The theoretical framework of motives and constraints, screening processes, and circumstances for venture developed in previous chapters can now be applied in a normative way. This chapter will evaluate, according to a set of general social-performance criteria, the behavior of nonprofit organizations and the service industries in which they participate under alternative circumstances in the economic and regulatory environment. More specifically, it will consider the social-performance implications of alternative public policies that would change that environment.

The discussion follows three steps. First is a review of some of the key social-performance concerns or criteria that commonly pervade policy discussions pertaining to the nonprofit sector. The second step is to summarize the behavioral patterns implicit in the activity of the various entrepreneurial stereotypes in a manner that relates these behavior modes to the performance dimensions. The final step is to develop the performance implications of particular public policies by analyzing how such policies affect the screening and post-screening activity of nonprofit entrepreneurial characters, and hence the mix of behavior patterns that result for sectors and industries.

Performance Issues

Within present limits of social science knowledge, application of a single global criterion of social welfare is untenable; it is simply too overwhelming or oversimplified to ask whether one or another set of conditions that describe the nonprofit sector makes society better or worse off. The approach taken here is to reference some of the more salient concerns articulated by those who use and pay for the services of nonprofit organizations or have studied their history of service delivery. Within this context, four performance issues—some not precisely delineated in the literature but nonetheless frequently raised in discussion—stand out as relevant to this analysis.

Trustworthiness. The notion that nonprofits are in some sense more trustworthy than their proprietary and perhaps public-sector counterparts underlies the rationale developed by various scholars for the existence and utilization of nonprofit agencies. Trustworthiness basically denotes the reliability with which an agency can be expected
to pursue and protect the interest of consumers and contributors in the absence of direct client or constituent supervision. Trustworthiness involves both the fulfillment of promises, that is, delivery of services as advertised, and abstinence from fraud and depreciation of quality as strategies for self-aggrandizement. As Vladeck observes, the relationship between dishonesty and quality can be subtle:

officials in the office of the New York Special Prosecutor insist that they have found no systematic relationship between the extent of stealing and poor care. In fact, they found that many of the biggest crooks ran moderate to very good nursing homes, while some of those who ran poor nursing homes were more incompetent than dishonest. Officials in other states have reported similar observations. The most intelligent and farsighted crooks might endeavour to run especially good facilities in order to maintain good relations with regulatory authorities, stay out of the public eye, and develop a positive professional reputation.\(^1\)

Nonetheless, in this book's terminology, a strategy of dishonesty coupled with a facade of good quality would constitute nontrustworthy behavior. Much of the argument in favor of nonprofits as agents of trust centers on the administrative barriers to misconduct imposed by the nondistribution constraint. John Simon, referring to Hansmann's work, explains:

the rule that prevents the managers of nonprofits from retaining profits, limits their incentives to exploit the underinformed consumer or under-informed donor; the rule, in other words, provides some basis for permitting that consumer or donor to place trust in the organization and its promises. That trust acts as a kind of substitute for the protection the well-informed consumer can obtain for himself in an orthodox market situation.\(^2\)

It is also argued, however, that the nature of motivations screened into the nonprofit sector influences an agency's trustworthiness as much as the vigor with which the nondistribution and other constraints are enforced. Vladeck writes:

Whatever the enforcement mechanisms, laws work best when people would behave as the law commands them to even were there no law.\(^3\)

Thus proponents of nonprofit provision assert that participants in nonprofit agencies tend to have personal goals and attitudes more consistent with maintaining the quality and integrity of services than do participants in other sectors and for this reason are more trustworthy.

**Responsiveness.** An argument often heard against utilization of nonprofit (and some-
times public) organizations as vehicles for delivery of services is that they are slow to respond to demands for new or expanded services or to change their portfolio of services in response to pressures of the marketplace or government funding agencies. Nonprofits are sometimes accused of going their own way, unmindful of global societal needs. Consider Cornuelle's indictment:

The independent sector seems to drift, moving blindly and without discipline. Its power lies raw and undeveloped. It often seems listless, sluggish passive, and defensive. The commercial and government sectors have outrun it.4

Profit-making agencies, on the other hand, are said to be driven more easily toward rapid response through the lure of income. Vladeck's and Dunlop's5 documentations of the nursing-home industry provide a more dramatic and extensive illustration. Vladeck sees the nursing-home experience in the following way:

precisely because they are profit-seeking, for-profit firms tend to be more responsive to economic inducements provided by governments in the hope of expanding the provision of services. Public policy largely succeeded in one of its major, even if misconceived, objectives—rapid and dramatic expansion in the availability of nursing home beds—by providing more-than-adequate . . . inducements for the investment of private capital. Nonprofit organizations, whose objectives are more complex and more cross-pressured and which are probably less able to respond rapidly to anything, rise to the bait much more slowly. Indeed, nonprofit hospitals by and large failed to respond at all to repeated government efforts. . . . to get them into the long term care business.6

The causes of observed sluggishness of nonprofit agencies are open to some debate. Vladeck cites both external capital constraints and internal motivational factors in the nursing-home industry.7 Dunlop stresses nonprofit decision-making procedures:

Because of their typically more cumbersome administrative and fund-raising mechanisms . . . nonprofit providers, on average, take considerably longer to move on the application and construction process than do proprietary interests. As a consequence . . . the latter . . . moved in quickly with their formal plans to meet almost all of the anticipated bed shortage . . . before the nonprofits were ready to submit an application.8

Whatever the causes, when shortages of certain services exist or when new public priorities are adopted, government often seeks to rapidly increase available capacity, whether in nursing homes, day-care centers, services to the handicapped, or other essential areas. In such circumstances, the responsiveness issue tends to become
If Not for Profit, for What?

a prominent, if not paramount, public concern.

Efficiency. In times of economic prosperity, when society can indulge in the search for solutions to pressing social needs (health, education) or in the fulfillment of social goals (arts, research), the responsiveness criterion tends to dominate public debate. In more stringent times, however, the generation of new service capacities is not the principal concern. The control of expenditures within existing service modes or substituting new, cheaper service modes for old ones, for example, replacing residential care with homemaker services, is of greater concern. One need only compare the U.S. domestic public agenda of the 1960s with that of the late 1970s and early 1980s to reinforce this impression. In the context of fiscal stringency, the productive efficiency of service delivery gains a more prominent role as a social criterion with which to judge the relative performance of sectors and organizations. Simply put, people become more interested in the question of which organizations will deliver service for the least cost. This efficiency criterion is hard to divorce from the trust issue, however. In particular, efficiency can only be referenced with respect to a given level of quality. Thus a trustworthy institution that maintains quality cannot necessarily be said to be less efficient than a less costly agency that depreciates the quality of its services. Nonetheless, microeconomists typically argue that (presumably less trustworthy) proprietary agencies tend to be more efficient because the maximization of profits requires minimization of costs (exclusive of profits) for any given level of quality and output. Overall, therefore, any comparison of productive efficiency by sector, that is, the cost per unit of service of a given quality, must recognize the subtle distinctions among inefficiency, quality depreciation, and profit taking. A commonly held view is that nonprofits maintain quality but produce services in a relatively wasteful fashion, whereas proprietaries produce efficient services of perhaps questionable quality and extract some of the surpluses through profit taking.

Innovation. Chapter 3 reviewed the relationship and the distinction between entrepreneurial activity and innovation and noted that, although technical innovation and invention are not synonymous with entrepreneurship, new ideas, technical methods, and implementation of advanced concepts often form a substantial part of the basis for enterprising behavior. Innovation is a rather indirect social criterion; its relevance pertains more to its contributions to the three previous criteria than as a goal in itself. Innovation may be seen to contribute primarily to efficiency, as new methods or procedures enable agencies to deliver particular services at lower cost or higher quality. Innovation may also contribute to responsiveness in the sense that new
technologies may lead to wholly new services, permitting agencies to address unserved or poorly served societal needs or clients. The diagnostic-center concept in child-welfare services provides an example. A much less direct connection exists between innovation and trustworthiness, a link that involves the subtle distinction between innovations that are useful and those that might simply be interesting or more attractive to service producers than to consumers. For example, certain innovations might have great intellectual value to entrepreneurs trained in a particular profession but have uncertain or limited immediate relevance to the needs of constituents. Basic research projects often have this character, although they may proceed in the belief that practical applications will ultimately result. In any case, a trustworthy agency would change on the basis of new ideas clearly relevant to client needs, whereas a less trustworthy agency's concerns would center on innovation for the sake of advancing knowledge in a more abstract sense.

Modes of Behavior

The main strategy of analysis in this book is to develop the sectoral implications of alternative kinds of entrepreneurial motivation. The behavior patterns of each entrepreneurial type will therefore be assessed relative to the four social-performance criteria just considered. This discussion will briefly summarize the behavior patterns of the different entrepreneurial characters developed in earlier chapters and proceed with the social-performance implications of allowing each of these entrepreneurial types to operate freely in the nonprofit sector, only weakly restrained by governmental or constituent machinery of regulation and accountability. Subsequently, the question of how alternative policy instruments that influence the screening and policing of nonprofit agencies result in various mixes and intensities of these social-performance patterns will be considered.

Independent Behavior. Sectors in which the independent variety of entrepreneur is allowed to operate freely would feature the promulgation of multiple, autonomous organizational units, each relatively resistant to external demands or to the internal sharing of authority. Such sectors would respond to external opportunities to fund new ventures leading to the establishment of new units, but existing units established by independents could not be expected to undertake large risks or expansions or to strike out dramatically in new directions. Rather, ventures undertaken in a sector featuring independents will tend to be stable, with dependable, long-term leadership. Thus a new field open to independents or an old field featuring large organizations that is suddenly opened to the independent-minded entrepreneur (for example, through loosened entry
controls) would be initially dynamic, featuring the founding of many new organizational units. An older field already saturated with independent-led agencies would tend to be insular and stagnant.

In terms of the four social criteria, sectors that feature independent behavior would tend to be (1) trustworthy in the sense that entrepreneurs will protect their reputations in order to stay in business and jealously guard their autonomy. They will thus avoid false advertising or quality depreciation unless threatened with financial collapse. (2) Responsive in the short-run process of establishing new agencies according to existing social opportunities, but relatively unresponsive (insular) in the long run, once an array of independent agencies is established and entry becomes difficult. (3) Efficient in the sense that costs will be contained to make ends meet. Fraud will be avoided, but no particular incentives to minimize costs or introduce new methods will be demonstrated. Economies deriving from large-scale or interagency cooperation will be specifically forgone. (4) Innovative at the stage of new-agency formation if a new idea is helpful for garnering support to get started. No particular innovative bent will be demonstrated thereafter.

Believer Behavior. Sectors in which believers are given free rein will feature the proliferation of organizations based on single-minded, conscientious pursuit of different (self-defined) causes. Such sectors may exhibit the pursuit of radical ideas and risk-taking behavior stemming from indifference to economic, legal, and personal consequences. Instability from risk taking and conflict with the establishment will be compensated to some extent by dependability that stems from the long-term consistency of purpose, dedication, and commitment of entrepreneurs. The mission of ventures driven by believers will initially be inspired by and derive sustenance from extant social turmoil. Once established, however, believer-based ventures will be internally self-guiding and relatively insensitive to changes in the social context or the demand for services. Change in believer-based sectors basically arises from the establishment of new agencies rather than changing the purposes of old ones. Some believer-based organizations may grow fairly large, but most are limited by the difficulty of believers to delegate authority or share control with others whose ideas might not conform to their own.

In reference to social-performance criteria, believer-oriented nonprofit sectors would tend to be (1) trustworthy in the sense that believers will be true to their stated purposes and will work tirelessly in the cause of advertised goals. The believer-based sector will be selfless rather than self-aggrandizing or fraudulent. (2) Responsive only in the sense that believers have to tap into latent pockets of demand to support their efforts. Believer-based causes are basically self-defined, may be coincident with certain social
concerns in the short run, but will be essentially unresponsive to societal pressures in the long run. Agencies led by believers follow an inner calling rather than signals from the outside. (3) Efficient in the sense that resources will be devoted to articulated purposes and waste and fraud will be minimized. Potential economies of scale and interagency cooperation are likely to be passed by because of the basic antagonisms that believers are likely to encounter in working in larger contexts. In addition, as idea and program advocates rather than entrepreneurs with managerial interests, believers may not administer their operations well. (4) Innovative only in the sense that preconceived methods or beliefs represent actual breakthroughs or productive changes in accepted procedure. Strong entrepreneurial support for some causes (for example, research on birth defects) may encourage innovation, however.

Professional Behavior. Sectors in which professional-type entrepreneurs operate freely will tend to feature the proliferation of experimental, demonstration, or show case programs that reflect new ideas under discussion by the relevant discipline. Such a sector is likely to be trendy, perhaps even capricious in its efforts to remain professionally avant-garde. Services of such a sector will tend to be costly, of high quality, and coupled with machinery to document, analyze, and disseminate results. Programs will be designed to be small, and in some scientifically oriented professional contexts, carefully controlled. Generation and distribution of knowledge will be an expressed purpose, but expansion of successful programs will not be enthusiastically undertaken.

Although professional-based agencies act to maintain themselves at the forefront of knowledge generation and disciplinary visibility, they will rarely jeopardize their agencies with ventures of high economic risk or ventures that radically depart from the mainstream of current disciplinary thought. Nor will the professional-based agency continue to nurture programs (past ventures) that are conventional or out of date in the eyes of the discipline.

With reference to the criteria of social performance, professional-based nonprofit sectors will be (1) trustworthy in the sense of delivering services of high quality, with high costs and possible extravagance, but little outright fraud. Services will be delivered as advertised because alleged deception can be professionally damaging. Professional-based agencies cannot be counted on to sustain given service modes for an indefinite period of time, once those modes become conventional. (2) Responsive only in the sense that disciplinary thinking may follow (or even anticipate) developing social problems. New ventures may be designed to alleviate or otherwise address accumulating needs but a professional-based sector will be unresponsive in terms of providing new services in quantity or in providing conventional, routine services that, although needed, have no special disciplinary interest or appeal. (3) Efficient
only in the sense of avoiding outright fraud. Otherwise, there will be little effort in professional-based sectors to produce given varieties of services at minimum cost or to manage ventures in a Spartan manner. Furthermore, professional-based sectors may tend to duplicate variations of trendy experimental programs, and because such programs tend to be small and possibly experimentally controlled and there may be rivalry among alternative professional-based agencies, possible economies of cooperation and scale may be forfeited. (4) Innovative in the sense that professional-based agencies will operate programs at the forefront of disciplinary knowledge, putting new ideas into limited, tentative practice. Although this can be a major source of sectoral change, professional-based agencies will tend to ignore innovations that require cross-disciplinary cooperation and will specifically avoid maverick ideas and methods that run counter to prevailing disciplinary thought or challenge the appropriateness of the discipline itself.

Conserver Behavior. Sectors in which conservers are provided the opportunity to operate freely as entrepreneurial agents will exhibit a strong sense of stability in purpose but may prove to be too rigid or cautious to withstand dramatic changes in the economy or in society at large. Such sectors will protect the character and viability of their existing agencies, adjusting their structures and programs only when threatened by crises, and even then only on an incremental basis. Conserver-based sectors will be averse to ventures that involve large uncertainties and risks, but can be depended on to see ventures through into the indefinite future.

In terms of the social-performance criteria, conserver-based sectors will be (1) trustworthy in the sense of being sensitive to preserving the reputation of cherished institutions. Thus fraudulent or deceptive practices will be avoided, and long-term commitment to stated objectives and promised services may be relied on. (2) Responsiveness in the sense that conserver-based agencies will attempt to adjust their programs and services to avoid major collapse. Otherwise such agencies will attempt to maintain a traditional course, relatively unaffected by environmental changes in demand. (3) Efficient only in the sense that explicit fraud, which may tarnish institutional reputations, will be avoided. Otherwise, management practices will tend to become stagnant, except when jarred and revamped in times of crisis. (4) Innovative only in minor ways that may assist incremental adaptation to new circumstances in times of extreme difficulty.

Architectural Behavior. Nonprofit sectors that afford architect-type entrepreneurs free rein will have an expansionist flavor characterized by opportunistic adaptation to environmental demands as well as long-term commitment to maintaining the viability of individual ventures. Quality will be maintained as a matter of pride in workmanship
and entrepreneurial identification with product. Agencies in the architect-driven mode will be insular in the sense of preferring to build from within rather than acquire programs or enter joint or cooperative ventures with other agencies.

Relative to the four social-performance criteria, architect-based sectors will be (1) trustworthy in the sense of quality maintenance that derives from inherent pride in workmanship. Commitment to original or advertised purposes is tenuous, however, depending on how the opportunity structure for acquiring resources to build shifts over time. (2) Responsive in the sense that architect-based agencies will explore, in opportunistic fashion, all available resources for further building, expansion, modification, and tinkering with programs, without strong reference to preconceived directions or purposes. Thus agencies in architect-based sectors remain sensitive to changes in demands as expressed in the marketplace, philanthropic quarters, and government funding. (3) Efficient in the sense that architects want to perfect their mechanisms and have them run smoothly. Expansionary tendencies will allow exploitation of scale economies but may also lead to overbuilding (that is, incur diseconomies of scale) if entrepreneurs are extraordinarily successful in garnering resources. Need for personal identification by entrepreneurs of architectural agencies may forfeit opportunities for savings through cooperative efforts with other agencies. (4) Innovative in the sense that architect entrepreneurs will constantly try new administrative or programmatic ideas, components, and structures. Ventures will exhibit a bigger and different quality, they may be inventive, clever, and impressive, even tied to a grand organizational design or master plan, but still mechanical and adaptive rather than derived from an overriding programmatic concept or philosophic principle of service delivery.

**Poetic Behavior.** Nonprofit sectors that allow unrestrained operation of poet-type entrepreneurs will be quixotic, featuring multifaceted deployment of imaginative, wide-ranging, vista-expanding programs. Such sectors will experience instability associated with risk taking in path-breaking new ventures and the short time during which poetic entrepreneurs remain committed to nurturing particular projects. Ventures in sectors of this kind may involve sweeping changes or small-scale demonstrations of new concepts, undertaken within the confines of an agency on which the poet entrepreneur singularly imposes his signature. In such sectors, the ideas that underlie new ventures will be stressed, with the nuts-and-bolts mechanics given secondary attention. On the four social criteria, the poet-based nonprofit sector will be (1) trustworthy in the sense that entrepreneurs will be sincere, truthful, and indeed provocative in their intentions. Short attention spans and disinterest in details, however, may result in service delivery that falls short of original promises. (2) Responsive in the
sense that entrepreneurs may seek to solve festering social or other problems through the application of bold new ideas and concepts. Ideas will be pursued more on the basis of intellectual arguments and creative inspiration than direct pressures from the environment, however, and the poet-driven agency will not be readily responsive to demands for implementation or expansion of routine or conventional programs. (3) Efficient in the sense that dynamism at the entrepreneurial level translates into general agitation and questioning of purpose and performance at the operating level. Otherwise, the entrepreneurial preoccupation with expression of new ideas and concepts and lack of attention to operating details and routine operations can lead to various forms of inefficiency, including poor administration and coordination of diverse programs, failure to expand to take advantage of scale economies, and failure to engage in economical cooperative efforts with other agencies. (4) Innovative in the sense that entrepreneurs are constantly preoccupied with new ideas and experiences and will tend to channel these energies into unique projects and programs.

*Player Behavior.* Sectors in which the player variety of power-seeking entrepreneur is allowed to operate unrestrained will feature increasing concentrations of industrial activity within a relatively few, large, growing, hierarchical organizations. Such a sector will be eager to expand into new areas and to adapt existing services to larger markets. Ventures may lack long-run stability because of the limited time frames of entrepreneurial commitments, and long-term managerial control may be hampered by organizational size and disinterest of entrepreneurs in routine administration.

With respect to social-performance criteria, a player-dominated sector will be (1) trustworthy only to the degree that entrepreneurs fear for their reputations and may be harmed by scandal that would prevent their further advance. Beyond this concern, such sectors will be opportunistic, seeking to divert resources toward visible, attention-garnering activities and shifting policies and service characteristics to suit the moment. Maintenance of quality and fulfillment of advertised service characteristics may therefore prove problematic. (2) Responsive in exhibiting great sensitivity to current issues on the public agenda and ventures that can attract immediate support. Agencies in player-based sectors will therefore be highly adaptive to demands for new services by government agencies or shifts of economic resources that allow new consumer groups to express their demands in a tangible manner. (3) Efficient in that economies of scale will be exploited and opportunities for merger and consolidation of weaker programs will be pursued. However, player-led organizations can become inefficient in the sense that programs may grow too large and uncontrollable or they may be poorly administered. Furthermore, resources may be diverted for self-serving purposes, including top-heavy staffing, perquisites of office that signify
prestige, and programs that have glamor and visibility but low productivity. (4) Innovative in the sense that player-based agencies will latch on to new ideas that have significant resource-producing or publicity-producing potentials. However, risks associated with the implementation of innovations will be carefully calculated, and innovations are unlikely to be undertaken unless they have been tried elsewhere and will not antagonize large groups of people.

Controller Behavior. Controller-dominated sectors will exhibit behavior patterns reminiscent of both the independent and player modes. Ventures will be aimed at expanding existing agencies within limits of the entrepreneur's ability to retain effective central control. Within self-imposed growth limits, agencies will respond opportunistically to changes in the demand environment to increase resources and staff. Controller-based organizations will be more conservatively run and more meticulously managed than player-based ones and larger and more outward looking than independent-based agencies.

With respect to the four social criteria, agencies in controller-based sectors will be (1) trustworthy to the degree that entrepreneurs fear that their power and control may be shaken by scandal, misrepresentation, or depreciation of quality. (2) Responsive in the sense that opportunities to garner additional resources for new or expanded programs will be sought as a way of increasing entrepreneurial power within limits of controllability. Thus controller-based agencies will be relatively adaptive to changing demands of government agencies and markets. (3) Efficient to the degree that retention of effective control requires meticulous management, and the limits of controllability also allow exploitation of economies of scale. Inefficiency may result from the reluctance of entrepreneurs to enter beneficial cooperative ventures with other agencies (which dilutes their control) and from the possible overdiversion of resources to top-level staff, which allows entrepreneurs to monitor their organizations more closely and to experience power from the control of the staff. (4) Innovative in the same sense in which player-based agencies are innovative, that is, in the adoption of relatively new ideas that attract resources to permit agencies to expand within desired limits.

Income-Seeking Behavior. Nonprofit sectors in which income seekers have free rein will exhibit a strongly opportunistic pattern of development, highly adaptive to current social priorities as expressed through economic demands of government, private consumers, or third parties. Opportunities for quality depreciation and fraud will be exploited where consumers or funding agents cannot maintain vigilance and cost-cutting savings can be diverted to salaries or other modes of personal wealth augmentation. Income seeker-
based nonprofits will, in effect, act like profit maximizers—raising prices (padding reimbursable costs) and expanding output to maximize the difference between revenues and minimum costs—except that profits will appear as additional components of expenditure. Thus, in a highly disaggregated income-seeking sector, output levels and prices may be optimal if competitive pressures are allowed to operate. However, in more concentrated sectors or where agencies in disaggregated sectors can collude, output is likely to be restricted and prices kept artificially high, as in a monopolistic profit-making industry. Ventures in income-seeker-based sectors will experience instability insofar as market demands for services are volatile and entrepreneurs' attentions are diverted from one profitable venture to the next.

With respect to the four social-performance criteria, income-seeker-based nonprofit sectors are (1) trustworthy only insofar as consumers and other resource providers are vigilant and able to exert their influence through choice of suppliers or other (regulatory) means. Otherwise, organizations in such sectors present a risk of quality depreciation, fraud, profiteering, and misrepresentation of promised services. (2) Responsive to demands for new services or expansion of existing services as long as these demands are expressed through willingness-to-pay levels that can provide revenues in excess of minimum costs. Highly concentrated or collusive sectors may raise prices and restrict output short of socially optimal levels. (3) Efficient in the sense that inherently wasteful (costly) methods of operation will be avoided, but inefficient because components of costs that can be effectively drawn out as entrepreneurial profits will be artificially inflated. (4) Innovative where new methods are able to lower minimum costs or attract new sources of demand. When possible innovations promise an uncertain return, calculated risks will be taken.

**Searcher Behavior.** Nonprofit sectors that give free rein to searchers are likely to be in newly defined fields or in variations of established industries that have not been claimed as the domains of particular professions or disciplines. The principal mode of venture response will be the establishment of new agencies rather than program development within existing agencies. Searchers will tend to identify latent coalitions of supporters and resource providers (new government funding programs, pockets of unserved constituents groups) that form the potential basis for starting new services. In this sense, searcher-based sectors are opportunistic, with enterprise founded on identifying the sources of latent demand and incipient service trends rather than on self-defined or independently conceived ideas or beliefs. Because of entrepreneurial inexperience, uncertainty of personal goals, and the novel character of ventures, searcher-based sectors are likely to exhibit instability and tenuousness in the nature of ventures.
With respect to the criteria of social performance, searcher-based nonprofit sectors will be (1) trustworthy in that entrepreneurs, operating out of conscience and frustration, are legitimately seeking to provide services that they feel are useful and required. Furthermore, because they face the uphill tasks of establishing themselves in new areas, entrepreneurs will be sensitive to reputation, wishing to avoid scandals that could result from fraud or misrepresentation. (2) Responsive in the sense that entrepreneurs will seek out the nooks and crannies of latent demand and newly emerging areas of funding and try to develop and implement them. Although searchers may be highly selective of the kinds of activities in which they become involved, they will also tend to develop areas that are neglected by other entrepreneurial types. (3) Efficient in that searchers, at least initially, will have to scrape by and make do with the minimal resources available to new fields that require definition, justification, and focusing. Such sectors are also potentially inefficient, as entrepreneurs may lack management skills, experience, or access to tested methods. (4) Innovative more by necessity than design. The seeking out and development of new service areas is likely to require the formulation of new methods and procedures.

Review

Table 10-1 provides an approximate summary of the performance character of nonprofit sectors in which the various types of entrepreneurs are allowed to operate freely. In general, it is noteworthy that compromises or trade-offs among the four criteria appear to be an inherent necessity. That is, assuming that the postulated set of motivations are relatively complete and that perfect policing or molding of behavior through regulatory means is impossible, then behavior derived from the screening of entrepreneurs into a given sector will necessarily come up short on at least one social criterion. The main trade-off seems to occur between trustworthiness and responsiveness, with strong positive correlations between responsiveness, efficiency, and innovation. As a result, the entrepreneurial types appear to separate roughly into two categories: the trustworthy types and the innovative, efficient, responsive types. The first group includes independents, believers, professionals, and conservers. The second group includes players, controllers, architects, and income seekers. Poets and searchers have some of the positive attributes of each group.

The key question for policy is what effects various policy instruments can be expected to have on the screening and postscreening discretionary behavior of the various types of entrepreneurial characters, and hence on the performance of the sectors within which they operate. The following discussion will focus on a number of policy proposals often considered in connection with delivery of services in industries that
Table 10-1
Social-Performance Criteria and Entrepreneurial Behavior

<table>
<thead>
<tr>
<th>Behavior Mode</th>
<th>Trust</th>
<th>Response</th>
<th>Efficiency</th>
<th>Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>Positive</td>
<td>Short-run positive; long-run negative</td>
<td>Neutral to negative</td>
<td>Neutral</td>
</tr>
<tr>
<td>Believer</td>
<td>Positive</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Professional</td>
<td>Positive</td>
<td>Negative</td>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>Conserver</td>
<td>Positive</td>
<td>Negative</td>
<td>Neutral</td>
<td>Negative</td>
</tr>
<tr>
<td>Architect</td>
<td>Neutral</td>
<td>Positive</td>
<td>Neutral to positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Poet</td>
<td>Positive</td>
<td>Neutral</td>
<td>Neutral to positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Player</td>
<td>Negative</td>
<td>Positive</td>
<td>Neutral to negative</td>
<td>Positive</td>
</tr>
<tr>
<td>Controller</td>
<td>Neutral to negative</td>
<td>Positive</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Income Seeker</td>
<td>Negative</td>
<td>Positive</td>
<td>Neutral to positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Searcher</td>
<td>Positive</td>
<td>Positive</td>
<td>Neutral</td>
<td>Positive</td>
</tr>
</tbody>
</table>

involve nonprofit participation. The concern here is how such policy instruments affect behavior and performance within the nonprofit sector and, additionally, in service-producing industries as a whole.

Policy Instruments

The analysis of sector-level screening in chapter 7 suggested that nonprofit sectors tend to draw primarily on the believer, conserver, poet, searcher, and professional varieties of entrepreneur. This entrepreneurial mix leans decidedly toward the trustworthy category and away from the responsive category of performance identified above. However, this tentative conclusion is contingent on the assumptions that (a) selection at the industry level is not heavily biased toward or against any particular type of entrepreneur; (b) the nonprofit sector in the industry in question follows the general pattern of income potential, bureaucratic structure, and service ethic presumed to be characteristic of nonprofit sectors; and (c) the opportunity structures for employment are open enough to allow latent entrepreneurs relatively unconstrained sector selection.

Clearly, industries vary considerably on these conditions; thus the behavioral mixes of alternative nonprofit sectors also vary. Rather than dwell on a behavior mix that may characterize a nominal, hypothetical nonprofit sector, it will be more ana-
lytically useful and relevant to consider the implications of variations in these conditions, particularly as these variations are brought about by public policies addressed to the role of nonprofit organizations in specific industries that deliver essential services.

In response to public concerns over the quality of services or the integrity with which essential services are delivered, policies intended to specifically delimit and regulate the kinds of agencies or people that may practice in a given area of economic activity have often been proposed and frequently implemented. Four such policies commonly encountered are (1) the requirement that service-delivery organizations be incorporated as nonprofit; (2) the requirement that practitioners be qualified members of a particular profession or discipline; (3) the control of entry of new agencies into an industry or into the nonprofit sector of that industry; and (4) the targeting to nonprofit agencies of resource commitments of government funding programs. Such policies are intended to increase the trustworthiness or the competence of service providers by attempting to exclude or control undesirable individuals or organizations. As implied in chapters 6, 7, and 8, such policies may affect the screening of entrepreneurial motivations into alternative sectors and industries over the long run and may affect discretionary behavior of those already screened in the short run. Performance implications for industries and their nonprofit sectors, often different from those anticipated by policy designers, may be seen to flow from these effects.

Nonprofitization. Distrust of the profit motive is the main motivating element for those who have proposed the elimination of proprietary interests and the concentration on nonprofit agencies as primary vehicles for the delivery of social, health, educational, and other varieties of essential services. Vladeck's perspective from the nursing-home industry reflects the general picture.

Expansion of nonprofit ownership is seen by some observers as the only way to improve the nursing home industry. They see for-profit ownership as the original sin at the root of many of the industry's problems because of the inherent conflict between the provision of high quality services to the dependent elderly and profit maximization. As most other kinds of health care institutions are operated on a not-for-profit basis with apparently happy results, public health professionals tend to be made uneasy by profit-seeking firms. So it is not surprising that a number of studies of the nursing home industry have concluded with calls for eliminating proprietary interests and, though formal limitations on proprietary ownership have not been adopted in any state, the trend toward slowly increasing market share for the voluntaries continues. Policymakers have sought to limit the spread of proprietary interests to other areas of health care, most notably to the provision of home health services.9
To a lesser extent, nonprofitization initiatives are also intended to remove government as a direct service supplier, for example, by substituting purchase-of-service arrangements with private or independent nonprofit organizations. Various arguments, including the alleged inefficiency of direct government supply and improvement in the flexibility and accountability in use of government funds when the government finance function is separated from the production task, have been made on behalf of such arrangements. The following discussion thus considers nonprofitization a policy of confining an industry solely to private, nonprofit organizational participants.

A policy that requires all agencies in a particular industry to become nonprofit can be expected to have both short-run and long-run effects.

In the short run, imposition of a nonprofitization policy will bring into the nonprofit sector those entrepreneurs who have previously screened themselves into the proprietary and public sectors of the given industry. This result follows from the initial effects of screening discussed in chapter 7: once entrepreneurs have been screened into industries and into particular organizations, they will tend to remain in those positions, even if this requires conversion to nonprofit status. Such conversion, however, conflicts with entrepreneurs' sector-related preferences for income, bureaucratic structure, and service ethic, leading to various patterns of behavior subversive to the character of the nonprofit sector. This conversion also changes the basic behavioral mix within that sector.

Alternatively, a product-differentiation tactic may be taken by some entrepreneurs who wish to avoid conversion to nonprofit status. New industries may be defined in an effort to circumvent the nonprofitization edict. For example, proprietary child-care facilities may be relabeled as residential schools or mental-health treatment centers if the latter are not covered by the nonprofitization policy and if alternative means of support can be found outside the set of resources normally reserved for the industry as originally defined.

In the long run, a nonprofitization policy will cause changes in the patterns of screening for latent entrepreneurs entering the industry. In particular, a nonprofitization policy may, over time, affect the industrial structure (concentration and size of organizations) as well as access to the (material, power) rewards associated with the industry's social priority-variables on which latent entrepreneurs make career decisions. As a result, certain types of entrepreneurs who might previously have selected the industry may screen themselves elsewhere. Over time, the increased heterogeneity of motives in the nonprofit sector and the mismatches of motives that inspire subversive behavior induced by nonprofitization in the short run are likely to decline. They will not disappear, however, because industry-screening decisions are made on other grounds as well as on industrial structure and social priority (for example, nature of service and professional control) and tend to dominate the issue of sector selection within industries.
The particular behavioral implications of a nonprofitization policy on a given industry can be discerned by reviewing each entrepreneurial type, using as a base the nominal screening pattern of figure 7-1.

Income seekers and independents, likely to have been previously screened into the proprietary sector, will in the short run be brought into the nonprofit sector. In the long run, some future entrepreneurs of these types may choose other industries.

Power seekers, especially players, likely to have been previously screened into the public sector, will in the short run be brought into the nonprofit sector. In the long run, some future entrepreneurs of this kind may also select other industries.

Because believers, professionals, conservers, artists, and searchers will tend to concentrate in the nonprofit sector to begin with, no major shifts of these types may occur from a policy of nonprofitization. However, particular industries vary considerably on this score. For example, in some industries, such as scientific research, the proprietary sector may have created conditions especially conducive to professionals or to architects. In such cases, these types would also exhibit similar short-run and long-run shifts under a nonprofitization policy.

The main implications for behavior and performance within the nonprofit sector of these screening shifts may be described as a combination of the following developments.

Income-seeking behavior would become more intense, and the non-distribution constraint would be more sorely tested. The nonprofit sector would become less trustworthy, featuring increased incidence of indirect profiteering and fraud. The sector would also become more responsive to societal demands as expressed through the marketplace and government funding programs.

Autonomy-seeking behavior would increase, leading to entry of new agencies or decentralization and fragmentation of existing agencies, depending on the stringency of entry controls. In the short run, this situation would represent an increase in responsiveness, but in the long run such responsiveness would be retarded by the conservative bent of established independents.

Assuming that governmental provision is also precluded by nonprofitization, the responsiveness of the nonprofit sector would be increased by the entry of power seekers, and the trustworthiness of that sector would be decreased for the same reason. Depending on the balance between the decentralizing tendencies of independent types and the centralizing inclinations of power seekers, the nonprofit sector could become either more or less concentrated than it would be in the absence of a nonprofitization policy.

It is interesting to reflect on how the prior implications of the analysis compare
with the intentions and expectations of those who propose a policy of nonprofitization. Clearly the designers of such policies have in mind increasing the trustworthiness of services. According to the analysis here, some of the less trustworthy motivational types may indeed, in the long run, drop out of the industry, and entrepreneurs of those types who are shifted into the nonprofit sector (by force in the short run and by selection in the long run) may find it more difficult to carry out their objectives in the nonprofit domain, although the intensity of this effect depends on how well nonprofit regulations are policed.

On the other hand, a policy of nonprofitization may stimulate new labels and variations of service outside the nonprofit sector according to the product-differentiation effect noted above. To the degree that such differentiated services are able to retain or attract new resources (from the marketplace or alternative government programs), the nonprofitization policy will be limited in its potential for improving the trustworthy character of the industry as a whole. Overall, however, some industry-wide improvement in trustworthiness may be anticipated, although probably much less than policy proponents would argue.

Whatever the net result on industries as a whole, it is clear that nonprofitization will have a corrupting influence on the nonprofit sector, making it less pure and less easily describable in terms of particular motivations and modes of behavior and performance. Thus a nonprofitization policy may be expected to improve industry-level performance but also to obfuscate the character and trustworthiness of the nonprofit sector.

**Entry Controls.** Varying degrees of difficulty are associated with the founding of a new agency in the nonprofit sector. In some areas, such as management consulting, establishing a nonprofit may be as simple as filing a few papers and paying an incorporation fee. In other areas, stringent need and necessity standards may be imposed by regulatory bodies or heavy capital investments may be necessary. In some fields, such as nursing-home and health services, the use of entry controls has increased over time and is likely to become even more prominent.11

Entry-control policies allow state agencies to restrict the formation of new agencies directly through the manipulation of approvals, and indirectly, by increasing the costs of surmounting the entry process and meeting the imposed standards of operation. Furthermore, such controls may limit the growth and development of programs within established organizations. Although such controls may apply to programs of existing agencies, the most severe effects are felt by would-be entrants from the outside who normally have fewer resources and less expertise for negotiating the system.

Entry controls may apply evenly to an industry as a whole, or they may be differentially severe toward one or more sectors within an industry. In some
cases, controls on entry have been observed to favor the nonprofit sector—in broadcasting, for example, where a certain portion of licenses have been reserved for educational radio and television, and in higher education, where accrediting bodies have rejected applications by proprietary institutions. In such cases, the effects of entry control are similar to those of a nonprofitization policy, though perhaps less severe.

Entry-control polices may also discriminate against nonprofits. The process of incorporation, itself a form of entry control, can be especially difficult for novice nonprofit applicants, especially as such groups are required to clarify their public purposes, prove their ties to the community, and demonstrate financial viability. Application for tax-exempt status can be similarly arduous.

Even a nominally uniform policy of entry control across an industry may discriminate against nonprofits, because fledgling nonprofits will be implicitly handicapped in their abilities to raise capital or to put together the necessary coalitions of community sponsors. Hence they will be slower to apply for the available spaces in an industry, the number of which is limited by entry control.

The following analysis supposes that entry controls would be relatively more severe for the nonprofit sector than elsewhere, but effective only in limiting entry of new organizations rather than new programs of established agencies.

Entry controls with a more severe impact on the nonprofit sector of a given industry would have the following short-run and long-run effects.

In the short run, entry controls would cause mismatches of (sector-related) preferences for those entrepreneurial types already screened into the nonprofit sector but who favor small agencies or the option of forming new agencies. Such entrepreneurs would be locked into the nonprofit sector by the inertial tendencies of the sector-screening process. Entry control would cause them to operate at diminished levels of activity, but also to undertake ventures that subvert the design of this policy.

Entry controls may also liberate the energies of those entrepreneurs already screened into the nonprofit sector, whose preferences center on power and concentration of activity.

In the long run, screening effects will attract to the nonprofit sector future entrepreneurs who prefer the greater concentrations of economic activity induced by entry control and will divert those entrepreneurial types who prefer more decentralized regimes.

Independents who may have been screened into the nonprofit sector will find themselves bound to that sector (and particular organization) by inertial tendencies and also inhibited in their proclivity to venture by the imposition of entry controls. Nonetheless, they may attempt to venture from within their agencies, that is, to promote
decentralization of their agencies and set up autonomous enclaves internally. In the long run, however, future independent types will be discouraged by entry controls from entering employment in the nonprofit sector.

Power seekers previously screened into the nonprofit sector may pursue their ventures with renewed vigor after imposition of entry controls. In the long run, future power-seeking entrepreneurs will be more strongly attracted to the nonprofit sector as a result of this policy.

Searchers who might otherwise consider the nonprofit sector for its venture possibilities will in the long run (process of screening) direct their explorations elsewhere as a result of restricted entry policy.

Other types of entrepreneurs are less likely than independents, power seekers, or searchers to be seriously affected in their short-run behavior or screening tendencies by an entry-control policy. Some, like the architect, professional, income seeker, or conserver, will be relatively indifferent, and others, like the poet and believer, will be antagonistic but unlikely to change their sectoral preferences. However, the latter two types may emulate the short-term behavior of the independent in his attempts to decentralize existing organizational structures.

Note that, generally speaking, these effects are likely to be relatively weak. In the case of independents and power seekers, for example, the entrepreneurs would already be predisposed toward other sectors and may not be found in the nonprofit sector in great numbers to begin with. In the case of independents, entry controls would simply reinforce the screening tendencies otherwise at work; and such controls may not change the bureaucratic structure of the nonprofit sector enough to attract large numbers of power seekers from the public sector. To the extent that entry restriction does induce observable effects, corresponding behavior and performance implications may be expected.

The nonprofit sector will tend to become more concentrated and subject to power-seeking behavior, especially in the long run, with entrepreneurial activity taking place by internal expansion of existing organizations rather than formation of new ones. Some decentralization within those agencies may be observed, however, via (short-run) activity of independents. The loss of searchers and independents and the gain of power seekers may yield little net change on the responsiveness dimension, but a net loss in trustworthiness.

The nominal intended purposes of entry control in nonprofit sectors is certainly at odds with the foregoing analysis. Indeed, entry restrictions are usually imposed in an attempt to screen out, or at least restrain, untrustworthy elements. Thus the expected direction, if not intensity, of the predicted effects does not appear to support entry restriction as a productive policy.
Professionalization. A trend toward increased and more specialized training and licensing of key personnel has pervaded almost the entire spectrum of services in which nonprofit provision is an important part. Through the decades of this century, the education, health, social work, fine arts, and research fields have all explicitly or implicitly imposed and reinforced stringent requirements for licensing practitioners and, by extension, for requiring professional credentials of managerial and entrepreneurial personnel. A similar policy thrust is often proposed for emerging service areas, such as preschool and day-care services for children and nursing home care for the elderly. Although the nominal intent of a professionalization policy is to increase the competence and integrity of service providers, such proposals are not viewed with unanimous or unqualified enthusiasm. As Vladeck explains, in the case of nursing homes inflation is one fear, as professionals are trained and ethically constrained to assure the highest possible service quality without regard to cost.15

Other concerns are raised by pursuing the analysis of screening and discretionary behavior. A policy that requires entrepreneurial personnel in a given industry to qualify as professionals of a particular educational discipline (for example, social work, education, medicine, art, or music) may affect the motivational structure of nonprofit sectors in a number of ways. Alternative disciplines—by reinforcing the social, technical, or creative character of services—were seen in chapter 7 to encourage different motivational traits. Furthermore, the various professions were observed to filter candidates on the basis of ethical values bearing on material reward and power seeking. Whatever the particular motivational biases introduced by a given discipline, the control of an industry by a certain profession—through processes of certification of personnel—will have two principal effects.

In the short run, professionalization will tend to suffocate entrepreneurial activity by those without the relevant training, but it may also encourage product differentiation through ventures operating parallel to, but technically outside, the industry. Specifically, previously screened entrepreneurs, unqualified by new disciplinary standards but locked into careers by postscreening inertia, may attempt to circumvent the professionalization policy by redefining their activities as different industries. This situation is similar to that observed under nonprofitization.

In the long run, professionalization will tend to narrow the distribution of entrepreneurship in the industry, by screening out those motivational types inconsistent with the values promoted by the professional discipline and attracting more strongly those with compatible interests.

The short-run effect results from the fact that professionalization, coupled with rigorous standards or degree requirements for qualification in the discipline,
will effectively exclude some entrepreneurs who are committed to a particular field, for example, those engaged in child care but without a master's degree in social work. Such individuals will seek to continue to provide similar services under alternative auspices, for example, through educational institutions or mental-health clinics.

In the long run, as disciplinary control takes hold, fringe movements will tend to be eliminated or overwhelmed as new aspirants to the industry recognize the discipline as the appropriate and accepted entry mode. Aberrations may still occur, however, where whole disciplinary approaches come under attack and entrepreneurs from outside the discipline are able to attract support, for example, the entry of educational-consultant firms into public education during the period of experimentation with performance contracting, where there is controversy within the industry as to appropriate modes of training, for example the desirability of business training for leaders of museums, or where the profession itself creates a vacuum, for example, the successful entrepreneurial entry by non-social-work mavericks into child care, in circumstances where the social-work establishment has failed to mobilize appropriate services for violent children.

The net social-performance effects of professionalization must be considered in two parts—general implications and implications peculiar to particular disciplines. In the short run and over time, a policy of professionalization will tend to reduce searchers as a source of entrepreneurial energy, because qualifications for disciplinary competence usually require early career decisions and enrollment in appropriate educational curricula. The searcher often lacks such specific training and may be reluctant to make such an investment at his later stage of life. In addition, a policy of professionalization will obviously discourage generalists—those with business, law, or liberal-arts educations. Generalists in a service-producing field are more likely to be income seekers and power seekers, because these motives reflect some of the key reasons that people choose to obtain such flexible, pragmatic training; therefore, a policy of professionalization is likely to weed out these types as well.

Nonetheless, professionalization is also likely to have monopolistic effects—restricting the labor pool and lifting the income potential of those who enter the discipline—thus attracting (properly trained) income seekers, partially nullifying the generalist effect noted above. In addition, the profession itself will create a power structure through which power-seekers (players) can gain influence and fame (through participation in professional associations) within the industry and social arena as a whole. These latter effects, because they are spread thin over the discipline as a whole (that is, income benefits are not concentrated in entrepreneurial hands, and power opportunities in professional associations are relatively few), will tend to moderate but not overwhelm the former effects. Hence, mainly as a result of the loss of income seekers and power seekers, an industry in which a professionalization policy is introduced may be expected to gain somewhat in trustworthiness over
the long run but to lose some of its ability to respond to changes in the social demand for services.

Coupled with these general effects, a policy of professionalization will differentially alter the motivational structure in particular industries. For this discussion services will again be divided into three broad categories-social, technical, and creative.

Professions in the socially oriented services stress altruism and social purpose and deemphasize accumulation of personal wealth and power. As a result, a policy of professionalization will cause the industry to differentially attract more believers and poets and to further underrepresent income seekers and powerseekers. Professionalization will thus move a socially oriented industry toward those varieties of entrepreneurial behavior that inspire trustworthiness but may further inhibit responsiveness to changes in social demands for service.

Professions in the creative industries emphasize and reinforce originality and expression of ideas, technical excellence, and human values. A policy of professionalization in such fields will differentially encourage entrepreneurs of the poet, professional, and architect varieties and implicitly discourage other types. This situation leads to relatively neutral or weakly positive effects on trustworthiness and responsiveness, and a net positive effect in terms of the potential for significant methodological or product innovations.

Professions in the technical service fields will reemphasize technical competence, intellectual honesty, and pecuniary reward as a symbol for achievement and advanced training. Ideological and expressionistic modes of initiative (believers, poets) will be discouraged in favor of intellectual and material modes (professionals and income seekers). In the long run, such a field may lose some of its trustworthiness but exhibit a stronger inclination toward technical innovation. Its responsiveness orientation will be bifurcated—featuring the restraint of professionals and the enthusiasm of income seekers.

**Resource Targeting.** Many nonprofits operate in industries where government provides operating revenues and capital through grant and contracting programs, fees for services, or other funding arrangements. In addition, government influences the cost of doing business in these industries through its taxation, labor-market, and other policies. Frequently such government programs specifically favor organizations in the nonprofit sector. Indeed Hansmann observes that "Large classes of nonprofits receive special treatment in almost all areas in which federal legislation impinges upon them significantly, including corporate income taxation, Social Security, unemployment insurance, the minimum wage, securities, regulations, . . . and postal rates." 18

In the health field, Clark cites biases toward nonprofits in the areas of unemployment compensation, taxation, tax deductibility for gifts, grants and loans
for health-maintenance organizations, planning grants, terms of reimbursement under Medicare, and property taxation. In communications, Schutzer cites special federal funding for public television and radio stations.

In the performing arts, Netzer observes that the "dominant approach [for funding] in this country . . . is to provide support to nonprofit organizations and individual artists through a government foundation." For federal museum funding, Meyer notes that a "museum" is defined as "a public or private nonprofit agency which is organized on a permanent basis for essentially educational or aesthetic purposes, and which, using a professional staff, owns or uses tangible objects . . . and exhibits them to the public on a regular basis." In the child-care field, reviewed by Young and Finch, federal, state, and local funding for residential care may be essentially restricted to nonprofit providers. Finally, in the field of home-health care, Vladeck cites targeting developments promoted by those who fear a repeat of the recent experience with proprietary nursing homes and would prefer to see the industry develop via the growth of voluntary home health agencies.

Public funding programs that target resources specifically to nonprofits will have behavioral effects that differ from those of programs that inject funds on an industry-wide basis without regard to sector.

A policy that provides new funds for an industry without discriminating by sector will have the following effects. In the short run, it may differentially stimulate entrepreneurship in those sectors into which certain responsive entrepreneurial types have previously been screened. In the long run, it may cause certain types of entrepreneurs to be screened into the industry and it may alter the distribution of entrepreneurial types among sectors of the industry.

At any point in time, a given industry is likely to have a nonuniform distribution of entrepreneurial types among sectors and these entrepreneurial types are likely to be differentially responsive to new funding opportunities. In the short run, the introduction of a significant new resource program (such as vendor payments for nursing homes) may differentially encourage the response of particular sectors, even though the resource policy is nondiscriminatory. The reason for this situation derives partly from the fact that funding programs are likely to have strings attached that constrain the use of funds to particular program purposes, designs, or service patterns. As a result, entrepreneurs who are concept bound (as noted in chapter 8) will be more inhibited in their responses than those characterized as value free and not bound by a specific ideology or program concept. In short, the more adaptive, value-free types are likely to be first out of the gate.

Income seekers, more likely to be concentrated in the proprietary sector,
will react rapidly to expand programs in this sector. This situation has occurred in nursing homes and, according to Vladeck, appears to be under way in homes for adults, through Supplemental Security Income (SSI) financing. Power seekers, more likely to be found in the public sector, will build up programs in that sector.

Architects are somewhat less predictable in their sector affiliations but are likely to be differentially concentrated in the nonprofit or proprietary domains; hence they will stimulate the growth of these sectors when general new funding programs are introduced.

Overall, the less adaptive believers, professionals, poets, and conservers, who tend to concentrate in the nonprofit domain more than elsewhere, will slow that sector's short-run response to the introduction of a major, new, government funding program. Note that this effect may be partially compensated by the efforts of such entrepreneurs to bend funding opportunities to their own programmatic purposes, but such attempts may be expected to be piecemeal and hard to sustain. The handicapping effect of the nonadaptive entrepreneurial types is a matter of degree, however, declining in potency for funding programs that are more flexible in their requirements or more attuned to the particular ideas of one or more of these entrepreneurial types.

In the long run, the short-run results of a nondiscriminatory but constrained funding program are likely to be reinforced through screening. The value-free types of entrepreneurs will be drawn to the industry in greater numbers than the concept-bound types and will be more heavily attracted to the proprietary and public sectors of that industry. Thus the new funding program will attract income seekers, who sense opportunities to increase their wealth; power seekers and architects, who sense the chance to employ public funds as a resource for building organizational structures and power bases; and searchers, if resources are targeted to new service areas yet unmined by established agencies.

Resource programs with looser strings attached may also attract other entrepreneurial characters: independents, if regulatory control and accountability for funding is light-handed and does not intrude on executive decision-making autonomy; professionals, if funded services can be defined in terms consistent with current disciplinary interests; and believers, poets, and conservers, if funding is flexible enough to encompass their individualistic entrepreneurial interests or if there is a fortunate confluence of entrepreneurial and funding-program objectives.

Overall, however, a resource-targeting policy that is nondiscriminatory by sector but retains effective programmatic guidelines on use of funds will lead in the long run to an industry that is more responsive but less trustworthy and that exhibits a relative loss of vigor of the nonprofit sector.

Resource-targeting programs that differentially favor the nonprofit sector
may be intended, in part, to compensate for the presumed response handicaps as well as to capitalize on the presumed trustworthiness of that sector. Such a policy may be expected to have substantially different implications than those of a nondiscriminatory policy. A policy that specifically targets resources to the nonprofit part of an industry will in the short run, stimulate venture activity by those entrepreneurial types already screened into the nonprofit sector of the industry. In the long run, such a policy will make the nonprofit sector more heterogeneous in its motivational content by attracting various types of entrepreneurs from other sectors and industries.

The short-run effect follows from the view that, within whatever inhibitions are posed by funding constraints (concept-bound) entrepreneurs in the nonprofit sector will nonetheless respond in some measure to opportunities for venture created by the injection of new resource programs, however much they may have to wrestle to bend the programs to their own designs. Moreover, some value-free entrepreneurial types may have been previously screened into the nonprofit sector as well. Those types will tend to be more vigorous in their response than their concept-bound colleagues, thus skewing the nonprofit sector in the short run toward a more responsive but less trustworthy orientation.

In the long run, funding programs targeted specifically to nonprofits will attract certain types of entrepreneurs to the industry as a whole, and from other sectors to the nonprofit sector in particular. As a consequence, the nonprofit sector will become more heterogeneous in its mix of entrepreneurial motivations. More specifically, such a policy will, like nonprofitization, induce a shift of income seekers and, perhaps, independents from the proprietary sector and a shift of power seekers from the public sector to the nonprofit sector of the industry. Unlike nonprofitization, however, a policy that targets resources to the nonprofit sector will encourage rather than discourage an influx of such types from outside the industry as well. Thus the nonprofit sector will become more heterogeneous, more responsive, and less trustworthy than it would be without such a policy, as will the industry as a whole.

The intent of public funding policies is usually to increase and upgrade the kinds of services produced by a given industry. This analysis implies that injection of resources is likely to stimulate activity by those entrepreneurial types who will tend to make industries more responsive to government-articulated societal needs but less reliable or trustworthy in delivering the services associated with addressing those needs. An across-the-board funding program would appear to maintain the nonprofit sector in a relatively more trustworthy state, but to erode the vigor of that sector relative to others. Alternatively, a policy of targeting resources specifically to nonprofits would tend to make that sector more of a cosmos of all entrepreneurial types—yielding a more
heterogeneous, less trustworthy, more responsive sector and a more heterogeneous, responsive, and less trustworthy industry as well.

**Policing of Nonprofit Constraints**

Earlier discussion has shown that (a) entrepreneurs screened into a nonprofit sector may be inclined to engage in various forms of discretionary behavior according to their particular objectives; and (b) the structure of the nonprofit sector itself tends to allow for such discretion. The diffuse nature of performance criteria, the diversity and fragmentation of constituent groups, and the separation of resource allocation from resource accumulation in the nonprofit arena were seen to be responsible for this margin of indulgence. The degree of entrepreneurial discretion is not some fixed, immutable factor, however. One option for the government is to devote increased resources to the policing of regulatory constraints on nonprofits, with the objective of limiting certain forms of discretionary action.

Across industries, the regulatory instruments available to government are numerous and varied, some applying to all organizations within a particular service area and others peculiarly applicable to nonprofits. This section is concerned with the latter. It will focus on three generic types of institutional constraints that specifically apply to nonprofits and that reflect the intended and presumed nature of the nonprofit form, namely, its deemphasis of financial gain, its dedication to public purposes, and its voluntary, cooperative modes of participation and decision making. These three sets of constraints are: (1) fiscal requirements, that is, the nondistribution constraint and rules for tax exemption; (2) requirements for shared decision making between agency executives and boards of directors or trustees; and (3) networking mandates that emphasize public accountability and cooperative programming among nonprofit organizations in a given community or industry.

The effect of enforcement of such requirements on discretionary behavior is considered below. Subsequently, the complementarities that may exist between the implementation of particular public policies—nonprofitization, professionalization, entry control, and resource targeting—and the intensity of policing these nonprofit constraints are considered. The intent here is to see whether coupling these policies with policing can eliminate some of the negative performance implications and retain the benefits of these policies.

Each of the entrepreneurial characters, if unrestrained, will indulge in discretionary excesses of various kinds, including autonomy seeking by independents and controllers, excessive expansion by architects, and pursuit of independent goals by believers, poets, and professionals. Income seekers will look for ways to siphon
agency resources for personal use, and players will use agency resources to promote personal visibility or status or to build empires through excessive expansion. The most worrisome form of discretion is the self-aggrandizement of income seekers and players that leads most ostensibly to the losses of trustworthiness associated with implementation of the public policies—nonprofitization, resource targeting, and entry control, in particular—considered above.

Policing of the nonprofit constraints may be seen to potentially impinge on these particular discretionary-behavior modes in various ways.

Enforcement of the nondistribution constraint and tax-exemption rules makes self-aggrandizement more difficult to indulge. For example, within limits, stiffer and more frequent auditing will inhibit the siphoning of resources through obviously inflated salaries, improper arrangements for purchasing input resources, or other fiscal irregularities. Such auditing will also tend to raise questions about legal but questionable practices such as over-intensive staffing, extensive travel, or other unusual concentrations of resources that might reflect personal more than programmatic goals. According to Smith, enforcement of tax-exempt status has the potential for special cogency.

the tax exempt status of the nonprofit corporation is hardly an automatic and irrevocable right enjoyed by any group wishing to proclaim itself a "nonprofit" organization. Tax-exempt status can be lost if an organization fails to observe defining conditions laid down by law, administrative action, and court decision. The withholding or withdrawal of tax-exempt status gives the federal government a powerful tool to regulate the activities of nonprofit corporations.26

In sum, enforcement of the fiscal constraints on nonprofits may help ameliorate discretionary self-enrichment within the nonprofit sector or the use of resources to promote personal visibility or status.

Encouraging shared decision making between agency executives and boards of directors is a policing option in industries in which nonprofit agencies that are recipients of government funds must receive charter or licensing approval or are otherwise subject to governmental control. In practice, formal regulations that require boards of directors or trustees to assume an independent and strong role in corporate decision making are taken with varying degrees of seriousness and interpreted in different ways by government regulatory bodies. In some cases, government may insist that boards be representative of various public constituencies, that no obvious family or business relationships exist between executives and trustees, and that board members maintain a significant role in shaping service policies as well as financial decisions. In other cases, boards are allowed to be subservient to executive wishes or confined to pro forma matters of ratifying budgets and personnel appointments.
A conscientious policy of enforcing the independent strength of boards of directors could effectively influence discretionary entrepreneurial behavior. As fiduciary agents, more effective boards could thwart self-aggrandizement; as agents with whom executives must share power, more effective boards would reduce the ability of the executives and program managers to avoid accountability in the use of resources; as independent sources of judgment, boards could put the brakes on overbuilding, assuming that their members' own objectives did not also run in this direction. (Board members of nonprofit agencies are often accused of memorializing themselves through agency projects, especially buildings and other physical facilities).

It is worth a slight digression to recall that presidents or other active board members are sometimes themselves involved in entrepreneurial roles, usually in concert with executives. In such cases, remaining board members would need to independently exert their influence to preserve the accountability property of shared decision making in the nonprofit agency.

Realistically, however, a governmental policy to enforce shared decision making can only hope to be moderately successful for two principal reasons. (1) No matter how heavily the policy is pushed, government normally cannot actually control the selection of board members, but can only help shape the criteria and procedures within which the entrepreneur-executive and current board members make their choices. (For some types of nonprofits, government officials serve directly as trustees. These nonprofits might be classified as public or semi-public rather than private nonprofit agencies.) (2) Board members themselves tend to be part-time and also preselected for their commitment to the style and purposes of the agency and its leadership. People are reluctant to join boards of agencies with which they are, in principle, at odds. As a result, and with some exceptions, boards will tend not to effectively restrain entrepreneurial indiscretions in the area of program planning. However, they will usually want to be part of the decision-making process, to ensure fiscal integrity, and to control aggrandizement within the time and resources that they have available. Even here, however, the prospects are mixed. As Cornuelle says:

> boards of trustees or directors . . . presumably are ultimately responsible for the institutions they govern, for the integrity of the operation. They are stewards of the money and sweat that individual citizens put into the colleges, churches, and welfare agencies they choose to help. These trustees are supposed to set policy and police the managers. Management, presumably, either works well or gets fired. . . . [But] the idea that laymen really control independent organizations has too often turned into a myth. Boards usually just raise money and vote "Yes" on whatever the professional managers want to do.27

Enforcing mandates for cooperative activity among nonprofit service providers is a governmental option in industries such as health care or social services that feature government-sponsored planning agencies whose goals include the more efficient
use of community resources and more equitable distribution of services. A pioneering example is the Hill-Burton program in health care. As described by Dunlop:

the biggest contribution of the Hill-Burton program was the administrative idea it introduced of a broad organizational [systems] perspective specified by the rational organization of health care institutions—for example, nursing homes in relation to hospitals—on a community-wide basis. This was the planning idea and the beginning of comprehensive health planning and regulation of provider entry.28

Planning agencies can encourage interagency cooperation through various potential means, including sponsorship of planning meetings and discussions, preparation of planning documents and master plans, requirements for reporting operational activities and for cross-referring clients, control over the entry of new programs through the application of need and necessity criteria, and funding of joint projects that feature the cooperation of multiple participating organizations. In effect, the enforcement of community-wide mechanisms of interagency coordination subjects individual entrepreneurial discretion to the rigors of comprehensive planning and peer pressure in areas in which competitive market or other external forces tend to be weak in restraining such discretion. Therefore, the vigorous pursuit of interagency cooperation and system planning can conceivably inhibit discretionary nonprofit entrepreneuring behavior. In particular, expansionary tendencies by player-type entrepreneurs in given agencies would presumably be restrained by reference to global planning requirements and peer review.

Policy and Policing

Increasing the intensity with which the nonprofit constraints are policed is not of as much interest in isolation as it is in conjunction with the formulation of other public policies, specifically those considered earlier in this chapter. In particular, it is worth asking whether some of the adverse effects (losses in trustworthiness) induced by such policies might be mitigated through an intensified policing effort, so that combinations of policy and policing achieve more effective social performance than is achieved by either alone. The answer to this question is a qualified yes in those circumstances where the policy option creates unique opportunities within the nonprofit sector of an industry. In such cases the policing mechanism may be useful as a complement to suppress dysfunctional behavior without simply shifting activity to other sectors or otherwise seriously suppressing the desired performance benefits. This principle can be applied to the four policy prescriptions as follows.
1. Nonprofitization creates unique opportunities in the nonprofit sector simply by ruling out industrial activity elsewhere. In the short run, enforcement of the nonprofit constraints could help suppress the discretionary leanings of income seekers and power seekers brought into the nonprofit sector by nonprofitization. In the long run, however, such policing might induce future such entrepreneurs to screen themselves into other industries because of the reduced discretionary opportunities. This latter effect may be minimal in view of other, more fundamental industry attributes that influence the industry-level screening process. Thus only minor losses of income seekers or power seekers to the industry may be expected from policing, either in the short run or the long run, although the discretionary excesses of these entrepreneurs maybe curbed.

The remaining question is whether policing will significantly reduce the vigor with which income seekers and power seekers undertake venture activity. If it does, the industry's responsiveness would be inhibited. Because nonprofitization does not immediately alter the industry's resource base or opportunities for advancement or necessarily change these radically over the long term, income seekers and power seekers may be expected to continue to be active, perhaps working harder to find legitimate income and power-based rewards. In this case, increased policing may serve as a useful complement to a nonprofitization policy, helping control the excesses in discretionary behavior that such a policy would induce, without crippling side effects.

2. Resource targeting specific to nonprofits creates unique opportunities in that sector in a manner similar to the nonprofitization policy. Specifically, if entrepreneurs wish to exploit the targeted resources, they must operate in the nonprofit context. Thus increased policing of the nonprofit constraints can serve as a complement here as well, helping ameliorate the losses of trustworthiness in the industry and nonprofit sector induced by resource-targeting policy. Because the latter policy increases the net resources available to the nonprofit sector and its respective industry, long-term screening losses of income seekers and power seekers or a significant reduction in the energy with which these types of entrepreneurs pursue their ventures seem even a less likely side effect of policing here than under nonprofitization.

3. Entry control applied differentially to the nonprofit sector creates some new opportunities in that sector (for example, for power seekers) while it reduces other opportunities (for example, for independents). Concurrent policing of the nonprofit constraints may therefore aid in controlling the discretionary activity of power seekers—both those activated in the short run within the nonprofit sector and those attracted to it in the long run—thus helping ameliorate the losses of trustworthiness that accompany entry control. However, as indicated by the analysis earlier, the activation and screening effects relative to power seekers are likely to be weak and
hence easily deterred or reversed by policing initiatives. Thus any gains in trustworthiness achieved by coupling policing with entry control are likely to be matched by losses in responsiveness of the nonprofit sector.

4. Professionalization is a non-sector-specific policy that in itself creates no opportunities unique to the nonprofit sector, although some of the entrepreneurs drawn to the industry in the long run, as a result of this policy—believers and poets in the social industries, poets, professionals, and perhaps architects in the creative industries, and professionals in the technical-service fields—may prefer to locate in the nonprofit sector. In none of these cases, however, does the loss of trustworthiness pose a serious threat. Hence complementary policing of nonprofit agencies offers no special benefits toward increasing an industry's trustworthiness, but it might inhibit the responsiveness of nonprofits by interfering with initiatives of its entrepreneurs.

Summary

This chapter has analyzed some of the public policy implications of the theory developed in previous chapters. The first step was to consider what the performance characteristics of nonprofit sectors would be, if dominated in turn by each of the entrepreneurial stereotypes. Subsequently, the performance implications of various public policies were derived by determining how each policy would affect the screening and control of these various entrepreneurs within a nonprofit sector and industry.

Four social-performance criteria were established for service-producing sectors—trustworthiness, efficiency, responsiveness, and innovation. The analysis of entrepreneurial motivations indicated probable trade-offs between trustworthy and responsive patterns of sector behavior, whatever policy options were adopted.

Four policy alternatives, or proposals, often encountered in debates over nonprofit utilization and governance were analyzed—nonprofitization, resource targeting, entry control, and professionalization. All were seen to induce both short-run and long-run behavioral effects. In addition, several of these policies were seen to vary in their ultimate performance implications when coupled with increased public enforcement of the fiscal and organizational constraints that apply to nonprofit agencies.

Perhaps most significantly, these public policies were seen to induce some potential performance effects contrary to the presumed expectations of policy designers. In particular, increasing the nonprofit character of an industry, for example through nonprofitization or by targeting external resources specifically to that sector, was seen to be less productive than expected because it threatens the integrity (trustworthiness) of
the nonprofit sector itself and, in the case of resource targeting, the character of the industry as a whole. This conclusion derives largely from consideration of the screening phenomenon, which implies that in the long run policy changes tend to rechannel existing motivations rather than to eliminate those motives.

Notes

3. Vladeck, Unloving Care.
6. Vladeck, Unloving Care.
7. Vladeck, Unloving Care.
8. Dunlop, Nursing Home Care.
9. Vladeck, Unloving Care.
11. Vladeck, Unloving Care.
15. Vladeck, Unloving Care.
   24. Vladeck, *Unloving Care*.
   25. Ibid.
   28. Dunlop, *Nursing Home Care*. 