

**THE WHARTON SCHOOL
University of Pennsylvania
BEPP 214**

***The Nonprofit Sector: Economic Challenges and Strategic Responses*
Spring 2013**

**Monday / Wednesday 1:30 – 3:00 PM
Location: TBD**

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Course Description

The nonprofit sector plays a key role in the provision of many goods and services which are fundamental in our society and which may be difficult to provide using market mechanisms alone. Education, health care, charitable services, and the arts are some primary examples of these. Nonprofit organizations operate in service of specific social missions rather than profit maximization, but in order to serve those missions effectively while ensuring their own survival, they must also make many of the decisions typically associated with private firms. That is, they must compete for funding, human resources, and consumers of their services, they must manage and invest their resources efficiently, and they must innovate new products and services over time. Importantly, the latter requirements may at times come in conflict with the organizations' social values. As a result, nonprofit organizations as economic decision-makers confront a number of unique challenges to their success and growth.

The goal of this course is to give students a broad overview of the economic, organizational, and strategic concerns facing the non-profit sector. Our objective is to characterize the unique economic environment, identify effective strategic, governance, and management approaches, and explore how appropriate measurement techniques can inform the policy treatment of nonprofits. The course is organized around a number of lectures, readings, and outside speakers, a midterm exam, and a required project.

Readings

Most course readings are available through the course site on Canvas. Additional articles on current topics may be posted before some class sessions. Students outside Wharton can access Canvas by signing up for a Wharton account. If you preregistered for the course, you will receive directions via email on or about January 1. Students may occasionally need to use the citation information to retrieve articles online from the Penn library.

Items marked "Optional" will be covered in class, but are not required reading. Their contents will be helpful for following the lecture materials; however, they may contain technical detail beyond the level of this course.

Grading/ Deliverables

Grades for the course will be based on both individual and group components:

Midterm – 25%

There will be a midterm exam with short answer and multiple choice questions on the material covered in the lectures and required readings from the beginning of the course.

Case study – 20%

You will be given background information on a nonprofit organization a week before the class in which the case will be discussed. Your job is to prepare a 3-page memo with a critical appraisal of the organization's strategy, highlighting strengths and weaknesses, opportunities and challenges. Representatives from the organization will come to class on the session after your memo is due for a discussion of their current situation and your analysis of their options going forward. Two or three of you will be randomly chosen to summarize your analyses for them at the beginning of the class session.

Group project – 40%

A substantial portion of your grade will be based upon successful completion of a group project evaluating a specific nonprofit organization. You will be assigned to teams of 4-5 at the beginning of the semester. Your team's first deliverable will be a short (2 p.) research plan and choice of nonprofit organization (subject to the Professor's approval). By the final day of class in the term, your team will submit its evaluation of the organization, guided by some or all of the following questions, as appropriate: What is the mission of the organization? Has it changed over time? How? Why? What's unique about the mission? Why should it be done by a non-profit organization? What market do they serve? What is the strategy for carrying out this mission? Is the organization effective? What metrics would you look at to answer this, and how does the organization itself judge its effectiveness? Where does their budget come from? Do the recipients of the services pay for them? How do they market their services, and to whom? What does the management structure look like? How would you describe the culture of the organization, and how is it developed and maintained? What is the human resources strategy? Who do they hire, and how long do they stay? What operational impediments do you see in reaching the mission of the organization? What are the prospects of scaling up the services provided? What opportunities do you see for expanding the scope of the organization, if any? How could increased scale and/or scope be achieved?

Final papers should not exceed 20 pages (double-spaced, 12-point font), exclusive of appendices. You will be asked to present your analysis to the class at the end of the semester. In addition, each team member will be asked to give a short evaluation on how your assigned group operated as a team.

Participation in class discussion (cumulative over time) and short discussion responses – 15%

There will be several short discussion write-ups required throughout the course, generally a paragraph or two on a nonprofit in the news or a response to an assigned reading or guest lecture.

Tentative Schedule (*dates may change; changes will be announced on Canvas*)

Wed., Jan. 9: Introduction

Review the syllabus; the size and scope of the nonprofit sector in the U.S.; highlight some key challenges for contemporary nonprofit organizations; and housekeeping

Bradley, Jansen, and Silverman (2003). The nonprofit sector's \$100 billion opportunity. *Harvard Business Review* 81 (5), 94-103.

Pratt, J. (2007). Dark and Light Matter in the Nonprofit Universe. *The Nonprofit Quarterly*, Spring.

Mon., Jan. 14: The nonprofit sector – history and objectives

Salamon, L. (2002). The Resilient Sector: The State of Nonprofit America. Pp. 3-61 in *The State of the Nonprofit Sector*, edited by Lester M. Salamon. Washington, D.C.: Brookings Institution Press.

Hansmann, H. (1980). The Role of Nonprofit Enterprise. *Yale Law Journal* 89, 835-901.

Discussion assignment #1: nonprofit organizations in the news

Wed., Jan 16: Social goals vs. social planning: nonprofits in the three-sector economy

What is the mixed economy and why are certain activities relegated to or best served by the nonprofit sector?

Ben-Ner, A. (2002). The Shifting Boundaries of the Mixed Economy and the Future of the Nonprofit Sector. *Annals of Public and Cooperative Economics*.

Optional: O'Regan and Oster (2000). Nonprofit and For-Profit Partnerships. Nonprofit and Voluntary Sector Quarterly.

Mon., Jan. 21: Martin Luther King, Jr. Day observed (no classes)

Wed., Jan. 23: Incentives and control in the nonprofit context

Caers, R., et al. (2006). Principal-Agent Relationships on the Stewardship-Agency Axis. *Nonprofit Management and Leadership* 17(1).

Mon., Jan. 28 and Wed., Jan. 30: Nonprofit governance and strategy

O'Regan, K. and S. Oster (2005). Does the Structure and the Composition of the Board Matter? The Case of Nonprofit Organizations. *Journal of Law, Economics and Organization*, 21, 205-227.

Drucker, P. (1989). What Business Can Learn from Nonprofits. *Harvard Business Review*, July-August.

Optional: Fisman, R. and R. G. Hubbard (2005). Precautionary Savings and the Governance of Nonprofit Organizations. *Journal of Public Economics*, 89, 2231-2243.

Mon., Feb. 4: Competition for and management of the nonprofit workforce

Spector, M. (1998). IRS Probes Nonprofit Pay Practices. *The Wall Street Journal*, April 6.

Oster, S. (1998). Executive Compensation in the Nonprofit Sector. *Nonprofit Management and Leadership*, 8, 207-221.

Herzberg, F. (1987). One more time: How do you motivate employees? *Harvard Business Review*, 81(1), 87-96.

Wed., Feb. 6: Fundraising and managing endowments

Hayashi, Y. (2002). Nonprofit Groups Feel the Pinch of the Bear Market. *The Wall Street Journal*, May 29.

Fisman, R. and R. G. Hubbard (2003). The role of nonprofit endowments. in Edward L. Glaeser (ed.) *The Governance of Not-for-Profit Organizations*. Cambridge, MA: National Bureau of Economic Research.

Optional: Konow, J. (2010). Mixed Feelings: Theories of and Evidence on Giving. *Journal of Public Economics*, 94, 279-297.

Optional: Foster, W., P. Kim, and B. Christiansen (2009). Ten Nonprofit Funding Models. *Stanford Social Innovation Review*, Spring.

Mon., Feb. 11: Midterm Exam (in class)

Wed., Feb. 13: Nonprofit organizations and market competition

Oster, S., C. M. Gray, and C. Weinberg (2004). Pricing in the Nonprofit Sector. in Dennis Young (ed.), *Effective Economic Decision-Making by Nonprofit Organizations*.

Lakdawalla, D. and T. Philipson (2006). The Nonprofit Sector and Industry Performance. *RAND Corporation Working Papers*, September.

Alsop, R. (1984). More Nonprofit Groups Make Imaginative, Aggressive Sales. *The Wall Street Journal*, May 31.

Mon., Feb. 18: **Redistribution, welfare policy, and charitable organizations**

Marwell, N. (2004). Privatizing the Welfare State: Nonprofit Community-Based Organizations as Political Actors. *American Sociological Review*, 69: 265-91.

Clotfelter, C. T. (1992). The Distributional Consequences of Nonprofit Activities. in Charles T. Clotfelter (ed.), *Who Benefits from the Nonprofit Sector?* The University of Chicago Press: Chicago, IL.

Wed., Feb. 20: **Altruism and strategy in charitable organizations**

Malani, A. and E. A. Posner (2007). The case for for-profit charities. *Virginia Law Review* 93, 2017-67.

Mon., Feb. 25: **Charities – GUEST LECTURE** (*attendance required*)

Case study assessments DUE

Wed., Feb. 27: **Case Study – Discussion and student assessments**

Mon., Mar. 4 and Wed., Mar. 6: **No class – SPRING BREAK**

Mon., Mar. 11 and Wed., Mar. 13: **Nonprofit focus – education**

Strom, S. (2010). For School Company, Issues of Money and Control. *The New York Times*, April 24, p. A1.

Lewin, T. (2012). Senate Committee Report on For-Profit Colleges Condemns Costs and Practices. *The New York Times*, July 30, p. A12.

Angrist, J., D. Lang, and P. Oreopoulos (2006). Lead Them to Water and Pay Them to Drink: An Experiment with Services and Incentives for College Achievement. *NBER Working Paper No. 12790*, December.

Brown, W. (2001). Faculty Participation in University Governance and the Effects on University Performance, *Journal of Economic Behavior and Organization*, 44, 129-143.

Mon., Mar. 18: **Nonprofit focus – education: GUEST LECTURE** (*attendance required*)

Wed., Mar. 20: **Nonprofit focus – health care: multi-sectoral provision and competition**

Bogdanich, W. (1986). Nonprofit Groups Offer Insurance, But Often the Prices Are Beatable. *The Wall Street Journal*, March 13.

Reinhardt, U. (2001). Can Efficiency in Health Care Be Left to the Market? *Journal of Health Politics, Policy and Law*, 26(5), 967-992

Discussion assignment #2: guest lecture response, the role of nonprofits in education

Mon., Mar. 25: Nonprofit focus – health care: hospitals

Rubenstein, S. (2009). Nonprofit Hospitals Take Heat Over Charity at Inopportune Time. *The Wall Street Journal*, February 13.

Malani, A., Philipson, T., and David, G. (2003). Theories of firm behavior in the non-profit sector: A synthesis and empirical evidence. In E. L. Glaeser (Ed.), *The governance of not-for-profit organizations*. The University of Chicago Press.

Optional: Horwitz, J. (2005). Making Profits And Providing Care: Comparing Nonprofit, For-Profit, And Government Hospitals. *Health Affairs* 24(3), 790-801.

Optional: Duggan, M. (2000). Hospital Ownership and Public Medical Spending. *The Quarterly Journal of Economics*, 115(4), 1343-73.

Wed., Mar. 27: Nonprofit focus – health care: GUEST LECTURE (attendance required)

Mon., Apr. 1: Nonprofit policy – ethics and accountability

Brooks, A. (2004). One Scandal Closer to More Nonprofit Regulation. *The Wall Street Journal*, December 21.

Brown, D. and M. Moore (2001). Accountability, strategy, and international non-governmental organizations. *Nonprofit and Voluntary Sector Quarterly*, 30(3), 569-587.

Optional: Glaeser, E. and A. Shleifer (2001). Not-for-Profit Entrepreneurs. *Journal of Public Economics* 81, 99-115.

Wed., Apr. 3: Nonprofit policy – evaluation and scalability

Bradach (2003). Going to Scale, The Challenge of Replicating Social Programs. *Stanford Social Innovation Review*, Spring.

Gawande, A. (2011). The Hot Spotters. *The New Yorker*, January 24.

Discussion assignment #3: reading response, ethics and accountability

Mon., Apr. 8: Nonprofit policy – competition and antitrust

Carlton, D. W., G. E. Bamberger, and R. J. Epstein (1995). Antitrust and Higher Education: Was There a Conspiracy to Restrict Financial Aid? *The RAND Journal of Economics*, 26(1), 131-147.

Philipson T. J., and R. A. Posner (2009). Antitrust in the Not-For-Profit Sector. *Journal of Law and Economics*, 52(1), 1-18.

Wed., Apr. 10: **The role of nonprofit organizations in arts and culture**

Seaman, B. (2004). Competition and the Non-Profit Arts: The Lost Industrial Organization Agenda. *Journal of Cultural Economics* 28(3), 167-193.

Netzer, D. (1992). Arts and Culture. in Charles T. Clotfelter (ed.), *Who Benefits from the Nonprofit Sector?* The University of Chicago Press, Chicago.

Mon., Apr. 15, Wed., Apr. 17, and Mon., Apr. 22: **Student presentations of team projects**

Scheduled Exams: Students may miss the scheduled exam *only* with a University-approved excuse. This includes sickness accompanied with a written medical excuse from a licensed medical practitioner explaining why you cannot take the test. Other valid excuses include direct conflicts with another course offered at Penn that cannot be rescheduled as well as a varsity (but not club) sport competition (but not training). For example, job interviews and vacations in Palau are *not* legitimate excuses.

Add/Drop Deadlines: As per University Regulations, “You may drop courses until the end of the fifth week of classes... After the drop deadline, you may submit a petition to the Petitions Committee to drop a course.” See undergrad.wharton.upenn.edu/policies/academic_regulations.cfm#selection. It is the policy of the Course Instructor in the class to sign no petitions to drop the course after the 5th week.

Withdrawal Deadline: As per University policy, the formal withdrawal deadline is “after the end of the tenth week of the semester. If you have a serious and compelling extenuating circumstance, you may petition the Petitions Committee to grant a late withdrawal for a course.” See undergrad.wharton.upenn.edu/policies/academic_regulations.cfm#withdrawal. It is the policy of the Course Instructor to not permit withdrawal from the course after the 10th week of class unless the petition is accompanied by a written medical excuse by a licensed medical practitioner indicating that a student cannot complete *this* course.

Expectations:

- Class attendance and punctuality are expected.
- Students will receive communications from instructor via Canvas and email.
- To submit a regrade request for an exam, a student must submit the original test sheet, *a signed regrade affidavit* (see course Canvas for the template), and a written memorandum explaining why the exam should be regraded. Such requests must be submitted within five business days after the examination has been returned to the class. The entire exam will then be reviewed and will be compared against a photocopy made prior to returning the test to the students. On regrade, a student’s midterm grade may go down, go up, or remain unchanged at the prerogative of the professor for that module. *Students must not mark, make notes on, or alter the exam papers for which they seek a regrade; any such alteration will be seen as a violation of the Code of Academic Integrity.*

A Note on Academic Integrity: All students must become familiar with and adhere to the Penn Code of Academic Integrity; you are responsible for reviewing in and abiding by it. It is Department policy to immediately give a failing grade for the course to a student in violation of the University of Pennsylvania’s Code of Academic Integrity. In particular, cheating in any manner on a graded assignment or exam will result in failing both the assignment/exam and the course. In addition to the sanctions imposed by the Department, the Office of Student Conduct may impose additional sanctions. For further information see http://www.upenn.edu/provost/PennBook/academic_integrity_code_of