



Civil Society and Non-Profit Organizations:

What are the Issues?

Helmut K. Anheier, January 2013



What's behind a Label?



The Ford Foundation in New York City

Voluntary associations, like sport clubs



Kindergarten...



Greenpeace in Action...



And what about...



A Hospital...?



Organized demonstration outside Hertie School, expert discussion within, both part of the nonprofit sector...



Bird's eye view of the Getty- Center, founded by G. Paul Getty...



Why Worry About Nonprofits?

Policy Approaches



Four main arguments or policy approaches

- New Public Management
- Neo-Tocquevillian ideas
- Social Accountability
- Social Innovation



”The rise of nonprofit organisations as service-providers as part of public-private partnerships and under the rubric of new public management and the rise of markets and quasi-markets in areas that have hitherto been part of the welfare state plus new needs.”

(NHS in UK, reframing subsidiarity, US welfare reform, CEE, WB – NGO relations, China)



A simple equation (No 1)

less government =
less 'bureaucracy' =
more flexibility =
greater incentives =
greater efficiency
(and perhaps greater effectiveness as well).



“The (re)discovery of civil society, and the growing awareness among policymakers that the very social fabric of society is changing.”

(Call for civic renewal at national level / Active Citizen Unit, UK; civil society commission in Germany; UN/WB/EU stress civil society, civic engagement)



A simple equation (No 2)

more engagement =
more trust =
makes good citizens =
makes for better economy
and increases social cohesion



“The role of nonprofits in governance as part of a wider social accountability perspective that sees them as instruments of greater transparency, heightened accountability and improved governance of public institutions.”

(party system, media seen as inadequate; NGOs watchdogs & whistle-blowers; participatory budgeting; WB public budgeting; TI, EITI)



A simple equation (No 3)

citizens demand of accountability =
more public accountability and transparency =
better public sector performance =
good economy, social self-organization



“Nonprofits are better at social innovation than governments typically are. A new form of partnership aimed at scaling up nonprofits innovations, provides for a more flexible, less inert public sector“

(Big Society in UK; Social Innovation Fund, US)



A Simple equation (no 4)

Social entrepreneurship=
social innovation=
more effective, efficient public services, problem solving

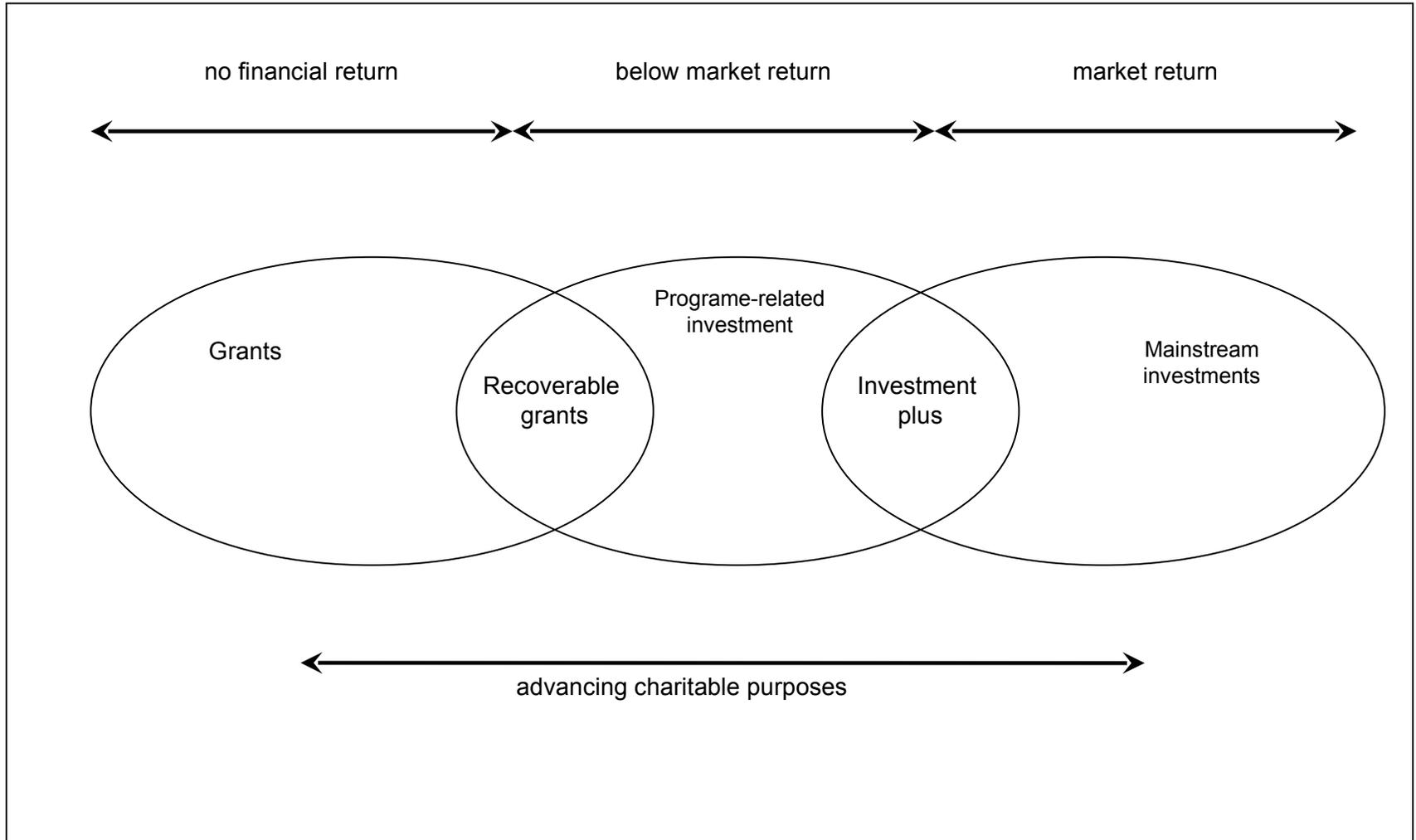
(what happened to the state as innovator?)



Private contributions to public benefit

- implicit distinction that these contributions are investments rather than current expenditures intended for consumptive purposes.
- private actions benefit a wider community, however defined, and of which the investor may or may not be a part
- not only monetary but also contributions in kind count as investments.

Investment and Return





- Private Equity and Venture Capital that can support start-up organizations, either forprofit or nonprofit) through debt or equity investments;
- Loans to nonprofit organizations, with or without equity participation to privately held for-profit companies, and (typically) microfinance loans to individuals; mezzanine forms of capital combine external capital without voting rights with own assets;
- Loan guarantees that secure loans or bond issues and lower the cost of capital to be borrowed by either forprofit or nonprofit corporations; they can also increase access to capital markets; and
- Bonds and Deposits, including mortgage-backed securities, community development bond offerings, and (in the US) certificates of deposit at community development financial institutions.



Agendas, Definitions, Facts



Basic Nonprofit Sector Research Questions

	LEVEL OF ANALYSIS AND FOCUS		
BASIC QUESTION	<i>Organization</i>	<i>Field/Industry</i>	<i>Economy/Country</i>
Why?	<i>Organizational Choice</i>	<i>Field-specific division of labor</i>	<i>Sectoral division of labor</i>
How?	<i>Organizational efficiency etc; management issues</i>	<i>Comparative industry efficiency and related issues</i>	<i>Comparative sector roles</i>
So What?	<i>Distinct characteristics and impact of focal organization</i>	<i>Distinct characteristics and impact of focal organization</i>	<i>Sector-specific contributions and impacts cross-nationally</i>



Definitions and the **terminological tangle**

- ***Charity***
- ***NGOs***
- ***Économie sociale* or social enterprise, public benefit corporation**
- ***nonprofit organizations / sector***

The structural/operational definition (Salamon & Anheier)



Emphasizes not the purposes of the organizations or their sources of income but their basic structure and operation

- **Organized**
- **Private**
- **Non-profit-distributing**
- **Self-governing**
- **Voluntary**



By "***contribution***" or "***function***" we mean the normal tasks or roles that these organization can be expected to perform:

- **Service Provider Role**
- **Vanguard Role**
- **Value Guardian Role**
- **Advocacy Role**



Organizational Behavior and Impact

What is special about nonprofit organizations? Three major aspects:

1. Values

→ complex characteristics and influences of values (enabling or restraining; protecting or stifling; leading or misleading; invigorating or distracting).

2. Multiple stakeholders

→ managing nonprofits is managing multiple organizational components

3. Multiple revenue

→ multiple revenue streams under performance uncertainty



Civil Society

- Long intellectual history (Kant, Hegel, Fergusson, Tocqueville)
- Rediscovery 1989 and aftermath

“a sphere of ideas, values, institutions, organizations, networks, and individuals located between the family, the state and the market.”

→ analytic abstraction

Countervailing force keeping power of markets and the state in check:

“That set of non-governmental institutions, which is strong enough to counterbalance the state, and, whilst not preventing the state from fulfilling its role of keeper of peace and arbitrator between major interests, can, nevertheless, prevent the state from dominating and atomising the rest of society“ (Gellner 1994: 5).

→ functional definition



Civil Society (cont.)

“a complex and dynamic ensemble of legally protected non-governmental institutions that tend to be non-violent, self-organizing, self-reflexive, and permanently in tension with each other and with the state institutions that ‘frame’, constrict and enable their activities” (Keane, 1998:6).

→ mixed definition

Concept of self-organization



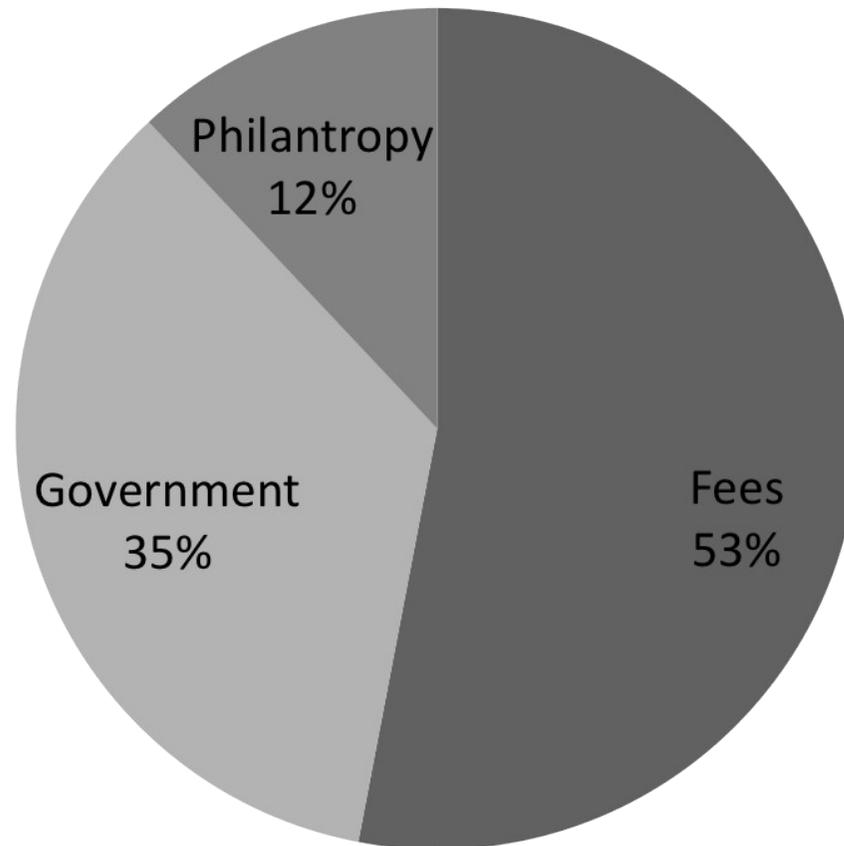
Some Facts



Some facts

- 5-7% of total employment in OECD
- Significant growth in economic importance of third sector, with 5% growth rates annually in some countries (1990s)
- Education, health, social services account for 65-70% of expenditure
- Increase in associational density
- Increase in number of foundations, assets
- Greater policy recognition

Revenue Structure



Country-average



Theory



Major theoretical approaches

- **Heterogeneity Theory:** Public Goods or Governmental Failure Theory
- **Supply Side Theory:** Entrepreneurship Theory
- **Stakeholder Theory**
- **Trust Theory:** Contract or Market Failure Theory
- **Interdependence Theory:** Voluntary Failure/3rd Party Gov't Theory
- **Social Origins Theory**

Synoptic Presentation: Major 3rd Sector Theories

THEORY	SUMMARY	KEY TERMS	KEY STRENGTH	KEY WEAKNESS
Heterogeneity Theory <i>A.k.a: Public Goods or government al failure theory</i>	Unsatisfied demand for public and quasi-public goods in situations of demand heterogeneity leads to emergence of non-profit providers	Demand heterogeneity; median voter; government; quasi-public goods	Explains part of government-private institutional choice dynamics in liberal democracies in the context of public fund shortages; why non-profits become 'gap-fillers.'	Assumes inherent conflict between government and private nonprofit provision
Supply Side Theory <i>A.k.a: Entrepreneurship theory</i>	Non-profit organisations are a reflection of demand heterogeneity served and created by entrepreneurs seeking to maximise non-monetary returns	Social entrepreneurship; non-monetary returns; product bundling; demand heterogeneity	Explains close link between value base of many non-profits and choice of service field such as health and education (to maximize value impact and formation)	Assumes neutral state; equates religious and secular value-based behaviour; what about non-value based nonprofits?

Synoptic Presentation: Major 3rd Sector Theories

THEORY	SUMMARY	KEY TERMS	KEY STRENGTH	KEY WEAKNESS
Stakeholder Theory	Given information asymmetries between provider and consumer, stakeholders decide to exercise control over delivery of service	Nonrival goods; information asymmetry; trust; Principal-agent problems	Introduces tripartite relation as basic theoretical problem and goes beyond simple principal-agent issues: Stakeholder – provider -- recipient	Scope of theory limited to experience of informational problems faced by deeply concerned stakeholders —what about more conventional nonprofits
Trust Theory <i>a.k.a.: Contract or market failure theory</i>	Non-distribution constraint makes non-profits more trustworthy under conditions of information asymmetry which makes monitoring expensive and profiteering likely	Non-distribution constraint; Trustworthiness; information asymmetry	Explains part of nonprofit – for-profit institutional choice from supply-side perspective, with focus on inherent problems in ‘nature’ of good or service	Other institutional responses possible (government regulation); nonprofit constraint weakly enforced; indirect profit distribution possible (for profits in disguise)

Synoptic Presentation: Major 3rd Sector Theories



THEORY	SUMMARY	KEY TERMS	KEY STRENGTH	KEY WEAKNESS
<p>Interdependence Theory <i>a.k.a: voluntary failure theory or third party government theory</i></p>	<p>Because of (initial-ly) lower transac-tion costs, non-pro-fit organisations pre-cede government in providing public be-nefit goods, but due to “voluntary failu-res” develop syner-gistic relations with the public sector over time</p>	<p>Philanthropic insufficiency, particularism, paternalism, and amateurism; third party government</p>	<p>Moves away from zero-sum, competitive relation between voluntary sector and government; explains frequent pattern of public-private partnerships</p>	<p>Assumes neutral, yet well-meaning state; equates value-based and non value-based behaviour; when will synergies develop and when not – conditions unclear</p>
<p>Social Origins</p>	<p>The size and struc-ture of the non-profit sector are a reflec-tion of its ‘embed-dedness’ in a com-plex set of rela-tionships, classes, and regime type</p>	<p>Comparative-historical approach; path-dependency; state-society relations</p>	<p>Move away from emphasis on micro-economic models and puts interdependence theory in context</p>	<p>Difficulty in testing counter-factual as nonprofit form varies significantly over time and across countries/cultures</p>



- Developed in response to limitations of economic approaches on the one hand, and conventional welfare state literature on the other.
- Institutional theory emphasising different ‘moorings’ of nonprofit sector
- Comparative historical in approach, macro-level theory

Government social spending	Economic Non-profit Sector Size	
	<i>Low</i>	<i>High</i>
<i>Low</i>	Statist (Japan, most developing countries)	Liberal (US, UK)
<i>High</i>	Social democratic (Sweden, Norway, Denmark, Finland)	Corporatist (France, Germany, Italy?)



Nonprofit Sector Scale and Volunteering

NONPROFIT SECTOR TYPE	SIZE OF PAID LABOUR	VOLUNTEER INPUT
<i>Liberal</i>	High	high
<i>Corporatist</i>	High	low
<i>Social Democratic</i>	Low	high
<i>Statist</i>	Low	low

Third Sector Models and Emphasis

IMPORTANCE OF SERVICE-PROVISION	IMPORTANCE OF CIVIL SOCIETY COMPONENT	
	Lower	Higher
Lower	Statist	Social-Democratic
Higher	Corporatist	Liberal

Additional literature: See debate / contributions in *Voluntas* 9 (3) about social origins theory by Steinberg & Young, Ragin, and response by Salamon and Anheier.



Initial Agenda (-1990s)

- Organizational focus
- Service delivery
- Several major theories introduced
- Value base, multiple stakeholders, multiple revenue sources
- Product bundling
- Complex impact record



Key insight

- There are good reasons why nonmarket firms exist in market economies.
- They require an adequate legal and policy framework to bring their advantages to the forefront (direct contributions, positive externalities), and avoid shortcomings and failures



1995-2005 Agenda

- Privatization and PPP: efficiency, devolution
- Social Capital, Civil Society: cohesion, self-organization
- Social Accountability: watchdogs



Key insight

- Nonprofits are useful tools of government reform (privatization)
- Nonprofits can be used for market reform as well (quasimarkets)
- They are also good partners in PPP



Conclusion: 2010 onwards

- How do societies invest in their own future when government are no longer able or willing to take both leading or primary roles?
- Calls into focus all sectors
- New division of labor? Expect many hybrids