

The *Nascent* Nonprofit Organization— *What Happens Before a Nonprofit Is Born?*

by Fredrik O. Andersson

While the earliest phases of nonprofit life remain an essential area of study, the nascent stage of nonprofits is a valuable window into organizational development.

THERE IS A CLASSIC PHILOSOPHICAL PROBLEM called the “sorites paradox,” or “paradox of the heap”—a version of which goes something like this: A single grain of wheat does not comprise a heap; as a single grain is not a heap, if you add one more grain, you still don’t have a heap; as two grains are not a heap, add a third grain, and you still don’t have a heap; and so on. Following this logic, no amount of wheat added to that first grain can make a heap. While the line reasoning is plausible, it arrives at what appears to be a false conclusion—thus the paradox.

I highlight this philosophical riddle in an article about organizational emergence because it illuminates the difficulty of identifying exactly when enough of something accumulates to allow one to assert that a heap has come into existence. The same applies to new organizations: Is thinking about starting a new nonprofit organization enough to say that a new nonprofit has been created? Is gathering information or talking to

people about starting a new nonprofit verification of its existence? How about amassing resources? One could, of course, argue that a nonprofit is born the minute it has been officially registered by the IRS and thus attains formal status—but I would argue that the emergence of a new nonprofit organization is better understood as a process rather than a discrete event or state. Specifically, reducing nonprofit birth to the act of registration is to simplify and ignore critical aspects of the organizing process.

This is not to say that formally registering a new nonprofit is a minor event. Quite the opposite: registration is an important act that establishes boundaries—that is to say, a “barrier condition between the organization and its environment.”¹ As these boundaries coalesce, it is possible for the founder(s) of the new organizations to (among other things) establish routines and procedures, and develop capacities within the nonprofit that allows it to take coordinated action. Still, nonprofit founders do not instantaneously register new nonprofits but rather create them through various actions—many of which take place before formal registration of the new agency occurs. And,

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in the entrepreneurship literature, the portion of the development process transpiring before any formal entity has been established is often referred to as the *gestation* or *nascent* stage of organizational development.

Despite its intuitive appeal, however, the gestation of nonprofit organizations remains a relatively underresearched area—in part because it is hard to identify a nascent nonprofit organization. While there appears to be growing scholarly interest in trying to better understand the earliest phases of nonprofit life, to date the only thing we know is that we don't know much.² This article is organized around a number of observations of the nascent stage, based on my own research and work with nonprofit start-ups as well as on findings from the entrepreneurship and social entrepreneurship literature. My hope is that these observations will serve as an entry point for discussion and debate, and stimulate further research focusing on nonprofit emergence.

Observation #1: The patterns of emergence are exceptionally heterogeneous.

When examining the nascent stage of organizational development, we find that it is not a linear process. We also find that it is exceptionally heterogeneous. In one of the first empirical studies of firm gestation, Paul Reynolds and Brenda Miller examined the conception-to-birth process of over three thousand ventures. They found that many of the ventures did not engage in all of the presumed key events of gestation; in addition, they were not able to detect any particular sequencing of the various actions the ventures took. They also found significant variance in the *types* of actions taken. In other words, these ventures differed in terms of what they were doing as well as in what order.³

But while organizational creation is not a linear process, it remains depicted as one. Recently, I visited the “how to start a new business/nonprofit” section in my local bookstore, and the vast majority of books were organized as manuals, providing road maps or step-by-step instructions on what to do and how and when to do it. And perhaps the most common instruction given to would-be-entrepreneurs that comes out of this literature is to begin by generating a business plan.

Given that there are many unknowns when attempting to initiate a new organization, writing a business plan before moving forward seems reasonable and useful. I have nothing against nonprofit business plans, and *planning* is indeed a powerful and important process for any organization—but nonprofit emergence is so much more than a plan, and creating a business plan, as we know, is not a necessary condition for starting up a new nonprofit (after all, nonprofits came into being as far back as 1793, as de Tocqueville observed in his account of his visit to the United States in 1831—long before the idea that every start-up needs a business plan became a founding principle). Nor is creating a business plan a necessary condition for start-up success. Plenty of research in the for-profit field has examined the link between business plans and organizational performance, but the evidence to date is inconclusive. In addition, it is often noted how highly successful entrepreneurs, including Steve Jobs, Bill Gates, and Michael Dell, did not write formal business plans before starting their ventures, and many entrepreneurs consider producing a business plan a waste of scarce resources and time that ought to be devoted to more-productive activities. Finally, an underlying assumption of the business plan is that the entrepreneur can figure out most of the unknowns of a new organization in advance—but in today's dynamic and often uncertain nonprofit environment, making plans can be inherently difficult, and relying on a plan can be unwise if the conditions change. Or, as Mike Tyson put it, “Everyone has a plan—until they get punched in the face.”

The point here is that a business plan is just one of many possible actions a nascent nonprofit entrepreneur may or may not undertake. And taken together, the range, timing, and choices of actions to consider and account for illustrate the difficulties and complexities facing scholars, start-up funders, and policy-makers trying to fully comprehend the birth stage of nonprofit organizations. Clearly, there is more than one way to get through the nascent stage and end up with a new nonprofit organization—and, in order to understand such equifinality, we need to view nonprofit organizational birth as the result of an experimentally oriented rather than linear process.⁴

Observation #2: The length of the nascent stage varies significantly.

In addition to the variability discussed in the previous section, the time it takes for a nascent entrepreneur to move a new organization from inception to birth also differs considerably. The Reynolds and Miller study found that the average nascent stage lasted around three years, yet some of the ventures in their sample took as little as four weeks and others close to a decade to get off the ground.⁵ That the length of the nascent stage can vary significantly suggests that time may not be a very useful factor in analyzing the birth of new organizations. Some scholars advocate that we may do better to look at capacity, and that what determines the length of the nascent stage is linked to the “maturity” of these capacities.⁶ The starting point for the capacity approach is that during the nascent stage, an emerging organization is vulnerable, and overcoming this vulnerability is essential for a new organization to progress to the next level. In other words, the length of emergence depends on the ability to develop a sufficient capacity endowment—and the time this process takes can vary considerably from venture to venture.

Observation #3: Many nascent organizations perish before they are “born.”

The notion that nascent organizations are vulnerable is supported by research by Simon Parker and Yacine Belghitar, Howard Aldrich, and Maija Renko, among others.⁷ Renko noted recently that “the start-up process of a new venture is precarious: most entrepreneurial activities end in ‘near-misses,’ that is, organizations that die while emerging.” Renko’s statement is based on data from the Panel Study of Entrepreneurial Dynamics, which found that six years after entering the nascent stage, two-thirds of entrepreneurs had either abandoned the process or were still trying to start up the new venture.⁸ This observation is important for two related reasons. First, it illuminates how the common perception of organizational birth as an observable formal start-up results from analysis of two underlying rates: the rate at which nascent organizational activity is instigated,

and the success rate of such attempts. So, when we talk about nonprofit organizational “deaths,” we must distinguish and clarify whether or not we are including both nascent-stage deaths and deaths of nonprofits already founded. Clearly, if we include the former, the overall number of deaths significantly increases, and if we study just the latter, we are likely to ignore potentially important insights into how and why organizations live or die. Second, if nascent deaths are not taken into consideration in discussions about and research on nonprofit births, we have a selection-bias issue resulting from only considering nascent activities that led to successfully established organizations. Per Davidsson points out that this approach is “equivalent to studying gambling by exclusively investigating winners.”⁹ This, in turn, highlights the importance of generating panel rather than cross-sectional data that take into account nascent activity, in order to properly analyze how new organizations are born, what allows new organizations to thrive, and why and how they die.

Observation #4: We need to know more about the intentions of nonprofit entrepreneurs.

A key concern when trying to analyze the nascent stage is where to begin—in other words, what are the early factors leading to nascent activity? Because new organizations are seldom coerced into being, and because they do not represent a random, passive by-product of environmental circumstances, scholars have long focused on intentionality, which proposes that at inception the fundamental organizational idea resides within the entrepreneur, and therefore the goals of the new organization are reflections of his or her intentions.¹⁰ Hence, during the nascent stage it is initially the entrepreneurs’ intentions that help craft the direction and actions taken. Several scholars believe that, given the above, intentionality must precede more tangible features of emerging organizations (for example, looking for resources).¹¹

Notwithstanding the scholarly challenge to capture and assess entrepreneurial intent, the intentionality construct has long been an important puzzle piece in a much-needed conceptual

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framework for entrepreneurship on which researchers can anchor their studies of new-venture creation. In the nonprofit literature to date, the creation of nonprofits is often framed as a response to market failure, government failure, or contract failure—or in response to various expressive needs.¹²

Nonprofit entrepreneurs are also frequently described as passionate and ideologically motivated individuals who seek to address problems and/or needs that speak to them on those levels.¹³ However, while such characteristics as being responsive to problems and needs and being passionate and driven are useful information, this does not tell us much about the nonprofit entrepreneur's intentions for his or her new organization. What are the aspirations and goals with respect to growth? Will the organization use an innovative approach, or will it replicate what is already in use? Is it a hobby project, or is it going to be the entrepreneur's source of employment? The answers to these types of questions are key to understanding how a nascent venture gets organized and evolves, and thus should be explored in much more detail by nonprofit scholars.

Observation #5: What transpires during the nascent stage leaves an enduring imprint on the new organization.

In his seminal work "Social Structure and Organizations," Arthur Stinchcombe highlighted the enduring impact of prior organizational history on subsequent organizational structures and events.¹⁴ The idea that important founding conditions are embossed onto new organizations and tend to persist over time is often referred to as "organizational imprinting." Because of its long-lasting implications, I would argue that understanding the process of imprinting is one of the primary reasons nonprofit scholars and practitioners need to pay more attention to the nascent stage. Therein lie potential answers to very critical questions and facets of organizational development, including how nonprofit organizational identity and/or culture are shaped, and why nonprofits initiated at different times have different forms and follow different strategies.

In addition, insights from studies of imprinting during the nascent stage can help bring greater clarity to such issues as the sources and rationales of founder's syndrome and how emerging nonprofits seek to overcome their liability of newness and increase their legitimacy.

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This article attempts to show that paying attention to the nascent stage of nonprofits is a sound and valuable approach to viewing nonprofit birth as a process, and that it opens up a new and very promising avenue for nonprofit entrepreneurship and organizational research. While there is a growing interest in the earliest phases of nonprofit life, there is still considerable room and need for further research and discussion regarding the nascent stage and how we can better understand it. While the five key observations outlined above are certainly not the complete picture, my hope is that they will facilitate progress in learning about the nascent stage and why it is essential to a comprehensive understanding of organizational development. Research on the nascent stage of nonprofit organizations is, in other words, in its own nascent stage—suggesting that there are innumerable challenges and opportunities to take on moving forward.

NOTES

1. Jerome Katz and William B. Gartner, "Properties of Emerging Organizations," *Academy of Management Review* 13, no. 3 (July 1988): 432.
2. See, for example, Juita-Elena Yusuf and Margaret F. Sloan, "Effectual Processes in Nonprofit Start-Ups and Social Entrepreneurship: An Illustrated Discussion of a Novel Decision-Making Approach," *The American Review of Public Administration* (November 7, 2013); and Joanne G. Carman and Rebecca Nesbit, "Founding New Nonprofit Organizations: Syndrome or Symptom?," *Nonprofit and Voluntary Sector Quarterly* 42, no. 3 (June 2013): 603–21.
3. Paul Reynolds and Brenda Miller, "New Firm Gestation: Conception, Birth, and Implications for Research," *Journal of Business Venturing* 7, no. 5 (September 1992): 405–17.
4. Equifinality is a concept from open systems theory describing how the same end state can be accomplished

and reached by many different potential means.

5. Reynolds and Miller, "New Firm Gestation."

6. Per Davidsson and Magnus Klofsten, "The Business Platform: Developing an Instrument to Gauge and to Assist the Development of Young Firms," *Journal of Small Business Management* 41, no. 1 (January 2003): 1–26.

7. Simon C. Parker and Yacine Belghitar, "What Happens to Nascent Entrepreneurs? An Econometric Analysis of the PSED," *Small Business Economics* 27, no. 1 (2006), 81–101; Howard E. Aldrich, *Organizations Evolving* (Thousand Oaks, CA: Sage Publications, 1999); Maija Renko, "Early Challenges of Nascent Social Entrepreneurs," *Entrepreneurship Theory & Practice* 37, no. 5 (2013): 1045.

8. Renko, "Early Challenges of Nascent Social Entrepreneurs," 1045.

9. Davidsson, "Nascent Entrepreneurship: Empirical Studies and Developments," *Foundations and Trends in Entrepreneurship* 2, no. 1 (2006): 3.

10. Katz and Gartner, "Properties of Emerging Organizations," 429–41.

11. See, for example, Kevin E. Learned, "What Happened Before the Organization? A Model of Organization Formation," *Entrepreneurship Theory and Practice* 17, no. 1 (1992): 39–48; and Christopher L. Shook, Richard L. Priem, and Jeffrey E. McGee, "Venture Creation and the Enterprising Individual: A Review and Synthesis," *Journal of Management* 29, no. 3 (June 2003): 379–99.

12. Carman and Nesbit, "Founding New Nonprofit Organizations."

13. Michael Miller, "Small Is Beautiful—But Is It Always Viable?," in *Small Nonprofits: Strategies for Fundraising Success*, New Directions for Philanthropic Fundraising 20, ed. Mary Louise Mussoline (San Francisco: Jossey-Bass, 1998), 93–106.

14. Arthur L. Stinchcombe, "Social Structure and Organizations," in *Handbook of Organizations*, ed. James G. March (Chicago: Rand McNally, 1965), 142–93.

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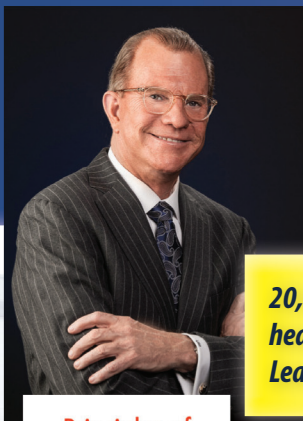
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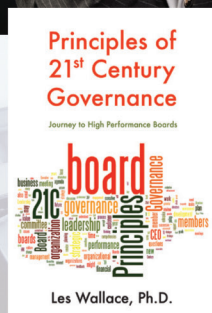
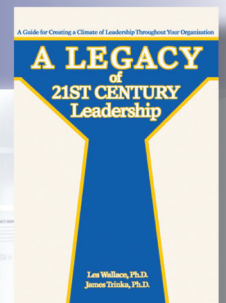
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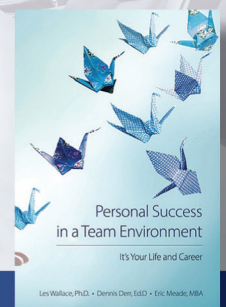
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