



THE JOSSEY-BASS HANDBOOK OF
NONPROFIT
LEADERSHIP AND
MANAGEMENT

FOURTH EDITION

DAVID O. RENZ
& ASSOCIATES

WILEY

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DAVID O. RENZ
ROBERT D. HERMAN, EDITOR EMERITUS

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CONTENTS

Figures, Tables, and Exhibits ix
The Contributors xiii
The Editor xxv
Introduction to the Fourth Edition xxvii
David O. Renz

PART ONE: THE CONTEXT AND INSTITUTIONAL SETTING OF THE NONPROFIT SECTOR 1

- 1 Historical Perspectives on Nonprofit Organizations
in the United States 3
Peter Dobkin Hall
- 2 The Legal Framework of the Nonprofit Sector
in the United States 43
Bruce R. Hopkins and Virginia C. Gross

- 3 The Changing Context of Nonprofit Management in the United States 80
Brent Never
- 4 The Many Faces of Nonprofit Accountability 102
Alnoor Ebrahim

PART TWO: LEADING AND GOVERNING NONPROFIT ORGANIZATIONS 125

- 5 Leadership, Governance, and the Work of the Board 127
David O. Renz
- 6 Executive Leadership 167
Robert D. Herman
- 7 Ethical Nonprofit Management: Core Values and Key Practices 188
Thomas H. Jeavons
- 8 Strategic Management 217
William A. Brown
- 9 Strategic Planning and the Strategy Change Cycle 240
John M. Bryson
- 10 Understanding Nonprofit Effectiveness 274
David O. Renz and Robert D. Herman

PART THREE: MANAGING NONPROFIT OPERATIONS 293

- 11 Social Entrepreneurship and Social Innovation 295
Matthew T. A. Nash
- 12 Social Enterprise and Nonprofit Ventures 334
Scott T. Helm
- 13 Marketing for Nonprofit Organizations 366
Brenda Gainer
- 14 Advocacy, Lobbying, and Social Change 396
Marcia A. Avner

- 15 Value Creation Through Collaboration 427
James E. Austin and M. May Seitanidi
- 16 Outcome Assessment and Program Evaluation 444
John Clayton Thomas

**PART FOUR: DEVELOPING AND MANAGING NONPROFIT
FINANCIAL RESOURCES 475**

- 17 Financial Leadership in Nonprofit Organizations 477
Jeanne Bell and Shannon Ellis
- 18 Philanthropy and Fundraising: The Comprehensive
Development Program 488
Sarah K. Nathan and Eugene R. Tempel
- 19 Nonprofit Finance: Developing Nonprofit Resources 509
Dennis R. Young and Jung-In Soh
- 20 Managing the Challenges of Government Contracts 536
Stephen Rathgeb Smith
- 21 Tools and Techniques of Nonprofit Financial Management 564
Woods Bowman

PART FIVE: LEADING AND MANAGING PEOPLE IN NONPROFITS 595

- 22 Effective Human Resource Management: Nonprofit Staffing
for the Future 597
Mary R. Watson and Rikki Abzug
- 23 Compensation: Total Rewards Programs in Nonprofit Organizations 639
Nancy E. Day
- 24 Designing and Managing Volunteer Programs 688
Jeffrey L. Brudney
- Conclusion: The Future of Nonprofit Leadership and Management 734
David O. Renz
- Name Index 747
- Subject Index 757

FIGURES, TABLES, AND EXHIBITS

Figures

- 5.1 The Board Development Cycle 156
- 8.1 The Nonprofit Strategic Management Cycle 220
- 8.2 Multiple Nonprofit Markets and Strategic Inputs 222
- 8.3 Factors That Influence Service Delivery 229
- 8.4 Issues to Consider in Performance and Control 233
- 9.1 The Strategy Change Cycle 243
- 9.2 Strategic Planning Systems for Integrated Units of Management 266
- 11.1 Pure Forms of Social Engagement 305
- 11.2 The Opportunity Creation Process 309
- 11.3 The Simplified Social Value Chain 314
- 11.4 The Social Enterprise Spectrum 318
- 11.5 Ecosystem of Social Entrepreneurship 325
- 13.1 The Strategic Marketing Process 371
- 13.2 Positioning Map for Hypothetical Immigrant-Serving Agencies 377
- 14.1 Advocacy Cycle 399
- 14.2 Advocacy Triangle 411
- 14.3 The Cycle of Organizing 420
- 15.1 The Collaborative Value Creation Framework 428
- 15.2 The Collaborative Value Creation Spectrum and Sources of Value 430

15.3	Value Creation and Types of Value	433
15.4	Value Mindset Dimensions	434
15.5	Collaborative Mindset Dimensions	436
17.1	The Dual Bottom Line Matrix	484
18.1	Contributions by Recipient Category	490
18.2	Percentage of High Net Worth Households Who Gave to Charity in 2009, 2011, and 2013, Compared to the U.S. General Population (in Percent)	492
18.3	The Fundraising Cycle	493
18.4	The Donor Pyramid of Fundraising Strategies	495
21.1	Three-Point Checklist	568
21.2	Operating Budget Equation	571
21.3	Capital Budget Equation	572
23.1	Regression Analysis Illustrating the Relationship of Current Salaries to Market Data	652
23.2	Broadbanding Superimposed on a Traditional Salary Structure	664

Tables

3.1	Types of Nonprofit Organization (2013)	85
4.1	Characteristics of Accountability Mechanisms	116
12.1	Linking Enterprise Process and Practice	353
17.1	Finance Functions, Tasks, and Qualifications	480
19.1	Sources of Revenue for Alternative Nonprofit Subsectors	510
19.2	Selected Arts and Culture Nonprofits in Atlanta	511
19.3	Selected Human Service Nonprofits in Atlanta	511
21.1	Hypothetical Cash Flow Analysis	566
21.2	Hypothetical Cash Flow Projections	567
21.3	Template for Line Item and Program Budgets Combined	574
21.4	Characteristics of Nonprofit Income Sources	576
21.5	Hypothetical Variance Analysis	579
21.6	Yields on U.S. Securities and APRs on Bank-Issued CDs by Maturity	581
21.7	Composition of Income Portfolio of Major Subsectors	583
21.8	Asset Allocation Models	584
22.1	The Candidate Selection Process	624
22.2	Relevant Human Resource Questions as a Reflection of Organization Size and Life Cycle	634
23.1	Example: Assigning Points to Factor Levels	658
23.2	Example: Job Evaluation Spreadsheet	659
24.1	Motivation for Involvement in Volunteer Work by Year, 1965–1991 (in Percentages)	712

Exhibits

- 5.1 The Core Functions of the Public Service Governing Board 137
- 16.1 An Impact Model for a Training Program for Executives of Local Branches of a National Nonprofit 451
- 18.1 The Donor Bill of Rights 500
- 18.2 Association of Fundraising Professionals (AFP) Code of Ethical Principles and Standards of Ethical Practice 500
- 18.3 Boards of Directors' Areas of Involvement in Fundraising 506
- 22.1 Sample Human Resource Audit Checklist 615
- 23.1 Selected Salary Survey Sources 649

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Dennis R. Young is executive in residence in the Maxine Goodman Levin College of Urban Affairs at Cleveland State University and professor emeritus at Georgia State University. Previously he was a professor of public management and policy in the Andrew Young School of Policy Studies where he directed GSU's Nonprofit Studies Program and held the Bernard B. and Eugenia A. Ramsey Chair in Private Enterprise. From 1988 to 1996 he was director of the Mandel Center for Nonprofit Organizations and Mandel Professor of Nonprofit Management at Case Western Reserve University. He is the founding editor of

the journal *Nonprofit Management and Leadership* and founding and current editor of *Nonprofit Policy Forum*, and a past president of the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA). His books include *A Casebook of Management for Nonprofit Organizations*, *Economics for Nonprofit Managers* (with Richard Steinberg), *Corporate Philanthropy at the Crossroads* (with Dwight Burlingame), *Effective Economic Decision Making for Nonprofit Organizations*, *Wise Decision-Making in Uncertain Times*, *Financing Nonprofits*, *Handbook of Research on Nonprofit Economics and Management* (with Bruce A. Seaman), *Civil Society, the Third Sector and Social Enterprise: Governance and Democracy* (with Philippe Eynaud and Jean-Louis Laville), and *The Social Enterprise Zoo* (with Elizabeth A. M. Searing and Cassady V. Brewer). In 2013, his 1983 book *If Not for Profit for What? A Behavioral Theory of the Nonprofit Sector Based on Entrepreneurship* was digitally reissued with new commentaries from contemporary scholars by the Georgia State University Library. Young received ARNOVA's 2004 Award for Distinguished Achievement and Leadership in Nonprofit and Voluntary Action Research and the Award for Innovation in Nonprofit Research from the Israeli Center for Third Sector Research at Ben Gurion University in 2005. In 2010 he was awarded an honorary doctorate from the University of Liege in Belgium for his work on social enterprise and entrepreneurship. He served on the governing board of the National Council of Nonprofits from 2008 to 2014 and the Advisory Board of the Foundation Center/Atlanta from 2005 to 2015.

THE EDITOR

David O. Renz is the Beth K. Smith/Missouri Chair in Nonprofit Leadership and the director of the Midwest Center for Nonprofit Leadership, the nonprofit leadership research and development center of the Henry W. Bloch School of Management at the University of Missouri–Kansas City. Renz earned a master of arts degree in industrial relations in 1978 and a Ph.D. with a concentration in organization theory and administration in 1981, both from the University of Minnesota.

Renz teaches and conducts research on nonprofit and public service governance and leadership, especially, on strategies for improving nonprofit organization and board effectiveness. He writes extensively for both the scholarly and practice communities and has published reports, chapters, and articles in a wide variety of journals, including *Nonprofit Management and Leadership*, *The Nonprofit Quarterly*, *Strategic Governance*, *Public Productivity and Management Review*, *Public Administration Review*, and *Nonprofit and Voluntary Sector Quarterly*.

Renz has served public service organizations in many capacities, including consulting and service on many councils, task forces, and governing boards. He is past president of the Nonprofit Academic Centers Council, a network of university-based nonprofit centers that he helped found, and has served as an officer and on the governing boards of many nonprofit field-building organizations, including the Association for Nonprofit Research and Voluntary Action

(ARNOVA), the Fieldstone Alliance, and the Forum of Regional Associations of Grantmakers. In 2015, he served as the founding president of the Governance Section of ARNOVA. He also is active in several networks of nonprofit capacity building consultants and organizations, including the Alliance for Nonprofit Management and the statewide nonprofit association, Nonprofit Missouri. For eight years, Renz also served as executive director of Kansas City's Clearinghouse for Midcontinent Foundations. Prior to joining the University of Missouri system, he was a Minneapolis-based consultant and taught at the University of St. Thomas. His career includes several senior executive positions in government, including executive director of the Metropolitan Council of the Twin Cities and assistant commissioner of administration for the State of Minnesota Department of Labor and Industry.

INTRODUCTION TO THE FOURTH EDITION

David O. Renz

It is a pleasure to have the opportunity, on behalf of founding editor Robert Herman and all of us associated with *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, to present this fourth edition. With Robert's retirement, it became my privilege to assume the role of editor for the 2010 edition of the *Handbook*, and now we have the opportunity to share the fourth edition with nonprofit leaders, managers, and students throughout the United States and the world. Needless to say, my aspiration is to sustain the legacy and value of the first three editions while increasing the relevance and impact with the latest and most substantive of insights into the changing and expanding world of nonprofit leadership and management. All chapters of this fourth edition of the *Handbook* present the most current of research, theory, and practice in the field of nonprofit leadership and management, written in a manner that is practical and relevant. To ensure that the *Handbook* continues to meet the needs of this fast-changing field, we have further developed our changes in emphasis in three important areas. First, we continue to focus our attention on the challenges that confront essentially all nonprofit leaders and managers with regard to heightened demands for accountability, transparency, and the need to demonstrate outcomes and results. Alnoor Ebrahim's seminal chapter on how to understand and address the complexities and implications of the "many faces of nonprofit accountability" sets the stage for this, and the issues and themes he highlights

are addressed from the perspective of specific fields in subsequent chapters on ethics, finance, advocacy, marketing, and more.

Second, we continue to focus our attention on the increasingly popular phenomenon of social entrepreneurship, and all of the ways it is defined and understood, with additional focus on its implications for nonprofit leadership and management. The foundation for this discussion is Matthew Nash's revised chapter on social entrepreneurship and social innovation, and the majority of the chapters in the book reflect the need to consider the implications of this phenomenon with regard to each of their topics. Integral to this is the third area of emphasis, the increasingly complex and dynamic world of nonprofit financial management. The financial environment and character of the sector has been changing quite dramatically over the past fifty years, as Brent Never illustrates and explains in his chapter on the changing context of nonprofit management, and all chapters in the financial section of this edition have been revised to address this. Two chapters that were new to the third edition have been substantially revised to reflect the additional complexity of this new environment and the resulting financial leadership and management challenges that confront nonprofits and their leaders. First is the framing chapter on financial leadership by Jeanne Bell and Shannon Ellis, and second is the foundational chapter on nonprofit finance and resource development by Dennis Young and Jung-In Soh.

For this fourth edition, we also have substantially enhanced the chapter-by-chapter resources and tools that we make available to readers and educators via the *Handbook's* Internet resource site. All who purchase the *Handbook* are invited to visit the Wiley Premium Content Internet resource site (www.wiley.com/go/JBHandbook) where they will find an extensive array of supplemental resources designed to help readers make the most of the information presented in each chapter. Among the resource materials on the site are supplemental readings lists, annotated website reference lists with hot links to useful chapter-relevant Internet resources, plus application resources such as worksheets and checklists that can be used to begin to apply the knowledge and information relevant to each chapter. In addition, for educators, a special password-protected website has been created. Among the resources on this unique access-controlled site are the *Handbook* instructor's manual and chapter-specific teaching materials, including PowerPoint presentations, discussion guides and questions, sample assignments, and related teaching tools. Educators who wish to gain access to these teaching resources should go to www.wiley.com/college/JBHandbook and register to secure access.

This edition of the *Handbook* arrives at a very interesting time in the development of the nonprofit sector (throughout this volume, we will use the label "nonprofit sector" to refer to the sector that others sometimes label "the third

sector,” “civil society,” “the independent sector,” or “the social sector”; and we generally will use the label “nonprofit organization” to refer to both nonprofits and organizations that typically are referred to as “nongovernmental organizations” or “NGOs” in many parts of the world). The pace at which the sector and its organizations change continues to accelerate, driven by a complex mix of internal and external dynamics. This edition goes to press as the nonprofit sector finds itself recovering from the effects of one of the most challenging and troubling of economic times. The results and implications of this difficult era are yet to be fully understood, although early signs suggest that the nonprofit world has been changing (and continues to change) in fundamental ways. As Brent Never discusses in this volume, the nonprofit sector as a whole is quite resilient. Some segments have recovered relatively well, yet many other segments—especially small and community-based organizations—have not been able to recover very well from the effects of the recession. “Lifeline” or “safety net” nonprofits continue to struggle from the “triple whammy”—continued higher demand for services, coupled with significant declines in governmental financial support and only recent rebound in philanthropic support (in the United States, but not everywhere), combined with a very slow recovery in nonprofits’ own internal resources (to the extent they ever existed). Five years after the recession seemed to end, it remains true in the United States and in many other nations that the safety nets are fraying, the level of stress throughout the sector remains significant, and there is no potential to return to the conditions of the past. It is indeed a new era for nonprofit leaders and managers!

Challenges and threats notwithstanding, the dynamics of the current times also offer opportunity and hope. The enthusiasm that many have for the fast-growing interest in social entrepreneurship (no matter how you define it) is bringing new and sometimes different kinds of energy to the field. Some reflect the tensions of competition from new organizational forms (for example, hybrids that blur the lines between nonprofit and for-profit enterprise and for-profits that are created with the explicit goal of social impact rather than financial gain for their founders). Many of today’s changes are the result of the very innovation and creativity that the nonprofit sector can be so good at fueling—the adoption of new ways of understanding charity and social good and the development of entrepreneurial new ways of meeting the needs of people and communities. In addition, fundamental shifts are under way throughout the United States and many other nations as a direct result of key demographic changes, as new cultures, perspectives, and generations become more fully integrated into the leadership of the sector. The pace and depth of technological change and the increased presence of various social media certainly fuel additional forces for change in the sector. And a new generation of enthusiasm

for volunteering and community service seems to be emerging as well. From a leadership and management perspective, the challenges confronting the sector are exceptional. Yet so, too, are the opportunities—for those prepared to step in and make the difference!

The Jossey-Bass Handbook of Nonprofit Leadership and Management emerged in response to the need for a single volume that would offer a comprehensive and thorough treatment of the functions, processes, and strategies integral to nonprofit organization leadership and management. Writing in the preface to the second edition of this *Handbook*, editor emeritus Herman observed that all too often advice on financial management, human resource management (for both paid and volunteer personnel), and organizational strategies and leadership has been available only in fragmentary pieces published in far-flung periodicals that are not readily available (p. xvii). In recent years, the volume of literature of the field has grown and developed in impressive ways. And yet, the need for a single comprehensive volume on nonprofit leadership and management remains. We are proud that this fourth edition of the *Handbook* (with its supplemental Internet resources) will extend the legacy as we meet this need with timely, substantive, and readable knowledge and information that is uniquely suited to the challenges of Twenty-First Century nonprofit leaders and managers.

Intended Audience

This volume is designed to provide comprehensive and in-depth explanations of effective leadership and management practices, relevant to and applicable throughout any nonprofit organization. We intend the *Handbook* to be of value to all who practice nonprofit leadership or management, as well as those who aspire to do so. It will be especially useful to anyone who has come to a management or leadership position from a program service background, to anyone who has moved from a relatively specialized management niche into a position with extensive general responsibilities, and to all who seek a solid core of support for the wide range of knowledge and skills that nonprofit leadership requires. In addition to those in paid staff positions, this volume will benefit board members and other volunteer leaders who are interested in enlarging their understanding of the nature of nonprofit organizations and their management. This *Handbook* also will be useful to those, both in formal education programs and in self-directed learning, who want to prepare for careers in nonprofit management. Finally, we want this book to continue to be an important resource to those who work with nonprofit organizations as consultants, technical assistance providers, regulators,

and funders, and to inform their efforts to build the capacity, sustainability, and impact of the nonprofit sector across the globe.

Overview of the Contents

This volume is organized into five parts, and each part addresses the challenges of a significant part of the puzzle that is nonprofit management and leadership. Part One provides an overall perspective on the context and institutional setting within which nonprofit organizations and the sector as a whole have developed and currently operate, with observations about the ways this context is likely to change for the future. Nonprofit organizations have been shaped and will continue to be shaped by the historical times and forces, by social institutions, laws and regulations, and political and economic trends and events. The chapters in Part One consider how these large-scale phenomena have affected and are affecting nonprofit organizations and their leadership and management. In Chapter One, Peter Dobkin Hall succinctly describes the complex history of philanthropy and nonprofit organizations in the United States, exploring how and why the nonprofit sector has developed as it has. In Chapter Two, Bruce Hopkins and Virginia Gross offer a timely and current explanation of the national-level legal and regulatory environment in which U.S. nonprofit organizations operate. This chapter provides insight into recent legislative changes and discusses how the U.S. Internal Revenue Service is likely to proceed with implementation and enforcement. In Chapter Three, Brent Never provides an assessment of the impact of large-scale economic, political, and demographic forces on various segments of the nonprofit sector in the United States and discusses their implications for nonprofit management. Alnoor Ebrahim, in Chapter Four, describes the increasingly strong press for accountability in the nonprofit sector, discusses alternative ways that accountability can be understood, and offers key insights for ways nonprofit leaders might address them.

Part Two examines the ways that leadership is provided in nonprofit organizations, including the work of governance and strategic management. Boards of directors of nonprofit organizations govern their organizations and, therefore, are central to the process of nonprofit leadership. Many also engage in some forms of management work. There is clear evidence that there is an important relationship between board effectiveness and the effectiveness of nonprofit organizations, and nonprofits need effective boards. In Chapter Five, I describe the leadership and management functions of governing boards (including the legal and fiduciary responsibilities of boards and their members),

discuss some of the major challenges that confront boards, and offer a board development framework that explains how nonprofit leaders can help build board capacity. In Chapter Six, Robert Herman examines the crucial role of chief executives in leading and managing nonprofit organizations and describes the board-centered, external, and political leadership skills of especially effective chief executives. Nonprofit executives and other leaders have the challenge of creating and sustaining organizational cultures and practices that uphold the highest of ethical standards. Thomas Jeavons offers important insight into the ethical challenges that leaders must address and provides important advice about how this can be achieved in Chapter Seven.

Leading and managing strategically is essential to nonprofit success, and one of the key leadership tasks facing boards and top executives is that of organizing and managing the work of the organization to ensure it achieves its mission. In Chapter Eight, William A. Brown presents a broad and strategic overview of the work of strategic management and the key elements that compose it. John Bryson, in Chapter Nine, builds on these key concepts with a very complete and thoughtful explanation of the work of executives and boards in developing organizational strategy, including a comprehensive model of the strategic planning processes by which this might best be accomplished. Finally, for this part of the book, Robert Herman and I, in Chapter Ten, offer a general perspective and set of insights that we have developed from the research on the elusive concept of nonprofit organizational effectiveness, how it is related to leadership and management, and discuss its implications for organization and management practice. Each of these chapters offers important insights into the processes, dynamics, and practices that have an impact on the degree to which nonprofit organizations are effectively governed and led.

The contributions in Part Three begin to get at the heart of nonprofit organizational management operations. Effective nonprofit leaders and managers understand that their organizations develop, grow, and thrive because they have developed an important mutually beneficial relationship with the world they exist to serve. Similar to all organizations, nonprofits succeed because they offer value and make a valuable difference in the communities and societies they emerge to serve. The chapters of Part Three of this *Handbook* build on Part Two to explain how nonprofit organizations start, develop, grow, and (sometimes) disappear. In Chapter Eleven, Matthew T. A. Nash helps us understand various ways that nonprofits and other social ventures get their start, and how those with socially innovative ideas hone and develop them to become functioning organizations that make a difference—that achieve a social impact. This is the realm of the increasingly popular but oft-misunderstood topic of “social entrepreneurship.” Scott T. Helm, in Chapter Twelve, builds on the concepts presented in Nash’s

chapter with practical information about the development of a social venture, including, in particular, the processes by which nonprofit leaders can use the concepts and practices of business planning to effectively operationalize their visions for community service and impact.

In Chapter Thirteen, Brenda Gainer explains nonprofit marketing, the discipline that enables us to understand how to effectively develop and manage relationships and engage in the exchanges that every enterprise must develop with its key constituents, clients, and stakeholders to survive. And in Chapter Fourteen, Marcia A. Avner explains the process of advocacy by nonprofits, including a discussion of the most effective approaches that nonprofits can employ to engage constituents and exercise influence in governmental policy processes to have an impact on legislation and policy that will affect their work and their clients' lives. James E. Austin and M. May Seitanidi offer a new perspective on collaboration in Chapter Fifteen, and explain how nonprofits can understand and develop valuable collaborative relationships and alliances—alliances that have the greatest potential for generating additional benefit and impact for all partners. Of course, the press for nonprofits to show that the work they and their programs do makes a difference requires that nonprofit leaders and managers understand how to assess and communicate about the performance and impact of these programs. The final chapter of Part Three, Chapter Sixteen by John Clayton Thomas, addresses the core principles of program evaluation and offers guidance for how nonprofits can most pragmatically assess program effectiveness and results.

The chapters of Part Four collectively address the multiple facets of the process of securing, allocating, using, and accounting for financial resources, all with the orientation of maximizing the potential for mission impact and results. Jeanne Bell and Shannon Ellis set the tone in Chapter Seventeen with their discussion of strategic financial leadership; they discuss how the strategic orientation of effective financial leadership has the potential to open the door to new possibilities for nonprofit development and sustainability. Of course, raising money through philanthropic channels is a time-honored approach to securing funds for nonprofits. In Chapter Eighteen, Sarah K. Nathan and Eugene R. Tempel outline the key elements of an effective fundraising program for a typical nonprofit and explain key options that exist for nonprofits that seek gifts and donations. Dennis R. Young and Jung-In Soh approach the financial resource question from a broader and more strategic perspective in Chapter Nineteen, where they discuss the range of options for securing financial resources and present a framework to inform decisions about the critical question of revenue mix. In Chapter Twenty, Steven Rathgeb Smith examines the nature and implications of nonprofit-government contracting and how this has evolved in the