

# *Preface*

This volume addresses the need to revisit the very economic theories that in the past two decades have contributed so much to the development of a concentrated research agenda on nonprofit organizations. Long neglected as a topic of theorizing and empirical investigation by mainstream economics in particular, these initial theories of nonprofit organizations, introduced by Burton Weisbrod (see Chapter 3 by Kingma and Chapter 4 by Slivinsky) and Henry Hansmann (see Chapter 5 by Ortmann and Schlesinger and Chapter 6 by Hansmann) and others in the late 1970s and early 1980s, continue to shape theoretical and conceptual efforts. Importantly, their influence extends beyond economics and informs sociological and political science approaches to the set of organizations and institutions located between the market firm and the state agency as well (see Chapter 10 by Wolpert, Chapter 11 by Salamon, and Chapter 12 by Wolch; also Anheier & Ben-Ner, 1997; DiMaggio & Anheier, 1990).

While the theoretical map of nonprofit research has expanded beyond these early attempts and now includes several other major theories such as stakeholder approaches (Chapter 1 by Ben-Ner and Gui, and Chapter 7 by Krashinsky), supply-side or entrepreneurial theories (Chapter 8 by Badelt and Chapter 9 by Young), institutional theories (Chapter 17 by DiMaggio), and comparative approaches (Chapter 15 by Anheier; see also Salamon & Anheier, 1998), we nonetheless suggest that it is time to take stock and reexamine some of the very basics from which these economic theories operate. This is the main purpose of the book.

Three topics emerge as central issues that together account for a need to reevaluate economic reasoning about nonprofit organizations: First, we feel that there is a strong need to assess available theories in the light of the empirical evidence that has become available in recent years; second, we see an

equally strong need to take stock of the conceptual inventory of the terms used in constructing economic theories in the field; and third, we need to evaluate the extent to which microeconomic theories do in fact inform empirical research as well the extent to which this research contributes to theoretical advancements in economics as well as in other social sciences. We will briefly address each issue.

## BROAD BODY OF EMPIRICAL EVIDENCE

Recent years have witnessed the accumulation of empirical work that puts theories at least partially to test. Such work provides evidence for key aspects in support of general theoretical reasoning as well as particular hypotheses, but also for propositions and underlying assumptions (see Chapter 16 by Steinberg). For example, Steinberg and Gray (1994) offer a summary of empirical studies as they relate Hansmann's trustworthiness thesis and arrive at a mixed verdict: "Hansmann's predictions are well supported in some nonprofit industries, doubtful in others" (1987, p. 13; see also Chapters 5 and 6). Similarly, Weisbrod (1998) tests differences in consumer preferences and organizational behavior between for-profit, public, and nonprofit service providers (see also Chapter 3 by Kingma and Chapter 4 by Slivinski). He finds that theoretical expectations fit religious nonprofit organizations far better than secular nonprofit organizations, which are closer to for-profit and public sector providers in terms of the variables examined. Thus, organizational form, at least to some degree, seems to matter in understanding organizational behavior; yet religion and other basic value orientations seem to matter even more.

There has been a considerable amount of empirical work on nonprofit organizations not only in the United States (Hodgkinson, Weitzman, Abrahams, Gutchfield, & Stevenson, 1996) but also in many other parts of the world (Salamon & Anheier, 1996; see Chapter 15 by Anheier). Cross-industry and cross-national comparisons are increasingly becoming available and we need to weigh their evidence against the theoretical expectations that flow from microeconomic models (see Chapter 13 by Galaskiewicz and Bielefeld, and Chapter 14 by Brody). Frequently, these works cannot be used to test microeconomic theories and hypotheses directly, yet they nonetheless can take on a very important role in helping specify the conditions when a particular theory might apply and when not.

What are the theoretical implications for existing theories of nonprofit organizations? Where do we find conclusive and where contradictory evidence in support of one theory or another? What questions were examined more successfully and by what theory? What new developments and revisions of theories does the empirical evidence suggest? Thus, this volume aims at assessing

current economic thinking on nonprofit organizations by taking inventory of how well theoretical expectations match the empirical evidence that has been accumulated in recent years (see Chapter 16 by Steinberg).

## THEORETICAL INNOVATIONS AND REFINEMENTS

The last decade of nonprofit sector research was not so much a decade of basic theoretical innovation; much work was achieved primarily between 1975 and 1985 when Henry Hansmann's trustworthiness thesis, Burton Weisbrod's public goods theorem, Estelle James's heterogeneity argument and other economic theories were first introduced to provide theoretical foundations to a newly emerging field (see Rose-Ackerman, 1996; Hansmann, 1987; DiMaggio & Anheier, 1990, and Anheier & Ben-Ner, 1997 for background reading). Rather than that, it was a period of theoretical refinements and elaborations.

While the notions of trust, information asymmetry, public goods, demand heterogeneity, and transaction costs continue to serve as the building blocks of economic theories in this field, recent work expanded on previous research and improved our understanding of the origins of nonprofit organizations. While these improvements have been useful for our understanding of nonprofit organizations, we feel that there is nonetheless a need to reconsider the conceptual inventory of microeconomic theories. Specifically, we need to revisit the notions of trust and trustworthiness as they relate to risk and risk absorption, the implications of the theoretical equivalence between religious and secular behavior in economic models, and the array of pricing and costing options for public, quasi-public, and private goods and services that come into focus when considering nonprofit over alternative ways of service provisions.

Thus the present volume addresses the question if, and to what event, the conceptual inventory of nonprofit sector research is adequate to the task at hand, and explores avenues that might lead to an improvement, if applicable, of the basic "building blocks" of theories.

## THEORETICAL INERTIA

The third reason for this volume relates to the way in which existing nonprofit theories are treated by economists and noneconomists alike. The social sciences have a tendency to retain "old" theories as basic reference points even though the theories themselves may no longer be fully adequate for current research efforts. We are therefore sensitive to the possibility that economic theories may not inform empirical research to the extent needed for continued

theoretical development. For example, there is a tendency to portray all non-profit theories as rival when some are, in fact, meant to compliment each other. Perhaps the best example is the sharp distinction that is sometimes drawn between the trustworthiness argument and the median voter thesis in public goods approaches (see Chapter 16 by Steinberg).

Moreover, some researchers in the field, particularly from outside economics, may be unaware of the often significant improvements and refinements of the early nonprofit sector theories and may mistakenly interpret first formulations as state of the art. How helpful, we ask, have economic theories been for other social sciences? Perhaps researchers may even perceive a theoretical “map” of the field much different from the one in economics?

At the same time, however, economists themselves may be unaware of much important work that takes place in the other social sciences, and economic theories may well benefit from the insights offered by sociology, political science, law and history—insights that could well contain conceptual and empirical material useful for economic theory building. Here we point to institutional theories (Chapter 10 by Wolpert) and organizational analysis (see Chapter 13 by Galaskiewicz and Bielefeld), in particular, population ecology (Chapter 17 by DiMaggio).

Thus this volume, while primarily targeted at and for economists, keeps on eager eye on other social sciences to help improve the interdisciplinary flow of communication in an effort to reduce potential theoretical inertia that seems to have built up in the field in recent years.

## PLAN OF THE BOOK

The origins of the book go back to 1995 when the editors organized a symposium on “Economic theories of nonprofit organizations” at Yale University. The symposium brought together many of the scholars whose papers on the subject on economic theories of the nonprofit organizations are now collected in this volume. Earlier versions of five of the papers included here appeared in abbreviated form in a special issue of *Voluntas* in 1998 (Volume 2, issue 2). These papers by Ortmann and Schlesinger, Kingma, Badelt and Steinberg have been revised and expanded for this book; only one paper from the 1998 *Voluntas* issue, that is, on stakeholder theories of the nonprofit sector appears in its original form. All other contributions were especially commissioned.

Economics and the social sciences advance through debate among scholars, by the posing of arguments and counter-arguments that examine theories against available evidence, question assumptions, or bring in different perspectives. This ‘give and take’ in theoretical advancement is the basic model that underlies this book. After two overview chapters by Ben-Ner and Gui,

and Bacchiega and Carlo Borzaga that attempt a critical synopsis of the state-of-the-art, the book addresses each of the leading theories in more detail: the public goods theory, the trust-related theories, stakeholder theories, entrepreneurial theories, and partnership theories.

In each case, we have argument and counter-argument in the sense that a separate, stand-alone chapter follows the critical evaluation of the theory in terms of evidence, assumptions, and fruitfulness. This chapter typically relates to both the theory and the evaluation of it, and develops different arguments and arrives, in most cases, at different conclusions. We also invited chapters that bring in different perspectives, in particular, organizational theory and policy analysis to both complement and challenge economic reasoning in this field.

Taken together, we hope that the contributions to this volume will push the academic discussion forward, and offer students and experts alike a useful introduction to a field of study that, while still young, has been able to accumulate a rich empirical and conceptual knowledge base.

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