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Entrepreneurship

With few exceptions modern economists have paid scant attention in their conceptual work to entrepreneurship.¹ Conventional microeconomic theory is static, monolithic, and strictly structural in nature, concerned with the interaction of aggregate demand and supply functions (based on simple stereotypes of consumers and firms) and providing minimal insight into the range and variety of behavior of individual consumers or producers. In this same style, the theory views the interaction of supply and demand as an impersonal, automatic equilibrating process and is not concerned with the individuals and dynamic processes through which demanders and suppliers are brought together into new and changing markets. This structural bias of theory—particularly the inattention to market-making behavior—precludes most economists from seriously studying entrepreneurship and leaves the concept of entrepreneurship somewhat ambiguous and unclear.

In everyday usage the term *entrepreneurship* is associated with the organizing and managing of risky economic ventures for profit.² Scholars who have wrestled with the concept differ with this definition, and with each other, in terms of its emphasis on risk and profit, its lack of focus on innovation, and its failure to distinguish the entrepreneurial function from that of the manager, the capitalist or financier, or the inventor. As Hoselitz indicates: "A study of economists' opinions on entrepreneurship leads to strange and sometimes contradictory results. Some writers have identified entrepreneurship with the function of uncertainty-bearing, others with the coordination of productive resources, others with the introduction of innovations, and still others with the provision of capital."³

Two questions arise concerning the definition of *entrepreneurship*. First, on what basis can this term be used in non-profit-making parts of the economy? (Clearly this practice is at odds with common usage.) Second, what specifically does entrepreneurship comprise? A precise idea of what is involved in entrepreneurship is needed in order to analyze its implications. Joseph Schumpeter, in his analysis of economic development, gives the classic definition of *entrepreneur*.⁴ Schumpeter defines the entrepreneur as the individual who implements "new combinations of means of production." There are five possible types of these new combinations: (1) the introduction of a new economic good; (2) the introduction of a new method of production; (3) the opening of a new market; (4) the conquest of a new source of raw materials of half-manufactured goods; and (5) the carrying out of the new organization

of an industry, such as the creation or breaking up of a monopoly.

Schumpeter clearly focuses on implementation of change and innovation, as do other writers. For example, Angel, who studied development of the sun-belt cities of the United States, calls entrepreneurs "innovative capitalists."⁵ Matthew Josephson, who wrote on nineteenth-century industrial development, defines the entrepreneur as "one who feels the turn of the current before others."⁶ Collins and Moore, who studied individuals who undertook new business enterprises, define entrepreneurship as "the catalytic agent in society which sets into motion new enterprises, new combinations of production and exchange."⁷

Although the focus on innovation narrows the definition of entrepreneur from the broader concept of manager ascribed to by Marshall, the role of innovation in entrepreneurship can be overemphasized.⁸ As Schumpeter indicates, *entrepreneur* is not synonymous with *inventor* or *idea generator*, for new ideas must be implemented to effect new combinations. Nor is the focus on innovation restricted to originality. Although Angel asserts that entrepreneurs differ from nonentrepreneurs because the latter "seek only to accumulate capital by mimicking established business methods. . ."⁹, Schumpeter's definition would include mimicking behavior if it took place in a new context, for example, existing services to a new consumer group.

Entrepreneurship is usually associated with risk taking. As noted by Collins and Moore, "In the popular conception . . . the independent entrepreneur is a risk-taker—a man who braves uncertainty, who strikes out on his own, and who—through native wit, devotion to duty, and singleness of purpose—somehow creates business and industrial activity where none existed before."¹⁰ Schumpeter's definition, however, quite purposefully contains no explicit reference to risk. Schumpeter's point is to separate the role of entrepreneur from that of capitalist and to indicate that entrepreneurs may undertake no special financial risk in developing new enterprise, as it is others' capital that they are employing:

The entrepreneur is never the risk bearer. . . . The one who gives credit comes to grief if the undertaking fails. For although any property possessed by the entrepreneur may be liable, yet such possession of wealth is not essential, even though advantageous. But even if the entrepreneur finances himself out of former profits, or if he contributes the means of production belonging to his . . . business, the risk falls on him as capitalist or as possessor of goods, not as entrepreneur. Risk-taking is in no case an element of the entrepreneurial function. Even though he may risk his reputation, the direct economic responsibility of failure never falls on him.¹¹

Although financial risk bearing can thus be conceptually separated from entrepreneurship, it is clear why risk is correlated with this function. First, entrepreneurs

do often invest their own capital and, indeed, may be required to, in order to give other investors confidence in their commitment. (This situation does not, however, exist in the government and nonprofit sectors or in the context of entrepreneurship by large corporations, where entrepreneurs need not assume fiscal liabilities.) Also, as acknowledged by Schumpeter, risk may be other than financial. The outcomes of entrepreneurial activity are inherently less predictable than other forms of employment, yet entrepreneurs often put their reputations and careers on the line, in public view, with such ventures. Entrepreneurship may be safer than race-car driving, but it is more risky than the typical white-collar job. Furthermore, the inclination to take personal risks helps determine the boldness and innovativeness of ventures undertaken, for there seems an inevitable association between the degree of proposed change and the probability of failure.

Perhaps of the greatest interest here is the apparent connection of entrepreneurship to profit making. Cole, for example, defines entrepreneurship as "The purposeful activity . . . of an individual or group of associated individuals, undertaken to initiate, maintain, or aggrandize a *profit-oriented business* unit for the production or distribution of economic goods and services."¹² Despite the specific reference to the profit-making sector in this and other definitions and the specifically market-oriented context in which Schumpeter's discussion is posed, entrepreneurship is described basically as an organizing and promoting activity, which may be paid for by wages or other means, and which can, indeed must, take place in all economic sectors—profit oriented or not. Schumpeter's concept of implementing new combinations seems entirely applicable to the production of government, or nonprofit-sector services, although the motives and the specific forms and procedures for undertaking new ventures may differ.

Schumpeter's five types of entrepreneurial venture are based on an industry as the unit of analysis and involve changes in an industry's product, input, consumers, technology, or organizational structure. Entrepreneurs, however, operate not at the industry level, but at the level of the firm—the two levels being synonymous only in the case of a monopoly. From the viewpoint of the entrepreneur, then, it is desirable to classify ventures differently. Although they may be aware of this potential, entrepreneurs do not necessarily seek to change an industry; rather, they aim to implement a successful, firm-level enterprise, if only because the factors under their control, except in the case of a monopoly, operate at the level of the firm.

Collins and Moore describe a basic dichotomy in the form of entrepreneurial ventures—the distinction between setting up new organizations and developing ventures within the context of existing organizations.¹³ These authors indicate that the motives of entrepreneurs and the implications of either choice may be quite different. This point will be elaborated later. For the present discussion the relevant consideration

is whether the establishment of a new organization or a new program within an existing organization necessarily constitutes an instance of entrepreneurship. The answer depends on whether something new is being done and whether the firm-level action has industry-wide implications of the kind outlined by Schumpeter.

In the case of a new firm or organization, entrepreneurship almost always seems to be involved. New organizations are formed either to fill some empty niche in the industrial landscape—to offer a new product or serve a different set of consumers—or to substitute an improvement in the current regime—for example, use of a new technology, more economical input factors, or change of product quality. Furthermore, the introduction of new organizations inevitably alters the structure of the industry (Schumpeter's fifth criterion), if only slightly. Even where a new organization simply imitates the methods and services of another, some degree of innovation is likely to be involved, except perhaps in establishing franchise outlets, such as fast-food restaurants and automobile dealers.

The class of ventures that take place in the context of existing organizations requires closer inspection. In particular, what constitutes a new enterprise or program within a given corporate structure? Certainly a shift of personnel or the rearrangement or relabeling of boxes on an organization chart should not qualify as an entrepreneurial venture unless it signals a more fundamental change. Various types of changes do qualify, however, in the sense of leading to potentially substantive changes in the industry. Certain of these programmatic changes are obvious. If an organization adopts a new technology, provides a new service, or seeks a new consumer group, it is implementing a new combination and hence entrepreneuring. If an organization undertakes a major expansion (through internal growth or mergers) or diversification of its goods and services, even if these products are conventional, implications may abound for other firms and for the structure of the industry as a whole (for example, a shift from many small to a few large firms). Hence the venture would qualify as entrepreneurial.

Suppose that an organization radically shifts its services from one type to another. If the new service is novel in some sense, then the venture is clearly entrepreneurial, but even if the shift is from one conventional service to another, the venture may be indicative of change in the sense of an industry-wide shift from one source of demand, which is drying up (such as the demand for slide rules), to another, which is growing (for example, electronic calculators).

Another form of programmatic change that takes place in the context of existing organizations and that often indicates entrepreneurial activity is the revival of a failing organization. Organizations begin to fail for a variety of internal and environmental reasons. According to Hirschman's analysis of the processes of "exit and voice" a certain

level of oscillation of organizational deterioration and recuperation is to be expected.¹⁴ Correction of routine problems or reduction of slack through enforcement of existing methods and procedures or the shifting of personnel does not constitute entrepreneurship. Often, however, organizational failures are endemic to an industry. As noted above, the demand for certain products or services may decline because of changes in tastes or technological developments; changes in government policies may affect industrial fortunes (witness the role of public-university systems in the decline of some private universities or the effect on railroads of government spending on highways); or industries may age, and their technologies, capital facilities, and personnel capabilities may become obsolete (for example, the domestic steel industry in the older industrial cities of the Northeast). In such cases, entrepreneurial initiatives may succeed in turning organizations around through technological renovations, product reorientation, or structural changes in corporate financing and decision making, and these turnarounds may signal basic changes at the industry level.

In short, several types of developments at the organization (firm) level are strong manifestations of entrepreneurial activity. The establishment of new organizations constitutes one class. The development of new programs in the context of existing organizations is another. Both types of development can include the introduction of new goods or services, service to new consumer groups, introduction of new technical methods or inputs, or innovations in corporate structure and financing. New programs within established organizations may also encompass major growth and expansion or product diversification or simplification. Finally, the turnaround of failing organizations may be indicative of changes in products, clientele, methods, inputs, or financial and organizational strategies, all indicative of entrepreneurship.

In all these cases, of course, entrepreneurship is a matter of degree. New organizations and major programmatic changes in existing organizations (including organizational turnarounds) together provide many interesting cases. In some instances, ventures will be observed at the leading edge of industry-wide change. In other cases, imitative or following behavior may be an equally accurate characterization. In all cases, there will be some originality and some imitation, some industry-wide implications and some implications peculiar to the individual firm. It becomes a matter of judgment as to what constitutes a legitimate case of entrepreneurship and what does not. Nonetheless, the qualitative character of entrepreneurship is clear, as is the notion that new organizations and internal programmatic developments of the kinds just discussed are relevant manifestations.

The inclusion of new organizations and internal programmatic developments helps make obvious the omnipresence of entrepreneurship across the various sectors of the economy. Although the incidence and distribution of these events differ

among the public, nonprofit, and profit-making sectors, both new organizations and new program developments occur continually in all sectors. New governments occasionally form to replace old ones or to fill in new niches (metropolitan governments in some urban areas, new special districts or municipal incorporations, and so on). New government bureaus are formed with greater frequency, and program and policy changes are even more common. Failing governments also manage to extricate themselves from difficulty through major structural and programmatic shifts. Hundreds of nonprofit agencies are newly incorporated annually, and many new programs are established by the thousands of existing nonprofit organizations, associations, and federations. And struggling nonprofit universities, social-service agencies, fine-arts, and performing-arts organizations, and the like often save themselves from financial failure through entrepreneurial initiative.

Such a litany is, of course, familiar for the profit-making sector, in which many new businesses start each year, new products and technologies are developed, major corporations undertake multiple initiatives internally, and many firms come back from the edge of bankruptcy.

Because this book is fundamentally concerned with the nonprofit sector, particular illustrations from that part of the economy are useful to provide a specific sense of the nature and variety of nonprofit entrepreneurship and to indicate that nonprofit entrepreneurship is indeed a real, significant, and widespread phenomenon. This aim is most easily accomplished by reviewing a few fields of endeavor in which nonprofit activity is common.

The author's field studies in the broad field of child welfare focus on various manifestations of entrepreneurial venture. Several cases illustrate the founding of new nonprofits from scratch, and other cases describe new agencies that are spin-offs of parent organizations. One study reviews the formation of a new agency through the merger of two parent agencies. Another documents the experience of a social agency that radically changed its services (to juveniles) from one type (detention) to another (diagnostic). Still other cases illustrate the creation of new services by established agencies. A final set of studies describe dramatic turnarounds and growth of previously failing organizations.

Additional documentation of nonprofit entrepreneurial ventures in social services exists in the literature. For example, a collection of vignettes of over one hundred successful self-help projects in economically disadvantaged communities across the United States is presented in *Uplift*, under the auspices of the U.S. Jaycees Foundation.¹⁵ The projects cover a number of functional areas, including local economic development, education, employment opportunity, housing, social services, health services, offender rehabilitation, and community organization. The vignettes report the efforts of local people – housewives, working people, clergy, handicapped

people, social workers, minority-group leaders, ex-offenders, reformed alcoholics—to organize new programs and establish nonprofit organizations dedicated to solving or servicing some of the problems in their local communities.

Other literature is more confined and focused on particular cases. In a study of foster-care agencies by Young and Finch, several cases of entrepreneurial activity are cited, including an agency that was converted from proprietary to nonprofit form, agencies that changed or grew rapidly over short periods of time, agencies that developed innovative programs for delinquent children, and newly established agencies.¹⁶

Other children's service ventures have received more notoriety. Reverend Bruce Ritter has often been cited for his path-breaking developments at Covenant House, a nonprofit child-care agency—notably for its Under 21 program, which services teenagers in the Times Square area of New York City who have run away from home and become involved in prostitution and pornography.¹⁷ Other examples include Hope for Youth, a group home for abandoned or abused boys, established on Long Island in 1969 by Elizabeth Golding, a retired family court judge;¹⁸ the Human Resources Center, an education and training institution for the physically handicapped, founded in 1953 by Henry Viscardi, himself crippled from birth;¹⁹ and a home for boys in Guatemala, established in 1977 by John Wetterer, an American Vietnam veteran, with the support of the American Friends of Children, which he also founded.²⁰ Finally, a case of youth-oriented social-service entrepreneurship is described in detail by Goldenberg in *Build Me a Mountain*, which documents the formation and early operation of the Residential Youth Center in New Haven, Connecticut.²¹ The venture, which entails entrepreneurship by Goldenberg and a few of his associates, was funded by the U.S. Department of Labor through New Haven's community action agency and administered in conjunction with the Psycho-Educational Clinic of Yale University.

Another interesting case, provided by Moore and Ziering, describes several entrepreneurial efforts to address the heroin-addiction problem in New York City in the mid-1960s.²² Moore cites new programs organized within the city's Addiction Services Administration and Health and Hospitals Corporation as well as a venture based at the nonprofit Beth Israel Hospital. The latter was led by Vincent Dole, who developed the technique of methadone maintenance and organized and expanded a program within Beth Israel with public-sector (city) support.

The particular area of services to the elderly has witnessed a burgeoning of entrepreneurial activity over the last two decades. In the context of residential care, most of the action has been proprietary, but nonprofit activity also abounds.²³ Recent case studies of newly established nursing homes by Grennon and Barsky provide detailed examples of two nonprofit nursing-home ventures.²⁴ Other examples are referenced by

Vladeck.²⁵ Nonresidential services to the elderly are dominated more heavily by non-profits. Fueled in part by provisions of the Older Americans Act, initiatives in this field have skyrocketed. Activities include congregate meeting facilities, food and homemaker programs, transportation, health, and a variety of other services designed to enable the elderly to live in the community rather than in nursing homes. An outstanding example of nonprofit entrepreneurial activity in this area is the Minneapolis Age and Opportunity Center, Inc. (MAO), organized by Daphne Krause in 1969.²⁶ The MAO is considered a pioneering venture, developed from scratch by a highly energetic and determined layperson, to provide a range of health, home-support, economic, and other assistance to elderly in need in the Minneapolis region.

The growth of emergency-relief organizations and other major charities is a prime manifestation of nonprofit entrepreneurship and is often in the public eye. Some international efforts, such as Oxfam, established in England almost forty years ago to provide relief from famine,²⁷ or the now-legendary work of Nobel laureate Mother Theresa of India,²⁸ which has included the establishment of some 158 branch houses in thirty-one countries, are examples. In the United States, organizations like the Red Cross and the Salvation Army have long histories of organizing emergency-relief programs of various kinds.

The fund-raising activity of emergency-relief and other types of charities—specialized, like the American Cancer Society, or generalized, such as the United Way—constitute a rather visible aspect of nonprofit entrepreneurship. Fund raising for charitable causes has come to represent a business in many minds, raising suspicions about the wisdom and efficiency, if not propriety, with which such funds are disbursed. Certainly, as noted by Rose-Ackerman and others, the behavior of United Funds in establishing payroll-deduction plans and consolidating the fund-raising functions of multiple charitable causes through unified fund drives represents entrepreneurship—a developing of new combinations for production, in Schumpeter's terms.²⁹ (It has also engendered some resistance and indignation, as many such ventures do.)³⁰

United Way and other large charities are nonsectarian, but similar entrepreneurial behavior is found in the church-oriented charities as well. Merging of the fund-raising efforts of such organizations as the United Jewish Appeal and the Federation of Jewish Philanthropies in New York is one example. Fund raising is not the only direct aspect of entrepreneurship manifested by church-sponsored and other charities, however. Aside from funding various established non-profit operating agencies, such charities become involved in setting up new corporations and administering direct-service programs in a variety of fields. For example, Catholic Charities of New York has been active in promoting local parishes to establish senior-citizen centers and in establishing certain innovative programs, such as hospices for the terminally ill.

Another interesting entrepreneurial tack taken by some charities, especially those which have funded causes addressed to problems that have ultimately been remedied or ameliorated, is diversification into new fields. The branching of the March of Dimes from polio research into the problem of birth defects and of charities for the blind into services for the multiply handicapped provide familiar examples. Still, new charities continue to be formed, often reflecting the personal concerns of founders. An example is the Committee to Combat Huntington's Disease, established by the widow of Woody Guthrie, the folksinger who died of that illness.³¹

Another entrepreneurial direction taken by some charities and churches is providing services through commercial-type ventures. For example, the Agency for the Blind as well as a number of churches have been directly involved in housing construction for the elderly and handicapped.³² Fund raising through commercial-type activities—cake sales, benefit performances, raffles, auctions—has become an established practice for churches and other charities and is not confined to this part of the nonprofit sector. Many nonprofit organizations in a variety of fields have come to rely on commercial activities peripheral to their main purpose, such as sale of publications, property rental, gift shops, and insurance and travel programs, to generate revenues in support of service programs. Where such activity competes with private business, such nonprofit entrepreneurship has generated resentment and required scrutiny by the IRS.

Philanthropic foundations—large ones, such as Rockefeller, Mellon, Ford, and Carnegie, established through amassed family fortunes; those such as Johnson, Exxon, and Lilly, founded by large corporations; and many smaller ones—are an integral part of the world of nonprofit entrepreneurship. Foundations differ from charities—they have to give away money rather than collect it. In terms of entrepreneurial activity, however, there are similarities. For example, there are efforts, such as the New York Community Trust, to consolidate small, individual foundation resources to permit the funding of larger and more meaningful projects and to allocate resources in a more systematic way. More important, in providing services foundations have been active in the design and support of new ventures over a wide spectrum of social causes and often become involved in individual projects and programs. Areas such as research, higher education, social and economic development, and health are replete with illustrations of integral foundation involvement. The 1972 study by Nielsen reviews a variety of such examples;³³ in his subsequent book, Nielsen cites Andrew Carnegie and John D. Rockefeller as the developers of the modern foundation as a vehicle of social change and credits the Ford Foundation with stimulating modern-day support for the arts.³⁴

The field of higher education has produced several examples of nonprofit entrepreneurship since World War II. *Academic Transformation*, edited by Riesman and Stadtman, focuses on the crises of the 1960s and discusses such examples as the

innovations of Antioch, changes in programs at the University of Pennsylvania and Princeton, and the growth of Stanford.³⁵ The latter is by now a legendary success story, documented recently in the alumni paper, encompassing the transformation of a scholastically limited and financially insecure university into one of the economically and educationally strongest in the country.³⁶ President Wallace Sterling, Provost Frederick Terman, and others are credited with such major coups as the development of the Stanford Industrial Park and Stanford Medical Center, which exploited the riches of the university's real estate and emerging new technologies to push Stanford to the forefront of technical and academic excellence.

More recently, the resurgence of New York University (NYU) parallels the Stanford experience somewhat in its revival aspects. Under the leadership of John Sawhill, and with a boost from sales of (and reinvestment of revenues from) certain key assets, NYU expanded and began new construction at a time (the 1970s) when higher education was generally perceived to be in difficult straits.³⁷ Latent assets (Stanford's land, NYU's ownership of the C.F. Mueller spaghetti company) help explain these successes, but such assets by no means ensured active engagement in entrepreneurship. An interesting case to watch will be Emory University, recently the recipient of \$100 million from Robert W. Woodruff of Coca-Cola.³⁸

A rather offbeat example of entrepreneurship in higher education is provided by Nova University in Florida, which has pioneered in such areas as computer-assisted instruction and off-campus programs.³⁹ Nova was saved from bankruptcy in 1970 by the New York Institute of Technology, whose president, Alexander Schure, became chancellor of Nova. The expansionism of the New York Institute of Technology and the maverick nature of Nova's programs have stirred some local resentment in Florida, particularly since Nova became the prospective recipient of certain charitable bequests. Schure, however, appears to have a keen idea of what his own entrepreneurship is all about, arguing that institutions need to identify and exploit marketing trends to survive.

As chapter 4 will show, entrepreneurship commonly arises from institutional adversity. Stanford, NYU, and Nova bear witness to this. Other cases include the absorption of the troubled Peabody College by Vanderbilt⁴⁰ and the takeover of Simon's Rock College by Bard College.⁴¹ Another manifestation is the burgeoning of extension programs and the opening of out-of-state branches by many universities, in a "frantic search for students"⁴² Even in the era of fiscal stringency and projected enrollment declines, adversity is not the only springboard for entrepreneurship in higher education. Tufts, for example, has opened a major veterinary school in anticipation of synergistic growth with other health-science units on the campus.⁴³ Professional education has witnessed a great deal of recent nonprofit entrepreneurship, not only in the expansion of schools in such growing disciplines as law, medicine, and business, but also in the

birth of a whole generation of interdisciplinary schools since the late 1960s, for example, the School of Organization and Management at Yale, the Kennedy School of Government at Harvard, and the School of Urban and Public Affairs at Carnegie-Mellon University. In a related development, universities and their faculties have seized on the opportunities for funded research by establishing a myriad of nonprofit research institutes, such as Stanford Research Institute, Yale's Institution for Social and Policy Studies, Columbia's Center for Policy Research, and Michigan's Institute for Social Research.⁴⁴

Research institutes outside the university context are another prime manifestation of recent nonprofit entrepreneurship. Such organizations as the Urban Institute (under the leadership of William Gorham), the Vera Institute of Justice, and the Research Triangle Institute have emerged as major providers of research and policy studies in the 1960s and 1970s, while older institutes such as the Brookings Institution and RAND Corporation have grown and diversified significantly in this area.⁴⁵

As reviewed by Nielsen, health care is another field in which nonprofit entrepreneurship has flourished in various forms.⁴⁶ Recently, organizational units centered on medical innovations—open-heart-surgery units, organ-transplant programs, and burn-treatment centers—have been started in nonprofit medical centers. An especially interesting development is the hospice conceived by Dame Cicely Saunders in England and recently implemented in a number of U.S. nonprofit settings, including the Good Samaritan Hospital in West Islip, New York and Mercy Hospital in Rockville Center, New York.⁴⁷ These hospices are designed to provide a comfortable, hospitable environment for the terminally ill.

The rising costs, increasing governmental support, and growing sophistication and specialization of health care have spurred a number of different types of nonprofit organizational ventures. Somers and Somers identified the trends toward more comprehensive medical institutions and systems of care.⁴⁸ The advent of Medicare and Medicaid have led public hospitals, such as those administered by New York City's Health and Hospitals Corporation to contract and local voluntary (nonprofit) hospitals to absorb the case loads and in some cases the administration of formerly public facilities.

More commonly, successful nonprofit hospitals, such as Long Island Jewish—Hillside Medical Center in New York, have expanded through merger, that is, by acquiring nearby proprietary facilities or other nonprofits with administrative problems.^{49,50} One motivation for such merger activity is the fact that expansion-minded hospitals have faced resistance to new building programs from cost-conscious government officials who believe that there are already too many beds available.⁵¹ Buying up existing capacities circumvents this resistance.

Cost considerations are also a prime factor in the development of prepaid

medical care provided by health-maintenance organizations (HMOs). Pioneered by the Kaiser Hospitals in California (see Lehman)⁵², HMOs have begun to develop more rapidly with the advent of federal-assistance grants. The new Community Health Plan of Suffolk, the expansion into hospital care by the Health Insurance Plan of Greater New York (HIP), and the Blue Cross HMO in New Hyde Park are recent examples of HMO activity.⁵³

The area of law services and legal advocacy provides additional examples of recent nonprofit entrepreneurship, for example, by Ralph Nader in the public-interest law movement. This includes the formation of research institutes, such as the Center for the Study of Responsive Law, and the founding of public interest law firms, gathering momentum around 1970 with support of the Ford Foundation.⁵⁴

The performing arts constitute another broad area of activity where nonprofit entrepreneurship has lately been much in evidence. As reviewed by Nielsen, the number of major opera companies, symphony orchestras, dance companies, and legitimate theaters more than doubled in the 1968-1978 period.⁵⁵ Netzer cites the establishment of regional and touring companies, such as the Baltimore Opera Company and Trinity Square Repertory in Providence as significant developments.⁵⁶

Many other examples are cited in the press. The Performing Arts Foundation (PAF) Playhouse in Huntington, New York is one illustration in the field of dramatic performance.^{57,58,59} Founded in 1966 by a high-school teacher with a large grant from the U. S. Office of Education, the theater was intended as a medium for arts education and as a community theater for presentation of revivals. By 1974, however, the theater was seriously in debt and threatened with closing. Under the leadership of its board president—folksinger Harry Chapin—and newly appointed director Jay Broad and with substantial help from private foundations, government, and major corporations, PAF was transformed from a local repertory theater into a regional, professional theater which presents primarily original works. Over the period 1975-1978, the budget tripled, subscriptions rose from 2,000 to 14,000, and a new half-million-dollar theater was constructed. Unfortunately, the theater experienced renewed difficulties and folded a few years later, following Mr. Chapin's untimely death.

Other recent examples of nonprofit enterprise in drama include the Arena Stage in Washington, D.C. and the New York Shakespeare Festival in Manhattan. The Oregon Shakespeare Festival reflects nonprofit entrepreneurship on a smaller but no-less-interesting scale.⁶⁰ Founded by Angus Bowmer in 1935, it began as a community celebration of the Fourth of July, in Ashland, Oregon, with performances by students and faculty of Southern Oregon State College. The festival now runs a dozen plays per season in three theaters and draws a quarter of a million people.

On Long Island, orchestral music provided an active entrepreneurial context

in the late 1970s. Originally two orchestras consisting largely of part-time musicians—The Suffolk Symphony and the Long Island Symphony—served the two counties of Nassau and Suffolk. With impetus from Harry Chapin, a full-time professional orchestra—the Long Island Philharmonic—was formed to replace these two orchestras. The Long Island Symphony, composed of resident musicians, refused to go out of business, however. Disbanded by its board of directors, this orchestra has reorganized as a musicians' cooperative.⁶¹

Ventures like The Kennedy Center in Washington or the Lincoln Center in New York represent major milestones of interdisciplinary performing-arts enterprise. The Lincoln Center, begun in 1959 under the leadership of John D. Rockefeller, was conceived as an urban redevelopment project that would bring under one roof a "community of the arts."⁶² The center has indeed been an ambitious undertaking, now housing The New York Philharmonic Orchestra, the Metropolitan Opera, The New York City Ballet, the Juilliard School of Music, a repertory company, a chamber-music hall, and a library-museum. The Kennedy Center in Washington was envisioned as a national center for the performing arts during the Eisenhower years, but was reconceived as a memorial to John F. Kennedy after 1963. It opened in 1971 and has been developed under the dynamic joint leadership of Roger L. Stevens, board president, and Martin Feinstein, its first executive director.^{63, 64} Stevens, a lifelong theater entrepreneur, and Feinstein, a trained musician and impresario, are generally recognized to have helped put Washington on the cultural map with top-flight dramatic theater, ballet, music extravaganzas, summer opera, and visiting world-renown opera companies.

Art museums have been one of the most dynamic areas of nonprofit activity in recent years. As Meyer notes:

Since 1950 the United States has committed at least a half billion dollars to the construction of 10.2 million square feet of art museums and visual art centers, the equivalent footage of 13.6 Louvres.⁶⁵

New museums continued to be founded, often to display art forms not previously provided special recognition. The International Center of Photography in New York City is a recent example, as was the Museum of Modern Art (MOMA) in an earlier era (1929).⁶⁶ The recent activity of a group in Los Angeles to found a modern-art facility is an additional illustration.⁶⁷

New museums are often set up to display the private collections of rich men who donate their treasure to the public. The Hirschhorn Museum in Washington, D.C. and the Kimbell Art Museum in Fort Worth (under the leadership of Richard Brown) are important recent examples.⁶⁸ Meyer describes additional examples, including

the Norton Simon Museum in Pasadena and the Brundage wing of the De Young Museum in San Francisco.⁶⁹ The Parrish Museum in Southampton, New York is an older and smaller illustration of the same phenomenon.⁷⁰

Other museums are founded by historically minded entrepreneurs to preserve local treasure. The new art museum (1978) of the Museums at Stony Brook (New York) is devoted to works of the local, renowned nineteenth-century artist William S. Mount. Other museums, like Gallery North in Setauket, New York, which recently converted from proprietary to nonprofit status, are established to display the works of local, living artists.

Within the realm of long-established museums, entrepreneurial activity seems to have taken at least three different directions—the development of new functional subdivisions, the undertaking of commercial ventures to generate financial support, and the creation of popular new exhibitions. An example in the first category is the plan of the Los Angeles County Museum to construct a modern-art wing.⁷¹

The engagement in commercial sales in support of organizational purposes is a relatively common phenomenon among nonprofits, but some recent initiatives by museums have drawn particular notoriety. In real estate, for example, the Museum of Modern Art in New York has undertaken construction of a forty-four story condominium over a six-story museum building in an effort to generate revenues to offset its increasing operational expenses.^{72, 73}

The project caused substantial protest, with critics charging that a profit and loss orientation would force the museum to alter its artistic priorities. Other objections included loss of tax revenues to the city and architectural considerations. In a similar vein, museums have enormously increased their activity in the domain of retail sales—for example, memberships that include magazine subscriptions, gift shops, and sale of art reproductions. The larger museums, at least, appear to have learned the lesson taught by Olson, that public goods can be better provided if they are tied in with selective private goods.⁷⁴ Hence the receipt of fine magazines (unavailable on newsstands) like *The Smithsonian* or *Natural History* or discounts on reproductions of museum pieces increases general-membership support. The Metropolitan Museum of Art reportedly grossed over \$16 million in 1978 in commercial revenues (not including memberships and admissions). Smithsonian gift shops drew \$7 million, and many other examples can be cited.⁷⁵

The growth in commercial-sales revenue is closely tied to the most spectacular recent museum innovation—the grand exhibition, or super-show, best exemplified by the Metropolitan Museum of Art during the dynamic tenure of Thomas Hoving, with its King Tut (Tutankhamen) tour of 1978.⁷⁶ This exhibit was followed at the Metropolitan by other blockbusters, including Pompeii 79, Alexander the Great, and Treasures of the

Kremlin, and by such grand exhibitions as the Cezanne and Picasso shows at the Museum of Modern Art.⁷⁷ These large and spectacular shows, often based on foreign-loan collections, have generated considerable revenues for the museums, largely through sales of reproductions and boosted interest in memberships, but they have also generated considerable tension and controversy in the museum world. Seen as a lifeline to rescue museums from the ravages of inflation, the shows are also said to threaten some of the nonprofit museum's basic purposes, such as the discernment of new directions in the art world, art education and research, and other artistic concerns not subject to popular appeal.

As for entrepreneurs in the world of nonprofit museums, the recently deceased Richard Brown and the dynamic Thomas Hoving provide captivating, if very different, examples. Brown was a scholar, teacher, and connoisseur whose desire, according to a colleague, was to "realize an institution that was concerned with excellence, that would provide the finest of visual experiences for the viewer."⁷⁸ Hoving, on the other hand, is generally acknowledged to be the most dynamic executive to enter the museum world in many years. A flamboyant entrepreneur, Hoving was characterized by one observer as "A P.T. Barnum."⁷⁹ At the Metropolitan Museum of Art, Hoving is credited with securing large, expensive, new collections and controversial art objects, with initiating a major building program that cost more than \$70 million and with planning spectacular exhibits like Tutankhamen. Meyer cites several other fascinating entrepreneurial characters in the museum world, including S. Dillon Ripley of the Smithsonian, Francis Henry Taylor of the Metropolitan Museum of Art in the 1940s and 1950s, and Sarah Newmeyer of the Museum of Modern Art, each of whom was responsible for major innovations in museum operations.⁸⁰

In most of the fields reviewed, parallel instances of entrepreneurship can be cited for the profit-making and governmental sectors as well. Proprietary hospitals and nursing homes, government social-service programs, public-education and research initiatives, public museums, and proprietary theater are all rich with contemporary examples. Thus, precisely what factors influence the selection of sector for entrepreneurial activity is not simply a superficial matter of associating a given service with a given economic sector. This question will be explored later in much greater depth.

Nonprofit entrepreneurship is not restricted to the several areas discussed above. Other fields, such as publishing or recreation, provide further illustrations. Some of the most often-cited recent examples of nonprofit entrepreneurship are not easily distinguished from market-oriented commercial ventures. For instance, the new YMCA facility in Washington, D.C. has a sauna, whirlpool, steam room, large pool, and so on and caters to the upper-middle class, with membership fees to match.⁸¹ The Educational

Testing Service (ETS) is another nonprofit enmeshed in controversy for its recent market-making behavior.⁸² Having grown into an \$80 million business, ETS is offering a more diversified set of aptitude and job-placement services, some say at the expense of profit-oriented business competitors. Finally, a venture like Erhard Seminars Training (EST), founded in 1971 by Werner Erhard and boasting a \$15 million operation by 1978, has grown on the unique chemistry of evangelism, salesmanship, and a keen eye on what the market will bear for people who can pay to improve themselves.⁸³

Nonprofit entrepreneurship is thus a diverse and widespread phenomenon. Yet it has been argued that the nonprofit sector suffers from a lack of entrepreneurship and entrepreneurial talent.⁸⁴ In relative terms, this may be true, but there are no adequate measures. What is clear, however, is that entrepreneurship in the nonprofit sector, as elsewhere, represents the cutting edge of the sector's activity, and, as such, its study helps to reveal the driving forces and underlying character of its member organizations.

Of course, entrepreneurship is just one important phase of activity that takes place in an economic sector, and entrepreneurs are just one set of actors who help determine the general patterns of behavior. Certainly, as observed in chapter 9, the motivations, intentions, and circumstances that characterize entrepreneurship may be dissipated over time, as entrepreneurs leave their ventures to successors or as they themselves change or face new exigencies. Furthermore, as discussed in chapter 4, organizations are not only established or grow or change for the better, as normally reflected in entrepreneurship, but they also pass through stages of relative equilibrium and sometimes stagnate or die. These latter aspects of organizational life are also important in establishing overall sector patterns and trends, although it seems plausible that the incidence of entrepreneurship, or lack of it, during periods of organizational uncertainty or stagnation may help account for ultimate survival or demise. Entrepreneurial leadership, or lack of it, can never fully explain why organizations prosper or decline or behave in particular ways. Labor-market trends that affect the cost and availability of particular types of personnel, such as volunteers and paraprofessionals, the cost of other inputs, the nature of societal demands for particular types of goods and services, the alteration of public policies, the demands of labor unions, and the availability of capital may all be beyond entrepreneurial control yet may largely account for global shifts among fields of activity and sectoral shifts within a given field. Still, it may be argued that the manner in which entrepreneurial talent responds or fails to respond to such general changes in context will be highly informative of the vitality and behavior peculiar to particular sectors.

Entrepreneurship is viewed here as an especially useful focal point for attempting to characterize a number of crucial aspects of organizational and sectoral behavior—for example, the extent to which growth, innovation, self-aggrandizing, quality-

emphasizing, cost-inflating, socially responsive, market-dominating, or zealously missionary activity are exhibited, or not exhibited, by nonprofit organizations. The reasons for this view are twofold.

First, entrepreneurs are often founding fathers of their organizations, and leaders in their industries. As such, their values and personal motivations for venture will tend to shape in a significant way the organizations that they are establishing or changing. Second, enterprise is the means through which many forms of organizational behavior are exhibited. If an organization is growth oriented, it will grow through enterprising. If it is innovative, it will innovate through new ventures. If it is self-aggrandizing or aspires to market dominance, these goals will be sought largely through the implementation of new enterprise. If such characteristics are lacking, there will be a dearth of entrepreneurial activity.

Still, as noted previously, describing entrepreneurial motives or the nature of enterprising projects alone is insufficient for generalizing to overall patterns of organization behavior. The role of entrepreneurs and the incidence of venture must be placed into a wider perspective in order to discern where entrepreneurship is likely to take place, how it will vary from one context to another, and how it will be shaped and modified by environmental circumstances.

The next chapter begins to address these questions by considering various scenarios by which entrepreneurial activity typically takes place.

Notes

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