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Overview

Although the histories of some nonprofit-sector organizations go back hundreds of years, often predating existing organizations in business and government sectors, the roles and behaviors of nonprofits in the modern world are less well understood than those of organizations in other sectors. In the United States, nonprofits are alternatively viewed as organizational devices to avoid taxation or as panaceas that would rid certain industries of their greedy, self-serving elements, as trusted institutions that preserve cherished cultural and social-welfare traditions or as unfair and wasteful competitors to profit-making enterprise or government-service provision.

Why has the nonprofit sector been such an enigma and a mystery even to well-educated people? One reason is that there is no simple way of associating nonprofit organizations with a clear-cut purpose or with leaders to whom simple labels and motives can be applied. We are all familiar with the profit-seeking businessman in the commercial sector. We think of the ambitious vote-gathering politician in government. These stereotypes help us conceptualize what makes the business and government sectors function. In the nonprofit sector, however, there seems to be no counterpart—no obvious leadership agent that captures the essence of that sector's drive and motivation. Are there such entrepreneurial agents? Suppose that the following headlines appeared in the business section of the *New York Times*:

New Organization Takes Hold amid Decay of the South Bronx

Agency Established to Computerize Management Information for Local Service Industry

Harlem Service Organization Separates from Parent Company

Historic Merger of Two Organizations Results in One of the Largest Firms in the Industry

From Modest Beginnings, Agency Grows into a Thriving Multimillion-Dollar Statewide Organization

Good Business Management, Aggressive Merger Policy Moves Agency from Near Collapse to Industry Leadership

Agency Opens a New Division; Hopes and Fears Expressed over Effects of New Service Mode on Stability of Overall Operations

These could easily be typical stories of entrepreneurial activity in the commercial sector. However, these headlines also succinctly summarize instances of enterprising activity in the nonprofit sector of the economy—specifically, a few of the author's fifteen child-welfare-related, nonprofit case studies. The fact that such cases can be described in the same terms used to describe commercial ventures demonstrates that entrepreneurial leadership is not limited to the business sector (or to government) but is characteristic of the nonprofit sector as well.

One purpose of this book is to focus the attention of scholars, managerial practitioners, and social policymakers on this heretofore neglected area of social and economic behavior—entrepreneurship in the nonprofit context, and the different motivations, risks, constraints, and environmental circumstances guiding enterprising behavior in this arena. A more fundamental purpose of this book, however, is to develop a theory of behavior for nonprofit organizations. Such a theory must be built on an understanding of the driving forces behind organizational actions. Clearly, the study of entrepreneurship is an intellectual window on this question. Where are the driving forces more clearly at work than at the leading edge of activity cut by a sector's entrepreneurs? Hence, where else is the motivational basis for activity in a sector more likely to be revealed? For example, in the for-profit sector enterprising behavior is generally believed to be motivated by material gain, with entrepreneurial managers and capitalists exhibiting their motives in response to market opportunities for such gain. What, then, of the nonprofit sector? The nonprofit sector, like others, is composed of many constituent groups that help shape the economic and organizational environment—managers, workers, board members, clients and consumers, donors and philanthropists, and government regulators, for example. As a prime source of insight, however, it is useful to focus on entrepreneurs, their motives, and the influences that affect their decisions and fundamentally shape the activity of the nonprofit sector.

Field studies show strong and diverse motivating factors in the nonprofit arena and entrepreneurs as dynamic as those who work in the profit sector. In this book the author's case studies and other reports of entrepreneurial activity in the literature are used as the basis for classifying these motivations. This book asks, simply: if it isn't profit, what drives enterprising individuals, women and men, to pursue their ventures in the nonprofit context? That starting point is used to build a theoretical framework that extrapolates from entrepreneurial motivations to behavior of organizations and sectors as a whole.

To what end is this theory-building exercise directed? In short, the purpose is to extend scholarly understanding of nonprofits and to contribute to policy discussions concerning the use of these agencies to deliver public services. Certainly, as discussed in the next chapter, there is a growing academic interest in the theory of nonprofit

organizations. The nonprofit sector still constitutes a lacuna for scholars, however, particularly for students of microeconomic theory. What are the reasons and justifications for establishing nonprofit organizations, and how can a theory of the firm, analogous to the classical theory of the profit-making firm or the newer economic models of government bureaus be developed for nonprofits? Scholars have only recently begun to seriously address such questions. This book is intended to contribute to this embryonic literature, but in an unconventional way, by constructing a behavioral theory based on the processes of screening, or self-selection, through which entrepreneurs with alternative motivational leanings choose the industries and sectors in which they engage in enterprising activity. The theory developed here views nonprofit organizational behavior not in isolation, but in the context of other sectors that exist alongside it. The thrust of the theory is that entrepreneurs of different motivations and styles sort themselves out by industries and economic sectors in a way that matches the preferences of these entrepreneurs for wealth, power, intellectual or moral purposes, and other goals with the opportunities for achieving these goals in different parts of the economy. Once screened, such entrepreneurial agents are assumed to be largely responsible for giving each sector its particular behavioral flavor and performance characteristics.

Important, substantive differences exist between the screening, or self-selection, model of behavior developed here and the constrained maximization approach of conventional microeconomic theory of the firm. The latter postulates that an agency (nonprofit or otherwise) has some clear objective function that it maximizes, subject to a budget or other resource limitation. We can gain a glimpse of the difference between the two approaches by considering what would happen if additional monies were suddenly granted to nonprofit agencies in a given industry. The conventional theory predicts more of the same type of behavior, that is, achievement of the original objective, but at some higher level of output. The screening framework, however, anticipates more fundamental changes in purpose and direction as shifts occur among sectors in the distribution of entrepreneurial motivations.

In general, an advantage of the multisector framework over narrower and more monolithic approaches to modeling of nonprofits is that it seems more capable of considering the potential effects of changes in ground rules and opportunity structures that alter the position of nonprofits in an industry relative to organizations in other sectors. For example, what happens if nonprofits are favored by government in funding, licensure, or taxation in a particular industry? In essence, the screening theory anticipates that the distribution of entrepreneurial talent will be altered, with consequent implications for the sector's motivational content and, hence, behavior, over time.

This kind of difference in thrust between the conventional approach and the approach taken here, with its concomitant implications for both scholarly understanding and practical policy formulation, constitutes the most important contribution of this book.

Many important policy issues hinge on improved understanding of the behavior of nonprofit organizations. For example, various societal forces have conspired in recent years to threaten the viability and independence of nonprofit institutions in higher education, social services, and a number of other areas. Are these institutions worth saving? If so, what are their special virtues and what are the implications of rescuing them with public dollars? Answers to such questions require knowledge of how such agencies perform under alternative opportunities and constraints, compared with institutions from other sectors that might replace them.

In other areas, particularly in the fine arts and museums, where nonprofits hold dominant positions in industries that have traditionally been privately funded in the United States, government has moved toward greater public subsidies, in part to permit expansion and greater citizen appreciation and participation. Should such support be confined to nonprofits? Can the infusion of such resources be expected to change the behavior of these nonprofit organizations? By attracting a wider spectrum of entrepreneurial motivations, the answer may well be yes. Clearly, a fuller understanding of nonprofit behavior would be helpful in the consideration of these matters.

In still other industries, the problems associated with service provision in the governmental or proprietary sectors have prompted policymakers to consider a more significant role for nonprofits in providing services. In certain areas of applied research, for example, nonprofit think tanks have been created as alternatives to use of proprietary consulting firms or in-house government staffs. In large proprietary sectors, such as day care and nursing homes for the elderly, abuses have led to serious proposals to "nonprofitize" these industries. Again, evaluation of these proposals requires some conceptual basis for understanding how such a policy can be expected to affect the behavior of participating nonprofit agencies.

At first, the oil-and-water-like mix of the two subjects—entrepreneurship and nonprofit organizations—may seem strange. Most of us have been acculturated to the notion that entrepreneurship is solely a function of the commercial marketplace. To the contrary, however, entrepreneurship is the key to unlocking some of the doors to better understanding of the world of nonprofit organizations.

This book divides into two parts. Chapters 2 through the first half of chapter 5 describe nonprofit organizations and the entrepreneurship process, establishing the background for the theory developed in the rest of the book. Chapter 2 provides a general discussion of the nonprofit sector, its size and character in the United States

and the contributions scholars have made to date toward understanding why it exists and how it behaves.

Chapter 3 develops the concept of entrepreneurship, explaining that contrary to some popular notions, entrepreneurship is not confined to the profit-making sector but accurately denotes mobilizing and catalytic activity in all sectors. The chapter also provides examples of nonprofit entrepreneurial activity in various parts of the service economy. Chapter 4 extends the discussion of entrepreneurship by describing some typical scenarios for venture activity and the economic and social conditions in which they take place. The first part of chapter 5 reviews the literature on motivations that underlie entrepreneurial behavior.

The latter part of chapter 5 begins to establish a theory of nonprofit behavior by specifying stereotypes intended to capture the alternative motivations and styles of entrepreneurs.

Chapters 6 and 7 outline the processes of screening through which alternative entrepreneurial types are sorted into industries and into economic sectors within industries. These chapters identify the structural factors that cause particular varieties of entrepreneurs to select careers, employment, and venture initiatives in certain organizational contexts rather than in others. As such, sectors of a given economic and organizational character can ultimately be associated with particular mixes of motivational and behavioral patterns.

Chapter 8 presents a postscreening perspective by assuming that entrepreneurial populations have been sorted into place and asking how the behavior of (screened) entrepreneurs will be shaped by the constraints of the sectors in which they operate. The discussion explicitly recognizes the relatively loose accountability structures associated with nonprofit organizations, and hence the margin of discretion afforded entrepreneurs. As such, ultimate behavior patterns will reflect both entrepreneurial indulgence in their own motives and adaptation to the rules imposed by the structures in which they operate.

Chapter 9 is a slight but significant digression, which considers the long-term behavioral implications of entrepreneurial activity. Here it is argued that differences in entrepreneurial motivation (resulting from screening) affect organizational behavior not only at the time of venture start-up but also over time. Specifically, the strength of entrepreneurial commitments to particular ventures and host organizations is seen to vary by type of motivation, leading to differences in the long-run success probability as well as the long-run consistency of behavior of the organizations in which entrepreneurs work.

In chapter 10, the theory is brought together and given a normative light by focusing on social-performance criteria and public-policy alternatives. Various entrepreneur-based behavior patterns are considered in terms of four fundamental

criteria—trustworthiness, responsiveness, efficiency, and innovation. Subsequently, five major types of public-policy thrusts are considered: (1) the proposal that all agencies in an industry be made nonprofit; (2) the restriction of entry by new organizations into the nonprofit sector; (3) the professional licensing of personnel in a given industry; (4) the targeting of public resources to the nonprofit sector of a given industry; and (5) more intensive policing of the regulatory constraints that apply to nonprofit organizations. These kinds of policies are seen to alter the screening and internal accountability mechanisms of sectors in an industry, and hence the behavioral tendencies and social-performance patterns that emerge. Thus the theoretical framework proves to be useful in developing the implications of public-policy initiatives over a range of options.

Overall, the analysis developed in the latter part of this book may be characterized as a descriptive, sector-level theory of behavior. It is sector-level in the sense that it describes in a qualitative way the statistical tendencies and patterns of entrepreneurial populations and groups of organizations in an economic sector, rather than pinpointing specific deterministic objectives and outcomes at the level of individual organizations or people. In particular, the phenomenon of screening by which entrepreneurs are seen to sort themselves into different economic sectors, described in chapters 6 and 7, may be thought of as a random process that allows deviations, mistakes, and changes of mind by individuals and is subject to idiosyncrasies of context, history, and other elements of chance but still provides a roughly accurate picture of outcomes in the sectoral aggregate.

The theory developed here is also essentially descriptive, or positive, in character, in the sense that it models the world as it appears to be rather than as it should be according to some criterion of social justice or efficiency. Rather than trying to directly uncover the logic or justification for having particular industries organized in a certain way, this book asks why, in light of ambient economic and organizational conditions, we tend to observe certain patterns of behavior. However, chapter 10 finally does attempt to draw from this descriptive analysis some normative implications for social performance and public-policy formulation.

A final word about research sources is in order here. Much of the thinking contained in this book derives from my experiences in developing the aforementioned series of twenty-one case studies which focus largely on child care but cover a variety of services, including management-information, consulting, education, and mental-health services. The cases include the founding of new organizations as well as the formation of new programs within existing organizations in the nonprofit, proprietary, and government sectors.

The case studies provide a source of depth, because each one probes intensively into the circumstances and motivations for the venture at issue. Obviously, however,

the relatively small number of cases required that other sources be investigated as well. Thus many references from the literature and the news media, cited throughout the book, have been consulted to enlarge the perspective and to put the insights derived from the cases into broader focus.