

8 Constraints, Constituents, and the Shape of Venture Outcomes

The set of motivations of potential entrepreneurs constitute the entrepreneurial engines potentially at work in the economy at large. The processes of screening—by sorting entrepreneurial objectives into relatively homogeneous groups—then provide a sense of the different directions in which the drivers of these engines would prefer to steer their associated ventures within different industries and sectors.

What about the roadways that these entrepreneurial trips follow? That is, how much discretion does the entrepreneur enjoy in initiating, designing, and guiding his venture to suit his own objectives, particularly within the nonprofit segments of various industries?

The roads in some sectors can be quite narrow because of the stringent nature of certain economic or social constraints. In a highly competitive profit-making sector, for example, economists argue that profit-maximizing (via the selection of certain best production and marketing strategies) is the only way to avoid being driven out of business by more efficient competitors. In the broad area of services produced by nonprofit organizations, however, the range of entrepreneurial discretion is usually much wider, and thus the diversity of entrepreneurial objectives is of concern. If constraints were so rigid that only one mode of behavior were tolerated, then such diversity would be irrelevant. According to the managerial-discretion theory of the firm pioneered by Williamson, a variety of entrepreneurial objectives can only be manifested if the economic environment is not so stringent that such indulgence threatens survival.¹ In general, however, external constraints and opportunity structures remain quite important in shaping the ultimate behavioral nature of enterprise. This chapter will consider how certain structural aspects of sectors define the bounds within which (screened) entrepreneurs may work, and how these factors shape the rationale and format, if not spirit and content, of venture possibilities.

The principal sources of restraint on entrepreneurial action are the formal (statutory) requirements on entry of new programs into a given industry and the interests and preferences of various constituent groups that exert control over policy formulation and over economic resources required to finance potential ventures. Together these sources of restraint define what may essentially be thought of as a possibility set, which constitutes the range of discretion within which an entrepreneur may design and promote his ventures.

Restraints on Entry. Previous chapters considered the effects of governmental controls and other barriers to the establishment of new organizations and programs on the concentration of economic activity in a given industry or sector and hence the screening of entrepreneurs into those parts of the economy. This chapter deals with the effects of such barriers on the activity of entrepreneurs already screened into their respective sectors.

There are two types of cases—entrepreneurs who have been screened into sectors consistent with their entry-related preferences, and entrepreneurs who have been screened into sectors whose entry policies conflict with their preferences. Entry restraints may be expected to favor rather than inhibit the kinds of venture activity preferred by the first group of entrepreneurs. Entry restraints may be expected to have two effects on the second group: to diminish the overall level of venture activity, and to stimulate entrepreneurial initiatives designed to circumvent the restraints.

In general, the latent entrepreneurial population within a given sector is expected to consist largely of those whose preferences are compatible with the entry rules. Several reasons for exceptions exist, however. First, entry rules or requirements may change between the time an entrepreneur chooses a given sector and industry and the time he undertakes an enterprise. Second, entrepreneurs may undergo changes in personal goals and become immobile in terms of their sector affiliation. Third, the entrepreneurial screening process is necessarily imperfect. For instance, differential entry conditions among sectors (see chapter 10) tend to distort the opportunity structure over the long run by reducing activity and employment levels in one sector relative to another. Thus some latent entrepreneurs may simply not be allowed to enter their preferred sectors. In addition, in view of the several variables on which screening takes place, entry conditions may not be the primary determinant of selection for many entrepreneurs, who may therefore be screened into sectors with entry rules at odds with their preferences. For these reasons, it is important to consider not only the behavioral implications of entrepreneurs who have been screened into sectors consistent with their entry-related preferences but also the behavioral implications of those who have not. In particular, certain types of entrepreneurs who may fail to be screened into a sector with compatible entry conditions may attempt to subvert or circumvent these requirements in one way or another. Such entrepreneurs set in motion some of the more interesting, albeit secondary, modes of observed venture behavior, as follows.

Independents are likely to have screened themselves away from sectors with imposing barriers to new entry, and those who have not been so screened will no doubt operate at a diminished activity level. In that context, however, independents may still attempt to create semiautonomous enclaves for themselves. They can do so in two ways.

If the sector is composed of relatively small organizations, the independent will attempt to move to the top and gain control of one of them. More likely, the restricted-entry sector will be composed of relatively large organizations; in this case the independent will try to form his own subdivision within which he can essentially be his own boss (see Young and Finch for one illustration).² Thus independents will work to decentralize and fragment large organizations in which they become enmeshed.

For different reasons, and at a substantially larger scale of organization, power seekers of the controller variety may act in concert with independents; that is, once organizations start to become extremely large, controllers may tolerate or even tacitly encourage spin-off behavior, divesting their organizations of semiautonomous units by setting them up as independent agencies. Such action may be feasible even in an environment of restricted entry because the controller can use the resources of the parent agency to assist in overcoming entry barriers. Alternatively, controllers who are working their way up in large organizations may behave quite similarly to independents, carving out pieces of the overall agency as semiautonomous units over which they can exert their own authority.

Power seekers in general are likely to have screened themselves into sectors with restrictions on entry where such policy has encouraged the development of large agencies. However, a power seeker who has, for other reasons, been screened into an open-entry sector will work in a manner contrary to that system. In particular, he will attempt to build up his own organization and work toward restricting entry and gaining control of other organizations. Thus power seekers, particularly players, will promote mergers, found trade associations that promulgate minimum standards, and lobby for governmental restraints on entry.

Income seekers will tend to screen themselves away from industries governed by an entry policy that confines allowable activity to the nonprofit (or public) sectors. Entrepreneurs of this type who fail to be so screened will severely test the nondistribution constraint through various mechanisms of income augmentation that substitute for owner claims on declared profits. These mechanisms may include the inflation of salaries and perquisites, kickbacks, sweetheart contracts, and other self-dealing schemes associated with the purchase of inputs to production. (See Mendelson's description of certain nonprofit nursing-home entrepreneurs).³ Clarkson, describes one sophisticated device: renting real property to nonprofits by property-owning managers, who take advantage of quick depreciation schedules, capital gains, and setting rents to extract profits while maintaining nonprofit tax status.⁴

Constituent Accountability. Various nonentrepreneurial groups associated with organizations effectively monitor and exert some control over the development

of new enterprise in any given sector of the economy. These groups may be roughly divided into four, nonexclusive categories: internal, client, rival, and resource providing. The implied requirements of such constituent groups (for example, for shared decision-making participation and authority) will affect the screening process for some entrepreneurs. Such groups may also exert direct constraining effects on ventures and enterprising behavior. In particular, these constituent groups can become involved in conflicts with entrepreneurs of different persuasions and ultimately thwart certain types of venture initiative. Alternatively, the preferences of constituent groups may shape the nominal rationale but not the essential content of ventures that do go forward.

Internal interest groups consist of staff and trustees associated with organizations in which ventures are contemplated. If the venture is intended to bring radical change to an established agency—often the case in a problem-response scenario, for example—these groups may become a strong source of resistance. Staff may fear for their jobs and trustees may be sentimental over departure from traditional values or ways of doing things. The strength of these effects will vary from sector to sector, however. Proprietary agencies will tend to be the most flexible and least affected by such inertial elements because their structure concentrates power at the executive level. Furthermore, proprietary board members are primarily investors whose sentiments focus on profits more than on service objectives; hence efficiency, solvency, and managerial prerogative are traditionally maintained as the most important criteria of organizational decisionmaking. As long as (entrepreneurial) management has a financially successful track record, it will have a relatively free hand in implementing change or maintaining support for new enterprise.

Nonprofit agencies, on the other hand, may be substantially affected both by the sentimental loyalties of long-standing board members and by the conservative interests of staff who may have long been affiliated with the organization. As Anthony,⁵ McQuade,⁶ Cornuelle,⁷ and others suggest, although trustees are not always especially competent, effective, or conscientious in their overseeing functions, the more pervasive shared decisionmaking culture of the nonprofit form often gives them substantial voice as potential restraining elements. As Meyer observes in the museum field:

a factor that applies to nearly all the largest art museums in the United States—[is] their governance by private boards composed of the established rich who have been operating with limited accountability and who have on occasion demonstrated minimal sophistication about the arts. In enough cases to warrant generalization, the decapitation of the director has been a ritual sacrifice on the altar of his board's incompetence. . . .

Changing times have greatly strained the traditional structure of museum management, but many—if not most—boards have been reluctant to move with

the times. . . . Directors and staff often have to struggle with an archaic system in which a single powerful trustee operates like a feudal baron.⁸

Clarkson provides a more sympathetic view, explaining that the intrinsic nature of the nonprofit and its services, for example, the lack of measurable output and a profit criterion, makes trustees' tasks more difficult.⁹

In the public sector, political and bureaucratic impediments tend to prevail, with effects similar to those that obtain as a result of the sentimentalities, administrative difficulties, and self-serving interests, that restrain the nonprofit sector. Effects in the public sector may be considerably stronger, however, because civil-service tenure systems and employee unions, bureaucratic procedures, and political sacred cows protected by legislators may severely inhibit entrepreneurial discretion.

A similar spectrum exists at the client level with respect to the rigidity of constraints across sectors. Proprietary agencies are freer, and indeed more obligated, to track the economic demand for services—as expressed by the willingness of private clients to pay or the stipulations of government fees for service programs—than are nonprofits, which receive grant funds and contributions, or government bureaus, which receive legislative appropriations. Thus proprietary agencies shift relatively quickly with the market, more easily ignoring product loyalties of current consumers.

Nonprofits usually build a more permanent relationship with the communities that they serve. These bonds are developed through various mechanisms, including citizen participation on boards and committees, donations from community members, and expressions of broad community support on which the nonprofit may have been initially established. Ventures that would disengage a nonprofit from its historical client and community roots, or otherwise change its mission significantly, can therefore face strong resistance. In a similar manner, government bureaus and program divisions also have their particular constituencies and interest groups. Those groups may have advocated the agency's programs, cultivated working relationships with its staff, and supported its appropriations in legislative hearings. Disengagement or departure from interests of current clients could, therefore, be highly problematic for the public-sector entrepreneur. As Vladeck explains, private operators can simply shut their doors or file for bankruptcy, but government, once having assumed responsibility for a given program or clientele cannot easily absolve itself of that commitment.¹⁰ New public sector initiatives, even those involving reverses of direction, do often take place during changes of political administrations, however. If such political change reflects an underlying shift in demography, implying changes in public demands for services, it can be ignored only at the government official's peril. This situation differs from the often

more stable perspective of nonprofits, whose governors have a greater tendency to adhere to historical missions even in the face of societal change.

Resource-providing constituents of a service-producing organization may include paying clients; private, third-party insurers; investors and bankers; philanthropists and small contributors; and governmental agencies that provide grants or administer fees for service programs. A proprietary agency appeals to a subset of these groups for economic support. Its clientele may include paying consumers, government agencies that finance (through fees for service) consumption by nonpaying (or part-paying) users, and third-party (insurance) agencies; its investors consist of private individuals who expect a financial return and banks that will lend funds based on the collateral of physical plant, personal finances of the entrepreneur and his backers, and the promise of future returns on investment. The demands of these various groups are unified by the overall mandate of the marketplace: subject to possible procedural and service-quality stipulations that derive from governmental regulation, the quality, cost, and distribution of services must be such as to turn a reasonable profit. Depending on the cogency and volatility of consumer versus investor support, this mandate may encourage alternative strategies of cost and quality variation. For example, if consumer demand is highly elastic with respect to quality, or if government exerts strong regulatory pressure associated with its fees for service contracts, then quality may be emphasized more than it would be otherwise. Under other circumstances, however, results differ; for example, in the nursing-home industry consumer well-being has sometimes been secondary to real-estate speculation.¹¹

In the nonprofit case, resource providers may be more diverse and their mandates substantially less clear than in other sectors. Sources of operating support for nonprofits may include user, third-party, or governmental fees for services, philanthropic donations, and government grants. Returns on endowment may be a source of flexible income for a manager-entrepreneur, providing some relief from constituent pressures, although even these funds may be restricted by original-donor stipulations. Because there is no individual ownership (that is, equity), capital funds must be generated through philanthropy, government grants, and borrowing. Given the nonmarket nature of much of the nonprofit's income and possible concentrations of funding control in the hands of a small group of contributors, trustees, or government agencies, entrepreneurs must at least pay lip service to the programmatic and personal goals of such agents. Philanthropists and trustees, for example, will want their own conceptions of the community interest served and may want some personal recognition as well. Government agencies will insist on adherence to legislative mandates, to specific standards and regulations, and to sensitivity to the needs of strong political constituencies. Overall, the nonprofit entrepreneur will prefer to reduce dependency on any

one source, for fear of the pressures created by such dependency. For example, Netzer¹² and Meyer¹³ cite the fear of donor pressures in the performing-arts and museum fields, respectively. Meyer cites the conflicts that arise when donors of art collections—as in the case of the Lehman Pavilion of the Metropolitan Museum of Art—impose demands on the recipient museums. Meyer notes that "Over the years the Metropolitan's board had evolved a policy of rejecting such binding donor requests, and it was justifiably feared that in acceding to the Lehman terms, the museum would encourage other wealthy collectors to be as demanding."

Netzer reviews the experience of the Arena Stage Theater:

Arena is wary about local private support. Zelda Fichandler considers community residents the most conservative of benefactors and those likely to be hostile to controversial and experimental theater: "I am not very strong on community giving, except perhaps when it represents only a small percentage of the total. I think we could well do without the hand that rocks the cradle, for the hand that rocks the cradle will also want to raise it in a vote and mix into the pie with it. . . . So, then let the money be given at a distance, once removed, and let it be awarded by a jury of one's peers, let the audience be the only judge."

One important source of relief, and hence discretion, for nonprofit entrepreneurs is that few constituents will have direct knowledge of performance, much time for monitoring, or precise criteria for judgment. For example, Kanter observes:

products or specific benefits do not tend to be available to donors . . . and therefore performance criteria for resource allocation (service delivery) might be unrelated to criteria for resource attraction.¹⁴

The same may be said of government funders or third-party agents. Furthermore, as Brinkerhoff¹⁵ and Kanter¹⁶ suggest, the multiplicity of resource providing and other constituencies of the nonprofit may lead to conflicts and internal bargaining. Such conflicts, combined with informational difficulties, may leave substantial opportunity for isolating these constituents from managerial and entrepreneurial decision making. Kanter argues:

In nonprofit organizations where there is a wide gap between the incentives, personnel, and procedures for resource attraction and the personnel and procedures for resource allocation, or service delivery, we can expect either a high degree of conflict in the organization (reflected in arguments about performance measures) or attempts to insulate donors or funders from allocators or deliverers (reflected in statements about professionalism and the need for independence) which tends to reduce the willingness to have performance measured at all.¹⁷

Brinkerhoff, citing Shapiro's study of Boys Town, goes even further to suggest the possible consequences of such tendencies:

This separation of resource acquisition and program operation also can result in situations where a nonprofit organization is effective in the resource attracting arena but not in the programmatic one, or vice versa.¹⁸

Alternatively, some view the loose accountability structure of nonprofits as more a strength than a weakness. According to Douglas:

The absence of strong measures of accountability, far from being a weakness of the Third Sector, becomes a strength enabling it to undertake experiments, the benefits of which are too uncertain and too long term to be undertaken by either the commercial or the governmental sector.¹⁹

These complexities of nonprofits often provide substantial room for entrepreneurial maneuvering and discretionary management of ventures once they are under way, but these same elements of information ambiguity, conflict, and separation of revenues from allocation may inhibit entrepreneurs' abilities to gather constituent support to launch their ventures.

Mandates for ventures of public-sector agencies tend to be most rigidly defined among those of the three sectors. Whereas the entrepreneur may have been instrumental in lobbying for and shaping the authorizing legislation and appropriations, little formal discretion may remain once the specific laws are in place. Even more than nonprofits, public-sector agencies experience a separation of resource acquisition from service delivery, and limited performance information flows to resource-providing constituents, including legislative committees and taxpayers. Furthermore, legislative committees tend to be preoccupied with diverse matters and topics of current political concern and hence are relatively lax in monitoring the specific administration of authorized programs. The result may be a substantial degree of inefficient operation or even fraud, but little in the way of new directions that require substantial shifts in the use of resources or the definition of policy. Exceptions to this rule occur where governmental managers are able to act like directors of nonprofit agencies, developing close relationships with legislators as if they were board members and seeking grant funds from outside as well as within the home-government structure. This situation is most likely to occur in small governments at the local level.

Rival groups that may effectively oppose or limit new enterprise also vary by sector. In the proprietary sector, rivals principally take the form of economic competitors, that is, other agencies whose effects are felt through the impersonal workings of the marketplace and the price system. In regulated sectors new

entry or expansion may be opposed by community groups through political lobbying with regulatory agencies on the basis of need-and-necessity arguments or in terms of other aspects of public interest. For example, (proprietary) homes for the mentally ill often incur opposition on the basis of disruption to the integrity or well-being of neighborhoods.

In the nonprofit sector, the latter kinds of regulatory mechanisms are even more likely to be used, for two reasons. First, nonprofits depend more directly on their local communities for sustenance and support. Indeed, the legitimacy of a nonprofit agency itself depends on its maintaining a stance consistent with community interests. To the degree that trustees, contributors, and government-funding agencies reflect local political concerns, these will be expressed within the framework of intra-agency decision making. To the extent that such concerns are not represented directly by agency constituents, they may be reflected through the wider mechanisms of regulatory control and political accountability, on the basis of the nonprofit's implicit responsibilities to the public at large—especially if the nonprofit is a recipient of public funds, tax concessions, or community-wide charities, such as the United Fund.

The second source of rivalry in nonprofit venture may come from implicit competitive pressures within the sector. Although nonprofit sectors tend to shun explicit competition in favor of interagency coordination²⁰ and to organize themselves into basically cooperative milieus that feature relatively open exchange of information, cross-referrals of clients, networking arrangements of various kinds,²¹ community planning, and even joint ventures, some forms of new enterprise may be perceived as a threat to members of such a sector. For example, a venture of one agency that threatens to reduce the share of activity by other agencies will be viewed askance.

Similarly, a new agency's entry on the limited turf of existing agencies is likely to be skeptically received by those agencies. Nonprofits disdain competition and rivalry as a rule, and as a group are willing to engage in cooperative efforts that promise to maintain the status of individual agencies and to serve some public purpose. They will tend also to join forces in opposition, using regulatory and political channels, when a new venture is posed by some individual agency in a threatening way. Such action can be extremely effective because the board members and other representatives of rival nonprofits are often influential members of the community and well connected both politically and economically.

A final source of competitive resistance to nonprofit ventures may emanate from other sectors, especially if such ventures threaten to exploit the special advantages of nonprofit status and are thus viewed as unfair competitors. As reviewed by

Smith, for example, this situation has occurred in the research field, particularly where government has actively funded and helped set up nonprofit research agencies.

Another source of discontent centers in various industrial circles. A comment by Ralph H. Cordiner is typical: "However generous their motives, these nonprofit organizations are usurping a field traditionally served by private consulting firms and producer companies, and hence are little more than a blind for nationalized industry competing directly with private enterprise—on a subsidized, non-taxpaying basis."²²

Constituent groups affect entrepreneurial initiatives not only by imposing limits and restraints but also by helping to define the rationale under which new ventures are posed. That is, board members, clients, and resource providers may all have their own ideas and preferences with respect to the purposes of organizations and programs. For certain types of entrepreneurs, constituent preferences for having ventures serve a particular purpose or rationale pose few problems. (See figure 8-1.) Independents, architects, power seekers, and income seekers in particular are relatively value free, or indifferent, with respect to the intrinsic nature of services or the intended clientele of proposed ventures. These entrepreneurial types will therefore design and advertise their ventures to the nominal tune of constituents, so long as their underlying objectives for income, power, autonomy, or building and creating can be met. Difficulties will occur, however, where expansive tendencies begin to impinge on the interests of rival agencies (as noted above) or where the service requirements of constituent groups are, in practice, simply used by the entrepreneur as a facade for the pursuit of self-serving ends and are so grossly neglected as to become obvious even to the poorly informed. Thus, within limited constituent abilities to monitor and hold ventures accountable:

Independents may set up enterprises to maximize their own autonomy and insularity and resist desirable expansion or provision of new services that

Value free		Concept bound
Income seekers	Searchers	Believers
Power seekers	Conservers	Professionals
Independents		Poets
Architects		

Figure 8-1. Rigidity of Entrepreneur Positions with Respect to Content of Ventures

would entangle them in more complex organizational relationships.

Architects may propose and build programs beyond the legitimate needs of client groups.

Income seekers may sacrifice program quality, engage in fraudulent practices, or avoid loss-making activities that would reduce their net revenues (and hence personal-income potentials).

Power seekers may use discretionary resources to promote their own visibility or enlarge their bureaucratic empires rather than optimize service arrangements.

In nonprofit sectors especially, there tends to be a large margin for discretionary behavior of these varieties, despite the potential constituent antipathy that such behavior might arouse. The relatively indirect and part-time control exerted by constituent groups, the imprecise criteria that such groups can apply, and the separation of resource acquisition from resource allocation are the main reasons for this discretion.

In contrast to the motives of the value-free entrepreneurial types, other types are strongly tied to specific rationales for enterprise. Hence they may openly conflict with constituent groups with respect to venture purpose and style of operation rather than adapt to, or even subvert, constituent preferences. The believer is the best example. The believer will operate by attempting to draw like-minded constituents to his side, rather than obfuscate or seriously compromise his purpose through adaptation to the preferences already in place. For this reason, the believer leans toward forming new agencies rather than adapting to the machinery of existing ones.

The professional, particularly one in a scientifically oriented field, presents a similar example. To advance in his discipline, this variety of entrepreneur may lean heavily toward proving, testing, or demonstrating ideas and new concepts through model venture initiatives. Constituents may be less interested in ideas or research than in servicing clientele or community groups. Tensions can easily develop, pitting the preference of professionals for small, controlled, but well-publicized and documented, demonstration like programs with sophisticated research and measurement components against the preferences of constituents for programs that use resources in a manner that is less sophisticated but more responsive to immediate community needs. The fate of ventures may thus rely heavily on the professional's ability to convince constituents of the ultimate social or economic merit of his methods.

The poet may be as strong-minded as the professional and perhaps as impassioned as the believer. Although he pursues the implementation of ideas as more of a personal creative act than a formal disciplinary matter or religiously held

belief, the poet may nonetheless encounter the same sources of conflict with constituent groups and be similarly unwilling to compromise.

The rationale for ventures initiated by believers, poets, and professionals will strongly reflect the intrinsic preferences of these entrepreneurial types. Constituent groups can be expected to achieve less ostensible influence on venture design for these types than for the value-free types, but whatever compromise is achieved by constituents will tend to be substantive and clearly labeled. The value-free types are more likely to accept whatever nominal rationale constituencies prefer, but to shape organizational behavior to their own ends, in less apparent ways.

Searchers and conservers constitute somewhat different cases of interaction between the pursuit of own motives and adherence to desires of constituents. The searcher is an outsider who is looking for the right sets of constituents—those who will accept him and give him a sense of purpose, yet who will promote values with which he can live. Like the believer, he will reject sources of constituent support that make him uncomfortable, but unlike the believer, he needs to find a constituent group that will help him define a mode of service that he can pursue. Thus the searcher may either attach himself to an existing organization or once having discovered a latent coalition and set of resources capable of supporting a venture in some new area of service, he may organize a new set of constituents.

Of all the entrepreneurial types, the conserver is least likely to conflict with his organizational environment. His objectives will be those of the organization that he seeks to preserve, and his perspective will thus be consistent with key constituent groups. However, the conserver may be faced with the need to reconcile conflicts among constituents—for example, between the staff and board members who wish to change the organization least and the new consumer groups or resource providers that have shown concern for the agency's performance and may have begun to withdraw support or make new demands.

In summary, the constraining forces on enterprise that derive from entry controls and the preferences and monitoring of various constituent groups affect sectoral behavior in two principal ways.

1. They help shape and define the rationale and nominal purposes for which a venture may be undertaken within a given sector.
2. They limit the discretion with which entrepreneurs can utilize ventures to pursue their own personal ends.

Effect 1 may subdue or limit the activity levels of certain concept-oriented entrepreneurial types (believers, poets, professionals) whose values may explicitly conflict with certain constituencies or performance criteria. Effect 2 may restrain the excesses of entrepreneurs, particularly value-free types (income seekers, power seekers,

independents, architects), whose motivations are less explicitly identified with particular venture rationales or client interests.

The two constraint effects appear to vary substantially across sectors. In the proprietary sector, constituent pressures clearly lean in the direction of financial performance, and profitability serves as a fairly unambiguous and precise criterion that constituents (investors) can use to hold entrepreneurial discretion in check. Thus the rationale for venture must reflect paying constituents (individual clients, government, or other funding sources), and operations must generate a reasonable return to capital. Within such a context only, entrepreneurs may engage in discretionary (autonomy-seeking, self-aggrandizing, or other) behavior.

In the government sector, constituent pressures appear to constrain the nominal rationale and operational guidelines for entrepreneurial activity less effectively than in the commercial sector, but still fairly severely. Most important, new initiatives must meet tests of political acceptability before they can go forward. However, performance criteria are imprecise, performance information is poor, and accountability to resource-providing constituents is indirect and fragmented, permitting a considerable degree of entrepreneurial self-indulgence once programs are well under way.

In the nonprofit sector, there is substantially more diversity of restraints than in the public or profit-making sectors. Neither market nor political criteria are overriding, although both may be reflected within the framework of nonprofits that depend on both paying customers and governmental allocations. In addition to these sources of funds, however, the nonprofit entrepreneur has the option to pursue grants from donors and foundations as well as contributions from the public at large. Even within some industries practices range from total reliance on government funding to cases in which such reliance is negligible. Thus funds may be sought from sources whose motivations align more easily with entrepreneurial objectives (people with similar ideas or leanings, willing to back them up with financial support). A nonprofit entrepreneur with program-specific values, that is, the believer, poet, or professional, may therefore have more opportunity to shape his own enterprise than he might in other sectors, where his design must appeal to current political realities or consumer tastes. In a similar vein, the value-free entrepreneurial types also have more of an open field in which to experiment with venture rationales that can attract alternative sources of support (market, government, and voluntary).

Once under way, ventures in the nonprofit sector suffer a dearth of specific performance criteria similar to that of government programs. The market test will apply to a degree, because nonprofits must show a balanced budget and may depend in part on sales or memberships, but this criterion avoids the issue for venture supporters, such as

agents of philanthropy or government, who are asked to fill in the gaps between sales revenues and expenditures. Moreover, the rationale for nonprofit ventures may be specifically counter to market success, for example, service to groups unable to pay for needed services. Nor do political criteria (who gets what) or legislative mandates fully apply, as the nonprofit can cite its diversity of support and semi-market obligations as the basis of its right to independence and self-determination. In essence, then, subject to minimal performance levels imposed (insisted upon) by various constituents groups and the necessity for a balanced budget, nonprofit ventures often operate under vague performance criteria and loose control by any given group or coalition. As such, they leave substantial room for discretionary behavior by entrepreneurs, who may indulge in self-defined motives and goals.

Notes

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