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**THE ROLE OF THE NONPROFIT SECTOR
IN A SELF-GOVERNING SOCIETY**

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Abstract

This paper explores the role of private, nonprofit organizations in a self-governing society. An attempt is made at sketching a framework that usefully identifies the diverse theories that explain the various types of organizations that are observed in contemporary American society and providing a fuller understanding of the varied and complex ways that nonprofit organizations contribute to the institutions of governance.

THE ROLE OF THE NONPROFIT SECTOR IN A SELF-GOVERNING SOCIETY

I. INTRODUCTION

Scholars are fond of referring to Tocqueville's analysis (1969) in highlighting the importance of voluntary association in American society. They often translate voluntary association into nonprofit organization. Such organizations are viewed as a form of collective action based on consensus. However, the reality is not as idyllic as some would like to believe. Although nonprofit organizations represent a form of voluntary collective action, contemporary nonprofit organizations are inexorably tied to government. They are chartered by states and receive favorable treatment with respect to taxes and regulations from governments at all levels.¹ In addition, many receive public funding.

So, what precisely is the role (or roles) of nonprofit organizations in a self-governing society? To answer this question requires that we first make clear what we mean by a self governing society, and second, define what we mean by the term "nonprofit".

What do we mean by a self-governing society? Individuals have the capacity to govern themselves. In effect, they can organize themselves to act collectively to solve common problems. Typically governing is equated with government, either a unitary government or a system of governments. Government is an institution created by society where certain powers are ceded which are "coercive"--the power to tax; the power to determine property rights; the power to regulate. However, there is much confusion about the distinction between governing and government. In fact, all too often the two concepts are used interchangeably. Government is just one means of governing, albeit often the primary one. This paper explores the role of nonprofit organizations in a self-governing society. In particular, the role of nonprofits in governing independent of government or governments, in tandem with government or governments, or in collaboration with government or governments.

It is useful, indeed vital, in such an analysis to be mindful of three levels of the analysis of governing institutions. These are the constitutional; collective choice; and operational (Ostrom, 1986). The first level is the defines the structure of governance--the rules by which collective decision are made. Essentially these are the rules for governing. The second level focuses on the making of collective decisions. It is here that public policy making takes place. The third level of analysis is the implementation of the collective decisions. These are the operational (management) decisions--the ground level of governing.

What do we mean by the nonprofit sector? There is general consensus about the business sector--those organizations that exist to make and distribute profits. Likewise, we generally agree about what distinguishes government (the public sector)--those structures that tax and spend and legislate and regulate. However, the view of organizations that populate the nonprofit or third sector is much less clear. Organizations in the nonprofit sector are a heterogeneous lot--the local homeless shelter, the United Way, Stanford University, the IU Foundation, Cedars Sinai Hospital, the local Catholic school, the local Baptist church. This makes it more difficult to develop a general model to study the array of organizations in the sector.

Salamon (1993) has offered a confluence of characteristics which he considers the hallmark of the sector: formal; private (independent of government); self governing (organizationally); not-for-profit (nondistribution of profits); voluntary; and for the public benefit. The first three characteristics are not unique to the nonprofit sector. They characterize the private sectors, both for-profit and nonprofits. The fourth characteristic, based on Hansmann's (1980) work, has become the common thread across nonprofit organizations. But this unifying thread is merely the constraint on nonprofit (tax-exempt) organizations, imposed by tax law. The last two characteristics seek to define a mission or, in economic parlance, an objective function. However, these two dimensions are problematic as well. Not all nonprofit sectors are philanthropic, in the sense of relying on voluntary contributions (either time or money). Moreover, there is considerable debate about what precisely one means by public benefits. It is precisely these last two dimensions which are at the heart of the question about the role of the nonprofit sector in a self-governing society.

It is the central contention of this paper that to fully understand the role of nonprofit organizations in a self-governing society we must be more cognizant of how varied the missions or purposes of nonprofit organizations are, particularly in the context of serving public (or civil or civic) functions. Of critical importance in such an exercise is delineating the varied purposes within the sector that are manifested in different types of organizations. The objective functions are not nearly as well specified as the constraints imposed by government (the nondistribution and the reasonable compensation constraints) and the market (costs must be covered).

We believe that the answer to the question of the role of the nonprofit sector in a self governing society is far from simple. Nonprofit organizations are heterogeneous. This diversity is critical to understanding the different ways in which different types of nonprofit organizations contribute to a self governing society.² While all nonprofit organizations embody, to differing degrees, collective action,

the reasons are varied and have significant implications for the way society governs itself.

In this paper we consider three different functions of nonprofit organizations. Within the market, we consider the role of nonprofit organizations in service delivery. In politics, we consider the function of nonprofits in the policy making process and the function of nonprofit organizations in governing. In order to understand the contribution of these various types of nonprofit organizations to self-governance, in each instance we examine the extent to which they stand alone; interact within other organizations within the nonprofit sphere; and interact with governments? In so doing, it is imperative that the interaction be considered explicitly with respect to the three levels of governing-rules for making collective decisions, collective choices, and their implementation.

II. NONPROFIT ORGANIZATIONS AND SERVICE DELIVERY

The most well developed theories of nonprofit organizations relate to organizations with a primary objective to deliver services. There are basically three theories of nonprofit organizations that fall into the service delivery rubric: public goods theory; contract failure theory; and club goods theory. Each focuses on the nature of the service to be delivered.

Public Goods

The public goods theory of nonprofit organizations assumes that nonprofit organizations are an important institutional option in satisfying collective demands (Weisbrod, 1988). The market fails in dealing efficiently with public goods, and there is a need for collective action. This typically leads to the presumption that government should step in. However, there are two options: public or nonprofit. In terms of service provision, government is appropriate when there is sufficient demand to generate the majority for action and the demands are homogeneous. However, when a majority cannot be sustained or there are heterogeneous preferences, the nonprofit option is likely to be preferred.

This theory suggests that individuals can form a nonprofit organization to provide public benefits independent of governmental action. In fact, many services offered by government today were initially offered by nonprofit organizations. These nonprofit organizations cater to particular groups, in an effort to overcome the free rider problem that is often associated with public goods. Within these groups or communities, the nonprofit organizations are a self-governing arrangement. A cluster of such organizations, when viewed

in aggregate can be thought of a self-governing system. But unlike a system of governments in a metropolitan area, there is no guarantee that everyone is covered.

There are some arrangements within the nonprofit sector that increase the possibility of nonprofit organizations becoming a more encompassing system for self-governing. One such feature is where nonprofit organizations form alliances to pursue common interests. Insufficient resources is a common "failure" of the nonprofit sector. United fundraising programs such as the United Way are a mechanism in which they try to enhance their fundraising capacity through scale economies (Rose-Ackerman). In addition, the alliances might form to share information and technical assistance.

There is also the possibility that within the nonprofit sector partnerships are formed between different types of nonprofit organizations. For example, one of the common funding sources for the nonprofit sector is private foundations. They often will provide the substantial funding to service delivery nonprofits to pursue common objectives.³

But as collective action becomes manifested in government action, we find that nonprofit organizations are a vehicle for reacting to government choices. They either provide an alternate to government action (e.g., private schools vs. public schools) or serve to augment or complement government action (e.g., religious instruction). In either case, nonprofit organizations react to choices made by government. Nonprofit organizations make possible greater community satisfaction than would likely be attained if government was the only option.

But nonprofit organizations also interact with government in a more concerted way through collaborations and partnerships. The rise of the American welfare state has been accomplished by the public funding and nonprofit production of social services (Salamon 1987). Rather than one sector maintaining responsibility for the varied dimensions of service delivery (planning, financing, and production) there is an attempt to capitalize on the relative strengths of governments (planning and financing) and nonprofit organizations (production with innovation and responsiveness).

Information Asymmetry

The contract failure theory of nonprofit organizations is based on the principal agent problems that exist for some goods and services in the marketplace. This creates a failure within the market that may be addressed either through government regulation or through nonprofit supply. The promise of nonprofit organizations as a remedy for contract

failure stems from the fact that such organizations, under tax law, are constrained from distributing their profits (residuals) either directly or implicitly through unreasonable compensation. As a consequence, nonprofit organizations are presumed to be more trustworthy than for-profit organizations. They have less incentive to exploit their informational advantage over the consumers.

Nonprofit organizations that are best described by this form are not as integral to a discussion of a self governing society as those that fall under the public goods theory. Yet, there is still a role that this type of nonprofit organization can play. The contract failure nonprofit may serve as a buffer to regulation of the production and distribution of goods characterized by information asymmetry. As such, the nonprofit form is an institutional alternative to the proprietary (for-profit) organization. In addition, where governments seek to contract for the delivery of public services, there is the possibility that due to the "trustworthiness" of the nonprofit form, the nonprofit organization is a preferred contractor option (Ferris and Graddy, 1994).

Club Goods

Club good theory is used to explain nonprofit organizations that exist for the benefits of the nonprofit organization's members. Club goods are characterized by jointness in consumption, but are congestible. Individuals or (organizations) will band together to ensure that the goods will be provided under conditions which they control, including being able to exclude individuals from participating and benefiting. This theory is used to explain an array of nonprofits, commonly referred to as mutual benefit organizations, such as trade associations (e.g., American Hospital Association, The Independent Sector, The U.S. Chamber of Commerce), labor unions (The California Teachers Association, the Federation of State and Municipal Workers), and credit unions (Indiana Federal Credit Union). As service providers these groups are important in providing benefits more efficiently to members than individual members alone could obtain.

Implications for Self Governing

These three theories (rationales) of service delivery nonprofit organizations suggest that nonprofit organizations can stand alone, either solitary or in conjunction with other nonprofit organizations, as an important arrangement for self governing. However, there is reason to underscore the interdependencies with government when the dynamics of collective action are recognized. This is particularly true for those organized to deliver services with significant public good attributes. While service delivery nonprofit organizations were at one time heavily

reliant on philanthropic support (either donations of time or money), the reality is that most have become heavily dependent on government funding.

Government funding in and of itself need not obviate the self-governing capacity of nonprofit organizations. The nature of the relationship is critical. Do the nonprofit organizations simply become vendor, competing among themselves to meet government contract specifications? Or do the nonprofit organizations forge a more direct collaboration with government where they are jointly making decisions and pooling resources? If the answer to the first question is yes, then the nonprofit organization is no more unique than the for-profit firm, and the potential for self governing is circumscribed. On the other hand, if the answer to the second question is yes, then the contributions of nonprofit organizations to self-governing are more promising.

III. NONPROFIT ORGANIZATIONS AND THE PUBLIC POLICY PROCESS

Not all nonprofit organizations exist to deliver services. Individuals organize collectively in order to advance their interests in public policy. There are a variety of organizations not focused on service delivery as much as trying to shape the outcomes of government action. Various types of these organizations have been the subject of scrutiny in various literatures, e.g., social movements, community-based organizations, and interest groups. These literatures-with different disciplinary perspectives, different interests, and different purposes-are seldom linked to one another. For our purpose, however, there is a need to develop a framework to relate these various types of policy process organizations to one another. This requires that nonprofit organizations are not viewed merely in the context of agenda setting, policy adoption in particular substantive areas, or empowering particular groups, but rather as institutions for self-governing.

We suggest a typology of policy process organizations that coincides with the different levels of institutional analysis: civic nonprofits that are concerned with the structures of collective decision-making; policy advocacy nonprofits that are concerned with the enactment of particular policies; and policy implementing nonprofits that are concerned with the implementation of public policies.⁴

Civic Nonprofits

There are those nonprofit organizations who seek to monitor and improve the workings of government. We will refer to these groups as civic nonprofits. These organizations gather and disseminate information so that citizens can participate more effectively in the

political process and more easily monitor and hold accountable public officials and agencies. Among such organizations we might include the League of Woman Voters and Common Cause.

The outcomes of these organizations, although not likely to be tangible in the sense of a good or service, can be characterized by nonrivalness and nonexcludability. For example, intentions of the civic nonprofit organizations are to improve the workings of the formal governmental structures. In so doing they are creating a public good. Such a function can hardly be performed by an individual. Nor is it likely that a for-profit organization would be able to deliver such an outcome. Aside from the dilemma of generating the necessary revenues to underwrite such activity; there is always the issue of "standing" in overseeing the governmental processes.

Policy Advocacy

Policy advocacy nonprofits aim to influence the outcomes of the public policy making process by shaping the policy agenda, offering and analyzing policy options and monitoring the implementation of adopted policies. These groups are typically organized around substantive policy arenas (education, the environment, family and children, and the poor) or around economic interests (trade associations, professional groups, and business coalitions).

The policy advocacy organizations are a bit different. Their success in policy making and implementation is nonrival. But, it is more of a zero sum game. Some will view the outcomes favorably while others will view them unfavorably. In this sense, it takes on the characteristics of a club good. In effect, it provides a public good to those individuals who have an interest in the goals and mission of the advocacy organization. Of course, there are limits of the advocacy nonprofit to control the good, since it does not have exclusive decision making power.

Policy Implementing Nonprofits

Another form of nonprofit organization viewed as being central to the policy making process are policy implementing nonprofits. The service delivery nonprofits, particularly those involved with services characterized as public goods (which we have already discussed), fit into this role. At the same time, community-based or neighborhood-based organizations also fit into this category.⁵ They are viewed as a form of self help with a focus on those communities or neighborhoods which do not rely on the more formal, established nonprofit sector or public policies.

Of special note are community based organizations. Community based organizations can be explained by club goods theory. In fact, they fit neater than policy advocacy nonprofit organizations. The community based organization is focused on delivering, in terms of public policy outcomes, for the members of its community. They are keenly interested in supporting policies and programs that benefit their members exclusively and working to implement them so as to control and shape programmatic outcomes.

It is possible to adopt the theories of nonprofit organizations that have been developed in the context of service delivery, in particular the public goods and club goods theories to explain why individuals are willing to form such associations. All three of these types of policy process nonprofits are predicated on government. What distinguishes them is how they relate to the various level of "action" in the governmental arena.

Implications for a Self Governing Society

It is clear that such organizations would not exist to fulfil their policy process functions without the existence of formal governmental processes. Their missions are conditioned on the existence of government, and in many ways they are part of a governing process ensuring that political institutions are responsive to society. In this sense they are qualitatively different than service delivery nonprofit organizations. They are an integral feature of a self governing society. In this case, the issue is not whether they are independent of government, but rather the nature of the interrelationship.

Civic nonprofits assume a variety of roles and functions in seeking to ensuring a more effective and responsive government. They do this by providing information and informed public discourse (e.g., The League of Women Voters) as well as monitoring government processes and suggesting reforms in rules for making public decisions (Common Cause and Committee for Term Limits). In the first instance, the relationship might be interpreted as supportive and in the second instance as adversarial.

Policy advocacy nonprofits, in pressing for the adoption of their desired public policies, are an important component of the policy making processes in a pluralistic democracy aside from the more actions that individuals take in the various forms of direct democracy. Nonprofits can perform analyses as well as generate support for their policy positions. Support can be generated by lobbying representatives as well as public administrators. Many of these organizations are also responsible for building support among the public through educational programs.

Policy implementing nonprofits are of two types: partners in the implementation of public policies such as service contractors (which has been discussed previously in the context of service delivery nonprofits); and as monitors to ensure that policies are implemented effectively. In the first instance, it is a partnership, and in the second instance a supportive or adversarial relationship, depending in part on the mindset of government and the nonprofit organization.

It is worth underscoring once again, as in the service delivery case, public policy process nonprofit organizations can act singularly or in cooperation with other like-minded nonprofit organizations. There are obvious benefits, both in terms of resources as well as impact, to establishing alliances. In addition, there may well be partnerships that develop between policy process nonprofits and foundations, or even policy process nonprofits and service delivery organizations.

This discussion indicates that policy process nonprofit organizations are an integral part of governing through government. Their role is to help ensure the proper function of governing by government. However, it is possible that government will fail the governing test, even in the presence of such nonprofit organizations. This raises the possibility of nonprofits serving a governance function when government fails.

IV. NONPROFIT ORGANIZATIONS AND GOVERNANCE

As a society becomes restless with the inability of its government to deal with problems for which responsibility has been assigned, it appears there is an increasing reliance on a type of nonprofit organization that has been largely ignored in the nonprofit literature. These are nonprofit organizations that replace government in terms of government's governing function. Rather than just adding voice to the governmental processes, they provide-with a substantial degree of independence from government--a context for collective decision making, policy formulation and policy implementation.

Among the potential sources of government failure are: 1) a lack of understanding about how to tackle the problem; 2) a lack of legitimacy of government action; 3) a lack of broad based political support; 4) a lack of fiscal resources; and 5) a lack of a long term decision making framework. To pursue policies in the face of these shortcomings poses considerable risk for government officials and often contributes to government paralysis.

Consider a few examples of such nonprofit organizations that have been created in recent years in Los Angeles. In 1991, despite a decade of education reforms, continued frustration and discontent on the part of business, parents, teachers and the district itself led to the creation of LEARN (Los Angeles Education Alliance for Restructuring Now). This nonprofit was formed to analyze the options for improving school performance through decentralization and to build public support for systematic reform and to help finance the transition in school governance.⁶

In the aftermath of the Rodney King verdict and the riots in Los Angeles in 1992, Rebuild LA (RLA) was formed to marshal forces of the public and private sector to revitalize the impoverished areas of Los Angeles. The city rather than undertaking the task itself, initiated the creation of this nonprofit as a response to the civil unrest. RLA was an attempt to establish a more legitimate vehicle for collective action in the most affected neighborhoods as well as to generate private funds.

In addition, prior to these crisis responses, the LA 2000 was formed to explore ways to improve the future quality of life in Los Angeles. It was a strategic planning exercise to contemplate the Southern California region's future needs and problems and to delineate options for responding, including proposals for new governance structures.

These organizations are strikingly different than the majority of organizations that fall under the policy process nonprofits previously detailed. The key difference is that these are broad-based. These organizations represent efforts to bring together various groups to solve critical problems of interest in Los Angeles. This is distinct from the particularistic nature of other types of nonprofits, i.e., targeting a well defined constituency and cultivating a committed donor base. This is a key aspect of self-governing-being able to build coalitions so as to arrive at collective decisions-which governments are sometimes unable to accomplish. Indeed, the need to build coalitions across disparate groups is underscored in Los Angeles with its racial and ethnic diversity and its geographic expanse.

Who spurs the creation of these nonprofit organizations? In some instances, they are initiated by government (as in the case of RLA), in other situations they are initiated by concerned citizens and civic leaders (such as the case of LA 2000). Regardless of the source of the impetus, they tend to include government officials. In effect, they are not independent governing bodies, but rather organizations that are an aid to helping governments overcome their governing failures. In effect, we might view them as a corrective to government failure.

In a sense, we have delineated governing nonprofits into two categories: the policy process nonprofits whose role is intricately linked to government structures and those that are more distinct from government institutions. This, in a sense, is an artificial distinction. After all, in our discussion of service delivery nonprofits we allowed the possibilities that government acted independently of government as well as in conjunction with it. Yet, it seems that making this distinction might be helpful in further prodding more careful reflection of the importance of the nonprofit sector in the governing process. Perhaps, the emerging democracies will provide a laboratory for better understanding the role of nonprofits in governing, both with government and without.

V. IMPLICATIONS AND NEXT STEPS

The nonprofit sector is instrumental in a self governing society. The precise manner varies by the functions of the organizations as well as the level of governing. This analysis of the role of nonprofit organizations in a self governing society indicates that discussions about governing that focus exclusively and perhaps predominately on government institutions are incomplete and may lead to erroneous conclusions. It suggests that there is a need to integrate discussions about the nonprofit sector into the traditional discussions about politics and markets. Moreover, such discussion must be cognizant of the variegated nature of the nonprofit sector and the complexity of interactions with the other sectors, in particular government.

This analysis also suggests a need for an ambitious research agenda to more fully explore the *roles* the nonprofit sector play in a self-governing society. Much has been done on service delivery nonprofits. The greatest need is for developing a set of theories and frameworks for better understanding the policy process and governance nonprofit organizations. Of critical interest is the nature and effectiveness of their relationships with government as well as with each other in achieving collective action.

To the extent that the roles of nonprofit organizations in self-governance are clarified, it will help in the design of public policies toward the nonprofit sector. Recognition of the varied types of organizations and their differing roles should lead to a more careful analysis of public policies and their impact on nonprofit mission, behavior and performance.

In addition, understanding the various roles should enable nonprofit organizations to think and act more strategically, both individually and collectively. It should help raise their consciousness (or at simply remind them) of their contribution to institutional arrangements

for governing aside from their articulated missions. And, it should make them more aware of the implications of their behavior and performance above and beyond their substantive objectives.

ENDNOTES

1. At a minimum, nonprofit organizations are chartered by state or federal governments. Nonprofit organizations are granted preferential tax treatment. Virtually all organizations classified as 501 under the Internal Revenue Code enjoy an exemption from corporate income taxes at the federal and state levels. This may or may not mean much, depending on their ability to generate profits or residuals. In addition, many of them also enjoy exemptions from a variety of other state and local taxes. In addition, a particular class of nonprofit organizations, 501 (c)(3), also enjoys a benefit in that contributions made to the organization by individuals or corporations are tax deductible. These organizations are viewed as acting for the benefit of the public and do not spend a preponderance of their efforts engaged in the policy making processes. Those that are more intimately involved in lobbying are classified as 501 (c)(4) organizations. Although tax exempt, contributions to these organizations do not enjoy tax deductibility.
2. This is in stark contrast to the recent efforts of Lohman (1992) to develop a overarching framework for looking at the similarities among nonprofit organizations.
3. The foundation is a form of giving that is more formal and long lasting than individual charitable contributions. Although there are a variety of types of foundations, they serve for the most part as funding intermediaries. They are a mechanism to fund efforts of nonprofit organizations.
4. We recognize that they need not be mutually exclusive. For example, many of the service providers are engaged in the policy making process to further their interests or those of their clients. This often takes the form of securing funding, but may also extend to issues of tax and regulatory policies. Yet, there are a variety of policies that nonprofits might pursue in their advocacy role that need not relate to service delivery via nonprofit organizations.
5. Community-based organizations are more multidimensional than most nonprofit organization types. Their focus on self-help underscores their involvement in service delivery. They provide a governing structure for their community in addition to becoming an advocate within the more formal policy making process.
6. There is also an example of a foundation creating a research center for a predetermined period of time to do research and to help formulate policy options--The California Higher Education Research Center.

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