Preface

The first presentation of “benefits theory” in the literature did not even coin the phrase. In *Financing Nonprofits: Putting Theory into Practice* which I edited for publication in 2007, I wrote the concluding chapter entitled “Toward a Normative Theory of Nonprofit Finance” which outlined the rudiments of the theory. That book was the joint effort of eighteen distinguished scholars who came together to examine the various different parts of the proverbial elephant of nonprofit finance – fees, gifts, government funding, investment income, volunteering, and so on – and also consider how these components came together into nonprofit income “portfolios.” The book still serves as an important resource in the nonprofit management field and I continue to use and recommend it, if only for the star-studded cast I want my students to be exposed to and the solid thinking that went into each of the chapters.

In addition, that book set in motion two important developments. First, the field now had a resource book that could be used to teach nonprofit income development in a more comprehensive way, embracing not only charitable fund-raising but all of the other important streams of nonprofit income as well. Ever since the book’s publication I have taught annually my nonprofit finance course from this perspective. In the first few years, the Andrew Young School of Georgia State University allowed me the luxury of jointly developing and teaching the course with my good friend and colleague John O’Kane, then an adjunct instructor and principal in the Coxe Curry consulting firm. Eventually austerity caught up with us and I went solo with the course, but I continued to teach benefits theory with John in the Executive Leadership Program for Nonprofit Organizations (ELPNO), a short course that we had established in Atlanta for nonprofit executives in the Southeast. John and I continue to teach our mini-version of benefits theory in the ELPNO program to the present day. Meanwhile, the baton has been taken up elsewhere in the university world, including at institutions such as American University and University of Wisconsin/Milwaukee where my former doctoral students Lewis Faulk and Grace Schultz are now members of the faculty, and indeed at Georgia State where the course continues to be taught since my retirement from that institution. I have not tracked the dissemination of benefits theory into nonprofit
management curricula beyond that, but it seems now to have become part of the common lingo for faculty in this field and enjoys a place in David Renz’s *Jossey-Bass Handbook of Nonprofit Leadership and Management* (Renz, 2016).

A second key development helps explain why benefits theory has been taken up in the educational realm and indeed how it got its name. When I wrote the chapter for the 2007 book I described the nascent theory as a “normative theory,” meaning that this is how we “should” think about nonprofit finance. However, it soon became apparent that benefits theory had some explanatory power and could also serve as a framework for research on extant patterns of nonprofit income. That is, the logic of the theory was intuitive and thus it wasn’t surprising that nonprofit leaders seemed to gravitate to its expectations even if they did not do so consciously. This set into motion what has become a modest but increasingly robust stream of empirical research, kicked off by three papers that I co-authored with Amanda Wilsker, Rob Fischer and Mary Grinsfelder (see Chapters 3 and 11), which confirmed a strong relationship between the public/private nature of the benefits produced by a nonprofit and the mix of income sources by which it is funded. Since that initial research, papers by various scholars hinging on benefits theory have regularly appeared in scholarly field journals and nonprofit research conferences. As a result, benefits theory is now part of the knowledge base, hence repertoire for faculty who teach about nonprofit finance. This development has been both gratifying and perplexing: Gratifying because the theory apparently makes good sense as a way of approaching nonprofit finance in a holistic way. Perplexing because if nonprofits already behave this way, then why do we need to teach it as a normative approach?

The answer to the latter question is not too difficult to tease out, however. There is ample evidence that nonprofits struggle with their finances and that many of them fail (see Chapter 1). And clearly, some of this failure is attributable to an inability to effectively mobilize and manage resources. Moreover, while most nonprofit organizations may sense the right combinations of financial sources to support themselves, they do not obviously optimize those mixes. That is, they may not take full advantage of the financial opportunities implicit in their missions – opportunities that would follow from explicit analysis from a benefits perspective; and they may not be making the right trade-offs between some sources and others.

How to address these concerns? There was as yet no educational resource up to the task. While the 2007 book and the subsequent stream of research supporting benefits theory constituted an expanded knowledge base for the field, this knowledge required piecing together into a coherent
whole. That, in short, is the purpose of this book, which is intended to help students in school and those in practice gain a fuller grasp of the theory and how to apply it, in addition to guiding researchers who wish to extend the frontiers of knowledge on this subject.

One other important development plays into the formulation of this book and its title and terminology. Both in the U.S. and around the world, we no longer think exclusively of traditional nonprofit organizations when we consider how private organizations can contribute to the public good. In particular the roles of social enterprise and social entrepreneurship are ascendant and they are now manifested through a variety of organizational forms including cooperatives, socially-oriented businesses, and public/private partnership arrangements. Indeed, the sectoral map has become so complex, and the variety of forms so diverse, that it now makes sense to use the more generic term “social purpose organization” (SPO). Several colleagues and I have recently published another book that documents this variety and its implications (Young, Searing and Brewer, 2016). While SPO is not yet the widely used generic term, I adopt it in this book so that benefits theory thinking can be appropriately expanded beyond traditional nonprofits. It remains to be determined if the theory is a powerful way of explaining or guiding the finance of cooperatives, social businesses and the like. I believe it is. Thus, this book extends the application of benefits theory beyond the boundaries of nonprofits per se, and into the more general realm of social enterprises. Indeed, I argue that benefits theory is generic to social mission-driven organizations and that legal forms can be adjusted and adapted to best serve this mission by exploiting a wide variety of income opportunities.

Given this broad scope of application, I believe that this book will be helpful at three levels. First, it should be useful in the classroom, at the graduate and advanced undergraduate levels to teach finance of nonprofits and social enterprises. Second, I hope that leaders and managers of social purpose organizations, board members as well as executives and staff, will read and learn from the book. I have consciously written it in accessible language without too much technical complexity to make it helpful for practice. Third, I hope the book will assist scholars in their own quests to extend knowledge in this field. Doctoral students should find the book useful for identifying research issues and questions of their own. Experienced researchers will be familiar with much of the underlying literature but perhaps will be guided by the frontiers I have sketched here and will find ways to deepen and extend the knowledge base. We still need to know a lot about the nuances and applications of benefits theory, especially in terms of the numerous variants within general income classes such as earned, gift or government funding; the various conventional and
new instruments of capital finance; the ways in which finance decisions are made within alternative forms of social enterprise; and the management of complex income portfolios.

While social purpose organization finance is still a nascent field of knowledge, I was almost overwhelmed by the task of writing the book. As I delved further into each facet of the subject, I realized that volumes could be written on the topics of virtually every chapter here. In my mind, the task grew encyclopedic. But I had a deadline, and a specific intent to produce a manageable volume, for me and for the reader. However, I hope this book will grow in future editions, perhaps taken up by some of my younger colleagues and former students, so that each aspect of the subject can receive the fuller examination that it deserves.

That said, for those wishing to build a graduate course around this book, I would recommend several supplemental sources for students who wish to dig deeper in various ways. The aforementioned 2007 volume is still relevant and informative. Our new book on social enterprises contains a chapter by Elizabeth Searing and me on benefits theory applied to social enterprises, but as importantly, it explores the various organizational and economic issues surrounding social enterprise, including the diverse legal forms it now assumes, and its various national and industry contexts (Young, Searing and Brewer, 2016). And for a comprehensive picture of the social economy of the United States, I highly recommend the text by Laurie Mook, John Whitman, Jack Quarter and Ann Armstrong (2015). On the issues of capital financing of social ventures and social innovation, I suggest the impressive volume edited by Alex Nicolls, Rob Paton and Jed Emerson (2015). As general resources on economic thinking applied to social purpose organizations and on general management issues, I recommend, respectively, the long awaited second edition of Young and Steinberg’s Economics for Nonprofit Managers and Social Entrepreneurs, forthcoming with two additional authors, Rosemarie Emanuele and Walter Simmons and now extended to social enterprise (2018); and the 4th edition of Dave Renz’s Handbook (2016). And I would be seriously remiss if I failed to recommend Woods Bowman’s (2011) book on nonprofit financial management, especially because I had the privilege of hosting Woods at Georgia State in the course of his writing that book, in which he generously included a section on benefits theory.

As a related and poignant aside, I wish to note that I feel a personal loss of several close colleagues and friends who were leading thinkers in the field of nonprofit finance and who were part of the 2007 volume. Woods Bowman was one. Howard Tuckman and Estelle James are the others. I am indebted to all three for their friendship and their contributions to my
thinking. Their legacies live on in the literature of nonprofit finance and in the minds and hearts of their peers and students.

Volumes like this are rarely the product of a single isolated individual. In this case I had plenty of help along the way. First, the reader will note that there are numerous case studies, vignettes and examples included throughout the book. For this I would like to thank my doctoral student Jung-In Soh for her multiple, substantial efforts on this aspect of the book. In addition, many individuals in the various organizations discussed here provided their help and guidance and substantial information. These include Kevin Spear, Ann Holt-Wiolland, Lee Fisher, Russ Klimczuk, Daniel Lehman, William Weisberg, John Anoliefo, Justina Kwesiga, Latchmee Bhual, Greghan Fischer, Danielle Paskowski, Brian Kenyon, and Jenny Northern. In addition, several colleagues including Jack Quarter, Andrea Bassi, Laurie Mook, Lewis Faulk, Elizabeth Searing, and Jesse Lecy led me toward interesting and appropriate cases.

I also benefitted from many guests in Atlanta who spoke in my classes on nonprofit finance over the years. These include Joe Arnold, David King, Valarie Wilson, Clay Rolader, Bobbi Cleveland, John Floyd, Patricia Showell, Suzanna Stribling, Catherine Mickle and Janice Wolfe. I learned something new every time they spoke.

Importantly, I am indebted to several colleagues who took the time to read all or parts of an earlier draft of this book and provided me with excellent ideas for changes, additions and alterations. These include Jack Quarter, Lewis Faulk, Jung-In Soh, Thad Calabrese, Elizabeth Searing, David King, John O’Kane, Grace Schultz, and Scott Taitel. Bill Bolling also read the draft manuscript and generously wrote the Foreword.

Finally, all authors know that completing a book can make you grouchy and irritable at times. I thank my lovely wife Linda Serra for putting up with me and supporting me throughout the process.

Dennis R. Young
September 2016

REFERENCES

Financing nonprofits and other social enterprises


