

achievement of public benefits status is much more demanding. In France and Japan, for example, there are many more nonprofit organizations than tax-exempt nonprofit organizations.

... while many civil law countries have relatively simple registration procedures for associations and corporations, the achievement of public benefits status is much more demanding.

What becomes clear in the legal definition of what constitutes a nonprofit organization are the implicit assumptions about the purposes and objectives nonprofits serve. This points to the importance of what we call the functional definition, to which we now turn.

The functional definition

The functions or purposes of nonprofit organizations offer yet another way of defining the nonprofit sector. As Salamon and Anheier (1992a) suggest, the most common type of function attributed to the nonprofit sector is the promotion of what is called the “public interest” or “public purposes.” Perhaps the most comprehensive statement of such a “public purpose” definition can be found, however, in the Preamble to England’s Statute of Charitable Uses of 1601, referred to in Chapter 2:

relief of aged, impotent and poor people ... maintenance of sick and maimed soldiers and mariners, schools of learning, free schools, and scholars in universities ... repair of bridges, ports, havens, causeways, churches, sea banks, and highways, education and preferment of orphans ... relief, stock, or maintenance for houses of correction ... marriages of poor maids ... supportation, aid and help of young tradesmen, handicraftsmen ... relief or redemption of prisoners or captives, ... aid or ease of any poor inhabitant concerning payments of fifteens, setting out of soldiers, and other taxes.

(cited in Hopkins 1987: 56; see Picarda 1977)

Perhaps the most common type of function attributed to the nonprofit sector is the promotion of what is variously termed the “public interest” or “public purposes.”

The functional definition also dominates the notion of charity in Britain, as specified in the case *Income Tax Special Purposes Commission v. Pemsel* of 1891:

Charity in its legal sense comprises four principal divisions: trusts for the relief of poverty; trusts for the advancement of education; trusts for the advancement of religion; and trusts for other purposes beneficial to the community, not falling under any of the preceding heads.

This now well over 110-years-old ruling and related legislation since then has been modernized. The Charities Act 2006 sets out thirteen categories of charitable purposes, also known as public benefit requirements:

- 1 The prevention and relief of poverty;
- 2 The advancement of education;
- 3 The advancement of religion;
- 4 The advancement of health or the savings of lives;
- 5 The advancement of citizenship or community development;
- 6 The advancement of the arts, culture, heritage, or science;
- 7 The advancement of amateur sport;
- 8 The advancement of human rights, conflict resolution, or reconciliation, or the promotion of religious or racial harmony or equality and diversity;
- 9 The advancement of environmental protection and improvement;
- 10 The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship, or other disadvantage;
- 11 The advancement of animal welfare;
- 12 The promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire, and rescue services or ambulance services;
- 13 Other purposes currently recognized as charitable and any new charitable purposes that are similar to another charitable purpose.

The notion of public benefit is critical to the definition of charity. The *Charity Commission Guidelines* in the UK offer a useful set of criteria indicative of public rather than private benefit of organizational purposes:

Principle 1: There must be an identifiable benefit or benefits.

- 1a) It must be clear what the benefits are.
- 1b) The benefits must be related to the aims.
- 1c) Benefits must be balanced against any detriment or harm.

Principle 2: Benefit must be to the public, or section of the public.

- 2a) The beneficiaries must be appropriate to the aims.
- 2b) Where benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted:
 - by geographical or other restrictions
 - by ability to pay any fees charged.
- 2c) People in poverty must not be excluded from the opportunity to benefit.
- 2d) Any private benefits must be incidental.

Civil law systems

So far we have looked at the functional definition in the context of the common law countries, but what is the situation in civil law countries, where the state puts more onerous

requirements on private actors that seek to work for the public good? In most civil law countries, the legal status of associations was at the center stage in the emergence of civil society in the nineteenth century and became enshrined in the Civil Code, with the definition of what constitutes public benefit essentially defined by provisions in various tax laws.

Public benefit status is today foremost a fiscal term. Its definition and application serve to differentiate tax-exempt organizations from those liable to various forms of taxation. For example, the German tax code, revised in 2007 to reflect the “Law to Further Strengthen Civic Engagement”, stipulates that: “[a] corporation shall serve public benefit purposes if its activity is dedicated to the altruistic advancement of the general public in material, spiritual or moral respects.” The code further distinguishes “public benefit” from other types of purposes by stipulating that the beneficiaries of the activities cannot be limited to a specific group, e.g. family members or employees of a particular firm, and that the activities have a broad reach beyond a specific geographical area or professional branch.

Public benefit status is today foremost a fiscal term.

Against this rather general description, the tax code lists no less than 25 sets of activities as examples of what constitutes public benefit, though the state-level government’s revenue authority is ultimately responsible for determining fit. These include support of very broad activities, such as science and research, religion, animal protection, development aid, and the like, as well as support for quite specific types of activities, such as animal husbandry, airplane modeling, dog shows, and chess (which is defined as a sport).

What is more, the German tax code stipulates that private activities for public benefit must be carried out in a certain manner:

- *Selfless*, in the sense of altruistic, whereby members of the organization are neither allowed to receive profits nor other profit-like compensation. This strict non-distribution constraint excludes many mutual membership associations, as well as business and professional associations. It also implies that the cost behavior of nonprofits must be “reasonable” in terms of salaries and fringe benefits.
- *Exclusive*, in the sense that the organization pursues only purposes defined as public benefit. If an organization carries out other activities, it may lose the nonprofit tax status altogether. In practice, the organization may declare some of its activities as public benefit and others as “commercial.” This has the effect that those activities classified as public benefit receive preferential tax treatment, whereas commercial activities may be subject to taxation.
- *Direct*, in the sense that the charitable purpose has to be served by the organization itself rather than through third parties. This provision contains many exceptions that basically relate to inter-organizational structures, financing, and special institutions, whereby a third party may provide services on behalf of a tax-exempt organization.
- *Timely*, in the sense that the organization has to spend its resources for the specified purposes within a certain time period, usually a given fiscal year. This implies that many nonprofit organizations are not allowed to build up financial reserves or accumulate capital for investment. Again, there are many exceptions to this rule.

Another illustrative and important example of how civil law systems treat nonprofits is the French case. The French civil law system knows two general forms of nonprofit organizations, namely associations and foundations. Especially in the last decade new laws for foundations (public utility foundations, corporate foundations, sheltered foundations, research and university foundations, etc.) have contributed to a more flexible process for creating and administering foundations. In general, if associations in France are recognized as general interest associations or public utility associations, they receive tax advantages.

In order to receive the status of a general interest association, its services must be provided to a large, undefined group of individuals, and be nonprofit in nature. That means that the association must engage primarily in cultural, educational, humanitarian, scientific, social, or sporting activities; activities aimed at the promotion of artistic heritage or the promotion of the defense of the environment; or activities dedicated to the promotion of French culture, language, and scientific knowledge, i.e. fields of activities explicitly recognized by the French tax code.

Furthermore, the nonprofit nature of the activity will depend on its compliance with the “four P rule” (“la règle des 4 P”) defined in the 1998 Tax Instruction and renewed in 2006.

Basically, what matters is that:

- the [P]roduct (“le produit”) offered satisfies a need not met by the private sector;
- the [P]ublic (“le public”) is unable to afford the product offered by the private sector;
- the [P]ricing (“le prix”) is lower than in the private sector; and
- the [P]romotion (“la publicité”) of a public interest mission may not use advertising or marketing tools in the same manner as corporations.

These broad rules help the ministries to determine if an association is nonprofit or forprofit for tax purposes.

The status of a public utility association entitles the organization to the benefits of general interest status as well as additional tax and fiscal advantages. French associations of public utility (associations reconnues d'utilité publique, also called “ARUP”) must, however, in addition to being active in specific general interest activities, adopt statutes that comply with the model statutes provided by the *Conseil d'Etat* (which contain requirements and restrictions regarding internal structure, use of funds, and distribution of assets upon dissolution). That associations can be recognized as being of public utility by decree in Council of State goes back to article 10 of the Law of 1901 (see Chapter 2).

Next, they have to satisfy other requirements regarding the financial viability and size of the organization, for example, to exist at least for three years and to have at least 200 members. Obviously, these are large associations and while over one and half million nonprofit associations exist in France, only around 2,000 of these large ARUP were registered in 2011 (Ministère de l'Intérieur, de l'Outre-Mer, des Collectivités Territoriales et de l'Immigration 2011).

Both common and civil law definitions have at their core the notion that nonprofit organizations are identifiable by their financial behavior, in particular their lack of a financial profit motive or restriction of profit distributions. As we will see, this is also the starting point for the economic definition.

The economic definition

According to this definition, the key feature that sets the nonprofit sector apart from the others is the revenue structure of nonprofits. According to economic definitions, nonprofit institutions or NPIs receive the bulk of their income neither from the sale of goods and services in the market, nor through taxation, but from the voluntary dues and contributions of their members and supporters. Importantly, this basis for defining NPIs, which focuses on the common characteristic that they do not distribute their profits, is a central feature of most definitions of “the nonprofit sector” in legal (see above, p.61) and social science literature, which we will review in Chapter 8.²

According to this definition, the key feature that sets the nonprofit sector apart from the others is the revenue structure of nonprofits.

The economic definition is laid down in the System of National Accounts or SNA (European Communities *et al.* 2009), the international economic standard used for economic reporting and forecasting purposes of many kinds. Within this structure, the 2008 SNA distinguishes nonprofit institutions (NPIs) from other institutional units principally in terms of what happens to any profit that they might generate. In particular:

Non-profit institutions are legal or social entities, created for the purpose of producing goods and services, but whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units.

(European Communities *et al.* 2009: para. 4.83)

National accounting groups similar kinds of economic entities into institutional sectors.³ The 2008 SNA states that “corporations, NPIs, government units and households are intrinsically different from each other in that their economic objectives, functions and behaviour are different” (European Communities *et al.* 2009: para. 4.16).

One would expect to find all or most NPIs within the institutional sector called “nonprofit institutions serving households” or NPISH. However, under the series of stipulations within the SNA, as well as the European System of Accounts (ESA), that guide the allocation of institutions into sectors (see Figure 3.1), only a small subset of all nonprofit organizations, i.e. those that receive most of their income and support from households in the form of charitable contributions, are ultimately found in the NPISH sector. Those nonprofit organizations that receive significant shares of their income from fees and service charges are, under SNA guidelines, typically merged into the corporate sector, while those receiving a large portion of their income from government grants and contracts are allocated to the government sector. In this sense, the economic definition recognizes a large number of nonprofit organizations, but a more limited nonprofit “sector.”

More specifically, in a first step, NPIs considered of minor economic importance or deemed to be temporary or informal are allocated to the households sector. Second, NPIs that sell most or all

output at prices that are economically significant are treated as market producers and allocated to the non-financial or financial corporations sectors.⁴ This leaves a group of “non-market” NPIs, which provide most output to others freely or at prices that are not economically significant. The SNA/ESA divides them into two further groups: NPIs controlled and mainly financed by government, and other NPIs. The first group is allocated to the government units sector, while the second and residual group constitutes the NPISH sector.

Fortunately, the 2008 revision to the SNA (Tice 2010) now explicitly recommends that NPO subsectors be defined within the corporations and government sectors so that they may be pulled out. Furthermore, it suggests that even those NPIs deemed according to selected indicators to be controlled by governments retain their identity as NPIs. Assuming these recommendations are followed by statistical offices, these seemingly minor changes allow for more comprehensive analysis of the full range of NPIs regardless of what sector they are allocated to based on the economic definition.

Thus, from an economic perspective, nonprofits are primarily defined by their revenue structure. As institutions barred from being a source of income to their owners or equivalents, they rely neither on sales and fees from market transactions nor do they depend on tax revenue. Within the logical framework of the SNA, they are defined as residual economic entities, i.e. as organizations that are left over once market firms, public agencies, and households have been identified.

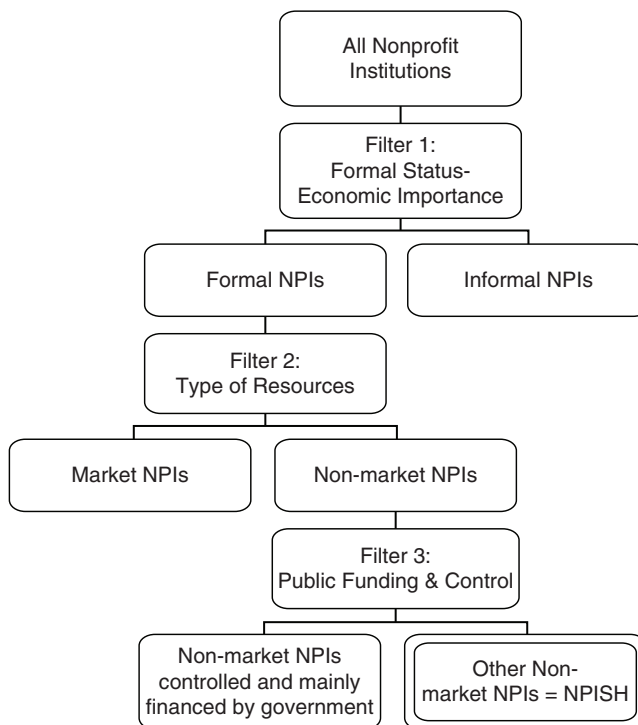


Figure 3.1 The institutional sectoring of the nonprofit sector

Source: Based on Anheier and Mertens 2003.

The structural–operational definition

The structural–operational definition emphasizes not the purpose of the organization or its sources of income but its basic structure and operation. According to this definition, which was first introduced by Salamon and Anheier in 1992, an organization is defined as a nonprofit entity if it shows the following five characteristics.

1 Organized, i.e. institutionalized to some extent

The critical point here is not necessarily that an organization is formally incorporated or has a charter, although this is a clear signal. Other signs of institutional reality include having rules of procedures, regular meetings, membership, and other aspects that distinguish the group's collective activity from ad hoc or temporary gatherings.

This criterion also requires meaningful organizational boundaries, e.g. some recognized difference between members and nonmembers; awareness of the distinction between organizational and individual responsibilities; an understanding of the difference between the organization and other entities such as family, friendship circles, and loose networks among individuals.

2 Private, i.e. institutionally separate from government

Nonprofit organizations are not part of the apparatus of government. They are “nongovernmental” in the sense of being structurally separate from the instrumentalities of government. This does not mean that they may not receive government support in cash or in kind, or even that government officials cannot sit on their boards. What is important from the point of view of this criterion is that the organization has an institutional identity separate from that of the state, that it is not an instrumentality of any unit of government whether national or local, and that it therefore does not exercise governmental authority. It may, however, receive various sorts of revenue or other support from government agencies or have government representatives present on its board or committees.

While such separate institutional identity is relatively easy to identify in most cases, there are numerous borderline cases. The most obvious of these are the many “quangos,” or quasi-nongovernmental organizations, found in a number of European countries as well as elsewhere. The critical point in all such borderline cases is the extent to which such organizations operate as extensions of government exercising governmental authority, albeit through separate institutional structures.

3 Self-governing, i.e. equipped to control their own activities

Some organizations that are private and nongovernmental may nevertheless be so tightly controlled either by governmental agencies or private businesses that they essentially function as parts of these other institutions even though they are structurally separate. To eliminate such situations, Salamon and Anheier (1997) add the further criterion that nonprofit organizations must be *self-governing*. To meet this criterion, organizations must be in a position to control their own activities to a significant extent. This implies

that they must have their own internal governance procedures and enjoy a meaningful degree of autonomy.

Under this criterion, the presence of government or corporate representatives on the boards of nonprofit organizations does not disqualify the organizations from being nonprofit. The question is the degree of authority they wield and the degree of autonomy the organization retains.

4 Non-profit-distributing, i.e. not returning profits generated to their owners or directors

According to this criterion, nonprofits ensure that whatever surplus revenue might be generated is devoted to their mission and activities and is not distributed to their owners, members, founders, or governing board. The fundamental question is: how does the organization handle profits? If profits are not distributed as income, what happens to them? If they are reinvested or otherwise applied to the stated purpose of the organization, the organization would qualify as a nonprofit institution, assuming the purpose is charitable or in the public benefit. Thus, nonprofit organizations, unlike private businesses, do not exist primarily to generate profits, either directly or indirectly, and are not primarily guided by commercial goals and considerations.

5 Voluntary, i.e. involving some meaningful degree of voluntary participation

To be included within the nonprofit sector, organizations must embody the concept of voluntarism to a meaningful extent. This involves two different, but related, considerations:

- First, the organization must engage volunteers in its operations and management, either on its board or through the use of volunteer staff and voluntary contributions. Volunteers may be involved in providing services directly by ladling food at a soup kitchen or coaching an amateur soccer team, or support the organization more indirectly by serving on the organization's governing board. Furthermore, voluntary contributions must not necessarily constitute the majority of an organization's revenue. But some sort of voluntary input must be present.
- Second, "voluntary" also carries the meaning of "non-compulsory." Organizations in which membership is required or otherwise stipulated by law would be excluded from the nonprofit sector. For example, some professions (medical, legal) may require compulsory membership in a particular professional association; owners of small-scale industries may be required to join the local chamber of commerce; or employees may be required to join a union. In such cases, the criterion of "voluntary" would not be met, and the associations consequently excluded from the nonprofit sector. Similarly, "voluntary" implies that contributions of time (volunteering) and money (donations) as well as contributions in kind may not be required or enforced by law, or otherwise be openly coerced.

Some specific types

So far, we have looked at nonprofit organizations from a generic point of view, trying to distinguish them from business firms and public agencies. There is, however, diversity within the nonprofit sector itself, and some special forms are worth exploring in more detail.

Voluntary associations

Voluntary associations are private, membership-based organizations in which membership is non-compulsory. They are distinct from many nonprofit organizations like hospitals, social service agencies, or art museums, which may have a governing board but no broad membership base. In addition, like other nonprofits, the association should have identifiable boundaries to distinguish members from non-members, be self-governing, and noncommercial in objective and behavior.

Voluntary associations are private, membership-based organizations in which membership is non-compulsory.

There are many different types of associations, and they differ mostly in emphasis and “at the margins,” i.e. along the demarcation lines to related forms such as businesses (partnerships, cooperatives, mutual organizations, business and professional associations), compulsory organizations (craft guilds, bar associations, and, in some countries, chambers of commerce), political organizations (parties, political action committees, interest groups), and quasi-governmental institutions (mass membership organizations in autocratic societies, state churches).

The modern voluntary association emerged in most Western countries in the nineteenth century during the industrialization period, with the rise of urban elites, a growing middle class, and a rapidly expanding working class. They began to mushroom in many countries once the right of association had become established. Examples of such turning points are the Law of 1901 in France and the civil law legislation in other European countries. Associations became an important source of political mobilization (e.g. working-class movement, women’s rights movement), and a platform for status competition in formally egalitarian societies, in particular at the local level. Being a member of the right club or association came to signal social distinctions and prestige.

Regardless of the strikingly different political and social contexts in which voluntary associations developed historically, recent decades have witnessed a significant expansion in the number of associations and memberships in many places. In France, an associational boom had increased the number of associations to 700,000–800,000 by the end of the twentieth century (Archambault 1999), associational density in Germany has tripled since 1960, with nearly two-thirds of Germans belonging to at least one association (Anheier and Seibel 2001), and, in the United States, estimates of the population’s membership rate range from 44 percent to at least 66 percent (see Chapter 4). Social democratic countries

like Sweden have the highest membership rates among developed societies, with over 80 percent of the population organized in voluntary associations (Lundström and Wijkström 1997a).

In the developing world, such proportions are lower in regards to formal, i.e. registered, associations. Estimates of membership in indigenous forms of associations remain too incomplete, as many of these organizations are informal and not registered. Moreover, the legacy of authoritarian rule in many developing countries over the last 50 years also contributed to lower membership rates in formal associations.

In former state socialist countries, mass organizations linked to political parties accounted for very high membership rates in the past; in the transformation process, however, many lost a significant number of members or otherwise faced dissolution. As a result, the membership structure in such societies has been reorganizing and remains at levels lower than in the West. However, in the last decade, the nonprofit sector in post-communist societies has been re-emerging through a recombination process involving internal transformations of the communist era associations, the emergence of new sectors, and interactions between old and new organizations. Furthermore there is debate about the extent to which the accession of ten post-communist countries to the European Union in 2004 and 2007 has strengthened local civil society as it implied access to EU networks and resources (Ekiert and Foa 2011: 17).

Foundations

Foundations, which we will review in more detail in Chapters 6 and 9, have a long history, reaching back to antiquity, and with equally long traditions in most world cultures. Despite this long heritage, the modern foundation is often associated with the rise of the large grant-making foundation in the United States in the early twentieth century, and its replication in other parts of the world, in particular in Europe after World War II. In terms of numbers and material wealth, the foundations of most developed market economies are a product of the last three decades of the twentieth century, having benefited from prolonged economic prosperity, political stability, and, in many countries, more favorable legislation. In this sense, as nonprofit institutions, foundations are both old and recent phenomena.

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The various legal systems define foundations rather differently; and registration, legal practices, and oversight regimes vary accordingly. Despite these differences, the basic concept of a foundation shares common images: a separate, identifiable asset (the root meaning of the Latin-based *fund* or *fond*) donated to a particular purpose, usually public in nature (implying the root of charity or philanthropy). In fact, most legal systems incorporate the ancient Roman law differentiation between foundations based on some core asset (*universitas rerum*) and associations (*universitas personarum*) based on membership.

Working from the structural–operational definition outlined above, foundations are private assets that serve a public purpose, with five core characteristics:

- 1 *Non-membership-based organization*: or, rarely, a legal trust, possessing significant assets from one or more donors who intend that the resulting income, and sometimes the assets themselves, will be given away for purposes deemed “charitable”;
- 2 *Private entity*: institutionally separate from government, and “nongovernmental” in the sense of being structurally separate from public agencies;
- 3 *Self-governing*: equipped to control its own activities in terms of internal governance procedures and enjoying a meaningful degree of autonomy;
- 4 *Non-profit-distributing*: by not returning profits generated by either use of assets or the conduct of commercial activities to their owners, members, trustees, or directors; and
- 5 *Serving a public purpose*: that goes beyond a narrowly defined social group or category, such as members of a family, or a closed circle of beneficiaries. Foundations hold private assets in order to serve a public purpose or to provide a benefit as specified in tax law and other relevant regulations.

The nature of the assets can be stock and other shares in business firms, financial, real estate, patents, etc. There are basic categories that group the most common types of foundations according to type of activity:

- *Grant-making foundations*, i.e. endowed organizations that primarily engage in making grants for specified purposes.
- *Operating foundations*, i.e. foundations that primarily operate their own programs and projects.
- *Corporate foundations* such as the company-related or company-sponsored foundation based on corporate assets, which vary by the closeness to the parent corporations in terms of governance and management.
- *Community foundations*, i.e. grant-making and operating foundations that pool revenue and assets from a variety of sources (individual, corporate, public) for specified communal purposes.
- *Government-sponsored or government-created foundations*, i.e. foundations that are either created by public charter or enjoy high degrees of public sector support for endowment or operating expenditures.

Over the past several decades, following a decline in the 1960s and 1970s, foundations have experienced a kind of renaissance. While the US with over 75,000 foundations has the largest foundation sector by number, Germany (about 13,000), Great Britain (about 9,000), Spain (about 10,000), and Italy (nearly 5,000) also saw significant increases in both numbers and assets throughout the 1990s.

Faith-based organizations (FBOs)

As will be discussed in more detail in Chapter 5, faith-based nonprofit organizations (FBOs) were particularly important in the social policy debate of the 1990s and the beginning of the

twenty-first century (and still are) because they are called upon to play an even larger role in the solution of society's problems. FBOs are specialized organizations formed by church clergy to help meet the human service needs of its congregation. They tend to be multi-purpose organizations that perform a wide range of functions, from operating homeless shelters, food banks, and neighborhood centers, to running job training and transportation programs. There are several types of faith-based organizations:

- 1 *Church service agencies* are semi-autonomous service arms of a single denomination or confessional tradition; these include Catholic Charities and Lutheran Social Services. These organizations often contract with government agencies and have budgets that may exceed large congregations. Church service agencies are multi-purpose organizations and focus primarily on coordination and supervision of various social service activities.
- 2 *Ecumenical or interfaith coalitions* are also multi-purpose organizations that range from single neighborhood coalitions to hundreds of congregations spanning a metropolitan area.
- 3 *Direct-service ministries* are local organizations operating in specific neighborhoods and offering a particular service such as a soup kitchen or homeless shelter.
- 4 *Church-sponsored ministries* have informal and formal connections with its parent organization through funding, board memberships, or staff.
- 5 *Church-initiated organizations* are ones that were initially sponsored or aided by a church but have become sufficiently autonomous that their mission and governance are almost entirely secular.

FBOs complement religious congregations and often help churches meet the needs of clients who require specialized or long-term attention. As such, unlike informal service activities in congregations, FBO staffs generally require professional training. FBOs also work in collaboration with other churches, secular nonprofit organizations, and government agencies. In addition, FBOs are a way for various congregations to coordinate their service and resource needs because some churches have high concentrations of human service needs while others have extra resources.

Other types

Cooperatives, mutuals, and self-help groups share some, if not most, of the defining features of a nonprofit organization, and constitute a “gray area” between the nonprofit sector and the forprofit sector. In some countries, they are considered legally to be nonprofits; in others, not. However, they are often included in the concept of social economy, discussed in more depth later in the chapter. Among these:

Cooperatives or cooperative societies are organizations formed freely by individuals to pursue the economic interests of their members. The basic principles of cooperatives include: (1) democratic control, i.e. one-person, one-vote; (2) shared identity, i.e. members are both owners and customers; and (3) orientation to provide services to members “at cost.” While the System of National Accounts treats most cooperatives as part of the corporate sector,

and while economic theory views cooperatives as businesses among independent producers or purchasers interested in reaching a more profitable market position (e.g. the Land O' Lakes dairy corporation), the term cooperative can also carry a slightly different connotation, in particular among low-income groups and in developing countries more generally. Here, some cooperatives may operate as “grassroots organizations,” whose primary aim is less the generation and distribution of actual profit for members than the struggle for members' subsistence and the improvement of basic services in the community to which the members belong.

Mutual societies are, like cooperatives, organized by individuals seeking to improve their economic situation through collective activity. Mutual societies differ from cooperatives in that they are mechanisms for sharing risk, either personal or property, through periodic contributions to a common fund. Examples are retirement, sickness, and burial funds, or savings and loan associations. Ideally, mutual societies also hold to the patron–owner principle, whereby depositors formally control their operations.

Self-help groups are similar to both cooperatives and mutual societies in that individuals join to accomplish goals of mutual support that would be unattainable on an individual level. They differ from both, however, in that they are not principally engaged in commercial activities. Many self-help groups are informal and some develop into more formal organizations over time.

Which definition is the right one?

Definitions do not exist in the abstract. They serve specific purposes and objectives. Because social scientists, practitioners, and policymakers pursue different purposes when defining nonprofit organizations, and because they are likely to have different objectives in mind, the complex terminology in the field should not surprise us. At the beginning of this chapter, we stated that definitions are neither true nor false, and we should judge them by their usefulness in describing a part of reality of interest to us. Specifically, we ask: does the definition facilitate communication, generate insights, and lead to better understanding?

Definitions do not exist in the abstract. They serve specific purposes and objectives.

Against this background, the legal and functional definitions of what constitutes a nonprofit organization may well be useful in the context of a given country or legal system, but it would make little sense to apply IRS definitions of 501(c)(3) organizations to countries like Russia or Brazil that see themselves in a different legal tradition. Working with legal and functional approaches seems therefore best for domestic rather than comparative, international purposes.

The economic definition of a nonprofit organization, as suggested by the UN System of National Accounts, and as proposed by most economic theorists in the field, provides a good platform for the microeconomic approaches we will review in Chapter 8. It is a highly

focused definition based on financial behavior, and, therefore, it necessarily leaves aside characteristics others might find important for their purposes. The structural–operational definition is best suited for comparative work in the field, in particular cross-national and cross-sector comparisons.

Importantly, in 2002 the United Nations in the *Handbook on Nonprofit Institutions* introduced a simplified version of the structural–operational definition that is a good compromise with the economic definition stated above (United Nations Statistics Division 2003: 2.14).

Accordingly, the nonprofit sector consists of units that are:

- self-governing organizations;
- not-for-profit and non-profit-distributing;
- institutionally separate from government;
- non-compulsory.

The last item replaced the criterion “voluntary” in the structural–operational definition, and means “that membership and contributions of time and money are not required or enforced by law or otherwise made a condition of citizenship” (United Nations Statistics Division 2003: 2.19).

While several definitions of what constitutes nonprofit organizations may exist side by side in the field of nonprofit studies, it is likely that the UN definitions will gain the most currency over time, at least internationally and for comparative purposes. At the same time, legal definitions will continue to be relevant at the national level, and serve as key elements in policy debates.

Classification

Definition and classification are closely related tasks. Whereas defining specifies what entities or phenomena have in common, and on that basis assigns them to a group under a particular concept, classification spells out the dimensions on which they differ. Given the diversity of nonprofit organizations and their activities as described in Chapter 1, it is as important to know what they have in common as it is to know how they are different in their governance, purpose, and activities.

Nonprofit organizations can be classified by their basic form or governance structure. Such a classification yields essentially three types; namely, associations, corporations, and foundations:

- Nonprofits as membership associations, where members and their shared interests provide the *raison d’être* for the very existence of the organizations, and where members typically have a decisive role in leadership formation and representation in governing bodies.
- Nonprofits as corporations based on set capital and limited liability, where a board substitutes for owners and represents the organization to the outside.

- Nonprofits as asset-based entities, where the board holds and operates an endowment in trust, and with a dedicated charitable purpose.

The task of classification is central to economic analysis and reporting. Therefore, parallel to the process of better defining what constitutes nonprofit organizations, and how they are different from other types of organizations, researchers have begun the task of developing classification schemes for the nonprofit field. Several classification systems have been introduced over the years to help group nonprofit activities, beneficiaries, and other aspects. In the US, the National Taxonomy of Tax-Exempt Entities (NTEE) is widely used to classify nonprofit organizations by major activities. The NTEE is matched by a classification of nonprofit programs that describe how activities are implemented and achieved, and a classification of nonprofit beneficiaries. The various classifications as well as the methodological and technical descriptions are available on the website of the Urban Institute's National Center for Charitable Statistics (nccsdataweb.urban.org).

At the international level and for comparative purposes, the International Classification of Nonprofit Organizations (ICNPO) was developed through a collaborative process involving the team of scholars working on the Johns Hopkins Comparative Nonprofit Sector Project (for a fuller description, see Salamon and Anheier 1996a). The system took shape by beginning with the International Standard Industrial Classification (ISIC) system developed by the United Nations (1990) and elaborating on it as needed to capture most succinctly the reality of the nonprofit sector in the different countries participating in the project. The ICNPO has been adopted by the United Nations *Handbook on Nonprofit Institutions* (United Nations Statistics Division 2003). Table 3.2 shows a summary of the major groups and subgroups of the ICNPO.

CONCEPTS RELATED TO THE NONPROFIT SECTOR

A host of other concepts that are relatively new in the social sciences relate to and contribute to our understanding of the nonprofit sector. The most relevant of these are discussed below.

Civil society

The term civil society has a long intellectual history, reaching back to the Enlightenment period in eighteenth-century Europe. It played an important role in intellectual debates about the role of the state and its citizens until the early twentieth century, but was then caught in the ideological battles of the times between authoritarianism and liberalism, fell into disuse, and seemed relegated to the history of ideas with little contemporary relevance. In many ways, the term civil society suffered from the same intellectual neglect as the voluntary or third sector, largely as a consequence of dominant “state vs. market” thinking in the social sciences as well as in the world of politics.