

The Notion of Nonprofit: Ambiguities and a Research Proposal

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The notion of 'nonprofit' is vague and ambiguous: does it refer to organisations operating under the 'non-distribution constraint', to mean that they are not-for-profit in a system where the distribution of profit is a built-in element in the process of profit maximisation of the neo-liberal economy? Or does it refer to those organisations – like co-operatives, mutuals and associations – that make up the Social Economy? In the first case the nonprofit organisations typically characterise a Third Sector as interpreted, eg, by the John Hopkins study (Salamon and Anheier, 1994) without attempts to challenge the mainstream economic order. In the second case, being nonprofit is part of the main attributes that characterise organisations that challenge the dominant economic order and claim to provide an alternative to it. As the term 'nonprofit' is used in both cases and, as in some EU countries, the social economy is synonymous with the Third Sector, the need arises to bring some clarity to the issue under consideration. The hypothesis underlying our research proposal is that the notion of 'nonprofit' can go hand in hand with an economic system not necessarily based on the self-interest and profit maximisation of neo-classical economics.

Can Nonprofit and Economy Go Together?

Challenging the economic neo-classical discourse that links the accumulation of profit to its distribution, implies disentangling the two notions and admitting the possibility, for an organisation, to distribute surpluses while maintaining its nonprofit character. Likewise, it implies belying the alleged incompatibility between the notion of nonprofit and economic entrepreneurship. This suggests that the notions of non-profitness and economic entrepreneurship can co-exist. It is argued that asserting the non-profitness of co-operatives and related social economy organisations, might help to distinguish between nonprofits that develop in the context of the economic mainstream without challenging it, on the one hand, and nonprofits that question the economic mainstream as a *fait accompli* and aim to achieve an alternative to it, on the other hand.

Co-operatives' 'nonprofitness' is traditionally based upon such tenets as the indivisibility of the common reserves, the disinterested process of dissolution and the proportionality of member transactions as the criterion of surplus distribution – if any. In economic theory, however, 'nonprofits' are commonly designated as organisations subject to the 'nondistribution constraint', meaning that they are forbidden to distribute any part of the organisation's surplus to those who control the organisation (members, directors and officers). The very fact that co-operatives are not subject to the 'non-distribution constraint' and may, if they wish, distribute to their members' part of their net earnings in the form of patronage dividends, is

at the origin of a controversial issue in the literature. In the words of Hansmann (1996, 17-18):

A well-drafted nonprofit corporation statute imposes this 'nondistribution constraint' on any organisation formed under the statute, and hence prohibits the formation, as a nonprofit corporation, of any form of co-operative and of any other form of owned enterprise.

If so, a co-operative cannot be a nonprofit. Yet, in this case we have to ask: what would be the price to be paid? Should we relinquish such values and practices like the indivisibility of reserves; disinterested devolution; a share capital that is neutral to the decision making and the surplus distribution processes and the principle that a co-operative is a member – and not an investor – based organisation? Foremost among these considerations is the relation between co-operatives and the social economy. Here the assumption is that all co-operatives are a chief component of the social economy which – by definition – is nonprofit oriented.

Hence the conclusion, shared by most of the literature, that co-operatives are nonprofit organisations. From this we can argue that nonprofit and economy can co-exist, as further shown by recent developments in the social economy.

Organisational Interplay in the Social Economy

Equating for-profit organisations with profit distribution is all-too-natural by neo-classical economic thinking. Hence, its logical reverse: nonprofit-cum-nondistribution constraint.

Co-operatives, though, tend to evade this dichotomic view. They claim to be, at the same time, economic enterprises and nonprofit organisations. The point is often overlooked that the option of surplus distribution does not necessarily deprive co-operatives of their nonprofit nature. In fact, by co-operative standards, distribution is done – if at all – in proportion to the members’ patronage, regardless of the amount and kind of share capital contributed to the co-operative. The process is thus unrelated to capital profit considerations.

It is argued that distribution of surplus cannot serve as a line of demarcation between for-profits and nonprofits. In other words, distribution of surplus cannot be seen as an exclusive feature of for-profits, as it can be found in co-operatives which are nonprofits. The co-operative shows how an organisation can be an economic initiative, strive for a surplus, attain it and distribute it to its members/stakeholders in proportion to their ‘patronage’ and still remain a nonprofit. On the other hand, although in the same logic, many nonprofits can no longer be equated with non economic entities, as social co-operatives and social enterprises are economic initiatives that either abstain from distribution of surpluses, or are prohibited from doing so by law, without necessarily losing their entrepreneurial character (Figure 1).

To adhere to such an approach presupposes parting from the dichotomous profit/nonprofit way of thinking that is at the root of the difficulty of accepting the co-operative ‘anomaly’ in a world of neo classical economics.

An ‘Acquiescent’ Versus ‘Alternative’ Approach to Mainstream Economy

Whereas the approach to the third sector tends to be of a residual character (to do what neither the first sector nor the second sector are able/willing to do, without necessarily challenging the

existing socio-economic order) the approach to the social economy bears a pronounced alternative character:

- The social economy is growing primarily because the capitalist system is unable to cope with and tackle the intractable issues of poverty, environmental degradation and escalating wars. (Boyd, 1994)
- The social economy is born and develops as a response to the failings of the dominant economy, and particularly to those needs that the market fails to address. (Defourny et al, 2001:20)
- The social economy is a ‘Third Way’ approach to economic and social development; it represents a path between the public State and the private market. Can it then ever be more than a reformist conception? Is it capable of transcending reform and realising more profound social change – a genuine, empowering, liberating alternative to mainstream economic development? Are there particular elements, or conditions, which facilitate such an alternative? (Gordon, 2002)

On the other hand, the common way of presenting the third sector is free of reformist pretensions. A general – though restrictive – perspective would include in the third sector mainly nonprofit organisations of a public nature as embodied by universities, hospitals, foundations, etc and of a helping-voluntary nature, as embodied by most charitable-helping, mainly welfare, institutions. This is the current understanding of the third sector according to the John Hopkins study (Salamon and Anheier, 1994). According to one of the authors of the study, these organisations share a number of features: they are organisations with some institutional identity; they are private and not part of a state apparatus; they do not distribute profits; and are self-governing and voluntary. Underlying

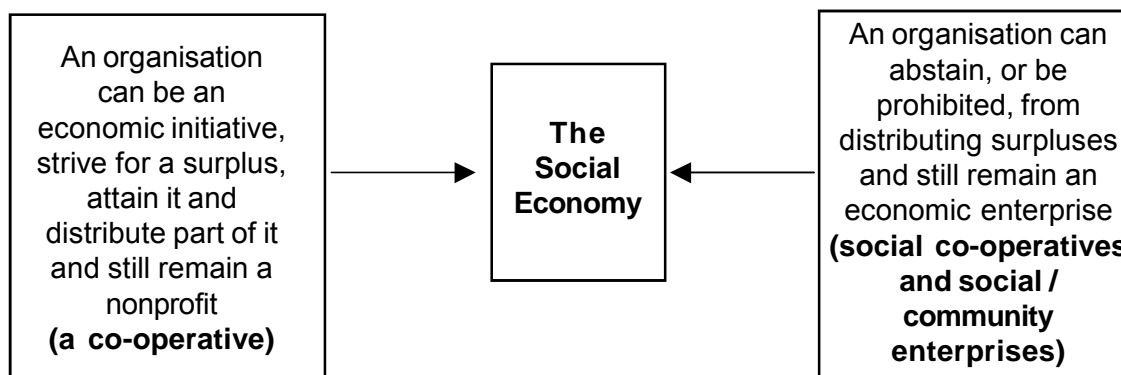


Figure 1: Organisational interplay in the social economy

these features are such values as altruism; compassion, sensitivity to those in need and commitment to the right of free expression, as well as the values of individual initiative for the public good; of solidarity and of obligations to themselves and to each other (Salamon, 2002). In spite of the laudable content of these values, they are insufficient to ascribe a practicable socio-economic project to the third sector.

On its part, the alternative aspirations of the social economy are not free of criticisms. Doubts have been voiced whether the various organisations involved are really willing and prepared to tackle the issue of “inventing a new socio-economic order”, or whether they would rather leave it to the politicians to carry out such a policy (Motchane, 2003). Other critiques concern the lack of homogeneity in analysing a phenomenon labelled as ‘social economy’, ‘solidarity economy’, ‘non-monetary economy’ and more. Co-operatives make a most controversial issue, in the international nonprofit literature, whether or not to include them in the nonprofit system, on account of their non-acceptance of the non-distribution constraint (see *eg*, Defourny, 2005:239). More recently, the complaint was voiced that the new European Co-operative Statute is far from accepting the nonprofit elements of co-operation, thus bringing about its “(...) distancing from the [co-operative] principle of a-capitalism” (Marchand, 2006:6).

In our opinion, what makes the difference is the exclusion of the co-operatives - as was the case with the John Hopkins study (Salamon and Anheier, 1994) – from the third sector under the pretext that they ‘distribute profits’ – or their inclusion, which ultimately led to the almost synonymy of the terms social economy with third sector as is the case in the Latin countries of the EU (Levi, 2003).

All in all, we can conclude that the notion of nonprofit is largely used as a basic component of both the traditional third sector and the social economy.

Summing Up Assumptions

The foregoing suggest a number of key assumptions:

- As economically change-oriented organisations, co-operatives, mutuals and associations making up the ‘social economy’ aim to generate an annual surplus (not a profit).
- Co-operatives, mutuals and associations are

member and not investor organisations. As such, the role of capital herein is totally at variance from that in a capitalistic firm, playing no role either in the process of decision making, or in that of distribution (if any) of surpluses. In fact, decisions are taken according to the ‘one man – one vote’ principle and distribution is made according to the participation of each in the activity of the organisation.¹

- A member organisation can distribute surpluses and still be nonprofit.
- A member organisation can abstain from distributing surpluses and still be an economic enterprise.

It ensues that a social organisation, contrary to the prevailing capitalist model, can be entrepreneurial and nonprofit at the same time. More generally, a ‘social enterprise’ – as many organisations of the social economy are termed, can be part of the market without necessarily surrendering to the hegemony of capital.

- Though sufficient to distinguish the third sector from the first and the second ones (public and business, respectively) and however laudable, the aforementioned properties and values of the third sector do not necessarily entail the idea of a change in the prevailing economic system. On the other hand, the social economy is expected to challenge the prevailing economic system by offering, if not an alternative to it, at least a means to counter its hegemonic position.
- It is argued that including/excluding co-operatives and related organisations in the third sector can be a critical determinant of the difference between a sector that has the potential for changing the prevailing economic system, or, alternatively, a sector that performs a variety of nonprofit – mainly welfare – activities, while accepting the prevailing economic system as a fait accompli. More specifically, it is argued that including co-operatives, and by implication the social economy, in the third sector, makes it possible to substitute a bottom-up and democratic organisational style for the top-down bureaucratic and paternalistic approach typical of the first sector, and a not-for-profit entrepreneurial economic system for the self-interested profit maximisation of the second sector. This may enable a value laden, rather than residual, approach to the

third sector. An innovative interpretation of the notions of 'nonprofit' and of 'third sector' implies that these be conceived as part of an empowering-alternative model, as distinct from a conservative-acquiescing one vis-à-vis the neo-liberal economic paradigm.

A Research Proposal

To gain better insights into our subject matter, a research is proposed under the heading: *Does the notion of 'nonprofit' imply an alternative economic system and – if so – how is it perceived and enunciated? An exploration of perceptions of nonprofit as related to third sector and social economy issues.*

This research does not intend to compare organisations, but rather different ways of perceiving the same notion ('nonprofit'). As a hypothesis of work, a continuum of low to high degrees of specification of nonprofit attributes can be imagined, from the generic notion of third sector (Salamon, 2002), up to the highly specified notion of the 'social enterprise' (Borzaga and Defourny, 2001) intermediate levels can be considered the common co-operatives and the social co-operatives. Sampling organisations along such a continuum may enable us to check for a possible relation between the background organisational dimension and the perceptual dimension of the respondent. It can be hypothesised that the more specified the attributes of nonprofit of an organisation and its economic entrepreneurship, the greater will be the perception of 'alternativeness' of the respondent. See the Appendix for an additive view of organisational attributes of nonprofit.

It is suggested that a number of EU countries are selected according to the different levels of development of the welfare state and the third sector, which in turn are expected to affect the development of the social economy, especially the social enterprises. By such criteria, Sweden, Denmark and Finland belong to a group with a strong welfare state with direct cash benefits and services supply; Germany, France, Belgium, Luxembourg, the Netherlands and Ireland are characterised by a limited state commitment to the supply of social services; Italy, Spain, Portugal and Greece represent a group of countries with less developed welfare states and a relatively less developed third sector (Borzaga and Defourny, 2001: 355-356). In addition to the above typology, experiences from

the UK and Canada will be included. One can tentatively hypothesise that the perception of nonprofit as an alternative possibility can be expected to be higher in countries of the third group aforementioned.

In each country, a number of organisations will be selected, belonging to the following main types:

- 1) Nonprofits dealing with philanthropic and charity activities.
- 2) Associations and social co-operatives dealing mainly with the supply of welfare services and the integration to work.
- 3) Conventional co-operatives.
- 4) Social enterprises.

To assess the link between 'noprofit' and economic change, it is suggested that one of the above mentioned statements presenting the social economy is taken as a response to the capitalist system, and used for probing into the perceptions of the respondents. For instance:

The social economy is born and develops as a response to the failings of the dominant economy, and particularly to those needs that the market fails to address.

- To what extent do you agree/disagree with this statement? (Please explain)
- In your opinion, does your organisation move in the direction of the above statement?
YES (please explain); NO (please explain).
- How would you define your organisation? For-profit/nonprofit? (please explain)
- If you answered 'nonprofit', would you say that your organisation differs from a for-profit one? (please explain how)
- Does the for-profit/nonprofit character of your organisation confer on it a particular role in your society/country? (please explain)

It is suggested that the work of the research team proceeds along a three-stage course:

- 1) Sharpening and clarifying the notion of nonprofit.
- 2) Feedback from the participant countries, based on preliminary enquiries in selected organisations.
- 3) Preparing a final report of the research team, to include possible suggestions for further research and publications.

Research aimed at fundamental questions of

the kind raised in this proposal, could be particularly well served by research organisations that specialise in partnerships

between social economy bodies, communities and universities, like the Canadian CURA (Levesque and Mendell, 2005).

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Dr Yair Levi (1923-2007) a long standing co-operative researcher and member of the editorial board of this journal died in August 2007. Until 2006, Yair was the Scientific Director of CIRCOM (International Research Centre on Rural Co-operative Communities) and in the years 1978-2006 he was editor of the *Journal of Rural Co-operation*. He was in charge of cooperative studies at the Afro-Asian Institute for Cooperative and Labour Studies (founded by the Histadrut, Israel); Senior Lecturer at Haifa University; Senior Researcher at the Settlement Study Center, Rehovot; and has served as an *ad hoc* Consultant to the government of Costa Rica (1986) and to the World Bank (1987). He was the author of numerous books, articles and publications on co-operatives. In 2006 he constituted the *Centre for the Advancement of the Social Economy* in Israel. Yair worked hard to advance international co-operative research; the co-operative world is the poorer for his passing.



Appendix

	Nonprofit third sector	Social economy	Social co-operative	Social enterprise
1	Formal constitution	Priority of man	Pursuing the interest of the community	A continuous production of services & goods
2	Juridical private bodies	Free association	Providing social welfare and educational services	Managerial autonomy
3	Self-management	Internal and external solidarity	Providing employment for disadvantaged people	A significant level of economic risk
4	Voluntary adherence	Democratic management	Volunteers up to 50% of membership	A minimum level of paid workers
5	Distribution constraint	Indivisibility of reserves	Multi-stakeholders (members and not)	An explicit aim to benefit the community
6	–	Disinterested devolution	Limited distribution of profits	An initiative launched by a group of citizens
7	–	–	–	A decision-making power not based on capital ownership
8	–	–	–	A participatory nature involving the persons affected by the activity
9	–	–	–	Limited profit distribution
	(Salamon, 2002)	(CECOP, 2002)	(Borzaga, 1995)	(Borzaga and Defourny, 2001)

The table shows how the notion of ‘nonprofit’ used to characterise the third sector as a macro organisational setting, becomes more specified when it refers to the social economy and its component elements, such as the social co-operative and the social enterprise.

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Notes

- 1 We are aware of the increased complexity of participation and remuneration in cases of multi-stakeholder co-operatives and mixed enterprises, yet believe that this does not change the importance of the democratic principle.