

**Defining the non-profit sector:  
Some lessons from history**

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## **Abstract**

This paper seeks to establish whether the structural-operational definition of the sector, used by the John Hopkins Comparative Non-profit Sector Project (JHCNSP), is universal in its applicability. Historical case studies of primary health care and social housing provision in nineteenth-century England demonstrate that the definition cannot accommodate the institutional diversity of earlier periods and does not produce meaningful sectoral distinctions. The structural-operational definition rules out of the sector a significant proportion of non-statutory, non-profit maximising providers. In particular, it excludes the mutual aid organisations which are widely recognised as important for the development of civil society and which have historically been considered to be key components of the sector. These case studies suggest that the structural-operational definition limits the capacity of the JHCNSP to fulfil its aim of establishing “the factors that promote or retard the sector’s development” due to potential measurement errors and because of the pattern of development which the project implicitly assumes for the non-profit sector.

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## **Defining the non-profit sector: Some lessons from history**

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### **1 Introduction**

It has long been recognised that individuals and communities choose to associate and meet their needs for goods and services through institutions other than states, markets or households. During the last quarter of the twentieth-century, however, there have been increasingly formalised attempts to organise the study of these institutions through the development of a language and set of theories which delineate a distinctive sector (Hall, 1992). The problem has been that as new scholars enter the field they have brought alternative definitions of the subject area with them. Institutions which are neither statutory, nor profit maximising, have been collectively and variously called the voluntary, third, non-profit, or more recently, civil society, sector. Scant attention has been given to how these various and competing definitions relate to one another (Lohmann, 1992). Which institutions should be ruled in, or out, of these over-lapping, but potentially different sectors?

A major contribution has been made towards the development of a common definition by the explicitly comparative non-profit sector project directed by Salamon and Anheier. The Johns Hopkins Comparative Non-profit Sector Project (JHCNSP) represents the most comprehensive attempt by social scientists to define the “third sector” as occupying a distinctive social space outside of both the market and the state (Salamon and Anheier, 1997, p. 1). The project was launched in 1990 to inquire “into the scope, structure, history, legal position, and role of the non-profit sector in a broad cross-section of nations” (Salamon and Anheier, 1997, p. xi). In order to facilitate comparative analysis, the first task of the project was to “formulate a common language and concept of the ‘non-profit’ sector” (Salamon and Anheier, 1997, p. 4). Drawing on existing definitions and the empirical realities of various nations under study, the project developed, what Anheier and Salamon term, the “structural-operational definition” of the non-profit sector (Salamon and Anheier, 1992).

The structural-operational definition has been used to map the non-profit sector in a variety of nations with differing levels of economic development, legal frameworks and institutional experiences of social welfare provision. The initial 12 nations included in the project were selected to cover a variety of what have been called “historical traditions” and the project has subsequently been extended to include a further 32 countries (Salamon, Anheier and Associates, 1998; and

Salamon et al, 1999 ). If the structural-operational definition is capable of accommodating the variety of social and economic circumstances included within comparative cross-sectional analysis of this sort, it should also have relevance and meaning when used to analyse the institutional diversity of earlier periods. But, is the structural-operational definition sufficiently universal to meet this challenge? Applying contemporary definitions of the non-profit sector in different historical contexts can provide us with new insights into some of the implicit assumptions that may underpin our thinking today and demonstrate how our definitions may be contextually specific.

This paper offers a critique of the Johns Hopkins' structural-operational definition. Whilst the definition has been used to great effect in providing us with a large comparative map of the sector, it is not truly universal in its applicability. Historical data are used to demonstrate the contextual specificity of the structural-operational definition, which suggests some of the weaknesses inherent in attempting to test theories of the sector with data compiled using this definition. In particular, it is argued that the non-profit sector as mapped by this exercise cannot be transposed into the civil society sector that provides the current focus of interest for many scholars in the field. Section two of the paper considers why we might want to define the sector before considering some of the definitions that are frequently used. In section three the structural-operational definition is applied to the institutional arrangements used to deliver primary health care and social housing services in nineteenth-century Britain. Section four concludes by drawing out some of the general implications of this historical critique.

## **2 Defining the non-profit sector**

Before examining how we define the non-profit sector we should consider why we might want to do so. Organisations which are neither statutory, nor profit maximising, will be referred to here as third-sector organisations: the term "non-profit sector" will be reserved to denote the sector as defined using the structural-operational definition, which will be discussed later. There are a number of reasons why defining a third sector may be a worthwhile exercise. In order to identify these various reasons it is useful to categorise three different sets of interest associated with particular functional characteristics of third-sector organisations. These characteristics all imply that third-sector organisations may fulfil particular roles for society which make them worthy of study on a sectoral basis. The first strand in the literature suggests that the function of non-profit organisations is to produce public, or collective type goods for society. Weisbrod (1988) argues that governments and non-profit organisations are better than market institutions at supplying public goods and when the electorates' demands for these goods are heterogeneous, then non-profit organisations, rather than governments, will supply them. Even when demands are not

heterogeneous we could suggest that governments may prefer to subsidise the provision of public goods by the third sector, rather than bear the full cost of supplying them. Alternatively, Salamon has suggested, voluntary organisations may ‘fail’ in their service provision, resulting in government subsidy (Salamon, 1987). Once governments have subsidised the sector using public funds, for whatever reason, they then have an obligation to keep track of sectoral performance.

The second category of thinking about the functions of third-sector organisations suggests that they may differ from for-profit and statutory agencies in terms of the efficiency and effectiveness with which they deliver goods and services. Hansmann suggests that third-sector organisations are better at supplying goods to consumers in cases of “contract failure” (Hansmann, 1986). Contract failure occurs, according to Hansmann, in circumstances when it is difficult to monitor the quality of the good or service being produced. This may be because of information asymmetries caused by a purchaser/provider split, or because the good has collective type benefits. Consumers therefore prefer non-profit distributing organisations where there is less incentive for producers to act opportunistically to exploit their informational advantage (Hansmann, 1986). In these cases it is suggested that third-sector organisations will be more efficient and effective than their for-profit counterparts.

Billis and Glennerster (1998) offer an alternative perspective on the comparative advantage of third-sector organisations. By looking at the nature of demand for human services, they argue that these organisations are effective and efficient in providing services for consumers who suffer financial, personal, societal or community disadvantage. In social policy terms, it would be a costly and time consuming process to direct public resources towards those organisations which can be individually identified as operating with particular efficiency and effectiveness. Thus, it may be in the interests of policy makers to have a clearly defined third sector which they can use as an instrument of public policy. In addition, if third-sector organisations behave differently than for-profits as economic institutions, this may warrant separate treatment in national income accounts.

The third category of interest in the third sector is rather different from the first two. This strand of debate argues that the salient characteristics of third-sector organisations are the positive externalities that they create for society. The focus here is not on the product supplied by these organisations, but on the externalities of the process by which they do so. The most obvious example here is the work of Putnam on civil society and social capital (1993, 1995). Putnam argues that third-sector organisations have a particular role to play in fostering social capital, which he defines as “the features of social organization, such as trust, norms and networks, that can improve the efficiency of society by facilitating co-ordinated actions” (1993, p. 167). The third sector fosters

social capital that in turn promotes economic growth and contributes to the healthy operation of democratic societies. Putnam and other civil society theorists are not interested in whether the manifest purposes of third-sector organisations are to produce public goods, or effectively and efficiently supply private goods; they wish to identify those organisations which generate social capital.

Methodologically, one of the principal reasons for defining the non-profit sector is to facilitate comparison over time and space. This enables us to address questions such as: Is the non-profit sector more or less developed in various nations? And, what may account for this variation? But equally important is the temporal comparison: Has the sector expanded or contracted over time and if so, why? International cross-sectional analysis is revealing as it provides us with a lot of variance: each country has a different mix of legal and political systems, economic development, or historical and religious “traditions”, which may all be explanatory variables determining the scale, scope and functions of the sector.

In order to explore each of these sets of interest in the third sector, and to test the hypotheses which they generate, we need a definition of the types of organisations which they encompass. Definitions of the third sector are essentially aggregates of a set of organisations which are collectively considered to possess characteristics that set them apart from states, markets or households. There are three types of distinctive features which, individually or collectively, produce different definitions of the sector. The first relates to the nature of the inputs to the organisation; the second to the outputs, the nature of the goods and services they provide; whilst the third concerns how organisations distribute their surplus revenue.

There are two different ways of defining the third sector according to its inputs: one focuses on its income and the other on the supply of labour. The United Nations System of National Accounts is an example of an income-based definition in which non-profits are organisations whose activities are financed primarily by dues and contributions. This definition, however, provides a very partial map of the sector. It fails to take account of the primacy of government grants as a source of income for many non-profits. In addition, many non-profits receive income from sales and fees which has led Hansmann to distinguish between “donative” and “commercial” non-profits (Hansmann, 1987). Our second input-based definition of the sector is based on the source of its labour. This definition produces what is usually referred to as the “voluntary” sector as this definition emphasises the un-coerced and un-remunerated inputs of volunteers (Kendall and Knapp, 1995). But, as we know, paid employees constitute a major labour input to the sector. In addition, defining the sector

according to volunteer labour makes it hard to distinguish it from households and the informal sector without the addition of further defining characteristics.

Alternatively, we can define the sector by focussing on its outputs, as in the case of the Elizabethan Statute of Charitable Uses (Chesterman, 1979). But as with all “public purpose” definitions, the range of organisations whose activities may be considered to serve public purposes is subject to change over time and between nations. Lohmann has suggested a resolution to this problem by referring to institutions with “common” rather than “public” purposes, thereby allowing for the inclusion in the sector of institutions which only serve the interest of particular groups (Lohmann, 1992). The most formal specification of “public purpose”, however, is derived from the literature on the economics of the non-profit sector which closely ties together the question of the definition and purpose of the sector. Weisbrod (1988) provides us with a partial definition of the non-profit sector as composed of non-governmental organisations providing collective-type goods. This public purpose of the output is, however, only one element of the definition of the non-profit sector used by Weisbrod: the other relates to the formal constraints that may exist upon the distribution of the organisations surplus revenue, which represents our third type of definition.

Hansmann’s definition of non-profit organisations is not based on either their inputs, or their outputs, but the way in which they distribute their financial resources (Hansmann, 1986; and Steinberg and Gray, 1992). Non-profit distributing organisations are those which are barred from distributing “net earnings” to individuals that exercise control over them. This “non-distribution constraint” is similar to the legal definition of a non-profit institution in the US. The problem with legal definitions of the sector is that they vary according to the legal system and country in which they are employed. The non-distribution constraint, however, has been widely accepted as a definition of non-profits outside the US legal system.

Despite its widespread usage, Hansmann’s definition of the “non-distribution constraint” does not produce an unambiguous third sector. He defines “net earnings” as “Earnings in excess of the amount needed to pay for services rendered to the organization.” Hansmann adds that “in general, a non-profit is free to pay reasonable compensation to any person for labour or capital that he provides, whether or not that person exercises some control over the organization” (1986, pp. 58-9). “Reasonable compensation”, however, is a largely disregarded but contentious phrase. In economic terms a dividend represents compensation to the investor for risk and income foregone: At what level does this dividend payment cease to be “reasonable” and become profit distribution? Thus, in economic terms the non-distribution constraint could define a third sector which includes joint stock

companies paying dividends equivalent to the market rate of return on other investments of comparable risk.

None of the above definitions of the third sector produce the same combination of constituent member organisations. Different scholars choose different definitions according to the questions they wish to address. A universal definition, by contrast, would be applicable in all contexts and provide us with a basis from which we could compile data to test a variety of theories about the sector. Does the JHCNSP offer us a definition of the sector which is up to this task? Before addressing this question we should consider how the Johns Hopkins' project defines non-profit organisations. The structural-operational definition identifies five key characteristics which these organisations must share (Salamon and Anheier, 1992 and 1997):

1. **Organised**, i.e. institutionalised to some degree in terms of their organisational form or system of operation;
2. **Private**, i.e. institutionally separate from government;
3. **Non-profit-distributing**, i.e. not returning any profits generated to their owners or directors but ploughing them back into the basic mission of the agency;
4. **Self-governing**, i.e. equipped with their own internal apparatus for governance; and
5. **Voluntary**, i.e. involving some meaningful degree of voluntary participation, either in the operation or management of the organisation's affairs.

The sector is thus defined as the collection of entities which make a "reasonable showing" on each of the above five criteria. The structural-operational definition encompasses organisations which may fulfil a variety of functions; it does not focus attention exclusively on institutions providing public goods, or efficiently and effectively supplying private goods, or on organisations which offer positive externalities for society. It should therefore be able to accommodate the majority of our interests in the sector. But can this definition be truly universal in its application? Or, does it contain implicit assumptions which are contextually specific and which may direct us towards rejecting or accepting various hypotheses about the sector?

These questions will be explored using historical analysis. In the following section the structural-operational definition will be applied to two historical case studies of welfare provision in nineteenth-century England. Using the examples of primary health care and social housing we will consider whether the application of this definition produces sectoral distinctions which have historical utility and which meet our various interests in the sector.

### **3 Historical analysis of the non-profit sector**

The Johns Hopkins team formulated their definition of the non-profit sector to facilitate geographically comparative analysis in the present. Whilst they did not use this definition for any historical analysis, applying it using data from the past offers us a valid test of the universal applicability of their institutional model. For a sectoral map to be useful it should comprise a set of institutions whose common characteristics can be widely recognised. Asking whether the Johns Hopkins non-profit sector is recognisable to Brazilians, or Latin American scholars, is in a sense the same question as asking whether the Victorians, or historians of that period, would have considered the institutions grouped by the structural-operational definition to represent a distinctive sector. The application of one definition to countries as diverse as Japan and Brazil in the present, suggests the definition should be equally applicable to historical data. Differences in time should be no more problematic for a universal definition than differences in space. In addition, Salamon and Anheier have taken data compiled using the structural-operational definition to test various theories about the sector, which are not, themselves, temporally specific.

Temporal comparison possesses certain advantages over international cross-sectional analysis. Geographically comparative research can produce so much variance that it is difficult to identify casual relationships. This problem may be formally addressed with the use of regression analysis which *ceteris paribus* identifies the explanatory “power” of individual variables. However, given the lack of a dominant underlying theory of the sector, analysis of this sort tends to be *ad hoc*. If we do adopt an *ad hoc* approach to determining the growth or strength of the sector, which indicators do we take for the legal system, or culture, or economic development? We have no simple metric to encapsulate these. Salamon and Anheier (1998) have used the data compiled by the Johns Hopkins project to test various non-profit theories using the sort of quantitative cross-sectional analysis under discussion here. They have avoided the pitfalls of *ad hoc* multivariate analysis by performing bivariate tests of hypotheses generated by specific theories of the sector. Steinberg and Young, however, have suggested that Salamon and Anheier have mis-specified some of their models by failing to take account of the complementarity of various theories. In addition, Steinberg and Young have questioned whether some of the variables which Salamon and Anheier have chosen are the most appropriate indicators of what they are trying to measure (Steinberg and Young, 1998).

Historical analysis is less susceptible to the variance problem that can be associated with geographically comparative research. The advantage of historical research is that some of our potential explanatory variables can be held fairly constant: legal and political systems, or that intangible phenomenon called “culture”, are relatively static within nations, at least in the short run. The principal disadvantage is that it is easy to conflate correlation with causation if only one nation is studied at a time. In single nation studies, we cannot determine whether a potentially causal

factor was also present in another country where the observed outcomes differ. This limitation of single nation history, however, is not problematic for the approach taken in this paper.

The purpose of the historical analysis to follow is to examine whether the structural-operational definition of the sector is capable of accommodating the institutional diversity of an earlier period in England's history. The two historical case studies selected for this paper have been chosen to reflect a variety of interests in the functional purpose of third-sector organisations. The institutions providing primary health care were principally providing private benefits for their members. In so far as the mutual organisations which provided some of these services were receptacles of social capital, these organisations also offered the possibility of some positive externalities for the wider society. The housing problem, on the other hand was part of a concern about public health, which can be seen as a public good. In addition, the Victorians considered physical health to be inextricably linked to social and economic health. It was argued that if the poor lived in more salubrious surroundings they would also become better members of society and more economically productive. In this sense there were also positive externalities to be gained from the provision of, what we would call today, social housing. We will now turn to consider the first case study: primary health care provision in nineteenth-century England.

### **3.1 Primary health care**

In Victorian England there were many different institutional mechanisms through which qualified medical practitioners delivered primary health care to patients. These mechanisms embraced simple fee-for-service arrangements between doctor and patient, collective purchasing schemes organised on both solidaristic and for-profit principles, public provision through poor law agencies, and purely charitable care provided by dispensaries and hospitals. The major historical study of the medical market in England by Digby identifies three tiers of patients who, in turn, made use of different institutional routes to medical care. The poorest patients “utilised charitable dispensaries, free out-patient departments in voluntary hospitals, and the facilities of the poor law – either the poor law infirmary, or the services of the poor-law medical officer.” The middle tier of patients “paid for their medical services less through individual fees than through subscription to friendly societies – thus providing for themselves mainly through collective action.” Private fee-for-service treatment was the norm only for an upper tier of middle-class patients, although the surviving records of a handful of general practitioners indicate that private patients could cover “every social class, from gentry to servant”, with differential fees charged according to ability to pay (Digby, 1994, pp. 50-51, 115, 148-55).

Friendly societies provided for many more: Riley estimates that in 1900 over 45 per cent of adult working-class males had acquired the right to medical attendance through their friendly society membership (Riley, 1997, p. 49). A higher estimate has been constructed by Green, who has (somewhat casually) attempted to combine data for works clubs as well as registered and unregistered friendly societies. He believes that “at least 9 million of the 12 million originally included in the National Insurance scheme were already members of friendly societies offering medical care” (Green, 1985, p. 95). Even so, several million adult males, and the majority of women and children, were left unprovided for by the friendly society movement, and had little option but to turn to charitable and public medical services or, if they could afford it, to for-profit collective provision organised by commercial companies or by doctors themselves.

The boundaries between these different institutional forms of primary care provision were blurred. Riley notes that although each system had a target population, the groups they served overlapped at the edges (Riley, 1997, p. 87). Furthermore, it was quite possible for the same household to be in simultaneous receipt of primary health care from different institutions, with women and children turning to a different provider to that of the male head of household. In addition, working-class people could expect to use a variety of health care providers over their life course, with childhood and old age being more reliant on non-market provision. This complex institutional network of primary care provision is difficult to locate within a public/private welfare dichotomy. A simplistic separation according to institutional form would obscure the fact that the medical care delivered by the different institutions was often similar: in some cases even identical because the same medical personnel worked in several different institutions (Marland, 1987).

The similarity of medical output produced by quite distinct institutional forms of primary care provision makes this sector a good test-bed for Salamon and Anheier’s structural-operational definition of the non-profit sector. We can use their five-point definition to distinguish the non-profit from other forms of primary health care in the nineteenth century, and can then consider the extent to which these distinctions are meaningful. In table 1 the different types of primary care provision are arranged in three groups which roughly correspond to Digby’s tiers of private practice, collective provision and public/charitable medical care.

It is no surprise that, within the first tier of provision, private practice is located unambiguously outside the non-profit sector according to the structural-operational criteria. Even so there could be a small “voluntary” element in so far as some doctors might treat impoverished patients in the knowledge that their quarterly or annual bills were unlikely ever to be paid (i.e., they did not expect to receive “reasonable compensation” for their services, to use Hansmann’s terminology). A second type of fee-for-service medical care in which there was not even this minimal voluntary element was

that offered by “sixpenny doctors” who established themselves in poor communities, and offered low-price consultations for cash (Digby, 1994, pp. 51, 159).

Third tier provision of medical care came from charitable and public suppliers and within this group of providers, poor law facilities (infirmaries and medical officers) are excluded from the non-profit sector on most criteria. There is, however, some minor ambiguity about the degree of voluntary effort incorporated within the poor law, since guardians were not remunerated. However, both provident dispensaries and the out-patient departments of voluntary hospitals fulfil all the criteria for inclusion in the non-profit sector: they were organised, independent of the state, self-governing, reliant on a significant amount of voluntary input, and – crucially – did not distribute profits to owners or members.

**Table 1: Structural-operational definition of nineteenth-century institutions providing primary health care**

	ORGANISED	PRIVATE	NON-PROFIT	SELF-GOVERNING	VOLUNTARY
<b>1st tier</b>					
Private practice	✗	✓	✗	✗	✓/✗
‘Sixpenny doctors’	✗	✓	✗	✗	✗
<b>2nd tier</b>					
Friendly society	✓	✓	✗	✓	✓
Works club	✓	✓	✗	✓/✗	✓
Doctor’s club	✓	✓	✗	✗	✗
Medical aid company	✓	✓	✗	✗	✗
<b>3rd tier</b>					
Provident dispensary	✓	✓	✓	✓	✓
Voluntary hospital	✓	✓	✓	✓	✓
Poor law	✓	✗	✗	✗	✓/✗

Second tier institutions provided primary care for subscribers through some type of collective action, but the institutional form could vary significantly. Friendly societies were self-governing, private voluntary organisations in which members combined to purchase medical services from doctors who were remunerated on either a capitation or flat-fee basis. Works clubs were similar, though in some cases employer influence in the management of the club compromised the degree of self-government. However, collective action was not the sole preserve of consumers. Many suppliers, either individual doctors or groups of doctors, offered contract medical services to customers in return for regular weekly payments, as did medical aid companies, which were purely commercial

organisations which collected contributions from clients and contracted with doctors to provide a minimum level of medical attendance (Green, 1985, pp. 8-12). Whilst doctors' clubs and medical aid companies operated in the market in order to generate profits, friendly societies and works clubs have been viewed by most historians as self-help organisations which had goals other than profit-maximisation: in Green's words, they were "self-governing, fraternal associations for mutual aid" (Green, 1985, p. 12; Riley, 1997). However, the strict definition of the non-profit constraint in the structural-operational definition excludes friendly societies (and most other mutual organisations such as building societies and co-operatives) because they have an ability to distribute profits to members – for instance, by using surpluses to reduce premiums – rather than being required to plough back all surpluses for the collective good (Kendall and Knapp, 1997, p. 271).

Using the structural-operational definition, friendly societies drift in a limbo, excluded from the non-profit sector, yet distinct in their form and operation from for-profit medical aid companies. In the British volume of the Johns Hopkins study, Kendall and Knapp make explicit reference to friendly societies, building societies, co-operative societies and trade unions, most of which "are excluded from our broad definition of the sector because of their quasi-commercial character" (Kendall and Knapp, 1996, p. 71). Yet, from the historical perspective, contemporaries would have conceived of these "self-help" and mutual insurance organisations as part of what we would call in Britain, the voluntary sector. Friendly societies were considered to be distinct from for-profit institutions. Even in the mid-twentieth century, Beveridge considered voluntary action to have two components: "mutual aid" and "philanthropy" (Beveridge, 1948, pp. 8-9). Mutual aid was exemplified for Beveridge by exactly the sorts of institutions which Kendall and Knapp excluded. Whilst it is true that the de-mutualisation of recent years has made some building societies just like banks, we should bear in mind that in the nineteenth, and for much of the twentieth century, this was not the case. Thus, the exclusion of these organisations due to the potential for distribution to their members should be questioned in an historical context. The potential for distribution, however, highlights the fact that friendly societies were "member-serving" rather than "public-serving" institutions as their primary concern was to provide private benefits for their members. Whilst the Johns Hopkins project deliberately eschews any criterion of "public purpose" as a defining characteristic of non-profit organisations due to problems of establishing a universally applicable definition of "public benefit", in practice the inclusion of the non-distribution criterion weights the sector against those institutions providing essentially private welfare benefits (Salamon and Anheier, 1997, pp. 31-2, 37-8; Kendall and Knapp, 1997, pp. 19-20).

Table 1 demonstrates that the structural-operational definition of the non-profit sector excludes the majority of mechanisms used to provide primary medical care to the majority of people in

nineteenth-century England. By grouping together in the excluded category fee-for-service private practice, commercial contract practice, and mutual (friendly society) provision, it blurs all distinctions between market and non-market services, between individualistic and collective behaviour. It is not clear that, in terms of their function as institutions for providing welfare services, there were appreciable differences in the outputs of those that are included and those that are excluded from the structural-operational definition of non-profit primary health care arrangements.

Does the structural-operational definition mask some of the similarities and differences in both function and institutional form of those agencies which it excludes because of peculiarities in the systems of provision of primary health care in the nineteenth century? Or, is this system of categorisation more generally incapable of accommodating the institutional diversity of earlier periods? In a partial attempt to address this question, we now turn to our second case study: the provision of housing for the working classes in Victorian London.

### **3.2 Social housing provision**

Both the housing problem and the responses to it were rather different in character from the essentially private risk of ill health. The housing problem concerned the private rental sector which was considered to be both inefficient and inequitable in terms of the quantity and quality of housing that it provided for the working classes. The lifestyles and living conditions of those living in slums were considered by contemporaries to generate a number of socially unacceptable externalities which were at odds with the public interest as they conceived it. Thus, the housing problem was a public problem which was perceived to threaten the physical, moral, social and even economic health of society. Addressing this problem of externalities required a system of housing provision which generated collective-type benefits to be enjoyed by the wider society, not just those who financed and consumed more salubrious working-class accommodation. From the 1840s onwards, a group of new institutions were formed which attempted to find a practical way to combine the public and private interest in improving the housing of the working classes.

Whilst we do not know either the total number or output of those organisations providing improved dwellings throughout England, Morris has estimated that at least 43 organisations were established between 1840 and 1914 in response to the housing problem in London: 31 of these organisations produced over 35,000 dwellings during this period which was over two and a half times the combined contributions of the London County Council, the metropolitan boroughs and the City Corporation during the same period. These housing organisations provided between 11 and 15 per cent of all new working-class accommodation built in London between 1856 and 1914 (Morris, 1998, pp. 60-9, 259-60).

Despite the similarities in the aims, outputs and systems of operation of the organisations providing model dwellings, they adopted a variety of institutional forms. The first institutional form was that of the charitable trust, founded by a wealthy individual: perhaps the best known example is the Peabody Trust (PT), founded in 1862 by the donation of £150,000 from George Peabody for the London poor. The second, exemplified by the Society for Improving the Condition of the Labouring Classes (SICLC), was the subscription charity which raised funds from donors in order to provide housing for their working-class clients. The third type of voluntary sector provision was pioneered by Octavia Hill as a system of “improving tenants in old houses” through the purchase of existing dilapidated properties which were then managed and improved by Hill’s team of lady rent collectors (SCALDI, 1882; and Wohl, 1971). The fourth and most innovative institutional form was adopted by the “model dwellings companies” (MDCs) which were registered as limited liability joint stock companies. Yet, MDCs shared similar aims to the more traditional charities providing social housing, rather than making profit maximisation their primary aim. Both the similarity of aims of the four types of response made to the housing problem, and the collective nature of the social benefit which they were intending to produce, make nineteenth-century social housing an ideal test case for the structural-operational definition of the non-profit sector. Table 2 shows how each of the four institutional responses outlined above perform when measured against the structural-operational definition’s five-point classification.

**Table 2 : Structural-operational definition of nineteenth-century institutions providing social housing**

	ORGANISED	PRIVATE	NON-PROFIT	SELF-GOVERNING	VOLUNTARY
Charitable trusts	✓	✓	✓	✓	✓
Subscription charities	✓	✓	✓	✓	✓
Octavia Hill system	✗	✓	✗	✓	✓/✗
Model Dwellings Companies	✓	✓	✗	✓	✗

Subscription charities and charitable trusts, such as the SICLC or PT, are clearly located within the non-profit sector as they score positively on all five of the structural-operational definition’s criteria. The position of Octavia Hill’s system is, however, more ambiguous. First, whilst the method of housing provision and management developed by Hill is usually referred to as her “system”, she eschewed formal organisation of her work. Hill was opposed to working with a committee and “profoundly distrusted systems and machinery and feared that working on a larger scale would mean working for a system” (Lewis, 1991, p. 34; Whelan, 1998, p. 119). Secondly, her “system” also fails the non-distribution constraint. This is because she financed her work by encouraging various friends and acquaintances to purchase the leases for single or small groups of existing houses which she then managed, paying them around a five per cent return (Hill, 1883; Maurice, 1913, pp. 189-190; Maurice, 1928, pp. 162-3; Wohl, 1971, pp. 106-7). The voluntary component of Hill’s work is also ambiguous. Her method of housing

management was premised upon an intensive system of visiting and rent collection by lady visitors, yet Hill had difficulties finding sufficient volunteer workers to manage her housing and an unknown proportion of her staff were hired hands (Lewis, 1991, p. 55; Whelan, 1998, pp. 83-5). The structural-operational definition is not sufficiently specific about the nature of a 'meaningful degree of voluntary participation' for us to determine whether Hill's use of paid workers excludes her work from the non-profit sector on this ground.

Model dwellings companies are the other institutions which do not meet the structural-operational definition's criteria. As joint stock limited liability companies, they violate the non-distribution constraint in that they paid dividends to their shareholders. MDCs also lack the necessary voluntary component in their operation as housing management was performed by paid staff whilst the directors received remuneration for their services, although one could argue that this was merely to cover their expenses (Morris, 1998). Octavia Hill's "system" and MDCs are excluded from the non-profit sector as defined by the structural-operational definition. As they all satisfy the private criterion of being "institutionally separate from government", they are therefore relegated to the same part of the organisational universe as for-profit firms. Yet, the principal objective of these organisations was not to maximise profits, but to solve the social problems caused by the very sector from which the structural-operational definition is incapable of distinguishing them.

The application of the structural-operational definition to social housing provision in nineteenth-century England has reduced the non-profit housing sector to two types of institutions: subscription charities and charitable foundations. What are the implications of this? The non-profit sector thus defined only includes the smallest providers of social housing provision. Of the 35,000 units referred to above nearly 70 per cent were provided by MDCs which therefore dominated purely charitable effort in this field (Morris, 1998, p. 180). It is by no means clear that the distinction drawn using the structural-operational definition, between non-profit and other providers of social housing, would have had any practical meaning to contemporaries. Not only did the different organisations formed in response to the housing problem adopt similar aims and methods of operation to one another, they also housed broadly similar tenants (Morris, 1998, pp. 75-95). In addition, MDCs charged below market rents, which were in many cases equivalent to those charged by the non-distributing organisations in the field (Morris, 1998, pp. 218-9). If we are interested in analysing the outcomes of the responses made to the Victorian housing problem, the structural-operational definition of the non-profit sector does not include those organisations which did the most both for their tenants and to address the public interest in this issue.

By applying the Johns Hopkins structural-operational definition of the non-profit sector to the range of institutions which provided primary health care and social housing in nineteenth-century England, an

important point has emerged. In both cases the definition excludes the major institutions operating in the field. What were considered to be social welfare agencies in the nineteenth century appear to be indistinguishable from for-profit companies using twentieth-century definitions. This paper concludes by considering the broader implications of these case studies for the application of the JHCNSP's attempt to develop a universal definition of the sector.

#### **4 Implications of the historical critique**

The JHCNSP has advanced our knowledge about the non-profit sector, but is it able to fulfil all of its aims? Taking the project's aims one by one: the team clarified "the scope, structure and financial base" of the non-profit sector and in doing so provided a "better foundation for public and private policies." Awareness of the sector has certainly increased, as has the "local capacity to carry this work forward in the future" (Salamon and Anheier, 1996a, p. 8). The fulfilment of objective two, however, is more problematic: establishing the "factors that promote or retard the sector's development" is an important issue, not least with respect to the public policy objective of the project. The historical case studies presented above suggest that the structural-operational definition has two major limitations affecting its ability to fulfil this objective: the first problem concerns possible measurement errors and the second pertains to the pattern of development which Salamon and Anheier implicitly assume for the non-profit sector.

Taking the issue of measurement error first, the advantage of comparative research is that it provides us with multiple variables which we can use to develop or test theories explaining the development of the sector. The first stage of the JHCNSP was the development of the structural-operational definition which was then used for the data collection exercise which followed. Once collected, these data offer a potentially rich source which can be used to test various theories about the sector. The paradox is, that whilst a standardised definition was necessary to facilitate this comparative research, the definition has not necessarily produced an appropriate dataset for testing the competing theories which may explain the patterns of sectoral development which are apparent in the data. The historical examples of primary health care and social housing can provide a worked example of this type of problem. In these nineteenth-century case studies, the most important provider institutions are excluded from the structural-operational definition of the non-profit sector, so this sector appears small. The subsequent expansion of state providers of health care and housing in the twentieth-century thus appears to fill a gap in service provision, and offers *prima facie* support for Salamon's "voluntary failure hypothesis" (Salamon, 1987). The problem is that the structural-operational definition of the non-profit sector, which excludes the majority of voluntary sector provision in the earlier period, inevitably biases findings towards confirmation of

this particular hypothesis. As Steinberg and Young have suggested “the definition of a non-profit organisation appropriate for testing one (theory) may differ from the most appropriate definition for testing another” (Steinberg and Young, 1998, p. 250).

It is the non-distribution constraint which is the most problematic criterion of the structural-operational definition. Although Salamon and Anheier eschew definitions of the sector which characterise it by its “public purpose”, they argue that the non-profit distributing criterion acts to distinguish private organisations which exist primarily to generate profits from non-profit organisations which are private organisations with a public purpose (Salamon and Anheier, 1996a, p. 14). Although it may be desirable to differentiate profit maximising organisations from institutions with a public purpose, the non-distribution constraint is not an infallible test. Behind Hansmann’s theory about the role of non-profit enterprise lies the idea that particular institutional forms are associated with particular welfare outcomes which may be more or less in the private interests of the organisation’s owners or managers. The degree of public benefit is assumed to be in inverse relationship to the private benefit. Yet, this assumed causal link between form and function does not necessarily hold, as the historical example of social housing provision shows. Those nineteenth-century institutions which distributed some profits to their members were most successful in their aim of providing more salubrious housing for the working classes for the benefit of society as a whole. By examining only those institutions with a particular form, we can neither prove, nor falsify, our assumptions about the functions which this form may offer.

Whilst the Johns Hopkins project has provided a new and rich comparative database about the non-profit sector, this sector as measured is not necessarily equivalent to, or in some cases compatible with, the third sector as conceived elsewhere in the literature. In their recent paper, Salamon and Anheier (1998) have used Johns Hopkins data on the non-profit sector to extend their commentary to the area of “civil society”, whilst the recent book published by the project is entitled *Global Civil Society: Dimensions of the Non-profit Sector* (Salamon et al, 1999). This sectoral transposition, from the non-profit to civil society sectors, however, is not as unproblematic as they imply.

Our historical case studies have shown that the structural-operational definition excludes the mutual aid societies which, according to Beveridge, provided a check against state control and the profiteering of the market in conjunction with other philanthropic organisations (Beveridge, 1948, pp. 322-3). Beveridge’s concern with the contribution of these organisations to the health and happiness of a democratic society is similar to the interests which civil society theorists have in third-sector organisations today. The non-profit sector, as defined by the structural-operational definition, therefore, cannot be simply transposed into the civil society sector, without disregard for

both the theory of social capital and the vibrancy of civil society both historically and in different nations.

According to Lyons, civil society “is focussed on organisations that would be classed as providing membership benefit rather than public benefit” (Lyons, 1996, p. 11). For Putnam it is the presence of “mutual aid societies, directly analogous to ...the ‘friendly societies’ of Britain’ which represent one of the most ‘important manifestations’ of (the) ‘Principle of association’ of Northern Italy” (Putnam, 1993, p. 139). Similarly, Dekker and van den Broek (1998, p. 13) “propose voluntariness as the guiding principle of civil society and associations as the dominant collective actors”. The structural-operational definition excludes the very organisations which are likely to be doing the most to foster social capital. By providing a mechanism through which their members could pool their risks, friendly societies arguably offered more opportunities for face to face interaction and the fostering of trust and social capital than the alternative forms of organisation which the structural-operational definition recognises as belonging to the non-profit sector (Johnson, 1984; Green, 1985; and Gorsky, 1998).

The prevalence of mutual associations providing member benefits is also problematic for attempts to define the non-profit sector in developing nations today. In the JHCNSP volume on the non-profit sector in the developing world, attention is drawn to the credit and savings associations of West Africa (Atingdui et al, 1998). Even though the project recognised the role of such organisations in “economic, social and community development”, they can only be included within the project’s definition of the non-profit sector if they fulfil all five of the structural-operational definition’s criteria (Salamon and Anheier, 1996b). If members are able to fix the interest rates which they pay on loans and receive on savings, they are arguably able to distribute surplus revenue amongst themselves and hence they violate the non-distribution constraint. It would require a very careful examination of the constitution of such organisations to see whether they can in fact meet the five criteria of the structural-operational definition.

Even if they can distribute surplus revenue to their members, mutual aid organisations may still fulfil very important functions for society where both the state and commercial companies have failed. For example, the local credit unions of the Grameen Bank in Bangladesh aim to encourage collective action and empower the poor rather than simply provide them with capital (Holcombe, 1995). Yet, the strict application of the structural-operational definition would consign them to the for-profit sector along with the commercial banks which have been both ineffective and inefficient in supplying capital to the poor, let alone providing the positive externalities of association which membership of a local Grameen branch is intended to encourage. In addition, if we move away

from considering the position of credit and savings associations, we find that Edwards has made more general criticisms of the JHCNSP for excluding the informal associations which he argues play such an important role in poverty alleviation and development (Edwards, 1999).

The capacity of the JHCNSP to establish the “factors that promote or retard the sectors’ development” is also constrained by the pattern of development which Salamon and Anheier implicitly assume for the non-profit sector. They have claimed that the Johns Hopkins database offers the opportunity “to shed new light on the factors which seem to account for the growth and development of this sector in an assortment of countries around the world” (Salamon and Anheier, 1998, p. 214). Whilst this is undoubtedly true, it cannot shed as much light on the sector’s development as the project leaders would like. It is difficult to account for growth, which occurs over time, using cross-sectional data. To infer a temporal path of development from cross-sectional data implicitly assumes that there is a unilinear path to development and that each country represents a different stage along that path; this discounts the importance of historical experience.

In their comments on historical development, Salamon and Anheier (1998, p. 226) criticise existing theories for assuming “a degree of flexibility in institutional choice” that seems “belied by the historical record”. They argue that “Choices about whether to rely on market, non-profit, or state provision of key services are not simply made freely by consumers in an open market as advocates of economic theories seem to assume. Rather, these choices are heavily constrained by prior patterns of historical development that significantly shape the range of options available at a given time and place”. Although this view appears to be an exposition of what economic historians call “path dependency”, the methodology of the JHCNSP in fact assumes and implies a common developmental path for the non-profit sector.

The use of a fixed definition of the non-profit sector across time reveals how the sector, as defined, changed in different historical circumstances. What it cannot do is capture the experiences of other institutional types which contemporaries may have developed in their attempts to fulfil various welfare objectives. It may be the case that it was past experience of these other institutions, excluded by a universalist definition, which promoted or retarded the development of the non-profit sector. This is a proposition which requires more empirical testing, rather than theoretical deduction based on current perceptions. Peter Dobkin Hall (1992, p. 14) suggests that one cannot write a single “progressivist” history of a non-profit sector. He argues that the non-profit sector as we know it today, is a construct of the recent past. A full understanding of the functions of various institutions, and the factors which have contributed to their development over time, must be

sensitive to the contexts and contemporary debates which surround them. The institutional choices that were made yesterday influence the course of the developmental path that can be followed today.

To return to our initial question regarding the universal applicability of the John Hopkin's definition of the non-profit sector, we have seen that the structural-operational definition is unable to cope with the institutional diversity of earlier periods. Subjecting this definition to temporal comparison has also revealed limitations to the project's capacity to fulfil its second objective of establishing "the factors that promote or retard the sector's development". Salamon and Anheier's attempts to subject various theories about the non-profit sector to empirical testing using data from the project is certainly a welcome development. The contextual specificity of the structural-operational definition, however, represents a serious limitation to the universality of the conclusions that may be drawn from this approach. It also fundamentally limits the scope for mapping between "non-profit" and "civil society" institutions.

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