Financing Nonprofits and Other Social Enterprises: A Benefits Approach by Dennis R. Young

Sandy Zook – University of Colorado Denver


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Financing Nonprofits and Other Social Enterprises: A Benefits Approach (Young, 2018) provides needed updates and clarification to Financing Nonprofits: Putting Theory into Practice (Young, 2007), which was an edited volume involving 18 scholars in the field of nonprofit resource development and financial management. When Financing Nonprofits was published in 2007, it culminated in (what was at the time) an unnamed normative theory of nonprofit finance and resource development. Since this work, research has emerged testing the normative theory that identifies different types of nonprofit beneficiaries and links them to various nonprofit revenue sources.

This new volume contrasts in several notable ways from the 2007 volume—in the authorship, chapter approaches to discussing revenue, the types of organizations included in the theory, new and reclassified beneficiary groups, and potential directions for future research. The most notable difference, however, is the introduction of the term social purpose organizations (SPOs) to describe the range of emergent organizations that have a mission-driven purpose. The introduction of this term allows benefits theory to be applied beyond the nonprofit sector to social enterprises and growing numbers of other legal forms. Since Young presents this book as an update to his 2007 version, in this book review I will highlight some of the key distinctions between the two volumes (see Table 1).

One of the overarching themes in Young’s 2018 volume is that benefits theory is no longer solely a normative theory about how nonprofits should operate. Instead, based on research over the last decade, it is now a positive theory with predictive power about how organizations operate. The first two chapters focus on the development and broadening of the theory to encapsulate multiple types of SPOs. The third and fourth chapters provide an update to the theory, including improved economic-based definitions of types of goods linked to each identified benefit group, as well as differentiations in the use of broad categories of revenue streams across different types of SPOs. For example, under the revenue stream labeled “small gifts,” nonprofits generally rely on annual donors and crowdfunding. Cooperatives, on the other hand, rely on members and donors; and, social business predominantly rely on crowdfunding.

Table 1. Updates to Benefits Theory of Nonprofit Finance

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<td>Purpose(s)</td>
<td>• Putting forth tenants for testing the probability of theory</td>
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<td>• In-depth outline of various revenue sources</td>
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Chapters 5–10 focus on different types of revenue through a lens of revenue portfolios where that revenue is the dominant funding source. Within this discussion, chapter 9 examines mixed income portfolios that don’t have a dominant funding stream. Chapter 11 examines capital income opportunities. Each of these chapters relies on illustrative case studies to examine the corresponding revenue strategy. The final chapter synthesizes the main themes across the chapters and highlights how various types of SPOs and entrepreneurs can use the theory to examine, evaluate, and strategize links between beneficiaries, programs, and services to available revenue sources.

There are some minor changes and realignments of identified beneficiary groups. One minor change, for instance, is renaming trade goods to exchange goods to better capture the nature of the relationships within that category. This is done without fundamentally changing how the category is defined. A more substantial change realigns private goods into two groups: private goods and redistributive goods. Private goods are rivalrous and excludable aligned with earned income and fees. Nonprofits can compete in the market with for-profit companies; examples provided include childcare and mental health counseling services to middle-income families.

Redistributive goods are similar to private goods, as they are rivalrous and excludable “but they are considered essential to, but hard to afford, by low income consumers” (pg. 70). Young cites “Affordable housing, basic health care and food” as fitting this category (pg. 65). The differentiation of private and redistributive goods is important to the financing mechanisms available to each type of good—redistributive and private. Private beneficiaries access pure private goods (which are rivalrous and excludable) only through fees-for-service; whereas, redistributive goods include fees-for-service, but may be supplemented by government and philanthropic support.

Nested near the end of Chapter 2 is an interesting (and researchable!) proposition. Young states that “The observed relative stability of nonprofit income mixes over time, especially during a turbulent period such as the first decade of the 21st century, is consistent with the notion that something more basic than the winds of environmental economic change are responsible for the choices that SPOs make for sustaining themselves over time” (pg. 33). This observation is derived from an analysis of revenue portfolio dominant funding streams across two periods (2002 and 2010) in a sample of 150 organizations in three large cities. From this
sample, Young presents the overall stability of the primary revenue source across this period of time for 57% of the organizations as an affirmation of the utility of benefits theory.

Prior research has examined (and continues to examine) revenue diversification and concentration in relation to organizational attributes, organizational stability, and financial vulnerability (see e.g., Carroll & Stater, 2008; Chikoto & Neely, 2014; Foster & Fine, 2007; Froelich, 1999; Frumkin & Keating, 2011; Tuckman & Chang, 1991). Young’s proposition, however, presents an interesting and slightly nuanced line of inquiry since the relative stability of the revenue portfolios is a tenant of, and for the use of, benefits theory. Particularly, Young notes that in light of the fact that

those organizations that did switch categories exhibited a roughly random pattern of transitions from one state to another, with no obvious trend in a particular direction. That is, for example, roughly as many nonprofits transitioned from a contributions-dominant state to a fee-dominant state as moved in the reverse direction, and so on. (pg. 33)

Several interesting research questions arise around those organizations that experienced shifts in dominant-revenue. For example, one question is whether revenue shifts maintained revenue-beneficiary alignments, as put forth in benefits theory, or were a result of other factors not tied to the beneficiary composition? Given that 43% of organizations experienced shifts in revenue dominance, answers to this question could provide insight, not only into the predictive power of benefits theory, but also the utility of benefits theory as a strategy for organizations in times of financial crisis or economic shock.

Conclusion

Overall, this book addresses many of the questions raised through research and application since the 2007 edited volume was released. First, it takes a more holistic examination of revenue portfolio compositions, while still examining the strengths, weaknesses, and organizational considerations for individual revenue sources. Second, it provides clarification around the beneficiary groups by adding redistributive beneficiaries, which has been a running critique of benefits theory and a grey area between private benefits and group benefits. Finally, it clarifies how, and in what ways, an organization’s beneficiaries, programs, and services can encompass multiple benefit groups identified in benefits theory, e.g., public, private, group, redistributive, and exchange.

From an applied (or practitioner) perspective, this volume provides more explicit practitioner perspectives for those seeking to utilize and apply benefits theory within existing organizations or in the development of new organizations. The appendix, in particular, contains several worksheets that will certainly be useful to executives, boards, consultants, researchers, instructors of nonprofit resource development, and those seeking to create new organizations. The worksheets provide assistance with identifying beneficiary group(s) served and matching revenue streams corresponding with a particular mix of beneficiaries. The worksheets also provide diagnostic questions for evaluating revenue sources and adjusting organizational strategy.

For instructors who teach nonprofit resource development across a variety of disciplines and need to address the multiplicity of mission-driven organizations, this book provides a useful and broader conception of the theory. Thus, this text can be used as a primary textbook or a valuable supplement. Finally, for researchers, the text provides updates and clarity to the theory based on a decade of research and academic discussion. Moving from Financi...
Nonprofits (2007), which focused on individual revenue sources, this new volume provides a logical transition to discussing revenue portfolio composition holistically, while still addressing the nuances of individual revenue sources. The updates, clarifications, and new propositions provide some interesting directions forward as research continues to coalesce around and draw on the benefits theory of nonprofit finance.

Disclosure Statement

The author declares that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

References


Author Biography

Sandy Zook is an Assistant Professor in the School of Public Affairs at University of Colorado Denver.