

Contents

Preface	11
Acknowledgements	13
List of frequently used symbols	15
Variables	15
Subscripts, superscripts	16
1 Introduction	17
2 Defining non-profit organisations	21
Introduction	21
The provision of goods and services	21
Generic organisational forms	21
Real organisational forms	22
Definition	24
Organisational objectives	25
Incentive implications: the property rights approach	27
Classifying non-profit organisations	28
3 The demand for non-profit organisations	31
Introduction	31
Institutional choice	31
The transaction cost approach	32
Transaction costs	32
Understanding the existence of non-profit organisations	34
Non-profit organisations versus profit organisations	34
‘Market failure’ theories	34

The market failing to provide some goods or services	35
Contract failure	35
Public goods	37
Client control	38
Advocacy	38
The market failing to reach optimal welfare levels or welfare allocations	38
Unwanted welfare outcomes	38
Stochastic demand	39
Employee motives	39
Presence of both profit organisations and non-profit organisations on the same markets	40
Non-profit organisations versus governments	43
Where do we stand?	45
4 Founding a non-profit organisation	47
Introduction	47
Non-profit entrepreneurs	47
Modelled non-profit entrepreneurship	48
A model without altruism	48
A model with altruism: the voluntary provision of public goods of some value ..	50
Organisational survival	51
5 Governing and staffing a non-profit organisation	53
Introduction	53
The principal-agent framework and non-profit organisations	53
Principals in a non-profit organisation	55
The board	55
The board as principal	55
The impact of the composition of the board on organisational behaviour ..	56
Functioning of the board	58
Other principals	61
Agents in a non-profit organisation	61
The manager	61
Managerial utility	61
The board as a principal and the manager as its agent	64
Performance based remuneration	67
Non-managerial staff	70
Selecting the agent	73
What about volunteers?	75

6 Organisational strategy and behaviour of non-profit organisations	77
Introduction	77
Strategic planning in non-profit organisations	77
Strategic choices	79
Economics and non-profit organisations' strategies	79
Sustainable growth for non-profit organisations	80
Location	81
Comparing strategic behaviour of non-profit organisations and profit organisations: some examples	81
The effect of an exogenous demand change on organisational charity	81
Non-profit organisations involved in mergers	82
Competition between non-profit organisations and profit organisations	84
Comparing strategic behaviour of non-profit organisations and public providers	86
7 Marketing in non-profit organisations	87
Introduction	87
Marketing management	87
Pricing	88
Volunteers	90
Some generalities on volunteers and volunteering	90
Voluntary board members	93
The value of voluntary labour	94
Subsidies and gifts	96
Concepts	96
Subsidies	97
Subsidy design when subsidiser and non-profit organisations share the same objectives	97
Subsidy design when subsidiser and non-profit organisations do not share the same objectives	99
Donations by individuals: the optimal level of fundraising	101
Donations by firms	107
Interactions between gifts and subsidies	109
Profit activities by non-profit organisations	112
8 Accounting in non-profit organisations	115
Introduction	115
Principles of accounting and control	115
Accounting	115
Auditing	116
How are accounting and control perceived?	117
Accounting theory for non-profit organisations	118
The framework	118

No board: the founder is the manager	119
The ineffective board	120
The effective board	120
Reducing agency costs with accounting and financial control ..	120
Refinements	122
Donors as principals	123
Accounting knowledge	124
The role of debt in explaining the presence of accounting and auditing	126
Accounting regulation, compliance, and financial statement quality ..	126
Accounting choices	129
The empirical literature	129
Modelling earnings manipulations	133
Financial statements of non-profit organisations	134
Content	134
Financial statement analysis	134
Cost accounting in non-profit organisations	135
Cost accounting principles	135
The cost of profit activities	135
Donors and organisational costs	136
Tax-motivated cost allocations in private foundations	139
9 Financial management of non-profit organisations	141
Introduction	141
Sources of funds	142
Terminology	142
Equity	142
Diversification of equity	142
Retaining earnings	144
Debt	145
Cost of capital	146
Determining the cost of capital in a non-profit organisation	146
Investment analysis in non-profit organisations	147
Capital structure	147
Financial vulnerability	149
10 <i>Gaudium et spes</i>	153
Appendix I International Classification of Non-Profit Organisations (ICNPO)	155
Appendix II Brooks-Ondrich (2007) method to determine the organisational objective function	162

Appendix III Proofs of an agent selection model, based on Besley and Ghatak (2005)	163
Appendix IV Derivation of the sustainable growth rate of a non-profit organisation (Jegers 2003)	165
Appendix V Changes in demand and uncompensated care (Banks <i>et al.</i> 1997)	166
Appendix VI A simplified version of Liu and Weinberg's (2004) model on non-profit/profit competition	168
Appendix VII Wealth and voluntarily joining a board (based on Handy 1995)	170
Appendix VIII Effect of different subsidy regimes on output and slack (Duizendstraal and Nentjes 1994)	171
Appendix IX Profit activities by non-profit organisations (Schiff and Weisbrod 1991)	173
Appendix X Properties of the diversification index	174
Bibliography	177