NONPROFIT ORGANIZATIONS IN THE MIXED ECONOMY
A Demand and Supply Analysis
by
Avner BEN-NER*

Industrial Relations Center
University of Minnesota

and

Theresa VAN HOOMISSEN*

Humphrey Institute for Public Affairs
University of Minnesota

Introduction

Nonprofit organizations occupy an important niche in many market economies. For example, in the United States the nonprofit sector employs nearly one-tenth of the workforce while the government and for-profit sectors employ approximately fifteen and seventy-five percent, respectively. Nonprofit organizations operate almost exclusively in service industries, where they often coexist with for-profit and government organizations. The weight of the nonprofit sector in services varies from predominance in museums and social services to insignificance in professional and personal services (see Table 1 for data on New York State). The geographical incidence of the nonprofit sector also varies greatly, even when controlling for industry (see Ben-Ner and Van Hoomissen, 1989 and 1990).

* We acknowledge helpful comments on earlier drafts by Dennis Ahlburg, Benedetto Gui, Henry Hansmann, Estelle James, Egon Neuberger, Richard Steinberg and anonymous referees.
These facts suggest the broad hypothesis that the relative prevalence of nonprofit organizations depends on the nature of an industry's output, industrial organization characteristics, and economic, demographic, political and other locality-specific attributes. This paper advances a theory that explains broadly the place of the nonprofit sector in the mixed economy, building on the literature on nonprofit organizations and on organizational economics. While accepting the important role researchers commonly accord to the demand for provision of services by nonprofit organizations, we suggest that conditions of organizational supply also play a critical role in the formation and existence of nonprofit organizations. Hence the confluence of demand and supply factors determines the incidence of nonprofit organizations relative to other organizational forms. The most important supply factor is the ability of some demand-side stakeholders (consumers, sponsors, or donors) to ensure that the nonprofit organizations of interest to them perform according to their wishes within economic feasibility constraints. Stakeholder control is key to the ability of nonprofit organizations to correct market and government failures, hence we characterize them as (demand-side) stakeholder controlled organizations. Control by stakeholders, which is typically incomplete, is supported by the prohibition on the distribution of profits and other provisions regarding organizational structure.

The paper is structured as follows. In the next section we examine the term "nonprofit organization" and develop a conceptual framework for the analysis of organizational choice in the mixed economy. In section 2 we develop a theory of demand for nonprofit provision, identifying circumstances in which some stakeholders demand a different organizational form than the for-profit or government forms. In section 3 we elaborate on the supply of nonprofit organizations, focusing on the costs of forming and operating such organizations. The concept of nonprofit ownership, the role of the nondistribution-of-profit constraint, and the open books policy of nonprofit organizations are discussed in section 4. In section 5 we discuss the confluence of demand and supply for nonprofit organizations. Factors affecting the incidence of nonprofit organizations are analyzed in section 6, focusing on the interaction between product characteristics, attributes of stakeholders, and market size. A summary and conclusions are offered in the last section.
1 Theoretical Issues and Preambles

Nonprofit organizations have been characterized in various ways. For example, Hall (1987), writing from an historical perspective, defines nonprofit organizations as "a body of individuals who associate for any of three purposes: (1) to perform public tasks that have been delegated to them by the state; (2) to perform public tasks for which there is a demand that neither the state nor for-profit organizations are willing to fulfill; or (3) to influence the direction of policy in the state, the for-profit sector, or other nonprofit organizations". Economists posit that nonprofit organizations perform activities that the for-profit and/or the government sectors do not do well, and, accordingly, view nonprofit organizations as correctives to certain market and government failures'. Hansmann (1980) focuses additionally on the legal form of incorporation, noting that all nonprofits assume a nondistribution-of-profit constraint: all profit earned must be used to enhance production or reduce prices and cannot be distributed to administrators, employees or owners.

We expand on these views by adding supply considerations, and arrive at a different characterization of nonprofit organizations. We regard such organizations, at their inception, as coalitions of individuals who associate to provide themselves and others with goods or services that are not adequately supplied by either for-profit or government organizations. When inadequate provision stems not from economic infeasibility but from market or government failures, nonprofit organizations may correct these failures at their roots. They do so not (necessarily or primarily) through the benevolence of nonprofit entrepreneurs or managers, but through demand-side stakeholder (consumer, donor, or sponsor) control. Stakeholder control in nonprofit organizations eliminates, in principle, any problems of asymmetric information between two parties to a transaction, and stakeholders may safely reveal their demands and make contributions without fear of exploitation. However, stakeholder control can materialize only if certain conditions are met, and if the organization is structured in a way which facilitates exercise of such control. Thus the demand for nonprofit provision by stakeholders can be met only if some stakeholders engage also in nonprofit supply.

---

Our investigation of the problem of the existence of nonprofit organizations in the mixed economy is guided by ideas in organizational economics on the choice of organizational forms. The basic paradigm can be summarized in four propositions. First, every economic transaction generates both a unity and a conflict of interest between various organizational stakeholders. Second, control over a transaction affords controllers a direct way to advance their interests. Third, the benefits from control and the cost of exercising it depend on characteristics of individuals and goods. Fourth, if it can be freely exchanged, control will be acquired by those for whom its net value is greatest.

The theory laid out in the remainder of the paper is based on the paradigm described above. First, there is a conflict of interest between demand- and supply-side stakeholders. Second, the nonprofit form is a potential means of control by demand-side stakeholders. Third, a nonprofit organization will be formed if some demand-side stakeholders find that the benefits of control outweigh its costs and if this net benefit is greater than the net benefit achieved by purchasing elsewhere. Fourth, nonprofits will be established by those demand-side stakeholders for whom the net value of control is largest.

We use the term "demand" in the remainder of the paper to include all willingness and ability to pay, even when it is purely altruistic. Thus, individuals might demand housing for the homeless and education for the handicapped even if no one in their household is either homeless or handicapped. Rather than truly expand the economic definition of demand to include such interdependent preferences—which would entail recasting key concepts in the literature on market failure—we simply append altruistic demand to traditional demand and add a potential market failure: insufficient provision of charitable goods. We define charitable goods as goods which do not

---


3 Organizational stakeholders may be classified according to their position in the supply-of-resources—demand-for-output dichotomy, and the specific supply or demand role they fulfill. Supply-side stakeholders supply resources; they may be workers, managers, providers of equity or debt, banks, parent organizations, the state, or suppliers. Demand-side stakeholders use or have an interest in the organizational output; they may be clients, customers, donors, the state or sponsors. (Hybrid stakeholders provide more than one type of input or are on both the demand and supply sides).
benefit the payer (or his/her household) directly but rather benefit a third party. Charitable goods, like public goods, have benefits which are nonexcludable and nonrival to individuals with similar preferences (housing for the homeless, for example, directly benefits anyone who is concerned about homelessness).

Demand-side stakeholders include individuals, organizations, or public bodies that either 1) pay for and consume a good (traditional consumers), or 2) sponsor the consumption of a good by someone else. Thus, demand-side stakeholders include, in addition to traditional consumers, the parents of children in day care, family members of nursing home residents, donors to charitable or public causes, local governments that contract out the provision of certain services, theater-goers, corporate foundations that make grants to local arts groups, and so forth. They do not include, however, those individuals or organizations that are only the beneficiaries of a good made available to them by others. This distinction is based on the potential for action, which is an important determinant in the choice of organizational form. Note that organizations - ranging from IBM to local sanitation departments to the United States Department of Housing and Urban Development to Lions Clubs to churches - are at times demand-side stakeholders. For presentational ease, the term stakeholders (without qualifier) will henceforth refer to demand-side stakeholders only.

Our theory of organizational choice is summarized schematically in Figure 1. A convenient conceptual starting point (the status quo) is a market economy in which the for-profit sector is the key provider of goods and services, and the government and the nonprofit sectors react to failures originating in that sector. In the presence of market failure (due, for example, to public goods, externalities and asymmetric information) some stakeholders cannot get in the for-profit sector the quantity or quality they are willing and able to buy. Such stakeholders must choose among three alternatives: 1) do nothing (which results in no change in the level or nature of provision of the good or service); 2) form a coalition to lobby the government to correct the market failure via regulation, direct provision, or contracting out; or 3) form a coalition to arrange for the provision of the good to

---

4 Van Hoomissen (1991) analyzes in detail the issue of organizational choice. Many branches down the government trunk in Figure 1 - including government regulation, tax incentives, and the contracting-out decision - are discussed more completely there.
Figure 1: The Choice of Organizational Form

Demand

Market Failure

Third Sector Failure

Government Failure

Lobbying Failure

Unsatisfied Demand

Lobby group

Self-provision coalition

Government regulation of for-profits

Government finance

For-profit firm formation

Government provision

"Mutual" nonprofit provision

"Entrepreneurial" nonprofit provision

For-profit provision
themselves. This paper examines situations in which the third option is chosen and the resulting organization adopts a nondistribution constraint. This option represents the nonprofit solution.

2 The Demand for Nonprofit Organizations

There is an inherent conflict of interest between demand- and supply-side stakeholders: demand-side stakeholders want more quality and quantity for a lower price while supply-side stakeholders want the opposite. Market failure exacerbates this conflict, generating a demand for alternative organizational forms. A combination of three major sources of market failure is particularly relevant to nonprofit demand: the existence of public goods and charitable goods, which we examine in terms of the underlying issues of rivalry and excludability in consumption, and asymmetric information. In many cases, government responds imperfectly to market failure, an inadequacy which is sometimes termed "government failure".

Most goods can be described according to the degree to which they are rival and excludable. The degree of excludability depends mainly on the cost of excluding nonpayers, and the degree of rivalry depends primarily on the extent to which crowding affects the quality of provision. Pure private goods are excludable and rival, pure public goods are nonexcludable and nonrival, club goods, commonly referred to as a subset of public goods, are excludable but nonrival, whereas other goods, such as air, also regarded as public goods, are nonexcludable but rival. Some goods, like a research paper, are "mixed": they are excludable but have some consumption aspects which are entirely rival (the paper copy) and some which are nonrival (the research results).

Both nonrivalry and nonexcludability play a role in the failure of markets to adequately supply public and charitable goods. For-profit firms do not adequately provide nonexcludable goods because they cannot force payment from those who wish to "free ride". Nonrival goods must be provided until marginal cost equals vertically summed marginal benefits in order for maximum net social benefit to be achieved, whereas unhindered markets will only provide a good until marginal cost equals horizontally summed marginal benefits. Optimal provision of nonrival goods, in fact, requires perfect price discrimination: each consumer must pay the value of his/her own marginal benefit at the quantity provided.
Asymmetric information may favor either stakeholders or sellers. In both cases, however, the market fails to provide goods at the same (optimal) level that they would be provided if there were no asymmetric information or, alternatively, if the conflict of interest between the parties did not exist.

There are three major situations in which asymmetric information arises to the disadvantage of stakeholders (Nelson and Krashinsky, 1973, Hansmann, 1980): (a) when there is a lag between the time of purchase and the time when the good can be evaluated, (b) when the stakeholder (payer) and the consumer (beneficiary) of the good are different entities (individuals or organizations), and (c) when the good is complex and its precise characteristics are difficult to evaluate by stakeholders. With several important exceptions, stakeholders in these situations fear that their lack of information about quality or quantity will be exploited by for-profit firms in order to enhance profit\(^5\).

In the case of reverse asymmetric information, stakeholders fear revealing their demand schedules because the information could be used to their detriment by a for-profit firm.

Next we focus on the nature of goods to characterize the circumstances under which demand for nonprofit organizations will arise\(^6\). We demonstrate that two categories of goods\(^7\), “trust” and

---

\(^5\) One important exception arises when firms stand to gain by establishing a reputation. A second important exception occurs when vigilant government supervision prevents firms from taking advantage of stakeholder ignorance. See Van Hoomissen (1988) for a discussion of strategies of profit-seeking firms facing imperfectly informed consumers.

\(^6\) Excludability, rivalry, and asymmetric information are not strictly intrinsic attributes of goods, but are affected by the variable circumstances under which they are transacted. One could reasonably define day care for young children provided under conditions of complete and asymmetric information as two different goods. While recognizing this, for the sake of simplicity we will mostly refer to excludability and rivalry as if they were attributes of goods, while treating asymmetric information as an attribute of both goods and transactions.

\(^7\) We are using Weisbrod’s (1988) terminology, although our definitions do, in some ways, differ. For example, in Weisbrod’s definition, trust goods include all goods with an asymmetric information problem for consumers, while we require also significant nonrivalry aspects.
"collective" goods, can potentially be provided more advantageously by demand-side stakeholders themselves. Asymmetric information and nonrivalry are common to both categories; asymmetric information drives stakeholders to search for a different organizational form, whereas nonrivalry makes the nonprofit form acceptable.

2.1 Trust Goods

We define trust goods as club goods and mixed goods for which there is an asymmetric information problem to the disadvantage of stakeholders. As noted above, in the presence of asymmetric information to their disadvantage, stakeholders suspect that for-profit firms will deceive them about quantity or quality in order to enhance profit. Thus, for trust goods, demand exists for a different organizational form, one in which profit is not the dominant motive, because it is the profit motive which gives the firm incentive to deceive.

Stakeholders of trust goods might look more favorably on an organization which is not-for-profit (i.e., adopts a nondistribution constraint), but some suspicion regarding the organization's incentives would undoubtedly remain. The not-for-profit status indicates only that the organization does not directly distribute profit, and stakeholders recognize that the incentive to deceive can arise out of other motivations as well. The organization's managers may, for example, seek to expand their salaries, perquisites, status, or power, may want to hold onto their jobs, or may wish to pursue their own preferences regarding the product of the organization.

One type of organization that will arouse more interest is one controlled by stakeholders. Because trust goods have nonrival aspects, noncontrolling stakeholders consume the same unit(s) simultaneously with controlling stakeholders; the latter can deceive others only if they are willing to "punish" themselves as well. If the good were rival, controlling stakeholders could exploit others by providing them a different, relatively inferior quality-quantity-price combination, much as a for-profit firm could. Thus, stakeholder control signals trustworthiness for nonrival goods but not for rival goods. We thus

---

8 See Olson's (1971) discussion of the closely related concept of "jointness in supply".
9 Nonrivalry can, to a certain extent, be intentionally produced. For example, an agricultural purchasing cooperative which sells fertilizer to its stakeholders members may dispense from a single and observable storage facility, from which both members and nonmembers (noncontrolling
conclude that in the case of trust goods, a demand for stakeholder-controlled organizations exists.

To illustrate some of the points made above, consider as an example a couple seeking day care for their young child. They have difficulty evaluating the care provided at different centers and think it is possible that for-profit firms claim to provide higher quality care than they actually provide. They seek such indirect signals as reputation and the effectiveness of government supervision but, in their area, these signals are weak. They choose a parent-controlled nonprofit day care over others because the people on the managing committee are similar to themselves, and have also enrolled their own children. The nonprofit status of the organization further indicates lack of financial interests that may come at the expense of quality of care. An alternative scenario, considered in section 3, would have the parents join with others in similar circumstances to start a new center that then appeals to outsiders because of the parent-control. In either case, controlling parents need not be very vigilant about the actions of their associates because of the nonrival nature of day care.

The market for automobile repair provides a useful counter example. Stakeholders (automobile owners) often have difficulty evaluating the quality of repairs provided by repair shops and know stakeholders) partake. This purposefully induced nonrivalry generates trust for noncontrollers since they are assured that the organization does not treat them differently from members and therefore does not take advantage of them. Heflebower (1980) suggests that fertilizer purchasing cooperatives came into existence because of the uncertainty regarding the quality of fertilizers sold by for-profit firms. Similarly, the famous Rochdale cooperative was founded by the local community to combat the phenomenon of adulterated flour sold by for-profit merchants. The opportunities for producing nonrivalry in rival goods seem, however, limited.

10 We use this example because it has been frequently used in the literature on nonprofit organizations to illustrate the kind of asymmetric information discussed here; see, for example, Nelson and Krashinsky (1973), Hansmann (1980), and Rose-Ackerman (1986). Day care for children also possesses important collective good attributes, discussed later.

11 See Nelson and Krashinsky (1973) for a detailed examination of the day care industry and a similar view concerning both the important role of parents and the secondary role of the nondistribution-of-profit constraint. For a view that attributes trustworthiness entirely to the nondistribution-of-profit constraint, see Hansmann (1980).
that some for-profit shops claim to provide services that they do not actually provide. In this case, however, a consumer-controlled nonprofit shop will not signal trustworthiness because the service is not nonrival: controlling stakeholders could provide quality care for their own cars and still cheat other customers. A nondistribution constraint will not imbue trust because controlling stakeholders can use amplified revenues and reduced costs to provide themselves with cheaper repair services. Thus, despite the significant asymmetric information problem, nonprofit automobile repair shops will not form, ultimately, because car repair is rival. Stakeholders must therefore either depend on reputation or participate actively in the control of a repair shop. For most stakeholders, the control option is probably costlier than the expected losses from patronizing a for-profit shop.

2.2 Collective Goods

We define collective goods to include pure public goods, charitable goods, and mixed goods with a large and expensive-to-produce nonrival component. These goods have in common not only nonrivalry, but also the necessity of voluntary price discrimination (donations) if they are to be provided by nongovernmental entities. Pure public and charitable goods must be paid for by way of donation because they are nonexcludable. Mixed goods with a large and expensive-to-produce nonrival component require donations by high-demand stakeholders because nondiscriminating for-profit provision leaves them undersatisfied (quantity rationed). A for-profit firm that knew the demand of individual stakeholders or was otherwise able to price-discriminate (i.e., charge a higher price to high-demanders) would not ration by quantity.

12 Hansmann (1980) was first to recognize a potential role for nonprofits in this situation.
13 The intuition behind the necessity of donations for mixed goods with a large and expensive-to-produce nonrival component can be illustrated with a simple example. Opera is a mixed good because it is entirely excludable but has consumption aspects which are entirely rival (e.g., the seat at a performance) and others which are entirely nonrival (e.g., the mounting of a “production”, including the nonrival directing, acting, costume and scenery). Each opera production is also very expensive to produce. Suppose there is a community with \( L \) low-demand stakeholders and \( H \) high-demand stakeholders of opera and a single for-profit provider. It is easy to show that the profit-maximizing price and quantity will leave high-demanders with excess demand if \( H \) is small enough relative to \( L \) and if the cost \( C \) of a production is high enough. Suppose the firm chooses a price \( P \) and production
The state of being quantity rationed signals high-demand stakeholders that their welfare could be increased by identifying themselves to the firm, voluntarily revealing their willingness to pay, and submitting to price discrimination. Stakeholders of pure public and charitable goods, who are also undersatisfied by for-profit provision, could do the same. The for-profit firm, however, has incentive to take advantage of the revealed information, charge inflated prices, and extract most of the consumer surplus. Thus, unless the firm consents to reveal its private cost information (accounts or audits) and make monitorable and enforceable contractual agreements on the basis of both demand and cost information, stakeholders will not reveal their preferences to a for-profit firm (Ben-Ner and Van Hoomissen, 1991b).

In the absence of such arrangements, stakeholders of collective goods may seek an organization to which they can safely reveal demand information. A stakeholder controlled organization meets this requirement to a considerable extent. Since collective goods are nonrival, stakeholder control also indicates to noncontrolling stakeholders that the firm is operated so as to meet the unsatisfied demand of like-minded people. We thus conclude that there exists a demand for stakeholder-controlled organizations that provide collective goods.

Stakeholder controlled organizations are an instance of vertical integration between demand- and supply-side stakeholders, serving quantity Q such that high-demanders want more productions but low-demanders are satisfied. (This implies that the price-quantity point is in the inelastic region on the demand curve of a typical low-demand so that increasing the price to low-demanders reduces total revenue; this is an outcome of profit-maximizing behavior. See Ben-Ner and Van Hoomissen [1991b] for details.) Consider now the circumstances in which it will not be profitable for the firm to change P or Q to satisfy high-demanders. First, note that increasing Q by one unit (staging an additional production) without increasing price will increase revenue by only \( HP \) since low-demanders do not want more at price P. Thus, if H is small enough and C is high enough, this move will reduce profit. Second, note that increasing P (without changing Q) reduces revenue from the L low-demanders and increases revenue from the H high-demanders. Again, this will reduce profit if H is small relative to L. In sum, it will be profit-maximizing for the firm to quantity-ration high-demanders when H is small relative to L and C is high.

14 Such demand revelation may occur if one of the stakeholders is very large (e.g., the federal government or a large corporation).
as a low-cost substitute for information verification and judicial enforcement of contracts between stakeholders and sellers. High-demand stakeholders that patronize such an organization receive a superior quality-quantity-price package, although they may (voluntarily) pay more than others. This higher price may be paid through donations or through contractually specified payments, as in the case of local governments contracting out social services. Only a few stakeholders—a subset of those with higher demand—need to participate in control.

2.3 Government Failure

Since governments often provide goods in an attempt to correct some market failure in the provision of public goods, their services are frequently nonrival. While government agencies determine service levels according to different criteria than for-profit firms, the outcome may resemble that which occurs in for-profit provision. Just as for-profit providers of nonrival goods may find it profitable to target the demand of 'average' stakeholders, government bodies may find it politically expedient to respond to the median voter's demand and set tax rates and service levels which leave some residents undersatisfied (Weisbrod, 1975). High-demand stakeholders may seek an alternative source to supply their unsatisfied demand. Since some market failure prevented provision by for-profit firms in the first place, the unsatisfied demand translates into a demand for nonprofit organizations when the goods in question belong to the trust or collective goods categories.

15 Like other stakeholders, government decision-makers may be in a difficult position to judge the quality or quantity provided by a private for-profit contractor or may be a high-demand buyer of a nonrival good or service that is underprovided by for-profit firms (e.g., social services). For this reason, government agencies are also a source of demand for the nonprofit form. In some cases, an agency may choose to act as a controlling stakeholder of a nonprofit organization rather than provide the service itself or interact on the market with for-profit firms.

16 This view, which applies equally to trust goods, is related to the 'voice' interpretation of nonprofit organizations (versus 'exit' in for-profit firms) by Nelson and Krashinsky (1973) and Friedman (1984, chapter 15), as well as to Williamson's (1985) interpretation of upstream vertical integration.
2.4 Summary of Demand Considerations

We have shown that demand for an alternative to for-profit and government provision exists for trust and collective goods, and that an organization which is stakeholder controlled may satisfy that demand. We call such firms "nonprofit organizations", although discussion of the nondistribution-of-profit constraint is postponed until section 4.

Most goods (in the narrow sense of the term) are rival; services, however, range from almost purely rival to almost purely nonrival. Services such as automobile repair and financial and legal services are essentially rival, hospital care is only somewhat rival, and day care and theater are primarily nonrival. Many nonrival services are afflicted by asymmetric information problems, suggesting a trust aspect, and many are additionally designed such that multiple consumers use the same high-cost facilities and enjoy the same quality of service, suggesting a collective aspect. Such "composite goods" include, for example, day care for children. Day care is significantly nonrival because the same physical facility and quality of service are provided to all children. And, because the nonrival aspect is produced at a relatively high cost, some parents may be willing to pay more for better day care (i.e., in accord with their preferences) than they could find on the for-profit market. This service also has trust aspects derived from the inability of parents to observe the exact care provided to their children.

3 The Supply of Nonprofit Organizations

The existence of demand for nonprofit organizations is insufficient to explain their existence. In the for-profit sector, entrepreneurs form new firms and satisfy existing demand because they hope to make a profit. Potential profit obviously cannot entice anyone to form a nonprofit organization. A nonprofit organization will be formed only if there is a group of stakeholders who value the expected flow of net benefits from a self-run organization more than the benefits they can derive from alternative sources and who choose not to free-ride on each other's demand revelation, contributions and control activities. The supply of nonprofit organizations is thus affected by the costs involved in their formation and operation. These entail:

- identifying and assembling a group of stakeholders willing to participate in forming and controlling an organization without
receiving any direct monetary gain for that activity;

- determining that there is sufficient demand to allow for the provision of the good\(^{17}\) at a price and quantity that makes the operation of the organization worthwhile to the founding body;

- assembling inputs to produce the good;

- developing and maintaining a control mechanism to ensure that stakeholder interests are pursued by the organization;

- recruiting managers whose values and personal objectives are expected to cause only limited agency problems;

- identifying and convincing high-demanders (of collective goods) that it is to their benefit to reveal their demands and provide financial support; and

- designing mechanisms to discourage some stakeholders from free-riding on the control activities of others.

Stakeholders may start the process of formation of a nonprofit organization directly by seeking out and establishing a "seed" group, indirectly through the representatives of other organizations, or with the assistance of a "nonprofit entrepreneur" who helps facilitate the establishment of a seed group. Thus, the initiative for the formation of a nonprofit organization may come from stakeholders aware of their own demand for the nonprofit form or from input providers who seek to market their inputs to a potential nonprofit organization, but in both cases demand-side stakeholders must play an active role in order for nonprofit supply to emerge.

Direct stakeholder action is the most transparent process of creation of nonprofit supply: a group of stakeholders with unsatisfied demand establish first an organizing body and then a supply organization. For example, parents of young children in a neighborhood that are unsatisfied with existing child care (or its absence) may seek each other out and consider forming a day care center, or one household may raise the issue at a meeting of their local church, community center, or cultural association. After preliminary discussions on the likely success of such an organization, a management board will be formed from among interested parents and representatives of any organization which has chosen to facilitate the parents' activities. The

\(^{17}\) We now again use the term "good" in the broad sense that includes services.
board will then consider the organization's feasibility in more detail, assessing interest among additional parents and perhaps hiring a consultant to provide expertise in setting up the organization and finding an administrator. The administrator will work under the direction of the board to complete the key entrepreneurial functions. Capital funds may come from interested parents, an organization whose members are interested in the services of the day care center, or a local government body committed to supporting activities that involve externalities. Once the center is in operation, the role of the board will be to determine organizational standards, policies, and long-term goals, and to oversee paid administrators charged with day-to-day management. As in the for-profit sector, hired administrators may seek to free themselves from control by the board and/or affect the board's composition. Often administrators become more powerful as the organization ages and members of the founding body move on, especially if an adequate mechanism for passing on the baton has not been developed. By definition, the founding body will consist of people who have chosen not to free-ride on the control activities of others, and if a group of like-minded people does not exist among the organization's stakeholders, a control gap will develop which is often filled, by default, by hired administrators.

Often the initiative for the formation of a nonprofit organization comes from the leadership of an organization with which stakeholders are associated. Organizations such as community centers, cultural associations, churches, fraternal or political clubs, and support groups often seek to enable beneficial collective action on behalf of their members, and can assume an entrepreneurial role when demand by their members is noted. When the problem of free ridership is particularly grave, such organizations may be the primary nonprofit supply mechanism. Although direct government provision of public goods is a solution to the problem of free ridership (through compulsory taxation), political constraints and other considerations noted earlier sometimes prevent the use of this tool. In such cases, a government unit may seek to facilitate nongovernmental provision by supplying some of the entrepreneurial input and providing some financial assistance to form a new stakeholder-controlled organization, often appointing government representatives to the board of directors on behalf of the public (the free-riding stakeholders).

Another source of nonprofit initiative comes from such input suppliers as professional administrators and staff people. Because of
their day-to-day immersion in a trust or collective goods industry, these professionals may be aware of the existence of unsatisfied demand (i.e., nonprofit demand) and see some potential gain to themselves from facilitating the formation of a coalition of interested parties. With this in mind, they may approach interested individuals or organizations, suggesting actions which would ultimately lead to the formation of a nonprofit organization. The motivation of such individuals may be employment, the desire to work in a particular field, and/or a purely altruistic desire to promote a valued cause (making them demand-side stakeholders). Because of the market failure associated with trust and collective goods industries, these individuals could not, even if they wanted, establish a for-profit firm.

When stakeholders are geographically dispersed, nonprofit entrepreneurs – as facilitators of the confluence of demand and supply – may be indispensable. Many national organizations (such as Mothers Against Drunk Driving and the Sierra Club) were formed by future administrators who surmised that there was enough demand to sustain these organizations. These nonprofit entrepreneurs were themselves stakeholders (had a demand for action on the issues the organization subsequently pursued), but additionally saw the potential organization as a source of desirable employment. Given the potential rewards, they proceeded to find and bring together a group of stakeholders to establish an organization, taking the risk that the organization would not succeed and their time and resources would be wasted. Once such a group was established, the remainder of the process of formation and operation was similar to the scenario developed for the parent-initiated day care center18.

18 The Guthrie Theater in Minneapolis is yet another example of a nonprofit organization established at the initiation of input suppliers. In the early 1960s, the stage director and playwright Sir Tyrone Guthrie toured the United States in search of a community to support his theater. In the Twin Cities of Minneapolis and Saint Paul he found an "hospitable" environment: its residents were cultured, there was little professional theater, the community was relatively close knit with a strong civic spirit, and there were individuals and companies willing to support the local arts. Given this, he approached various community leaders, garnering interest and support for his theater, eventually establishing the nonprofit Guthrie Theater. In our framework, we view Tyrone Guthrie as a professional seeking desirable employment (as well as, of course, being a stakeholder of his type of theater). His search for an hospitable environment was in fact a search for unsatisfied high demanders in a community capable of exerting pressure to reduce free-ridership in the revelation of demand and the payment of donations. The
4 Ownership Shares, the Nondistribution-of-Profit Constraint, and Open Books

Nonprofit organizations are distinguished from both for-profit and government organizations by a unique combination of characteristics. We have discussed thus far two of these characteristics, stakeholder control and the type of goods nonprofit organizations provide (trust and collective). This section considers three additional characteristics: the lack of ownership shares, the nondistribution-of-profit constraint, and the "open books" policy.

4.1 Ownership Shares

Ownership of an organization can be defined as the possession of two rights: the right to control — i.e., to determine organizational objectives — and the right to returns — i.e., to dispose of any financial or physical returns resulting from the organization’s activities. In the for-profit sector, these rights are divided into ownership shares, representing proportional rights to control and returns. Sometimes these shares can be purchased and sold on an open market but if founders wish they can write into the organization’s bylaws restrictions designed to keep ownership in certain hands.

Despite appearances to the contrary, nonprofit organizations are also “owned”: they have objectives that are somehow fashioned and their financial and physical returns are disposed of. Instead of being embedded in shares, these rights are typically associated with one’s voluntary status as a stakeholder. The absence of shares (in particular, transferable ones) in many nonprofit organizations, we posit, is primarily a device adopted by founders to ensure the maintenance of stakeholder-control by preventing the concentration of control and return rights. That is, founders write into the organization’s bylaws (extreme) restrictions on the transferability of shares in order to keep ownership in the hands of stakeholders as a group, because they recognize that otherwise the organization may cease to be a solution.
to the market or government failure that generated it. Thus, in nonprofit organizations, the rights to control and returns are vested permanently in demand-side stakeholders generally via the absence of ownership shares. Control responsibilities are, nonetheless *delegated* (not turned over) to a minority subset of these stakeholders, either explicitly or implicitly.

4.2 The Nondistribution-of-Profit Constraint

The nondistribution-of-profit constraint (NDPC) adopted by many nonprofit organizations goes hand in hand with invisible, non-transferable ownership shares: given that demand-side stakeholders as a group are the organization's owners, the NDPC serves mainly as a distribution rule, assuring that organizational returns are not distributed to the controlling subset only. Again, the organization's founders adopt this rule to ensure the organization's continued existence.

An organization that wishes to signal trustworthiness to its customers (in order to enhance sales and, thereby, viability) will...

---

19 See also Ben-Ner (1986). Ellman (1982, p. 1036) states that "[e]asily negotiable, dividend-issuing equity shares, therefore, would be inappropriate [in nonprofit organizations] since they would have no purpose but to facilitate ownership by the very class of persons the organization was formed to avoid".

20 See also Gui (1990). The implied net revenue of the nonprofit organization often is not distributed equally among controlling and noncontrolling stakeholders. As we show in Ben-Ner and Van Hoomissen (1991b), the objectives of the organization, determined by controlling stakeholders, will generally tilt the distribution of net revenue in their favor.

21 The arguments regarding ownership shares and the nondistribution constraint here are essentially supply-side: founders adopt them in order to ensure the organization's continued existence. Still, this is only a supply-side concern because nonprofit demand depends on stakeholder control, and thus, as before, demand- and supply-side concerns are not entirely separable because the organization is supply oriented but controlled by demanders. Fama and Jensen (1983) argue similarly that the absence of transferable shares is a tool to prevent the development of an agency problem between donors and managers. Although they do not take the argument to its conclusion, the presumption must be that "donors" are the principals in the organization's actions (and so the organization is "donor-controlled") and the absence of transferable shares is a tool they devise to keep control in their own hands.

The idea that founders impose an organizational structure that restricts future changes in the nature of the organization is also advanced by Moe (1990) in the context of government agencies.
sometimes adopt an NDPC because it suggests to buyers that the organization uses all its revenues to either improve service or reduce prices rather than pad the owner's bank account (Nelson and Krashinsky, 1973 and Hansmann, 1980). As a signal of trustworthiness, however, the NDPC is weak and imperfect because non-controlling stakeholders suspect that it can be circumvented and that managers have enough room within the constraint to pursue their own preferences. Hence an NDPC can play only a limited demand-side role, one that cannot substitute for stakeholder control.

An NDPC can also serve to discipline hired managers. In the for-profit sector, the market for the shares limits the extent that managers can pursue nonprofit goals because such behavior invites takeover by outsiders who will replace "bad" managers with better ones. Additionally, managers of for-profit firms often have a stake in the organization (through share ownership or profit-sharing schemes) which serves to align their interests with those of owners. In the nonprofit sector it is difficult to design incentive schemes that align managerial and stakeholder interests, especially because stakeholder interests are multidimensional and complex. In the presence of this agency problem, controlling stakeholders may employ the nondistribution constraint to limit self-aggrandizement by managers (Fama and Jensen, 1983, and Easley and O'Hara, 1983). Controlling stakeholders may also seek compliance with their goals by hiring "believers", managers who support the goals of the organization (Young, 1986).

A government certified and enforced NDPC can serve several additional purposes. It can indicate reduced incentive for firm misbehavior to potential buyers, and reduces monitoring costs associated with hired managers. Adoption of the NDPC, along with a charitable, public benefit or educational mission, also confers a number of tax and related financial advantages in the United States, giving stakeholder-controlled organizations yet another incentive to adopt it. These advantages include income tax exemption, unemployment insurance exemption, lower postal rates, and exemption from local property taxes in many states. These benefits could not encourage for-profit owners - whose goal is to maximize shareholder returns - to adopt the NDPC.

---

22 See Simon (1987) for a comprehensive discussion of public policy towards the nonprofit sector.
These two government policies—subsidization via tax exemption and enforcement of the NDPC—deserve a brief comment. Policy makers, while recognizing the existence of market failure and wishing to promote the provision of undersupplied goods, who look favorably on solutions that do not require government provision, designing policies to encourage nonprofit formation, provision, and longevity\textsuperscript{23}. Tax and other subsidies help overcome the problems of collective action by reducing startup and operation costs. Tax exemption is probably the politically most expedient method for the government to subsidize nonprofit organizations.

As time passes after the inception of a nonprofit organization, members of the founding body often move away, and control over hired administrators diminishes. As this happens, the internal agency problem intensifies and the trust noncontrolling stakeholders have in the organization—conditional on stakeholder control—weakens. For this reason the nondistribution constraint, as a support to stakeholder control and discipliner of hired managers, takes on more importance as time passes\textsuperscript{24}.

The nondistribution-of-profit constraint has negative qualities as well. Importantly, it imposes an inflexibility on the organization, forcing stakeholders to adjust prices, quantities and qualities to absorb any profit, although they may prefer to distribute it for uses outside the organization. Stakeholders will not adopt the NDPC if its net effect is to reduce stakeholder welfare. Consumer and agricultural purchasing cooperatives, for example, are essentially nonprofit organizations that do not adopt the NDPC.

4.3 Open Books

Another important feature found in most nonprofit organizations is their policy of making financial and managerial information public. This policy, like the NDPC, is directly related to the "invisible" ownership shares that are a hallmark of the nonprofit form. Since access to information is a prerogative of ownership (being a prerequisite for control) and since stakeholders are \textit{de facto} owners in nonprofit organizations, an open books policy is a simple device to give owners access to internal information. Because the stakeholder

\textsuperscript{23} Hall (1987) suggests that in the United States, policy toward nonprofits grew out of philosophical opposition to big government combined with a desire to promote a private-sector alternative to socialism.

\textsuperscript{24} For a related analysis, see Ben-Ner (1987).
population may be unstable over time, and because direct stakeholder control can weaken as the organization ages, an open books policy which is enshrined in an organization's statutes ensures that stakeholders will always have the ability to audit the organization's activities. Thus this policy is yet another means of supporting stakeholder control. Additionally, this policy strengthens demand-side trust in the organization because it makes it more difficult for managers to employ asymmetric information in their own interest and against the interests of stakeholders.

5 The Confluence of Nonprofit Demand and Supply

The critical difference between nonprofit organizations and for-profit firms is that there must be a confluence between the demand for the organizational form and the ability to provide it in order for a nonprofit organization to be formed. Nonprofit organizations, as described here, are an instance of vertical integration by demand-side stakeholders. Although the process of nonprofit formation can be facilitated by individuals other than stakeholders, demand-side stakeholders must play an active role in forming and operating a nonprofit organization, because demand will not materialize unless the organization is stakeholder controlled. Nonprofit organizations will thus come into existence only if there are stakeholders who value the expected flow of net benefits from a self-run organization more than the benefits they can derive from alternative sources.

Stakeholders have varying demand incentives to be involved in the control and operation of an organization, and bear different costs in carrying out such activities. As a result, not all stakeholders will be actively involved in control and in the extreme, there may not be enough controlling stakeholders for a nonprofit organization to exist. In other cases, only a small minority of stakeholders will participate in control.

25 In their analysis of day care centers, Nelson and Krashinsky (1973:63) write: "However, while the not-for-profit legal form seems helpful in assuring trustworthy day care centers, it certainly is not foolproof. (In fact, directors of nonprofit centers can be as selfish and neglectful of children in their pursuit of power and status as their profit-seeking counterparts.) Neither is the not-for-profit organizational form absolutely necessary. What is most important is that day care centers be open to detailed observation by both parents and citizen groups. Day care centers must operate in a fish bowl, which private enterprise generally has been reluctant to do".
Stakeholders with relatively large demand have more to lose from control contrary to their preferences and so have more incentive to be involved in controlling and auditing hired managers. Even if such stakeholders are very few, other, trust seeking, stakeholders may benefit from the organization's operation relative to a for-profit firm. Some stakeholders that are neither quantity rationed nor trust seeking may benefit from a quantity-quality-price combination not available elsewhere. The fact that the ratio of controlling to noncontrolling stakeholders is low does not change the fundamental nature of the nonprofit as a stakeholder-controlled organization: the organization still exists because of a nonrivalry and/or asymmetric information problem which is solved, partly, by stakeholder control. The delegation of important decision making power to salaried managers also does not change the nature of the firm.

6 Determinants of the Incidence of Nonprofits

Having established that demand for nonprofit organizations exists only for trust and collective goods, we now extend the analysis to examine the major demand and supply factors that affect the existence of nonprofit organizations in particular industries and geographical areas. These factors can be classified into three interdependent categories: market size, stakeholder characteristics, and product attributes.

6.1 Market Size

Market size has opposite effects on the demand for nonprofits in trust and collective services. The larger a market — i.e., the larger is market demand relative to the minimum efficient scale of production — the more likely it is that diverse tastes can be satisfied in the for-profit sector because larger markets can bear more firms and thus more variants of a good. Consequently, the larger the market for a collective good, the fewer quantity-rationed high-demand stakeholders there will be and the lower will be the demand for the nonprofit form of organization.

For trust goods, a larger market size compounds the asymmetric information problem. With more firms, stakeholders must gather more information in order to be informed and firms must work harder to build a reputation. Stakeholders of this type of service must spend considerable effort to determine which firms are trustworthy, and a large market enables firms to exploit the rational choice some stakeholders make to
search less than exhaustively. This will induce demand for more trustworthy stakeholder controlled nonprofit organizations.

6.2 Stakeholder Characteristics

Four characteristics of the population from amongst which stakeholders emerge play an important role in determining the incidence of the nonprofit sector: income and its distribution, education, demand heterogeneity, and social cohesion.

High income and better educated stakeholders are more capable of choosing a reliable for-profit provider of trust services because they have access to more reliable references and information sources. Poorer and less educated stakeholders are therefore more likely to rely on the nonprofit form for the provision of trust goods. For collective goods, income has a reverse effect. For many goods, high income coincides with high demand, and high demand stakeholders are the primary source of demand for nonprofit organizations in collective goods. Hence for collective goods demand for the nonprofit form is likely to be positively associated with income. In terms of ability to supply nonprofit organizations, better education and higher income are likely to reduce the costs associated with forming and controlling a nonprofit organization. Hence demand and supply considerations suggest that income and education will be positively associated with nonprofit provision of collective goods, and inconclusively and weakly with that of trust goods.

Demand heterogeneity affects the price and quantity combination set by for-profit firms and the tax and service package provided by governments in the market for collective services. The more homogeneous stakeholders are in their willingness-to-pay, the less likely it is that there will be dissatisfaction with for-profit or government provision of collective goods. Conversely, demand heterogeneity enhances demand for nonprofit provision of collective goods. As for trust goods, there appears to be no connection between demand heterogeneity and nonprofit demand. Demand heterogeneity depends on the distribution of income, and on social, cultural and religious differences that generate preference heterogeneity. Hence income inequality and social and cultural diversity in a particular geographic area are likely to enhance the demand for nonprofit organizations in collective services.

26 Weisbrod (1975) points out that taste heterogeneity is positively correlated with nonprofit provision. James (1987a and b) also emphasizes the role of taste heterogeneity in the provision of nonprofit education.
Social cohesion depends positively on the degree of shared economic, religious, cultural, ethnic and educational background, and negatively on the degree of geographic dispersion among stakeholders for a given market size. Related stakeholders have more opportunity to meet each other and identify common demand, can more easily exercise social pressure to prevent free ridership in the revelation of demand and payment for services, and can control an organization more cheaply. Stakeholders that belong to a common organization (e.g., a church, community center, or social club) may also find it cheaper to employ that organization to form or manage another nonprofit organization. Often, the goals of the “parent” organization are unrelated to those of the nonprofit organization (see also Olson, 1971). Examples of such situations are numerous: day care centers operated by churches, homeless shelters established by community centers, theaters supported by large local companies, neighborhood association sponsored food stores (cooperatives), ski clubs sponsored by workplaces, and banking institutions operated by trade unions.

In sum, the supply of nonprofit organizations is likely to be greater in communities where diverse but internally cohesive groups exist. This supply-side effect is strengthened by the demand-side finding that demand heterogeneity, which is greater in communities where diverse groups exist, also stimulates nonprofit provision.

6.3 Product Attributes

We established earlier that the demand for nonprofit provision is restricted to trust and collective goods, which are characterized by various degrees of nonexcludability, nonrivalry and asymmetric information. The greater these degrees, the greater is the probability that a good will be provided by a nonprofit organization. For example, among health services, facility-intensive care has stronger collective attributes than care that can be administered in the office of a family practitioner. Thus while demand for nonprofit provision may exist for both types of care, the demand is likely to be stronger for facility-intensive care. Similarly, all things equal, day care for children, which has both trust and collective attributes, is a more likely candidate for nonprofit provision than elementary or higher education,

27 But not all church-operated day care centers fall within this category, as some may be directed, for example, at spreading religion.
28 See Galaskiewicz (1985) and James (1987a and b) for discussions of the relationship between community networks and nonprofit provision.
which have weak trust aspects.²⁹

Demand for the nonprofit form depends not only on the strength of a good's trust or collective attributes, but also on the total utility that the good provides to stakeholders. For a given cost of participating in the formation and control of a nonprofit organization, high utility goods are more likely to be candidates for nonprofit provision than other goods. Utility may be measured in terms of expense relative to total budget, which indicates potential utility gain, or in terms of the size of the loss if provision is unsatisfactory.

7 Conclusions

The theory presented in this paper synthesizes and expands on extant theories, especially those of Weisbrod (1975) and Hansmann (1980). In terms of Figure 1, Hansmann's theory can be summarized by arrows from 'Demand' to 'Unsatisfied Demand' (via market failure), and from there directly to 'Nonprofit Provision'. The Weisbrod theory can be summarized by arrows from 'Demand' to 'Unsatisfied Demand' (via market failure), from there directly to 'Government Provision', back to 'Unsatisfied Demand' (via government failure), and then to 'Nonprofit Provision'. While these analyses provide important insights into the role of the nonprofit sector, neither provides a complete motivation for the formation of nonprofit organizations, and both ignore the steps between unsatisfied demand and nonprofit provision. However, these steps are crucial, as no organization comes into existence just because of the existence of demand. Moreover, the conditions of the supply of the nonprofit form of organization differ from those of both for-profit and government organizations. A nonprofit organization will be formed only if a group of interested stakeholders (individuals or organizations) has the ability to exercise control over the organization. Stakeholder control is a sine qua non for the existence of nonprofit organizations, because it avails the trust required for patronizing the organization, revealing demand to it, and making donations to it. These are key elements in the demand for nonprofit organizations, and must be satisfied for these organizations to exist. Nonprofit organizations are thus a case in which demanders must generate their own supply.

²⁹ For further discussion of differences in the degree of trust and collective attributes of goods in different industries, see Ben-Ner and Van Hoomissen (1990).
However, only those stakeholders who anticipate that the benefits of control outweigh its costs will participate in the formation and control of a nonprofit organization. This net benefit must also be greater than the net benefit achieved by purchasing elsewhere. Noncontrolling stakeholders will also purchase from the nonprofit organization, trusting it because of the nonrivalry of its services (which suggests that they cannot be exploited by controlling stakeholders who partake in the consumption of the same units), or simply preferring its price-quantity-quality package over that of other organizations.

Direct control by stakeholders is never complete, and the residual agency problem may deter stakeholders from patronizing it. In order to enhance stakeholder control, founders of nonprofit organizations impose an organizational structure aimed at guarding their present and future group interests. Three prominent features of this structure include (a) the absence of ownership shares, (b) the nondistribution-of-profits constraint, and (c) the open books policy. Respectively, these (a) prevent concentration of control in the hands of a few stakeholders-owners, (b) enhance control over hired managers, serve as a distribution of economic surplus rule, and signal the reinvestment of the surplus in the organization, and (c) ensure free access to information required for the exercise of control. In addition, the statutes of nonprofit organizations vest formal control in boards of directors representing stakeholders.

Clearly, not all stakeholders will have equal demand for nonprofit organizations, nor will they all have similar abilities to control them. Factors such as stakeholders' education, income, social cohesion, and demand heterogeneity affect both the degree to which they suffer from market and government failures and therefore their demand for nonprofit provision, as well as their ability to provide the requisite conditions for nonprofit supply, primarily the ability to exercise control. Thus the geographical prevalence of nonprofit organizations will depend on characteristics of stakeholders in different communities.

The industrial incidence of nonprofit organizations depends on attributes of different goods and services. The primary attributes that are relevant to nonprofit provision are the degrees of excludability, rivalry and informational asymmetries that are associated with dif-

---

30 We explore these issues empirically in Ben-Ner and Van Hoomissen (1991a), providing support for the main hypotheses presented in this paper.
ferent goods. On this basis we concluded that services rather than consumer goods are the most likely candidates for nonprofit provi-
sion. Table 1, which presents the industrial distribution in New York State, confirms this hypothesis. Furthermore, among services, indus-
tries with stronger rivalry, nonexcludability, and asymmetric infor-
mation attributes, such as health and social services, are heavily populated by nonprofit organizations, whereas services with strong private good attributes (essentially nonrival and excludable), such as personal and financial services, are provided mainly by the for-profit sector. These hypotheses are broadly confirmed by the industrial distribution figures presented Table 1.

Table 1: For-Profit, Nonprofit and Government Employment Shares
In New York State, by Industry Group 1987, in percent

<table>
<thead>
<tr>
<th></th>
<th>For-profit</th>
<th>Nonprofit</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL SERVICES</td>
<td>51</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>Financial Services</td>
<td>95</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Personal and Business</td>
<td>99</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Amusement &amp; Recreation</td>
<td>79</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Health Services</td>
<td>31</td>
<td>47</td>
<td>22</td>
</tr>
<tr>
<td>Legal Services</td>
<td>97</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Education &amp; Libraries</td>
<td>3</td>
<td>32</td>
<td>65</td>
</tr>
<tr>
<td>Social Services</td>
<td>9</td>
<td>87</td>
<td>4</td>
</tr>
<tr>
<td>Museums, Bot. &amp; Zoo. Gardens</td>
<td>1</td>
<td>92</td>
<td>6</td>
</tr>
<tr>
<td>Membership Organizations</td>
<td>39</td>
<td>61</td>
<td>0</td>
</tr>
<tr>
<td>Other Services (prof., etc.)</td>
<td>98</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Government</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>ALL NON-SERVICES</td>
<td>92</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Agriculture</td>
<td>99</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Mining</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Construction</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transportation</td>
<td>78</td>
<td>0</td>
<td>22</td>
</tr>
<tr>
<td>US Postal Service</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Communications</td>
<td>99</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>ALL OTHER INDUSTRIES</td>
<td>98</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Commerce</td>
<td>99</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Printing &amp; Publishing</td>
<td>76</td>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Sanitation</td>
<td>99</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ALL INDUSTRIES</td>
<td>73</td>
<td>11</td>
<td>17</td>
</tr>
</tbody>
</table>

(1)Reproduced from Ben-Ner and Van Hoomissen (1990), where sources for the data are given.
(2)Totals may not add up to 100 due to rounding.
(3)The nonprofit sector here comprises organizations covered by section 501(c)(3) of the United States Internal Revenue Code. Other nonprofits (mostly in membership organizations) are included as for-profit organizations. The 501(c)(3) segment employs about 92% of the nonprofit sector workforce (Rudney, 1987).
REFERENCES


