



EMERGENCE OF NON-PROFIT ORGANIZATION WITH ITS PROSPECT

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Abstract:

The explanations of how and why non-profit organizations are formed have been provided since decades ago. Along the time, researchers have come out with more and more hypotheses and theories in this field. By analysing various ideas from different points of views, the changing of marketing and social situation can be substantially depicted. The comparisons among the existing theories may also give us a clearer understanding on the formation of non-profit organizations. We may then observe this field with a more comprehensive view, and seek to move forward.

JEL: D23, L31, L39, H41

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1. Introduction

In 1975, Burton A. Weisbrod published an article, in which he approves non-profit organizations that fulfilled the shortages of the demands for public goods. He provides a fundamental model of the formation of non-profit sectors. After more than twenty years, Bruce R. Kingma (1997) provided an article about the theories of public goods in the non-profit organizations, based on the revisited Weisbrod's model. In Kingma's article, Weisbrod's theories are not only reviewed and expanded, but also come through empirical tests. There are lists of different theories proposed by other researchers along the years as well. In Kingma's article, he gives analysis and comparisons among all the theories and Weisbrod's model. As another decade passed, Stijn Van Puyvelde and William A. Brown (2016) provided another empirical article to explain the reason why non-profit organizations exist. They process a more consolidated structure to figure out

the diversities in non-profit sector density. They come up with various hypotheses depended on peculiar dimensions of the formation of non-profit sectors. They also go through an investigation about the determinants of non-profit sector density, and submit actual data as the result of their research. In the end of their article, they give evidence and explanations to their hypotheses.

Those examinations and extensions to the Weisbrod's model by Kingma (1997), as well as the hypothesis by Stijn Van Puyvelde and William A. Brown (2016) will be firstly introduced in this article. The beginning paragraphs are meant to give an overview to all the theories and hypotheses throughout the decades, followed by a discussion of the research question: *"Why do we need new theories, as Weisbrod already provided a model thirty years ago?"* Finally, this article will end with a summary of those theories and a concluding thought of the answer to the research question.

2. Important Theories from the Weisbrod revisited by Kingma (1997)

It was considered by Weisbrod that there was discontented demand for the public goods under government's operating. In Weisbrod's model, non-profit organizations exist because they would satisfy the demand which the government fails to provide. Those people who seek the improvement of the supply of public goods would be the ones who donate to non-profit organizations, which is how the organizations are financed. This model obviously shows a proper understanding of how the non-profit sectors were formed in the market by that time. However, this model has been questioned and revised by other researchers over these years. The necessity of those revisions will be discussed in the later chapter. The followings are the theories provided by Weisbrod in the past, together with the extensions of them from other researchers along the time.

2.1 The original ideas and the revisions of them

In this part, we are going to discuss some of the major theories provided by Weisbrod, such as the pure public good theory, the impure altruism theory, the output of the non-profit sector, the heterogeneity hypothesis, and the trust theory. Weisbrod's original ideas will be firstly introduced. According to the ever-changing market and society, it is difficult to avoid newly popping-up opinions from arguing with the original thoughts. Consequently, we will also demonstrate other researchers' theories to show how have the logic changed over the decades.

a) The pure public good theory

To begin with, we learn the pure public good theory from Weisbrod, suggesting that if donative non-profit organizations implement pure public supply, an expansion in government spending will have dollar-for-dollar "crowd-out" to altruistic contributions. Nonetheless, over the time, other researchers have found evidence to prove the fact that it should not be exactly one dollar to one dollar. For example, studies from Kingma (1997) and Kingma and McClelland (1995, P. 66, 1, 65-76) show a cutting of 15 to 19 cents for every dollar of governmental spending on the public radio station. To sum up, the fact of less than dollar-for-dollar crowd-out indicates that the Weisbrod's original idea of donative contributions does not completely speak for the performance of donors. In fact, to make benefaction to non-profit organizations, there must be something extra than the provision of mere public service to attract donors. This idea leads us to the theory of impure altruism.

b) The impure altruism theory

The idea of impure altruism explores the effects of individual motivations on the behavior of contributors. We see that the theory of impure altruism suggests that donors gaining both public and private advantage from their contributions. The personal benefits such as social reputation, fame, comfort of guilt, power of controlling over certain organizations, or a pair of warm gloves are things donors might receive from giving. Correspondingly, as government spending increasing, the contributions offered by donors do not cut back dollar-for-dollar, since the donors earn the personal advantages from their contributions. All in all, the crowd-out less than one dollar for one dollar is approved by the impure altruism theory, which makes the theory more rational to the real situation.

c) The output of the non-profit sector

The non-profit supply was commonly taken as public good provided by non-profit sector. Nevertheless, Weisbrod believes that instead of taking the output as public good, but creating it as a private good with specific expense will let for-profit bodies to rival by releasing a similar product into the market. Due to the competition, non-profit organization may be dominated more efficiently and therefore increase non-profit supply.

The idea from current studies point out, even though there is a growth of funding from governmental spending, non-profit organizations may not develop the quality of their public supply, but only decline the dependence on donations.

d) The heterogeneity hypothesis

The heterogeneity hypothesis is estimated as the principle testament of Weisbrod’s theory. The original idea states that in more heterogeneous societies, a higher density of non-profit organizations will appear. Since the mixed citizens share more diverse preferences than the average community. However, Ben-Net and Van Hoomissen (1991 P.62, P.519-50) propose that a certain numbers of parties with related preferences must live within a heterogeneous community. In other words, besides the variety of preferences, a non-profit organization will only be brought into existence when there remains a group of people share common preferences.

New researches propose that for the sake of financially supporting a non-profit organization, there must be an adequate number of people share identical preferences. The identical preferences should be unlike the major preferences within the society and, meanwhile, are also dissatisfied under governmental control.

e) The trust theory

In the end, we see the concern of the unequal knowledge between the consumers and the producers, which leads us to the trust theory. There are possibilities when consumer cannot believe for-profit bodies to offer products or service in an acceptable quality or quantity. As a result, non-profit provisions are more likely to convince consumers. In fact, people turn to view non-profit organizations as a sign of trust.

In the same way, the supplies of the true information are regarded as a public good provided by the non-profit organization. In short, handing over genuine knowledge about the value of products is considered as a public supply. To be honest, it will not be exaggerate to describe the true information as the only pure public supply in this field, as it may be.

2.2 The comparisons among theories showed in table

Theory	Weisbrod’s version	Others’ expansion
The pure public good theory	If non-profit organizations carry out pure public supply, an expansion in government funding will have dollar-for-dollar "crowd-out" to altruistic contributions	The crowd-out is normally less than dollar-for-dollar. For example, for the public radio, the crowd-out is 15-19cent for one dollar.
The impure altruism theory	Donors receive public and individual advantage from the performance of donating.	As government spending increasing, the contributions offered by donors do not cut back dollar-for-dollar, since the donors earn the personal advantages from their contributions.
The output of	Instead of taking the output as public	A growth in funding from

the non-profit sector	good, but creating it as a private good with specific expense will let for-profit bodies to rival by releasing a similar product or service into the market.	governmental supply, may not enhance the quality of the non-profit supply, but only decline the non-profit organization's dependence on donations.
The heterogeneity hypothesis	In more heterogeneous societies, a higher density of non-profit organizations will appear. Since the mixed citizens share more diverse preferences than the average community.	To financially support a non-profit organization, there must be an adequate number of people share identical preferences.
The trust theory	There are possibilities when consumer cannot believe for-profit bodies to offer products or service in an acceptable quality or quantity.	The supplies of the true information are regarded as a public good provided by the non-profit organization

3. The results of the research

3.1 Determinants of Nonprofit Sector Density

A Stakeholder Approach by Stijn Van Puyvelde and William A. Brown

This is a comparatively newer research to the Weisbrod's revisited by Kingma (2016). The main purpose of their research is to explore the possible answers to the question: Why do non-profit organizations exist? They go through their investment by using a stakeholder approach. They deal with some important deterrents of non-profit sector, and raise some hypothesis accordingly. In the beginning of the upcoming part, I will introduce the stakeholder approach from their article, and then give the result of their research to prove the hypothesis which was initiated by them.

3.2 A stakeholder approach

In the study of non-profit sectors, we are aware of the separation between the demand-side and the supply-side stakeholders. The demand-side stakeholders seek goods with higher quality but lower price, while the supply-side stakeholders fancy the other side of the coin. This disagreement is intensified by market failure. Likewise, since the government may also fail to properly satisfy the demand, an apparent need of the provision by non-profit organization appears. That is the reason why the non-profit organization exist, because they can deal with the problems inside market better than for-profit enterprises and governments do.

However, Ben-Ner and Van Hoomissen (1991, p. 522) argue that only when people from the demand-side sense that the advantage of controlling over non-profit organization surpasses its cost and, only if the advantage is larger than any other place, will a non-profit organization be formed.

To be more specific, they believe the conflict between the demand-side and supply-side stakeholder does not completely describe the formation of non-profit sector. There is a possibility for demand-side stakeholders to frame a non-profit organization when they sense certain advantage from the action. For example, teachers may agree to build an after school in order to take a better control in the educational quality. In short, demand for non-profit supply exists for both public goods and private goods, and only those non-profit organizations which are controlled by demand-side stakeholders will be able to fulfill this request.

3.3 The hypothesis and the results

On the subject of the results of the hypothesis, I will name the hypothesis proposed by Stijn Van Puyvelde and William A. Brown (2016), along with the respective explanations and approval come as following.

First, in the discovery of the relationship between market size and non-profit sector size, it shows that the county population size has a strong correlation with the units of public charities in each county. It approves their first hypothesis, which states that when it comes to public supply, a bigger market size will build a higher density of non-profit organizations.

Next, the Socio-economic characteristics of stakeholders would be the next key determinant of non-profit sector density. We had learned earlier that the society was formed by the demand-side and the supply-side, and this part of the investigation is operated by taking the demand-side into account. From a demand-side prospect, when examining the levels of income and education, whether the particular product is a public good or a private good will make different influences on non-profit sector density.

When it is a trust good, more advanced levels of income and a superior education of the demand-side are anticipated to obtain a negative association with the request for non-profit organizations. For collective goods, on the other hand, it is proved that the income and education are assuredly related to non-profit demand. This idea guides us to the approval of their second hypothesis. It says that when it comes to private goods and services, a society obtains a higher level of income and education, will occur more non-profit organizations.

In the discussion of the demand heterogeneity, they notice their result does not fully support their theory in this part. However, they do discover that the higher poverty rate will impact more positively on non-profit supply of health care, human services, and arts/culture/humanities. On the other hand, a higher racial diversity can be positively related to total non-profit sector density and non-profit supply in arts, culture, and humanities. Stijn Van Puyvelde and William A. Brown (2016, P.1059)

Furthermore, they find that income disparity resembles a negative effect on the non-profit supply of educational services, which means that, to a broad range, the heterogeneous demand for these provisions can literally be given by the for-profit bodies and the government.

Next, they focus on Social cohesion, which they take the diversity within a society into consideration. In their original hypothesis, they state that when it comes to public goods and service, a society featured with a more diverse social cohesion will have a bigger supply of non-profit organizations. However, this hypothesis is rejected. The fundamental idea is that there must be members among socially cohesive groups who share the same preferences, can they find the advantage to financially support non-profit organizations.

In addition, they examine the character of the government and its impact on non-profit sector density. They detect confirmation for both the government failure theory and the interdependence theory. It therefore approves that when it comes to private goods and services, a society featured with a higher level of government spending on collective goods will result in a smaller demand for non-profit organizations. Also, when there is a higher level of public declination to the non-profit organizations, more non-profit supply will be released, and there will be more non-profit organizations formed.

They notice that in the departments of the health care and human services, non-profit supply is directly connected to the performance of the for-profit bodies, when dealing with the sizes of the for-profit sectors operating in the same industry. This leads us to think that the competition from for-profit bodies let non-profit organizations work more efficiently, and therefore offer more non-profit supply. So the seventh hypothesis is approved. We now know that when it comes to private goods and services, rivalry from for-profit bodies will create a higher density of non-profit organizations in the society.

For the last hypothesis, exactly as they expected, they confirmed that the variations in the density of non-profit organizations can be described by the variations in their product attributes.

3.4 Summary showed in table

Determinants	Hypothesis	Result
Market size	<p>Hypothesis 1(a) For collective goods and services, a community with a larger market size will have a smaller demand for non-profit organizations, resulting in a lower nonprofit sector density, all else equal.</p> <p>Hypothesis 1(b) For trust goods and services, a community with a larger market size will have a larger demand for nonprofit</p>	Only 1(b) is approval

	organizations, resulting in a higher non-profit sector density, all else equal.	
Socio-economic characteristics of stakeholders	<p>Hypothesis 2(a) For collective goods and services, a community with a higher level of income and education will have a higher level of non-profit sector density due to the positive demand-side and supply-side effects, all else equal.</p> <p>Hypothesis 2(b) For trust goods and services, a community with a higher level of income and education will only have a higher level of non-profit sector density if the positive supply-side effect surpasses the negative demand-side effect, all else equal.</p>	Both approval
Demand heterogeneity	<p>Hypothesis 3 For collective goods and services, a community characterized by a larger demand heterogeneity will have a larger demand for nonprofit organizations, resulting in a higher non-profit sector density, all else equal.</p>	Approval
Social cohesion	<p>Hypothesis 4(a) For collective goods and services, a community characterized by a higher level of horizontal social cohesion will have a larger supply of nonprofit organizations, resulting in a higher non-profit sector density, all else equal.</p> <p>Hypothesis 4(b) For trust goods and services, a community characterized by a higher level of social horizontal cohesion will have a larger supply of non-profit organizations, resulting in a higher nonprofit sector density, all else equal.</p>	Both rejected.
Government	<p>Hypothesis 5 For collective goods and services, a community characterized by a higher level of government expenditures on collective goods will have a smaller nonprofit demand, resulting in a lower nonprofit sector density, all else equal.</p>	Approval
Level of public subsidies to nonprofit organizations	<p>Hypothesis 6(a) For collective goods and services, a community characterized by a higher level of public subsidies to non-profit organizations will have a larger nonprofit supply, resulting in a higher nonprofit sector density, all else equal.</p> <p>Hypothesis 6(b) For trust goods and services, a community characterized by a higher level of public subsidies to non-profit organizations will have a larger nonprofit supply, resulting in a higher nonprofit sector density, all else equal.</p>	Approval
Size of the for-profit sector	<p>Hypothesis 7(a) For collective goods and services, competition from for-profit firms will lead to a higher level of non-profit sector density due to the positive supply-side effect, all else equal.</p> <p>Hypothesis 7(b) For trust goods and services, competition from for-profit firms will only lead to a higher level of non-profit sector density if the positive supply-side effect surpasses the negative demand-side effect, all else equal.</p>	Approval
Density of non-profit subsectors	<p>Hypothesis 8 Differences in the density of non-profit subsectors can be explained by differences in their product attributes (non-excludability, non-rivalry, and information asymmetry).</p>	Approval

4. The research question: Why do we need new theories?

After analysing two articles about the formation of non-profit sectors from respective period of time, the research question raised in this article is Why do we need new theories in the field of non-profit sector's formation? Although Weissbrod provides a model of non-profit sector formation about thirty years ago, new theories and hypotheses, keep popping up along the time. Hence, it is reasonable to assume that the previous theories provided by Weissbrod were not enough to completely cover the whole reality. Therefore, to answer this research question, we must first understand what the differences between the previous and the latest theories are; then to discover how new theories would make up with the shortness in the previous ones.

4.1 The insufficiency of previous theories

Foremost, to explore the reason why do non-profit organizations exist, researchers had listed a number of major theories. It is clear that those models based on these theories approve to the non-profit field in the most of the case. However, as Stijn Van Puyveld and William A. Brown (2016) show in their investigation, limitations could be found among those previous theories. They claim that many of the previous studies simply deal with one sort of non-profit action, or merely inspected a restricted number of speculative viewpoints. It shows that those deterrents such as market demand, cultural diversity, and government capacity are taken into consideration in the previous studies, when dealing with the formation of non-profit sector.

Nevertheless, those studies do not accordingly make a precise distinction between the conflicting impacts on those request and supply on the number of non-profit sector in a society. As a result, Stijn Van Puyveld and William A. Brown (2016) complete the survey with a more integrative framework to figure out the variations in non-profit sector density by integrating the aforesaid analytical prospects with one another.

In contrast to the previous studies, they notice that the demand side and the supply side function concurrently and that it is challenging to separate them by simply using a stakeholder approach.

4.2 The importance of experimental data

Another interesting difference between Kingma's Stijn Van Puyveld and William A. Brown's studies is that, by operating real investigation, Stijn Van Puyveld and William A. Brown receive actual data which could accurately tell the right from wrong of those hypothesis assumed by the others.

4.3 The summation of the answer

Ultimately, we need new theories because the old ones may contain limitations as time passes by, as well as market and society changes. By providing more specific data and the latest observation in the field, new theories do not subvert the old ones, but simply compensate the shortages among them. In this sense, those theories provided lately will not be thoroughly appropriate in a near future. Since the society and market never stop changing, every theory will definitely contain limitations to the respectively current situation. It is apparent that there will never be any golden rule or theory could perfectly describe the formation of non-profit sectors. In other words, we will always need new theories to meet up to the demand for a better understanding to this ever-changing field as time goes by.

5. Discussion

After analysing the two articles, most of the ground rules of the formation of the non-profit sectors are acquired as following. Fundamentally, non-profit organizations exist to fulfil the shortages of the demands for public goods which the government fails to provide. The public goods theory is basically the most important theory to support this model: this idea provides a reason for people to make donations in order to make the improvement to the public supply offered by a non-profit organization.

Next, based on the heterogeneity hypothesis, it is apparent that a diverse society is useful when analyzing the public goods offered by non-profit organizations and local governments. Again, according to the stakeholder approach, non-profit organizations can deal with problems that occur inside market in a better way than for-profit bodies or government would do. Especially when we know that the demand-side stakeholders will take control over non-profit organizations, this idea makes it easier to convince the citizens that the demand unsatisfied by government or for-profit bodies will be fulfilled in the end.

Measuring the non-profit organizations is always a complicated mission. Frankly speaking, even from the latest research we can see limitations inside it. From an analytical viewpoint, researchers may gather the real data to support their proposals, however, the process of obtaining the data could also make difference to the final result, not only the data itself.

The formations and behaviors of non-profit organizations discussed in these articles are useful to measure the non-profit sectors. However, more and constant researches in this field are suggested, since the ever-changing market and society. Other determinants of investigating the density of non-profit organizations are also recommended to take into consideration.

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