Foreword

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A brief story . . .

Over 30 years ago, my first assignment as a graduate research assistant in economics at the University of Wisconsin–Madison was to work with Burton Weisbrod. At the time, Burt was starting his seminal work on the economics of the nonprofit sector, and he had just acquired from the Internal Revenue Service a sample of (he thought) roughly 500 000 'tax returns' for section 501(c)(3) nonprofit organizations. Burt asked me to determine whether it made sense for him to use the existing mainframe computer in the social science building to analyze these returns, or whether he should purchase his own computer to compile the returns and to conduct the statistical work. Remember that this was prior to – but only just – the creation of the personal computer, so the universal consensus from the Wisconsin computer experts was that it was 'insane' for anyone to even consider purchasing their own mainframe computer. As a result, Burt resigned himself to using the existing computing facilities. Of course, within only a few years, the PC came into widespread use.

What this story illustrates and why this story is, I believe, relevant for this collection of original essays is that it shows that there are people who are ahead of the times, even though this may not be accepted or recognized at the time. Burt's belief that studying the nonprofit sector was important – and important to mainstream economics – was not a view that was then widely shared by economists. Eventually, however, his work, and that of others (including many of the people who are contributors to this volume), has led to the creation of a whole new field within economics, one that largely relies upon the standard tools of economists in its analysis and one that forms – in part – the basis of this collection of essays on nonprofit organizations, their behavior and their effects. It is no exaggeration to say that Burt's work and the work of many of the people writing for this volume have led quite quickly to an explosion of research by economists on the nonprofit sector.

Having said this, what should happen now in the study of nonprofit organizations? Most of the existing work – at least most of the work by economists with which I am most familiar – uses only the tools of economists to analyze the behavior of the nonprofit sector: rational decision making, constrained optimization, marginal analysis and the like. One of the central points of this volume of essays is that the purely economic-based approach of economists to the study of nonprofit organizations is too narrow. There are numerous insights from other fields of work, such as the management studies emphasized here, that can help inform the study of nonprofits and can at the same time also help inform the work of economists.

Of course, the other central point of this volume is that non-economists themselves have too often ignored the insights of economics in their own studies of nonprofit organizations. There is much that the understanding of economics can contribute to the understanding of nonprofits more generally.

Indeed – and to come back to my story – I believe that the editors of this volume, Bruce Seaman and Dennis Young, as well its contributors, are somewhat ahead of their time when they argue for the broadening of nonprofit studies in order to make it a true interdisciplinary effort. In short, the editors and the contributors to this volume are themselves attempting something path-breaking: interdisciplinary cross-fertilization. As Seaman and Young write in their Introduction (p. 1):

> the literatures on management of nonprofit organizations and the economics of nonprofits do not sufficiently intersect and cross-fertilize. The former is an interdisciplinary collection that draws heavily on business management and public administration research, practitioner experience, sociology of organizations and other social science fields, and diverse methodologies including case studies, surveys, grounded theory and statistical testing based on a variety of behavioral theories, hypotheses and models. The latter, in contrast, is more homogeneous and specialized, based largely on a common theoretical framework . . . and focused on issues that can be understood as manifestations of a desire to make the most efficient use of scarce resources . . . Despite the fact that many economists interested in nonprofit organizations have made extra efforts to write for general audiences and to participate in interdisciplinary forums devoted to nonprofit issues, the full benefits of their thinking have not yet been felt in the general nonprofit management research arena. Nor have economists fully benefited from fresh perspectives on nonprofit decision-making issues that emanate from other disciplines as well as experience in practice.

This is an important insight, and this collection of essays makes a significant contribution to the achievement of this goal of linking these largely separate and disparate literatures.

Many varied topics are addressed in this book. Without being fully exhaustive, these include: the pricing of services, competition, labor compensation, outsourcing, product diversification, asset diversification, franchising, internal organizational architecture, risk management, performance assessment, volunteer labor, crowding out, the behavior of charitable foundations, taxation, public policy decisions (e.g. judicial decisions, school vouchers, government regulations). These topics represent natural areas of intersection between economics and management research. However, as these essays argue, the nonprofit management research literature has not fully benefited from the thinking that economists can bring to the table; similarly, economic analysis is also not sufficient to encompass fully the many nuances arising in the nonprofit arena.

As Seaman and Young conclude (p. 4):

> But if there is a 'bottom line' to all of this, it is that economics . . . has been only modestly applied to date to the critical management and policy questions affecting nonprofit organizations, and in turn the contributions this sector makes to the overall welfare of our society. More than anything else, our authors have described a rich agenda of questions and topics that, if addressed by economists at both the applied and theoretical levels, can further enhance the impact and value of the economists' way of thinking, expand the domain of contributions of the economics profession, and add new sophistication and depth to the tools that nonprofit managers and leaders have at their disposal to effectively guide their organizations in an environment of perennially limited resources.

It is hard to argue with this conclusion. I believe strongly that the cross-fertilization that Seaman, Young and others in this volume advocate – and clearly demonstrate in their work – has the potential for significant advances in the understanding of nonprofits.

Indeed, I think that a good case can be made that this volume will help to stimulate the creative thinking that pushes nonprofit studies to move even further into a true interdisciplinary effort. Put differently, I believe that the potential benefits from cross-fertilization extend well beyond the combination of economics and management in this volume. Let me conclude by listing only a few of these new areas for new interdisciplinary work.

One potentially fruitful area for additional cross-fertilization is the application of experimental economics to the study of nonprofits. At first blush, this may seem simply another attempt by economists to exploit a purely economic approach. However, experimental methods have traditionally been used in many areas of social sciences, and even economists are beginning to recognize that these other social sciences have much to offer in explaining why individuals and groups of individuals behave as they do. The laboratory offers the ability to test hypotheses in a controlled setting that is often not available in the naturally occurring world. In the process, the laboratory also generates data that often could not be generated otherwise. Many of the essays in this volume suggest notions that could fruitfully be examined – and only examined – in the laboratory.

Another obvious area is extending nonprofit studies more fully to the international arena. Non-governmental organizations (NGOs) are in many developing countries often the dominant method for providing social services, but the rigorous, interdisciplinary analysis of NGO motivations and performance is quite limited. Again, this may seem like another attempt at economic colonization. However, a full understanding of NGOs requires an explicit recognition of the institutions and cultures in which these organizations operate, which requires in turn full consideration of, say, sociological and anthropological factors that operate in these countries.

Perhaps the most obvious direction for cross-fertilization is to incorporate much more fully the insights of psychology. This area is now loosely referred to as 'behavioral economics', and its growth within economics in even the last five years is staggering. Behavioral economics can be broadly defined as an approach that uses methods and evidence from other social sciences (especially psychology) to inform the analysis of individual and group decision making. There is much evidence – often derived from laboratory experiments – that, contrary to the standard neoclassical approach to consumer choices used in most economic analyses, individuals are not always purely self-interested, they face limits on their ability to compute (e.g. 'bounded rationality'), they systematically misperceive the true cost of actions (e.g. 'fiscal illusion'), they face limits on their 'self-control', and they are affected by the ways in which choices are 'framed' (e.g. reference points, gains versus losses, loss aversion). There is also much evidence that individuals are influenced by the social context in which decisions are made; that is, individuals are not always the outcome-oriented, egoistic and selfish consumers envisioned by standard economic theory but are affected in predictable ways by the processes by which outcomes are determined and also by notions of fairness, altruism, reciprocity, trust and social norms. There is virtually unlimited scope for deeper application of these methods. Many questions of central importance to nonprofit studies are difficult to examine theoretically or empirically, but can be brought into the laboratory for analysis. Indeed, the laboratory may represent the only avenue by which these questions can be tested.

In short, the contributions to this volume – and the other areas not yet fully incorporated here or elsewhere – have the potential to stimulate entirely new directions of research on nonprofits. In this way, the contributors here are following in a distinguished tradition pioneered in nonprofit studies more than 30 years ago by Burton Weisbrod. This is indeed an exciting time to be working on nonprofits.