

On socio-economic roles of private non-profit universities, with policy implications for Vietnam

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Abstract

This paper reviews and applies the general theories in the nonprofit organization literature to private nonprofit universities. The primary objective is to identify significant socio-economic roles that may help explaining the long and growing existence of this type of universities in many countries in the world. It is found that nonprofit universities fill the demand gaps neglected by the public and for-profit private universities, provide the needed (although not perfect) protection for the students and their sponsors from potential exploitative behavior by the people in control of privately owned universities, create new opportunities to mobilize additional developmental resources to supplement the public funds and private capitals, improve productivity and quality in both private and public universities through increased competition and spillover, and establish attractive environment for academic and other socially minded professionals to pursuit social missions in higher education. The paper also explores some inherent weaknesses of the nonprofit status of universities that include possible increase of agency cost and decrease of operational efficiency. The analysis provides conceptual framework for policy implications at both government and university levels to maximize potential benefits while limiting the costs of this increasingly important sector in higher education.

Key words: nonprofit universities, higher education, socio-economic cost and benefits, policy implications, Vietnam

Introduction

Compared with the vast research literature on nonprofit organizations, the governance issues of private universities have attracted little interest in the academia. Although nonprofit universities could be considered as a subsector in the larger sector of general nonprofit organizations, one may wonder if the specific characteristics of higher education have any important bearing on the governance choice and behavior of private nonprofit universities. The large variation in size and scope of private universities, both nonprofit and for-profit, in different parts of the world also raises the question of what may explain the existence and development of different governance status of private universities.

In this conceptual paper, I explore the possible social and economic roles filled by nonprofit universities, and the implications of this governance choice on their behavior. The key research questions are as follows:

- What are the benefits that nonprofit universities can bring to society?
- What are the inherent weaknesses of this choice of governance and how are they manifested in the differences in the behavior of nonprofit universities relative to for-profit universities?
- What policy implications (at government level as well as the university level) could be derived from such analysis of the nonprofit higher education sector?

To answer these questions, I rely on the salient characteristics of higher education and the general theories developed in the nonprofit organization literature. For social entrepreneurs – and to a certain extent, for managers, professoriate and staff – working in higher education, this essay provides rational justification for their choice toward nonprofit status. For policy makers, a balanced analysis of the benefits and possible weaknesses of the nonprofit governance status of private universities can help formulate effective policy to support and regulate this important subsector of the higher education market.

The next section describes the various theories developed in research literature that explain the needs for, and benefits of, nonprofit organizations, and discuss how they can be applied to the higher education market. Then I discuss the inherent weaknesses of the nonprofit status, again by applying the theories developed for nonprofit organizations to private universities. Finally, I explore the policy implications, both at government and university levels, for the development of a healthy private higher education sector in Vietnam.

Benefits of the nonprofit governance form of private universities

Higher education (also called tertiary or postsecondary education) is commonly understood as a large and diverse area of services that includes continuing education, vocational and professional diploma programs, associate-degree programs, regular and professional undergraduate education, liberal arts education, post-graduate and doctoral education. This diversity itself probably

represents the most salient characteristic of higher education, with the implication that the institutions providing such services may vary greatly from training centers focused on short-term non-degree programs to local community colleges and large national research universities offering a wide range of programs to a huge and diverse student body. For simplicity, we will call all such institutions “universities”.

It is commonly accepted in literature of nonprofit organizations that a private university, or any private provider of social services, is called nonprofit if it “is barred from distributing its net earnings, if any, to individuals who exercise control over it”, a condition commonly called “non-distribution constraint” (Hansmann 1980, p.838)¹. Several authors have developed various theories to explain the role of the non-distribution constraint, and consequently, of the existence of NGOs (see for example, Salamon and Anheier 1998, Weisbrod 1977, 1989, Hansmann 1980, 1987, Rose-Ackerman 1996, Hirth 1997). In what follows, I describe briefly the theories and then apply them to nonprofit universities, taking into account specific characteristics of higher education services. The explanations can be divided into three groups: the demand-side, the supply-side, and the competition theories.

Demand-side theories

As in many sectors of economy, it is commonly accepted that private universities, for-profit or not, provide higher education services to meet the demand not fulfilled by public universities. This unmet demand is not necessarily due to the lack of resources from the government for higher education, as one may observe the growing existence of private universities even in wealthy industrialized countries with steady economic growth. In fact, Weisbrod (1977, 1989) argued that when the demand for a service is heterogeneous, which is typically the case in higher education in most countries, the public sector is designed to serve the need of the majority of the population only, and thus leaving certain needs of different (political, cultural, religious and historical) minority groups to be served by the private sector.

The key question here is why we need the services provided by nonprofit private universities. In other words, why we cannot simply rely on the higher education services of for-profit private universities to fill the gap left over by the public universities, just like many other service sectors in the economy (transportation, utilities, telecommunication, etc.)? The answer to this question could be two-fold. First, even with advanced technology in education, there are many traditional areas in higher education (e.g. liberal arts education, basic research education, humanity and social science education, etc.) where the operating expenses are high and the benefits to the students are intangible and only observable in long terms. As a consequence, most for-profit universities simply avoid providing services in these areas as it is difficult to charge tuition high enough to recover the cost, let alone to earn profit. This situation implies that in these areas of higher education, the gaps left over by public universities are also abandoned by for-profit

¹ In this essay, we follow Hansmann (1980, 1987) and the mainstream research literature to refer only to private universities and organizations when we discuss the nonprofit concept and its implications.

universities, and could only be filled by nonprofit ones (Hansmann 2012). Second and more importantly, Hansmann (1980, 1987) proposed a “contract failure theory,” which explains the need for nonprofit organizations even in markets where for-profit firms already provide their services. According to Hansmann, for a private firm to provide goods and services with maximum efficiency, certain market conditions should be met: (a) customers can evaluate the product and prices before making decision; (b) customers can reach clear agreement with the chosen firm on quantity, quality and price; (c) customers can determine if the firm complies with agreement or not; and (d) customers can penalize the firm if it did not. When some of these conditions are not met, either due to the circumstance where the services of the organization are purchased or consumed, or to the nature of the services themselves, the firm has both the incentive and the opportunity to take advantage of customers by providing less service to them than was promised and paid for. In such situations, called “contract failure” by Hansmann or more generally “market failure” (Vlassopoulos 2009, Valentinov 2011, Young 2013), a nonprofit firm providing the same goods and services offers consumers the advantage that, owing to the non-distribution constraint, those who control the organization are constrained in their ability to benefit personally from providing low-quality services and thus have less incentive to take advantage of their customers than do the managers of a for-profit firm.

One can argue that, higher education and especially its major and most traditional elements (that is, under- and post-graduate education), exhibit typical “contract failure” characteristics. In fact, the complexity of higher education services makes it extremely difficult for the “customers” (students or parents) to accurately evaluate the quality and potential benefits of the education they receive and decide whether its values are worth the price (tuition) they pay. Given the nature of higher education, a student may only realize the full value of the education he or she received years or even decades after graduation. By that time, if the student is dissatisfied with the education he or she received, the chance of penalizing the university is practically nil. Moreover, as the students are in the early stage of their career, their tuition is most likely covered by someone else (parents, scholarship donors, student loan providers, etc.), who is in even less position to assess the quality and value of the education received by the students. The situation is aggravated with the information asymmetry commonly found in higher education: the service providers have significantly more information than all other stakeholders about the quality and cost of the education provided (Hansmann 1996, Valentinov 2011, James 2011, Titova & Shutov 2014). Thus, the nonprofit governance form defined by the “non-distribution constraint” presents a (limited) protection for the students (and those who pay for their study) from potential exploitative behavior of those in the control of the universities by at least reducing their incentive to do so.

Exceptions to this “contract failure theory” can be found in certain areas of higher education like vocational and professional programs, corporate training programs, etc. where a healthy for-profit sector has emerged and grown in the past few decades. On the other hand, in traditional undergraduate education over the past few years, together with the rise of for-profit universities,

there is ample reported empirical evidence of malpractices by these universities in the US, especially in recruitment approach, poor quality and financing with public funds (see for example Harkin 2012). These “predatory education” practices include: 1. providing an educational experience that results in net harm to students; 2. harmful rent-seeking behavior; 3. securing student enrollment through fraud or deception; 4. securing student enrollment through misrepresentation, nondisclosure, and questionable business practices that do not amount to outright fraud; and 5. capitalizing on the absence of legal remedies (James 2011). These findings support the merits of the “contract failure theory” as well as the benefits of the nonprofit status in higher education.

Supply-side theories

From the supply side, Rose-Ackerman (1996) argued that in most societies there are groups of people who are motivated by ideology (generalized beliefs in certain social values) or simple altruism to contribute money and time to help other people. She also cited a study by Hodgkinson & Weitzman (1994) that contribution to education makes the second largest percentage of total household contributions to charity in the US, after only donations to religious organizations. Thus, in higher education the nonprofit universities may respond to the need of these altruists and “social entrepreneurs” by reducing their fear that their gift could be converted to private gain, or by avoiding the bureaucratic barriers commonly found in the public sector. In this sense, nonprofit universities provide opportunities to supplement public funds and private capitals with additional resources in society to develop higher education to serve the overall need of the population. Valentinov (2008) extends Rose-Ackerman’s theory to imply that the relevant stakeholders of nonprofit organizations need the non-distribution constraint because they can then better enhance their utility of being involved in pursuing the non-profit mission. This way, the preferences to non-profit mission and the freedom to pursue relevant ideologies and beliefs complement the restriction imposed by non-distribution constraint.

The general “social entrepreneur” theory of Rose-Ackerman and the neo-classical arguments by Valentinov for nonprofit sector could have a direct implication for nonprofit universities that extends beyond mobilizing additional financial resources in society to serve the higher education needs unmet by public universities and for-profit universities. In fact, the majority of the academic faculty in universities may arguably be considered as altruistic professionals who pride themselves in their services to society through creating and disseminating knowledge. For this faculty, monetary rewards may be secondary to academic freedom and professional recognition by society and by their peers in particular. As a consequence, they cannot generally accept the work environment of for-profit universities where faculty self-governance is limited and professors are merely employees contracted to teach in the most cost-effective way standardized courses designed to maximize profits for some shareholders. This way, nonprofit universities provide faculty better environment to pursue a career of pushing the boundary of knowledge and disseminating it to generations of students (Hansmann 2012). In fact, Valentinov (2008) and Handy & Katz (1998) even argued that, for academic professionals, these environmental factors

may substitute monetary incentive and allow for self-selecting those committed to the nonprofit mission of the university.

Competition theories

Without the profit motive, nonprofit universities operate with similar objectives to public universities in the higher education market. Thus, they provide the diversity needed to foster a healthy competition with public universities for the best students and the best faculty. This competition in turn promotes high quality in education and research in both sectors (Levin, 2008).

In the relationship with for-profit universities, it is commonly observed that the quality of education provided by nonprofit universities is better than that provided by for-profit universities at equivalent tuition range. However, the positive quality impacts of nonprofit universities on the higher education market could be much higher due to the fact that consumers (students) cannot have enough information as well as the ability and condition to assess the true quality of their education provided before, during and even after the end of their study in universities. Indeed, extending Cooper & Ross' analysis of competition in markets with informational asymmetry, and Hirth's researches on nonprofit nursing homes in United States, Hoa et al. (2016) developed a competitive model for a mixed market of private for-profit and nonprofit universities. Under some idealistic settings, the model proved what Hirth called the "spillover impact" of nonprofit universities on the overall quality of the market: when the scope of nonprofit sector increases, the poorly informed customers (as most students are) will be disproportionately attracted to nonprofit universities, as compared to for-profit universities, owing to the perceived protection provided by the non-distribution constraint, leaving the for-profit university market with a higher ratio of better-informed customers. As the results, for-profit universities are then forced to increasingly deliver the quality promised to their customers. Eventually, with adequate – but not necessarily saturate – size of the nonprofit sector, the quality of both sectors will converge *because* of the very presence of nonprofit universities. As a consequence, the quality differences between the two subsectors *understate* the real benefits of nonprofit universities that have originally created this convergence.

Costs of the nonprofit governance form of private universities

The benefits of nonprofit universities in providing higher education services do not come without costs although these costs are usually intangible and non-cash. Two types of costs have been identified in relevant literature: agency costs to ensure the compliance with the non-distribution constraint and the nonprofit mission, and costs of decreased efficiency.

Agency costs

Applying the well-known principal-agent model of Jensen & Meckling (1976) to nonprofit universities, one may readily accept that the role of agent will be played by the university administrators. However, the role of the principals is less clear as, in place of owners, there could be many key stakeholders with different interests: students, academic staff, donors, community,

and government. Although these stakeholders are usually represented in governing boards, these boards are ultimately not accountable to these stakeholders and they are generally self-perpetuating instead of elected (Glaeser, 2003). Thus, comparing with for-profit firms, the agency problems as defined by Jensen & Meckling (1976) may include not only the gaps between these stakeholders as principals and the administrators as agents, but also the gaps of interests among these stakeholders themselves, and the gaps between these stakeholders and their representatives. As a consequence, the agency cost, defined as the sum of the costs to the principals to monitor the agents, the bonding costs to the agents, and the residual loss, will be higher than those of for-profit universities.

In more practical terms, several authors (e.g. Brekke 2011, Glaeser & Shleifer 2001, Herbst & Prufer 2011, Valentinov 2006) argue that the “non-distribution constraint” cannot completely prevent those in control of nonprofit universities from shirking the net earnings for their own pocket in the forms of unusually high salaries, perquisites², contracts with firms controlled by family members, etc. The board, not being elected by stakeholders and not facing competition, could also be manipulated by the administration. The resulting need for increased regulatory control both in policy and enforcements in turn leads to increased costs of auditing and ensuring the transparency (in particular, financial transparency)³.

Inefficiency

One implication of the agency problem in nonprofit universities is the lack of clear and unique measurement of performance to guide the university administrators. In fact, while the for-profit universities’ administrators are motivated by a single profit motive, management of nonprofit universities faces multiple goals that reflect the conflicting interests of different key stakeholders: quality and value-to-money for students, community and public services for the public and government, academic reputation and freedom for faculty, mission-effectiveness and sustainable growth for donors, etc. It is often argued that this lack of strict and clear performance criteria, combined with less incentive to minimize cost due to the “non-distribution constraint”, renders nonprofit universities less efficient than for-profit universities (see for example Hansmann 1996). However, empirical evidence indicated that concerns about the operational efficiency of nonprofit universities, “while not entirely misplaced, are easily exaggerated” (Hansmann 1996, p.249).

Hansmann (1996) identified another type of inefficiency in general nonprofit organizations: their sluggishness in responding to changes in demand. Applying Hansmann’s arguments to higher education, one can observe that when demand increases or new demand emerges, nonprofit

² “Perquisites” is defined as non-pecuniary compensation “involving different types of improvement in the working environment, such as lower effort levels, free meals, shorter workdays, longer vacations, better office facilities, etc.” (Brekke et al. 2011, p.3)

³ It is however a misconception that there has been an increase of contemporary wrong doing and scandal in the nonprofit sector. Fishman (2006) for example reported that between 1995-2002 there were only 152 reported incidents of misconducts out of over 50,000 nonprofits in NY state, US.

universities may not be able to set up or grow quickly enough to match, either due to the lack of access to equity capital or the lack of incentives from university administrators, or both. Similarly, when demand declines, nonprofit universities may also be slow in reducing their outputs correspondingly or to withdraw entirely. The reasons in this case may include legal constraints for nonprofit universities to withdraw or transfer its capitals dedicated to its original missions, and again, the lack of incentive from management to downscale their university. The problem is compounded by the fact that, while for-profit universities have to maintain return on capital equal or above the market rate in order to survive, nonprofit universities can continue operating indefinitely just with zero net rate of return.

Policy implications

The policy implications of the analysis above will be discussed first at the level of the government, and then at the university level. From the macro perspective, we can safely say that the primary goals of the government intervention toward the nonprofit sector of the higher education market are to create conditions for establishment and operation of nonprofit universities and to allow them to fulfill the socially beneficial roles expected as well as to minimize the weaknesses inherent in this governance status. At the university level, the primary goal will be to maximize the potential benefits usually established in the mission statement of the university, and also to minimize the inefficiency and agency cost inherent in the nonprofit governance status.

Government's roles

Given the significant public benefits nonprofit universities can bring to society, the government should create enabling environment for the establishment and operation of nonprofit universities. At the same time, since most of the benefits from nonprofit universities stem from the non-distribution constraint, the government should also play the role of public guarantor to enforce the non-distribution constraint at these universities.

The first environment factor in the support to nonprofit universities starts with the recognition of the needs and potential benefits of this university governance form. This recognition should be obtained at the highest level of the government to guide policy formulation efforts and promoted to the public through open public and research-based debates and forums. Such recognition, together with the assurance by the non-distribution constraint that is enforceable by law, would provide the necessary inputs to solicit donations and voluntary work to set up and sustain nonprofit universities. In countries where the sector of nonprofit higher education is still in a nascent condition, a more important enabling factor is the introduction of an appropriate legal framework that includes a legal definition of the nonprofit status for private universities that is consistent with the non-distribution constraint; and a provision for the governance of such a university through a board of trustees that is responsible to protect the nonprofit status by enforcing the non-distribution constraint and the public-benefit mission of the university. In addition, such legal framework should facilitate the creation of new nonprofit universities, at least relatively to creating for-profit universities. The conversion from for-profit status to

nonprofit status should also be treated by law favorably to enhance achieving social goals. At the same time, it should be made difficult, even practically impossible, to change back from the nonprofit status to for-profit status, to prevent the manipulation of the non-distribution constraint for personal gains. Similarly, when a nonprofit university is dissolved, its asset should be prohibited from being distributed to individuals or for-profit firms.

In countries with more mature nonprofit sector, financial supports to nonprofit universities are provided either in direct subsidies or through differential treatments of nonprofit universities, especially with tax privileges. Direct supports to nonprofit universities could be either financial grants or provision of subsidized land or infrastructure. Given the fact that the nonprofit university sector is expected to supplement the limited resources of the state to serve the public needs in higher education, such direct subsidies could be limited in size, of ad hoc nature and probably difficult to guarantee in law. Tax exemptions are usually considered as more popular ways to support nonprofit universities or nonprofit organizations in general for two reasons:

- Provision of tax breaks or tax reductions for nonprofit universities will not impose direct financial burden on state;
- The implementation power of such policies is vested in the tax authority which is best positioned to check and enforce the non-distribution constraint and the nonprofit status of these universities (Hines et al. 2010).

Among the tax treatments applicable to support nonprofit universities, income tax exemption on donations plays an especially important role in allowing the nonprofit universities to mobilize further resources untapped in society for meeting the higher education needs. Hirth (1997) argued that the tax exemption on donations could be even more useful as normally the donors may have good understanding of, and some control on, how the nonprofit universities serves the community and public interests in accordance with its missions, and thus adding another mechanism to enforce the non-distribution constraint and thereby protect the nonprofit status of the university.

In addition to financial supports, the government may provide the academic staff of nonprofit universities with non-monetary incentives such as international collaboration opportunities and professional or public recognition, especially for their research and community services. Academic freedom and self-governance are also environmental factors conducive to a stronger mobilization of socially minded academics who would join nonprofit universities and fulfill its social missions.

Compared with supporting roles to nonprofit universities, the need for interventions by the government in regulating the nonprofit universities is less clear. The main reason for this apparent contradiction is that too much intervention from government may impair the autonomy of universities and therefore be counter-productive. The primary goal of government regulating nonprofit universities should be to ensure that the nonprofit mission and the non-distribution

constraint are properly enforced. This can be achieved, without much interference from the government with the university's operations and autonomy, by installing a transparent internal governance structure in the university with a governing board liable under law to protect the nonprofit mission and the non-distribution constraint. The government can also enhance the effect of the non-distribution constraint and thereby protect the customers (students, parents, and donors) by reducing the information asymmetry through two major sets of instruments: 1. Transparency and accountability requirements with mandatory reporting from the boards and administrations of nonprofit universities and regular or occasional auditing by government agencies; 2. Setting up public or independent agency to collect and compile operational information from the universities and disseminate it to the public in useful and consumable format.

Contrary to the enforcement of the non-distribution constraint, the role of the government in controlling the quality of nonprofit universities is more controversial. In most Asian countries, governments attempt to exercise great power in directly auditing and controlling the quality of education provided by private universities, nonprofit or for-profit alike, with very limited success (Albacht & Levy, 2005). The experiences from US show that much better results in guaranteeing and improving higher education quality could be achieved by

- Accreditation system implemented by associations of universities without intervention from the state;
- Competition among the universities, especially for the best faculty and students (Hansmann 2012, Levin 2008).

Thus, the role of the government in this area may better be indirect and limited to facilitate setting up – and, if necessary, to monitor – such independent accreditation system as well as to create conditions to allow for high mobility by student and academic staff among all universities and thus foster competition in the higher education market.

Internal governance structure

As discussed above, the best – and least expensively – way to enforce the non-distribution constraint critical in maximizing the benefits of nonprofit universities is installing an appropriate internal governance structure of the universities. With the absence of owners represented by boards of directors as in for-profit universities, the common and tested governance structure observed in most nonprofit universities is the dual system consisting of a board of trustees and a professional management team hired by the board. The non-distribution constraint is then protected by giving the board, as the highest authority of the university, the power of appointing and controlling the management and of setting policies for the university. The executive power of running the university, however, is detached from the board and vested in the professional administration. In the same spirit, the board members are normally uncompensated (or at the very least, the compensation should only nominal, and cannot be related to the university's performance). The Board is perpetuated and has fiduciary duty to ensure that the administration

performs in line with the original mission and for the best interest of the organization. To overcome the efficiency problems caused by lack of management incentive discussed above, the board may establish policy to link compensation of administration and employees to the performance as long as such policy serves the interest of organization. Such duality of the system implies that the board and the administration should be separated, with the rector or president of the university being only ex officio member of the board, and board members should not be employed by the university (or enrolled as student of the university).

The governance board of nonprofit universities should be made liable under law to protect the non-distribution constraint conditions and the nonprofit mission of the university. The board should be responsible for monitoring the performance of the university, especially cost control measures by the administration. The administration of the nonprofit universities should also report and be accountable to the board, tax authorities and the concerned government agencies with regular reports on compliance with the non-distribution constraint and the nonprofit charter of the university. Stakeholders should be encouraged to report deviations from the non-distribution constraint, and incompliance should be appropriately penalized.

In addition to performance-based compensation system, nonprofit universities may set up fringe benefit systems that promote the self-selecting mechanism to ensure that the right types of socially-minded people will join and work for the university. For example, Handy and Katz (1998, p. 258) suggested that “offering an academic wage package consisting of less cash but more research funding and facilities, increases the likelihood that research-minded professors will self-select. This strategy can work even if a devoted manager values a dollar of fringe benefit at less than a dollar in cash.”

Conclusion

This paper reviews the theories developed in the nonprofit organizations literature and applies them to the nonprofit private university sector with an account of the specific characteristics of higher education. The conceptual analysis highlights many significant roles of nonprofit universities that may help explain the long and growing existence of the sector in many countries in the world. In fact, nonprofit universities fill the gap of higher education demands in society neglected by the public and for-profit private sector. Given the information asymmetry evident in higher education sector, the status-defining non-distribution constraint provides the needed (although not perfect) protection for the students and their sponsors from potential exploitative behavior by reducing the incentives of such behavior on the part of the people in control of these universities. The nonprofit universities also create new opportunities to mobilize additional resources to supplement the public funds and private capitals by ensuring private donors that their contributions will be used to the intended purpose. In particular, the nonprofit status is attractive to academic professionals as it provides the foundation for the cherished autonomy and academic freedom often absent in public universities and for-profit universities. The presence of nonprofit universities in the higher education market also promotes the improvements of productivity and quality in both private and public universities by increasing the competition for

students and faculty. Moreover, nonprofit universities are proven to have spillover impact in mixed higher education market, increasing the quality of the services of the for-profit universities.

These positive impacts of nonprofit universities on society in general and on the higher education market in particular, depend on the level of enforcement of the non-distribution constraint. In fact, if the non-distribution constraint is easily circumvented, many for-profit universities may adopt the strategy to disguise as nonprofit ones to gain access to both the students and the support of the government and public and thus drive out honest nonprofit universities. To a lesser extent, the non-distribution constraint might be bypassed with exceptional perquisites, substantially weakening possible positive impacts. Thus, it is critical to have a clear legal framework and appropriate internal check-and-balance mechanism to ensure that the non-distribution constraint is reinforced without interference by the government in the universities' operations. Tax privileges for donations to nonprofit universities, transparency requirements, independent accreditation and conditions for students and faculty mobility are found to be constructive ways the government can encourage for the development of this critical sector. In addition to the government's roles, separating the control role of the board of trustees from the executive power of the administration of the nonprofit universities, with appropriate compensation policy for the latter, are means to ensure both the non-distribution constraint and the needed incentive for efficient performance.

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