strategic human resource management is primarily concerned with the design and implementation of intra-organizational systems to increase efficiency and innovation, while its international counterpart focuses on the management of a multi-national and multi-cultural workforce and the importance of cultural context for organizational management strategies. In short, human resource management aims to increase organizational commitment and job satisfaction in order to raise organizational output.

As Guest (2007) points out, human resource management seeks to achieve the goals of both the organization and individuals, that is, high performance and high employee satisfaction with the latter assumed to significantly influence the former. The employer–employee

relationship should be understood as a psychological contract with explicit, reciprocal promises and obligations which incorporates not only material exchanges but also notions of, for example, fairness and trust. When the psychological contract between firm and employee is perceived to be violated, commitment to the organization and job satisfaction drop and stress levels and staff turnover rise (Conway & Briner, 2005). Where promises are given and kept, commitment and motivation rise, thus positively influencing organizational performance.

Human resource management seeks to achieve the goals of both the organization and individuals, that is, high performance and high employee satisfaction.

Moreover, the values embedded in a nonprofit and its mission contribute greatly to its competitive advantage and to the quality of its services (Frumkin & Andre-Clark, 2000). Given that nonprofits and their workforces are more value-laden (if not value-driven) and many rely heavily on charitable contributions in terms of both investment and resources, nonprofits have to design their own unique human resource management strategies rather than relying on best practices from the corporate sector, which are at best difficult to apply (Russell et al., 2020). In comparison to their counterparts in forprofit organizations, most nonprofit workers seem to be relatively less motivated by extrinsic rewards (pay, position) and thus have a stronger nonmonetary orientation and take job satisfaction from the autonomy, responsibility, recognition, and purpose of their work (Ridder & McCandless, 2010; Theuvsen, 2004; Borzaga & Tortia, 2006). They are usually also more consensus-oriented and "team-spirited" (and in this case the corporate sector is following nonprofit organizational culture).

Most employees in nonprofits seem to be less motivated by extrinsic rewards (pay, position) and … take job satisfaction from the autonomy, responsibility, recognition, and purpose of their work.

However, the traditional incentive balance for nonprofit workers has been shifting since the millennial generation entered the workforce. Millennials are generally seen to be more focused on extrinsic and materialistic incentives and given to switching sectors based on pay considerations (AbouAssi et al., 2021), particularly where public service motivation provides similar intrinsic benefits in governmental and some forprofit organizations. Still, McGinnis Johnson and Ng (2016) find that lower-level nonprofit workers are less likely to consider changing sectors than are higher ranking managers with advanced educational credentials, who are much more difficult to recruit and retain without pay and benefits at least roughly competitive with similar government or forprofit offers. In the US, where higher education is expensive, the student loan burden may be a significant factor in well-educated managers seeking better pay outside the nonprofit sector (Kuenzi et al., 2021; Ng & McGinnis Johnson, 2020). Indeed, low pay tends to be the main reason for leaving the nonprofit sector, whereas government workers tend to leave because of dissatisfaction with the job (AbouAssi et al., 2021).

Ridder and McCandless (2010) classify nonprofit human resource management into four types of "architectures":

- Administrative: sees employees primarily in terms of costs.
- Motivational: offers resources for training and personal development.
- Strategic: focuses on strategy over the employee's personal development.
- Values-driven: incorporates the nonprofit organization's strategic orientation with its human resource management practices and places a premium on human capital development.

As shown in Figure 13.2, the different architectures reflect the varying levels of importance placed on strategic orientation, i.e., the fit between human resources practices and the organization's strategy and culture, and on human resources orientation, i.e., how employees are regarded and managed. Ridder and colleagues (2012) hypothesize that nonprofit organizations that adopt the values-driven architecture, with high strategic and human resources orientation, will most likely have sophisticated human resource management programs, generate positive employee appraisal, and subsequently yield high organizational performance.

Guo and colleagues (2011) suggest a number of practices through which human resource management can be strategically aligned with the mission and goals of nonprofit organizations. These include:

- Attracting employees through compelling missions.
- Appealing to the mission's value-base.
- Offering flexibility in work schedules and working arrangements.

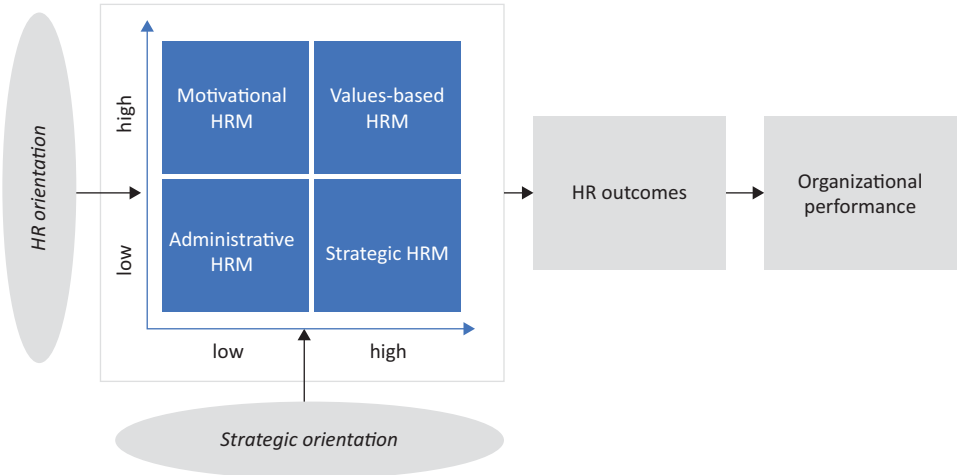


FIGURE 13.2 Human resource management architectures

Source: Ridder, Piening, and Baluch, 2012, p. 615.

- Reaching out to employees through internal communications.
- Retaining employees through competitive pay and benefits.
- Offering professional development opportunities.
- Supporting leadership development for promising employees.
- Pursuing multiple employee evaluation and performance assessment strategies.
- Linking individual performance to organizational goals.
- Providing feedback opportunities for employees.
- Engaging in workforce planning.
- Undertaking workforce diversity initiatives.

Of these, in particular managing diversity and inclusion in recruitment, performance evaluation, development, and compensation has become a major challenge for human resource management systems in the nonprofit sector (Weisinger, 2017). Diversity can be broadly defined to include characteristics such as race, ethnicity, gender, religion, age, disability, and sexual orientation and may also entail different viewpoints, philosophies, and perspectives. Attention to these aspects promotes a culture of inclusion and belonging, and an environment where diverse opinions, backgrounds, and practices have the opportunity to be voiced, heard, and respected. While diversity has more representational aspects, inclusion is about a person's ability to partake in, and contribute to, organizational decision-making.

Two core approaches are used to make the case for diversity. One is the social justice case that sees attention to diversity as a moral imperative, especially for nonprofits that as value-guided organizations are seen as particularly obliged to battle oppression, inequitable power relationships, marginalization, and exclusion. The second is the business case for diversity, which suggests that nonprofits that actively manage diversity not only can increase intra-organizational efficiency but are better prepared to produce effective services (and thus successfully compete for funding) in an increasingly diverse environment.

Yet, increasing diversity does not always come without difficulty. The more diverse the workforce, the more difficult it might be to bind a heterogeneous group together into a common organizational culture. Human resource management must balance recognizing and appreciating different forms of heterogeneity while also aiming to promote corporate homogeneity through careful promotion of inclusion. Notably, promoting and respecting the former can serve as a powerful tool to achieve the latter. Weisinger (2017, p. 333) therefore sees attention to "diversity and inclusion as a *culture change* process—one in which the idea of valuing difference is embedded in all organizational activities."

Human resource management must balance recognizing and appreciating different forms of heterogeneity while also aiming to promote corporate homogeneity through careful promotion of inclusion.

Volunteer Management

Many of the approaches described so far could be applied to the management of volunteer resources as well. However, volunteers require different treatment, particularly since the wage incentive is missing. As noted in Chapter 7, the Volunteer Functions Inventory (Clary & Snyder, 1991; Clary et al., 1998) identifies six basic motivational factors to explain why people volunteer, ranging from the altruistic to the instrumental:

- *Values*: to express altruistic, social, and other concerns.
- *Social:* to socialize with others or to gain social approval.
- *Career:* to gain and improve job skills and develop business networks.
- *Enhancement:* to enhance their self-esteem.
- *Protective:* to bolster their ego by escaping, or atoning for, personal problems and guilty feelings.
- *Understanding*: to explore their own personal capacities, skills, and strengths.

People volunteer to help an organization and to gain experience, thus volunteers are attracted to organizations with compelling missions that craft their volunteer opportunities so as to both utilize existing talents and add to those talents. Matching volunteer interests and talents to organizational needs is a central management task, and training volunteers is a way of attracting and retaining them. At the same time, and in contrast to paid staff, volunteer motivation is primarily nonmonetary and cannot be managed along incentives lines but more on the grounds of commitment to the cause and long-term career benefits. This implies that strategies for managing employees and volunteers are typically different, and management has to try to avoid tensions between human resource management based on commitment and that based on monetary incentives.

Matching volunteer interests and talents to organizational needs is a central management task.

Finding a good fit between volunteers' and organizational needs should not be one-sided, solely focused on the organization's needs. Instead, equal weight should be given to the volunteers' needs and their mix of motivations. To ensure volunteer retention, "the positive experience and productivity of a volunteer is determined almost exclusively by the alignment between what the organization provides to the volunteer and what the volunteer expects of the organization. Effective volunteer management, then, is the facilitation of this alignment" (Hager & Renfro, 2020, p. 278).

There are many ways a volunteer could use their spare time other than volunteering. The decision to devote time to volunteering for a particular cause and organization therefore involves opportunity costs that influence the "psychological contract" each volunteer establishes with the organization, which implicitly frames what the volunteers expect from, and hope to achieve with, their volunteer engagement. These psychological contracts involve the volunteer's specific motivational mix, may look very different between

volunteers performing similar tasks, and are not necessarily fully articulated and conveyed to the organization. But if volunteers feel that the volunteer opportunity does not live up to their expectations—and the psychological contract is therefore breached—retention becomes a challenge.

Hager and Brudney (2016) recommend implementing a management system that focuses on planning, recruitment, orientation, placement, and recognition as a set of five stages in engagement with volunteers. An initial planning stage includes organizational needs assessments, formulation of objectives, and development of policies, procedures, and evaluation tools. It is also important to advocate for volunteer use among paid staff to avoid tensions and conflict later. The second stage is about recruitment, which involves getting word out to potential volunteers and then interviewing, screening, and matching candidates with opportunities based on volunteer job descriptions. This is where the crucial alignment between what the organization offers and what the volunteer expects takes place.

In the third stage, orientation, the new volunteer gets onboarded. This includes welcoming and introductory activities, such as sharing of policies and workplace manuals, office or facility walkthroughs, and brief meetings with supervising staff. To better socialize volunteers into the workplace culture, onboarding activities should also provide opportunities for the volunteer to introduce themselves, their interests, and views on the tasks ahead, to the staff and leadership, which will help reinforce the psychological contract. In the following stage, the volunteer activity gets launched. Before the volunteering begins, staff will be prepared to work with, supervise, and communicate task engagements to the volunteer. Ideally staff will have been involved in developing the volunteer job descriptions, to both understand and have a stake in the volunteer's role and contribution, and receive training on how to best interact with them. In the final stage of the volunteer management system, the organization provides recognition of the volunteers' efforts. What is appropriate and meaningful recognition depends on the mix of motivation each volunteer brings to the work. A recognition banquet might be more attractive and meaningful to socially motivated volunteers, but less so to altruists who may prefer that the organization's resources be used instead for beneficiary services.

Matching volunteers to jobs during the important recruitment stage can be accomplished through a "slot machine" model that helps to generate "winning volunteer scenarios" (Meijs & Brudney, 2007). A volunteer scenario is "a combination of the assets the volunteer has and wants to offer or develop, the availability of the potential volunteer to offer them, and the volunteer assignments the organization has to engage her or him in this activity" (Meijs & Brudney, 2007, p. 71). A winning scenario on the "slot machine" represents the matching of all three "As," or "tumblers": the volunteer's assets (skills, competencies, and resources) and availability (frequency, duration, and location) with the organization's assignment (see Table 13.2). Volunteers aim for the triple-A constellation when they seek volunteer opportunities, and nonprofit organizations should seek to address the two tumblers (assets and availability) in the assignments they offer. Furthermore, the organization's assignment should also seek to correspond to the volunteer's preferences in terms of task, issue area, and organizational division. If both the organization and the volunteer have clarity about the three tumblers, they are better

TABLE 13.2 Tumblers in volunteer scenario slot machine

Asset tumbler	*Availability tumbler*	*Assignment tumbler*
The assets the potential volunteer wants to offer	*The availability of the potential volunteer*	*The assignment for the potential volunteer*
Skills • Specific skills related to the organization's core business • Specific skills not related to the organization's core business	Frequency • Times willing to volunteer per year or per month, etc.	Goal-oriented assignment • Part of program in which volunteer prefers to work • Target groups or clients whom volunteer wants to help
Competencies • Prestige, contacts, general capabilities, etc.	Duration • Number of hours per volunteer session, etc.	Task-oriented assignment • Administrative, indirect service, direct service, fundraising, special events, public relations, etc.
Resources • Computer, automobile, office space, etc.	Location • On-site, off-site, automobile, virtual, etc.	

Source: Meijs and Brudney, 2007, p. 74.

able to match volunteer preferences with assignments and thus optimize organizational effectiveness and efficiency and volunteer engagement.

There is no one way that is best to manage volunteers. One reason might be that volunteers often have conflicting goals (Meijs & Ten Hoorn, 2008). While they prefer to work with efficiently run, successful organizations with clear inputs and task assignments, they also want flexibility, fun, and respect for what they are willing to accomplish in their leisure time. Appropriate management styles depend on whether the organization is run by volunteers or paid staff and on whether the nonprofit is organized for mutual support, service delivery, or campaigning. In this respect also, management practices need to be based on a thorough understanding of not only the organization's but also the volunteer's goals, as captured in their psychological contract.

Management practices need to be based on a thorough understanding of not only the organization's but also the volunteer's goals.

Finally, volunteers may also present a challenge for intra-organizational dynamics. Where they assist paid staff, they can increase organizational effectiveness and performance. Yet, in organizations where the two are seen as interchangeable and paid staff

have been let go or where job insecurity prevails, paid employees may see volunteers not as allies but as potential substitutes (Rimes et al., 2017). This can lead to resentment, intra-organizational conflicts, and, indeed, outright hostility—attitudes which, in the end, undermine performance.

CONCLUSION

This chapter began by looking at the importance of leadership in organizations that have multiple stakeholders and the careful calibrations of leadership and management styles needed to run nonprofits. People management in nonprofit organizations entails managing complex, diverse motivations, requiring ongoing attempts to align mission and goals with activities that match motivations, or at least create more synergies than discord. Yet while our understanding of human resource management in nonprofits has expanded significantly in recent years, the old adage remains true: leading and managing people, be they paid staff or volunteers, is more art than science; and effective leadership rests in personality dispositions as well as skills learned and experience gained.

REVIEW QUESTIONS

What is the relationship between values, power, and politics in organizations?
What are the basics of leadership in nonprofit organizations?
What makes human resource management in nonprofit organizations different?
What are some of the keys to volunteer management?

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CHAPTER 14

Marketing, Communication, and Social Media

This chapter introduces the concept of marketing in the nonprofit context. It discusses the major target audiences that nonprofits market to, the elements of the marketing mix, and the role of branding. The chapter then covers how nonprofits use social media to interact with their target audiences and to extend the reach of their advocacy.

LEARNING OBJECTIVES

Nonprofit organizations must draw on resources from their environments to pursue their missions effectively. Marketing management is an approach to attracting resources by orienting the organization to its clients as well as other stakeholders and relevant communities. The marketing challenge also extends to its donors, volunteers, and members, as applicable. To reach these often diverse target audiences, nonprofits employ the four Ps of the marketing mix (product, price, promotion, place) and increasingly use branding to align the organization with the external perception of its stakeholders. The expansion of social media applications has increased the ability of nonprofits to serve their target audiences, while also extending the reach of their advocacy activities. After considering this chapter, the reader should:

- be able to appreciate the importance of customer orientation and the key target markets that nonprofits serve;
- be able to identify the main elements of the marketing mix;
- understand the role of branding and what makes brands successful;
- be familiar with the use of social media by nonprofits.

Some of the key terms introduced or reviewed in this chapter are:

- Branding
- Brand equity
- Cause-related marketing
- Customer orientation

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- Four Ps
- Marketing mix
- Nonprofit brand IDEA framework
- Pricing models
- Promotion
- Sliding fee scales
- Social media
- Social media engagement hierarchy

INTRODUCTION

Engaging with external stakeholders, or marketing, the term more comfortably used in the business world, is an essential task for nonprofit organizations. As part of strategic planning and when developing business models (Chapter 11), market analysis has become a seemingly indispensable tool to approach the question of how the organization intends to engage with its many audiences and stakeholders, including beneficiaries, members, donors, and the public at large. Since nonprofit organizations are multiple stakeholder entities, nonprofit marketing must be sensitive to different audiences and target markets and adjust its mix of techniques and channels accordingly. This applies also to the use of communications channels such as social media, which have the potential to extend and deepen the reach of nonprofits for multiple purposes.

Since nonprofit organizations are multiple stakeholder entities, nonprofit marketing must be sensitive to different audiences and adjust its mix of techniques and channels accordingly.

MARKETING

Based on Drucker's emphasis on the stakeholder (Chapter 10), the marketing concept emerged in the 1950s in the business field. Within the nonprofit sector, marketing was long associated with undesirable business practices, such as

- Sales, i.e., cultivating prospective customers, convincing them of the relative benefits of the product, and closing the sale.
- Advertising, i.e., bringing the product or service to the attention of potential customers.
- Publicity, i.e., seeking media mentions.
- Promotion, i.e., keeping customers engaged with the product to stimulate demand.

Accordingly, marketing was frowned upon as too commercial and considered inappropriate by most nonprofit leaders, who felt that their organizations' good work should

not be treated like consumer goods. Negative perceptions of marketing prevailed, and its application to nonprofits remained controversial (Hudson, 2020) until the growth of the sector, growing competition, and changing market conditions, in part driven by technological changes and opportunities, made the adoption of marketing techniques increasingly palatable.

Marketing was frowned upon as too commercial and considered inappropriate by most nonprofit leaders.

At the same time, the marketing thinking in the business field also evolved, moving from more commercial to more socially conscious orientations. Kotler (2000) identified five phases over which the orientation of the marketing concept changed:

- A *product orientation* toward marketing suggests that businesses are successful when they develop superior goods or services they believe will be good for consumers.
- A *production orientation* holds that businesses with the lowest costs and most efficient production and distribution systems will be most successful.
- A *sales orientation* suggests that business success rests on the ability to persuade customers of the need for a product and the comparative advantages of one's own product over that of competitors.
- A *customer orientation* holds that success depends on the ability to understand and satisfy the needs and wants of target markets.
- A *societal orientation* adds concern for the well-being of both customers and society at large to the customer orientation.

A customer focus is therefore the essence of the marketing concept, which takes it beyond sales and promotion by effectively linking the organization with selected parts of its task environment. This adds a strategic dimension to marketing, expanding it into more of a management concept. Kotler and Andreasen (1996, p. 379) accordingly define marketing management as "the process of planning and executing programs designed to create, build and maintain beneficial exchange relationships with target audiences for the purposes of satisfying individual and organizational objectives."

Understood this way, the marketing management process begins much like regular strategic planning with tools like SWOT and market analysis as well as revisiting goals and mission (Chapter 10). While similar to strategic planning at this stage, in marketing planning the process is more clearly focused on the nonprofit's target audiences and how they are to be defined. Ideally, the mission will outline the organization's key addressees, and market analysis will help segment the target audiences.

In marketing planning the process is more clearly focused on the nonprofit's target audiences and how they are to be defined.

Target Markets

What marketing tools could nonprofit organizations use to reach their strategic goals? Some scholars and practitioners argue that nonprofit organizations should not adopt a market orientation because their product, i.e. their mission and values, cannot be changed to respond to market needs. However, the consensus is that many marketing tools can be applied by nonprofits without requiring them to make such far-reaching changes. Such tools include market segmentation, i.e., identifying the groups in the market that are most likely to support their cause; product positioning, i.e., making sure that the nonprofit's image appeals to these groups; and advertising and placement of communication messages in channels these groups regularly use (Dolnicar & Lazarevski, 2009).

Andreasen and Kotler (2007) have developed more detailed guidelines for strategic marketing by nonprofit organizations. They see the main challenges for nonprofits not in developing a set of entirely new techniques, but rather in finding ways to tailor standard business-world marketing techniques to the nonprofit sector. They argue that to be a successful marketer, one has to adopt a target audience-centered mindset. This means putting the target audience at the center of everything the nonprofit organization does and adapting the organization's services to their needs and wants. The opposite of a target audience mindset is an organization-centered mindset, which puts the organization's value proposition at the forefront and sees the target audience's lack of motivation or ignorance as the main problem.

[Adopting a target audience-centered mindset] means putting the target audience at the center of everything the nonprofit organization does and adapting the organization's services to their needs and wants.

However, it is much easier for a nonprofit organization to change the communication, design, or delivery of its product than to change the attitudes of the target audience, which in fact in many cases is also a source of "competition" for nonprofits. For example, the Buffalo (New York) Philharmonic Orchestra tried unsuccessfully throughout the 1960s to broaden its audience. A research project in the early 1970s found that many "consumers" would like to attend a concert but did not because they felt that their clothing would be inadequate for such a formal occasion. Hence, the orchestra was seen as formal and distant. The orchestra responded by playing chamber music in shirt sleeves at local art festivals, during the half-time of a Buffalo Bills football game, and in schools. Attendance figures subsequently rose as the orchestra changed the way it delivered music (Andreasen & Kotler, 2007, p. 43). Faced with increasingly graying audiences, other major orchestras are conducting performances in community venues to reach out to and develop new and more diverse audiences (see Box 14.1).

BOX 14.1

NSO In Your Neighborhood

The National Symphony Orchestra, headquartered at the Kennedy Center in Washington, DC, began its community outreach series "NSO In Your Neighborhood" in 2012. Open to working with community partners, the orchestra considers a wide range of venues.

In 2019, the NSO collaborated with local artists to celebrate the cultural heritage of communities in the eastern half of the city. Featuring music ranging from Mozart to Marvin Gaye, the series included 32 events, including two full orchestra and 13 chamber music concerts across 20 venues, reaching a total of 5,844 attendees.

Source: www.kennedy-center.org/nso/home/education-community/nso-in-your-neighborhood/.

Generally, nonprofit marketing must address different markets. As Hudson (2020, p. 362) suggests, "nonprofits have [at least] two constituencies to consider—service beneficiaries and funders. Thus nonprofit marketing has to consider two distinct markets, the market for resource attraction and the market for resource allocation." The marketing challenge encompasses several different audiences, some of which are served directly (clients or beneficiaries) and others indirectly (donors) in the sense that donors seek to support the provision of services to others (Figure 14.1). Depending on the type of organization and the nature of its activities, additional constituencies must also be taken into account, including volunteers, who, like donors, are supporters, and members who can be either beneficiaries or supporters of the organization (Tschirhart, 2020). Thus, the relevant markets for nonprofits involve primarily the organization's stakeholders:

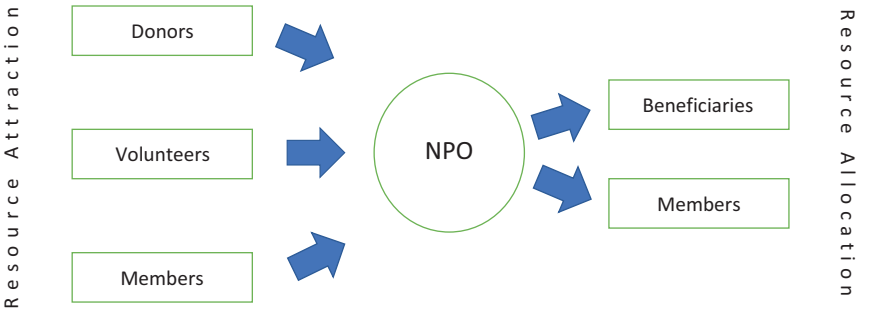


FIGURE 14.1 Target markets and stakeholders for nonprofits

- **Beneficiaries**: Since nonprofit marketing research so far has failed to focus in appropriate detail on beneficiaries, little is known about nonprofit clients in most fields outside the arts. The resurgent interest in co-production, that is, how clients help shape nonprofit service delivery (Benjamin & Brudney, 2018; Brandsen et al., 2020), is part of a renewed interest in nonprofit clients (Benjamin, 2021). Nevertheless, for marketing purposes, there are differences between nonprofits that need to seek clients and those that have an oversupply of beneficiaries vis-à-vis their service delivery capacity. Among the former are arts and culture organizations where excess capacity exists because supply (e.g., seating availability, music ensembles, works of art) often outstrips demand. Arts marketing with extensive audience research and sophisticated pricing arrangements is accordingly among the most highly developed branches of nonprofit marketing (e.g., O'Reilly et al., 2013).

  Among the nonprofits with an oversupply of potential clients are human services organizations where the adoption of marketing approaches still often lags behind. As explained in Chapter 5, market and government failure leave unsatisfied demand that nonprofits cannot always fully satisfy because they are hampered by philanthropic insufficiency and other voluntary failures. Under these conditions, nonprofits often have more clients than their limited resources allow them to serve adequately, which may suggest that marketing is at best unnecessary and at worst counterproductive. Within the "beneficiary markets," however, there may be a need for additional segmentation to determine whether service provision can be improved by avoiding one-size-fits-all approaches and homing in on particular client groups. Examples of segmentation are the various vaccination campaigns during the height of the COVID-19 pandemic, when healthcare providers and community organizations reached out directly to specific clients and population groups, such as the elderly living alone, or used mobile teams in disadvantaged neighborhoods to create awareness and offer vaccines. Quota-based admissions in education is another example, as are voucher systems. In such cases, market segmentation changes the marketing task to focusing on underserved, particularly vulnerable, and other populations the nonprofit wishes to serve rather than increasing the overall number of clients.
- **Donors**: Addressing the "market for resource attraction," fundraising, as discussed in Chapter 11, can be understood as a marketing task (Bennett, 2018; Hudson, 2020). Fundraisers engage in prospect research and commonly segment the donor markets into major vs. small donors and individual vs. institutional funders, such as philanthropic foundations and corporations. Each of these segments requires different marketing approaches and techniques, such as, for example, social media solicitations for small donors or planned giving vehicles for some major donors. Segmentation further allows fundraisers to better assess donor motivations (see Chapter 6 and Chapter 11, especially Box 11.1) and fine-tune their approach.
- **Volunteers**: Similar to donors, volunteer recruitment and retention can also benefit from a marketing approach that differentiates between the extremes of super volunteers, marked by their long-term commitment and high dedication, and the occasional episodic volunteer, and aligns those with organizational needs and opportunities to maintain the psychological contract with the volunteer (see Chapter 13). Like donors, volunteers have different motivations and goals (Chapter 7), but also different time

constraints and skill sets that they bring to their assignments. Rehnborg (cited in Brudney &Meijs, 2014) suggests four different types of volunteers on that basis: (1) short-term or episodic generalists who participate in occasional or one-time activities, such as park cleanups or distributing food at Thanksgiving; (2) long-term generalists who commit to extended participation in service delivery or related tasks, such as mentoring or the staffing of help desks and gift shops in hospitals; (3) short-term specialists, who offer one-off pro bono services; and (4) long-term specialists who offer their professional skills and expert knowledge on an ongoing basis, such as an accountant who volunteers to help with bookkeeping or tax return preparation on an ongoing basis. Thus, a marketing strategy would need to take each of these segments into account.

- **Members**: In associations and other organizations that have formal membership, members are typically the primary beneficiaries, but also perform roles as donors and volunteers (Tschirhart, 2020). While the motivations for giving time and financial resources may be more circumscribed and more tightly aligned to the mission of the membership organization, the membership is similar to, yet distinct from, the other key markets that nonprofits have to address in their marketing activities.

Marketing Mix

Once the target market segments are identified, nonprofit organizations can begin to develop specific marketing mixes for each. The term marketing mix is used to refer to the range of approaches, techniques, and tools organizations use to reach their beneficiaries, donors, or other key stakeholders. McCarthy (1960) introduced a widely used classification, called the four Ps, which organizations employ to support and reinforce their competitive position. Although additional Ps, such as people, performance, and process, have since been proposed, the original four Ps still form the core of most marketing mixes and stand for:

Marketing mix ... refer[s] to the range of approaches, techniques, and tools organizations use to reach their beneficiaries, donors, or other key stakeholders.

- Product (quality, features, options, style, branding, warranties, etc.)
- Price (list price, discounts, allowances, payment and credit terms, etc.)
- Promotion (advertising, publicity, public relations)
- Place (channels, coverage, locations, inventory, etc.)

Of course, the notion of the marketing mix was developed against the background of the business firm and needs to be adapted to fit the needs of nonprofit organizations and the specific target audience they seek to reach.

The **product mix** is principally about the products, programs, projects, or services that relate to the core business of the nonprofit organization, such as collection, exhibition, and preservation in the case of art museums. Attention to the product mix encourages

nonprofits to revisit core activities in light of changing "customer" characteristics, refresh and reframe existing programs as needed, and add new core programs where appropriate. Evaluating the product mix also involves supplementary programs that utilize economies of scale, cross-subsidize core activities, and stabilize budgets. Gift shops and related merchandizing operations of art museums fall into this program category, for example (Toepler & Kirchberg, 2009). Portfolio analyses that chart programs based on their contributions to mission and financial viability can help in determining the right balance between core and supplementary programs (see Chapter 11).

In the **price mix**, nonprofits make difficult decisions about whether and, if so, how and what to charge for the services they provide. In economic theory, prices are a signal of an efficient use of resources in the market: products that do not sell are either overpriced or of insufficient quality or interest. This function of the price mechanism, however, does not always fully apply in nonprofit contexts (see Chapter 11), because recipients are often not able to pay enough to cover the full cost of the service. The various pricing mechanisms that nonprofits can use become part of their marketing strategies. For example, some nonprofits prefer not to price-discriminate (Seaman, 2018), using waiting lists rather than higher fees to deal with excess demand for their services. Others prefer to offer services for free in support of their missions in order to broaden opportunities for customers to utilize them, such as no admission fees for museums and other free art activities (Kim et al., 2018), or because trying to charge fees is not worth the effort of trying to collect them. In these cases, nonprofits may find it preferable to "charge" the cost of service delivery in their donor markets. Calculating the fundraising target and expected yield then becomes the functional equivalent of the pricing decision.

Although many nonprofits approach pricing with hesitation, several arguments can be made for practical advantages that can come from charging fees for their services (see Box 14.2). Though the understanding of pricing options, approaches, and practices used by nonprofits remains uneven (Seaman, 2018), several basic pricing models that are common in practice are relevant for marketing purposes to advance the organization's mission (Robinson & Foreman, 2011):

BOX 14.2

Advantages of Pricing Services

Improved services: Beneficiaries asked to contribute will expect better quality services than what might be offered for free.

Greater diversity: Paying for the service raises the stakes for beneficiaries and reduces the risk of dropping out. Helping to keep participants from disadvantaged populations in a program fosters the diversity of the program participant pool.

Revenue increases: Adding another revenue stream diversifies the overall revenue mix.

De-stigmatization: Many beneficiaries may not consider themselves destitute enough to be the recipient of charity and free welfare services, which might diminish their sense of pride.

Stronger funding prospects: Calculating prices develops workable cost accounting and financial management procedures and expertise that support funding applications and reporting to public and private funders.

Brand recognition: Improvements in service quality and beneficiary pools that come about as a result of charging prices result in positive brand recognition within the community.

Mission pursuit: Pricing can aid in expanding the reach of the organization to its core mission clienteles.

Market testing: The willingness to pay for a service is an indicator of its usefulness for beneficiaries.

Source: Based on Robinson and Foreman, 2011.

- **Voluntary pricing**: Nonprofits that do not critically depend on charging fees because expenses are largely covered through donations and other subsidies can implement voluntary pricing schemes, where the beneficiary can choose whether to pay a fee and what that fee should be. After deciding to start charging for admissions at the end of the 1960s, the Metropolitan Museum of Art in New York introduced charges on a voluntary "pay-as-you-wish" (or can) basis, called "suggested contributions" rather than admission fees (Toepler, 2006). More recently, the museum started charging admissions for tourists while maintaining the "pay-as-you-wish" option for local residents and school children from neighboring jurisdictions. In cases like this, the voluntary pricing model allows nonprofits to generate resources from those willing to pay, while not cutting off access to those who cannot afford the charges. In disadvantaged populations, a sense of personal responsibility and dignity may lead beneficiaries to avoid the stigma of being a charity case. Offering the ability to make a voluntary contribution to the service helps prevent the perception of the stigma and may encourage the beneficiaries to take fuller advantage of the help available.

The voluntary pricing model allows nonprofits to generate resources from those willing to pay, while not cutting off access to those who cannot afford the charges.

- **Full pricing with discounts**: A second pricing model starts with calculating the price based on the full cost of the service and offering the service at the full price to those beneficiaries with the ability to pay. To avoid excluding needier beneficiaries with

TABLE 14.1 Sliding-fee scale for individual membership in the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA), 2021

Category	*Fee*
Student	$60
Individual	
Household income less than $40,000	$77
Household income of $40,000 to $59,999	$103
Household income of $60,000 to $79,999	$144
Household income of $80,000 to $99,999	$165
Household income greater than $100,000	$195
Individual supporting	$515

less or no ability to pay, nonprofit organizations can utilize sliding fee scales that use income or other measures of need to set prices and therefore ensure access (as does the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA); Table 14.1). Scholarship awards and tuition discounts are utilized to similar effect in education.

- **Hybrid pricing**: In a third, hybrid model, nonprofits bundle services into packages that are offered at discounts over the individual components. Membership associations offer discounts for publications, conference or convention fees, and technical assistance for members. Museums offer free admissions and gift shop discounts with membership.

Whichever pricing model and approach a nonprofit organization chooses, a firm understanding of the respective program's or service's cost structure is instrumental in setting the price mix. Once the different kinds of costs involved are determined, the full price can be calculated through break-even analysis, as discussed in Chapter 11.

Compared to product and pricing, the last two Ps are less salient in the nonprofit context, but nevertheless hardly inconsequential. Many nonprofits are often among the "best kept secrets" in communities, as few take **promotion** seriously. Options for nonprofits include seeking free media coverage, conducting events like fundraising events or volunteer recognition ceremonies, publishing newsletters, and encouraging customers to spread the word. Whether beneficiaries, donors, volunteers, or members, peer-to-peer social media networks have opened up entirely new avenues for spreading the word and promoting the organization. A high-profile form of promotion for both corporations and typically large nonprofits working with them is cause-related marketing, which simultaneously promotes the corporation's products and the nonprofit's causes (see Box 14.3).

BOX 14.3

American Express and the Origins of Cause-Related Marketing

In cause-related marketing, a corporation markets its products or services in relation to a good cause or issue and often in a formal partnership with a nonprofit organization. For the nonprofit partner, the arrangement can involve financial benefits, such as donations tied to a promotion's success or licensing payments for the use of its name or logo. Or it can focus on joint issue promotion, using the corporation's promotion channels and budgets to bring the nonprofit partner's name and mission to the attention of broader swaths of the public than the nonprofit could do on its own.

In 1982, American Express conducted an experiment in San Francisco that is credited with the launch of the cause-related marketing concept. For a limited period of time, AMEX pledged a 5 cent donation for each transaction on its cards to local arts groups and $2 for each new card member, leading to a measurable increase in transactions and improved relationships with merchants, who proved more willing to accept AMEX cards as a result of the campaign. Buoyed by the success, AMEX launched a national campaign the following year, pledging donations of 1 cent per card transaction and $1 for each new member, this time in support of the renovation of the Statue of Liberty. The three-month campaign generated a $1.7 million donation for the renovation and a 28% increase in AMEX card use over the same period in the prior year. Ten years later, AMEX ran another cause-related marketing campaign to benefit the anti-hunger group Share Our Strength, which was a close tie-in as AMEX cards were frequently used in restaurants. The public and corporate attention that this campaign drew firmly established cause-related marketing as a desirable and effective form of promotion among major business corporations.

Place considerations involve decisions about where to offer services in a way that makes them convenient and safe to access for beneficiaries, volunteers, and staff. The National Symphony Orchestra's In Your Neighborhood outreach program (Box 14.1) is an example. Also important is the availability of alternative distribution channels, as the pivot to virtual programming during the COVID-19 pandemic demonstrated. While switching to online classes was a relatively easy change for many educational institutions, developing the right approach to virtual exhibitions and performances was considerably more challenging for arts organizations.

Branding

A major asset that nonprofits can utilize in their marketing activities is the organization's or program's brand. A brand is a shortcut means of identifying an organization, program,

or cause in a way that differentiates it from alternatives. Brand positioning is the way the brand is perceived emotionally by stakeholders compared to the competition, providing the organization with a competitive differentiation and strategic advantage.

Brands consist of both tangible functional elements, such as a name or logo, and "intangible, emotional, symbolic, and representational elements" (Hudson, 2020, p. 367) that shape stakeholder feelings and attitudes towards the brand. Branding is often listed as one of the core components of the management strategy of forprofit companies. Used to attract consumers, it is a useful tool in the race for a bigger share of the market. For nonprofits, branding serves to educate stakeholders about the organization's work; provides a means of differentiation; signals trustworthiness; aids in crisis management; and focuses relationships with supporters and other stakeholders.

Until recently, very few nonprofit organizations included branding in their management strategy. However, a growing number of nonprofits are developing broader approaches. For many nonprofit organizations, branding has become a means to face competitive pressure, to generate revenue, and to create greater social impact and tighter organizational cohesion. In the US, where more than 1.5 million nonprofit organizations are competing for the attention and support of individuals, companies, foundations, and government grants, a solid brand identity tells an important story. Almost all nonprofits compete with others that have a similar mission; the brand ideally conveys authenticity in the sense of portraying the organization as a quintessential example of its type (Wymer & Akbar, 2017). For many it is their brand that makes their appeal for attention and funds successful. By setting expectations, gaining attention, enhancing trust, and fostering relationships, the brand contributes to the organization's long-term survival.

For many nonprofit organizations, branding has become a means to face competitive pressure, to generate revenue, and to create greater social impact and tighter organizational cohesion.

So far, the models, terminology, and the brand strategies have been imported from the forprofit sector. A particular challenge for nonprofit branding strategies is to consider that, unlike in forprofit organizations, a nonprofit brand must address multiple stakeholders at once.

Developing a brand identity requires both the creation of brand meaning and the development of brand positioning (Laidler-Kylander et al., 2007). Therefore, it is key to think about the importance of a brand's benefits in driving the target audience's choice and the organization's ability to differentiate itself relative to the competition.

Research on nine UK nonprofit organizations suggested that strong branding must stimulate a variety of emotions among donors, have a distinctive media voice and presence, offer a different type of service or approach to a problem, and evoke a sense of tradition (Andreasen & Kotler, 2007). Thus, developing a clear nonprofit brand links the very *raison d'être* of the organization to stakeholder values and a specific need, either in terms of a service or a problem addressed.

Developing a clear nonprofit brand links the very raison d'être of the organization to stakeholder values and a specific need, either in terms of a service or a problem addressed.

New models for nonprofit branding are being developed, among them the Brand IDEA from Harvard University's Hauser Center for Nonprofit Organizations (Laidler-Kylander & Stenzel, 2013), which was designed to help nonprofits to more strategically leverage their brands to advance mission and impact. The four principles behind the Brand IDEA are brand integrity, democracy, ethics, and affinity. Brand integrity means that the organization's internal identity is aligned with its external image and that both are in line with its mission. Brand democracy stands for the organization's trust in its members, staff, participants, and volunteers to communicate their own understanding of the organization's core identity. Brand ethics require that the brand itself and the way it is deployed reflect the core values of the organization. Hence, just as brand integrity aligns the brand with its mission, brand ethics align both the organization's internal identity and its external image with its values and culture. Lastly, brand affinity refers to the brand as a good team player, working well alongside other brands, sharing space and credit generously, and promoting collective over individual interests. Aligning the organization's internal identity and external image can contribute to greater organizational capacity and social impact.

Leveraging these principles into a successful brand has considerable value for nonprofits as it stimulates stakeholders to support the branded organization both financially and psychologically. This support can be understood as brand equity, which Boenigk and Becker (2016) seek to measure in prominent national nonprofits in Germany. To do so, they conceptualize brand equity as having three dimensions: nonprofit brand awareness, trust, and commitment. Awareness refers to the degree to which stakeholders are able to recognize and recall a nonprofit's brand. As awareness can also be negatively connotated, for instance, through extensive media coverage of scandals, strong brands also need to convey trust and the trustworthiness of the nonprofit as a foundational element of the brand's value. Finally, brands are successful if they also foster stakeholder commitment, strengthening belief in the importance of the nonprofit's goals and mission and the willingness to stay connected.

SOCIAL MEDIA

Technological change poses challenges and presents opportunities throughout society, and it has significantly changed how nonprofits go about their work. This has especially been so in relation to information and communications technologies, particularly as they impact communications, marketing, and fundraising. For example, funding solicitations moved from expensive direct mail by post to email during the 1990s and then increasingly to social media after the turn of the millennium, considerably expanding the potential reach of even small nonprofits.

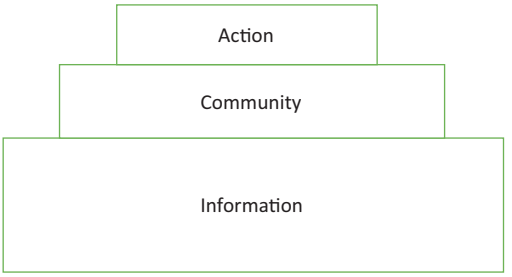


FIGURE 14.2 Lovejoy and Saxton's (2012) social media engagement hierarchy

The ways nonprofit organizations use social media fall generally into three broad categories that Lovejoy and Saxton (2012)—based on Twitter usage—describe as an engagement hierarchy (Figure 14.2). At the bottom, nonprofits seek to engage stakeholders through the provision of information about the organization and its activities; this turned out to be the most prevalent use of social media. At the second level, nonprofits utilize the interactivity of social media to create a sense of community through two-way communications with their stakeholders intended to strengthen their ties to the organization. At the top of the hierarchy, and the least prevalent of the three, are efforts to motivate stakeholders through social media to take action on behalf of or for the organization, such as to participate in grassroots advocacy campaigns or make donations.

The engagement hierarchy has become a foundational concept for understanding the social media use of nonprofits and has been applied across different social media platforms and fields of nonprofit activity. Campbell and Lambright (2020) refined the three broad categories, differentiating between types of information provided (organizational, mission, etc.) or types of actions called for (e.g., fundraising vs. not fundraising), and compared usage across different platforms (Facebook and Twitter) in the human services field. While they did not find significant differences in the way the platforms are used, they noted a much higher emphasis on action tweets or posts than had been indicated by other research for other fields.

Social media use among nonprofits is still not without issues and also carries certain risks to message control, as communication with stakeholders becomes a two-way street (McNutt, 2020). What is more, although there is growing understanding of how nonprofits use social media, little is known so far about whether, and to what degree, social media usage translates into concrete organizational outcomes and furthers the goals and missions of nonprofits. It has nevertheless become a common way to connect with stakeholders for marketing, fundraising, volunteer recruiting, and advocacy purposes across the core donor, volunteer, and member audiences.

Little is known so far about whether, and to what degree, social media usage translates into concrete organizational outcomes and furthers the goals and missions of nonprofits.

Fundraising

Fundraising professionals immediately take advantage of technological change as it emerges. In addition to the prospect search improvements that came with the web, nonprofits were quick to add fundraising pitches and donation buttons to their web pages and embrace charity malls, i.e., e-commerce sites where merchants offer to donate part of their proceeds to charities. More recently, they have utilized the donation options that most social media sites provide as well as various crowdfunding options discussed in Chapter 11.

Among the key advantages of social media use for fundraising is that social media sites are generally free or low-cost, and information can spread quickly and broadly through electronic word of mouth beyond known donors. It is therefore an efficient mechanism for donor acquisition involving relatively little fundraising expense compared to traditional solicitations and fundraising events (Harris et al., 2021).

[Social media] is therefore an efficient mechanism for donor acquisition involving relatively little fundraising expense compared to traditional solicitations and fundraising events.

Social media donor behavior differs from that of traditional donors in several ways, and this has implications for social media fundraising (Saxton & Wang, 2014):

- The amount of donations raised is related to the size of the organization's social network rather than other organizational characteristics. When large numbers of online friends or fans promote the cause, i.e., share the solicitation, in their own networks, the exposure to new potential donors increases exponentially, leading to a multiplying social network effect which increases overall donations for the organization.
- The quality of the organization's website as key information portal grows in importance as the anchor of multichannel social media campaigns. This underlines the continued relevance of an organization's general web presence even further, as other research indicated positive associations between voluntary online disclosure and general fundraising success beyond social media campaigns (Blouin et al., 2018).
- Social media donors respond more to socially popular causes and needs-based appeals (e.g., disaster relief). Certain types of causes therefore fare better in these media than others.
- Larger organizations with greater overall resources do not necessarily outcompete smaller organizations with more focused investments in social media strategies.
- Donations via social media tend to be small, but givers seem less concerned about fundraising cost and efficiency.

Using online data related to a local "Giving Day" campaign, Bhati and McDonnell (2020) support these findings, demonstrating the existence of a positive relationship between success in fundraising and the size of nonprofits' networks (number of likes on their Facebook pages), the level of activity on the page (posts), and audience engagement (post shares).

While in this study donors did not necessarily prefer smaller organizations, the extent of social media presence and effort determined fundraising success more than did overall budget size.

Volunteers

The emergence of static websites in the 1990s enabled nonprofits to take their volunteer recruitment online, whether through their own websites, those of local volunteer centers, or national sites, such as volunteermatch.org. At the same time, virtual volunteering, that is using volunteers to perform tasks online rather than physically at a nonprofit's program sites, became another volunteering option, which typically involves episodic commitments to address discrete tasks rather than ongoing engagements (Silva et al., 2018).

Marketing via social media can further amplify volunteer recruitment efforts, but much depends on the social media user. A study of millennial Facebook users in Minnesota found a positive correlation between volunteering and moderate Facebook use (i.e., a few times per week) compared to daily, more occasional, and non-users, suggesting that social media promotion of volunteer opportunities may influence users. The social isolation that comes with heavy social media use, however, likely counters willingness to engage with volunteer opportunities. Though volunteer recruitment through social media remains little understood, the positive association between moderate Facebook use and volunteering indicates that social media may be useful in getting word out electronically and recruiting episodic volunteers, but may be less suitable for recruiting ongoing volunteers (Lee, 2020).

A Swiss study of internet use and volunteering (Filsinger & Freitag, 2019) found generational differences in the effects of internet usage on volunteering. Younger age groups are less likely to volunteer when spending more time on the internet; for older age groups the opposite was found. As online options reduce social or physical barriers to volunteering, intrinsically motivated older adults find new opportunities to participate in volunteering through their internet use. What is more, the data further indicate that the use of social media, such as Facebook, Twitter, or LinkedIn, neutralizes negative effects of internet use on volunteering, which supports the findings of Lee's (2020) Minnesota study and strengthens the assumption that social media can indeed foster volunteering.

As the difficulties resulting from the influx of refugees in Europe in 2015 (Kaun & Uldam, 2018) and the COVID-19 pandemic in 2020 (Carlsen et al., 2021) demonstrated, crisis situations stimulate solidarity and, in addition to monetary donations, also spontaneous civic participation. In these instances, volunteers rose to help welcome and settle new refugees and to support the needy who were cut off from receiving regular services during the pandemic shutdowns. Much of this volunteer mobilization and coordination happened through self-organizing groups on social media, using options such as Facebook groups. While nonprofits also used social media to seek volunteer support (as well as advocate for solutions; Hall, 2017), much of the civic engagement took place through social media sites independent of formal nonprofit organizations. While indications are strong that social media can positively influence various types of volunteering behavior, nonprofits may therefore not always be the primary gateways and direct beneficiaries of virtually stimulated volunteer activity.

While indications are strong that social media can positively influence . . . volunteering behavior, nonprofits may . . . not always be the primary gateways and direct beneficiaries of virtually stimulated volunteer activity.

Advocacy

Advocacy is another area where nonprofits were quick to adopt technological advances, taking advantage of the ability to distribute information broadly through web pages and email, incorporate other media such as video, and benefit from the evolution of social media use in political campaigning to custom-tailor messaging through micro targeting (McNutt, 2020). The ready adoption of social media in advocacy has, however, also raised concerns about the extent to which it may be used to substitute for more traditional outsider advocacy tactics such as protests and demonstrations (Chapter 17). The latter require considerably more engagement, effort, and commitment on the part of participants and accordingly exert more political power than liking or sharing social media posts from the comfort of the home. Supporting political or social causes through social media has therefore been branded as slacktivism due to the lack of effort required.

Guo and Saxton (2020) argue that the minimal costs and low barriers to entry of social media that make it easier for nonprofits to share information and achieve other goals also contribute to a general information overload, which makes it difficult for nonprofits to make their voices heard above the fray. Thus, nonprofit advocacy organizations are facing a double challenge of resources and relevance. Resources are tight because of growing revenue concentration within the nonprofit sector where larger organizations attract disproportionate shares of available revenue, and because advocacy suffers from classic collective action problems such as free-ridership (Chapter 5). Scarce resources prevent investments in social media strategies—even if the costs are supposedly minimal—that would raise the visibility of nonprofits in the information markets, which in turn raises questions about their impact and ultimately relevance.

Scarce resources prevent investments in social media strategies . . . that would raise the visibility of nonprofits in the information markets, which in turn raises questions about their impact and ultimately relevance.

To better understand social media use in policy advocacy, Guo and Saxton (2020) propose the concept of public attention, which refers to the ability of a nonprofit organization to generate reactions to its messaging from its audiences. The resource and relevance challenges may be addressed to the extent that policy-makers and the public become engaged. Based on an understanding of public attention as an important resource needed to be "able to convince, connect, counteract, recruit, and mobilize" and that can be measured through the "audience's immediate reactions to the organizations' messages—their sharing, liking,

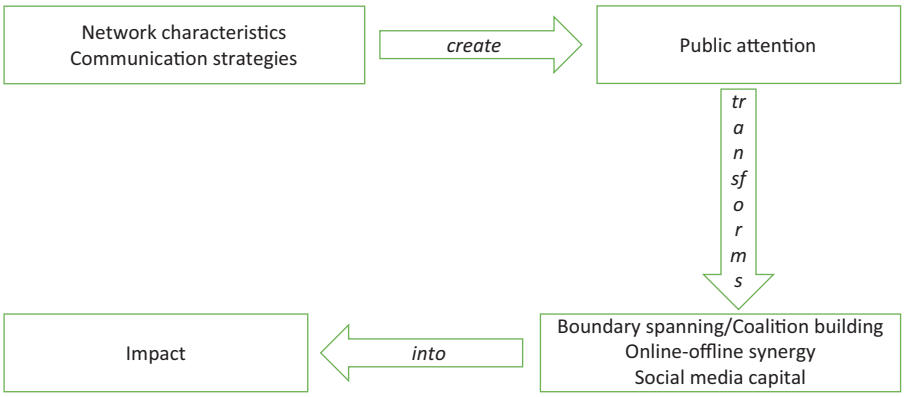


FIGURE 14.3 Guo and Saxton's social media attention and impact framework

Source: Based on Guo and Saxton, 2020.

and commenting behaviors" (Guo & Saxton, 2020, pp. 27–8), they then suggest a conceptual framework suitable to measuring the effectiveness of organizational social media advocacy strategies (Figure 14.3). Guo and Saxton's (2020) framework considers the factors necessary for a nonprofit first to create attention and then to use the attention to generate impact. The framework's core components are:

- *Attention*: The public attention that a nonprofit advocacy organization is able to generate is a function of its communication strategies and the character of its network. A communication strategy involves how social media messages are timed and paced, i.e., when and how often messages are released; to whom the messaging is targeted and how well stakeholders are connected (e.g., use of retweets, sharing, hashtags); and the message content, e.g., mix of visual and textual elements with appeal to values. Through these communication strategies, organizations build their social media networks, and network characteristics such as size, density, and member demographics determine the public attention that the organization will be able to create.
- *Impact*: Once public attention is gained, nonprofits need to transform it into actual impact. Guo and Saxton (2020) argue that the attention resource can be accelerated, leveraged, and transformed. Acceleration is achieved through boundary spanning and the forming of coalitions (see Chapter 15). Nonprofits can pool their attention resources by cross-linking and coordinating social media activities with other organizations pursuing similar objectives. Leveraging refers to seeking synergies between social media and traditional offline or face-to-face advocacy activities and strategies. While there is a danger that social media audience members might substitute clicks for real action, social media messaging can also enhance traditional advocacy activity by, for example, distributing calls to action (writing to representatives, participating in demonstrations) on social media. Transformation, finally, refers to solidifying the attention into a broader resource for the organization; Guo and Saxton (2020) refer

to this resource as social media capital, in analogy to the social capital concept discussed in Chapter 3. Social media capital is created through both messaging and connecting activities, such as sharing, hyperlinks, and hashtags, that build a values-based online community around the organization.

CONCLUSION

After initially resisting because of its commercial origins, nonprofits have increasingly come to embrace marketing thinking. At the same time, the adaptation of marketing approaches and techniques to the nonprofit context has also progressed. "Customer" orientation extends beyond the consumer focus of business marketing to include donors, volunteers, and members in addition to beneficiaries. The traditional four Ps of the marketing mix apply with modifications to nonprofits as well.

The latest adoption of corporate marketing concepts into the nonprofit sector is the adaptation of branding concepts, which allow nonprofits to capitalize on their good name and image to align the organization better with their supporters and create value for their mission. In all of this, nonprofits increasingly rely on social media to interact with their target audiences. While the actual effects in the real world are often not fully established yet and are barely generalizable across studies, social media use is allowing nonprofits to communicate with their core audiences more broadly and more extensively than ever before.

REVIEW QUESTIONS

How have marketing and nonprofit attitudes towards marketing evolved?
How can marketing management be defined?
What are the main target markets (or audiences) of nonprofit organizations?
What is the purpose of branding in nonprofit organizations?
What are some of the main ways that nonprofit organizations use social media?

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CHAPTER 15

Collaboration

This chapter examines various forms of collaboration such as partnerships, alliances, and mergers, all of which continue to gain in importance for nonprofit organizations. First, the chapter reviews collaborations between nonprofits and then sets the focus on cross-sector collaboration between nonprofits and government, especially public–private partnerships, and nonprofits and business.

LEARNING OBJECTIVES

Resource scarcity has long encouraged nonprofits to seek out partnerships and cooperation to access additional resources or improved services for their beneficiaries. More recently, cross-sectoral collaboration has become more important with the realization that complex public problems cannot be effectively addressed, much less solved, by any one sector alone. Nonprofit organizations engaged in service provision are increasingly involved in extensive networks and collective arrangements with public agencies. Along similar lines, business–nonprofit relations, too, have evolved beyond simple sponsorships to more complex collaborative partnerships. After considering this chapter, the reader should:

- have a basic understanding of the economic incentives and underpinnings of collaboration;
- be familiar with the factors involved in choosing alliances, partnerships, or mergers;
- understand the importance of cross-sector collaboration;
- be familiar with key collaboration frameworks;
- understand the differences and similarities between collaboration with government agencies and with business corporations;
- be able to discuss value creation through collaboration;
- be familiar with collaboration drivers.

Some of the key terms introduced or reviewed in this chapter are:

- Alliances
- Collaboration continuum
- Collaboration drivers
- Collaboration value construct

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- Collaborative dynamics
- Collaborative governance
- Contracts
- Corporate philanthropy
- Corporate social responsibility
- Mergers
- Public–private partnerships
- Value creation spectrum

INTRODUCTION

As discussed in Chapter 5, nonprofit research has generally revolved around three key questions—why do nonprofit organizations exist; how do they behave; and what difference do they make—which can be explored at organizational, field (e.g., health, education, arts), and national levels. With the "why" question addressed in the basic theories covered in Chapter 5, research started to cover managerial issues, i.e., the "how" question, and has now reached the third, "so what" question, which has involved probing performance, outcomes, and impact (Chapters 9 and 10).

A similar evolution has taken place in the literature on collaboration and partnerships within and across sectors. Early efforts addressed the question of why these partnerships exist at the sector and field levels (see government–nonprofit relationship typologies in Chapter 16), utilizing arguments from basic nonprofit theories to determine the essential rationales for cross-sector relations. On that basis, researchers developed relationship models applied to the organizational level (e.g., Brinkerhoff, 2002; Coston, 1998), and now the "how" question is being explored as part of the collaborative or network governance literature (e.g., Emerson & Nabatchi, 2015; Kapucu & Hu, 2020). These literatures explore the shift in governing public programs from hierarchical government responsibility to multi-organizational networks and across sectoral lines. Work on nonprofit–business relations developed in parallel (Austin, 2000b).

This evolving understanding is important for nonprofits, because the generally positive assessment of collaboration potential often masks the significant risks the collaboration frequently involves. Indeed, Suárez and Hwang (2020, p. 322) suggest that "unless potential for real collaborative advantage is clear, it is generally best, if there is a choice, to avoid collaboration."

The generally positive assessment of collaboration potential often masks the significant risks the collaboration frequently involves.

Despite this, interest in cross-sector collaboration has increased significantly over the years, as policy-makers have come to understand that social problems of many kinds—whether social, economic, or environmental—have become too complex to be sufficiently

addressed by government alone (Austin & Seitanidi, 2012a; Goldsmith & Kettl, 2009). There is also a realization among business leaders that stakeholders increasingly expect corporations to exert corporate social responsibility and use their resources to contribute to addressing public and global problems.

These insights are the key impetus of intra-sectoral (nonprofit–nonprofit), inter-sectoral (nonprofit–government; nonprofit–business), and multi-sectoral (nonprofit–business–government) collaborations, which all have different starting points in terms of incentives and specific motivations, but share commonalities in approach, processes, and the pursuit of impact and outcomes. As Austin and Seitanidi (2012a, p. 727) suggest, while there are both "commonalities and differences in value creation processes across all types of intra- and inter-sector collaborations . . . there is considerable spillover applicability" among various collaboration frameworks.

COLLABORATION AMONG NONPROFITS

Cooperation, partnership, and other forms of collective action have long been commonplace in the nonprofit sector and usually take place among organizations that share the same values. At the lowest level, nonprofits engage in informal economic coordination with each other, which includes information-sharing and client referrals. Also at this level are joint purchasing arrangements, which are frequently offered through alliances, such as umbrella associations representing the interests of their members. A more intensive level of collaboration involves sharing of administrative functions and responsibilities, such as back-office operations like accounting, information technology, or facilities services, and operational cooperation in the form of joint projects and programs. The highest level of collaboration is full integration and the joining of the corporate structures as organizations merge (McLaughlin, 2010). Mergers and acquisitions involving nonprofits have become more common, but are still often seen as a measure of very last resort because of the disruptiveness and considerable risk of failure.

These various levels of collaboration are all part of a continuum that ranges from simple coordination of activities to full integration (Table 15.1). At one end of the continuum risk and costs are low, values only play subordinate roles, and the organizational autonomy of the partners remains very high. With mergers at the other end of the continuum, there is the risk that the merger could collapse, leaving both organizations weakened. Merging is a time-consuming process that is also very costly, especially in terms of consultant, legal, and other fees involved in organizing the restructuring. Additional cost and time commitments are required in the post-merger integration phase, as the merged organization ramps operations up again. Conflicting organizational cultures are among the barriers to successful mergers, which puts a premium on value compatibility between the merging organizations, which lose the autonomy they had enjoyed as separate entities.

These various levels of collaboration are all part of a continuum that ranges from simple coordination of activities to full integration.

TABLE 15.1 The coordination–merger continuum

	Economic coordination	*Alliances/Partnerships*	*Mergers*
Risk	*Low*	→	*High*
Cost	*Low*	→	*High*
Value compatibility	*Low*	→	*High*
Autonomy	*High*	→	*Low*
Integration	*Low*	→	*High*

Collaboration between nonprofits is often undertaken due to direct pressure (Suárez & Hwang, 2020) or the creation of economic incentives (McLaughlin, 2010), as funders seek to reduce duplication and inefficiency in service provision to better utilize their own scarce resources. Another impetus, particularly in the United States, is a persistent concern that there are too many nonprofits in the first place (Harrison & Thornton, 2014), as there are few barriers to entry considering the ease and low cost of establishing nonprofits. The concern is based on the extraordinary expansion of the sector that began in the second half of the twentieth century and still continues, with tens of thousands of new nonprofits established every year. This growth raises questions about market saturation and the carrying capacity of the ecological niches in which nonprofits are active (Lecy & Van Holm, 2013). The liability of newness (Hager et al., 2004) leaves emerging nonprofits organizationally weak, ineffective, with little capacity to provide professional services, and competitively disadvantaged. Yet, there are no incentives to exit for obsolete or underperforming organizations, which continue to absorb scarce resources. In competitive resource environments, the growing density of nonprofits tends to negatively affect the financial health of individual organizations (Paarlberg et al., 2018). As a consequence, collaboration becomes an attractive option to address resource scarcity in crowded, competitive fields.

Collaboration becomes an attractive option to address resource scarcity in crowded, competitive fields.

While some analysts believe that the growth of the sector has been proportional rather than exponential (Harrison & Thornton, 2014), existing competition forces nonprofits to consider organizational-level options that are driven largely by economic considerations. Sometimes organizations lack the resources, financial or otherwise, needed to meet given objectives or needs. To the extent that these objectives provide insufficient revenue but are mission critical (see product portfolio discussion in Chapter 11), nonprofits have extra

incentives to seek out cooperative alliances to leverage available resources. The major cooperation drivers are:

- **Economies of scale**, i.e., increase of capacity to bring about unit cost reductions. For example, by adding capacity through the acquisition of an organization with similar service lines and programs, common costs can be shared, yielding a reduction in per unit costs (see Chapters 9 and 10).
- **Economies of scope**, i.e., combining program/service lines to reduce cost. This would be the case where two organizations have complementary programs, such as a convalescent home and a rehabilitation unit, and some form of cooperation or merger could bring about overall cost reductions.
- **Forward integration**, i.e., control of output markets, and **backward integration**, i.e., control of input markets. For example, an agricultural cooperative establishing a nonprofit farm-to-table service or a food coop store would be an example of forward integration, whereas a nonprofit food distribution network trying to produce its own food items would be an example of backward integration. Another example is that of a grant-making foundation starting to operate its own programs in the same areas where it previously worked through grantees (forward integration) and managing its own program-related investment portfolio rather than having it managed by investment firms (backward integration). Both forms of integration are powerful drivers aimed at cost reductions and greater control by cutting out intermediaries. Purchasing and retail cooperatives are prime examples in this case (see Chapter 2).
- **Pooling of resources**, i.e., joint activities to reduce costs by sharing risks and common tasks. The latter is frequently the case for advocacy functions, whereby organizations contribute to a program or organization that can take on common tasks in the policy field. Collective action of this kind is facilitated by identifiable threats from outside the field, for example, government policies that would have negative impacts on the organizations involved.
- **Leverage**, i.e., supplementary action to facilitate larger programs. This is a common mode of cooperation for foundations and other philanthropic institutions. For example, by providing seed funding or topping off resources already in place, they seek to achieve greater impact.

In making decisions about the coordination–merger continuum presented in Table 15.1, organizations must take into account four critical factors (Austin, 2000b; Arsenault, 1998):

- **Costs**, which involve both actual costs of the cooperation or merger and estimated opportunity costs, i.e., the costs to the organizations for not cooperating or merging.
- **Risks**, which refer to costs associated with failure of collective action and joint programs as well as merger.
- **Value compatibility**, which is particularly important in the nonprofit field given the value base and normative communities involved. For example, the religious and organizational cultures of Catholic and Buddhist daycare centers may be too incompatible

to invite cooperation beyond some basic coordination. Value compatibility is also a frequent issue in business–nonprofit collaborations and corporate philanthropy.
- **Organizational autonomy**, which addresses operational, programmatic, and strategic autonomy the organization will have as a result of cooperation.

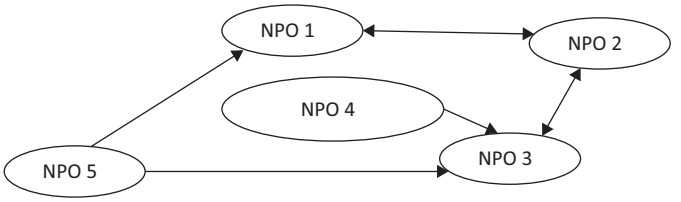
In particular, concerns about loss of organizational autonomy that could lead to financial resource dependencies, mission displacement, or programmatic shifts are ubiquitous in the literature (Toepler, 2018). Such concerns remain among the greatest barriers to collaboration, which by its nature creates interdependencies among partners. These barriers can be minimized through lower levels of formality, but with clear specification of rules and processes of cooperation; leadership with strong belief in the merits of collaboration and positive prior partnership experiences; and the creation of trust-building social capital among the partners (Xu & Kim, 2021).

Concerns about loss of organizational autonomy that could lead to financial resource dependencies, mission displacement, or programmatic shifts are ubiquitous in the literature.

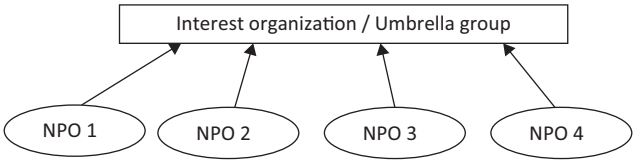
Figure 15.1 shows some basic forms of common organizational structures that serve to underpin collaboration among nonprofits and, as discussed later in the chapter, also between nonprofits and government agencies or businesses:

- *Coordination* is typically very informal and involves exchanges of information or client referrals. Nonprofits support each other for mutual benefit, but without any significant commitment.
- *Interest organizations* are a form of alliance between nonprofits in which individual member organizations pool resources (e.g., membership fees) to have the association represent common interests. Independent Sector in the US and the National Council of Voluntary Organisations in the United Kingdom are examples.
- *Partnerships* are legally bound agreements between organizations to produce benefits for both parties (McLaughlin, 2010).
- *Joint ventures* are forms of partnerships where a third entity, the venture, is created. The venture can be managed under the control of the parent organizations (simple form) or have a more independent management (complex form). Both partnerships and joint ventures are common elements of N-form projects (see Chapter 9).
- *Service organizations* provide specific services for nonprofits usually based on user fees and charges. This may include back-office support, including serving as fiscal sponsor (Andersson & Neely, 2019), or a variety of training, capacity building, and accountability services, such as codes of ethics. Though such services are sometimes offered by umbrella or interest organizations, they are also provided under separately established entities. This structure is quite common in healthcare, but also in human service and other fields.

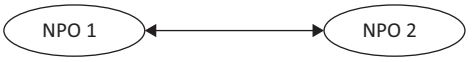
1. Coordination (as need arises, ad hoc and often informal)



2. Interest organization (pooling of resources to represent and further common interests)



3. Partnership (for common program activity and typically regulated by contract, e.g. business-to-business relations)



4. Joint venture (simple form, whereby parent organizations remain in control, with the joint venture run by a manager)

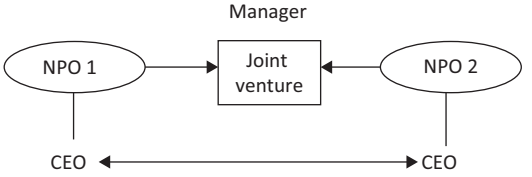
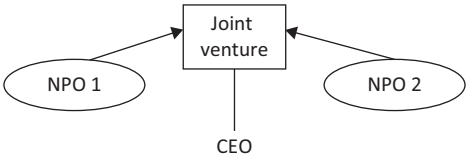


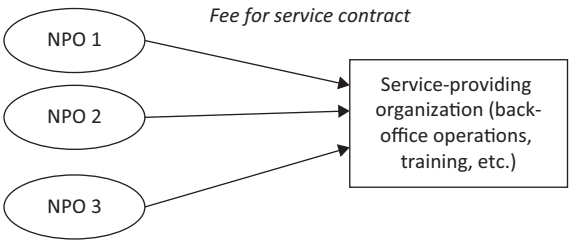
FIGURE 15.1 Common organizational structures of cooperation and merger

- In *franchising* arrangements, a nonprofit effectively licenses other organizations to use their brand, approach, and/or specific programs. The franchisees look similar and appear to be part of the same organization, but are operationally and financially autonomous within the frame of the franchising agreement. As rather centralized forms, franchises leave relatively little autonomy to franchisees (see Chapter 9). They are best suited to task environments with limited economies of scale and scope and require stable task environments that allow for the demarcation of local catchment areas or some other form of demand segmentation. Daycare centers, clinics, or schools in franchise form are examples.
- *Federations* are similar but allow greater autonomy among their members, whereby the center has less control (Young & Faulk, 2018). They typically work in more complex

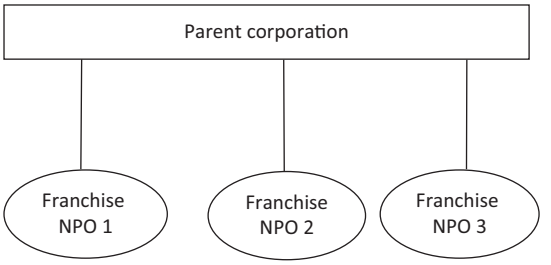
5. Joint venture (complex form, whereby parent organizations relinquish control, with the joint venture run by a CEO)



6. Service organization



7. Parent corporation and franchise system



8. Merger

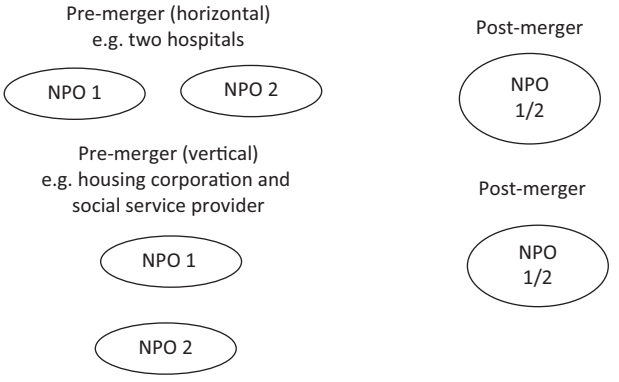


FIGURE 15.1 Continued

and dynamic task environments that require considerably more flexibility at local levels and in the relationship between the federation and its members. Organizations such as Friends of the Earth are set up as federations.

- *Mergers* combine two or more organizations into one corporate structure. Mergers can be horizontal, that is between the same type of organizations, such as hospitals or liberal arts colleges, or vertical, when one organization acquires another from a different field to expand its own services and offerings. In either case, the success of mergers depends on the degree to which different missions, values, and their corresponding organizational cultures can be aligned.

As already noted, many of the issues involved in collaboration between nonprofit organizations are similar to those to be considered in collaborative efforts between nonprofits and government or between nonprofits and forprofit businesses. But, as shown in the next sections, there are also quite different opportunities and potential pitfalls to consider.

COLLABORATION WITH GOVERNMENT

Although we examine the relationship between the government and the nonprofit sector in Chapter 16 in more detail, it is useful to consider forms of collaboration here as it has become a core characteristic of public service delivery (Salamon, 1995, 2002). Collaboration is an alternative to conventional purchase-of-service contracts in the sense that nonprofits are partners of government rather than just contractors (Gazley, 2008). As a result, the relationship between government and nonprofits is more differentiated than in the past: government agencies dealt with nonprofit service providers directly until the 1980s when a wave of managed care models and later performance-based contracting added new options in the relationship between the government and nonprofit service providers (McBeath & Meezan, 2010; Smith, 2016; Smith & Phillips, 2016; see Chapter 16).

Collaboration is an alternative to conventional purchase-of-service contracts in the sense that nonprofits are partners of government rather than just contractors.

Earlier understandings of governance mechanisms saw the public sector agency as the primary locus of the initiation of formal processes to implement public programs with other parties (Ansell & Gash, 2008). Purchase-of-service contracts are among the most basic forms of dyadic government–nonprofit interaction. Research on the government–nonprofit interface developed out of long-standing traditions focusing

on contracting and government tools that established the parameters for the analyses of specific collaboration frameworks at the organizational level. While contracting remains essential in fields such as human services, it is also associated with a number of significant drawbacks.

Newer conceptualizations of network or collaborative governance go beyond the dyadic nature of contracts and examine governing dynamics across multiple sectors, in which networks of different actors including nonprofit organizations collaborate both formally and informally to pursue public purposes (Emerson et al., 2012; Emerson & Nabatchi, 2015; Kapucu &Hu, 2020). These more complex arrangements can take the form of network structures, as discussed in Chapter 9, and can serve to distribute performance risk with new finance models, as is the case with social impact bonds (Chapter 11).

Contracts and Government Partnerships

As a principal mechanism especially for local governments to ensure their desired level and quality of social service delivery, contracts represent a key aspect of formal government–nonprofit collaboration, at least in fields where they are common (Gazley, 2008). Contracting with nonprofits offers several benefits to government agencies, but also has some potential pitfalls. According to Prentice and Brudney (2016), core benefits governments enjoy include:

- Goal congruence, which reduces the risk involved in the principal–agent relationship that the contract creates.
- The ability of nonprofits to leverage community connections for political support and community input in the policy process as well as voluntary donations and labor.
- Specialized service expertise of nonprofit vendors.

Among the main drawbacks is that goal congruence is not perfect, as nonprofits typically have diverse program and funding portfolios and accountability to different stakeholders (Prentice & Brudney, 2016). Kramer (1994) observed additional advantages and disadvantages that contracting offers government, as shown in Box 15.1. On balance, however, the advantages outweigh the drawbacks, making contracts the preferred vehicle for collaborating with nonprofits, especially in fields like human services where the need for special expertise makes opportunistic behavior possible.

On balance … the advantages outweigh the drawbacks, making contracts the preferred vehicle for collaborating with nonprofits, especially in fields like human services.

BOX 15.1

Advantages and Disadvantages of Contracting Out as Perceived by Government

Advantages

- Cost-effectiveness
- Accurate cost determinants
- Avoiding start-up costs
- Greater flexibility
- Avoiding civil service staff regulations
- Easier to alter or stop program

Disadvantages

- Difficulty in maintaining equal standards
- Loss of public control and accountability
- Dilution of legislative intent
- Unreliability of contractors
- High monitoring costs
- "Creaming," i.e., selecting only easy-to-serve clients

Source: Kramer, 1994.

While contracts provide an influx of resources and, especially with renewals, a measure of stability, the specifics of the process can also destabilize and weaken nonprofits (see Box 15.2). As discussed in greater detail in Chapter 16, the drawbacks for nonprofits of government contracts as funding tools and of vendorism include increased administrative demands, challenges to program and organizational autonomy, and mission drift, among others. Nonprofit managers therefore tend to see contract-based collaboration with government with a greater amount of skepticism than do their government counterparts.

BOX 15.2

Key Contract-Related Problems for Nonprofits

Cash flow management: As nonprofits are typically undercapitalized, they may not have sufficient financial slack to bridge contract payment delays, shortfalls resulting from an underestimation of the actual costs of the contracted work, and rising costs from inflation und other unexpected expenditures. This in turn may force nonprofits to delay payments to their own vendors, furlough staff, freeze hiring, or launch emergency fundraising appeals.

Contract renewal dance: Although most contracts are renewed, the renewal process is a source of uncertainty and unpredictability. Renewal delays are often due to legislative politicking, e.g., contracts are not renewed until the legislature has settled agency budgets; turnover among the contract administrators within government agencies; or deliberate delays to force compliance of nonprofit vendor in cases where there is resistance to accept or negotiate changes to the original contract such as adding new clients, new geographical area, or additional services.

Source: Smith, 2016.

That skepticism is born out of a power imbalance that is especially pronounced in contracting. Yes, it has been suggested that partnering leads to an interdependence of the sectors (Salamon, 1995), and, yes, the hollowing out of the state's direct service capacity (Milward, 2014; Milward & Provan, 2000) does suggest that government is dependent on nonprofits' active cooperation in many service areas. Nevertheless, contract administrators within government must ensure efficiency and equity in service delivery while maintaining control over what services are provided to which beneficiaries (Gazley, 2008). While the nonprofit's own beneficiaries will most likely overlap and its service spectrum will align with those contract requirements, contracts primarily serve government-defined clienteles in pre-defined ways and not necessarily the nonprofit's own mission and goals.

Accordingly, nonprofits may not always welcome collaboration via contract with government and even exhibit "managerial resistance" due to misaligned goals, budget or staff constraints, and reluctance to share resources or information (Gazley, 2010). Managerial attitudes towards collaboration are, however, influenced by previous experiences, such that positive partnership experiences in the past reduce negative attitudes. Having prior work experience in government also diminishes concerns about the drawbacks of collaborating with government partners, suggesting that sector-switching (see Chapter 13) contributes to better nonprofit–government collaborative relations over time. Executives of larger nonprofits tend to be less skeptical, and personal characteristics may also factor into attitudes, as female executives see collaboration more positively (Gazley, 2010).

Nonprofits may not always welcome collaboration via contract with government and even exhibit "managerial resistance" due to misaligned goals, budget or staff constraints, and reluctance to share resources or information.

Public–Private Partnerships

Public–private partnerships (PPPs) are part of new public management (NPM) approaches that, beginning in the early 1990s, changed the way in which public administration systems operated (see Chapter 10). Like contracts, but typically broader and more complex in the specification of mutual obligations, PPPs involve contractual arrangements between public and private—both nonprofit and forprofit—entities in providing specified goods and services. While most people usually think about infrastructure projects when they hear about PPPs, they can, and increasingly do, involve nonprofit organizations, too, mostly in delivering social and health-related services, but also in the fields of arts and culture as well as housing and economic development, as these examples from around the world illustrate:

PPPs involve contractual arrangements between public and private—both nonprofit and forprofit—entities in providing specified goods and services.

- The 2008 financial crisis hit many state and municipal budgets severely, and cuts began to undermine public service delivery and the maintenance of basic infrastructure in many cities. Most prominently among American cities, Detroit, Michigan faced the prospect of insolvency and an uncertain future (Abramson et al., 2014). Philanthropic foundations stepped in and with the city authorities created a partnership to see Detroit through the worst of the crisis.
- The city of El Paso, Texas and the El Paso Community Foundation (EPCF) joined forces to bring the city a new children's museum. The museum project was approved by voters some years ago, and given cost overruns and tight budgets, the city and EPCF developed a partnership to combine private donations with taxpayer dollars. The two partners created a third entity, a local government corporation (LGC), to manage the partnership. LGCs are nonprofit entities created by government to pursue public projects and can accept public and private funds, while keeping the independence of corporations (Holly, 2018).
- In response to a persistent housing shortage for low-income households, Fondazione Cariplo in Milan, Italy, created the Social Housing Foundation in partnership with the regional government to establish the Social Housing Fund. The Fund was later transformed into a collective investment model, leading to the foundation of a national Investment Fund for Housing (Anheier & Leat, 2018, pp. 102–14).
- The Eberhard von Kuenheim Foundation in Germany set out to save the Kristallmanufaktur Theresienthal, a crystal glass producer using techniques reaching back many centuries and now catering to niche markets. The foundation established a network of forprofit and nonprofit organizations and public authorities to make sure that the cultural heritage of hand-blown crystal glasses would not be lost, and the company could remain solvent (Anheier & Leat, 2018, pp. 152–65).

In fact, PPPs have been considered attractive because the private sector's weaknesses seem to correspond well with government's strengths, and vice versa, as suggested by the interdependence theory for nonprofits (Chapter 5). The government can provide a more stable stream of resources, set priorities through a democratic process, discourage inequities by making access to services a right and not a privilege, and improve quality of services by setting benchmarks and quality standards. For its part, the private sector can typically react more quickly, adjust to local circumstances, and involve diverse or hard-to-reach communities.

PPPs have been considered attractive because the private sector's weaknesses seem to correspond well with government's strengths, and vice versa.

PPPs are basically legal agreements between government and private sector entities for the purpose of providing public infrastructure, community facilities, or services such as healthcare, education, or environmental protection. The social impact bonds projects presented in Chapter 11 are examples of recent PPP developments. Other examples are the low-income and new markets tax credits in the US, arranged under an Obama-era program to stimulate economic activity in high poverty areas. The Treasury Department makes a tax allocation to nonprofit community development entities (CDEs), which use the allocation to offer tax credits to investors who provide equity in exchange. The CDE then uses the equity to make loans or investments to qualified businesses. While the partners involved in PPPs share risks, rewards, and responsibilities that are contractually regulated, they also bring different resources and needs into the partnership.

Generally, PPPs reflect a management culture that emphasizes the centrality of the client or beneficiary as well as accountability for results. That culture, embedded in the NPM approach described in Chapter 10, suggests structural or organizational choices that promote decentralized control through a wide variety of alternative service delivery mechanisms, including quasi-markets with public and private service providers competing for resources from policy-makers and various donors.

The main reasons for government to enter into a PPP are threefold:

- **Economic**, as private sector provision is often less expensive than public sector operations; moreover, by involving the private sector, government can leverage its own spending, thereby lifting pressure from its tax revenue.
- **Managerial-administrative**, as private operations tend to be more flexible in organizational terms, less subject to bureaucratic reporting requirements, and usually easier and quicker to organize. In particular in addressing complex health and social problems, private resources can be mobilized sooner than governmental ones, and private action is more quickly made operational on the spot than public action.
- **Political** in the sense that government can point to actions ("something is being done") in addressing pressing problems even though it may lack the financial resources and full operational capacity to do so alone.

For nonprofits, PPPs offer three complementary advantages:

- **Economic**, as government, in the long term, commands resources that can be mobilized for the purposes of the PPP, resources that would not be available to private entities otherwise. This includes not only financial resources and underwriting of obligations but also the use of public facilities and services.
- **Managerial-administrative**, as government operations and infrastructure can be used for project purposes, providing additional leverage. Moreover, governmental agencies are relatively stable and more permanent compared to private entities.
- **Political** in the sense that cooperation with government affords legitimacy to private entities that they might not have otherwise. PPPs establish a governmental "seal of approval" for private providers.

PPPs establish a governmental "seal of approval" for private providers.

The OECD (2021) suggests several critical questions that public agencies as well as nonprofit organizations and businesses need to evaluate before entering a PPP. Those particularly relevant to nonprofit organizations include:

- What are the comparative costs in terms of finance, development, and operation, as calculated over the whole lifetime of the project?
- Can the risks of the project be clearly defined, identified, and measured?
- Does the project involve any transfer of risks onto other stakeholders?
- Do potential partners have a track record of good service delivery, responsible business conduct, and PPP experience?
- What is the potential level of competition and cooperation in the field?
- Can the desired project output be specified clearly ex ante?
- Is the planned project operating in a rapidly changing policy or demand environment?
- Is the potential PPP project of a size sufficiently large to justify the transaction costs?
- Who will make the contractual payments?
- If end-user charges are levied will demand be sufficient over the lifetime of the project to ensure that the private partner generates the revenue required for it to cover costs?

What makes for successful partnerships, and what characteristics are indicative of PPP failures? The research and practitioner literature has identified a number of best practices for successful PPPs (National Association of State Chief Information Officers, 2006; Buse & Harmer, 2007; Osborne, 2000; Austin 2000b). Among them are:

Political leadership: A partnership can only be successful if commitment comes from those at the political "top." Senior public officials must be willing to be directly involved in supporting and leading the development of PPPs and in keeping stakeholders well informed in order to convince them and the general public of the value of effectively developed partnerships.

A partnership can only be successful if commitment comes from those at the political "top."

Clarity of purpose and goals: All partners must have a clear understanding of their own goals for the PPP, and there needs to be a clear core concept for the partnership.

Common values and accountability: Time to develop trust among partners is essential during the early stages of developing the PPP, as is the alignment of underlying values and organizational missions.

A well thought-out plan: Careful planning will increase the probability of the partnership's success. The resulting plan generally takes the form of an extensive and detailed contract that sets out the goals of the PPP and each partner's responsibilities. Since even careful planning cannot take into account every possible problem that could arise, a good plan or contract will include a clearly defined method of dispute resolution.

A dedicated income stream: While one partner may provide the initial funding to start the project, there must be a means of repayment of this investment over the long term. The income stream can be generated by a variety and combination of sources (fees, tax increment financing, or a wide range of additional options), but must be assured for the length of the partnership.

Communications with stakeholders: Any PPP will affect people and organizations beyond just the public agency and the private sector entities directly involved in developing and implementing it. As argued throughout this book and especially in Chapter 10, nonprofits in particular are characterized by the existence of multiple stakeholder constituencies, all of which are likely to have expectations and many of which might have misconceptions about PPPs and their value to the organization, its mission, and the broader public. It is important to communicate openly and candidly with these stakeholders to minimize potential resistance to establishing a partnership in the first place but also to generate and maintain support for it.

Balance of power and autonomy: Partners of all sizes must have equal say in any genuine partnership, and all partners must believe they have something to gain by participating.

Collaborative Governance

As noted earlier in the chapter, a growing strand of public policy research is looking at the apparent shift in the planning and implementation of public programs from being solely a hierarchical government responsibility to being a multi-organizational, cross-sector network task, which is referred to as collaborative governance. Among the various arrangements that might be considered collaborative governance are public–private partnerships, but also many other types of collaboration that frequently involve nonprofit organizations. To better understand these arrangements, Emerson and Nabatchi (2015) offer a broad collaborative governance framework in which "collaborative governance regimes" (CGR) are embedded in a system context that enables the start of the collaboration, the actions of which generate impacts that in turn lead to adaptations within the system (Emerson et al., 2012; Emerson & Nabatchi, 2015), as illustrated in Figure 15.2.

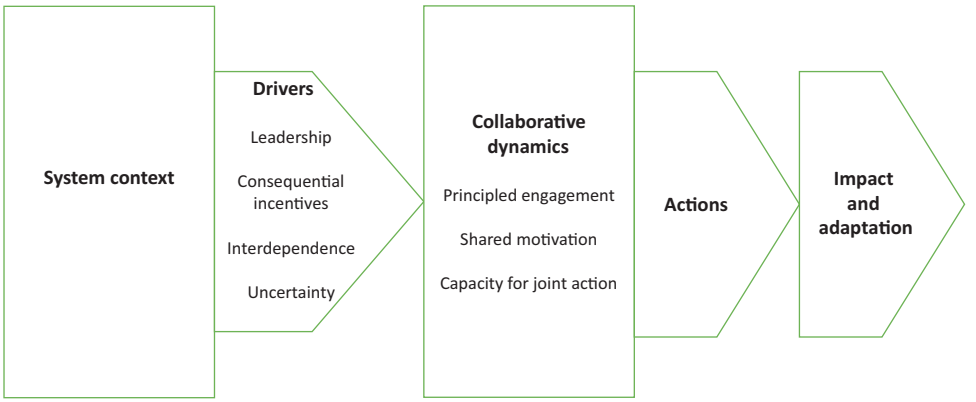


FIGURE 15.2 Collaborative governance framework

Source: Based on Emerson et al., 2012.

Following the open systems perspective, the *system context* in which collaborative governance regimes develop consists of policy, regulatory, economic, and other environmental resources and constraints. These resources and constraints give rise to collaboration drivers that initiate the creation of a CGR. Given the potential for turbulence within a regime's system context through unexpected external events, environmental influences can also affect the dynamics of a collaboration and force changes during its process. The initial concept of a CGR is therefore prone to modification.

Emerging from the system context are four potential *drivers*, any of which or combinations thereof can lead to the creation of a CGR. The first driver is *leadership*: someone has to be committed to working collaboratively and be willing to harness start-up resources, secure participation, and chair the initial effort impartially. The availability of "collaboration champions" is crucial to getting a collaborative undertaking underway (Emerson & Nabatchi, 2015, p. 72).

Consequential incentives refer to the motivations of participants. The incentives may be internal, such as when participants can access needed resources through the collaboration, or external, such as when not addressing an issue through collaboration prevents the participant from pursuing key goals or when collaboration opens new funding opportunities. The incentives must be consequential enough to justify the costs involved in collaborating. The attractiveness of collaboration lies in the inability of individual participants to address a significant problem or issue on their own. The realization of organizational *interdependence* is therefore a third driver. Relatedly, a fourth driver, *uncertainty*, derives from the complexity of public problems that collaborations tend to address. Bringing different participants to bear on the problem diffuses the risk (and related costs) of failure, while at the same time reducing it.

The attractiveness of collaboration lies in the inability of individual participants to address a significant problem or issue on their own.

Collaborative dynamics and the actions resulting from them comprise the CGR proper. There are three dynamics inherent to collaborations that Emerson et al. (2012) specify:

- *Principled engagement* is the process through which the partners establish their working relationship. This includes developing a shared sense of purpose and action plan to define the problem to be addressed and agree on the range of activities to be undertaken. Participants need to identify and disclose shared interests and key information necessary for the collaboration to proceed, define common purposes and goals, and specify tasks and expectations. Open and constructive communications aid agenda-setting, task assignment, and reaching agreement on actions.
- *Shared motivation*, a second key dynamic, focuses on the interpersonal aspects of the collaboration process and how participants relate to each other. Engagement begins to build social capital among the collaborators (see Chapter 3) and thus creates trust as a core foundation for working together. With trust established, participants can gain mutual understanding of their respective interests, needs, and positions, which raises the credibility of participating parties and thus the internal legitimacy of the collaboration. This in turn reinforces shared commitments to the joint undertaking.
- *Capacity for joint action*, the third dynamic of a CGR, involves making procedural and institutional arrangements to structure the collaboration by setting rules, establishing decision-making procedures, and laying them out formally in agreements such as memoranda of understanding. In small or short-term collaborations these arrangements can remain largely informal, but as the collaboration becomes larger, more complex, and durable, the arrangements become more formalized, which may require internal structural adjustments of either partner. Leadership by the originating champions or others stepping into the role at various stages of the process remains quintessential for creating joint action, as does the availability of relevant knowledge within the partnership and the creation of new knowledge through it. Finally, joint action is created by leveraging the various and diverse resources the partners bring to the table based on their distinctive capabilities and advantages. Without the creation of joint capacity, the *raison d'être* of collaboration cannot be achieved, as joint action is needed to address the problem or issue that the individual partners could not adequately address on their own.

Collaborative actions are therefore the result of the interactions between the collaborative dynamics.

Without the creation of joint capacity, the raison d'être of collaboration cannot be achieved, as joint action is needed to address the problem or issue that the individual partners could not adequately address on their own.

The actions generated by the CGR aim to create *impact* within the system context, that is, changes within its environment. Such changes can include the alteration of conditions that prevented addressing the CGR's chosen problems in the first place or the creation of social innovation (Chapter 8), or any other large or small condition that the collaboration's

theory of change specified. To the extent that the changes initiated by collaborative actions align with the original purposes and are of sufficient scale, they may yield *adaptation*, or transformational change, of the system context, which may in turn affect the drivers of collaboration and thus its sustainability.

As nonprofits are often key participants in collaborative governance regimes along with government and on occasion businesses, the framework allows the analysis and assessment of collaboration dynamics and processes and ultimately a better understanding of how and why collaborations succeed or fail.

COLLABORATION WITH BUSINESS

To examine collaboration in the business–nonprofit context, we draw on corporate social responsibility and corporate philanthropy concepts as frameworks for understanding organizational-level collaborations. While the notion that businesses and their owners should take some level of responsibility for the welfare of their workers, communities, and society at large can be traced back to the nineteenth century, with even earlier antecedents, the rise of social movements, such as the consumerism and environmental movements during the 1970s, forced corporations to consider taking the interests of broader sets of stakeholders, beyond their shareholders, into account.

Faced with actions detrimental to the bottom line such as consumer boycotts and negative publicity, corporations began to embrace the concept of corporate social responsibility (CSR). CSR can be understood as a mandate to be accountable for corporate actions that affect individuals, their communities, and the environment at large, including avoiding negative social and environmental impacts and actively using corporate resources to pursue social or environmental goals. While a consensus definition remains elusive, CSR activities can be categorized as either strategic, e.g., stakeholder management, or altruistic, e.g., environmental overcompliance (McWilliams et al., 2019).

[Corporate social responsibility] can be understood as a mandate to be accountable for corporate actions that affect individuals, their communities, and the environment at large.

Corporate Philanthropy

Although corporate philanthropy predates the emergence of CSR, it is generally seen as one emanation of it that can serve either strategic or altruistic goals. Accordingly the motivations of corporations to engage with philanthropy range widely (Roza & Meijs, 2020). Philanthropic programs seek to address stakeholder needs and demands, create goodwill, and increase the company's reputation. The business case for philanthropy is that it can help improve the bottom line, raise the attractiveness of corporate locations, and contribute to employee satisfaction, motivation, and productivity. Along the way, participation in philanthropic activities enables elite networking among business executives. It can also result from peer pressure as executives feel compelled to match "industry standards" for philanthropic activity.

The business case for philanthropy is that it can help improve the bottom line, raise the attractiveness of corporate locations, and contribute to employee satisfaction, motivation, and productivity.

For nonprofits, collaboration with businesses can likewise have considerable benefits (Roza & Meijs, 2020). Corporate support is a source of revenue that can, in some instances, become substantial, allowing the nonprofit to serve its mission and beneficiaries better. American Express's collaboration with the anti-hunger group Share Our Strength (SOS), for example, more than tripled SOS's budget (Chapter 14). To the extent that the support comes from a company's marketing and advertising budgets, it tends to be more recession-proof, as these business activities must go on even as philanthropic support gets cut. Being associated with a well-known corporate brand has a signaling function and can convey legitimacy and visibility. Utilizing corporate marketing and distribution channels allows nonprofits to promote their mission and issues to broader audiences than they could reach on their own. Many of these benefits, however, also carry certain risks (see Box 15.3).

BOX 15.3

Risk Factors for Nonprofits in Corporate Collaborations

Wasted resources: Cultivating and developing a complex corporate partnership requires significant time and resource commitments, not dissimilar to government grant or contract applications, that may ultimately not bear fruit.

Reduced donations: If nonprofits get too closely associated with one corporation, others may see less value in providing additional support. Other donors may perceive the association with a corporation as an indication that their gifts are less needed.

Loss of organizational flexibility: The corporate partnership may impose restrictions that may reduce the nonprofit partners' scope of action.

Tainted partners: If the corporation receives negative publicity, the image of its nonprofit partners may also get blemished.

Structural atrophy: Too much reliance on a corporate partner can cause resource dependency issues if corporate goals and strategies change.

Source: Andreasen, 1996.

Corporate philanthropic involvement can take several different forms ranging from informal to formal, spontaneous to strategic, and limited to extensive. The main channels for corporate involvement include (Roza & Meijs, 2020):

- *Individual decisions*: In the most traditional approach to corporate philanthropy, decisions about whether to approve requests by nonprofits are made by the CEO or a small group of executive-level personnel. Still common primarily among smaller businesses, the process is very informal and often ad hoc.
- *Corporate philanthropy program*: More formalized are philanthropy programs with specialized staff who review proposals and make recommendations to the executive. Formal programs tend to be led by an executive-level officer and develop and follow strategic priorities in their giving.
- *Corporate foundations*: Foundations allow corporations to keep their philanthropy at arm's length and somewhat isolated from business pressures, while still strategically tied to larger corporate interests (see Chapter 6). Corporate foundation grant-making is largely comprised of pass-through gifts from the corporate parent, but the foundations usually have some endowment funds as well to maintain some base funding when pass-through gifts are reduced during economic downturns.
- *Sponsorships and cause-related marketing*: Much support for nonprofits is tied to advertising or product promotion purposes, seeking a direct return for the corporation. This includes cause-related marketing in which corporations market their products or services in relation to a good cause (see Chapter 14, especially Box 14.3).
- *Employee volunteer and matching gifts programs*: Corporations frequently involve their employees in aspects of their philanthropic programs by allowing paid time off to do community work and matching employee donations to charities. The company's motivations range from team-building to raising employee motivation and commitment.

Collaborative Value Creation Framework

These different forms that corporate philanthropic involvement can take suggest that such collaborations generate different kinds of benefits, or value, for both the nonprofit and corporate partners and differ in terms of scale and required levels of commitment. To capture the nature of these business–nonprofit collaborations conceptually, Austin and Seitanidi (2012a, 2012b) developed the collaborative value creation (CVC) framework, in which prior research is distilled into four stages along a collaboration continuum derived from Austin's previous work (2000a, 2000b). Determination of what kind of nonprofit–business relation is at hand sets the stage for exploring the organizational compatibility of partners and understanding their motivations, interests, intentions, and perceived benefits (Austin & Seitanidi, 2012b), which in turn allows Emerson and Nabatchi's (2015, p. 72) "collaboration champions" to make decisions on whether to "invest in starting a collaborative endeavor." The framework involves four key elements (Austin & Seitanidi, 2012a), as depicted in Figure 15.3:

- **Value creation spectrum**: The purpose of collaboration is to co-create social value beyond what the individual participants could achieve on their own. Austin and Seitanidi (2012a) posit four sources of value creation in nonprofit–business

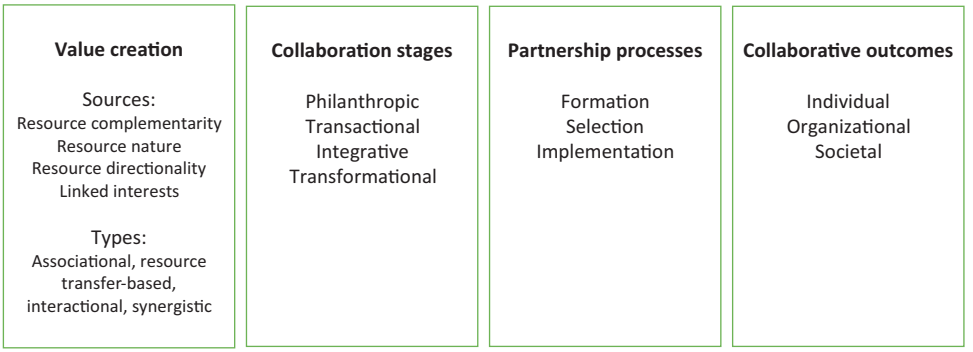


FIGURE 15.3 Simplified collaborative value creation framework

Source: Based on Austin and Seitanidi, 2012a, 2012b.

collaborations and four types of collaborative value that result from them. In the first place, value can be derived from bringing complementary resources together. Different sectors and actors bring their unique resources and other distinctive characteristics to the table (Toepler & Anheier, 2020) such that value is created when organizations leverage their differences for collaborative advantage (*resource complementarity*). Second, sectoral distinctiveness endows each partner not only with generic, but also with specific competencies, such as skills, expertise, and know-how, that can enhance value co-creation (*resource nature*). Third, intermingling these distinct resources in reciprocal exchanges adds value beyond the individual partners' capabilities (*resource directionality*). Finally, the value creation process must address and link the self-interests of the partners and be perceived as fair (*linked interests*). The resulting types of collaborative values can be *associational*, which partners derive from simply being part of the collaboration (reputational benefits); *based on resource transfers* from collaborators; *interactional*, with intangible benefits such as trust or know-how accruing to partners from the act of collaboration; or *synergistic*, deriving from the unique combination of distinctive resources within the partnership.

The purpose of collaboration is to co-create social value beyond what the individual participants could achieve on their own.

- **Collaboration continuum**: The different types of values can be created at different stages of a continuum of nonprofit–business collaboration. The first stage is a *philanthropic* relationship, such as when a corporation cuts a check to support the work of a nonprofit. The second stage is *transactional* and involves a quid pro quo as in the sponsorships or cause-related marketing described in the previous section. The third stage is *integrative*, where partners begin to integrate values, strategies, and activities, thus leading potentially to a fourth *transformational* stage where the integrated collaboration co-creates social change. These stages differ along a number

of dimensions, including level and scope of engagement, type and size of resources committed, strategic value and mission relevance, managerial complexity, and type of value created.

- **Partnership processes**: The third component of the CVC framework focuses on the processes that enable value creation, namely the formation of the partnership, the selection of collaborators, and its implementation. The *formation* stage is primarily about establishing organizational fit for the partnership, determining which resources need to be brought to the table and how they can be combined in a complementary way to generate the most value through the collaboration, and exploring how missions and motivations align and partner interests can be linked. As with other types of collaboration discussed earlier in this chapter, the early identification of champions with sufficient seniority and commitment to help steer the evolving partnership is also important. Partnership *selection* involves an assessment of the potential of partnership options to maximize value and outcomes as much as risk assessments to reduce the probability of collaboration failure or using resources for low-impact partnerships. During the *implementation* stage, the partners determine the basic design and operational processes, including structure, rules, and managerial and leadership positions, and begin undertaking the agreed-upon activity or activities. Even after these formal and informal processes are completed, the collaboration will continue to need strategic and value frame adjustments along the way as it involves ongoing relationship-building both within the partnership and with external stakeholders.
- **Outcomes**: The value co-created by a nonprofit–business collaboration translates into specific outcomes that are achieved at different levels. On the *individual* level, members of the participating organizations can gain new expertise, knowledge, and skills, such as technical, leadership, or network- and coalition-building skills. Successful collaboration can also have motivational benefits. Externally, clients of nonprofits benefit from improved services and service delivery. On the *organizational* level, nonprofit partners benefit from access to new resources, technical know-how, corporate distribution channels, and the like. Corporate partners stand to gain reputational benefits, improved employee motivation, and stronger brand and bottom-line performance. And finally, as the value creation of nonprofit–business collaborations is ideally geared toward generating positive social change, the ultimate focus is "on *societal* welfare and its improvement" (Austin & Seitanidi, 2012b, p. 945).

Like the collaborative governance framework, the CVC allows nonprofits to gauge prospects, opportunities, and potential pitfalls in collaboration with business. The two frameworks have considerable overlaps, but in the business case, there is stronger emphasis on the value proposition for all participants.

CONCLUSION

Collaboration has become a crucial and ubiquitous feature of modern public problem-solving that increasingly ties all three sectors together in efforts to capitalize on their different capabilities, incentives, and motivations. As noted before, the idea behind the

creation of social impact bonds, discussed in Chapter 11, embodies the principles of multi-sector collaboration: nonprofit partners contribute their service delivery capabilities and expertise, commercial investors the ability to raise capital, and government serves as financial guarantor.

Collaboration has become a crucial and ubiquitous feature of modern public problem-solving that increasingly ties all three sectors together in efforts to capitalize on their different capabilities, incentives, and motivations.

The collaborative governance and collaborative value creation frameworks both capture this cross-sectoral combining of relative strengths and advantages and are ultimately more similar to, than divergent from, each other than their respective origins in public and business administration research might suggest. They both suggest a strong case in favor of collaboration as the guiding norm in cross-sector interaction, which aligns with the partnership paradigm embodied in Salamon's interdependence theory (Chapter 5) as the predominant form of government–nonprofit relationships. While cooperative relations between the sectors are indeed common globally, government–nonprofit relationships are, however, much more complex, as seen in Chapter 16.

REVIEW QUESTIONS

What are the drivers behind various forms of collaboration?
What are the key elements of a collaborative governance regime?
What makes for successful PPPs?
What distinguishes the stages of the collaboration continuum?

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PART IV

Policy and Current Developments



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CHAPTER 16

State–Nonprofit Relations

This chapter considers the different models and types of relationships nonprofit organizations have with the state in terms of funding and contracting, regulation, and consultation. The chapter also discusses the advantages and disadvantages of relations with governmental bodies and takes a closer look at the United States and several other countries.

LEARNING OBJECTIVES

Relations with the government and public agencies are perhaps the most important ones nonprofit organizations have to take into account other than those with their core stakeholders. After considering this chapter, the reader should:

- have a basic understanding of how government–nonprofit sector relations developed in the United States and other countries;
- understand basic patterns of government–nonprofit relations and underlying theories;
- be familiar with the different ways and means of state support of nonprofit activities.

Some of the key terms discussed in this chapter are:

- Compact
- Competition
- Contracting regimes
- Four C's model
- Partnership paradigm
- Performance-based contracts
- Principle of subsidiarity
- Regulation
- Subsidies
- Supplementary/complementary/adversarial relations
- Tax preferences and exemptions
- Third-party government
- Third-party payments

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- Transaction cost theory
- Vendorism

INTRODUCTION

In the United States, the United Kingdom, Canada, Japan, Germany, and many other countries, the nonprofit sector has consistently and significantly relied on government for funding. In fact, government financing in general accounts for some 32% of all nonprofit revenue in the US, and for 38% in Australia, 52% in Canada, and 29% in the UK (see Chapter 4). There are hundreds of thousands of contractual arrangements between public and private nonprofit entities at federal, state, and local levels. Boris and colleagues (2010) point out that in the US, government agencies manage about 200,000 contracts with some 33,000 human service nonprofit organizations. What is more, 60% of nonprofits with government grants and contracts count them as their largest funding source. It is therefore not surprising that the relation between the state and the nonprofit sector is of great importance not only for the sector as such but also for its role in and contributions to society generally.

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From an institutional perspective, the presence of a sizable nonprofit sector is contingent on collaboration with government. Salamon's (1987) analysis of the workings of the US nonprofit sector identified institutional patterns of third-party government in many policy fields, which suggested that strengths and weaknesses of both government and the nonprofit sector complement each other, leading to interdependent structures of service delivery and finance over time. As a result, the analysis of nonprofit–government relations emerged as one of the key topics in the field.

In the US, voluntary associations among citizens preceded the development of the government apparatus and the corporation as a means for pursuing collective action (Smith & Lipsky, 1993). Throughout US history, registered and unregistered nonprofit organizations assumed a variety of roles addressing public needs defined outside the scope of either the state or private enterprise. Along with their fundamental role as service providers, nonprofits have offered a complement to the formal political system as the organizational sphere through which citizens can participate in the democratic process.

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The growth and development of the nonprofit sector in its service and civil society capacities could not have taken the course it did by relying solely on private voluntary contributions. Need consistently outweighs levels of private donations to nonprofit organizations. In other industrialized countries, this situation often inspired the development of expansive public social service apparatuses. As explained in Chapter 2, the US, however, has been historically loath—from both liberal and conservative perspectives—to rely solely, even predominantly, on government structures for the provision of many quasi-public goods, and turned instead to the private nonprofit sector. At the same time, government financing of nonprofits dates to the colonial period and continued throughout the nineteenth and early twentieth centuries, with government financing concentrated mostly in the urban areas of the Northeast and Midwest.

After World War II, government financing of nonprofit organizations steadily increased, fueled by the Great Society programs of the 1960s and the proliferation of nonprofit drug and alcohol treatment centers and community action agencies in the 1970s, and even despite the devolution of social services in the 1980s. The other trend that accounted for continued increases in government funding of nonprofit organizations in the 1980s was privatization efforts in the mental health and developmental disability fields. In addition, from 1984 to 1999, the production of low-income housing shifted from government subsidizing private forprofit developers to funding community development corporations. From the mid-1990s up until the beginning of the twenty-first century, state and federal spending on social services rose significantly.

Whereas federal spending on services continued to increase, state-level spending stalled in the early 2000s and then was sharply cut in the aftermath of the 2008 financial crisis (Smith, 2016). Many state governments—which are large providers of government contracts and grants—faced severe budget problems. Even though federal funding remained relatively stable at the time, with grants flowing to state and local governments, which are then passed through to nonprofits (e.g., the Child and Adult Care Food Program or the Social Services Block Grant), many nonprofits were forced to freeze or reduce salaries, draw on reserves, or scale back their operations (Boris et al., 2010).

The immediate impact of the COVID-19 pandemic on nonprofits in 2020 was at least as severe, resulting in significant job losses in the sector (Salamon & Newhouse, 2020) and hitting nonprofits without operating reserves especially hard (Kim & Mason, 2020). The federal Paycheck Protection Program, extending loans convertible to grants if certain conditions were met, provided a crucial lifeline for most participating nonprofits.

Direct government support of nonprofit organizations comes in the form of direct payments, tax exemption, preferential regulatory treatment, and deductibility of donations. Nonprofits also benefit indirectly from payments through subsidies to individual clients, i.e., third-party payments. The state–nonprofit partnerships that result from this array of support mechanisms allow the nonprofit sector to assume its roles at the scale described previously.

WHAT'S IN A RELATIONSHIP?

The relationship between the nonprofit sector and government is complex and multi-faceted. The meaning and magnitude of the relation differ by type of organization (large charities vs. small local associations), field (social services vs. international development), and levels of government involved (e.g., federal vs. state vs. county/city; or central, regional, local). What is more, the relationship involves different aspects and "flows":

The relationship between the nonprofit sector and government is complex and multi-faceted.

- Funding (grants, fee-for-service contracts, concessionary loans, etc.)
- Nonmonetary support (facilities, expertise, goods and services in kind)
- Mandates (government required to involve nonprofit associations in implementing policy)
- Regulations and accountability

What are the theoretical rationales why government and the nonprofit sector develop some form of relationship, and what different types of intersectoral relationships exist? The theories reviewed in Chapter 5 offer three initial answers to this question, each casting the nonprofit sector in a different role: (1) substitute and supplement; (2) complement; and (3) adversary.

The notion that nonprofit organizations are supplements and substitutes to government rests on the public goods and government failure argument suggested by Weisbrod (1988) and Douglas (1987): nonprofits offer a solution to public goods provision in fields where demand preferences are heterogeneous. Nonprofits step in to compensate for governmental undersupply. Operational independence and zero-sum thinking characterize the overall relation between the two sectors, and neither government nor nonprofits have incentives to cooperate.

The theory that nonprofit organizations are complements to government was proposed by Salamon (1995) and finds its expression in the third-party government thesis. Nonprofits are typically the first line of defense in addressing emerging social problems of many kinds, but face resource insufficiencies over time that, in turn, can be compensated for by government funding. The interdependence theory implies that (1) nonprofit weaknesses correspond to strengths of government, i.e., public sector revenue to guarantee nonprofit funding and regulatory frameworks to ensure equity; and (2) the financing (government) and service-providing (nonprofit sector) functions are split.

Transaction cost theory, which also supports the complementary role, suggests that it may be more efficient for government to delegate service provision by contracting out non-core functions to nonprofit organizations. Indeed, Kramer (1994) states that contracting-out brings a number of advantages to the public sector, such as avoiding start-up costs, generating more accurate cost determinants, avoiding civil service staff regulations, and

easing the process of altering and stopping programs. Even though there are also disadvantages involved (e.g., difficulty to maintain equal standards, loss of public control and accountability, monitoring costs), both government and nonprofits have incentives to cooperate (see Chapter 15).

The theory that nonprofit organizations and governments act as adversaries is supported by public goods arguments (Chapter 5) and social movement theory (Chapter 3): if demand is heterogeneous, minority views are not well reflected in public policy; hence self-organization of minority preferences will rise against majoritarian government. Moreover, organized minorities are more effective in pressing government (social movements, demonstration projects, think-tanks); however, if nonprofits advocate minority positions, the government may in turn try to defend the majority perspective, leading to potential political conflict.

On this basis, Young (2000; Young & Casey, 2017) offers an influential government–nonprofit relationship typology. He proposes three different models, summarized in Table 16.1: supplementary, complementary, and adversarial.

- Following Weisbrod, he posits that in the **supplementary** pattern, nonprofits provide services for minority interests that are not being well served by the government, which includes developing social innovations that are not yet ready for adoption by the majority. Nonprofits and government in this model operate in parallel and apart from each other.
- The **complementary** model reflects the partnership paradigm case of government–nonprofit relations, with the government providing the financing and nonprofits providing services on behalf of the government. The two sectors are closely intertwined with contractual relationships.
- The **adversarial** model does not focus on service provision, but advocacy (see Chapter 17). Nonprofits advocate for social change on behalf of the minority interest that they serve, which for the most part entails changing government policies or programs. Government in return uses regulation as a means to contain the claims-making of nonprofits to preserve a focus on majority preferences. Nonprofits and government are constantly in conflict with each other, and the relationship is perpetually difficult.

TABLE 16.1 The Young relationship patterns

Supplementary	*Complementary*	*Adversarial*
• Nonprofits serve minority interests and preferences • Source of social innovation • Sectors operate in parallel and independent of each other	• Government determines scope of services • Government funds nonprofit provision • Sectors are closely intertwined	• Nonprofits engage in political activities and seek policy change • Government protects majority interest and regulates scope of nonprofit action

Source: Based on Young and Casey, 2017.

Young (2000) also argues that to varying degrees all three types of relations are not mutually exclusive and are present at any one time, but that during certain periods some assume more importance than in others. For example, in the US, the relationship between civil rights groups and some state governments was adversarial in the 1950s and 1960s, but changed to a more complementary role later in the context of welfare provision and education policies.

Najam's (2000) Four C framework presents a quite different approach based on the congruence or dissimilarity of policy ends and means deployed by the nonprofit sector on the one hand and government on the other. While there is some overlap with Young's arguments, Najam's framework can best be understood as detailing strategies that the sectors use to structure their relations. Najam's Four Cs include:

- **Cooperation**: If the goals and means are similar, then government and nonprofit organizations develop a cooperative relationship. An example is the cooperation between the Canadian government and the International Campaign to Ban Landmines.
- **Complementarity**: If the goals are similar but the means are dissimilar, then a complementary relationship between government and nonprofit organizations emerges. For example, many nonprofits in the field of social service provision and community healthcare complement basic government services.
- **Cooptation**: If the goals are dissimilar and means are similar, then government tries to build a cooptive relationship with nonprofit organizations. An example would be the humanitarian assistance funds channeled to local grassroots organizations in African countries for programs that are similar to governmental ones. In such situations, government may try to coopt grassroots organizations and nonprofits to further its own goals.
- **Confrontation**: If the goals and means are both dissimilar, then government and the nonprofit sector are in a confrontational relationship. Examples include the activities of Greenpeace to pressure governments on environmental issues or an advocacy group demanding better welfare services for the urban poor.

Interdependence theory (see Chapter 5) suggested that finance and service provision should be considered as two separate functions that lie at the heart of sector relations. The synergies of the Young and Najam typologies lend themselves to an integration of key aspects to fine-tune the argument and importantly to bring regulation as a third function and consultation as a fourth forcefully and systematically into the description of the relationship models. Table 16.2 presents such an integration.

The finance function is fulfilled primarily by government only in the collaborative model and by private philanthropy and earned income in the supplementary model. In the adversarial model, financing is provided by philanthropy alone, as advocacy activities are rarely supported by government grants and do not lend themselves to charging fees beyond membership dues, which in turn have more of a donative character.

Services are provided by nonprofits in all cases, with advocacy-focused nonprofits more in the adversarial model and nonprofit service providers in the other two models. In the collaborative model, nonprofit services cater more to majority interests; in the supplementary one they are geared more towards minority preferences.

TABLE 16.2 Expanded government–nonprofit relationship models

	Collaborative	*Supplementary*	*Adversarial*
Finance	Government	Private philanthropy, fees	Private philanthropy
Service provision	Nonprofit service providers	Nonprofit service providers	Advocacy nonprofits
Regulation	Enabling	Enforcing	Restricting
Consultation	Formal consultative bodies and broad access Direct and indirect advocacy	More informal access Direct and indirect advocacy	Limited access Indirect, outsider advocacy
Nature of relationship	Cooperation	Complementarity	Confrontation/ cooptation
Policy stances	Supportive policies	Policy neglect	Repressive policies

Source: Based on Toepler, 2019.

Different aspects of the regulatory frameworks under which nonprofits operate can be enabling or constraining, and by setting the combinations of those factors, governments shape, frame, and regulate the range of options and actions available to nonprofits. So far there have been few efforts to model different regulatory regimes comparatively or link them explicitly to government relations frameworks. In general, though, regulatory regimes sit on a spectrum from hostile to wary to workable (Breen et al., 2019). Adding the regulation function to the relationship typology accordingly suggests that repressive and restrictive laws and regulations will be largely limited to the adversarial model. In the collaborative model, government actively stimulates nonprofit service provision. Anything other than enabling regulatory frameworks aimed at supporting the development of nonprofits would be counterproductive. In the supplementary model, regulation has more of an enforcement character, i.e. the government provides oversight to ensure that nonprofits play by the rules and are not misused for profiteering or politics.

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Representing the interests or values of members, clients, or communities and aiding in policy formulation and development through advocacy is a fourth critical interface in the government–nonprofit relationship. Consulting with and advising the government

on policy comes through different forms and mechanisms. At one end, there are formal, legally constituted bodies that guarantee nonprofits a voice in policy-making, as in Germany, where the free welfare associations must be represented on local youth and welfare councils (Zimmer & Priller, 2007). Such formal arrangements can primarily be expected within the collaborative model, along with generally open access points in the policy-making process that provide opportunity for lobbying and other direct, insider advocacy tactics and allow nonprofits to work within the policy system (Mosley et al., 2020), as discussed in Chapter 17.

In the adversarial model, nonprofits will have fewer access points and be forced to rely more on indirect advocacy by attempting to influence public opinion or being more disruptive and confrontational. Sometimes, governments in the adversarial mode may also use consultative bodies and forums as a means of cooptation by involving critical nonprofits in discussion without granting access to the true decision-making process and thus neutralizing resistance.

In the supplementary model, nonprofits do not carry enough weight to get formally involved in consultations with government, but have some access, particularly at the lower levels of government, to engage in the full range of advocacy tactics. However, the supplementary model suggests a government posture that is either indifferent if nonprofits are apolitical and status quo-oriented (Seibel, 1996), or guarded if nonprofits move from service provision into advocacy and value promotion. Governments exert control by channeling nonprofit activities through the general legal framework, but for the most part condone, or tolerate, activities. Without active efforts to improve frameworks, operating conditions for nonprofits deteriorate over time through policy neglect (Anheier & Toepler, 2019; see also Chapter 18).

Without active efforts to improve frameworks, operating conditions for nonprofits deteriorate over time through policy neglect.

INSTRUMENTS OF GOVERNMENT FINANCING OF NONPROFIT ACTIVITY

In supporting nonprofit organizations financially, government can make use of several instruments and use a variety of channels, some of which are encountered in other chapters in this book.

Grants, Contracts, and Third-Party Payments

In the US, the practice of direct grants and contracts from government to nonprofits underwent significant changes in the decades following World War II and is closely related to the history of welfare provision. In the 1950s, subsidies to nonprofit organizations were relatively small and mostly grants-based, accountability requirements were minimal, and nonprofits had wide discretion on whom to serve. However, as federal funding of nonprofits

increased in the 1960s and state governments started contracting out many state functions to nonprofits, oversight, regulation, and accountability became more important. Contract regimes began to have more stringent accountability and standard operating procedures attached to them.

While the rise of contracting came with an injection of additional revenues into the sector, it also represented a significant shift. Though "grants and contracts" are often lumped together, grants differ significantly from contracts. Whereas grants fund work proposed by the grantee, in contracting, the government typically determines the scope, eligibility, and nature of services provided, although contractees may provide some input. While contracts provide revenue for nonprofits, they are, in contrast to grants, not meant to support nonprofits as much as to ensure service delivery for government-specified beneficiaries (Toepler, 2018). Over time, however, even the grants tool has come to resemble the contract tool in the level of specification of requests for proposals and complexity of reporting and accountability requirements (Beam & Conlan, 2002).

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Contracting generally took the form of purchase-of-services contracts, through which government entities buy services from nonprofit contracting agencies. Such contracting expanded massively in the 1960s and 1970s, especially in the Northeast and Midwest; and expanded even more extensively after the 1990s, along with welfare reforms, embracing forprofit as well as nonprofit firms (Smith, 2016). Government programs that rely on contracting often require contractors to be nonprofit entities. Such contracts are characterized by relatively short funding cycles, and the government funder enjoys varying degrees of control over admission criteria, service delivery, and discharge decisions for clients of the contracted services. Smith and Lipsky (1993) refer to this configuration as a contracting regime, in which public and private agencies are involved in a mutually dependent but unequal relationship. They suggest that these contractual arrangements typically subordinate nonprofit agencies to a hegemonic state that often serves as more of a sponsor than a partner to their nonprofit contractors.

In performance-based contracting approaches, public agencies provide incentives for nonprofit agencies to meet or exceed contractually specified outcomes. Such contracts focus "on the outputs, quality and outcomes of service provision" and "may tie at least a portion of a contractor's payment as well as any contract extension or renewal to their achievement" (as quoted in Martin, 2005, p. 65). The basic requirements connected to managing government grants and contracts identified by Smith and Grønbjerg (2006), including preparing high-quality proposals, performance monitoring, and tracking policy developments, already demand significant resources. But they have become even more challenging, especially for nonprofit organizations, as the different levels of government have changed their support to more performance-oriented contracts. Managed care models for such services as foster care, mental health, and general health tend to be more

comprehensive and usually involve some combination of performance-based contracting, prospective payments, capitation, and/or the transfer of case management responsibilities (Meezan & McBeath, 2004; Saidel & Searing, 2020).

The latest iteration of the evolution towards performance orientation is pay-for-success schemes (Smith, 2016), such as social impact bonds, discussed in Chapter 11. Involving a multi-layered contractual structure, the principal differences from traditional contracting lie in inserting impact investors in the financing flow of service delivery and making government contractual payments contingent on meeting pre-set impact targets. The risk of failing to achieve results shifts from the government to the impact investors. Whether these arrangements will be more than a fad and develop into a tenable instrument of government support over the long run remains to be seen: a decade after the introduction of the concept, the volume of services contracted under these arrangements remains marginal (Neumayr & Pennerstorfer, 2020).

Governments also finance nonprofits through third-party payments—an umbrella term for an assortment of nonprofit revenue sources collected from individuals and organizations. Payments under this heading include health insurance reimbursements, but also vouchers and other subsidies from the government, which are earmarked in some way for the services or product the nonprofit provides (Smith, 2016).

Steuerle et al. (2016) point out that the most dramatic change in federal support to nonprofit organizations in the 2000s has been the shift from the use of grants and contracts, which channel assistance directly to nonprofit providers, to the use of voucher-type payments, which channel payments to nonprofits through the ultimate recipients of services. Whereas grants and other producer-side subsidies were the main form of support during the 1960s and 1970s, more than three-quarters of all federal support to nonprofit organizations in the 2000s has taken the form of third-party payments, or consumer-side subsidies, most of it through the Medicare and Medicaid health insurance programs. Third-party payments also include rent voucher payments from homeless shelter residents, reimbursements from public and private health insurance programs, direct payments from clients, and income from technical assistance programs (Smith, 2016).

The most dramatic change in federal support to nonprofit organizations in the 2000s has been the shift from the use of grants and contracts . . . to the use of voucher-type payments.

These funding instruments tend to be less controversial and often attract less political opposition than do grants and contracts. Yet, this development brings with it additional challenges. Administration and overhead costs are more difficult to cover, and, in some cases, nonprofits are forced "to market their services to subsidy bearing clients and to give priority to controlling the costs rather than maximizing the quality of services" (Smith & Grønbjerg, 2006, p. 227). It also ingrains consumer choice into service provision, providing an impetus for nonprofits to compete for clients, while also encouraging co-production of services, that is bringing clients into design, planning, and implementation. Co-production

customizes services to client needs, but also leads to fragmentation of the overall service offerings.

Tax Exemptions, Deductions, and Credits

Governments also support nonprofits indirectly through a variety of tax-related mechanisms, which are not necessarily available to all nonprofits.

- **Organizational tax exemption**: Exemption from corporate income taxation is the most common type of tax benefits at the organizational level (see also Chapter 3). In the US, states typically follow the federal exemption for state income tax purposes as well as other state and local taxes, such as sales and property taxes. The latter, however, are not usually granted to all nonprofits qualifying for federal tax exemption and are often restricted to more narrowly determined types of charities. As property taxes are a crucially important part of local finance, some fiscally distraught localities have for decades now sought to negotiate payments- or services-in-lieu-of-taxes (PILOTS or SILOTS) with charities that are perceived as well-to-do in order to recoup at least some additional benefit for the forgone property tax revenue. Brody and Cordes (2016, pp. 153–4) underline the importance of such benefits in the relationship between the state and nonprofits:

  > Tax exemption defines an important nexus between government and nonprofit organizations in the United States. Symbolically, in the public's eye conferral of tax exempt status is seen as legitimating the activities of individual nonprofit organizations. At a more practical level, tax exemption expands the financial resources of nonprofit organizations in a variety of important ways.

- **Tax benefits for donors**: Donors to certain nonprofit organizations—for the most part 501(c)(3) charities in the US—may itemize and deduct their contributions up to certain income limits. The relative value of the deduction to the donor depends on their marginal tax rate (MTR), that is, their highest tax bracket. The higher the MTR, the more valuable is the tax subsidy in the donation. Economists calculate the "price" of the donation as p = 1 - MTR. At a marginal tax rate of 40%, the price (or actual cost) to the donor of each dollar donated is 60 cents, as the remaining 40 cents would have had to be paid in taxes otherwise. While most countries allow for such deductions, some alternatively provide tax credits for donations. In these cases, tax laws typically allow donors to reduce their tax liability by a portion of their donations. MTRs do not matter in tax credits.
- **Tax-exempt bond financing**: Traditionally, hospitals and a few other major nonprofit institutions such as universities and colleges have been able to utilize tax-exempt bond issues to raise funds for capital projects, but more recently a broader range of nonprofits have been able to tap into this form of debt financing. Charities cannot issue tax-exempt bonds on their own, but have to apply to the state or local jurisdictions to issue the bonds on their behalf. The government issuer then loans the

proceeds to the charity. Tax-exempt bonds are attractive to investors because interest payments are exempt from income taxes. Investors accept a lower interest rate in exchange, which in turn lowers the debt service for the benefiting nonprofit compared to other types of loans (Davis, 2001).

- **Tax credits**: Tax laws provide a variety of tax credits for individuals, such as for education or dependent care, which subsidize the purchase of targeted services and thus indirectly benefit nonprofits offering those services (Young & Casey, 2017). Other tax credits benefit nonprofits more directly. The low-income housing tax credit (LIHTC), for example, has played a major role in creating thousands of nonprofit, low-income housing organizations throughout the country. Typically, tax credits in this field involve complex networks and contractual arrangements. In the case of the new markets tax credit, the government allots tax allocations to community development agencies, many of which are nonprofits, which then use the allotment to grant tax credits to investors providing equity that is then used to invest in qualified businesses working in economically distressed communities (Benjamin, 2017).

EXTENT OF THE PARTNERSHIP

In the US, the mutual dependence between the public and nonprofit sectors was established in large part during the Great Society days of the 1960s and 1970s, a period during which much of the sector's growth occurred. Nonprofit organizations received over 50% of federal social service expenditures in 1989, up from almost nothing in 1960 (Lipsky & Smith, 1989/90). As Salamon (1999, p. 168) notes, "government became the principal philanthropist of the nonprofit sector, significantly boosting nonprofit revenues in a wide variety of fields and freeing the sector of its total dependence on the far less-reliable base of private charitable support."

The mutual dependence between the public and nonprofit sectors was established in large part during the Great Society days of the 1960s and 1970s.

While government contributions to nonprofit organizations vary within and among public service industries, government funding remains the second most important source of income for the sector behind fee income. Some small organizations rely on government funds for their entire budgets. In fact, public money is so important to the financial stability of many nonprofit social service agencies that nonprofit coalitions, advocacy groups, and affinity groups now exist whose partial or sole mission is to lobby the government for increased government spending for their social and economic welfare causes, from youth services to eldercare, changing advocacy's goal from social change to status quo preservation (Mosley, 2020).

While government support of the nonprofit sector continues to grow—albeit at a slower pace and mostly in the healthcare industry—recent policy trends have begun to alter the long-standing state–nonprofit arrangement in the US. Beginning with the presidency of Ronald Reagan (1981–89), the federal government pursued an ongoing campaign to both "reduce big government" and "reinvent government," catchphrases for retrenching social program spending and streamlining government bureaucracy.

While government support of the nonprofit sector continues to grow—albeit at a slower pace and mostly in the healthcare industry—recent policy trends have begun to alter the long-standing state–nonprofit arrangement.

In keeping with this dual agenda, devolution of responsibility for a wide variety of health and welfare issues simultaneously changed the structure and initially—in the 1980s and early 1990s—reduced the level of government funding for nonprofit activities across the board (Steuerle et al., 2016). By the middle of the 1990s, 57 federal grant categories had been consolidated into nine block grants that carried lighter funding for state programs (Coble, 1999). Also, as part of this process, funding structures for social service agencies shifted from the reimbursement plans of conventional contracting to performance contracts that emphasize efficiency and capacity.

From the mid-1990s to the early 2000s, state-level spending on services dropped off, while federal spending rose. Much of this additional federal funding went to programs in fields in which nonprofits were relatively strong, including daycare, welfare-to-work, job training, and counseling. In the early 2000s, state-level spending briefly increased somewhat only to drop further in the aftermath of the 2008 financial crisis, and had an uneven recovery thereafter. Federal welfare spending, however, kept growing, with economic stimulus spending after 2008 (Conlan et al., 2017) and healthcare through the Affordable Care Act and Medicaid expansion accounting for significant parts of it (Steuerle et al., 2016). Thus certain nonprofit fields benefited significantly more than others. Overall, while federal spending in program areas of concern to nonprofits declined during the 1980s, it eventually recovered, so that by FY 2015 federal outlays in these areas were 100% higher than FY 1980 levels (Steuerle et al., 2016).

The new focus on accountability and performance that came with the increase in government funding and new contracting schemes was followed by a newfound recognition of qualities that forprofit firms could bring to service provision. Public funders at all levels of government relaxed their historical resistance to contracting with forprofit organizations to manage and deliver social welfare services. The consequences of this trend for the nonprofit sector are an increasing level of competition for government contracts and the encroachment of forprofit firms in social service industries that had been traditionally nonprofit domains. As government spending patterns change and competition from forprofit providers increases, nonprofit organizations have had to find alternative funding sources. Increasingly, the nonprofit sector has come to rely more heavily on commercial income (see Chapter 11).

As government spending patterns change and competition from forprofit providers increases, nonprofit organizations have had to find alternative funding sources.

Consequences of Public Sector Support

Apart from the influx of resources, there are also less desirable consequences—potential and actual—of the partnership with government for nonprofits due to reliance on public funds in general. For example, some scholars argue that fundamental differences in priorities between the public and nonprofit sectors create myriad opportunities for conflict, the underlying assumption being that nonprofits will tend to adjust their behaviors to satisfy the agendas of their public funders. To the extent government agendas differ from those of the nonprofit organizations seeking funding, nonprofits are at risk of having to stray from their intended missions to attract and keep public funding (Moulton & Anheier, 2000). In fact, Lipsky and Smith caution,

> Government contracting may alter nonprofit agencies' approaches to services and clients, even if their goals are entirely compatible with those of government. In essence, they may be forced to conform to standards imposed by contracting policy at the expense of their homegrown notions of what constitutes effective service delivery.
>
> (1989/90, p. 638)

To the extent government agendas differ from those of the nonprofit organizations seeking funding, nonprofits are at risk of having to stray from their intended missions.

Yet many of the pathologies ascribed to government support may rather result from common resource dependencies that are not specific to government support and can similarly be observed in the relationship with private donors (Toepler, 2018). However, the greater scale of government support amplifies any issues more so than smaller, less critical private philanthropic support. Moreover, the preponderance of problems lie with the contracting tool itself, inducing what Kramer (1981) referred to as vendorism. Concerns about government support appear greatest in fields such as social services and international development where contracts and similar tools prevail, whereas in other fields such as arts or education where government grants are the norm, there are typically fewer concerns and a greater willingness to welcome more government assistance.

The potential implications of government funding include (Toepler, 2018; Neumayr & Pennerstorfer, 2020):

- **Vendorism or contracting problems**: In selling services to government, nonprofits face a variety of problems, including reimbursements below costs leading to deficits, cash flow problems due to payment delays, future funding uncertainties, increased administrative demands, and potential loss of board member and volunteer interest (Kramer, 1981). Boris et al. (2010) similarly identify as key problems late or insufficient payments, changes to contracts, and complexity of application and reporting requirements. Underpriced contracts with increased delivery and administrative capacity needs can be a major contributor to the nonprofit starvation cycle, introduced in Chapter 11 on financing (Lecy & Searing, 2015).
- **Governance**: Boards of nonprofits with heavy government funding tend to differ from those of others; they are often smaller and more technocratic with less community representation and fundraising engagement, but stronger emphasis on fiscal oversight (Guo, 2007; O'Regan & Oster, 2002).
- **Mission drift and accountability**: Goal displacement and mission drift can result both from increased commercialization and from government funding. In the latter case, it is a consequence of upward accountability as nonprofits may become less responsive to their original clienteles as they shift towards those prescribed by government (Lipsky & Smith, 1989/90). Mission drift thus takes place when the focus of nonprofit managers is directed away from original core clienteles.
- **Dependency and autonomy**: A major concern is that nonprofit organizations become dependent and lose their autonomy. Dependency is often conceptualized as financial dependency, which gives rise to control of the organization by external actors (such as governments) in command of critical financial resource flows (Pfeffer & Salancik, 1978). Autonomy is likewise frequently understood in financial terms, but it can also refer to an organization's ability to self-determine its programmatic choices.
- **Bureaucratization**: Bureaucratization derives from the administrative demands associated with managing public funds as well as certain preconditions for receiving such funds. Among the latter are requirements concerning certifications and other staff qualifications that lead to the professionalization of nonprofits (Kramer, 1981; Smith & Lipsky, 1993). While professionals can generally increase the quality of services, they also tend to follow professional blueprints rather than customized solutions for clients, which is further amplified by current performance requirements (Benjamin, 2012). To administer government funding, nonprofits also require greater managerial professionalism outside direct service provision. Adding support staff, such as accountants or human resource specialists, leads to functional differentiation and more complex organizational structures.
- **Political activity**: Nonprofit organizations reliant on government funding are thought to be more constrained in their ability to do lobbying and advocacy, as discussed in Chapter 17. The fear of losing funds, unclear legal restrictions, or the redirection of organizational activities from political activities to grant-writing and management are among the potential impediments to increased advocacy (Chaves et al., 2004). While the overall effect of government funding on political activity is not fully settled in

the literature, Mosley (2020) points to a qualitative change in advocacy, which shifts from seeking structural change for clients and communities to preserving the status quo, as the latter also locks in levels of current support and maintains agency funding and operations.

- **Commercialization**: The introduction of performance orientation facilitated the entrance of commercial providers into traditional nonprofit domains and forced nonprofits to compete more directly with each other as well as with forprofits. Commercialization was further fostered by an overall shift in the forms of government support towards more indirect forms, such as vouchers, tax credits, and other end-user subsidies that reflect a change from producer to consumer subsidy.

Competition Leads to Commercialization

Against this background, it is worth revisiting the issue of commercialization pressures, discussed in Chapter 11, in the context of state–nonprofit sector cooperation, the impact of forprofit encroachment into nonprofit fields of operation, and the accompanying emphasis on efficiency and capacity within government contracting. For one, nonprofits work increasingly alongside forprofits in the same or related fields (Young, 2003), and the number of commercial providers continues to rise. From the early 2000s to the early 2010s, the share of commercial providers among all social service agencies rose from 45% to 50% (Smith & Phillips, 2016). Adding to the competitive pressures, good intentions are no longer enough to justify preferential treatment and supportive policies favoring nonprofits (Light, 2000).

In addition, nonprofits are commercializing in terms of the labor market. As nonprofit organizations become more business-like, their prospective employees might be less likely to accept lower compensation in exchange for the altruistic benefits of working for a nonprofit (Cordes & Steuerle, 2009). For employees in similar jobs, wages and compensation have become relatively similar between the nonprofit and forprofit sectors, raising doubts about the continued existence of a "wage penalty" (Hirsch et al., 2018). With commercial activity representing the largest proportion of income growth for nonprofits, the question remains whether and to what extent nonprofit commercialization affects both the state–nonprofit sector relationship and the character of the nonprofit sector as a whole.

As nonprofits increasingly embark on commercial activities and as government funders place more weight on performance and capacity measures in contracting relationships, the argument that nonprofit organizations are the most effective means for managing and delivering public goods is called into question. The prevailing concern is that the nonprofit response to increasing competition will be to adopt more business-like management strategies that compromise the social benefits nonprofit organizations contribute in a variety of industries (Maier et al., 2016). The healthcare field, for example, has seen dramatic growth in commercialization, mergers, and conversions to forprofit status among nonprofit hospitals and other nonprofit healthcare organizations. The aftermath of these transformations provides an opportunity to evaluate the continuing role of the nonprofit sector in healthcare provision. In the social services, the performance orientation increasingly favors larger agencies with competitive advantages in terms of access to capital and technological capabilities needed to manage data-driven, standardized service delivery tailored to

meeting set performance goals (Mosley, 2020; Smith & Phillips, 2016). Smaller agencies with more client-focused services become takeover targets for larger, more sustainable nonprofits seeking expansion to maintain and extend their own market shares.

The prevailing concern is that the nonprofit response to increasing competition will be to adopt more business-like management strategies that compromise the social benefits nonprofit organizations contribute.

Still Worthy of Special Treatment?

Some scholars have for some time now speculated about the justification of continued preferential treatment of nonprofit organizations on the part of the government. Again from the healthcare field, Bloche (1998) argued that the "putative social advantages" of the nonprofit form over forprofit ownership status in healthcare financing are uncertain and do not compensate for the costs of government protection. He claims that nonprofit healthcare facilities are no more likely to provide free care to the poor than forprofits and vary in their production of other social benefits, such as research and healthcare promotion. Therefore, according to Bloche, these spotty social benefits do not mitigate direct and indirect economic costs to the government enough to warrant continued protection of the nonprofit category of healthcare organizations. The debate about the benefits of nonprofit healthcare providers vis-à-vis the cost of tax benefits continues unabated with many scholars remaining skeptical about the justification for continued exemptions. This perspective contends that the government should pull even further away from the nonprofit sector altogether and allow a more free market approach to social service delivery (Gray & Schlesinger, 2012), or at least set stricter and more specific standards for community benefit expectations (Horwitz, 2020).

Other scholars find that nonprofit organizations do still behave in traditionally beneficial ways, justifying continued government support of the nonprofit form. Ryan (1999) argues that nonprofits generally spend surplus on mission-related activities, promote civic virtues, and advocate for the publics they serve. Weisbrod writes that findings of "differential organization behavior suggest, but do not necessarily prove, that when financial constraints allow, nonprofits do behave in a fundamentally different manner from forprofit organizations" (1998, p. 12). This argument maintains that such behavioral differences between nonprofit and forprofit organizations should give the nonprofit form a comparative advantage in the competition for public funds.

However, forprofit encroachment threatens the community benefits nonprofits do offer (Ryan, 1999). When competition drives prices down, nonprofits are likely to be left with less surplus revenue to spend on mission-related activities. In addition, competition with forprofits for government contracts may divide the client pools. Forprofits will likely seek those clients who are easiest to serve, leaving harder, more expensive cases to nonprofit providers. This perspective suggests that continued or even increased government support of the nonprofit sector is crucial to preserve the collective benefits that nonprofit organizations provide.

Brody (2012, p. 535) suggests that "future law reform might focus less on nonprofit organizational form and more on subsectors or activities in which certain nonprofits (and perhaps also government and businesses) operate." In other words, the massive changes in the nonprofit sector in recent decades and overburdened public budgets imply that the current tax treatment of nonprofits can no longer be taken for granted. This is evidenced by the additional requirements for nonprofit hospitals under the 2010 Affordable Care Act focusing on their contribution to community benefit and charitable care.

OTHER EXPERIENCES

But what is the nonprofit sector's relationship with the state in other countries? Though some trends seem to head in the same direction, the division of roles and the relationships between these key sectors have been shaped by each country's history.

United Kingdom

The long and complex history of the voluntary sector in the UK, sketched in Chapter 2, involved major shifts in voluntary sector–government relationships. From the late nineteenth century to the 1990s, that relationship went through several distinct phases that represent quite radical turns and reversals (Lewis, 1999).

The Victorian model of the late nineteenth century saw government in a role to "provide a framework of rules and guidelines designed to enable society very largely to run itself" (Harris, 1990, p. 67). It advocated a small government, with the life of society expressed through voluntary associations and local community rather than through state institutions. In the early part of the twentieth century, the policy understanding was that state and voluntary agencies addressed similar needs, but had different principles or goals: government was about power and politics, and voluntary associations about charity as a moral duty and a principle of social participation. The influential reformers at that time, Sidney and Beatrice Webb, introduced the notion that government and the voluntary sector formed "parallel bars."

With social and economic problems on the rise, and further amplified by the experiences of two world wars, the early to mid-twentieth century saw the development of a welfare model with the establishment of various national social programs (eldercare, healthcare) with universal coverage. The state became the primary agent for solving social problems; tax-based and employment-related finance mechanisms became more important, and government began to support charities through grants and contracts. The relationship between government and the voluntary sector changed from "parallel bars" to a system whereby private charities became the "extension ladder" of state efforts.

The system was challenged in the 1970s and 1980s by what became known as new public management (Hood, 1995; see Chapter 10). The welfare state consensus that dominated British politics for much of the post-war period was replaced by market-oriented approaches that emphasized efficiency criteria in service provision. Contracting regimes and quasi-markets took the place of governmental grants and subvention schemes. The

voluntary sector became an alternative to state provision rather than its extension. The relationship changed from "extension ladder" to something closer to the third-party government arrangements prevalent in the US.

A major difference between the US and the UK is, of course, the greater decentralization of the American federal system. In the UK, the closer institutional proximity of a highly centralized government, the Charity Commission, and the representative bodies of the voluntary sector (e.g., National Council of Voluntary Organisations) facilitated a profound policy dialogue. At the core of the policy debate was the relationship between government and the voluntary sector in an age of welfare reform and greater emphasis on individual responsibility and social entrepreneurship.

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Throughout the 1990s, a series of reports were issued on these topics, culminating in what became known as the Deakin Report (Deakin, 1996). This report advocated an explicit policy statement or concordat between government and the voluntary sector. The statement was signed in 1998 as a Compact to become the platform for future policy developments involving government–voluntary sector relations. While the Compact received much praise, it was also met with criticism. Observers like Bennington (2000) and Dahrendorf (2001) feared that the governmental embrace could challenge the independence and legitimacy of the sector and lead to enhanced expectations of what nonprofits can do (Ishkanian & Szreter, 2012).

The Compact between government and England's civil society organizations was renewed in 2010. The aim was to make the Compact easier to use and understand and provide more effective accountability (National Audit Office, 2012). Local governments were also encouraged to adhere to it.

The mainstreaming of the sector that the Compact represented was, however, followed and undercut by periods of significant austerity, which introduced policy instability through social welfare cuts and new NPM reforms (Pape et al., 2019). More competition for government contracts gives the government more options to pursue service delivery outside the Compact; and public budget cuts counter support goals for the sector, making the Compact less crucial for the sector as well (Smith, 2012).

Germany

In contrast to the UK situation, nonprofit–government relations in Germany are based on the principle of subsidiarity. In essence, subsidiarity means that the state only takes on functions that the private sector cannot meet, and that larger units, such as the central government, only concern themselves with tasks that are beyond the capabilities of smaller units, such as regional and local government, but also private units such as the

congregation or the family (Anheier & Seibel, 2001). Subsidiarity combines elements of decentralization and privatization of public functions—a combination that makes it such an attractive option in policy debates in Europe and elsewhere.

Subsidiarity combines elements of decentralization and privatization of public functions—a combination that makes it such an attractive option in policy debates in Europe and elsewhere.

Subsidiarity, as seen in Chapter 2, is not an age-old principle that has been operating for centuries, although it fits well into the German tradition of decentralization and local self-governance. It emerged from the long-standing conflict between state and church, particularly Catholicism. In economic terms, however, subsidiarity appears as a fairly new engine underlying nonprofit sector growth in Germany, having achieved its full impact from the 1970s onward. The subsidiarity principle is primarily found in the fields of social services and healthcare. Because the same large networks of nonprofit organizations, i.e., the free welfare organizations (Caritas, Diakonie, Parity Association, Red Cross, Workers' Welfare, Jewish Welfare), are involved in both healthcare and social service provision, the dividing line between these two fields is somewhat fluid in the German context.

In the German case, the welfare associations became the embodiment of the principle of subsidiarity, particularly the Protestant and Catholic associations that form the largest of the six networks. Their role became deeply imprinted in the relevant social welfare legislation. Until the mid-1990s, this translated more or less into a situation whereby the six welfare associations, and not just any voluntary or nonprofit organizations, find themselves in a privileged position. The public sector has to respect the autonomy and presence of the free welfare associations and support them in achieving their objectives.

The principle of subsidiarity meant that public welfare programs were often implemented through the network of the free welfare associations, which then expanded accordingly. The principle provides the political and economic bedrock for the German nonprofit sector and spells out a specific form of partnership between the state and parts of the nonprofit sector. Where this partnership developed, as it did in the field of social services, the nonprofit sector grew substantially, and where it did not develop, as in education, the growth of the sector was less pronounced.

The principle of subsidiarity . . . provides the political and economic bedrock for the German nonprofit sector.

Since the 1990s, the relationship between government and the nonprofit sector in Germany has changed, not in terms of pronounced policy shifts but as part of a process of incremental reforms and adaptations, even through the country's reunification period. For example, healthcare reforms implied less government funding of hospitals, including nonprofits, and some fields such as long-term care and daycare (elderly, children)

were opened up to forprofit providers to increase competition. The subsidiarity principle has remained unchallenged across political parties and today continues as the hallmark of the country's division of responsibility, delivery, and finance in many social welfare fields. Nevertheless, the privileged position of the traditional welfare associations has softened with the establishment of quasi-markets and growing forprofit competition (Pape et al., 2019).

Russia[1]

Despite their differences, the UK and Germany both represent variations of the Western experience of government–nonprofit relations, which are fundamentally premised on collaborative partnerships. Russia by contrast represents a different constellation, one that is more closely aligned with the experience of other authoritarian and hybrid regimes which have rolled back democratic reforms in most parts of the world (Toepler, Zimmer et al., 2020).

After Putin's ascendance to the presidency in 2000, the most salient aspect of policy towards nonprofits (more commonly referred to as nongovernmental organizations, or NGOs, in the Russian context) was the effort to contain civil society as part of the larger effort to consolidate power. National policy initiatives directed against Western-funded NGOs in the Putin era were indeed quite devastating for the targeted rights-based NGOs pursuing advocacy, beginning with the 2006 NGO Law and its crackdown on foreign funding. The NGO Law sharpened registration requirements and expanded the supervisory power of government, for the most part targeting foreign organizations and foreign funding of domestic organizations. Due to rules allowing only government-approved foreign funders to be active in Russia, foreign support for Russian NGOs declined, as did democratization efforts (Crotty et al., 2014).

Restrictions on foreign organizations and Russian NGOs that receive foreign funding and engage in vaguely defined "political activity" were further ramped up with the Foreign Agents Act of 2012. NGOs subject to the law are required to register with the Justice Ministry, publish a semiannual record of their activities, indicate their status as a "foreign agent" on their documentation, and comply with many other burdensome reporting requirements. Groups refusing to comply with the law are subject to significant fines and their officers risk a prison sentence. The definition of the "political activity" that makes an organization eligible for coverage by this law is quite broad, and the language remains highly ambiguous and apparently open to wide interpretation.

The Undesirable Organization Law, a third regulatory provision that was signed into law in 2015, allows authorities to deem foreign NGOs "undesirable" as a potential national security threat and shut them down. Not only the organizations, but anyone working for these blacklisted groups, could face steep fines or jail terms. The law would apply as well to Russian organizations that receive funding from and cooperate with such foreign groups.

In addition to these restrictive policies, the government also created consultative bodies (public chambers) to involve NGOs in managing state–society relations that can be properly interpreted as attempts at cooptation in Selznick's (1949) sense.

A second stream of policy measures from 2010 on, however, runs counter to these policies. Whereas the repressive measures are fairly narrowly targeted at Western-funded claims-making NGOs, more supportive policies have applied to a broad swath of Russian nonprofits. Most prominently, Russia's federal government launched initiatives to bolster its finance function. For eligible so-called socially-oriented nonprofit organizations (SONPOs), a category roughly comparable to charities in the US, two new public support programs, administered by the Ministry for Economic Development, were created in 2011. The first provided direct grants for capacity-building measures and technical assistance programs for nonprofits. The second program provided co-funding of regional government programs, and it was intended to stimulate local and regional government engagement with nonprofits (Toepler, Pape, & Benevolenski, 2020). Another program was put in place in 2012 to stimulate greater nonprofit involvement in social service provision to increase the overall quality and availability of services. A third major form of direct financial support is the so-called presidential grants to nonprofits for the implementation of socially important projects (Fröhlich & Skokova, 2020).

Whereas the repressive measures are fairly narrowly targeted at Western-funded claims-making NGOs, more supportive policies have applied to a broad swath of Russian nonprofits.

In addition to new funding streams for nonprofit service providers, the government also made a number of regulatory changes, including the new SONPO status, to ease access to public support, in-kind services by governments at all levels, and certain tax benefits. A 2013 public procurement law sought to correct the factual discrimination against non-state providers by requiring governments at all levels to reserve at least 15% of total contracting value for small businesses and SONPOs. A 2015 social assistance law further institutionalized SONPOs as providers of government-funded social welfare services equal to state institutions, effectively ending the state monopoly on core welfare service provision that had kept nonprofits and commercial providers on the fringe of social service delivery (Benevolenski & Toepler, 2017).

These latter measures suggest that Russia is attempting to emulate Western patterns of government–nonprofit cooperation, at least with regard to the majority of nonprofit service providers that have seen more enabling regulatory environments and a greater involvement of governments at all levels in financing nonprofit service provision. Taken together, what emerges is what Salamon et al. (2015) refer to as a duality of government–nonprofit relations, which reflects the simultaneous pursuit of two different models of sectoral interaction—both the adversarial and complementary models, targeted at different parts of Russian civil society.

What emerges [in Russia] is . . . a dual reality of government–nonprofit relations, which reflects the simultaneous pursuit of two different models . . . targeted at different parts of Russian civil society.

CONCLUSION

Cooperation between government and the nonprofit sector has a long history. In the US, the relationship is deeply rooted in the country's ideological and cultural make-up. This system of third-party government, however, has over time been neither stable, nor comprehensive in its coverage. Pushed along by major policy initiatives that periodically seemingly revolutionized the substance and practice of government–nonprofit relations, the public–private arrangement remained a flexible and open system, unaffected by standardization that any more comprehensive policy would bring about. In the UK, the development from parallel bars to extension ladders, and from there to alternative systems, the Compact, and beyond, signals a relationship that has changed in major ways over the last century. In Germany, the principle of subsidiarity is perhaps the clearest expression of an explicit state–nonprofit sector partnership. Even within authoritarian countries, such as Russia or China, there are efforts underway to enlist nonprofit service providers in public service delivery arrangements, while more advocacy-oriented organizations promoting liberal values face repression.

This system of third-party government, however, has over time been neither stable, nor comprehensive in its coverage.

As evident in Chapter 5, many theories of the nonprofit sector argue that public collaboration with nonprofit agencies also represents a division of labor in the provision of collective goods, coordinating the relative strengths and weaknesses of each sector. These theories describe the relationship between government and the nonprofit sector as complementary and symbiotic. The third-party government theory, for example, conceives of the nonprofit sector as the preferred mechanism for the provision of public goods, at least in the US. From this perspective, solving new and expanding social and economic problems is most appropriately and effectively accomplished on a voluntary bottom-up basis. Government is the secondary institution that steps in when the voluntary sector "fails." Reliance on the nonprofit sector for performance of various government functions, in turn, allows the US government to promote general welfare without expanding its administrative apparatus.

The public goods theory, on the other hand, flips the logic of the third-party government theory. From this perspective, the government, whose responsibility it is to produce public goods, fails to provide goods and services that meet the needs of the entire population, particularly in heterogeneous societies with a diversity of needs. The nonprofit sector exists to satisfy demands for collective products and services left unfulfilled by the government. While the logics of the third-party government theory and the public goods theory make different assumptions about how government and nonprofits come to be mutually dependent, both see such coordination as optimal within modern industrialized economies.

The assumption among many scholars of the nonprofit sector is that nonprofit organizations offer the state a flexible, localized way to respond to emerging or entrenched social and economic problems. These organizations are thought to be more able than

government bureaucracies both to be responsive to shifting public needs and to establish long-term service relationships with clients. Government agencies can rely on existing, often community-based, organizations to manage and deliver specialized goods and services that would be costly for them to establish and maintain. In doing so, the government also shifts the financial and political risks of collective good provision to the nonprofit sector. In turn, nonprofits receive reliable streams of funding and clients, tax exemption, and preferential regulatory treatment from public sources.

> Nonprofit organizations [are assumed to] offer the state a flexible, localized way to respond to emerging or entrenched social and economic problems.

Much of the discussion of government–nonprofit relations continues to center around service provision and financing at the expense of the nonprofit sector's crucial expressive and advocacy functions. As the experience in hybrid and authoritarian regimes such as Russia's has demonstrated, however, the "partnership paradigm" based on the Western experience of service provision is still valid at a global scale, but also represents only part of the scope of intersectoral relations, as suppression of expressive organizations has emerged as just as common a phenomenon.

REVIEW QUESTIONS

What accounts for the complexity of the relationship between government and the nonprofit sector?

What are some of the consequences of government–nonprofit partnerships?

How does the US experience of state–nonprofit relations differ from that in other countries?

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NOTE

1 This section draws in part on Benevolenski and Toepler (2017).

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CHAPTER 17

Advocacy and Lobbying

This chapter discusses the various kinds of advocacy activities that nonprofits engage in to seek improvements for their clients, stakeholders, and communities or to pursue broader policy initiatives and social change. The chapter differentiates between political activism, advocacy, and lobbying activities.

LEARNING OBJECTIVES

Mobilizing people for the public good and actively pursuing social and policy change are among the key functions of nonprofit organizations. Advocacy serves as a principal mechanism for the collective expression of needs, preferences, and values and is a central part of civil society. This (nonpartisan) political role often gets sidelined in increasingly professionalized nonprofits focused on service delivery. After considering this chapter, the reader should:

- appreciate the importance of fostering the expression of diverse interests and seeking social change through nonprofit advocacy;
- understand the range of options nonprofits have to act politically, though in a nonpartisan way;
- be able to differentiate between advocacy, lobbying, and political activism;
- understand the legal and political limitations involved.

Some of the key terms discussed in this chapter are:

- Advocacy
- Advocacy tactics
- Insider tactics
- Johnson Amendment
- Lobbying
- Political activism
- Public protests
- Social movements

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INTRODUCTION

Mounting public protests and demonstrations, organizing boycotts, and other forms of political activism are often associated with social movements and similar civil society groups in the form of the membership-driven interest associations that de Tocqueville encountered in the United States in the early nineteenth century, as discussed in Chapters 2 and 3. Civil society is still often understood politically as a means to mobilize, self-organize, and empower citizens and to create a critical public discourse that may debate, and at times counter, state authority. The formulation, pursuit, and contestation of values and group interests and thus political engagement in the public sphere have often come to be seen as a role for civil society; however, such views tend to evoke interest and advocacy groups, rather than organizations focused on service provision. Growing professionalism, managerialism, and commercialization among nonprofit service providers seem to further diminish civil society functions (Eikenberry & Kluver, 2004).

Kramer's account of the special and distinctive features of nonprofits (see Chapter 3), however, had given the political aspects of nonprofit activities (e.g., guarding values, pursuing social change through advocacy) equal weight with the more technocratic ones (service delivery, innovation), which makes an emphasis on the value-based nature of nonprofits particularly imperative (Toepler & Anheier, 2020). Moreover, as seen in Chapter 16, advocating for member and client interests or third-party interests and seeking policy change, in conjunction with the willingness of governments to consult nonprofits on policy development and implementation, is as crucial a pillar of the government–nonprofit relationship as the financing and provision of services is.

This chapter uses "political" broadly to describe activities that give voice to individuals, groups, and communities in public debates, foster democratic discourse, and seek to engage with the government to affect policy and promote broader social changes. Partisan politics, as in activities to support particular candidates seeking elected office or specific political parties, are not included in this understanding, although some nonprofits may in some instances become involved in electioneering where this is allowed. Beyond this, nonprofits may engage in general political activism as well as in advocacy and lobbying.

> "Political" . . . describe[s] activities that give voice to individuals, groups, and communities in public debates, foster democratic discourse, and seek to engage with the government to affect policy.

POLITICAL ACTIVISM

Advocacy can be considered as one form of political activity that is primarily focused on policy and programmatic change, but there are other forms of political activism that nonprofits can engage in. Most of the latter concern larger social or political change, and where tactics overlap with advocacy, there is often a difference in scale: organizing a mass demonstration in the capital is political activism, whereas organizing constituents to

attend a public hearing to make demands is an advocacy tactic, although both are forms of public protest. Key types of political activism include:

- *Demonstrations and public protests*: Organizing demonstrations and similar public protests, such as sit-ins blocking public spaces or strikes, are key social movement tactics that often generate media coverage and high visibility. The economic, environmental, and political upheavals of the early twenty-first century have given rise to a number of new movements that quickly reached global scale, including Occupy Wall Street (2011) and the Occupy movement fighting economic inequality through sit-ins; the #MeToo movement (2017) to raise awareness about sexual harassment; the mass demonstrations for social justice that led to the founding of Black Lives Matter (BLM) as a social movement organization (SMO) in 2013; and the school strikes of Fridays for Future demanding climate action that began in 2018. Mobilization for these actions typically requires a catalyzing event, such as the acquittal of Trayvon Martin's killer for BLM, or individual initiative, as undertaken by Greta Thunberg for Fridays for Future/School Strike for Climate. Spinning off SMOs as nonprofits allows a continuation of the work after initial mobilization efforts begin to wear off. BLM with a few chapters in mostly major cities after 2013 had the community organizing infrastructure in place to remobilize in a major way in response to police shootings of people of color in 2020. While most nonprofits do not have catalyzing events or leadership to mobilize on a large scale, community organizing and mobilizing constituents, building issue networks with other service providers, and politicizing mission-central issues to build pressure to pursue them are options for any nonprofit, in what della Porta (2020) calls the SMOization of civil society and nonprofits.

Community organizing and mobilizing constituents, building issue networks with other service providers, and politicizing mission-central issues to build pressure to pursue them are options for any nonprofit.

- *Boycotts*: Orchestrating boycotts is a related form of political action that involves purposefully refraining from using or interacting with certain goods, services, organizations, or sometimes even countries with whose actions or values one disagrees. Boycotts are most commonly directed at companies to force change in corporate actions, strategies, or policies. As boycotts seek to inflict economic harm and thus require a certain magnitude to become noticeable, they are less of a useful tactic for most nonprofit organizations.
- *Public interest litigation*: Sometimes the pursuit of client or community interests is best served through the judicial system. Public interest litigation can be an effective way to defend beneficiary, civil, or human rights, to force change in government program operations or policies, or to raise public awareness of issues (Konkes, 2018). In China, for example, environmental advocacy has been based to a great extent on public interest litigation (Zhuang & Wolf, 2021).
- *Voter education, mobilization, and election oversight*: Nonprofits often have important roles to play in supporting and safeguarding the democratic process. They can help

constituents to register for elections where that is necessary and help citizens overcome physical and other barriers to participation in elections. Mobilizing voters to turn out on election day can be a crucial service particularly for nonprofits serving minority groups and disadvantaged populations less likely to participate otherwise (Leroux & Feeney, 2020). In part, voter mobilization involves various forms of voter education, ranging from explaining the process and the ballot to providing nonpartisan opportunities to potential voters to learn about candidates' positions or party platforms in a balanced way. While increasing participation is one way to strengthen democracy, ensuring the fair and open administration of elections is another. In addition to the media, nongovernmental organizations (NGOs) can be critical election watchdogs (Norris & Nai, 2017). Both international NGOs and local civil society groups engage in monitoring elections by providing independent observers to expose irregularities and fraud. The effectiveness of local election watchdogs in particular hinges on access to both the public discourse and policy-makers (Grömping, 2021).

Nonprofits often have important roles to play in supporting and safeguarding the democratic process.

- *Electioneering*: Engaging in electioneering, or political campaign activities, is a possibility for many types of nonprofit organizations, but often not considered to be a public benefit that merits tax deductibility of donations (see Chapter 3). Anglo-Saxon countries are particularly restrictive with regard to political campaign activities of charities (Phillips, 2020). In the US, for example, 501(c)(3) charities face revocation of their tax-exempt status if found to be "directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective public office" (IRS, 2021c).

Anglo-Saxon countries are particularly restrictive with regard to political campaign activities of charities.

ADVOCACY[1]

There is no generally accepted definition of what constitutes advocacy. Indeed, the range of activities included under the advocacy umbrella varies considerably (Mosley et al., 2020) and may at times include some of the forms of political activism discussed in the previous section. While advocacy can be directed at corporations to effect change in corporate policies and practices, it is most commonly understood as direct or indirect efforts to have the state, whether at the political or administrative level, respond to demands articulated or transmitted by nonprofit organizations. Pekkanen and Smith (2014) frame it as influencing public policies and include seeking to influence corporations as long as

the advocacy relates to public policy issues such as labor laws or fair trade. In either case, advocacy covers a broad spectrum of activities, ranging from seeking policy change to assisting clients in accessing services from local government offices. The actors involved in advocacy can be differentiated as can the types of advocacy in which they engage and the variety of strategies or tactics that actors may deploy.

> Advocacy ... is most commonly understood as direct or indirect efforts to have the state ... respond to demands articulated or transmitted by nonprofit organizations.

Advocacy Actors

A common core distinction made among advocacy actors is between member- or public-serving organizations that provide some sort of service but also engage in advocacy-related activities at some level, and organizations that exist only, or at least primarily, for advocacy purposes. Service-providing organizations exhibit quite different levels of commitment to advocacy (Pekkanen et al., 2014). Dedicated advocacy organizations include groups that advocate and lobby on behalf of the specific interests of their membership as well as groups that further public causes or issues more broadly. Boris and Mosher-Williams (1998) find that advocacy organizations comprising rights-oriented and civil participation organizations differ markedly from other nonprofit organizations in structure, resources, and nature of political activities. At the national and international levels, Clark (2020) differentiates a number of different "civil society advocacy mechanisms," including specialized advocacy organizations, federations, or confederations that are either comprised of local or national chapters or have individual NGOs as members joining to support the common cause, more informal networks that broker the exchange of information and sometimes align with social movements, and virtual, web-based campaigns.

As this variety of organizations and coalitions of organizations indicates, the distinction between service providers and advocacy organizations is not an absolute one, but involves a continuum with pure service providers and pure advocacy organizations at either end. In reality, both functions are frequently intertwined. In service providers, advocacy is typically ancillary to the main purpose of serving the needs of the organization's communities and clienteles. For such service providers, the purpose of advocacy is to improve the situation of clients, the services that the organization is providing, and the context in which services are delivered. The street-level experience they have gained by working with clients generates expertise that these organizations can leverage in their advocacy activities (Abramson et al., 2014). Yet, the organizational focus is on service provision, and resource constraints are among the key factors limiting advocacy engagement (Pekkanen & Smith, 2014). Advocacy organizations, by contrast, face collective action problems, as discussed in Chapter 5, and ancillary services are a way to generate income in support of their overall mission and combat the effects of free-ridership. Moreover, providing such ancillary services also generates the expertise, credibility, and legitimacy needed to conduct advocacy activity.

The distinction between service providers and advocacy organizations is not an absolute one . . . In reality, both functions are frequently intertwined.

Types of Advocacy

It is also important to differentiate between several different types or forms of advocacy. These take place in, and at least partially correspond to, what Pekkanen and Smith (2014, p. 2) refer to as advocacy venues in which advocacy is "directed at politicians, bureaucrats, the courts, or the general public, and might be undertaken on the federal, state, local, or even international level."

The literature suggests at least five types or levels of advocacy. Many writers focus on just one type, while others exclude certain advocacy activities from analysis. Here we seek to be inclusive and capture the broadest range of advocacy forms discussed in the literature.

- *Political advocacy* is akin to notions of contentious politics and claims-making (Tilly, 2008), e.g., the pursuit of human, civil, or environmental rights, and incorporates many forms of political activism as discussed earlier in the chapter. For Boris and Mosher-Williams (1998, p. 494), this includes rights and civil liberties-related work as well as "civic participation advocacy . . . in broader public education and protection and voice building activities." Where the law allows, this may include seeking political changes or involve judicial or legal advocacy to force broader social or civic agendas through the court system.
- *Policy advocacy* pursues the introduction or change of specific government programs and policies at the policy formation stage for the benefit of the constituencies that the organization represents. Efforts by nonprofits "to engage and represent their constituencies; give voice to diverse views and demands, promote economic, and social justice; contribute to a more vital, active civil society; and strengthen democracy and equality of opportunity" are central within the policy advocacy literature (Almog-Bar & Schmid, 2014, p. 12). Policy advocacy is sometimes also referred to as legislative advocacy, as desired policy changes typically require new laws or amendments to current legislation. In this, lobbying becomes a key tactic. Policy advocacy is similar to political advocacy, but somewhat narrower in scope, more focused on inducing change in specific policy arenas rather than seeking broader political or social change.

Policy advocacy is similar to political advocacy, but . . . more focused on inducing change in specific policy arenas rather than seeking broader political or social change.

- *Program advocacy* is the pursuit of programmatic changes at the policy implementation stage. Less sweeping than advocacy at the policy formation level, it targets

changes in government program mechanisms (including funding programs) that would directly improve the conditions of the nonprofit organization's clients and constituents. Also known as agency advocacy, it involves influencing government agency officials to achieve desired changes in program rules and regulations, procedures, or outcomes. This type of advocacy may also serve to improve the organization's own capacity and funding situation to enable it to serve its constituencies more effectively. A distinction between advocacy for social versus organizational benefits is frequently not made, but may influence the approach and the choice of advocacy tactics that organizations deploy (Garrow & Hasenfeld, 2014).

- *Case advocacy* is the representation of individual clients, groups of clients, or organizations before government offices or the provision of information about how they can access governmental services. It is related to program/agency advocacy, but is a distinct form of intermediating between government and clients. Some analysts prefer advocacy definitions that exclude advocacy on behalf of individual clients (e.g., Mosley, 2012), although this is a frequent practice in nonprofits that provide human services (Kimberlin, 2010).
- *Public or community advocacy* involves changing prevailing public conceptions and attitudes towards client groups. This form of advocacy targets the public at large, community leaders, or opinion-makers (Mellinger, 2014). From a social innovation perspective (see Chapter 8), Shier and Handy (2015) criticize prevailing scholarship for its focus on political and policy advocacy at the expense of activities that seek to effect change through service user and community engagement without the involvement of government in between. While this may on occasion closely overlap with political, policy, or program advocacy, the notion seems potentially of particular relevance in political systems where access to government decision-making is difficult or even barred. This may accordingly also be termed public advocacy, as it is directed at the public at large rather than at governmental processes and institutions.

Advocacy Tactics

Nonprofits can deploy a broad arsenal of actions or advocacy tactics. These can generally include issue research, media relations, letter and op-ed writing, coalition-building, providing testimony in public hearings and participating in working groups, meeting with elected officials and government administrators, public education and campaigns, engaging constituencies in agenda-setting and advocacy efforts, direct actions such as boycotts and demonstrations, and court action (Clark, 2020; Donaldson, 2008; Guo & Saxton, 2010; Pekkanen & Smith, 2014).

Sorting these, Berry and Arons (2003) distinguish broadly between aggressive tactics, including lobbying, testifying, releasing research, and involving members in contacting government officials, and more cooperative administrative tactics, including meetings with officials, participating in advisory groups, providing requested information, and socializing and networking with government representatives.

Mosley (2011; Mosley et al., 2020) similarly differentiates between indirect tactics, by which nonprofits seek to influence the policy climate rather than working with decision-makers, and direct tactics, where collaboration and working relationships with government

officials prevail. As nonprofits work inside the policy-making system when using direct tactics, these are also known as "insider" tactics; indirect tactics are accordingly often referred to as "outsider" tactics. As Mosley (2011) suggests, direct tactics require skill, expertise, and knowledge to succeed as well as ties to the established power structure. If those are lacking, indirect tactics are the only option. Frequently, the ability and willingness to lobby are related to size, with smaller organizations often being constrained in their advocacy abilities, whereas larger organizations may be better integrated into the policy process. While some organizations may lack connections and capacity for, or interest in, this kind of work, the political system in liberal democracies is generally open to nonprofits exerting their voice. Nonprofits often prefer cooperative approaches, trying to understand what government officials want to accomplish and designing programs to meet those expectations in order to build longer-term relationships with policy-makers (Almog-Bar & Schmid, 2014). Table 17.1 presents the range of advocacy tactics that, on balance, can be more confrontational or more collaborative in relation to government and its agencies.

As nonprofits work inside the policy-making system when using direct tactics, these are also known as "insider" tactics; indirect tactics are accordingly often referred to as "outsider" tactics.

LOBBYING

Advocacy is often discussed in conjunction with lobbying, but the relationship between the two concepts is not always clear (Pekkanen & Smith, 2014). In part, the lack of clarity relates to differences in the purpose of lobbying: nonprofit trade groups and business and

TABLE 17.1 Advocacy tactics

Confrontational (indirect/outsider) tactics	*Collaborative (direct/insider) tactics*
• Media advocacy, including letter-writing and e-advocacy • Policy research and consensus-building • Public education • Voter education • Public events and civil disobedience (e.g., at public meetings or government proceedings) • Constituency engagement and mobilization • Working in coalitions or networks • Legal action through the judicial system • Encouraging members or the public to contact elected officials for or against legislation	• Participation in official committees, commissions, advisory or working groups • Testimony in public hearings by agency personnel or experts • Meeting with government officials, socializing, and networking • Lobbying directly with policy-makers or administrative decision-makers • Involvement in discussions about policy formation or revisions

Source: Based on Toepler and Fröhlich, 2020.

professional associations lobby for the special interests of their members; by contrast, other nonprofits lobby for public interest issues that have collective benefits but do not necessarily affect their own economic interests (Berry, 2015). For the latter, Mosley et al. (2020) suggest that the term lobbying is part of the broader advocacy concept and refers more specifically to activities that involve the development, revision, and adoption of laws and legislation.

In this sense, lobbying is one tool or tactic that advocates can deploy when legislative initiatives are involved. The term originated in the practice of petitioners meeting Members of Parliament and other government officials in the lobby, or entrance hall, of the British House of Commons to gain attention for their issues and concerns; this origin suggests a close association between lobbying and legislative activity. In the US, the legal definition of lobbying for charities is "carrying on propaganda or otherwise attempting to influence legislation," making legislation and legislative activity the defining element of lobbying. This contrasts with non-lobbying public policy involvement of charities for which the Internal Revenue Service (IRS) uses educational terms, such as "conduct educational meetings, prepare and distribute educational materials, or otherwise consider public policy issues in an educational manner" (IRS, 2021a).

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Lobbying often carries a negative connotation because of the self-interested nature of special-issue lobbying and political corruption related to it, but the practice also entails recognized benefits. Lobbyists frame issues for political debate, bring them to policymakers' and the public's attention, educate legislators, and support political decision-making. As such lobbying can be a valuable tool for nonprofits to effect positive change for their clients, broader constituents, and the communities they serve. Yet, only relatively few nonprofits engage in lobbying, for a variety of reasons (Mosley et al., 2020), which in the US is also a function of deeply-rooted cultural concern about engaging with legislators.

Lobbying can be a valuable tool for nonprofits to effect positive change for their clients, broader constituents, and the communities they serve. Yet, only relatively few nonprofits engage in lobbying.

This concern had its origin in a battle between the environmental organization the Sierra Club and the federal government in the mid-1960s over legislative efforts to dam the Colorado River and partially flood the Grand Canyon for hydropower generation. To fight the proposal, the Sierra Club took out full-page advertisements that appeared in June 1966 in major newspapers, including the *New York Times* and *Washington Post*, urging a public letter-writing campaign to preserve the Grand Canyon. In response, the IRS

served notice within days that the Club's charitable status was to be reevaluated and, in December of the same year, announced its decision to revoke the Club's status as a 501(c)(3) tax-exempt organization. In the meantime, the dam proposals had to be abandoned in the face of the public outcry that the Sierra Club's advertising campaign is widely credited for. After a two-year legal battle, the Club did lose its 501(c)(3) status and had to convert to 501(c)(4) status. This meant the loss of tax deductibility for donations to fund the Club's operations, although donors could still make deductible donations for the charitable activities of the legally separate Sierra Club Foundation. The message that nonprofit leaders took from the swiftness of the government's crackdown on a broadly popular, national nonprofit organization was to avoid lobbying activities and the potential to draw the IRS's attention as much as possible. This lesson and the Sierra Club's example were passed on from nonprofit executives to their successors and limited the willingness of nonprofits to lobby, and even engage in advocacy, for decades (Berry & Arons, 2003).

LEGAL REGULATION OF POLITICAL ACTIVITIES IN THE US

While authoritarian regimes limit the ability of independent nonprofits to act politically, Western democracies tend to be fairly open to it. In Germany, for example, there are no lobbying restrictions for nonprofits, and even the need for a register of lobbyists was not seriously debated until 2020. Common law countries, however, are generally more restrictive and, although considerable variations exist (Phillips, 2020), nonprofits with charitable status typically face some limitations on political activity.

General Political Restrictions

In the US case, charities must be operated and organized exclusively for charitable purposes to maintain their 501(c)(3) status, as discussed in Chapter 3. Political activities are not per se among those purposes, but some types of activities are permissible, others permissible with restrictions, and yet others completely prohibited. At the allowable end of the continuum, public charities may engage in political activism such as organizing demonstrations, boycotts, litigation, and general advocacy without fear of endangering their tax status if it furthers their missions. Some activities, such as supporting or opposing government appointees who do not require legislative confirmation, are permissible but may have tax consequences on related expenditures because it is not considered part of the charitable exempt function.

On the other end of the continuum are political campaign activities, defined as participation or intervention in any political campaign for or against a candidate for public office, which are not allowed for 501(c)(3)s. Although the IRS may choose not to take action on minor infractions, the prohibition is clear and absolute and may lead to the revocation of tax exemption and penalty taxes on expenditures to participate or intervene in a political campaign. Known as the "Johnson Amendment," the prohibition was added to the Internal Revenue Code in 1954 at the urging of then-Senator Lyndon B. Johnson in reaction to charitable nonprofits who supported his opponents during his campaign to win a seat in the US Senate (Davidson, 1998). In the 2000s, the Amendment became the

target of politically active religious leaders and scholars (e.g., Stanley, 2011) who tried to recast it as a constraint on religious freedom.

> Political campaign activities, defined as participation or intervention in any political campaign for or against a candidate for public office ... are not allowed for 501(c)(3)s.

Since 2008, some pastors have openly endorsed candidates for public office in a recurrent political protest action termed Pulpit Freedom Sunday. Through open defiance of the Johnson Amendment, the action attempted to entice the IRS into revoking the tax exemption of participating churches, which would have given grounds for legal challenges that could have eventually led to a Supreme Court ruling on separation of state and religion grounds. Most evangelical religious groups were hoping for a repeal of the Johnson Amendment during President Donald Trump's administration, but mainline churches and many other faith communities, along with the majority of secular nonprofits and the sector's umbrella groups, such as Independent Sector, opposed a repeal. Although the Amendment's opponents sought to portray it as an attempt to restrict religious freedom, the Johnson Amendment applies to all charitable nonprofits equally. Secular nonprofits largely rejected a repeal for fear of opening themselves up to partisan politicization and concomitant potentially negative effects on trust and charitable support.

Lobbying Rules

In between the extremes of allowable forms of activism and forbidden election campaign activities is the case of lobbying, which in the US is permissible within limits for 501(c)(3) charities. The original lobbying restrictions, defining it as "carrying on propaganda or otherwise attempting to influence legislation," were introduced in 1934 to curb the use of charities by pro-German actors to influence lawmakers. Legislation refers to actions of Congress, state legislatures, local government bodies such as city councils, and public referenda. It does not apply to independent regulatory agencies of the executive branches of government or to submitting amicus curiae briefs to the judiciary. While lobbying is allowed, it may not be a "substantial" part of exempt-purpose activity. Substantial activity could be any of the following:

- A substantial percentage of total expenditures devoted to lobbying.
- A substantial percentage of the actual activities devoted to lobbying.
- A substantial impact that the organization has by virtue of its prestige or influence.

> While lobbying [by nonprofits in the US] is allowed, it may not be a "substantial" part of exempt-purpose activity.

Unfortunately, there are no clear guidelines to determine what constitutes "substantial" or how activities or impact are to be measured. Thus, for all practical purposes and with the requisite exceptions—made by the IRS in determining substantiality in individual cases—it usually comes down to expenditures. Although there has been no firm basis in law, a threshold of 15% of total expenditures is often used as a very vague rule of thumb for gauging "substantial" levels of lobbying expenditures, the so-called substantial part test. The 15% rule is however not at all fail-proof, as low-cost lobbying activities can have substantial impact and thus be construed as substantial activity, which can result in revocation of 501(c)(3) status. The Sierra Club's advertising campaign against the flooding of the Grand Canyon amounted to just $10,000 out of a total $1.5 million expenditure that year (Berry & Arons, 2003).

To ease the continued uncertainty, the 1976 Tax Reform Act and later regulations attempted to clarify the issue by applying somewhat clearer, but optional financial standards. The law expressly distinguishes between:

- *Direct lobbying* with legislative representatives, including by urging the organization's members to take action; and
- *Grassroots lobbying* to influence general public opinion beyond membership. For this type of activity to be considered lobbying, it must include a call to action; the exception is in highly publicized cases of legislation in which the activity is timed to influence the legislative process even if a specific call to action is not included.

With this distinction, the law also introduced relatively specific spending limits, capping lobbying expenses at no more than $1 million for large organizations and less on a sliding scale for smaller ones, as shown in Table 17.2. The newer rules are however not obligatory. Charitable organizations may elect to fall under the 1976 lobbying rules, thereby making

TABLE 17.2 Lobbying expenditure limits under the 1976 Tax Reform Act

*Exempt-purpose expenditures**	*Direct lobbying (Base + % of exempt-purpose expenditures)*	*Grassroots lobbying*
Up to $500k	20%	25% of direct lobbying
$500k–$1m	$100k + 15% of excess	$25k + 3.75% of excess
$1m–$1.5m	$175k + 10% of excess	$43,750 + 2.5% of excess
$1.5m–$17m	$225k + 5% of excess	$56,250 + 1.25% of excess
Above $17m	$1 million**	$250,000

* Total expenditures excluding investment, management, unrelated business, and fundraising.
** $1 million is the absolute maximum for annual lobbying expenditures; grassroots lobbying can be part of it, but it is not additional.

the so-called 501(h) election (named after the applicable section of the Internal Revenue Code). If they do not, the 1934 lobbying restrictions continue to apply.

The 1976 reforms also changed the sanctions for rule violation. Instead of immediate loss of status, an errant public charity would first be charged an excise tax on its excess lobbying expenditures. Should the organization exceed the limit over several years, it then loses its 501(c)(3) status. Furthermore, once an organization loses its (c)(3) designation, it may not switch to a 501(c)(4) status. In other words, a public charity that consistently exceeds lobbying limits and loses its (c)(3) status (and thus the tax-deductibility of donations) cannot then transfer the tax-deductible resources it gained to a lobbying organization.

Restrictions on Private Foundations

Private foundations are one form of 501(c)(3) organizations that face a different set of rules than all others (i.e., public charities). While they are also prohibited from engaging in or supporting campaign activities, they are subject in addition to a de facto ban from lobbying activities: if they do engage in lobbying, they become subject to an "excise tax on those expenditures [that] is so significant that it generally acts as a lobbying prohibition" (IRS, 2021b). The factual ban extends to foundation grants, which may not even be used to fund the lobbying activities of their grantee organizations; that is, grants cannot exceed the non-lobbying expenses of a project budget, without incurring the excise tax. Apart from some conditions on voter registration (Brooks, 2020), private foundations are otherwise free to engage in a wide variety of non-lobbying advocacy activities.

While they [like other 501(c)(3)s] are also prohibited from engaging in or supporting campaign activities, [private foundations] are subject in addition to a de facto ban from lobbying activities.

Nevertheless, advocacy efforts of foundations and engagement in social change are generally fairly limited, which again may be rooted as much in concerns about inadvertently violating lobbying constraints as in an overall conservative outlook (Suárez et al., 2018). The main exceptions are a number of very large foundations with the staff and financial resources to act as policy entrepreneurs aiming to shift public policies in fields such as education (Tompkins-Stange, 2016).

ADVOCACY BY NGOs IN AUTHORITARIAN CONTEXTS

In contrast to Western democracies where advocacy and political activism, with some restrictions, are generally considered important elements of democratic decision-making and the policy-making process, the opposite has often been assumed in the case of authoritarian and hybrid regimes. The policy-making process under authoritarianism is imagined

to be closed and thus to provide few access points for insider advocacy, which in turn forces NGOs to adopt outsider/indirect tactics, such as public campaigns and staging protests, that directly challenge the state in the public discourse and invite repressive countermeasures. Claims-making NGOs pursuing social justice issues, human rights, and environmental protections do in fact encounter significant difficulties in terms of bureaucratic harassment and loss of access to key revenue streams, especially foreign support (Toepler et al., 2020). This can be taken as evidence that advocacy is generally not tolerated within autocratic regimes because of its political implications.

Repressive measures are accordingly often tied to perceived political activity or national security concerns. In Russia, for example, the Foreign Agents Act of 2012 forces NGOs that receive funding from abroad and engage in vaguely defined political activities to register with the Ministry of Justice in a special registry for "foreign agents" and note the foreign agent designation on all outward-facing communications. As the term still carries very negative connotations from Soviet times (foreign spies), this effectively ostracizes NGOs with foreign support in the public's eye. Additionally, in 2015 the Russian government compiled a list of "undesirable organizations," comprised of foreign foundations and groups which are allegedly threatening national security (Benevolenski & Toepler, 2017), putting all domestic nonprofits with relations to one of those NGOs under threat of prosecution.

These legal constraints on the political engagement of NGOs, however, target only a fairly narrow section of civil society. In fact, service-providing nonprofits in Russia enjoy a range of options to engage in advocacy (Ljubownikow & Crotty, 2016; Toepler & Fröhlich, 2020), and Chinese NGOs have gained considerable leeway in advocating environmental concerns (Dai & Spires, 2017; Li et al., 2017). Even though access points to policy-makers are more limited in authoritarian regimes, legislators and other policy-makers often maintain a degree of autonomy that nonprofits can utilize to forward their proposals. Larger, better staffed, and well-connected NGOs are generally better suited to take advantage of any openings and operate with understandings that access and other privileges may be removed, which leads NGOs to mitigate their tactics to avoid drawing negative consequences (Abdel-Samad, 2017).

Even though access points to policy-makers are more limited in authoritarian regimes, legislators and other[s] often maintain a degree of autonomy that nonprofits can utilize to forward their proposals.

Outsider or indirect tactics will be used, but often only as a matter of last resort after other, less confrontational tactics fail to generate results (Dai & Spires, 2017; Ljubownikow & Crotty, 2016; Toepler & Fröhlich, 2020). Generally more preferred are insider tactics, including engaging with policy-makers or administrators face-to-face or through written petitions or participating in a consultative role in policy forums, working groups, or other committees sponsored by the government. Participating in such channels still requires a proper framing of the issues to align requests with existing policies, proposals

for marginal adjustments rather than wholesale changes, overall stances supportive of the policies in question, and the avoidance of the appearance of direct opposition (Dai & Spires, 2017). Despite generally restrictive legal environments, NGOs in authoritarian contexts can still find ways to successfully pursue social or environmental rights and improvements for their clients and communities, provided they accept the supremacy of the state in their respective policy domain and appeal to the state's responsibility for the welfare of its citizens without directly questioning the overall status quo (Toepler & Fröhlich, 2020).

ADVOCACY, SERVICE DELIVERY, AND GOVERNMENT FUNDING

Earlier we distinguished between service providers that may engage in ancillary advocacy and "pure" advocacy organizations, whose principal focus is to engage in advocacy on behalf of their members or for certain causes or values. The latter may rise to national or even international prominence, but they "amount to only a small percentage of the nonprofit organizations active in many countries. Most nonprofit activity is undertaken by organizations that combine advocacy with the provision of services, usually their primary goal" (Almog-Bar & Schmid, 2014, p. 12). Even if such advocacy is not the main focus of service-providing nonprofits, it is nevertheless important—and often overlooked (Hwang & Suárez, 2019).

Not devoting significant resources to advocacy may limit an organization's reach and ability to pursue its mission, as committing to both service and advocacy is seen as a key to high performance by nonprofits. Crutchfield and Grant (2012), for example, highlight the combination of advocacy and service as the first of six practices nonprofits should follow to achieve high impact. This recommendation derives from the insight that "high-impact organizations . . . may start out providing great programs, but eventually they realize that they cannot achieve systemic change through service delivery alone" (Crutchfield & Grant, 2012, p. 37). At the same time, experience and expertise derived from service delivery provide the street-level know-how and nuanced understandings of public policies and programs that facilitate the development of effective advocacy strategies (Bass et al., 2014).

Committing to both service and advocacy is seen as a key to high performance by nonprofits.

Accordingly, Hwang and Suárez (2019) provide evidence that more professionalized nonprofits with the resulting service delivery expertise are more likely to extend their reach by adopting advocacy strategies. Likewise, advocacy activities are also increasing where nonprofits are participating in collaborations, as collaborations encourage information and resource-sharing and can amplify the voices of individual participating organizations (see Chapter 15). Growing commercialization, on the other hand, diverts nonprofits away from their mission towards more transactional relations with clients

and communities, which then reduces their interest in advocacy and their willingness to devote organizational resources to it.

While reliance on commercial revenue streams may be detrimental to advocacy, similar assumptions are often made with regard to government funding and the level of political activity. It is often thought that nonprofit organizations that are dependent on government support feel more constrained in their ability to do lobbying and advocacy, following the old adage that they should not "bite the hand that feeds." While there may be some surface plausibility to the argument, the overwhelming evidence suggests that if there is any effect of public funding on nonprofit advocacy at all, it is slightly positive (Lu, 2018). Nonprofits capable of competing for government support tend to have the organizational capacity to develop and pursue an advocacy strategy (Berry, 2020). At the same time, the funding relationships open up access points within government and convey a level of legitimacy that facilitates the deployment of effective insider tactics.

CONCLUSION

Advocacy is a vital tool by which nonprofits can pursue their missions in a broader context than just through service delivery by actively working for policy and social change on behalf of clients and communities served. Although advocacy is a core function of what the nonprofit sector does, direct political activities conducted by nonprofit organizations are often restricted or legally constrained. In many cases, nonprofits are stopping short of exploring more fully their opportunities to act politically due to lack of expertise, dedicated funding, and a thorough understanding of actual legal limits (Berry, 2020). On the other hand, the advocacy activities of nonprofit service providers are generally less well recognized than those of dedicated advocacy or social movement organizations. Yet, because of the large numbers of nonprofit service providers and their important role in delivering social services, especially those funded by government, "they have the potential to be an influential voice in social policy" (Mosley, 2011, p. 436).

REVIEW QUESTIONS

- How would you define advocacy?
- How can advocacy and lobbying be distinguished?
- Why is it important for nonprofits to engage in political activities?
- How is advocacy in democratic and authoritarian countries different?
- What factors encourage or limit nonprofit engagement in advocacy?

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NOTE

1 This section draws in part on Toepler and Fröhlich (2020).

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CHAPTER 18

Longer-Term Developments and Current Trends

This chapter first takes a more comparative-historical look at macro-level changes that have affected and are likely to continue to affect the nonprofit sector over time, in particular the supply and demand conditions for nonprofit development. Next, the chapter looks at factors behind current developments, in particular the regulatory environment or space for civil society in a cross-section of countries, with an emphasis on policy neglect and the need for new regulatory frameworks. In a closing section, the chapter briefly returns to broader, long-term issues and explores different scenarios for the future of the nonprofit sector.

LEARNING OBJECTIVES

As a concluding chapter, this chapter will both look at longer-term developments of the nonprofit sector and address different scenarios of what such developments might entail for the nonprofit sector of the future. After considering this chapter, the reader should:

- have a basic understanding of long-term developments of the nonprofit sector;
- be familiar with the supply and demand conditions and how they affect the nonprofit sector over time;
- understand the changing regulatory environment or space for civil society;
- have a sense of the need for new regulatory frameworks and models;
- be sensitive as to different long-term scenarios for the nonprofit sector.

Some of the key terms introduced or reviewed in this chapter are:

- Accountability
- Civic engagement
- Demand and supply factors
- New public management
- Policy neglect
- Regulatory void
- Shrinking space phenomenon
- Social innovation

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- Varieties of capitalism
- Worlds of welfare states

INTRODUCTION

In this chapter we start by reviewing the factors affecting the supply and demand conditions for the emergence and sustainability of the nonprofit organization. The chapter then addresses regulatory frameworks and in particular the trend toward shrinking space for civil society and nonprofit actions, which leads us to consider the phenomenon of policy neglect. In a closing section, the chapter returns to the broader, long-term issues and explores different scenarios for future nonprofit development. In so doing, the chapter draws on material presented in the previous sections of this book, and in particular the history of the nonprofit sector, theories, organizational analysis, and government–nonprofit relations.

SUPPLY AND DEMAND FACTORS REVISITED[1]

We begin by revisiting the critical supply and demand conditions responsible for the emergence of different types of nonprofit organization, as presented in Chapter 5, and ask: what are the broader circumstances that affect these conditions and thus organizational choice and sector shifts over time? It is beyond the scope of this chapter to provide a full answer, and indeed, economic theories are still struggling with this question (Steinberg, 2006; Ghatak, 2020). Several aspects of the economic, social, and political order of the twentieth and early twenty-first centuries have been, and are, affecting supply and demand conditions, and therefore sectoral shifts. These include the massive growth in scope and complexity of economic activity; the effects of war, economic crises, and health emergencies; the prolonged prosperity in many OECD countries after World War II; fundamental technological changes; and changing demographic trends.

Growth

Throughout the twentieth century and into the twenty-first century, organizations—forprofit firms, government agencies, nonprofit organizations, and hybrids of all three—have become more numerous, and generally larger and more complex. This growth, however, affected all sectors neither equally, nor at the same time. To the contrary, characteristic of growth patterns over the last century and into the twenty-first century has been the disproportionate expansion of one sector, which was then followed by expansions in others, often in an upward "push-and-pull" fashion. For example, as discussed in Chapter 9, the emergence of the multi-divisional form in the first half of the twentieth century created organizations of hitherto unknown proportions: capitalizing on both economies of scale and scope, industrial giants emerged that soon became the central nodes in production and distribution networks spanning national and international economies. With much delay, the multi-divisional form took root in the nonprofit sector as well.

Characteristic of growth patterns over the last century and into the twenty-first century has been the disproportionate expansion of one sector, which was then followed by expansions in others.

The expansion of the forprofit firm created immense regulatory and social welfare demands, which led to an expansion of government, particularly in response to the depression of the 1930s. The public sector in the United States, expanding both in scale and in scope, took on new responsibilities, first as part of the New Deal era and the emerging war economy, later as part of welfare state legislation. Frequently, greater governmental responsibilities implied more opportunities for nonprofit organizations, particularly in the fields of social services, education, and health. As we see in Chapters 2, 5, and 16, government in other countries as well, e.g., the United Kingdom, Germany, and France and especially in Central and Eastern Europe in the 1990s and 2000s, turned to private providers to implement social services and other programs it found either less efficient or less politically opportune to deliver itself.

Institutional Effects of Crises

Wars, economic depressions, pandemics, and other crises had, and continue to have, a profound impact on long-term institutional development. The greater role of government in Europe, the US, and Japan was facilitated by both the two world wars and the Great Depression of the 1930s. The origins of the modern military-industrial complex, accounting for significant shares of GDP during the Cold War, reach back to the early twentieth century; social security legislation in countries as different as the US, France, and Germany is closely related to the demands and the aftermath of war economies (see Chapter 2).

Wars [and] economic depressions [had] a profound impact on long-term institutional development.

For example, without the demands for a social security system war widows put on the US legislature (Skocpol, 1992) and without the labor shortage created by the draft and the war economy, the healthcare system in the US would very likely have taken a very different path. Likewise, without the GI Bill (legislation that provided for free higher education for war veterans after World War II), America's educational system would probably look very different today, with a significantly smaller presence of public institutions. Similarly, with the regaining of Alsace and Lorraine in 1919, the centralized French state was forced to extend the "German" social security system to the rest of the country to reduce the impact of different legal and social welfare systems on national unity (Archambault, 1996). The

UK is another example yet: the introduction of the National Health Service could not have happened without the severe stress the war effort put on existing health and social services in the context of significant political and class-related tensions.

The economic demands imposed by war and depression could not be satisfied by forprofit firms through the mechanism of the market and gave rise to provision by government organizations. When the ability of governments to provide the myriad of services was taxed, some of their responsibilities had to be taken up by other types of organization. Because of the nature of these services, nonprofit organizations rather than forprofit firms were formed or expanded to fill in the gap between demand and supply.

Central and Eastern European countries are a case in point. After World War II, these countries were left behind the Iron Curtain, and what remained of their nonprofit sectors either was co-opted or replaced by the communist governments coming to power, or went underground. With the end of the Cold War and the redemocratization of most countries in the region, a socio-political and legal space opened up for nonprofit development (Toepler & Salamon, 2003). The accession of all but a few countries in the region to the European Union (EU) meant that the central building blocks of the nonprofit sector and of government–nonprofit relations were extended into the region. These ranged from basic rights such as freedom of association, to corporate and association law and regulation of tax exemption, to government funding and procurement, and were negotiated with individual countries as part of what is called "acquis communautaire" or community agreement. As a result, and with variation, the nonprofit sectors of much of Central and Eastern Europe have developed to levels approaching their Western European counterparts (Vandor et al., 2020).

The global financial crisis of 2008–09 and the recessions that followed, too, had an effect on the development of the nonprofit sector. That crisis left many governments in even more debt, and resulting austerity programs put significant pressure on public budgets, with cuts being passed on to nonprofit providers. As one consequence, commercialization pressures increased, and some nonprofits shifted away from client groups with low or no ability to pay in search of more "lucrative" clientele, leaving some population groups underserved. Nevertheless, due to increases in demand and relative stability of government and philanthropic support during the initial crisis, the nonprofit sector typically reacted countercyclically during subsequent recessions, adding employment as the rest of the economy was shedding it. Between 2007 and 2012, for example, nonprofit employment in the US gained by 8%, while forprofit employment contracted by 4% (Salamon & Newhouse, 2020).

The special nature of the COVID-19 pandemic that took hold in 2020, however, hit the nonprofit sector economically as badly as it did the economy overall. The initial nonprofit job losses in the US in the first half of 2020 were projected to be 1.6 million or about 13% of the entire nonprofit workforce; recovery to 2019 employment levels for parts of the nonprofit sector was not anticipated until late into 2022 (Salamon & Newhouse, 2020).

Various parts of the sector were affected differently: frontline providers such as healthcare providers were either directly involved in the crisis response and mitigation (e.g., healthcare providers) or were not able to reduce operations because they were serving vulnerable populations (e.g., homeless shelters and nursing homes). Many of these frontline organizations faced new costs, such as having to purchase personal

protective equipment for their staff, while losing other revenues, causing additional financial strain. Another group of nonprofits had to shut down service provision for the duration of the crisis, leaving them with fixed costs to cover, but no incoming revenue. This group included recreational associations, libraries, and virtually all visual and performing arts. A third group included nonprofits that were able to rejuggle client-facing services and maintain some level of modified service delivery by, for example, moving teaching or counseling sessions online, but at greater cost and reduced fee-for-service income (Toepler, 2020).

The Paycheck Protection Program in the US, which provided low-interest loans, convertible to grants if the participating organizations maintained certain employment levels, was the federal government's primary program to protect businesses with 500 employees or fewer during the shutdowns and economic downturn in 2020. Nearly the entire nonprofit sector was eligible for participation, and most nonprofits utilized the assistance to survive. In some other countries, the level of economic protection extended by the government was less extensive. Overall, while the organizational capacities of nonprofits in several countries seem to have survived the stress test of the first months of the pandemic, the longer-term effects are anticipated to further increase the pre-existing marketization and professionalization trends and potentially decouple volunteers from the organizations and shift volunteering into more informal and spontaneous forms (Kövér, 2021). Furthermore, pandemic necessity forced nonprofits to invest in technology that can facilitate and extend engagement with both donors and volunteers in new ways as well as change the service delivery mode. Yet, concerns persist about the human resource implications of the crisis and whether employees will return or consider switching sectors (Kuenzi et al., 2021).

Prolonged Prosperity and Development

Even though the first five to six decades of the twentieth century were a period of great upheaval and discontinuity, the market economies in the US, Canada, Europe, Australia, Japan, South Korea, and other parts of the world then passed through an unprecedented era of prosperity. What is of primary interest to us is the way this peculiar combination of continuity and growth led to institutional effects and shifts over time. One obvious example is the widespread and relatively stable social democratic pattern in Scandinavia and some Western European countries. A pronounced emphasis on equity and solidarity resulted in a complex system of institutions that changed the sectoral make-up of societies. Prosperity also created new demands, particularly in the fields of arts and culture, recreation, education, and social services.

Since many of these demands were for types of goods and services characterized by information asymmetries, nonrivalry, and nonexcludability, they brought about responses from nonprofit providers. The nonprofit boom that took place in many developed market economies in the 1980s and 1990s, and slower, but almost uninterrupted growth since, have been closely related to these new demands and a greater diversification of interests, and not merely a function of shifting government priorities and budget considerations.

The nonprofit boom ... in the 1980s and 1990s and slower ... growth since have been closely related to these new demands and a greater diversification of interests.

Finally, for the first time in nearly a century, wealth accumulated in the developed market economies has not been destroyed by wars, erased by hyperinflation, or lost in economic depressions. The resultant wealth and prosperity—and irrespective of periodic recessions, pandemics, and political uncertainties—have made it possible to supply capital for the establishment of charitable and philanthropic institutions. Greater availability of capital also permitted the formation of social enterprises that, as described in Chapter 3, pursue social missions through business activities. As these examples suggest, economic prosperity and development have had a favorable effect on both demand and supply factors affecting the growth of organizational forms other than purely forprofit firms.

Technological Changes

Rapid technological change has affected the sectoral make-up of economies mainly through the effect on the demand for organizational forms. First, technological innovations have created as well as alleviated information asymmetries, and, for the most part, reduced problems of nonexcludability and nonrivalry. For example, improved access to information has improved the ability of consumers to evaluate the goods and services of various organizations (e.g., in health services, where reviewing the performance ratings of individual physicians and of hospitals is now feasible), thus lowering the demand for alternatives to forprofit firms. Furthermore, technological advances have generally enhanced the ability of firms to meter the consumption of their customers, thus reducing nonexcludability, as well as to tailor services more specifically to groups of consumers, hence reducing problems associated with nonrivalry and lowering demand for alternatives (e.g., media services such as radio and television). However, at the same time, the complexity of services has increased, lowering consumers' ability to precisely assess various aspects of goods and services they desire, generating asymmetric information between them and forprofit firms, and thus leading to more demand for alternatives to forprofit firms.

Rapid technological change has affected the sectoral make-up of economies mainly through the effect on the demand for organizational forms.

Second, and related to the previous point, improvements in transportation and communication have increased the range of goods and services available on the market, to the effect of reducing nonrivalry (associated, for example, with the availability of just one type of service or model of good), thereby reducing the potential for market failures. Technological advances have also allowed for greater standardization of products and services, thereby reducing the degree of market failures—and therefore reducing the need for nonprofit or other organizations to correct these failures.

Third, technological developments have generally had substituting effects whereby capital replaced workers, kicking off a massive restructuring of employment, from agriculture, mining, and manufacturing to service industries. As services are more afflicted with asymmetric information, nonexcludability, and nonrivalry, they became the hosts of nonprofit organizations and government organizations in much greater proportions than the older industries have ever been.

Fourth, the increased range of products and services and their availability at declining relative prices have made production within households comparatively more expensive, contributing towards the shift from household to market production, and its mirror image, shift of employment (mainly of women) from the household sector to other organizational forms. The main implication is that the technological advances of the twentieth century created more opportunities for all organizational forms, initially leading the way for a significant growth in government organizations, then nonprofit organizations, although soon the net effect is likely to be more favorable for the growth of forprofit firms, due to effects on nonexcludability and nonrivalry. The healthcare field is a prime example in this context. At the same time, other opportunities for nonprofit providers have emerged in areas less affected by technological advances and subject to potential market failures, with hospices, environmental protection, and social services as examples.

Finally, the introduction of e-governance in many public sector areas is being complemented by new approaches to use information and communication technologies to enhance civic engagement. Social media can enhance or even replace more expensive technology to encourage and enable citizen participation and civic engagement (LeRoux et al., 2020). However, while outreach can be expanded, not all population groups will necessarily benefit equally. This raises access, inclusion, and democratic accountability issues, while potentially reinforcing power differentials (Feeney & Porumbescu, 2021) and benefiting affluent and educated demographics more.

Demographic Trends

Demographic trends are one of the most significant long-term factors to influence the demand for goods and services. The population structures of virtually all developed market economies are characterized by four major patterns. First, there are large cohorts of baby-boomers who, since the 1950s, increased demand for child care, educational and vocational training services, and housing, and are now having similar impacts on healthcare and social services, with the social security systems to be similarly affected in the foreseeable future. These trends have almost universally increased demand for services that are generally provided by the nonprofit or government sectors.

Demographic trends are one of the most significant long-term factors to influence the demand for goods and services.

Second, with falling birth rates—in a growing number of countries below replacement rate—and increasing life expectancy, the baby-boomer cohorts, the millennials, and subsequent cohorts will find themselves in growing disproportion to the sizes of younger cohorts, thereby putting additional strain on existing social security, health, and welfare systems. In turn, this will create demand for all sorts of providers and lead to probable shifts in the sectoral structure of economies.

While the impact of the baby-boom cohorts has influenced and continues to influence many demand parameters, a third factor has had at least equally profound impacts: this is the increased labor force participation of women. Women make up the majority of employees in most service industries and have led to shifts in the gender composition of most other fields as well; these together have contributed to a marked reduction in the importance of production of various services within households. The subsequent demand for child care, family, and related services has generated opportunities for forprofit, nonprofit, cooperative, and government providers alike.

Finally, nearly all developed market economies have experienced, mostly since the 1960s, migration of people from other countries. The reasons and consequences of this are manifold. It is worth noting, however, that one probable effect has been the apparent decline of social solidarity at the national level in many countries, where support for social safety nets, redistribution of income, and many forms of collective action has also declined, reducing the demand for government services. Whether the COVID-19 pandemic or the climate crisis will have the longer-term effect of reversing that change is still to be determined.

Of course, by themselves, these factors may amount to little, but when taken together and put in the legal, political, and cultural context of particular countries against the background of the basic supply and demand conditions discussed in Chapter 5, they emerge as useful tools to help us understand sectoral shifts over time.

SECTORAL SHIFTS

In the previous century and well into the twenty-first century, sectoral shifts and the organizational choices they reflect have occurred in settings that are generally characterized by the five factors discussed in the previous section. We can describe the interplay between these factors and the basic conditions of supply and demand as "push-and-pull" constellations. In some instances, we observe a push toward market solutions; in other cases, we see a pull towards non-market solutions.

However, the extent to which these pull and push tendencies can materialize as sectoral shifts depends on a set of other factors, and the constellation among them. Past choices often influence present options, and the path dependency of sector development is a product of the interaction between the basic supply and demand conditions and long-term developments such as demographic tendencies and ways of organizing that are frequently supported by powerful cultural patterns and political preferences. How these factors and tendencies play out and whether they exert influences that expand or reduce the size and opportunities for specific sectors are the topic of this section.

The Legal System

A country's legal and regulatory system can play an enabling as well as a restrictive role for the extent to which different types of organization are affected by changes in the factors outlined above (Toepler & Anheier, 2021). Many aspects of the legal and regulatory system have had profound impacts on sectoral shares and shifts over time. The following examples suggest the importance of the system for the varying boundaries of sectors over time and across countries:

- Entry restrictions for forprofit firms in particular markets (e.g., the blood collection industry).
- Barriers to entry for nonprofit organizations (e.g., high capitalization requirements for foundations; high membership requirements for associations).
- Discrimination against forprofit firms (e.g., contracting restrictions favoring public and nonprofit providers).
- Restrictions on the nonprofit sector (e.g., shrinking space laws limiting access to foreign funding; limitations on business or advocacy).
- Favorable tax laws for nonprofit organizations (now in place in most developed market economies).
- The burden of formal registration access for particular types of organization (e.g., for grassroots organizations under the dual registration system in China).

Many aspects of the legal and regulatory system have had profound impacts on sectoral shares and shifts over time.

More generally, effective systems of market control by government reduce the potential ill effects of information asymmetries for consumers and open up opportunities for organizational forms. For example, Hansmann (1990) reported how the regulation of the US banking industry in the late nineteenth and early twentieth centuries decreased the default rate for forprofit banks and increased their trustworthiness. As a result, commercial banks began to crowd out nonprofit savings and loans associations until the latter played only a marginal role in the US banking industry. In the aftermath of the 2008 financial crisis, however, nonprofit financial providers attracted renewed interest, especially at the local level. In Europe, cooperation between municipal and county governments, on the one hand, and local savings banks and occupational groups, on the other, reduced the degree of moral hazard in the financial industry. The "demutualization" of cooperatives and similar mutual insurance and savings associations in the 1980s and 1990s increased the role of large commercial banks, only to be somewhat reversed after the 2008 financial crisis, when some larger banks were effectively rescued by the public sector, triggering a debate on how to strengthen regulation and encourage civil society voices in the financial field. Thus, the enabling and restrictive aspects of legal and regulatory environments have a significant impact on the sectoral composition of entire economies as well as fields of activity.

The Cultural System

While cultural aspects are, of course, important in many ways, their precise impact on sectoral shifts is difficult to capture, particularly cross-nationally. There are, however, two aspects of culture that are directly relevant for our purposes. The first is the degree of ethnic, linguistic, and religious heterogeneity of a country's population, and the extent to which this heterogeneity is transformed into effective demand and effective supply. As we observe in Chapters 5 and 8, nonprofit entrepreneurs are frequently linked to religions and political movements. Given effective demand, the presence of entrepreneurs, motivated both by economic and ideological objectives, and their organizational preferences influence their choice of organizational form.

The second aspect of culture relates to general blueprints for problem-solving and organizing that make the choice of one organizational form more likely than the other. The anti-government sentiment in the US has long favored private solutions over public ones, frequently irrespective of actual efficiency and equity considerations. By contrast, European governments, particularly centralized ones as in France or social democratic ones as in Scandinavia, have generally preferred governmental responses and government-led and -controlled institution-building over private options.

The Political System

In addition to the legal and cultural systems, the political system establishes the basic "default settings" and policies for economic and societal actors. Clearly, government policies establish rights, demarcate areas of responsibility, establish tax and similar regulations, and allocate funding for different types of organization. In Chapter 16, we look at various types of government–nonprofit relationships and explore their implications, and throughout this book we emphasize the critical role of the political system and the extent to which it creates an enabling or constraining environment for nonprofit development.

The political system establishes the basic "default settings" and policies for economic and societal actors.

More generally, the legal, cultural, and political systems are brought together in several basic regime types that influence the size and opportunities for specific sectors, including the nonprofit sector. As explained in Chapter 2, two approaches to understanding such regimes and how the nonprofit sector develops are particularly relevant (there are, of course, others such as the Economist Intelligence Unit's Democracy Index, referred to later in this chapter). One, the varieties of capitalism approach (Hall & Soskice, 2001; see also Chapter 4), postulates that two main types of capitalism exist in developed market economies—liberal market economies (LMEs) and coordinated market economies (CMEs)—distinguished mainly by the private sector's ability to act independently of government influence and regulation, among other things. This holds not only for the forprofit sector but also for nonprofits. The second, the worlds of welfare capitalism approach (Arts

& Glissen, 2002), posits several ideal-type welfare regimes—conservative, social democratic, post-socialist, and liberal—characterized by two fundamental dimensions: the degree to which welfare services are seen as commodities to be traded on the market or as entitlements and the degree of social inequality in a society.

The social origins theory that we discuss in Chapter 5 draws on these welfare state conceptions to focus on the nonprofit sector. The theory identifies government social spending as a key factor in explaining variations in the economic scale of the nonprofit sector cross-nationally. Moreover, it suggests that the nonprofit sector may have different "moorings," being rooted in long-standing patterns of nonprofit–government and nonprofit–society relations, all shaped and impacted by the legal, cultural, and political factors examined in this section and previously.

As this discussion suggests, nonprofits everywhere are subject to fundamental environmental shifts while remaining embedded in institutional systems that adapt more slowly to the changing conditions to which nonprofits are exposed. This in turn poses specific and significant policy challenges for the nonprofit sector going forward.

THE CURRENT POLICY ENVIRONMENT[2]

As shown in Chapter 4, nonprofit organizations have generally been growing in significance over recent decades. These developments are taking place across many countries that otherwise differ in their economic structures, politics, cultures, and social fabrics. They are driven, in large measure, by three broad policy perspectives that position nonprofit organizations in specific ways and allocate certain roles to them.

The most prevalent one concerns nonprofit organizations as service providers. In many countries, nonprofits have long been key actors in providing all sorts of welfare services. In the context of new public management (NPM) approaches, reliance on quasi-markets and competitive bidding processes has both deepened where it already existed and developed where it was minimal or even nonexistent. As discussed in Chapter 16, expanded contracting regimes in health and social service provision, voucher programs, and public–private partnerships are examples of this development, as is the recent focus on co-production. Essentially, this policy approach sees nonprofits as more efficient service providers than state agencies, and as more trustworthy than forprofit businesses in markets where monitoring is costly and profiteering likely.

[The service-provider] policy approach sees nonprofits as more efficient service providers than state agencies, and as more trustworthy than forprofit businesses.

Second, nonprofit organizations serve as cohesion builders. This perspective sees them as both builders and sustainers of social cohesion in increasingly diverse societies, strengthening the nexus between individuals' social capital and economic development. Attempts to maintain or engender a sense of community and belonging and to enhance

civic mindedness and engagement by promoting volunteering and charitable giving are illustrative of this perspective (see Chapter 7). The basic assumption is that people embedded in dense networks of associational bonds are not only less prone to social problems of many kinds but also economically more productive and politically more involved.

A third perspective that has gained currency perceives nonprofits as social innovators (see Chapter 8). This policy perspective views nonprofits as a key source of social innovation to address diverse public problems. Because they tend to be smaller in scale and closer in proximity to those affected by or concerned with an issue, nonprofits are presumed to be better at such innovations and more creative than governments typically are. They are also the operating ground for social entrepreneurs. The policy response then is for governments to seek partnerships with nonprofit organizations to identify, test, and scale-up social innovations.

Shrinking Space

Civil society harbors significant potentials in terms of social innovation, resilience, service delivery, and giving voice to diverse interests and communities otherwise excluded. However, nonprofits operating locally, nationally, and across borders have also experienced many changes in recent decades, with the 2010s bringing about a particularly challenging environment. Specifically, there are growing indications that the "space" for civil society organizations is shrinking worldwide as a result of increased regulation, greater reporting requirements, but also curtailing of nonprofits' activities, and even harassment of staff and threats of violence amid growing authoritarianism.

Anheier et al. (2019) examine how widespread the shrinking of civil society space has become for 20 of the world's largest economies (G20 members) during the period from 2008 to 2017, along three dimensions:

- Control over the formation of civil society, which measures government discretion in granting legal status to nonprofits (Figure 18.1, where lower values mean stronger government control over formation).
- Control over the operations of civil society, which measures bureaucratic harassment and repression of existing nonprofits (Figure 18.2, where lower values mean more government repression).
- Degree of self-organization and participation, which measures nonprofit diversity and volunteer participation (Figure 18.3, where lower values mean less diversity and participation).

The study revealed on average a general, but mostly gradual erosion of civil society space along all three dimensions. This is particularly so in the largest group of countries, i.e., flawed democracies (C panels in Figures 18.1–18.3), which, according to the Economist Intelligence Unit's Democracy Index, include the US, Brazil, and India, among others. In authoritarian regimes (A panels; China, Russia, Saudi Arabia), the values were already low in 2008 and remained relatively stable or slightly worsened by 2017. The most glaring exception to the gradual erosion is Turkey, the one hybrid regime in the G20, where the

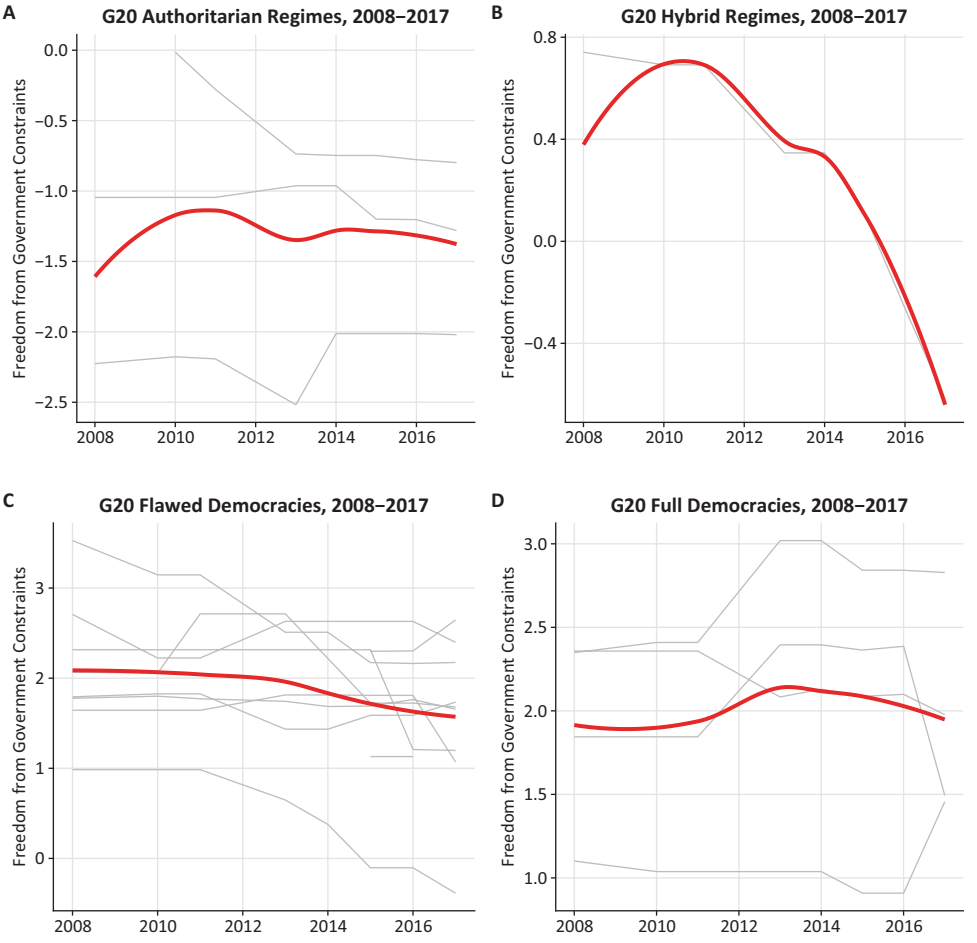


FIGURE 18.1 Government control over nonprofit formation

Source: Anheier, Lang, and Toepler 2019, Figure 1 (extended) (published under a CC-BY license; see https://creativecommons.org/licenses/by/4.0/).

situation for nonprofits rapidly deteriorated after 2010 (B panels). And at the other end of the spectrum, the four full democracies (D panels; Australia, Canada, Germany, UK) showed overall improvements or at least stability along all three indicators.

Civil society experts interviewed for the same study (Anheier et al., 2019, appendix 2) confirmed the general trajectory of a slow erosion in most consolidated democracies as well as the developments in hybrid and authoritarian regimes. They also observed that most countries seem to do little to stem the erosion, perhaps due to lack of awareness, lack of civil society activism and organizational capacity to find a voice, or the absence of political will on behalf of governments. Few countries have open, proactive dialogues in

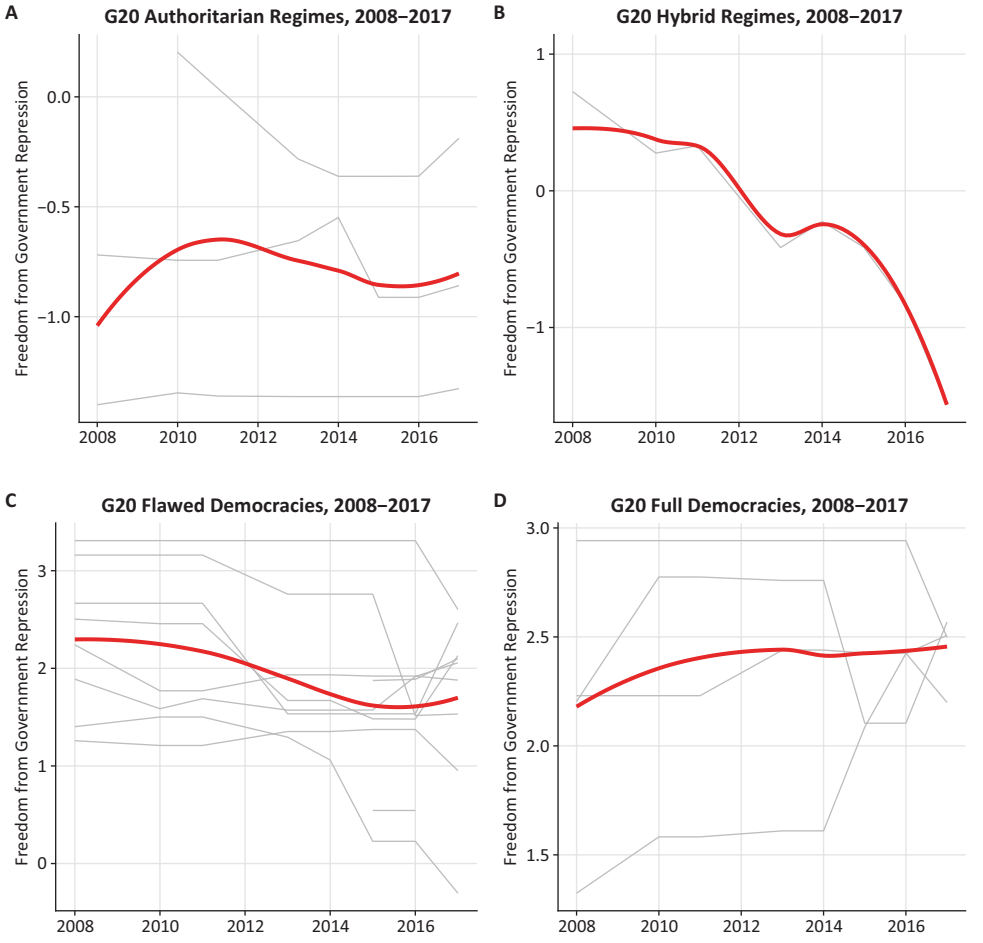


FIGURE 18.2 Government repression of nonprofit organizations

Source: Anheier, Lang, and Toepler 2019, Figure 2 (extended) (published under a CC-BY license; see https://creativecommons.org/licenses/by/4.0/).

place to review the state of civil society and nonprofit–government relations, and fewer still have reform efforts underway, even though the experts perceive a general recognition that reform is needed.

Most countries seem to do little to stem the erosion, perhaps due to lack of awareness, lack of civil society activism and organizational capacity to find a voice, or the absence of political will on behalf of governments.

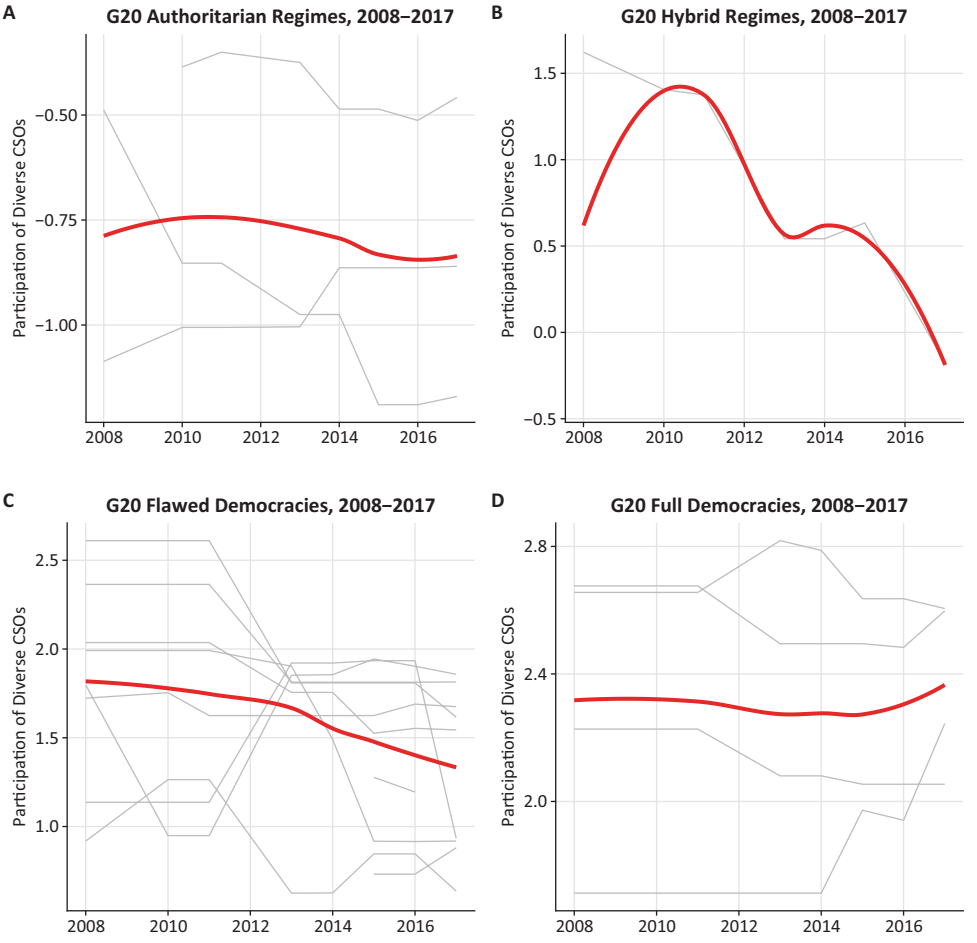


FIGURE 18.3 Nonprofit diversity and participation

Source: Anheier, Lang, and Toepler 2019, Figure 3 (extended) (published under a CC-BY license; see https://creativecommons.org/licenses/by/4.0/).

Other relevant findings include:

- There are characteristic "pendulum policies" in a number of G20 countries with more pronounced differences between center-right and center-left governments that tend to politicize the relationship with civil society and contribute to inconsistencies over time.
- Several G20 countries have seen the need to respond to the hybridization of nonprofits, especially around service provision, and have established new legal forms such as social enterprises or public benefit corporations as part of an effort to modernize regulatory frameworks (see Chapter 8).

- Government bureaucracy is seen as a major stumbling block to more efficient relations, especially in middle-income countries. There is a need to simplify registration processes and reporting requirements in particular. In some countries, registration is also used as a tool to control nonprofits and restrict their activities.
- Few countries have umbrella organizations for nonprofits, which leads to disjointed civil society voices and decreases the sector's capacity to advocate on its own behalf.
- Likewise, only few countries establish dedicated government agencies for nonprofit oversight, control, and development.

Thus, nonprofits find themselves in contradictory policy environments across the G20 member countries, subject to a "push and pull" along the different directions by the challenges and opportunities indicated by the perspectives noted earlier. Generally speaking, countries with shrinking or eroding spaces tend to be those most in need of regulatory reforms. This is consistent with the general shrinking space experience, which is largely based on the promulgation of restrictive laws and regulations (Rutzen, 2015).

Generally speaking, countries with shrinking or eroding spaces tend to be those most in need of regulatory reforms.

Policy Neglect

The flip side of the shrinking space experience that results from overly restrictive laws and regulations is a lack of policy attention. Indeed, as the previous analysis suggests, rather than actively pursuing reforms that open civil society space, some democracies more or less passively let that space slowly erode either through the impact of other policies (mostly anti-terrorist, anti-corruption, and national security-related measures) or lack of reform. Thus, while the nonprofit sector and civil society have gained in importance in many regards, they have not received the policy attention they deserve to make sure that they can fulfill very diverse expectations:

- Increasingly part of public management approaches and operating in quasi-markets, nonprofits have to work under outdated regulatory frameworks that fail to accommodate a much more diverse and expanded set of nonprofit organizations and civil society activism.
- While social entrepreneurship and social innovation are seen as essential to problem-solving, few supporting policies are in place, fewer still for vetting and scaling innovation, and investment markets are virtually absent.
- While nonprofit organizations and civil society are generally arenas of civic engagement and commitment to the common good, accountability is typically limited to fiscal matters, leaving wider responsibilities and transparency unchecked.

While the nonprofit sector and civil society have gained in importance in many regards, they have not received the policy attention they deserve to make sure that they can fulfill very diverse expectations.

As a result of this policy neglect, nonprofit organizations and social entrepreneurs cannot fulfill their full potential. Regulatory voids that emerge around pressing policy issues go unsettled and result in human suffering as well as a weakening of civil society. Furthermore, accountability deficits increase the possibility of scandals and failures, and hence a loss of public trust.

Although some may believe that not drawing government attention is a good thing, the policy neglect of the nonprofit sector should not be considered a form of benign neglect, a term coined by US Senator Moynihan in 1970 that refers to deliberate non-interference intended to benefit someone or something more than continual attention would. The notable neglect of civil society broadly speaking and nonprofit organizations in particular in many countries is neither intended nor beneficial; rather it leans towards a general policy stagnation.

While the most well-known cases of government-led shrinking of civic space are clearly intentional, only a few democratic governments have proactively sought to constrain civil society. Others have instead either allowed other policies to infringe on civil society space or failed to even consider modernizing reforms.

The clearest case of the former are the efforts of the inter-governmental Financial Action Task Force to curb international money laundering and financing of terrorism. Despite clarification that not all nonprofit organizations should be considered high risk, the rules have effectively hindered or even cut off access by many organizations to banking and other financial services, with significant consequences especially for internationally active nonprofit organizations (Toepler & Daigle, 2022).

Furthermore, the implementation of NPM approaches, even if not specifically focused on nonprofit organizations, has had an arguably profound effect, especially on service providers. For example, as discussed in Chapter 16, the pressures of competing in quasi-markets and the intricacies of contracting arrangements have led some nonprofits in the UK, the US, and elsewhere into commercialization and professionalization and have brought into question the identity and autonomy of many nonprofit service-providing organizations.

As noted, lack of reform is another way civic space and civil society capacity erode. An example is Germany, where public benefit laws designed for the realities of the late nineteenth and early twentieth centuries are extremely outdated, and efforts to modernize the current system, though on the political agenda for two decades, are still outstanding. Germany's regulatory framework, including legal forms and tax exemption rules, needs to be reviewed and reformed; inaction could threaten future civil society–state relations (Anheier et al., 2019).

Regulatory complexity and bureaucracy remain burdensome for civil society in many countries. In Italy, for example, though some measures have been taken to legally recognize new organizational forms such as social enterprises, the bureaucratic requirements for

most nonprofit organizations have not been reduced and continue to strain organizational capacities. In Argentina and Japan too, the complexity and fragmentation of regulatory frameworks are areas of long-needed reform (Anheier et al., 2019).

Even when not outrightly repressed, the work of nonprofits in many countries is hindered by a lack of policy clarity, particularly when it comes to their advocacy efforts. As noted in Chapter 17, in common law countries in particular, including Australia, the US, and the UK, vague rules governing what is permissible with regard to advocacy work have had the effect of stifling the voice of many nonprofits for fear of overstepping the line between issue campaigning and political campaigning. Attempts to change such rules seem to depend more on the political leanings and purposes of the government of the day than the needs of nonprofits and the people they intend to serve (Phillips, 2020).

Even when not outrightly repressed, the work of nonprofits in many countries is hindered by a lack of policy clarity, particularly when it comes to their advocacy efforts.

France and Canada, however, seem to be the exceptions to this general assessment (Anheier et al., 2019). In France, for example, the government has actively been advancing a reform agenda pursuing supply- and demand-side tools as well as improved regulations to encourage civil society, the wider social economy, and philanthropy. And in Canada, amid a continued need for reforms, attempts to modernize nonprofit governance and regulation were underway in the early 2020s, with general openness to reform.

Regulatory Voids

Institutions set the "rules of the game" by protecting, policing, and enforcing rights and obligations in order to enable cooperation to manage public problems. Yet, the way globalization has progressed has challenged the ability to provide and act upon such rules. National governments and international organizations increasingly lack the very institutional capacity needed to legislate, control, and enforce regulations. The result is the opening of regulatory voids, i.e., the systemic under-institutionalization of policy domains where institutions lack the capacity to deal adequately with the challenges at hand. Migration, finance and taxation, and cyberspace are examples among others of domains lacking appropriate institutional capacity to fill gaping regulatory voids.

As such regulatory voids become apparent, the role of nonprofits becomes important: they can mobilize opinion, bring governments and international organizations to impose better rules, and play a crucial part in ensuring compliance and implementation by monitoring the behavior of states and economic actors (Brinkerhoff & Wetterberg, 2016). Yet the policy neglect that has resulted in regulatory voids more generally has also created many critical dilemmas for nonprofits trying to work within the voids or help close them. Examples include:

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- Migration and refugee rescue operations, e.g., the conflict between humanitarian objectives and EU border protection policies blocking ports for nonprofits rescue ships in the Mediterranean, threatening criminalization of rescue operations, and transferring responsibility for sea rescues to the Libyan coastguard. While nonprofits fear the perpetuation of human rights violations through the arrangement with Libya, some European policy-makers accuse their rescue operations of aiding and abetting human traffickers (Stone, 2018). In a similar vein, humanitarian action for illegal migrants along the southern border of the US has been subjected to Border Patrol harassment and criminalization (Tomassoni, 2019).
- Global finance and taxation, e.g., where nonprofits are assuming watchdog roles in exposing tax avoidance by international corporations through tax shaming, pointing to the market dangers of quasi-monopolies held by leading technology firms, or revealing corrupt procurement practices of international organizations. But the kind of activity this work entails does not necessarily fit neatly into narrow traditional criteria for tax exemption and other benefits. For example, the tax-exempt status of the German office of the global network ATTAC, the Association for the Taxation of Financial Transactions and Aid to Citizens, was rescinded when its work as watchdog tested the border between public benefit and political activity.
- Cyberspace, e.g., in light of the proliferation of mis- and disinformation and political influence-seeking through social media and other manipulation, nonprofit efforts to both promote free expression online and ensure the safety, openness, and trustworthiness of cyberspace. The regulatory void associated with cyberspace often pits the rights of free expression and (online) association that are key to civil society's capacity to fulfill its potential against other rights and civil society goals. So long as it is unclear what content is permissible and what is not and what is "issue advocacy" and what is "political campaigning," nonprofits will need to walk a fine line.

In these fields and others, nonprofit and civil society actors operate within a context of either inadequate regulatory capacity or competing policies and guidance. As a result, the pitfalls of regulatory voids (e.g., moral hazard, regulatory capture, profiteering, and rent-seeking) continue unabated. What is more, institutional voids can widen through contagion effects or deepen by weakening whatever institutions and organizations might exist in the field itself (Anheier & Toepler, 2019).

Accountability Deficits

Policy neglect also leaves room for accountability deficits to emerge within the nonprofit sector. As nonprofit organizations have gained importance domestically and internationally,

many have outgrown existing accountability and transparency requirements, structures, and, especially, public expectations of actors purportedly serving the public good. This has led in many cases to scandals and to a decline of public trust (when it existed at all).

As nonprofit organizations have gained importance . . . many have outgrown existing accountability and transparency requirements, structures, and, especially, public expectations of actors purportedly serving the public good.

At the end of the 2010s, several scandals involving high-profile international nonprofits brought to light gaping deficits, especially with regard to their internal accountability mechanisms (see Chapter 12). A prime example of the problem was the investigation of Oxfam International's failure to follow up on charges of sexual abuse involving staff working in Haiti that led to revelations of a more general environment that allowed sexual misconduct and bullying to go unchecked throughout the organization (Prakash, 2019). Similarly, Amnesty International was forced to close its Zimbabwe office in 2019 in the wake of rampant fraud and financial mismanagement. On top of this, an investigation the same year following the suicide of two members of its secretariat staff found Amnesty to be a "toxic" workplace, with its leadership failing to hinder bullying and harassment, leading to the eventual resignation of most of its senior leadership team (Ratcliffe, 2019). A third example is the revelation that WWF had for years—and with the knowledge of its leadership—funded, equipped, and trained paramilitary ranger forces in Asian and African parks to combat poaching; these same forces were responsible for rampant human rights abuses, including torture and killings (Warren & Baker, 2019). Though nonprofits in such cases pledge to enhance staff and beneficiary safeguarding and internal oversight mechanisms, it will take time to rebuild the trust and reputation lost due to such accountability lapses.

Moreover, it directs attention to the need for more effective external accountability mechanisms that can be facilitated by transparency rules and practices. In some countries, calls for more accountability and transparency seem to have reached the nonprofit sector. While trust in nonprofits remains relatively high, they and their various umbrella organizations and representatives have for some time supported and implemented accountability and transparency initiatives and mechanisms.

In many other countries, however, accountability remains limited to fiscal oversight and does not even require nonprofits to make their financial statements, funding sources, and results available to the general public. In Germany, for example, where nonprofit providers contribute significantly to the functioning of the German welfare state and many receive a significant part of their budgets from public coffers, nonprofits remain protected by a tax regime based on tax secrecy. According to the tax code, local tax authorities award the "nonprofit" status and thus pave the way for tax exemption. However, and this is where it differs from other national regulatory frameworks, all the information gathered in this process falls within the realm of tax secrecy, withdrawing it from broader public scrutiny and deflecting any stakeholder interest in transparency. As a result, German nonprofits operate in a regulatory system with protected secrecy at its core, surrounded by a wide and highly fragmented fringe of specific reporting requirements. In response to this situation,

a number of civil society initiatives were launched in the 2000s, but none managed to gain much attention (Anheier et al., 2013). The lack of transparency and access in these kinds of external accountability regimes renders them less germane to countering internal accountability deficits, making this another key area of policy neglect.

Overcoming Policy Neglect

The limited and outdated policy approaches and regulatory frameworks at both national and international levels appear as key impediments to enhancing the development of civil society (Phillips & Smith, 2011). Without further differentiation, current frameworks whether at national or international level seem unable to achieve a balance between the interests of governments and civil society that allows the potential of civil society to be realized.

A more differentiated approach to nonprofits is clearly needed. It must go beyond the one-size-fits-all of current regulatory frameworks, which are largely based on conventional notions of charity and public utility (see Chapter 3). They are rooted in outdated thinking about how organizations should serve the public good, and they fail to consider the diversity of modern organizational forms and ways of collective action. New frameworks should be based on a functional differentiation that considers organizational forms, comparative advantages, and drawbacks.

A more differentiated approach to nonprofits . . . must go beyond the one-size-fits-all of current regulatory frameworks, which are largely based on conventional notions of charity and public utility.

SERVICE PROVIDERS

The first differentiation targets nonprofits in the service-providing role. A more fitting regulatory framework should differentiate entirely charitable, donative nonprofits from those that are part of public–private partnerships, those participating in quasi-market arrangements with competitive bidding for fee-for-service contracts, and, more generally, those that operate in competitive fields alongside public agencies and businesses. In the large and growing fields of education, health, and social care, nonprofits face resource problems and limitations in making business decisions in keeping with their nonprofit status, while businesses accuse them of unfair competition due to tax exemption. Most nonprofits here are corporations rather than membership-based associations, but they have virtually no access to capital markets for investments and can hardly compete for talent against businesses able to offer more competitive compensation packages. As a consequence, many nonprofits push against regulatory boundaries that may threaten their tax status.

The main regulatory challenge is to establish workable means of oversight in relation to the forprofit–nonprofit borderline, and hence to facilitate access to capital markets. New hybrid legal forms are already being explored to solve some of the underlying issues, suggesting the need for a more differentiated system. The L3C and the benefit corporation

in the US or the public benefit corporation in the UK are steps to fix shortcomings of both the nonprofit and forprofit forms (Brewer, 2016; Abramson & Billings, 2020; see also Chapter 3).

CIVIC ENGAGEMENT

A second differentiation addresses the function of nonprofits performing the advocacy and value guardian roles, typically in the form of associations. Here the main regulatory issues are distinguishing between primarily self- or member-serving activities, on the one hand, and ensuring accountability, on the other. Many of the democratic legitimacy issues being raised about both local and international nonprofits have to do with the extent to which they actually represent their membership and the communities they purport to serve (Brechenmacher & Carothers, 2018). This is compounded by a troublesome decline in active association membership, as members frequently choose not to participate in the "schools of democracy" aspects of democratic decision-making, including internal elections and attendance at membership meetings.

Nonprofits seeking to advance specific member interests, especially economic associations, frequently confront charges of putting their particular benefit above others, raising questions about their motives and beneficial tax treatment. What is needed is a regulatory framework that recognizes different degrees of publicness versus privateness of the interest pursued: primarily public-serving objectives should be treated in a beneficial way, while member-serving ones may not. Many interests will fall in between and should receive only partial benefits. Importantly, political party financing should be regulated separately, including the activities of political action committees and similar vehicles that channel private funds to the world of politics.

Beyond this, the regulation of political activities such as advocacy and lobbying is another major area of regulatory concern, especially in Anglo-Saxon countries (see Chapter 17). In the US, potentially draconian tax penalties for possible violations of vague rules have for decades hindered the willingness of charities to engage in even legitimate advocacy activities despite clear evidence of its usefulness. In this regard, regulations governing both political versus advocacy activities and the party politics versus civil society border require greater clarity and consistency.

Civic engagement also places nonprofits across all forms (and increasingly also internet-based advocacy platforms) in the role of social accountability enforcers (Fox, 2015; Brinkerhoff & Wetterberg, 2016). Yet, as "enforcers" they become themselves vulnerable to charges of lacking transparency and catering to special interests. A higher degree of accountability and transparency standards and their enforcement are needed (Ebrahim & Weisband, 2007; Gugerty & Prakash, 2010).

FINANCIAL INTERMEDIARIES

A third differentiation is about private support for the public good, which refers in this case primarily to the roles and potential contributions of philanthropic foundations. As explained in Chapter 6, foundations endowed with income-generating assets are beholden

neither to market expectations nor to the electoral booth. This dual independence from economic and political considerations enables them to address complex, controversial, even unpopular issues, take a long-term view, and seek solutions where government and forprofit businesses are likely to falter. Accordingly, foundations are—at least in theory—primed to pursue a set of special roles, including pursuing change and innovation, redistributing wealth, building societal infrastructure, and complementing or substituting for government action.

SOCIAL INNOVATORS

The fourth differentiation refers to the vanguard role or social innovation, and applies to corporations, associations, and foundations alike. Though nonprofits do function as innovators and vanguards, they face fundamental problems in terms of replicability, diffusion, and scaling up (Anheier et al., 2017). There is no systematic screening and vetting of social innovations, and many fail due to inadequate dissemination and information-sharing. As a result, the potential of too many social innovations goes unnoticed, and wheels are being unnecessarily reinvented, so to speak. Even those innovations that do find resonance do so in the absence of a social investment market. Unlike in the case of technological innovations, there is no pool of investors eagerly standing by to help grow social innovations. Impact bonds and related measures are one step in the right direction (see Chapter 11), but more is needed. In this context, the policy task would be to create a platform or clearinghouse to assess such potential and establish a social investment market within a suitable regulatory framework.

VISIONS FOR THE FUTURE

As emphasized throughout this chapter and this book, nonprofits, like all institutions and organizations, are shaped by economic, political, and social policies and the frameworks behind them. So, if we ask what nonprofit organizations might look like in the future, it is useful to extrapolate past and current trends over time to draw different scenarios for, let's say, 2030. What do past and current trends mean for the nonprofit sector of the future? Assuming that some of these trends continue and even gather strength, while others, in particular policy neglect, can be overcome, the following scenarios may serve as markers to chart deeper policy visions:

- NPM scenario: Nonprofits become a set of well-organized, quasi-corporate entities that take on tasks and functions that were previously the purview of the state, but are now delivered through competitive bidding processes and contractual arrangements that seek to maximize the competitive advantages of nonprofit providers in complex social markets. In the end, the nonprofit sector could become the private extension agent of a minimalist contract regime run by government.
- Civic scenario: Nonprofits are the building blocks of a self-organizing and self-correcting community corpus. They are part of a benign civil society where high

levels of individualism and special interest coincide with equally high levels of participation, engagement, and connectivity. The nonprofit sector would form a set of interlocking associational complexes that prevent, detect, and correct social ills before they become "social problems." Largely the self-governing bedrock of civil society and supported by philanthropy, nonprofits coordinate their own activities and exist at arm's length alongside a small, technocratic state.

- Accountability scenario: Nonprofits are a force of and for advocacy. As a source of dissent, and with independent philanthropic resources at their disposal, they challenge and protect; they build and move political agendas and monitor the government and forprofit businesses. Indeed, they emerge as a countervailing force that serves as a social, cultural, and political watchdog keeping both market and state in check and accountable. The nonprofit sector creates and reflects the diversity, pluralism, and dynamism of modern society.
- Innovation scenario: Nonprofits are encouraged to operate in areas or problem fields that politicians find either too costly or inopportune to tackle themselves, which allows elected leaders to contend that "something is being done." Nonprofits are the fig leaf for a political world unwilling to address social problems in a serious way. Attracting philanthropic venture capital and integrated into social investment markets, nonprofits become the "search engine" for social problem-solving in modern societies.

It is, of course, unlikely that any of the four scenarios will prevail exclusively; more likely is that one may become dominant, especially in economic terms. In this respect, the NPM scenario will continue to shape the evolution of service-providing nonprofits in major ways. It will invite many new forms of hybrids between forprofits and nonprofits to emerge—not only in the changing health and social care markets but also in new fields where public contracting will become more prominent: education and research, environment, energy, and information technology.

Importantly, the various scenarios outlined cast the nonprofit sector in a different role, which underscores the need for form differentiation. They also imply different roles for the state and business. At one level, nonprofits become parallel actors that may complement or even counteract state activities and compete with business, as in the NPM scenario. This perception is very much in line with classical liberalism and finds itself also in the civil society and accountability scenarios suggested above. At another level, the state and nonprofits are part of ever more complex and elaborate public–private partnerships and typically work in complementary fashion with other agencies, both public and private.

Both are possible, as traditional notions of public benefit and public responsibilities have shifted from the state to other actors and bring in the role of nonprofit organizations as private actors for the public good. The role of the state as "enabler" and "animator" of private action for public service has increased and will continue to do so. This, in turn, will continue to push and pull nonprofits in all the directions illustrated by the various perspectives and scenarios above; amounting, in the end, to a positioning that is as contradictory as it is dynamic, and as unsettled as it is increasingly recognized as vital and important in economic, social, and political terms.

CONCLUSION

Nonprofit organizations and sectors, challenged in many ways, yet harboring huge potential, find themselves at a crossroads in many countries. Nonprofit organizations have long outgrown their regulatory frameworks and frequently suffer from policy neglect. In some countries, as we have seen, the space for civil society generally is shrinking, which affects nonprofits in many negative ways. The policy challenge is clear: What is the right policy framework to balance the interests of civil society and government, while realizing the potential of civil society and considering the functional differences among nonprofits and the various organizational forms underlying them?

All these issues require fundamental debate about the longer-term trajectories of government–civil society relations. They are likely to lead to preferences for different, and hopefully also improved, regulatory frameworks. Indeed, one reason for the often-contradictory policy environments for nonprofits—and the policy neglect they have encountered and are encountering—is that these long-term governance decisions have been left unattended, even avoided, for too long.

REVIEW QUESTIONS

What are some of the long-term developments that have affected the trajectory of the nonprofit sector?

What does the policy neglect of the nonprofit sector mean and how could it be overcome?

Compare and contrast the various future visions of the nonprofit sector.

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NOTES

1 This section draws in part on Anheier and Ben-Ner (1997).

2 This section draws on Anheier et al. (2019) and Anheier and Toepler (2019), both published under a CC-BY 4.0 license (see https://creativecommons.org/licenses/by/4.0/).

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