Symposium Article

Lewis Faulk*

Overcoming the Cause of Failure and the Role of Issue Salience: Toward a Comprehensive Theory for Nonprofit Activity and Competition in a Three-Sector Economy

Abstract: This paper extends the theoretical framework of nonprofit activity in three-sector economies. Perspectives from existing theories on nonprofit organizations and the agenda setting literature are simultaneously considered. The nonprofit form provides one solution to the causes of market failure that are inherent to the different classes of goods discussed by previous theory. However, issue salience can lead to public policies that correct market failures. Such policies can lead to greater competition for tax-supported funding and to for-profit entry. This combined framework allows for the integration of the various theories on the existence of nonprofit organizations under one theoretical lens. It also yields a framework to empirically analyze industry dynamics and inter-organizational competition specifically within nonprofit and mixed-sector markets. The temporal variation and relative strength of issue salience in various mission areas in which nonprofits participate are particularly considered. This theoretical perspective leads to several important implications for industrial structure, nonprofit competition for resources and market share, public policy, advocacy, contracting, and public–private partnerships as the issues nonprofits address evolve over time.

Keywords: nonprofit competition, nonprofit theory, public goods, agenda setting

DOI 10.1515/npf-2014-0004

Introduction

From a general public policy perspective, the implications of competition among organizations in the economy are important for taxpayers, policymakers, and

*Corresponding author: Lewis Faulk, American University, Washington, DC, USA,
E-mail: faulk@american.edu

government actors. These concerns include creating and maintaining organizational and industrial structures that promote competition between actors in for-profit activity. In this way, competition in the for-profit sector is generally understood to be viewed favorably. Competition among actors in the public and nonprofit sector is viewed somewhat differently, however – and this perspective is complex. On one hand, public choice from competition to *deliver* public services is viewed positively, encouraging more efficient production of services. Under this perspective, competition between nonprofit, for-profit, and government organizations can benefit taxpayers by maintaining the quality of services in a cost-effective way. A greater diversity of organizational actors competing to provide services can also lead to more diverse audiences being served by public goods than would be under uniform delivery from one government entity. On the other hand, however, introducing greater numbers of organizations that overlap in mission and geographic foci is also seen as potentially wasteful if this expanding group of organizations is competing for the same pool of limited funding.

From a charity perspective, competition for philanthropic funds potentially leads to fundraising inefficiencies. Increases in the number of organizations vying for funding have been viewed negatively by many philanthropic funders as an unnecessary “duplication of services.” From a government perspective, public charities receive tax exemptions and their donors benefit from tax deductions. These tax benefits translate to tax subsidies for nonprofit activity. Therefore, the public and government have an interest in the efficient operations of the nonprofit sector. Competition between nonprofits could lead to the dilution of finite amounts of charitable funding and inefficient fundraising. In such scenarios, there are social costs to having duplicative service providers in nonprofit markets. In such cases, federated fundraising campaigns in which nonprofits combine their resources to attract a pool of funding which they then divide could achieve scale economies and be more socially efficient than nonprofits spending more individually to get the same return (Rose-Ackerman 1982). However, as in for-profit markets, competition among similar organizations could alternatively increase efficiency by forcing competitors to develop innovative service delivery practices and more efficient administration. Additionally, competition could lead to greater efficiency by causing greater service differentiation and market segmentation as individual nonprofits seek particular niches and capture unique funding streams (Barman 2002; Chektovich and Frumkin 2003; Rose-Ackerman 1982).

The complexity of this issue and the divergent implications that these perspectives yield are important to understand more fully. If all are valid perspectives, a better understanding of the particular circumstances under

which to apply each viewpoint would inform policy and management decisions. Theory and empirical research on competition in the for-profit sector is robust. The number of empirical studies concerning competition in the nonprofit and public sectors is increasing, but theoretical development and empirical investigation of markets delivering public goods have a long way to go before they advance to a body of knowledge similar to the study of industrial organization in the for-profit context.

This article therefore focuses on advancing theory that may be applied to competition between organizations in the economy that provide varying levels of public goods. The specific focus is to advance our understanding of both intra- and inter-sector competition for nonprofit organizations. Existing theories that explain nonprofit activity currently contribute to our understanding of organizations in specific, targeted circumstances. This article offers a more comprehensive framework that incorporates these diverse perspectives of nonprofit activity in order to facilitate more general evaluation of competition between nonprofits and other organizations across the economy.

Literature review

Theory on nonprofit activity

The literature holds little consensus on what drives the formation and growth of nonprofit organizations or how competition affects the sector. A coherent body of economic theory explains why and how for-profit firms operate in market economies. Nonprofit studies lack a similarly cogent framework for analyzing nonprofit organizational behavior. Instead, several disparate theories propose explanations of the existence of nonprofit organizations. Each comes from a different perspective concerning the roles and driving forces of nonprofit organizations in society. Therefore, each theory contributes differently to how we may better understand the nature of competition and collaboration among nonprofit organizations and between nonprofits and other organizations in the economy.

Public Goods Theory (Weisbrod 1975), also known as market failure theory, explains nonprofit activity under circumstances in which for-profit markets and governments do not meet the heterogeneous demand for collective, public, or quasi-public goods. Markets undersupply these goods and services because they are non-excludable or non-rival (Steinberg 2006). The non-excludability of collective goods in particular makes it difficult or impossible to charge fees at

a level that would sustain production. Since individuals cannot be excluded from enjoying the benefits of collective goods, they have little incentive to pay. A free-rider problem results, which causes private for-profit firms to refrain from providing adequate levels of the good to match demand. If the services are provided, free-riding threatens the ongoing funding of the services over time.

While government could overcome the free-riding problem through a tax, the limited or heterogeneous demand for many collective goods and services does not warrant uniform government provision in all circumstances. For instance, the average or “median” voter may not prefer the provision of a service at the quality or quantity demanded by specific groups of individuals in the population. Therefore, political attention and government resources will be allocated toward providing alternative services with greater voter demand (Steinberg 2006; Anheier 2005).

Individuals might be able to arrange and pay for unprovided services on an ad hoc basis. However, the individual effort required to coordinate services each time they are desired may be inefficient from a transactions cost perspective (Coase 1937). In the absence of cooperation among individuals these goods and services would not be supplied. This results in the need for collective action (Olson 1965) to overcome free-riding behavior and to supply adequate levels of public or collective goods and services to match demand.

Under Weisbrod’s Public Goods Theory, nonprofits step in to supply underprovided collective goods and services through the private contributions and voluntary efforts of individuals who prefer or demand higher levels of those goods. The free-rider problem continues for organizations providing these goods. This creates management challenges since nonprofits do not have the power to tax. Instead, they overcome free-riding behavior through various fundraising strategies. For instance, they may appeal to people’s interest in helping others or create private incentives for donating to collective causes (Olson 1965; Vesterlund 2006). Nonprofit organizations therefore step in to “meet a diverse demand for collective goods” in democratic societies, from arts, education, and healthcare to environmental protection and community development, providing goods and services that would otherwise be underprovided by the market or government (Weisbrod 1988, 25).

Under Public Goods Theory, nonprofits form to fill in where collective goods and services are undersupplied. Therefore, in general they enter uncompetitive markets. This theory alone does not predict competition between nonprofits and other organizations for clients or market niche. Instead, nonprofit competition under Public Goods Theory would likely center upon organizational resources, such as human capital, volunteers, and external funding. This would be

particularly true when similar organizations simultaneously enter the market to provide the same, or similar, collective goods. However, this perspective views individual nonprofits as existing because enough people demand the level of services they provide and are willing to support the organization through donations and time. Therefore, nonprofit density in any market increases as new organizations attract and maintain support from donors and volunteers who have similar preferences for goods and services. Since the mix of demands and preferences in communities changes over time, nonprofits will compete primarily with other nonprofit organizations for philanthropy.

However, if demand for collective services increases, the government may decide to directly provide or fund the services. Nonprofits may begin to compete with government agencies for clients or niche. Nonprofits also may begin to compete with for-profit organizations for government contracts if government decides to indirectly supply the services. In this way, an increase in demand for services that nonprofits provide and the provision of those services by government “crowds out” some nonprofit activity (Anheier 2005, 123). Higher education is an example of a collective good that has evolved in this manner over time. The first academies of higher learning were collective and nonprofit in nature, filling a gap in knowledge production that was otherwise unprovided by the private market or states. As higher education evolved, public institutions became more prominent players, and public funding became centrally important to nonprofit institutions, both directly through grants and indirectly through student loans. Today, public and private universities compete for students and the resources they bring, and for-profit universities have grown in part through their ability to compete for students that depend on government loan programs.

Weisbrod’s public goods theory itself does not readily explain the ongoing competition between nonprofit organizations and other organizations in the same industries, such as higher education, because the theory explains that nonprofits act more as gap fillers than competitors. Market failure theory would expect the market to clear over time as heterogeneous demands for collective services are met. This would be true particularly when demands for services increase, causing for-profit and government suppliers to enter the market. Hansmann (1980) introduced a separate trust-related or Contract Failure Theory, however, that provides an alternative perspective to better understand ongoing competition. Contract Failure addresses more specifically why nonprofits would continue to exist in service markets in which for-profit organizations operate.

Hansmann argues that the free market undersupplies many goods and services because of high levels of information asymmetry between the producers and consumers. For instance, third-party payers have difficulty evaluating the

quality of services, such as daycare, hospital or nursing care because they do not directly experience the service. Profit-seeking firms are expected to take advantage of this information asymmetry in order to cut service quality and increase profits (Anheier 2005). Laws that enforce a non-distribution constraint on non-profit organizations prohibit nonprofit directors from distributing residual income as profits to stakeholders. Because nonprofits lack a profit incentive, they are more trusted than for-profit firms to provide higher quality goods and services under scenarios of high information asymmetry between buyers and sellers (Brown 2010; Anheier 2005).

As Jegers (2008, 16–21) discusses, transaction cost theory (Williamson 1979) is at the root of Contract Failure. Technically complex services or services that are difficult to monitor inherently involve “*ex ante* uncertainty” regarding the specific, measurable efforts required to reach a specific quality of outcomes. The quality of outcomes themselves may also be difficult to evaluate. This uncertainty creates transaction costs for consumers since contracts are difficult to write and enforce. Individuals providing the service can spend less effort than they claim to without a means for sanction. Therefore, service providers that are driven by motives of profit are viewed with suspicion, and this suspicion could be great enough for consumers to not enter the transaction. Under Contract Failure Theory, the non-distribution constraint, or lack of profit motive, helps overcome this suspicion, reducing the transaction costs for consumers. Because of this, consumers, donors, and governments are expected to trust and prefer nonprofits rather than for-profit organizations for services where contracts are difficult to monitor and enforce.

Therefore, Contract Failure Theory adds to Public Goods Theory by explaining why nonprofits compete with for-profit firms in supplying some goods and services (Anheier 2005). In addition to nonprofits competing among themselves for general resources, nonprofits directly compete with for-profits for clients and government funding in some fields. Therefore, nonprofits would be expected to push for-profit providers out of particular market niches where high information asymmetry leads clients and government to suspect unscrupulous behavior or when profit motivation could outweigh public or client benefit. However, both nonprofits and for-profits would continue to co-exist in industries with segmented markets in which information asymmetries are not as high for clients who pay for the services they directly receive, such as clients paying for elective surgeries in the healthcare industry. Therefore, even with comparative advantages in certain client markets, nonprofits would be expected to continue to compete with for-profits in the same industry for human resources and for clients where information asymmetries are not as great. This theory also helps us better understand why government would choose to collaborate with

nonprofit organizations to provide certain services through government grants or contract arrangements because nonprofits would be trusted over for-profits to deliver on promises that cannot be easily monitored.

Interdependence Theory (Salamon 1987) represents another important extension of Public Goods Theory and the interrelation between nonprofit activity and government action in particular. The nature of public goods, demand heterogeneity, and market failure remain the basis of Interdependence Theory. However, the theory more explicitly discusses government “failure” to provide many public goods and philanthropic failure to adequately supply public goods as demand increases for them. Interdependence Theory argues that nonprofits and government complement each other and that government largely supports the work done in the nonprofit sector through grants, contracts, and public-private partnerships (Anheier 2005). Based on this theory, nonprofits can only provide a limited amount of services due to voluntary failure, or the insufficiency of philanthropic resources to supply public goods under situations of increasing demand. As public demand for their services grows, nonprofits increasingly rely on tax-supported funding to make up for shortfalls in charitable resources. This leads to competition between nonprofits for valuable government grants and partnerships.

Public Goods, Contract Failure, and Interdependence Theories originate from a demand-side perspective to explain how nonprofits form to meet unmet demands. Supply-side theories, such as Stakeholder and Entrepreneurship theories, instead focus on the motivation of those who start nonprofits. Like Contract Failure Theory, Stakeholder Theory explains that nonprofit organizations overcome information asymmetries where buyers do not trust for-profits to provide goods and services at the quality level demanded (Anheier 2005; Ben-Ner and Van Hoomissen 1993). However, Stakeholder Theory also acknowledges that, in some cases, individuals prefer to provide the good they consume for themselves. To ensure the level of quality they want, they become both the suppliers and demanders. This will be especially true when particular groups demand a very specific level or quality of the good or service. For instance, groups of parents with education preferences for their children that existing schools do not provide may choose to form a cooperative school (Anheier 2005) or an independent charter school.

Adding this supply-side perspective, Stakeholder Theory improves our understanding of nonprofit competition by explaining situations in which multiple nonprofits with similar missions may exist in the same community or service market. Extending the supply-side argument, Entrepreneurship theories (Young 1983; Rose-Ackerman 1996) argue that individuals who start and lead nonprofits derive utility from non-monetary rewards of nonprofit work. Nonprofit or social

entrepreneurs are driven by achieving the mission of the organization or by other motives, such as religious motivation to serve others. Therefore, individuals or groups of individuals with preferences to approach social missions in unique ways through creating their own organizations drive the supply of nonprofit organizations.

These supply-side theories help explain why so many nonprofits with similar services and missions exist. Since many organizations will only differ based on particular stakeholder preferences or ideology, competition between them will be high for external funding (such as foundation or government grants), human resources, clients, and market visibility. Supply-side theories would therefore predict a larger supply of nonprofit organizations and greater competition for funding than would be expected under demand-side theories alone.

Implications of existing theory on nonprofit competition

Overall, each of the major theories discussed above provides different insights into the nature of nonprofit competition. As Anheier and Ben-Ner (1997) point out, these theories complement more than contradict each other. Particularly by combining Stakeholder and Entrepreneurship perspectives with Public Goods and Contract Failure arguments, we may reasonably expect a greater supply of nonprofit organizations than can be supported by charitable donations. New and small nonprofits often rely mostly or solely on donated volunteer time. Therefore, we may expect many more organizations than would be funded by financial resources to exist. This especially would be true in subsectors that have low barriers to entry, do not require large physical or capital assets, or have high exit thresholds due to low-operating costs.

Meanwhile, others argue that for-profit theory regarding competition and market structure also applies to nonprofit organizations. Tuckman (1998) applies Porter's five competitive forces to nonprofit competition. He argues that entry and exit, power of buyers, power of suppliers, the presence of substitutes, and rivalry among competitors similarly impact nonprofit organizations, even in markets such as donation or foundation grant markets where nonprofits compete exclusively against nonprofits. Lakdawalla and Philipson (2006) characterize all nonprofits as for-profits with lower costs due to tax subsidies and the altruistic motivation of their employees. They argue that for-profit theory holds for nonprofits by treating them as for-profits with lower costs. Extending this argument, Harrison and Laincz (2008) show consistency of for-profit models in nonprofit industries.

Harrison and Laincz (2008) find a key difference for nonprofits, however, showing much greater survival rates for nonprofit organizations than for-profits generally. While new nonprofits form at around the same rate as for-profits, only 17% of nonprofits fail after 10 years compared to 80% of for-profits (Harrison and Laincz 2008). As Harrison and Laincz explain, this results in much higher net entry rates for nonprofits than found in for-profits. This finding is consistent with Rose-Ackerman's (1982) argument that low nonprofit entry barriers will allow ideologically driven entrepreneurs to start new organizations even in saturated markets. New entrants will attract new donors into markets through additional fundraising and marketing. However, each organization's share of overall donations will fall as the number of organizations in a market rises (Rose-Ackerman 1982). Therefore, high net entry rates in the nonprofit sector translate into increased competition for charitable resources over time.

Young's (2007) Benefits Theory of nonprofit finance adds another important consideration for competition in markets in which nonprofits participate. Benefits Theory, which is elaborated and empirically tested in Fischer, Wilsker, and Young (2010) and Wilsker and Young (2010), is useful to explain nonprofit activity and competition for resources on the program level. Nonprofit organizations are understood to be multiproduct firms (James 1983; Weisbrod 1998), in which each organization provides multiple goods and services through numerous programs. Benefits Theory elucidates the matches between particular benefits that nonprofit programs produce – individual/private goods and services, benefits to specific groups of individuals, organizational resources that can be bartered or traded with other organizations, and public goods – and the financial and volunteer resources available to organizations. Organizations with programs that produce private goods and services are expected to use (and compete for) fees for service. Programs may also produce benefits to groups, such as low-income single mothers, individuals with AIDS or other diseases, immigrant populations, or groups that prefer high-quality arts in their communities. Organizations producing group benefits compete for funding from donors, foundations, or government agencies that are specifically interested in the groups they serve. Organizations with program resources, such as extra office space, donor lists or specialized equipment – or a highly respected brand name – are able to trade those resources with other organizations for additional resources to advance their programs. Meanwhile, programs that produce public goods that align with general voter demands and government programs, such as public health, education, and services to the elderly, are well positioned to compete for government grants and contracts.

Each nonprofit's mix of programs, or program benefits, therefore explains the mix of resources for which they will compete. As voluntary organizations

grow and professionalize, they capture greater amounts of financial resources in the markets in which they participate. For instance, a nonprofit's program may fill a particular niche providing a public good that aligns with government initiatives. They may secure public funding to expand and meet non-market demand for that good or service. This would be consistent with Interdependence Theory (Anheier 2005). Alternatively, they may fill a niche with a quasi-market good, such as in the arts, and capture a mix of fees for service and private donations to expand their operations. Their mission and services also may match either particular donors' interests, such as foundations', or general donors' interests in a community that could be solicited through annual fundraising drives. Such organizations potentially could be sustained through private giving alone. However, foundations and other donors have finite amounts of money to dispense, applications routinely exceed foundations' grantmaking capacity, and donors experience fatigue when barraged with too many appeals. Therefore, foundation grants and other forms of philanthropy represent an instrumental but limited source of funding. Foundation grants are particularly useful for nonprofit capacity building and growth due to the expertise and added legitimacy that come with many grants. However, philanthropy alone cannot fund all of the worthy organizations and causes that saturate nonprofit markets. As greater numbers of nonprofits formalize, seek funding, and enter the marketplace for donations and grants, competition becomes greater for these resources.

Implications of competition in the nonprofit sector

As discussed in the introduction, there could be either positive or negative implications of competition between charitable organizations in three-sector economies. Some of the ambiguity surrounding the direction of these effects derives from the relative complexity of nonprofit activity and complex motivations of nonprofit managers. In contrast to for-profit analysis in which the economic theory of the firm assumes profit-maximizing behavior, nonprofits operate in mixed industries with no one model of objective behavior (Hughes and Luksetich 2010). Nonprofit objectives may be service-maximizing or budget-maximizing (Steinberg 1986, 1989). Service-maximizing managers strive to improve overall program efficiency while maintaining high levels of quality or quantity of goods and services. Budget-maximizing managers, on the other hand, may still emphasize providing a high level of quantity and quality, but they increase the total budget to maximize their own salaries and benefits, leading to wasteful management (Hughes and Luksetich 2010; Steinberg 1986).

Like for-profits, nonprofits suffer from agency problems. Program managers may budget-maximize even though directors emphasize service-maximizing (Hughes and Luksetich 2010). Under monopoly conditions, managers may more easily budget-maximize, potentially wastefully increasing their own budget. In contrast, competitive environments may constrain managers to service maximize in order to maintain a competitive edge and survive, leading to greater program efficiency (Feigenbaum 1987; Hughes and Luksetich 2010).

Other studies point out that increased competition could lead to efficient aggregate outcomes in the sector in addition to administrative efficiency. For example, faced with competition from similar organizations, nonprofits may opt to differentiate the services they provide, segmenting the market into more socially efficient sections (Chetkovich and Frumkin 2003; Gronbjerg 1993; Han 1994; Hannan and Freeman 1977 cited in Barman 2002). Alternatively, organizations may develop relationships with institutional funders or collaborations with other organizations to attract greater funding exposure. Such collaboration would also produce more socially efficient uses of limited charitable resources (Barman 2002; Combs and Ketchen 1999).

Part of the uncertainty of these effects derives from the variation in non-profit markets. In some markets, such as markets for foundation grants and donations, nonprofits only compete against other nonprofits. In other markets, such as health services, nonprofits regularly compete against for-profit and government providers for paying clients. Meanwhile, other markets such as those providing public infrastructure, transportation, and utilities are dominated by government and for-profit players. Several factors including (1) the nature of goods produced, (2) the types and levels of resources competed for, and (3) types of organizations competed against all influence organizations' responses to varying levels of competition. Therefore, a stronger understanding of variation in these elements across organizations is required to better explain the effects of competition and implications of nonprofit competition for policy and practice.

Toward a more complete theory

Extending the theoretical framework

Across demand-side theories explaining nonprofit activity, there is a common question of what gets provided by nonprofits versus government and for-profit organizations. Common elements of these theories include variables concerning

(1) the nature of goods and services that lead to market failure and (2) the levels of demand for those services. Under Public Goods Theory, nonprofits provide services that are public in nature and are subject to uneven demand. Contract Failure is characterized by services with high information asymmetries and unmet demand. Interdependence Theory includes elements of Public Goods and Contract Failure Theory but anticipates nonprofit failure in circumstances in which demand evolves beyond philanthropic capacity. Even among supply-side theories, under which entrepreneurs drive nonprofit startups, only demand from paying clients, donors, funders, or volunteers can sustain an organization's operations (absent a healthy endowment).

As described above, Public Goods Theory explains that nonprofits form to provide solutions to public problems that are not demanded of government by the median voter and not provided by for-profit actors (Weisbrod 1988; Anheier 2005). Interdependence Theory extends this market failure argument to include failures by nonprofits and government to independently provide adequate levels of collective goods. Over time voluntary groups suffer from "voluntary failure" because they do not receive enough philanthropic resources, focus too much on particular subgroups and ignore others, are driven by donor demands rather than client needs, or lack capacity and professionalization to adequately approach the social issues they address (Anheier 2005). Because of this, nonprofits depend on government support for the coproduction of community solutions. Likewise, government depends on nonprofits to coproduce legitimate public approaches to meet the needs of all citizens in the community, not just those represented by the median voter.

Issue salience and three-sector activity

One element that is lacking in the general theory explaining the existence of nonprofit organizations in tandem with government programs is an explanation of how certain issues evolve to be important (or unimportant) to median voters and government action. Without this piece to the puzzle, each theoretical strand works well in isolated circumstances. However, it is more difficult to place each theory within a broader theoretical framework to explain the circumstances under which nonprofits may compete solely among themselves versus against government and for-profit actors. More specifically, current theories lack clarity on how nonprofit competition evolves over time. For instance, why do for-profits enter some markets to provide public or trust goods when they generally would not be expected to under market failure or contract failure theories? Without better understanding how these issues evolve and affect nonprofit competition,

the implications for organizational behavior and social welfare are difficult to discern.

To make this link, the literature on public problem definition and agenda setting appears useful. Agenda setting provides an appropriate explanation of how social issues evolve over time to be perceived as demanding (or undeserving of) public attention. In particular, there are strong parallels between the common elements of demand-side theory, such as Weisbrod's demand heterogeneity argument, and theory in the public policy literature on policy process and agenda setting.

Within broader theory from public policy research, the Multiple Streams framework is one of the most heavily cited theories on public problem definition. In it, Kingdon (1984, 2003) highlights the "importance of problem recognition" to move issues from general social issues to issues that receive public policy attention. As Kingdon explains, there are many factors that contribute to problem definition, including interest group activity, the prevailing values held by bureaucrats, and the salience of the issue at hand. Issue salience, or general public recognition and interest in a problem, is a key component to moving issues to the public agenda. Problems, even if important, such as Medicaid coverage for the working poor, may not be recognized by public officials as being important unless the issue reaches adequate saliency in the voting population (Kingdon 2003, 114).

Cobb and Elder (1983) similarly explain the importance of public perceptions to pressure government actors to define public problems. Like Kingdon (2003), they explain that focusing events or "triggering devices" can help push issues into being defined as public problems and onto agendas. Importantly, issues must make it onto the "systemic" agenda, where they become "public" problems, enjoying widespread attention and shared concern by the majority. However, as Wood and Doan (2003) show, public salience depends on a variety of factors beyond focusing events. In their models, public attention first must reach a "threshold" level below a majority in order to propel it toward wider recognition. After passing this threshold, a particular perspective on an issue is more likely to gain general salience. Even then, however, issues may not reach the "institutional" or formal governmental agenda (Cobb and Elder 1983).

Jones and Baumgartner (2005; also see Baumgartner and Jones 1993) help explain the unevenness of formal agenda setting. As they empirically demonstrate, meaningful policy change occurs not in steady development but in punctuations. These punctuations occur when the salience and need for new policies build to a great enough level to break through "institutional frictions" inherent in the policy process. Without such punctuations, "moderate" demands

lack the concentrated salience to push public agendas beyond an incremental, and insufficient, pace to meet those demands. Ultimately, the progress of an issue first to be defined as a public problem and then to land on the formal agenda depends on multiple actors, the legitimacy of issues, and the relative importance of the people they affect. They must also overcome constraints, such as the public budget (Cobb and Elder 1983).

The concept of issue salience described in the public policy literature helps establish a link between specific components of the various theoretical perspectives of nonprofit activity discussed above. Under Public Goods Theory, organizations work to provide public and collective goods to match heterogeneous preferences in the general population (Weisbrod 1975). These organizations therefore fill market niches that have not gained the public salience to demand government action. When the issues these nonprofits address receive enough public attention, however, such as through focusing events, public perception concerning the need for their services may cross threshold levels in the general population. Under a combined framework incorporating an agenda setting perspective, if adequate public pressure influences policymakers into action, these goods would begin receiving government funding. This funding would open the door for expansion of those services through nonprofit and government coproduction, as expected under Interdependence Theory (Salamon 1987). With substantial public attention and funding of these services, for-profit players would also be expected to enter into these markets if contracts could be sufficiently monitored and enforced.

In this way, the concept of issue salience extends current theory on nonprofit activity and helps explain the emergence of for-profit firms in nonprofit and public markets. Under general theory explaining nonprofit activity, when the goods and services provided in these markets are collective or public in nature, or even quasi-public, we would not expect for-profit organizations to be involved in the supply. However, if issues are highly salient and reach a stable level of tax-supported funding, as demonstrated by making it onto and remaining on the public agenda, free-riding is overcome and opportunities for profitable investment open. This may be especially true in highly technical and/or widespread government services where large, for-profit corporations may more easily access investment capital and take advantage of scope and scale economies. For example, this could explain for-profit participation in public infrastructure projects, Medicare/Medicaid processing, national defense equipment and contracting, and emerging areas that have gained stability on the public agenda, such as space exploration.

Issue salience also helps untangle some of the ambiguity of when to apply Contract Failure Theory. Contract Failure explains that when performance is

difficult to assess, information asymmetries between principals and agents prevent the monitoring and enforcement of contracts. In these situations, the public and government will prefer nonprofit over for-profit service providers (Hansmann 1980, 1987; Easley and O'Hara 1986; Krashinsky 1986, 1997). As explained above, this theory is commonly applied in cases of third-party payers of services someone else directly receives, such as child care, elderly nursing care, and international assistance. However, the nature of many of these goods is generally more private than public, representing a special case of nonprofit activity.

The centrality of trust predominates in the decisions to prefer nonprofit organizations. Nonprofits are expected to refrain from profiting by shirking on the quality of the services produced. However, ambiguity on when to apply Contract Failure Theory arises because for-profits regularly operate in some of the same fields. Meanwhile, for-profits dominate other industries that have high information asymmetries, such as car repair and private medical offices. Adding to this complexity, nonprofits or public organizations were once the main, or only, providers in fields such as home health, hospitals, nursing homes, and hospices. Since the 1970s for-profit conversions, acquisitions, and entry into these markets have changed the organizational ecology of these industries. The question arises of why for-profits successfully penetrate some markets characterized by severe information asymmetries and not others. Furthermore, what causes these market dynamics to change over time?

Levels of demand by paying customers, and levels of supply, may help explain successful for-profit entry in some fields marked by information asymmetries. If demand is low for a trust good or for a particular quality of the good, few providers, for-profit, or nonprofit, will enter the market. Without adequate levels of substitute providers, the threat of sanction is lower, and profit-seeking entrepreneurs could more easily take advantage of information asymmetries by shirking on service quality. The transaction costs of outside monitoring would be high. In such uncompetitive scenarios, it would be less costly from a transactions cost perspective for consumers (and government) to trust the service provider rather than externally monitor and enforce each contract. Therefore, consistent with Contract Failure Theory, nonprofits would be preferred.

Interestingly, in situations in which demand outstrips supply, information asymmetries are again easy to take advantage of. Consumers have less choice among any existing high-quality suppliers because of congestion. Well-reputed providers of trust goods, such as daycare or elderly care, may have long waiting lists. Other providers can enter the market to provide high-quality services and charge greater amounts, pricing out many consumers. As a result, greater

numbers of suppliers that provide uncertain, mixed, or low levels of quality enter the market. Consumers are faced with greater choice dilemmas, uncertainties, and costs to switch providers. This lowers the probability of sanction and increases the likelihood of shirking behavior. Under the reasoning of Contract Failure Theory, nonprofits would again be preferred in these scenarios.

Principal-agent oversight within firms that provide services marked by information asymmetries is also difficult or costly. This results in potential shirking within profit-seeking operations or when for-profit firms subcontract their services. Businesses such as car shops regularly deal with these costs and they are sanctioned by customers leaving to competitors when they or their agents are caught shirking. Doctors in private medical and dentistry offices also need to meet certain patient numbers to be profitable and therefore experience competitive pressures to deliver quality services. Yet even in uncompetitive markets or under conditions of excessive demand, car repair shops and doctors' offices are typically for-profit.

It is important to note that from a public policy perspective, the externalities caused by the shirking behavior, not the shirking itself, are of public concern. If cars are not properly maintained, roads are less safe and pollution is less controlled. Likewise, public health depends on consistent private health practices regarding the treatment of disease. Transaction costs would be severe if individuals were required to be knowledgeable of and monitor these issues independently. On the producer side, the costs of internal monitoring or the risk of sanction, such as for malpractice in medical offices, could be sufficient to prevent people from starting those businesses. In the last century, the underlying public health concerns that could be caused by shirking in these fields have been addressed by public policy and regulatory oversight. For instance, regular car safety inspections are required to maintain motor vehicle registrations in many states, the Clean Air Act mandates emissions inspections in urban areas, and certifications are required for professionals operating in those fields. Other policies limit malpractice suits against physicians or mandate insurance, reducing the barriers to entry.

Due to the technical nature of the services in these fields, agents still can, and sometimes do, shirk. But general and widespread demand for these services has encouraged the professionalization of these fields. Shirking in the field or scandals could lead to lower trust of the profession. This has led to professional standards of practice and industry self-regulation through associations and licensing bodies. Meanwhile, private oversight groups such as the Better Business Bureau and Angie's List additionally help protect consumers and provide non-policy mechanisms to facilitate the sanction of shirking behavior.

In the case of regulatory policy, formal regulations create incentives for the principals in for-profit firms to sufficiently monitor their agents and enforce internal quality standards. The costs of sanction, if sufficient enough, would justify the expense of such internal oversight as long as the oversight expense did not erode profits to the point of business failure. In this way, issue salience concerning the potential negative externalities that could be caused by shirking is important to overcoming the market failure. Public awareness could lead to public policies to incentivize greater and more consistent internal monitoring. The same issue salience in the population could also lead to heightened industry self-regulation. Compliance with these formal regulations and industry standards may in turn facilitate greater trust of for-profits providing these services. This in turn could be sufficient to reduce transaction costs for consumers and overcome Contract Failure in for-profit transactions.

Because the demand from paying customers, who may be backed by third-party insurers, is strong enough in certain fields, such as car repair and private medical offices, the work is profitable even with greater internal monitoring and compliance costs. However, these costs establish conditions for market failure to occur in markets where there is not adequate demand from customers who are able to pay the prices. For instance, this would tend to occur in low-income areas or in communities where people lack insurance. In these markets, services may be arranged for and provided ad hoc, such as car repair or medical care by family members, friends, or by individuals themselves. Alternatively and in keeping with market failure theory, nonprofits may step in to provide these services, such as seen with the emergence of nonprofit auto repair shops or free medical and dental clinics. In this way, formal public policies that regulate services in trust-related industries increase the internal monitoring costs for firms but decrease the transaction costs for individuals to externally evaluate the quality of services. The decreased transaction costs allow the markets to function at higher internal firm costs if there is sufficient demand from payers who are willing, or able, to pay the prices associated with those higher cost services, or if the services are otherwise subsidized.

Trust goods that have traditionally been provided by nonprofits under Contract Failure Theory typically have much greater monitoring costs than services provided directly to the paying customer, such as the car and medical services discussed above. The potential negative externalities resulting from shirking behavior could also be more severe, such as those resulting from unsafe childcare or undelivered international aid. Additionally, the costs of sanction and exit for customers could be much greater, such as in cases of relocating elderly family members or dying patients from nursing or hospice care. In these cases, and following the logic presented above, certain conditions must be met

for these markets not to fail or for the services to begin to be provided by for-profit firms.

First, the issue salience regarding the potential negative externalities of shirking in these industries must be great enough to lead policymakers, or industries themselves, to establish formal mechanisms to monitor and sanction low-quality services. Second, firms must be able to develop systems to internally monitor themselves and comply with the regulations. Third, demand from paying clients, which could be supported by third-party payers or public subsidies, would need to be sufficient enough to overcome the added costs associated with internal monitoring and compliance. If these conditions are met, the regulations would increase consumer trust in the firms, reducing the transaction costs to individuals, and firms could still earn profits even with the increased costs of regulatory compliance.

Once these conditions are met, for-profit firms would have an advantage over nonprofit organizations. Potential profits would incentivize third-party investment in the firm, allowing it to increase in size and enter new markets by expanding the firm, franchising, or acquiring other providers. In this way, for-profits could decrease their operational costs more quickly than nonprofits through more rapid capitalization and achievement of economies of scope and scale.

In this process, similar to the process for goods characterized by market failure, issue salience is also important to pressure politicians to establish sufficient funding mechanisms to support adequate levels of demand from individuals who otherwise may be unable to pay for the services. In a way, once consumers' transaction costs are reduced for trust goods through adequate oversight mechanisms, those goods could then be considered under the lens of market failure theory. Absent increased government funding, the increased producer costs would lead to market failure in markets where customers were not willing (or able) to pay to offset the additional costs. Generally under Contract Failure Theory, nonprofits would be considered the lower-cost alternative in such scenarios. However, oversight regulations would increase costs for nonprofits as well as for-profits in the industry. Without stable and sufficient funding, for-profits could potentially serve higher-wealth individuals but would likely fail elsewhere. Therefore, without public funding, demand heterogeneity and collective action could lead to charitable subsidies and nonprofit provision of the services in failed markets.

Alternatively, or over time, issue salience concerning the underlying public goods these services provide could also pressure policymakers to increase direct or indirect public provision. If policies established direct public provision, government would become the primary provider in failed markets. This would

be efficient from a transaction cost perspective because the costs to internal monitoring could be less than monitoring third-party transactions. However, monopolized government provision would be inefficient in meeting heterogeneous demands or preferences. Nonprofits would be left to compete with for-profits in higher-paying markets, or they would continue to provide alternatives to government, following Public Goods Theory.

Congruent with the logic discussed above for Public Goods and Interdependence theories, indirect government provision through grants or contracts would lead to nonprofit supply in failed markets for regulated trust goods. For-profits would also be likely to enter, or expand into, those markets if contract-based funding were stable over time, which would allow for reasonable investment. Alternatively, for-profits could expand into underserved markets if economies of scale sufficiently decreased their operating costs in those markets. Consumer-side subsidies would also lead to for-profit entry in the same way. For-profit and nonprofit organizations would then compete for funding, market share, and labor.

As a hypothetical example, let us assume that the government introduced regulated oversight mechanisms for a particular trust good that would generally fall under Contract Failure Theory. If this oversight sufficiently reduced the information asymmetries, then consumer-side transaction costs associated with monitoring and enforcing contracts would be reduced. Let us further assume that stable, government-funded consumer-side subsidies were introduced. If these subsidies adequately compensated consumers for the increased prices associated with producer oversight costs, profitable transactions could occur. Information asymmetries would be reduced and contract failure would be overcome. Market failure associated with lack of demand from consumers willing and able to pay the increased prices would also be overcome. In such scenarios, for-profits would be able to successfully enter and capture market share. For-profits would have a capitalization advantage in these markets and would gain market share over time. It is likely that brand recognition and reputation effects would become more important for consumers than nonprofit or for-profit status, which may begin to lack any relevance to consumers.

A reputation for service quality could further reduce transaction costs and lead to comparative advantages in competitive markets with multiple suppliers. From an efficiency perspective, competition would be encouraged in these markets. However, the need for monitoring and sanction would continue in order to prevent shirking behavior. Otherwise the inherent information asymmetries in the services would allow for shirking. This would be true especially in firms serving vulnerable populations that lack informal means to oversight

and sanction or in markets lacking competitive pressures. Nonprofits could still provide alternative services in these markets to meet demand heterogeneity for different levels of services than would be funded by government. These services could be funded by philanthropy and fees, but overall market share held by nonprofits probably would be much lower, especially over time. There might be parallels between this hypothetical example and the trajectory of nursing and other specialized care industries in the United States over the last 50 years.

It is important to note that the three conditions mentioned above to overcome contract and market failure might not occur in the same order. For instance, competitive consumer-side subsidies might be passed by government first. This would be likely if the issue salience regarding the positive externalities from increasing supply of the good captured political attention before issue salience regarding the negative externalities of potential shirking behavior. Under such scenarios, for-profits would enter the market in response to increased demand from consumers who were supported by public subsidies. The subsidies could potentially be sufficient enough to compensate individuals for the transaction costs in selecting suppliers. However, issue salience regarding shirking behavior and its negative externalities (perhaps propelled by scandals of defrauded public funds) would likely result in greater regulations and monitoring requirements. This would result in greater internal costs for organizations providing those services and greater government costs to ensure compliance. Nonprofits may hold an initial advantage due to having lower costs from tax exemptions. Or there may be a shift to prefer nonprofits over for-profits, consistent with Contract Failure Theory. However, over time if for-profits complied with regulations and endured, they would again gain market share and be able to increase efficiency through scope and scale.

Issue salience could also be used to explain the growth in services providing other classes of goods. As Buchanan (1965) discusses, many goods in the economy span the range between fully private goods and fully public services. Many lack sufficient demand from individuals willing to pay their full cost. Therefore they are undersupplied in the private market. Collective action and cost-sharing through clubs or associations allow for these goods and services to be produced or exchanged. Lower costs to individuals facilitate private transactions and increase supply to meet a latent demand at lower prices.

Private or quasi-private goods and services with low general demand for a specific level of quality are typically provided by nonprofits or cooperatives, such as cooperative markets, golf clubs, social and recreation associations, and

many Community Supported Agriculture (CSA) groups. As discussed in the literature on clubs (Buchanan 1965; Hansmann 1996; Gugerty and Prakash 2010), many associations are nonprofit in part because the quality of the club depends on the quality of the members. Therefore, a profit motivation is suspect since it can exploit individual members' status. Applying an issue salience perspective, if the positive externalities of such a good or service gained salience, public policy might subsidize those services, leading to greater supply. For instance, issue salience regarding the public health benefits from greater access to fresh produce in low-income urban neighborhoods could lead to greater government funding of farmers' markets. From an Interdependence Theory perspective, this would lead to greater supply by nonprofit organizations. But government subsidy could also overcome the cause of the market failure (low demand at the unsubsidized prices), leading to for-profit entry over time.

Common pool resources represent an interesting case. These goods are rival but non-excludable, leading to the "problem of the commons," as discussed extensively elsewhere (for example, see Ostrom 1990, 2000). Common examples include shared grazing fields and public water supplies. Without adequate formal or informal regulations and oversight, these goods could be overused to the point of depletion. Like public goods, free-riding is the source of failure for common pool resources. Without oversight and sanction, individuals will free-ride on others to preserve the resource instead of reducing their own consumption. When issue salience in the general population concerning the potential depletion of the resource is low, collective action and peer-imposed, informal sanctions (such as exclusion from a group) may be relied on to regulate its use in localized settings, such as described in cases examined by Ostrom (1990). With greater issue salience in the general population, government may establish and protect property rights and formally regulate production, prices, or consumption. Examples could include public pressure to maintain supplies of natural resources such as fossil fuels or fish stocks. Once regulations are imposed and enforced, opportunities for overusing the resource would be limited, overcoming free-riding and the problem of the commons. If possible, establishing adequate property rights would also allow goods characterized by free-riding to be owned and exchanged on the private market (Buchanan 1965), such as with many natural resources like oil and gas. If issue salience were high for more universal consumption or regulation, the good would more likely be distributed by government, such as with public drinking water. As with other goods discussed above, once the underlying cause of market failure is overcome by public policy, the nonprofit solution (or collective action) would likely be crowded out of the market.

Table 1: Types of goods by cause of failure and the impact of issue salience

Type of good (and examples)	Source of market failure	Dominant theories	Market outcome with unmet demand	
			Low salience for externalities produced	High salience for externalities produced
Public, Quasi-Public, Common Pool Resources (security/defense, public radio, public water supplies, natural resources)	Non-excludability, Free-riding	Public Goods Theory (Weisbrod 1975), Interdependence Theory (Salamon 1987), Collective Action (Olson 1965)	Nonprofit supply/collective action. Competition for philanthropy, human resources, and volunteers	Government supply, tax-supported funding, or public policies to establish and enforce property rights/excludability. Greater nonprofit (and potential for-profit) entry under indirect government supply or government subsidies. For-profit supply if excludability is achieved or if it can be paired with an excludable good
Private/Quasi-Private, Toll, Club (education, social and recreation activities, arts, roads and public infrastructure)	Low demand at the cost of the good or for a specific level of quality	Stakeholder Theory (Ben-Ner and Van Hoomissen 1993), Theory of Clubs (Buchanan 1965), Public Goods/Interdependence Theory (if the good produces significant externalities)	Nonprofit/cooperative supply. Competition for stakeholders or individuals willing to pay shared costs. Potential competition for philanthropic resources if there are group or public benefits	Government subsidy, supply, and/or public-private partnership. Nonprofit and/or for-profit entry. Competition for consumers and funding
Trust goods (childcare, medical and nursing care, airline travel, car repair)	Information asymmetries, transaction costs	Contract Failure Theory (Hansmann 1980), Stakeholder Theory (Ben-Ner and Van Hoomissen, 1993)	Nonprofit, for-profit, or mixed nonprofit/for-profit with preference toward nonprofits. Potentially failed markets or undersupply. Primarily competition for customers or stakeholders (fees) and human resources.	Government supply or formal regulations that may be combined with government subsidy. For-profit market dominance if information asymmetries/transaction costs are negated or overcome by regulations and/or subsidies.

Combining perspectives: overcoming the causes of failure and the role of issue salience

By pairing theoretical lenses derived from theory on the existence of nonprofit organizations and the importance of issue salience for public agenda setting, a more general theoretical framework can be developed to explain nonprofit activity across the special circumstances described in current theories discussed above and summarized in Table 1. For public goods, issue salience is analogous with the demand for those goods or services in the general population. Greater demand for the public good leads to greater issue salience to supply it, which leads to greater nonprofit supply and pressures the government to provide the good or provide tax-supported funding. For other classes of goods, levels of demand can explain for-profit entry, absent the particular market failures associated with each class of good. When for-profit transactions fail, the nonprofit form may allow individuals or groups to overcome the cause of the market failure for each class of good, as explained by the theories discussed above. If issue salience regarding the externalities associated with the goods or services is great enough, public policies may overcome the causes of market failure, allowing for-profit entry and increasing competition for nonprofits providing those services.

Therefore, as a matter of public policy, the nonprofit form is but one potential solution when private markets fail. Especially from a cross-country comparative perspective, it is important to recognize the role of public policy in facilitating the nonprofit solution. The tax-exempt legal form lowers producer costs, and tax deductions to donors reduce the transaction and financial costs of donating to collective causes through nonprofits. Therefore, these public policies reduce the costs of privately supplying public goods that are associated with free-riding behavior. Furthermore, a legally imposed non-distribution constraint lowers the transaction costs of monitoring contracts by facilitating trust. These policies also facilitate the formation of horizontally structured associations to provide club goods or to cooperatively protect common pool resources. In these ways, such public policies allow nonprofits to formalize and overcome the causes of failure associated with each good.

Without such formal policies to facilitate the nonprofit solution, lower density of organizations would be expected. Collective action would either emerge informally or not at all. Therefore, in the absence of nonprofits, the goods would likely be undersupplied unless they were provided by government or if government polices corrected market failures in other ways, as discussed above.

Implications for markets, competition, and the delivery of services

The nature of resources that organizations compete for (ranging from private fees to public funding and donations) is expected to vary with the nature of the good, as Young's Benefits Theory expects. Inter-organizational competition for these resources is expected to be spurred by issue salience. As discussed, in general, just because a good is classified as public, it is not necessarily expected to be provided by government, following Weisbrod's public goods theory. Likewise, just because goods may be private in nature, they are not necessarily provided by for-profit firms. The impact of issue salience on the development of public policies to address the underlying causes of market failure associated with each class of good is expected to influence the formal or informal, public or private, profit or nonprofit nature of the organization providing the good. In this way, current theories explaining nonprofit activity fit within this framework as special cases of a more general theory.

Several implications emerge from this framework when applied to organizations in varying market conditions created by the nature of the good produced and the salience of the issues organizations address. Many goods and services have a mix of public and private qualities, such as healthcare, education, and human services. Because of the widespread positive externalities (public goods) produced when these goods are provided to the general population and because of the general demand for many of these services from the population, many governments have long included these services on the public agenda. Because these goods and services are primarily private in nature, serving individuals, fees can be assessed. Fees can either be covered by individuals themselves or through third-party payers, such as insurance or the government through consumer-side subsidies. These factors create the potential for effective public-private partnerships to develop. Services that appeal to groups of people willing to pay for them, such as foundations and donors who are willing to pay for free medical clinics for undocumented immigrants, receive lower issue salience (or pressure to exclude them from the public agenda) and operate as nonprofits, as explained by Public Goods Theory. Similar organizations serving low salience issues would therefore compete for resources provided by interested groups of donors as expected by the Benefits Theory.

For trust goods that are characterized by high levels of information asymmetry between buyers and sellers, nonprofits are expected to be preferred over for-profits in markets where it is difficult to monitor and sanction shirking behavior. As issue salience leads to regulation and public subsidies of these

goods, however, the sources of market failure may be overcome. In such cases and as greater competition for fees and market share emerges, for-profit actors would likely dominate most consumer markets.

For low-demand club goods with limited issue salience concerning any externalities produced, nonprofits are expected to compete with other nonprofits on a limited basis for volunteers, members, and (potentially) philanthropic funding. In general, due to the limited or isolated nature of demand for these services, such as explained by Stakeholder Theory, these markets are expected to be noncompetitive and funded by the individuals that both demand and supply the services.

Other goods and services that have more general appeal would be more likely to be provided by a mix of public, nonprofit, and for-profit actors depending on the level of demand, issue salience to overcome the causes of market failure, and their stability on government agendas. As issues attract greater public salience, government is more likely to move them to the public agenda and provide avenues for funding, in keeping with Interdependence Theory. This trajectory can be seen with many types of organizations, such as battered women's shelters in the United States that developed from grassroots nonprofit organizations to government-funded services in the 1970s and 1980s (Sandfort 2005a, 2005b, 2005c).

Common pool resources that are rival but non-excludable depend on their general salience and demand to be identified as important for public policy to address. Common irrigation channels, the maintenance of neighborhood parks, and other resources with low or isolated demand may be effectively managed by horizontal voluntary groups as discussed by Ostrom (1990). Similar goods, such as public water supplies and water treatment, however, have sufficient demand and salience concerning the externalities they produce to place them firmly on the public agenda, and they are generally provided by government.

Non-rival and non-excludable public goods with high salience or general importance, such as national defense, are also provided by government, with potential during periods of particularly high salience, such as wars, to encourage for-profit involvement in many goods and services to sustain large militaries. Meanwhile, other public goods and services, such as response to natural disasters, experience sporadic and unpredictable periods of extremely high salience and demand (i.e. during and immediately following natural disaster events). In general, services responding to disasters have a mix of government and nonprofit actors, with key challenges for raising funds on an ongoing basis given the short-lived issue salience following events. During such times of intense salience, many organizations compete for funding from donations and government to respond to the crises, but private donations in particular quickly subside as issue salience and public attention are supplanted by other current events.

Implications for policy and practice

This framework advances a more general theory on nonprofit activity than currently provided in the literature. As discussed above, the major theories explaining nonprofit activity are consistent with this framework and describe special cases of nonprofit activity within the general theoretical frame. This framework also more explicitly addresses issues of competition in the nonprofit sector and between nonprofit organizations and other organizational forms in a three-sector economy.

As discussed above, the key contribution of this theoretical framework is the inclusion of issue salience as a central component to competition in nonprofit markets. Once issue salience leads to public policies that address the particular failures for each class of goods, goods and services can be treated under a more uniform logic. Nonprofits and for-profits could be treated under the expectations of government coproduction under Interdependence Theory. Otherwise, they would compete for fee-based funding. Competition could then be explained by theories generally applied to markets for private goods with some caveats. For-profits would have a capitalization advantage with regard to profit-seeking investors. If public policies provided advantages to the nonprofit form, nonprofits would have lower costs due to tax exemptions, access to tax deductible philanthropic resources, or other tax-exempt advantages, such as access to tax-exempt bonds. Regardless of the presence of such public policies, greater nonprofit entry and supply would likely occur than would be expected under for-profit theory. This excess supply could be explained by Stakeholder and Entrepreneurship Theories and high exit thresholds due to motives other than profit. If public policies are not, or cannot, be established to correct the market failures, nonprofits and government would be expected to dominate supply, following the theories specific to each class of goods and cause of market failure, or the good would remain undersupplied.

Importantly, issue salience varies across goods and across time. As discussed above, nonprofits generally will supply goods that are more public in nature and that have low levels of issue salience and demand. In these markets, nonprofits primarily compete against other nonprofits for charitable funding following Benefits Theory. Greater fundraising efforts, marketing of these goods, and policy advocacy may attract greater public attention. As issue salience increases, philanthropic funders may direct greater investment toward those causes, and greater general demand could push the issues onto the public agenda. Government funding would in turn open up potential for for-profit involvement as free-riding is overcome by tax-based funding, the services receive greater demand, and government seeks partnerships to implement its

policies. This could result in greater levels of competition between nonprofits and for-profits in these markets, but it would also introduce greater government support of nonprofit organizations.

Government funding would increase nonprofit capacity to deliver public goods and services, as explained by Interdependence Theory. As empirically demonstrated by Lecy and Van Slyke (2012), government funding would lead to greater nonprofit entry into such markets. Over time, however, for-profits could gain market share, especially if government funding came in the form of contracts and consumer-side subsidies that did not specifically include preferences for nonprofit suppliers. In general across classes of goods, greater inter-organizational competition is expected with greater issue saliency, as funding subsidizes the supply and social entrepreneurs enter the market. Just as in the market for fully private goods, however, uncompetitive scenarios could develop as firms capture market share, monopolies are allowed, or government restricts the provision to one supplier, such as government authorities.

In these ways, temporally varying issue saliency has important implications for the effects of competition on management in the sector. It also helps sort some of the previously discussed complexities on when to apply various perspectives to discern implications of competition on efficiencies or inefficiencies in the sector. For instance, Rose-Ackerman (1982) argues that greater density of nonprofit organizations competing for the same pool of funding is inefficient. Because charitable funding is essentially a common pool resource, more numerous actors tapping into the funding pool presents a problem of the commons that diminishes the utility of these funds over time. This argument, however, depends on stable or static levels of funding for nonprofits to share as their market grows. Applying the issue saliency perspective, it becomes easier to sort out when this problem might exist or not.

Under the framework presented above, issue saliency drives greater demand and funding, which increases nonprofit supply. With additional entry and fundraising efforts, new nonprofits further increase issue saliency by appealing to broader populations to support the cause. Existing organizations also respond to incentives of additional funding sources by more heavily marketing their programs to potential funders. This in turn places market pressures on institutional funders, such as foundations, to strategically respond to these demands. It also pressures the government to direct additional funding to those areas. In this way, increases in competition, or density of organizations, can produce increases in funding pools. Greater competition for these funds would also encourage greater efficiencies from organizations appealing to donors and funders as they try to maximize comparative advantages, such as the quality of their programs, quantity of services provided, and measures of financial and

organizational efficiency (Castaneda, Garen, and Thornton 2008; Feigenbaum 1987; Thornton 2006; Tuckman 1998).

Conversely however, if salience wanes and issues fall off or get pushed off the public agenda and out of donors' and foundations' priority foci, the general pool of funding in specific nonprofit markets could decline over time. Because exit rates are low in the sector (Harrison and Laincz 2008), the density of organizations and competition for funds would not be expected to decrease in tandem with issue salience. Because of this, Rose-Ackerman's (1982) problem of the commons would be more applicable in these scenarios. An example of this can be seen in the decreased funding to the arts as funders shifted preferences toward human service organizations in the economic recessions following September 11, 2001, which intensified in the subsequent recessionary period of that decade. During such scenarios of declining issue salience but stable or even growing market density, the encouragement of collaboration and common funds instead of competitive fundraising may be appropriate to incentivize from policy and funder perspectives. These coordinated efforts may have greater efficiency than diffuse fundraising appeals from individual organizations, as Rose-Ackerman suggests. Furthermore, the existence of collaborative funding pools, such as The Metropolitan Atlanta Arts Fund (Pousner 2011), could be the deciding factor for the survival of some organizations during extended periodic drops in issue salience.

An interesting challenge emerges for organizations that regularly experience volatile issue salience in the general population for their goods and services, such as disaster response. As implied by the Multiple Streams framework and the random, limited opportunities for action within windows presented by focusing events, such as devastating hurricanes, tsunamis or earthquakes, nonprofit and government actors must act quickly to secure resources and political support before attention on the issue wanes. The question emerges of whether competition for funding, and the widespread and diverse fundraising efforts from new and existing organizations in these fields following focusing events is efficient or inefficient over the long term and over multiple iterations of similar events. Instead, coordinated and centralized rather than competitive and diffuse efforts in these scenarios may yield greater efficiency in immediately combining and tracking funding to be later dispersed when public attention and donations diminish.

References

- Anheier, H. K. 2005. *Nonprofit Organizations: Theory, Management, Policy*. New York: Routledge.
- Anheier, H. K., and A. Ben-Ner. 1997. "Economic Theories of Non-Profit Organizations: A Voluntas Symposium." *Voluntas* 8(2):93–96.

- Barman, E. A. 2002. "Asserting Difference: The Strategic Response of Nonprofit Organizations to Competition." *Social Forces* 80(4):1191–222.
- Baumgartner, F. R., and B. D. Jones. 1993. *Agendas and Instability in American Politics*. Chicago: University of Chicago Press.
- Ben-Ner, A., and T. Van Hoomissen. 1993. "Nonprofit Organizations in the Mixed Economy: A Demand and Supply Analysis." In *Nonprofit Organizations in the Mixed Economy*, edited by Avner Ben-Ner and Benedetto Gui. Ann Arbor, MI: University of Michigan Press.
- Brown, E. 2010. "Markets with Competition Between for-Profit and Nonprofit Firms." In *Handbook of Research on Nonprofit Economics and Management*, edited by Bruce A. Seaman and Dennis R. Young, 96–105. Cheltenham, UK, and Northampton, Massachusetts: Edward Elgar.
- Buchanan, J. M. 1965. "An Economic Theory of Clubs." *Economica* 32:1–14.
- Castaneda, M. A., J. Garen, and J. Thornton. 2008. "Competition, Contractibility, and the Market for Donors to Nonprofits." *Journal of Law, Economics, and Organization* 24(1):215–46.
- Chetkovich, C., and P. Frumkin. 2003. "Balancing Margin and Mission: Nonprofit Competition in Charitable Versus Fee-Based Programs." *Administration & Society* 35(5):564–96.
- Coase, R. H. 1937. "The Nature of the Firm." *Economica* 4(16):386–405.
- Cobb, R. W., and C. D. Elder. 1983. "Issues and Agendas." In *Public Policy: The Essential Readings, 1995*, edited by S. Z. Theodoulou and M. Z. Cahn. Englewood Cliffs, NJ: Prentice Hall.
- Combs, J. G., and D. J. Ketchen Jr. 1999. "Explaining Interfirm Cooperation and Performance: Toward a Reconciliation of Predictions from the Resource-Based View and Organizational Economics." *Strategic Management Journal* 20:867–88.
- Easley, D., and M. O'Hara. 1986. "Optimal Non-Profit Firms." In *The Economics of Nonprofit Institutions: Studies in Structure and Policy*, edited by S. Rose-Ackerman. New York: Oxford University Press.
- Feigenbaum, S. 1987. "Competition and Performance in the Nonprofit Sector: The Case of US Medical Research Charities." *The Journal of Industrial Economics* 35(3):241–53.
- Fischer, R. L., A. L. Wilsker, and D. R. Young. 2010. "Exploring the Revenue Mix of Nonprofit Organizations: Does It Relate to Publicness?" *Nonprofit and Voluntary Sector Quarterly* 40(4). <http://nvs.sagepub.com/content/40/4/662.short>
- Gronbjerg, K. A. 1993. *Understanding Nonprofit Funding*. San Francisco, CA: Jossey-Bass.
- Gugerty, M. K., and A. Prakash, eds. 2010. *Voluntary Regulation of NGOs and Nonprofits: An Accountability Club Framework*. New York: Cambridge University Press.
- Han, S. K. 1994. "Mimetic Isomorphism and Its Effect on the Audit Services Market." *Social Forces* 73:637–63.
- Hannan, M. T., and J. Freeman. 1977. "The Population Ecology of Organizations." *American Journal of Sociology* 82:929–64.
- Hansmann, H. B. 1980. "The Role of Nonprofit Enterprise." *The Yale Law Journal* 89(5):835–901.
- Hansmann, H. 1987. "Economic Theories of Nonprofit Organizations." In *The Nonprofit Sector: A Research Handbook*, edited by Walter Powell. New Haven, CT: Yale University Press.
- Hansmann, H. 1996. *The Ownership of Enterprise*. Cambridge, MA: Harvard University Press.
- Harrison, T., and C. Laincz. 2008. "Entry and Exit in the Nonprofit Sector." *The B. E. Journal of Economic Analysis & Policy* 8(1):1–40.
- Hughes, P., and W. Luksetich. 2010. "Modeling Nonprofit Behavior." In *Nonprofit Economics and Management: The State of Research*, edited by B. A. Seaman and D. R. Young, 120–41. Edward Elgar.

- James, E. 1983. "How Nonprofits Grow: A Model." *Journal of Policy Analysis and Management* 2(3):350–65.
- Jegers, M. 2008. *Managerial Economics of Non-Profit Organizations*. Abingdon, UK, and New York: Routledge.
- Jones, B. D., and F. R. Baumgartner. 2005. "A Model of Choice for Public Policy." *Journal of Public Administration Research and Theory* 15(3):325–51. <http://jpart.oxfordjournals.org/content/15/3/325.short>
- Kingdon, J. W. 1984. *Agendas, Alternatives, and Public Policies*. Boston, MA: Little, Brown.
- Kingdon, J. 2003. *Agendas, Alternatives, and Public Policies*, 2nd ed. New York: Longman Publishing.
- Krashinsky, M. 1986. "Transactions Costs and a Theory of the Nonprofit Organization." In *The Economics of Nonprofit Institutions: Studies in Structure and Policy*, edited by S. Rose-Ackerman. New York: Oxford University Press.
- Krashinsky, M. 1997. "Stakeholder Theories of the Non-Profit Sector: One Cut at the Economic Literature." *Voluntas* 8(2):149–61.
- Lakdawalla, D., and T. Philipson. 2006. "The Nonprofit Sector and Industry Performance." *Journal of Public Economics* 90(8–9):1681–98.
- Lecy, J. D., and D. M. Van Slyke. 2012. "Nonprofit Sector Growth and Density: Testing Theories of Government Support." *Journal of Public Administration Research and Theory* 23(1):189–214.
- Olson, M. 1965. *The Logic of Collective Action*. Cambridge, MA: Harvard University Press.
- Ostrom, E. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.
- Ostrom, E. 2000. "Collective action and the evolution of social norms." *The Journal of Economic Perspectives* 14(3): 137–158.
- Pousner, H. 2011. "Arts Funding Continues To Be Iffy: 14 Metro Organizations Will Share \$390,000." Atlanta Journal-Constitution. October 26. <http://www.ajc.com/news/entertainment/calendar/arts-funding-continues-to-be-iffy-1/nQM5k/>
- Rose-Ackerman, S. 1982. "Charitable Giving and 'Excessive' Fundraising." *The Quarterly Journal of Economics* 97(2):193–212.
- Rose-Ackerman, S. 1996. "Altruism, Nonprofits, and Economic Theory." *Journal of Economic Literature* 34(2):701–28.
- Salamon, L. 1987. "Of Market Failure, Voluntary Failure, and Third-Party Government: Toward a Theory of Government-Nonprofit Relations in the Modern Welfare State." *Journal of Voluntary Action Research* 16:29–49.
- Sandfort, J. 2005a. "Casa De Esperanza." *Nonprofit Management and Leadership* 15(3):371–82.
- Sandfort, J. 2005b. "Casa De Esperanza [Part B]." *Nonprofit Management and Leadership* 15(4):477–86.
- Sandfort, J. 2005c. "Casa De Esperanza [Part C]." *Nonprofit Management and Leadership* 16(1):101–08.
- Steinberg, R. 1986. "The Revealed Objective Functions of Nonprofit Firms." *The RAND Journal of Economics* 17(4):508–26.
- Steinberg, R. 1989. "Economic Perspectives on the Regulation of Charitable Solicitations." *Case Western Reserve Law Review* 39(1988–1989):775–97.
- Steinberg, R. 2006. "Economic Theories of Nonprofit Organizations." In *The Nonprofit Sector: A Research Handbook*, edited by W. W. Powell and R. Steinberg, 2nd ed., 117–39. New Haven, CT: Yale University Press.

- Thornton, J. 2006. "Nonprofit Fund-Raising in Competitive Donor Markets." *Nonprofit and Voluntary Sector Quarterly* 35:204–24.
- Tuckman, H. P. 1998. "Competition, Commercialization, and the Evolution of Nonprofit Organizational Structures." *Journal of Policy Analysis and Management* 17(2):175–94.
- Vesterlund, L. 2006. "Why Do People Give?" In *The Nonprofit Sector: A Research Handbook*, edited by W. W. Powell and R. Steinberg, 2nd ed., 568–87. New Haven, CT: Yale University Press.
- Weisbrod, B. A. 1975. "Toward a Theory of the Voluntary Non-Profit Sector in a Three-Sector Economy, 171–95." Institute for Research on Poverty, University of Wisconsin-Madison.
- Weisbrod, B. 1988. *The Nonprofit Economy*. Cambridge, MA: Harvard University Press.
- Weisbrod, B. 1998. "Institutional Form and Organizational Behavior." In *Private Action and the Public Good*, edited by Walter W. Powell and Elizabeth S. Clemens, 69–84. New Haven and London: Yale University Press.
- Williamson, O. E. 1979. "Transaction-Cost Economics: The Governance of Contractual Relations." *Journal of Law and Economics* 22(2):233–61.
- Wilsker, A. L., and D. R. Young. 2010. "How Does Program Composition Affect the Revenues of Nonprofit Organizations?: Investigating a Benefits Theory of Nonprofit Finance." *Public Finance Review* 38(2). <http://pfr.sagepub.com/content/38/2/193.short>
- Wood, B. D., and A. Doan. 2003. "The Politics of Problem Definition: Applying and Testing Threshold Models." *American Journal of Political Science* 47(4):640–53. <http://onlinelibrary.wiley.com/doi/10.1111/1540-5907.00045/full>
- Young, D. R. 1983. *If Not for Profit, for What?: A Behavioral Theory of the Nonprofit Sector Based on Entrepreneurship*. Lexington, MA: LexingtonBooks.
- Young, D. R. 2007. "Toward a Normative Theory of Nonprofit Finance." In *Financing Nonprofits: Putting Theory Into Practice*, edited by D. R. Young. New York: National Center on Nonprofit Enterprise and AltaMira Press.