An overview of entrepreneurial activity in nonprofit organizations in the international context

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Abstract Nonprofit organizations (NPOs) play a relevant role in society by attempting to satisfy human necessities in a different way, or as a complement to lucrative firms and governmental activity. In this sense, they are active in different areas, and several analyses have been developed to study the effects and the behavior of these organizations in such fields, as is shown in the articles included in this special issue. The main goal of this paper is to show the main aspects analyzed in those papers.

Keywords Nonprofit organizations · Economic growth · Entrepreneurship · High-technology

JEL Classifications L26 · L31 · O43

In general terms, a nonprofit organization (NPO) is a legally constituted organization whose objective is to support or engage in activities of public or private interest without any commercial or monetary profit. NPOs are active in areas like the environment, humanitarian aid, animal protection, education, the arts, social issues, charities, health care, politics, religion, etc. The most likely characteristic of this kind of organization is to develop an activity that does not generate a monetary profit but produces “social profits” or benefits for social stakeholders (Knox and Gruar 2007; Mas-Verdú et al. 2009). Nevertheless, an NPO may accept, hold and distribute money, but the main restriction in this case is that the funds must be used for attaining the organization’s objectives (Caruana and Ewing 2002; Drucker 1992; Gert-Jan Hospers et al. 2009; Holland and Ritvo 2008; Tan et al. 2005). NPOs are basically funded by donations from either the private or public sector, or both, as well as by fees for services. They can also obtain tax exemptions, and sometimes the donations are tax deductible. The most common characteristic of employees in NPOs is that they are volunteers, but some do have paid staff or both volunteers and paid staff, so social aspects must be considered when the organizational structure is considered, because trust, cooperation and ethical rules play an essential role. On the other hand, the NPOs are sometimes a substitute for public activity (Del-Palacio et al. 2008; Gripaios and Bishop 2005; Ryfman 2007), so it is interesting to analyze whether their activity has the same or different effects on economic policy

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objectives that government activity has (Bennett et al. 2003; Benz 2009; Filatotchev et al. 2005; Kearney et al. 2008; Nikolic and Koontz 2008). All in all, NPOs play an important role in society because they try to satisfy human necessities in an alternative way to profit-seeking firms and government. They were not considered relevant in the traditional economic analysis and development models because the neoclassical approach considered that market forces are enough to satisfy human needs. The “homo economicus” approach based mainly on selfish motives doesn’t support the inclusion of organizations that don’t try to maximize profits. However, the evolution of societies has shown that there is a wide field for NPOs activities, especially in the kind of activities that are not satisfied either by ‘for profit’ firms because they are not lucrative, or if provided by the state, because they are very expensive or there are not enough officials to provide them. Therefore, NPOs supply a wide set of services and activities and have numerous effects on society, and for this reason there are many aspects to be considered when their analysis is carried out. This is the main objective of this special issue.

From the economic policy point of view, the effectiveness of a behavior or institution depends mainly on its effects on one or several economic policy objectives. In this sense Bahmani et al.’s paper pointed out that nowadays the most relevant economic policy goal is economic growth. During the last decades, economic growth and its causes have been considered as the most important field in economics: “economic growth has become the secular religion of advancing industrial societies” (Bell 1976, p. 237). The main reason for this importance is due to the fact that economic growth implies higher prosperity. Therefore, from this point of view economic growth is considered as an ultimate measure of a country’s well-being, because it implies more employment and more products and services. Economic growth facilitates the achievement of other objectives (employment, income distribution, etc.) that have a positive impact on individuals’ happiness. And this traditional vision has been augmented by considering other aspects related to economic growth such as the opportunity to use resources in an efficient way and to achieve sustainable prosperity for individuals (McMahon and Squire 2003). It involves considering not only quantitative variables but also qualitative ones. For this reason political process is especially relevant. Countries rate

the competence of government activity in terms of economic growth. Higher economic growth rates imply an adequate economic policy and are a cause of national pride. So, those countries that achieve lower economic growth must change their strategies, and they have to follow and duplicate the policies designed by higher economic growth countries. Therefore, economists and policy makers are very interested in determining those factors and organizations that encourage the economic growth process. In this sense, NPOs that play a relevant role in society by trying to satisfy human necessities in a different way, or as a complement to lucrative firms and government activity, would have indirect effects on economic growth. The main channel of transmission of NPO effects on economic growth is the improvement of human capital. Such organizations could be considered as a supplement to the education process carried out by universities and schools. However, a second channel must be considered: NPOs’ effects on entrepreneurship activity. This factor determines the investment decisions of the firms, and such decisions have relevant effects on economic growth. That is, entrepreneurship has positive effects on economic growth through investment decisions. To further develop this analysis, it is necessary to take account of the Schumpeterian perspective. From his point of view, social climate plays an important role in such behavior. It is necessary to have an adequate environment or social climate to facilitate the activity and one that favors the achievement of the process. In this sense, organizations and institutions play a relevant role because they facilitate the provision of funds and other resources that entrepreneurs need to carry out their activity. And NPOs would be examples of such organizations that, together with income distribution and social capital, would encourage entrepreneurial activity. The previous statements have been tested from an empirical point of view in the analysis of several developed countries in Bahmani et al.’s paper. Their analysis confirms NPOs’ indirect effects on economic growth through human capital and entrepreneurship.

When we talk about entrepreneurship, we are talking about the team of entrepreneurs, the opportunity and the resources needed to use this opportunity. When market failure occurs, these three elements do not exist in coordination, and thus governments and other public organizations need to intervene in order to

foster entrepreneurial activity in a country. It is under these circumstances that public institutions assume an entrepreneurial role and act as NPOs to reach the socially efficient outcome. Despite of the positive impact expected from the nonprofit role played by the government, its intervention has been frequently criticized in recent literature. In their paper, Del-Palacio et al. focused on public investments addressed to finance early stage and high-technology companies. Previous literature agrees that there is a lack of private capital targeting small and high-technology companies and that many governments act as investors; their goal is to get social benefits rather than short-term economic return. The research contributes to the existing literature with a quantitative analysis of the investments done in Spain in the last 10-year cycle. Specifically, this research aims to measure the effectiveness of public intervention for fostering the private venture-capital market in what the authors characterize as a weak entrepreneurial environment or a traditionally non-entrepreneurial environment. The research is based on the comparison of private investment markets before and after the year 2001, when most of the public intervention for supporting entrepreneurial activities was started. Additionally, private investors' behavior is also analyzed in a order to better understand their decisions in a highly uncertain environment. The results show what the stages and sectors in which Spanish venture capitalists invest are more frequently targeted and to what the extent the intervention of public entities is being effective to get socially efficient outcomes.

In their paper, Nisan et al. provide a brief debate about the concept of nonprofit, and its relations to nonprofit entrepreneurship, social entrepreneurship, social economy and the third sector. After that, they join in the debate on the determinants of nonprofit activity, checking, with an integrative perspective, some of the main theories that partially explain the drivers of the nonprofit sector, as those of market/government failures, supply side, trust, welfare state and interdependence will be checked together. The goal is to check, in the same exercise, the main single-factor explanations that have dominated the debates during the last decade in a cross-country approach. The final goal they pursue is to study which contextual forces that foster social innovation and nonprofit activity. They apply a predictive research model of structural equations with partial least squares with data

of 38 countries in 2006. The structural equation technique allows them to introduce latent variables and to estimate multiple relationships, exceeding the limits of multivariate techniques. The introduction of latent variables allows examination of the relationship between hardly observable variables and those that can only be partially measurable through proxy variables. In the model they present, nonprofit entrepreneurship is influenced by social capital (that is, trust in people and institutions such as the police, parliament, judicial system or big enterprises), public expenditures in education and health (public sector dimension), economic development (income, human development, economic freedom and corruption rates) and entrepreneurial activity. The structural equations model allows not only to appreciate the direct effects of the latent variables (social capital, public sector dimension, economic development and entrepreneurial activity), but also the indirect effects of latent variables and nonprofit entrepreneurship. They prove the strength of environmental factors such as trust, economic development and social care public expenditures in nonprofit activity. Some of these results are also consistent with postmaterialism theories. In these, societies with a higher degree of trust in people and institutions also have a tendency to create associations and to improve voluntary work. They also prove that the higher the levels of income and the higher the quality of life in societies are, the higher is the nonprofit activity in them; that is to say, when material needs are satisfied, people tend to think about emotions, personal identification, esteem, self expression, trust in oneself and the group, aesthetics, subjective welfare and quality of life. On the other hand, they demonstrate a positive relationship between social care public expenditures and nonprofit activity, so that they prove that state activity does not crowd out nonprofit activity. However, the model doesn't allow the authors to confirm the existence of a positive relationship between entrepreneurship and nonprofit activity. Nevertheless, the authors consider that the supply side theories and the idea of spatial production of entrepreneurship are quite consistent and find some signs evidencing a positive relationship between these variables.

Population data confirms the increase in the number of older adults and the number of people in situations of dependence. These changes happen in all countries, both developed and developing, and the issue of long-term care has economic, social and

health care implications. In the future there will be a growing demand for support services for dependent people, and the provision of these services will have consequences in terms of job creation. In general, up to now, in industrialized countries these kinds of service have been provided by different administrative sectors and consist of either institutional care or at-home care; in this case, informal care has been very important, but it is not possible to rely on this service being provided by such caregivers. There are few studies about long-term care and employment, and there are no studies about the characteristics of companies involved in long-term care services. Escribano and Pardo's paper, using the Spanish Directory of Companies, analyzed companies created, employment generated, companies by legal status and territorial distribution of companies. Their findings show two relevant questions not previously analyzed in the literature, the generation of employment in the sector of services for the care of dependent people and the relation between this area of economic activity and the third sector. In general, activities related to the long-term care service sector contribute more to creating jobs than other economic sectors, and in addition third sector companies are very important in the provision of these services.

Ribeiro and Castrogiovanni report a study of the effects of entrepreneurial human capital on SME performance using data on 2,713 SMEs within the European Union. They distinguished and assessed the effects of two types of knowledge—general business knowledge and industry-specific knowledge. In addition, they considered whether the particular type of knowledge was acquired before or after the business was started. They also studied the CEO's years of experience within the industry prior to starting the focal business. Moreover, they looked at whether it was beneficial to include an advisor who had been a successful or unsuccessful business owner among a CEO's inner circle of advisors. Thus, the influence on SME performance of both the direction (general business versus industry) and timing (before versus after the startup) of the CEO's education, as well as the CEO's industry experience and successful versus unsuccessful experiences of inner circle advisors, was considered. Two types of SME performance were measured: *profitability* as ROA and *productivity* as revenue per employee. Results indicate that both profitability and productivity are positively related to

industry-specific knowledge possessed by the CEO-owner prior to starting up the firm and the general business knowledge acquired once the firm is up and running. Experience as a result of having previously worked in a firm in the same industry before starting a business was related to productivity, but there is no relation with profitability. There was a link between performance and inclusion of other CEO-owners in the founder's inner circle of advisors. This relationship was positive when the advisor's venture had experienced failure and negative when the advisor's venture had been successful. Thus, it appeared that relationships between human capital and performance were quite complex. In terms of CEO education, it was not simply the quantity of human capital that was associated with performance because they have found that timing matters. A general business degree seemed to be worth a lot more when it was acquired after the startup than when it had been acquired before the startup. The opposite seemed true with regard to specialized industry training. These relationships generalized across both types of performance that they examined. In contrast, industry experience prior to the startup did not have the same effect across both performance types. Rather, such experience was associated with productivity but not profitability. Finally, the effect of inner circle advisors that they observed seemed somewhat counterintuitive. Inclusion of advisors with successful experience seemed to hurt performance, whereas inclusion of advisors with unsuccessful experience seemed to help performance—and those effects generalized across the performance types that they examined. This is very intriguing, and future research is needed to unravel the mystery. Perhaps successful advisors are unaware of potential pitfalls or contribute to overconfidence among CEO-owners, whereas unsuccessful advisors help CEO-owners understand the obstacles they face. This study therefore contributed to our understanding of the relationship between human capital factors and SME performance in several respects. Ribeiro and Castrogiovanni showed that CEO-owner education and experience, as well as the background of inner circle advisors, were indeed linked to performance. They also showed some moderating conditions, such as the fact that the industry-specific knowledge effect was influenced by whether the knowledge was gained before or after the person became CEO-owner of the SME. Finally, they

raised important questions about the role and value of inner circle advisors.

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