Video Transcript

ENTREPRENEURSHIP IN NONPROFITS

Path dependency theory

[Georg von Schnurbein] Situated in the medieval part of Basel, the Swiss Museum for Paper, Writing, and Printing stands on the banks of a canal. Starting in 1453, the house served as a paper mill for 400 years. In 1980, the museum opened its doors. Since then, it continues to attract many visitors from far and wide.

The museum is a nonprofit itself. The institution does not only preserve the memory of paper manufacture and print by exhibiting the tools of the trade's long history, it is still a site of production where exquisite paper is made and typesetting is still performed manually. The old printing presses are in use, operated by specialists who know their trade.
On the day of our visit, the axle of the mill wheel broke. Normally, it supports production as it turns, thus some operations grinded to a halt, but not all.

This is a classic typewriter. It made writing much more efficient. But the problem was that keys got jammed. The solution to this problem was the so-called qwerty or qwertz system. It organizes the keyboard in such a way that frequent combinations of letters are separated. By this, typing became easier and less problems with the machine occurred.

This is a modern laptop. As you can see, the keyboard still has the same qwertz or qwerty system, although typing is digital. Much more efficient systems, such as Dvorak, were developed, but never reached significant distribution. This is one of the most famous examples of path dependency. The system, once chosen, stayed in practice, although the primary reason became obsolete.
In nonprofit organizations, we can often observe situations of path dependency. Decisions made in the past, especially at the time of the foundation, defined the tasks, management, and structure of the organization today. Path dependency theory deflects explanations for change and development of organizations, not in their context or in exogenous conditions, but in the decisions and influences in the past. As a consequence of these earlier incidences, the present situation or solution might not be the most efficient, given existing framing conditions. Instead, several parallel solutions might exist.

Hence, path dependency theory disagrees with theories on short-term adoptions to changing environment and the expectations of self-regulating market forces. The core of path dependency theory consists of three areas, positive feedback, non-ergodicity, and irreversibility. Positive feedback contains self-reinforcing influences in a way that the increase of a variable leads to further increase. The Swiss-based nonprofit Pro Juventute, for example, by governmental privilege, could raise money with additional fees on post stamps. This privilege secured funds at low administrative costs, and the organization continued to focus on this unique form of fundraising, even as the number of sold stamps decreased due to emails. Only with a bankruptcy looming, the organization adapted its strategy.

Non-ergodicity means that there is not only one stable mode at one time, but there are multiple equilibriums because of distinct path dependencies. In many countries, nonprofits can choose between different legal forms. In Switzerland, the most common forms are foundations and associations. The government structure is very different, but from the outside, you can often not tell what legal form a nonprofit has. However, once the legal form is chosen, it is difficult to change it again.
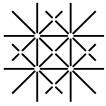
Finally, irreversibility describes the dependence on the point in time of the process. Once a decision has been taken, the costs of re-orientation are higher than just proceeding on the chosen path. For nonprofits, decisions taken by the founder's generation are often untouchable. Take the domicile of the organization's headquarter, for example. Often, it is where the founder lived, but for the mission, another city or even country would be better.

The examples show that path dependency theory helps us understand the current situation of a nonprofit by analyzing decisions made in the past. We might see ourselves at a critical juncture that defines the development of the organization in the coming years. Or we are already in a lock-in status and organizational changes are only possible at high costs and uncertainty. No matter at what point of development your organization stands, foundation, growth, or maturity, path dependency theory helps you understand the decision in a long-term perspective.