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Definition of Nonprofit Organization

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Definition of Nonprofit Organization Introduction

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Synonyms

Charities; Civil society organizations; Non-governmental organizations (NGOs); Nonprofit institutions; Philanthropic organizations; Social economy organizations; Third sector organizations; Voluntary organizations

Definition

Despite different naming framed along the years and in different countries according to different traditions, a distinctive feature of every nonprofit organization is the prohibition, or limit, as in the case of some specific organizations like social cooperatives and social enterprises in Europe, from distributing their assets or surpluses regardless of the presence or absence of tax breaks. A nonprofit organization finds its essence in having the mission of producing and delivering public goods together with advocacy actions, having as inspiring mission, a social objective rather than the search for profits. A nonprofit organization belongs to an institutional sector between state and market.

Private organizations having the mission of delivering public goods produced neither by the market nor by the public system, which fulfill both economic and social missions and pursue a general interest, and whose final objective is not the redistribution of profit, have always existed. In the last few decades they have, however, increasingly become the object of specific attention, due to the increase in both their number and different fields of intervention.

Since the early 2000s, at an institutional level, the necessity has been recognized of considering these “new” organizations within a different specific institutional sector from those of the public and the private market. This has triggered the search for a generally accepted definition for these organizations. The point is that, considering the different traditions developed in Europe and North America, as well as the development, since the second half of the twentieth century, of such organizations also in developing countries, there is not yet a unique univocal definition.

Some basic features have been distinguished and their fields of activity have also been clearly defined as the 12 described by the International Classification of Nonprofit Organizations (Salamon and Anheier 1997). However, it is not easy to have a “simple common label” agreed upon at an international level, due to the fact that over the years this bewildering array of entities, such as hospitals, day care centers, universities,

social clubs, sports clubs, grassroots development organizations, environmental groups, self-help groups, religious congregations, job training centers, human rights organizations, community associations, have been variously known as belonging to the “nonprofit,” the “voluntary,” the “civil society,” the “third,” the “social economy,” the “NGO,” or the “charitable” sector. All these different terms are derived from different traditions in different countries and underline specific aspects. After the alignment of the principal aspects regarding definitions both at institutional and academic level, this entry reviews all the different common appellations reading them according to cultural traditions and general contexts.

Institutional Classifications of Nonprofit Organizations

This section first describes the most widely recognized nonprofit classification systems and then summarizes their main differences and common points of agreement.

A starting point in searching for a clear definition nonprofit organizations (NPOs) is the analysis of the different “formal” classifications given by institutional organizations in defining a classification system for the different NPOs. Thus this first section of the entry presents an overview of the main classifications given by United Nations and the Organization for Economic Co-operation and Development, together with the presentation of the first important empirical study upon NPOs, conducted internationally, initially under the guide of Salamon and Anheier, by the Johns Hopkins University. At the end of this section some shared points of the different described definitions are derived.

In 2003, United Nations (UN) published the *Handbook on Non-Profit Institutions* (NPIs) in the System of National Accounts in order to account for the growing economic contribution of NPOs worldwide (UNO 2003). The manual aimed to improve and make available data on an increasingly important sector, as figures were not developed yet as part of the economy-wide compilation

of data on national accounts. The handbook provided a first “formal” definition of NPOs, that instead of describing their specificities that led to the necessity of considering them within a specific institutional sector (IS), defined what differentiated these organizations from the ones already recognized, belonging to the already structured IS. In the handbook, the organizations belonging to this “new” IS were different from the ones belonging to the already recognized ones for the following reasons:

- *Corporations* differed from NPOs because were set up for purposes of engaging in market production and were capable of generating a profit or other financial gain for their owners.
- *Government units* differed from NPOs because were unique kinds of legal entities established by political processes with legislative, judicial, or executive authority over other institutional units within a given area including the authority to raise funds by collecting taxes or compulsory transfers from other institutional units.
- *A household* differed from an NPO because it represented a small group of persons who shared the same living accommodations, who pooled some or all of their income and wealth, and who consumed certain types of goods and services collectively, mainly housing and food (UNO 2003).

After drawing these distinctions, the handbook identified the following characteristics as being common features among NPOs:

- The prohibition on the distribution of profits giving them an objective function quite different from that of for-profit corporations
- Their involvement in the production of public goods
- A revenue structure that generally includes substantial voluntary contributions of time and money
- The use of volunteer as well as paid staff
- Limited access to equity capital
- Eligibility for special tax advantages in many countries

- Special legal provisions pertaining to governance, reporting requirements, political participation, and related matters
- The lack of sovereign governmental powers despite their involvement in public goods provision (UNO 2003)

Also the Organization for Economic Co-operation and Development (OECD) reflected on the importance to analyze NPOs within an IS different from the state, the market, and the household. In 2003 recognizing that the nonprofit sector was often associated with concepts such as “social economy,” “third sector,” and “third system” underlined that it was a growing social and economic force all over the world and a key element in employment and social policies in most OECD countries. All of these terms broadly characterized the existence of a distinct sector that lied between state and market, whose organizations aimed to pursue a public interest, rather than a profit. Given the different traditions and the different origins, each of the terms considered by OECD tends to underscore a specific aspect of the sector. For example, the term nonprofit sector, originating in the United States, denotes the prohibition on the redistribution of profits, while the term “*économie sociale*” or “social economy,” widely used in France, emphasizes the socioeconomic dimension of the sector and the term “third sector” highlights the position of this IS between the state and the market (OECD 2003). Moreover, OECD underlined that despite the different naming according to different traditions, the sector organizations lying in a space between the state and the market has existed for many years in several OECD member countries but emerged worldwide in the second half of the twentieth century, mainly as a response to the crisis of welfare systems and to the perceived need to reshape them, notably in the European context and as a new strategy against social and economic exclusion (OECD 2003). The response to the crisis of the welfare state leads indeed to the development of NPOs in diverse areas of the economy, such as health and care, culture, environment, social services, education and employment through various entities

such as associations, traditional cooperatives, social cooperatives, charities, foundations, or other types of organizations. Nevertheless, the different legal statuses for the different kinds of entities belonging to an IS different from state and market, OECD recognized that there was no yet a general theory which could explain the limits and competitive advantages of the sector as a whole because in comparison to market or public policy analysis, nonprofit studies were a relatively “young” but rapidly evolving field of research (OECD 2003).

In 2004, OECD, in confirming the difficulties in finding a general theory, underlined that the definition of this sector between the state and the market was not an easy to find because it may, for example, be equated with the idea of the “social economy,” seen by the European Union as comprising cooperatives, mutuals, associations, and foundations, ignoring the many examples of not-for-profits or social enterprises that do not fall into easily defined categories. Thus all these organizations, according to OECD, could be encompassed in a space which includes a range of more recognized terms such as not-for-profits, voluntary sector, mutuals, social enterprises, or community enterprises. The common factor is that they all have a focus on social or environmental objectives rather than profit seeking categories. However, some do create a profit but reinvest this in their activities or distribute to relevant stakeholders rather than external shareholders or the owner manager. That is why according to OECD this “new” sector between the state and the market can range from organizations that are fully grant dependent to those that are fully self-financing and from those that compete in mainstream markets to those that provide nonmarketable goods and services. The range of social and environmental goals is extremely diverse as are their governance structures and the different groups of stakeholders who are engaged with each organization (Westall 2004).

In agreement with the UN, the OECD confirmed the necessity for a better classification of NPOs’ activities and impact within National Accounts designing specific accounts for them otherwise their inclusion in the already existing

accounts could lead to underestimations and distortions such as:

- “To add non-profit value in other sectors, usually government, overestimating the relevance of the public sector.
- Consider the assets held by non-profit organizations, such as foundations, as part of the personal savings having distortions on the consideration of household savings.
- Ignore the role of volunteers and unpaid.
- Include in the governmental accounts also the international transfers and activities by those specific NPOs organizations like the non-governmental organizations” (OECD 2003).

Considering the necessity for a better understanding of the role and the impact of the whole range of NPOs (such need was related to NPOs particular aspects that led to their inclusion in a dedicated IS), the Johns Hopkins University launched, at the beginning of the 1990s, under the guide of Salamon and Anheier, the Comparative Nonprofit Sector Project (CNSP) that led then to the creation of the Center for Civil Society Studies, whose specificities will be addressed later in this entry. The project was born with the aim to document the scope, structure, financing, and role of NPOs for the first time in solid empirical terms in a significant number of countries representing different geographic regions, cultural and historical traditions, and of development (Salamon and Anheier 1998).

Along the years, the number of countries participating into the project increased, exceeding 40 countries, thus providing a remarkable empirical analysis able:

- To explain why this sector varies in size, composition, character, and role from place to place and identify the factors that seem to encourage or retard its development, including differences in history, legal arrangements, religious background, cultures, socioeconomic structures, and patterns of government policy to evaluate the impact these organizations are

having and the contributions they make, as well as the drawbacks they entail

- To improve awareness of this set of institutions by disseminating the results of the work
- To build local capacity to carry on the work in the future (Salamon and Sokolowski 2010)

The development of such worldwide empirical project was grounded on the consideration that recent years had witnessed a considerable surge of interest throughout the world towards these organizations that occupy the social space between the market and the state, variously known as the “nonprofit,” the “voluntary,” the “civil society,” the “third,” the “social economy,” the “NGO,” or the “charitable” sector. This set of institutions included a bewildering array of entities such as hospitals, universities, social clubs, professional organizations, day care centers, grassroots development organizations, health clinics, environmental groups, family counseling agencies, self-help groups, religious congregations, sports clubs, job training centers, human rights organizations, community associations, soup kitchens, homeless shelters, and many more. Although the existence of such institutions was by no means a new phenomenon, the number and variety of such organizations seemed to have grown enormously in the last decades of the twentieth century (Salamon and Sokolowski 2010).

Despite the wide range of different entities composing this sector, over the years, CNSP’s analysis has been able to find a consensus on five structural or operational features that defined the entities. Those were provided to define the characteristics of NPOs:

- *Organizations*, i.e., they have some structure and regularity to their operations, whether or not they are formally constituted or legally registered. What is important is not whether the group is legally or formally recognized but that it has some organizational permanence and regularity as reflected in regular meetings, a membership, and/or some structure or procedures for taking decisions that participants recognize as legitimate.

- *Private*, i.e., they are not part of the apparatus of the state, even though they may receive support from governmental sources.
- *Not profit distributing*, i.e., they are not primarily commercial in purpose and do not distribute profits to a set of directors, stockholders, or managers. NPOs can generate profits in the course of their operations, but any such profits must be plowed back into the objectives of the organization.
- *Self-governing*, i.e., they have their own mechanisms for internal governance, are able to cease operations on their own authority, and are fundamentally in control of their own affairs.
- *Voluntary*, i.e., membership or participation in them is not legally required or otherwise compulsory (Salamon and Sokolowski 2010).

The project's studies led to the definition of the International Classification of Nonprofit Organizations (ICNPO), which comprises the following 12 fields of activity: (1) culture and recreation; (2) education and research; (3) health; (4) social services; (5) environment; (6) development and housing; (7) civic and advocacy; (8) philanthropic intermediaries; (9) international; (10) religious congregations; (11) business and professional, unions; (12) other.

Even if run by different organizations for different purposes, the analysis of the above reported researches and classifications allows enucleating some common aspects, which are useful for a general classification of NPOs. In particular, they all share the following propositions:

- NPOs have always existed, but the early 2000s witnessed a considerable surge of interest throughout the world around them, as their great increase – both in number and fields of interventions – indicated all around the world.
- The ensemble of NPOs consists of private organizations, formally or informally constituted, that do not fall in other ISs due to the fact that, firstly, they are not primarily commercial in purpose and do not distribute profits, and then, having their own specific governance

characteristics, they have in common a focus on social or environmental objectives, rather than profit-seeking categories.

- It is not easy to establish a clear univocal definition encompassing the different realities in the various countries because of the different historical traditions that consider them as variously belonging to the “nonprofit,” the “voluntary,” the “civil society,” the “third,” the “social economy,” the “NGO,” or the “charitable” sector.
- They are mainly engaged in the production of public goods in different fields ranging from health, education, social services to environmental protection, civic affairs, and advocacy.

Principal Features of Nonprofit Organizations Classification Systems

Following NPOs diffusion both in number and in fields of activity, several researchers started to look in depth at their essence. The first important study to be mentioned is the above reported analysis within the CNSP that led to the definition of the ICNPO, specifically designed to differentiate entities through the five basic above reported features identified by the study to make up the “non-profit sector.” This section briefly reports other important academic findings which, along with ICNPO, can be considered as main pillars for the definition of NPOs. In particular, Burton A. Weisbrod, whose definition on the existence of NPOs is based on the concepts of market failure and government failure; Henry B. Hansmann whose definition is based on the notion of contract failure; and the European research network EMES, whose definition of NPOs is based on the attention given to an historical-dynamic perspective.

According to Weisbrod, NPOs should be considered as components of a specific sector. Nevertheless, they are far from homogeneous, because there are as many variations among them as there are among governmental organizations and for-profit firms (Weisbrod 1988), but they all share three characteristics that make them different from organizations belonging to

the other two sectors: (1) no one owns the right to share in any profit or surplus of a NPO; (2) NPOs are exempt from taxes on corporate income; (3) some NPOs receive subsidies and/or donations (Weisbrod 1988). Weisbrod recognizes that NPOs have always existed. He identifies their essence in their ability to respond both to private for-profit and public sectors' limitations to meet various human needs. The private market does not respond to any wants or needs unless they are accompanied by money demand. This is because consumers who are willing and able to pay will have their demands satisfied through the private market; those who are not, will not. The consequence is that consumers who are poorly informed will not find the private market supplying higher quality when lower quality can be sold at the same price. Collective action, through government, has the potential of correcting market failures. Since it has the power to tax, government can finance, subsidize, mandate, or otherwise encourage the provision of goods and services that are inadequately provided by the private sector or that are not provided to particular groups in the population (Weisbrod 1988). However, governments provisions have limits too because governments satisfy the demand of the median voter, that is the majority of the citizens that "assure" the stability of the government and maximize the chances of reelection. Therefore governments provide a level of public goods lower than what desired by citizens, with a level of demand greater than the median voter's one. NPOs existence is given by their capacity to respond to the unsatisfied demand that remains after the government intervention. In this regard, the greater the heterogeneity of the demand, the greater is the space of intervention for NPOs, as the undersatisfied demand for collective-type goods can be considered a governmental "failure" analogous to private market failures. This means that if government responds to the demands of the majority and the nonprofit sector responds to the demands of the undersatisfied, the greater the diversity of the demand, the larger the size of the nonprofit sector will be (Weisbrod 1988). Indeed nonprofit organizations may develop for a number of reasons. Some are created for mutual benefit, and some for

charitable purposes; moreover, governments may choose to use nonprofit organizations to provide certain services that are difficult or expensive to monitor (Weisbrod 1988).

According to Hansmann "true" nonprofits are firms that are formally organized as either nonprofit corporations or charitable trusts. They are all characterized by the fact that they are subject, by the laws of the state in which they were formed, to the "nondistribution constraint" that prohibits the distribution of residual earnings to individuals who exercise control over the firm because net earnings, if any, must be retained and devoted, in their entirety, to finance further production of the services that the organization was formed to provide (Hansmann 1980).

The flexibility of the statutes, as well as the specific governance rules, permits NPOs to assume a wide variety of forms. Thus, Hansmann develops a basic subcategorization of NPOs by their source of income and the way in which they are controlled (Hansmann 1987). According to the source of income he identifies: *Donative* NPOs, which receive most or all of their income in the form of grants or donations; *Commercial* NPOs, which receive the bulk of their income from prices charged for their services. According to the way in which they are controlled he identifies: *Mutual* NPOs, which are controlled by their patrons; *Entrepreneurial* NPOs, which are largely free from the exercise of formal control by their patrons (Hansmann 1987). He makes some examples of different types of organizations and mix of financing and controlling rules shaping a two-dimensional array. For example, Organizations for a Common Cause, National Audubon Society, and Political Clubs are examples of mutual donative organizations. American Automobile Association, Consumers Union, and Country Clubs are examples of mutual commercial organizations. March of Dimes and Art Museums are examples of entrepreneurial donative organizations. National Geographic Society, Hospitals, and Nursing homes are examples of entrepreneurial commercial organizations (Hansmann 1987).

Commercial NPOs, whatever their legal form, arise where, because of the different circumstances in which a service is purchased or

consumed, or because of the particular nature of the service itself, consumers feel unable to evaluate accurately the quantity and/or quality of the provided service. Therefore, a for-profit organization could exploit the information asymmetry condition for obtaining higher profits providing quantity and/or quality lower than what was promised or paid for by the consumers. Indeed consumers recognize more confidence to an NPO because, being it under the nondistribution constraint, its owners and administrators cannot obtain any personal gain from the realization of extra profits resulting from the exploitation of information asymmetries, and are not encouraged to take any advantage (Hansmann 1987). In synthesis, commercial NPOs arise where ordinary contractual mechanisms do not provide consumers with adequate means to police producers. In the case of donative NPOs a donor is considered as a purchaser of services, differing from the customers of commercial nonprofits only in that the services he or she is purchasing are either (1) delivery of goods to a third party, as in the case of charities for the relief of the poor or distressed, or (2) collective consumption goods produced in such aggregate magnitude that the increment purchased by a single individual cannot be easily discerned. In either case, the purchaser is in a poor position to determine whether the seller has actually performed the services provided; hence, the purchaser has an incentive to patronize a nonprofit firm (Hansmann 1987).

Thus Hansmann – in a certain sense enriching Weisbrod's theories which answered to questions about the role of NPOs, that is: "why do NPOs exist?" – termed his theory the contract failure theory of the role of NPOs (Hansmann 1987) answering to the questions about the behavior of NPOs, that is "what objectives are pursued by NPOs?"; "how do NPOs differ from for-profit organizations?".

On the European side, an important input in the definition and study of NPOs was given by EMES, a research network of established university research centers and individual researchers whose goal, since its birth in 1996 – when an international group of scholars formed a research network initially financed also by the European

Union – is to gradually build up an international corpus of theoretical and empirical knowledge, pluralistic in disciplines and methodologies, around social economy, as will be described in the last section of this entry, solidarity economy and social innovation.

In building up their corpus of knowledge, recognizing the works of researchers from the US EMES researchers framed what they called European approach. The distinctive feature of this approach is the attention given to the historical-dynamic perspective in studying NPOs thus taking a more analytical perspective, focusing more on generating NPOs typologies that highlight different modes of action and the changes in them over time (Laville et al. 1999). Therefore, EMES' researchers gave a broader definition of those entities between the state and the market which include – in the "Third Sector," originally shaped as "Third System," as they defined it – also cooperatives and mutual aid societies. Indeed, according to EMES' researchers, these organizations (especially in Europe) are created not for maximizing return on investment, rather for meeting a general or mutual interest, contributing to the common good, or meeting social demands expressed by certain segments of the population. The basic features of the European definition by EMES are: (1) the inclusion of an analytical approach developing organization typologies and changes with an emphasis on the development of their economic dimension; (2) the criterion of limits on private acquisition of profits (inclusion of cooperatives and mutual aid societies) (Laville et al. 1999).

According to EMES' researchers the Third Sector in Europe is associated with the expansion of public intervention because it is the source of a number of action models that generated public services. In addition, it has established a relationship with the market. The final outcome is a concept that emphasizes the intermediary dimension of phenomena referred to collectively as the Third Sector. Another distinguishing feature of European research is the emphasis placed on the fundamentally open, mixed, pluralistic, and intermediary nature of the Third Sector and a concomitant rejection of the notion of sectors so as to

avoid creating the impression that there is a clear line of demarcation between, on the one hand, the marketplace, the political arena, and the community, and, on the other, the Third Sector. This pluralist vision leads to a Third Sector embedded in the framework of a three-polar system rather than understanding the Third System as juxtaposed to states and markets (Laville et al. 1999).

Different Types of Nonprofit Organizations

Both at institutional and academic level, it has been recognized that NPOs have always existed, but since the beginning of the 1990s there has been a considerable surge of interest towards these institutions – which occupy the social space between the market and the state – due to the fact that they are on a constant increase all over the world and nowadays represent a key element in employment and social policies. At the same time it has also been underlined that these institutions have been variously known – according to the different traditions developed, over the years – as belonging to an ensemble of entities known as: the “nonprofit,” the “voluntary,” the “civil society,” the “third,” the “social economy,” the “NGO,” the “charitable” sector, etc. The different designations used for defining these organizations can be clarified looking at their origins and inner essence (Antonucci 2011). This section of the text reports on the different meanings and characteristics of the different appellations along the time.

Charities (Religious Organizations)

Within the UK system, charities are voluntary bodies whose purpose is predominantly to benefit the community, not private individuals. Any private benefit must be incidental. There are thus three defining characteristics of charities: public benefit, independent governance, nonprofit distribution. A possible first legal framework can be found in the Act of Parliament of 1601 which reaffirmed the charitable framework in order to tackle postmedieval social and economic difficulties by harnessing the commitment of the public spirit (Fries 1999).

Nevertheless, charities are not specifically British organizations. The point is that the same analysis, as the one reported above referring to the UK can be made (obviously with different dates and Parliamentary Acts) for nearly all European countries, due to the fact that the definition of charity has ancient roots. It has always existed in Europe since the Middle Ages and, during the Modern Age, has been legally framed, up to the present time. Indeed, nearly all European countries have charities named for example *Instituciones de Caridad* in Spain, *Associations Caritatives* in France, and *Istituti Caritatevoli* in Italy. They all have the same purpose and origin, and share, even in their names, the same root, which etymologically comes from the same Latin word *caritas*, meaning “unselfish love for God,” and indicated all those entities, in the Middle Ages of a religious nature whose aim was to do charity work, that is to collect offerings for initiatives and actions to help the poor and homeless. Indeed, during the Middle Ages, the act of giving was seen not simply as an act towards the less fortunate, but rather as an act that earned, through the action of giving, “credits” from God for the afterlife (Landi 2014). In this sense, the institutions with religious roots that were created to help less fortunate people receiving free offerings can be seen as the “origin” of NPOs.

Philanthropic Organizations (Foundations)

The term philanthropy, in the modern sense, was coined in England in the late eighteenth century, and is the son of the Enlightenment. It came from the search to use reason to solve problems and social needs, seeing in philanthropy a secular response to charitable movements led by religious sentiments (Gross 2003). In other words, a philanthropic organization has the same aims and purposes as a charitable one, but without having any religious aspect.

As in the above definition of charities, the same argument applies to philanthropy, whose etymology can be found in the Latin word *philantropus*, which in its turn derives from the ancient Greek words: *phileo*, which means love, and *anthropos*, meaning man. In synthesis, philanthropy means “unselfish love for man,” being in this sense a

word referring to a man that help men, without an ulterior sentiment towards God.

Thus, after the Enlightenment, from the end of the eighteenth century, philanthropic organizations spread both throughout Europe and North America. Once again the same origin can be found for words having the same meaning in different countries. In this case, there are no common definitions for the word philanthropy, but there are common definitions for the word philanthropist like *filántropo* in Spanish, *philantropie* in French, and *filantropo* in Italian.

The growth of philanthropy led to the creation of organizations that could work efficiently without the direct action of the philanthropist and thus also “survive” after his/her death, that is big, efficient organizations that could be autonomous from the philanthropist, equal in all respects to charities, but without any link with religion aspects, being rather a kind of “celebrative” organization of the action of the philanthropist. Therefore, over the years, there has been the creation of “foundations,” seen precisely as institutions financed by a donation or legacy, given by the philanthropist, to aid less fortunate people or other important aspects of society, such as research, education, and the arts. Once again, since the nineteenth century, the “same” type of organizations has spread all over Europe and North America like *Fundaciones* in Spain, *Fondations* in France, and *Fondazioni* in Italy.

Voluntary Organizations (Associations, Mutuals, Unions)

By voluntary organizations the British usually mean those charities that form a distinctive part of the sector, defined by their public purpose as bodies serving the community, not just for private or personal ends. The Industrial Revolution prompted a new upsurge of not-for-profit activities in many new forms, included within the developing tradition of voluntary activity. Their essence lies in the context of the common law according to which citizens have a right to form associations without needing state authority. Voluntary bodies therefore need no permission to exist and, in fact, require no specific legal form (Fries 1999).

Again it is possible to extend the above reported considerations to all European and North American countries. The birth of voluntary organizations can be traced back to soon after the Industrial Revolution, when the main changes that were occurring into society forced the rising industrial labor force towards a new consciousness that led people to find new ways for mutual help. This assertion is supported by the fact that this period saw the birth of entities such as unions and mutuals. The term “voluntary” derives from the Latin term *voluntarius* which underlines “an action performed by interior impulse having full knowledge of the facts.” In this sense the birth of voluntary organizations can be seen as a further change in the history of NPOs, with the birth of organizations of men who were looking for help/aid not through religious organizations or a philanthropist, but by mutual help. In this way there was the birth of a “new” giving, which was no longer a donation of money or goods, but rather a devotion of time, i.e., spontaneous work given to help someone else while expecting nothing in return, just doing it because it felt right to do so. As occurred for the philanthropists who created the foundations, people created by themselves, together with the mutuals and unions, the basic and simplest element of NPOs, that is the association, which needs no legal permission to exist. Indeed, the origin of the word association can be found in the Latin term *associare* meaning “bring together, be together.” Once again the common basic elements of voluntary associations in Europe and North America can be seen in that, after the Industrial Revolutions – which occurred in different periods in different countries – there was the birth, together with unions and mutuals, of similar bodies that also have in common, corroborating the abovementioned observations, also the same etymology. For example, *Asociaciones de Voluntariado* in Spain, *Associations de Volontariat* in France, *Associazioni di Volontariato* in Italy.

Social Economy Organizations

Social Economy is a specific locution derived from the French term *Économie Sociale*. The origin can be traced back to by the French liberal

economist Dunoyer, who, in 1830, wrote two volumes on the *Économie Sociale* entitled *New Dissertation upon Social Economy (Nouveau traité d'économie sociale, ou Simple exposition des causes sous l'influence desquelles les hommes parviennent à user de leurs forces avec le plus de liberté, c'est-à-dire avec le plus de facilité et de puissance)*. In considering the concept of Social Economy, the same assumptions can be made as mentioned above for the birth of philanthropy after the Enlightenment, also considering the fact that France was its birthplace. Given its French origin, the social economy model grew mainly in French-speaking countries during the end of the nineteenth and early twentieth centuries. The 1980s saw a new impulse in France, with the modification of the French Act on Non-Profit Institutions and then, in 2004, with the creation of the Regional Chamber of Commerce for Social Economy (*Chambre Régionale de l'Économie Sociale et Solidaire*). This new input led to a reframing of the concept, also at an academic level, in other European countries and Canada.

The redefinition of Social Economy describes it as an area consisting of: cooperatives, mutuals, associations, and foundations engaged in the production of goods and services, with no purpose of the owners' enrichment, but instead having objectives of sharing and solidarity, being engaged in activities such as local development, reemployment, and the fight against exclusion. The definition Social Economy indicates the various entities that are part of it, underlining their own codes of conduct and their governance, which are far from the business sector ones (Baulard 2008).

The definition of Social Economy would have remained a niche of French-speaking countries if it had not been for the fact that, since the end of the 1980s, it has been (thanks to the French inputs) the basic definition within the European Union (EU) for classifying, the organizations that occupy the space between the market and the state. The EU arrived in 2000 at the creation, within the European Commission, of the *Conférence Européenne Permanente des Coopératives, Mutualités, Associations et Fondations* (which later became Social Economy Europe), thus making the concept of Social Economy the first

attempt, at international level, of framing within a specific sector all the different realities working in the space between the state and the market.

Nongovernmental Organizations (NGOs)

Article 71 of the United Nations Charter signed in 1945 states “the Economic and Social Council may make suitable arrangements for consultation with nongovernmental organizations which are concerned with matters within its competence.” This statement represents – although some preliminary locutions can also be found in previous documents of the early 1940s (Olivo 2007) – the first recognition of nongovernmental organizations widely referred to simply as NGOs.

According to the World Bank Operational Directive 14.70, “NGOs include a wide variety of groups and institutions that are entirely or largely independent of government, and characterized primarily by humanitarian or cooperative, rather than commercial, objectives. (...) Although organizations such as universities or research institutes may be nongovernmental, this directive refers principally to private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development” (World Bank 1989).

Irrespective of the chosen legal form, the distinctive feature of an NGO is the complete detachment from the government – actually not from “any” government but, at least, from the government of the places in which they run their activities – together with the field of activity focused on basic services and community development or advocacy like in the case of environment protection, human rights, etc. A specific and distinctive feature can be seen in the fact that NGOs – when they are not international ones engaged in advocacy – mainly operate in developing countries and have, in many cases, a registered office in a European or North American country. Considering also the period in which the first formal definitions appeared, at the time of the end of colonialism, they are the organizations that initially represented the voluntary action of people linked with a developing country but detached from its government. This might also

explain why all the abovementioned definitions were made before the twentieth century in European and North American countries while NGO is a “modern” definition commonly used in all developing countries, which is why the World Bank is interested in collaborating with them, arriving in some cases to be used to define the whole sector of those organizations that occupy the social space between the market and the state.

Nonprofit Organizations

The definition “Nonprofit Organizations” is recent and can be dated between the end of the 1980s and the early 1990s in the United States. It derives from the fact that, while the interest in the broad range of institutions occupying the social space between the market and the state was increasing, there was also a growing need to name all the different relevant organizations, ranging from foundations to voluntary associations, as well as charities, NGOs, etc. In synthesis, it was necessary to find a label for all these different bodies, also considering the fact that, as shown in the first section of the text, the borders of a new institutional sector needed to be defined. The common point found was that all these institutions shared the main characteristic of having a no-profit purpose and were thus increasingly becoming known as “nonprofit organizations.” The Johns Hopkins University Comparative Nonprofit Sector Project then led to the definitions described in the first section. Therefore, while in Europe the concept of Social Economy was rediscovered, in North America the whole category was named “Non-profit Sector” and a nonprofit organization was identified as having the characteristics initially described by Salamon and Anheier. An aspect that corroborates this is that Weisbrod, in his initial publications in the 1970s regarding the essence of NPOs, entitled his works “Theory of the Voluntary Nonprofit Sector” while his comprehensive publication in 1988 was entitled “The Nonprofit Economy,” recognizing that “Non-profit” was the correct label to identify all the different organizations.

Civil Society Organizations

“Civil Society Organization” is a very recent definition that can doubtless be attributed to Salamon and Anheier and their work entitled “The Civil Society Sector” (Salamon and Anheier 1997). According to the authors, the civil society sector is composed by the plethora of private, nonprofit, and nongovernmental organizations which have emerged in the second half of the twentieth century in virtually every corner of the world to provide vehicles through citizens can exercise individual initiative in the private pursuit of public purposes. Organized private voluntary activity, the proliferation of civil society organizations, that may turn out despite earlier origins represent the greatest social innovation of the twentieth century (Salamon and Anheier 1997) In synthesis, at the end of the 1990s, Salamon and Anheier – who originally gave full recognition to the definition “Nonprofit Organization” – coined a new definition, useful to indicate the new institutional sector, which was still not well highlighted in the national accounting systems of different countries, recognizing that although these entities had always existed, they required a different, specific framework and labeling because, during the twentieth century, a large number of them had sprung up all over the world, bringing them to be one of the biggest “innovators” in the social field.

In a certain sense it can be said that, after having spent nearly 10 years studying NPOs around the world in the context of the Comparative Nonprofit Sector Project, the two authors found that the “simple” characteristic of being nonprofit seeking was not sufficient to explain the whole “new” set of institutions, in all its diversity of interested groups engaged in creating the networks of civic engagement that produce and enforce communal values and notions of trust so necessary for cooperation and civil life (Salamon and Anheier 1997).

Third Sector Organizations

The above descriptions for nonprofit organizations and civil society organizations relative to the necessity to determine a label defining a new institutional sector can also be made for the definition “Third Sector Organization,” seen as an

organization belonging to an institutional sector that occupies the social space between the market and the state.

The difference is that, unlike the other two above described definitions, it is impossible to identify a clear origin for this one. However, an advantage in the use of this definition is that it exists in both North America and Europe. It seems that, like the invention of the wheel, the simplest definition of an organization belonging to a “third” sector has been made in different ways in different situations. In fact, it is the “simplest” one given by the “invention” of a *tertium non datur*, i.e., since these organizations belong to a different sector from the other two, the simplest definition was to call it “third.”

Conclusion

According to definitions given in this entry considering definitions both by international institutional organizations and by academic researchers, NPOs belong to a specific institutional sector situated between the state and the market. They (1) cannot distribute any profit; (2) are involved in the production of public goods with the aim of answering market failures not solved by the public system (government failures); (3) in many cases are eligible for special tax advantages; (4) are private self-governing organizations with specific governance rules; (5) in many cases can have voluntary workers.

Moreover, it is not compulsory for them to have a legal recognition (e.g., voluntary associations), but they may have specific legal forms (e.g., foundations). They can be engaged in one or more of the following fields of activity as defined by the ICNPO: (1) culture and recreation; (2) education and research; (3) health; (4) social services; (5) environment; (6) development and housing; (7) civic and advocacy; (8) philanthropic intermediaries; (9) international; (10) religious congregations; (11) business and professional, unions; (12) other.

The ensemble of NPOs is composed of a bewildering array of entities, such as hospitals, day care centers, universities, social clubs, sports clubs,

grassroots development organizations, environmental groups, self-help groups, religious congregations, job training centers, human rights organizations, and community associations variously known as belonging to differently named sectors according to specific traditions and countries. At last, different terms along the time in different traditional and cultural context have been coined to name all the different typologies of organizations.

Cross-References

- ▶ [Agencies and Membership Associations](#)
- ▶ [Budgeting for Nonprofit Organizations](#)
- ▶ [Charitable Organizations](#)
- ▶ [Collaborations Between Government and Foundations](#)
- ▶ [Community Based Nonprofit Organizations](#)
- ▶ [Decision Making in Nonprofit Organizations](#)
- ▶ [Differences Between Nonprofit](#)
- ▶ [Differences Between Nonprofit and For-profit Organizations](#)
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- ▶ [Philanthropic Organizations](#)
- ▶ [Philanthropy and Nonprofit Organizations](#)
- ▶ [Public Organizations and Nonprofit Organizations](#)
- ▶ [Religion and Nonprofit Organizations](#)

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