

Voluntas, 8:2, 1997, 93-96

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*Economic theories of non-profit organisations: a Voluntas Symposium**

Background

The 1995 *Voluntas* Symposium addressed 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 non-profit organisations. These theories, introduced by Burton Weisbrod, Henry Hansmann and others, continue to shape theoretical and conceptual efforts, not only in economics but also in sociological and political science approaches to the study of the non-profit sector. While the theoretical map of non-profit research has expanded beyond these early attempts and now includes several other major theories – most notably Lester Salamon's third-party government or interdependence theory – we suggest that it is time to take stock and re-examine some of the very basics from which these economic theories operate.

Three topics emerge as central issues that together account for a need to re-evaluate economic reasoning about non-profit organisations. First, we feel that there is a strong need to assess available theories in the light of the empirical evidence that has become available; 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 micro-economic theories do in fact inform empirical research as well as the extent to which this research contributes to theoretical advancements in economics and in other social sciences. We will briefly address each issue.

Broader empirical base

Recent years have witnessed the accumulation of empirical work which puts theories to test and provides evidence for key aspects in support of one theory or another. For example, Steinberg and Gray 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' (1993, p.13). Similarly, Weisbrod (1993) tests differences in consumer preferences and organisational behaviour between for-profit, public and non-profit service providers. He finds that theoretical expectations fit religious non-profit organisations far better than secular non-profit organisations which are closer to for-profit and public sector providers in terms of the variables examined. Thus, organisational form, at least to some degree, seems to matter in understanding organisational behaviour; yet religion and other basic value orientations seem to matter even more.

There has been a considerable amount of empirical work on non-profit organisations not only in the United States (for example, Hodgkinson and Weitzman, 1996) but also in many other parts of the world (for example, Salamon and Anheier, 1996). Cross-industry and cross-national comparisons are increasingly becoming available and we need to weigh their evidence against the theoretical expectations that flow from micro-economic models. Frequently, these works cannot be used to test micro-economic theories and hypothesis directly, yet they nonetheless can take on a very important role in helping to specify the conditions when a particular theory might apply and when not.

What are the theoretical implications for existing theories of non-profit organisations? 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, the Symposium aimed at assessing current economic thinking on non-profit organisations by taking inventory of how well theoretical expectations match the empirical evidence that has been accumulated in recent years.

Theoretical innovations and refinements

The last decade of non-profit sector research was not so much a decade of basic theoretical innovation in economic theorising; such work was achieved primarily between 1975 and 1982 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; and Hansmann, 1987, 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 has

expanded on previous research and improved our understanding of the origins of non-profit organisations (see Rose-Ackerman, 1996, for a summary of recent literature). While these improvements have been useful for our understanding of non-profit organisations, we feel that there is nonetheless need to reconsider the conceptual inventory of micro-economic 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 behaviour 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 non-profit over alternative ways of service provisions.

Thus the Symposium addressed the question if, and to what extent, the conceptual inventory of economic theories is adequate to the task at hand, and explored avenues that might lead to an improvement, if applicable, of the basic 'building blocks' of theories.

Theoretical inertia

The third reason for this Symposium relates to the way in which existing non-profit theories are treated by economists and non-economists 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 complement each other. Perhaps the best example is the sharp distinction that is sometimes drawn between the trustworthiness argument and the median voter thesis that underpins the public good theorem.

Moreover, some researchers in the field, particularly from outside economics, may be unaware of the often significant improvements and refinements of the early non-profit sector theories and may mistakenly interpret first formulations as the 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. The voluntary failure theory introduced by Lester Salamon is perhaps the prime exemplar to prove that economic theories may well benefit from work done outside their disciplinary boundaries.

Thus the Symposium, while primarily targeted at and for economists, sought to be aware of the insights offered by other social sciences. A key aim was to help improve the interdisciplinary flow of communication in an effort to begin to counteract the theoretical inertia that seems to have built up in the field in recent years.

Notes

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- * The 1995 Voluntas Symposium was supported by the Center on Philanthropy, University of Indiana; the Institution for Social Policy Studies and the Program on Nonprofit Organizations at Yale University; the Center for Social Research and Instruction at Rutgers University; and the International Society for Third-Sector Research at Johns Hopkins University. The support of these institutions is gratefully acknowledged.

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