

RESEARCH NOTE

Nonprofit organizations in between the nonprofit and market spheres: Shifting goals, governance and management?

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In spite of the belief instilled by the New Public Management reforms that nonprofit organizations (NPOs) can benefit from more management, more measurement and more market practices, systematic knowledge on the organizational effects of NPOs incorporating business practices in their day-to-day functioning remains absent to date. This research note addresses this limitation by reviewing 49 research articles. The focus lies on the redefinition of nonprofits' mission and income streams, changing governance arrangements and shifting management practices. We find that, despite numerous detrimental effects cited in the literature, (a) generating commercial income can contribute to the financial stability of NPOs, and (b) hybridization towards the market domain can strengthen the organizational legitimacy of NPOs, suggesting that imitating for-profit enterprises might contribute to nonprofit functioning in perception, rather than in practice.

KEYWORDS

commercialization, hybrid, managerialization, marketization, nonprofit organization

1 | INTRODUCTION

What happens when nonprofit organizations (NPOs) incorporate practices and values that are ideologically associated with for-profit enterprises? This question has occupied nonprofit scholars for a long time, and the literature has documented ample evidence of NPOs increasingly relying on profitable market activities (McKay, Moro, Teasdale, & Clifford, 2015), corporate management tools (Hvenmark, 2013) and performance measurement practices (Arvidson & Lyon, 2014), thereby

behaving more similar to for-profit enterprises. This phenomenon, coined by Salamon (1993) as “*the marketization of welfare*,” is often associated with the New Public Management reforms (Considine, O’Sullivan, & Nguyen, 2014; Gallet, 2016). Here, the argument is that NPOs are increasingly required to hybridize towards the market domain—or in other words: “become more business-like” (Dart, 2004; Maier, Meyer, & Steinbereithner, 2016)—due to the emergence of competitive tendering procedures for public service contracts (Bode, 2006), increasing accountability demands (Carnochan, Samples, Myers, & Austin, 2014) or declining public funding (Salamon, 1993).

One of the key questions regarding this evolution is whether these hybrid NPOs are yet able to fulfill their social mission and roles, and to what extent (Cooney, 2006). With “hybrid” NPOs, we refer in this research note to those organizations operating in the border area between the nonprofit and market domain. Hybrid NPOs thus combine features of both the ideal-typical nonprofit and for-profit organization (see Figure 1). Current research paints a critical picture with regard to this phenomenon. Scholars warn that the introduction of business practices can prevent NPOs from fulfilling their key roles in society (Eikenberry & Kluver, 2004). Social service delivery risks to be curtailed by creaming practices (Frumkin & Andre-Clark, 2000), advocacy efforts muted by performance-oriented contracts (Baines, Charlesworth, Turner, & O’Neill, 2014), and contributions to social capital eroded by rising levels of nonprofit competition (Backman & Smith, 2000).

However, as the current body of research focuses on the risks for the contributions of NPOs to society, the impact of hybridization towards the market domain on the organizational functioning of NPOs remains largely underexposed. Moreover, this debate is further complicated by the prevalence of various concepts indicating different ways in which NPOs can hybridize towards the market domain, which in turn are operationalized and understood in different ways (Maier et al., 2016). Addressing this limitation, this research note surveys 49 research articles to map the effects of hybridization towards the market domain on the organizational functioning of NPOs. Contrasting with the contributions of NPOs to society, organizational functioning is preoccupied with the organizational side of things: the achievement of organizational goals by means of developing activities as well as securing financial resources. The focus is on the redefinition of NPOs’ goals, changing governance arrangements, altering income streams and shifting management practices. As such, our work contributes to a more refined understanding of the responsiveness of NPOs to the gradual market-oriented redesign of public service delivery (Bode, 2006), arguably one of the most central issues

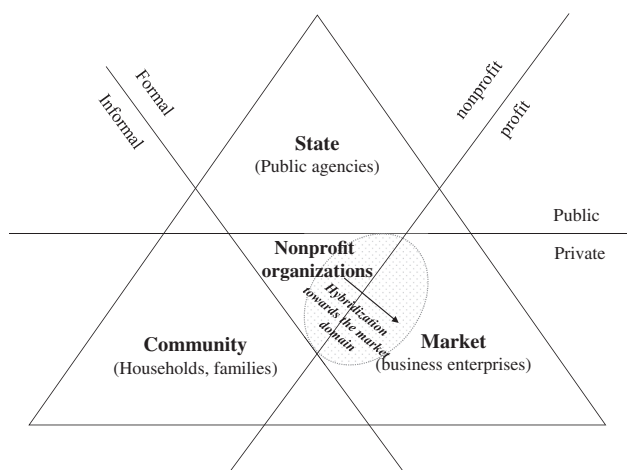


FIGURE 1 NPOs hybridizing towards the market sphere (modified from Evers and Laville (2004))

confronting NPOs today (King, 2017; Maier et al., 2016). For practitioners and policy makers, this review provides an evidence-based survey of the opportunities and pitfalls regarding the presence of business practices in NPOs.

Our argument is twofold. First, like the literature focusing on the impact of hybridization towards the market domain on the societal contributions of NPOs (Eikenberry & Kluver, 2004), the literature discussing the organizational effects is characterized by an overarching critical tone. However, and second, several studies identify opportunities related to hybridization towards the market sphere. In particular, commercial venturing can strengthen the financial stability of NPOs, and consequently their ability to self-sustain in an increasing challenging environment. Additionally, some studies find that hybridization towards the market domain can strengthen the organizational legitimacy of NPOs, thereby contrasting with the variously cited risks related to nonprofit effectiveness.

In the remainder, we outline the main ways in which NPOs can hybridize towards the market domain and discuss the literature sampling strategy employed. We conclude by presenting our main findings and suggesting new avenues for further research.

1.1 | Between the nonprofit and for-profit domain: Conceptualizing hybridity

As stated in the introduction, we focus on NPOs operating in the border area between the nonprofit and the market domain (see Figure 1). These NPOs can be considered hybrid organizations, as they combine organizational features from the ideal typical nonprofit and for-profit organization. Based on a scoping study (Arksey & O'Malley, 2005), we discerned four organizational dynamics pointing to the presence of hybrid behavior.

First, commercialization of NPOs refers to the discussion whether NPOs are driven by monetary or social objectives (James, 1998). Although “*scholars have not agreed on what specifically constitutes commercial revenue*” (Child, 2010, p. 147), definitions converge that commercial income results from the sale of organizational products and goods. Drawing on the public goods theory, Weisbrod (1998) differentiates between mission-related (e.g., service fees) and mission-unrelated commercial income (e.g., sale of t-shirts, food). Whereas the former has a clear link with the organizational core-activities, the latter is mainly produced for generating revenue. Relatedly, intense commercialization can result in a NPO changing its legal status from nonprofit to for-profit, denoted by the concept “conversion” (Goddeeris & Weisbrod, 1998).

Second, corporatization refers to the introduction of business practices and values in nonprofit governance mechanisms. This can materialize through consciously populating the board of trustees with corporate professionals (Vidovich & Currie, 2012) or adopting corporate governance tools (Williams, 2010).

Third, in terms of organizational processes, hybridization towards the market domain emerges as the belief that a NPO should function as a corporate entity in order to perform adequately (Hvenmark, 2016). This conviction, denoted by the concept “managerialism,” can take root on an internal and external level (Meyer, Buber, & Aghamanoukjan, 2013). Internally, a managerial organization is characterized by a close control over operational processes, interchangeably manifested through (a) the presence of performance measurement (Carnochan et al., 2014), (b) standardization of organizational processes (Baines, Cunningham, & Fraser, 2011), (c) the use of corporate management tools (Hvenmark, 2013), or (d) the introduction of managerial professionals (Hwang & Powell, 2009). Externally, managerialism induces an economic outlook on the organizational environment that consists out of “products, consumers and investors.” This in turn can be related to the concepts of “consumerism” (clients become consumers), “commodification” (nonprofit services and goods become commodities produced in accordance to market demand), “market-orientation” (stakeholder

communication becomes marketing), and “venture philanthropy” (donations become investments) (see e.g., Chad, Kyriazis, & Motion, 2013; Edwards, 2008; Garrow & Hasenfeld, 2012; Sturgeon, 2014).

Fourth, entrepreneurship. The concept “social enterprise” refers to organizations pursuing a double-bottom line, that is, creating both social and financial value (Emerson, Twersky, & Fund, 1996). Although far from settled, conceptual consensus grows that social enterprises are organizational entities that seek to solve social problems through market-based mechanisms (Battilana & Lee, 2014; Emerson et al., 1996).

1.2 | Literature selection

We conducted a review of empirical academic articles that focus on the impact of hybrid dynamics on the organizational functioning of NPOs (Tranfield, Denyer, & Smart, 2003). Informed by our scoping study (Arksey & O'Malley, 2005), we defined relevant search parameters related to (a) the nonprofit field (Table 1, column 1), (b) the organizational effects (Table 1, column 2), and (c) the different forms of hybridization towards the market domain (Table 1, column 3).

We searched the ISI Web of Science, EBSCO-HOST (Academic Search Premier; Business Source Complete) and JSTOR in that order respectively (see Figure 2). In order to enhance the feasibility of the literature identification process, the search parameter related to hybridization was limited to the title; the other two research strings were searched for in full-text. An additional 19 publications were identified through consultation of the literature list of Maier, Meyer, and Steinbereithner (2014) and consultation of the references in the relevant passages of the articles retrieved from the databases.

The articles with an eligible title and abstract ($n = 87$) were assessed full-text to further verify eligibility. Out of these 87, 38 articles were excluded, as the cited effects of hybridization towards the market domain on organizational functioning were no part of the empirical findings of the publication at hand. The decreasing number of relevant new references in the database searches indicated that we reached a point of saturation. In sum, considering 3,715 references, we selected 49 publications for in-depth analysis.

The selected studies are relatively recent: 32 out of the 49 articles appeared between 2010 and 2017. Furthermore, they appeared in a large number of different journals, most prominently in *Voluntas* (9), *Nonprofit and Voluntary Sector Quarterly* (6), *Nonprofit Management & Leadership* (3) and

TABLE 1 Topic related search terms

Sector-related search terms (full text)	Organizational functioning related search terms (full text)	Hybridization related search terms (title)
“civil society” OR “nonprofit” OR “non-profit” OR “third sector” OR “voluntary” OR “not for profit” OR “not-for-profit”	mission OR value* OR govern* OR manag*	business-like commercial* conversion managerial* corporati* professional* marketi?ation social enterpr* consumer* commodification market orientation venture philanthrop*

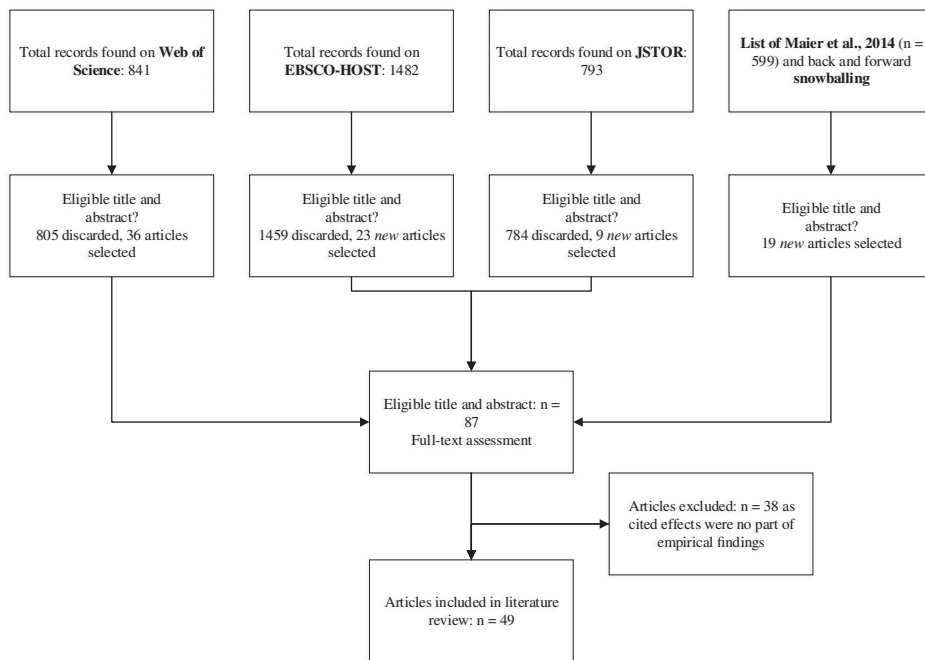


FIGURE 2 Search strategy

Organization (3). In terms of research design, we found no large difference between the use of qualitative (53% of the articles) and quantitative methods (39%). However, when cross-referenced with the different forms of hybridization towards the market domain, we observed that commercialization, conversion and market orientation were predominantly examined through quantitative analysis. Contrastingly, studies discussing the organizational effects of managerialism mainly employed qualitative methods. Looking at the fields of activity covered by the research in the sampled articles, we found that many policy sectors are included (like housing, culture, and sport), but research predominantly focused on social services (11 studies) and health care (9 studies). Finally, regional classification points to an overrepresentation of Anglo-Saxon focused research (82%) and an underrepresentation of both (Continental-)European (14%) and Asian (4%) centered research.

1.3 | Organizational risks and opportunities of hybridization towards the market domain

Given that the sampled literature is diverse in terms of concepts (different forms of hybridization), context (different policy sectors), geographical focus (Anglo-Saxon bias) and methods, we cautiously formulate two main conclusions based on the overview as presented in Table 2.

First, the literature review points to a multitude of detrimental effects of hybridization towards the market sphere, especially on the levels of nonprofit goals, governance and management. On the level of *goal* adherence, the literature shows that there is a real risk of financial goals overriding the prosocial goals. This can be observed through the presence of subtle exclusion mechanisms vis-à-vis participatory workers in work integration social enterprises (Hustinx & De Waele, 2015), a shift from tailored to a one size fits all service provision (Gallet, 2016), and decreased accessibility to nonprofit services due to increased attention for those who can pay instead of for those who are in need (Khieng & Dahles, 2015).

TABLE 2 Organizational effects of NPOs hybridizing towards the market sphere

	Goals	Governance	Income	Management
NPOs hybridizing towards the market sphere				
Marketization (competition for public contracts)	<ul style="list-style-type: none"> - Increased focus on financial goals (Gallet, 2016) - Mission drift, in the form of <ul style="list-style-type: none"> (a) commodification of clients, (b) creaming practices, (c) shift from tailored services to a one size fits all approach (Gallet, 2016) 	<ul style="list-style-type: none"> - Board professionalization (Considine et al., 2014) - Erosion of collaborative networks (Considine et al., 2014) - Financial performance as yardstick for individual board member performance (Considine et al., 2014) 		<ul style="list-style-type: none"> - Increased competition from for-profit providers as a learning opportunity for operational improvement (Froelich, 2012) - Resistance mechanisms, such as, unionization (Baines, 2010; Baines, Charlesworth, Turner, et al., 2014) - Social redefinition of business-like discourse (Sanders & McClellan, 2014)
Commercialization (development of commercial activities)	<ul style="list-style-type: none"> - Risk of mission drift, that is, risk of financial goals overriding social goals (Khieng & Dahles, 2015) - Decrease in accessibility to organizational activities ("shift from those who need to those who are able to pay") (Khieng & Dahles, 2015; Salamon, 1993) - Negative relationship between commercial revenue and goal fulfillment (Thompson & Williams, 2014) 	<ul style="list-style-type: none"> - Increased transparency vis-à-vis staff & beneficiaries (Khieng & Dahles, 2015) 	<ul style="list-style-type: none"> - Crowding out of professionally nonactive volunteers (Enjolras, 2002b) - Crowding out of private donations (mitigated by mission consistency & entrepreneurial competency) (Smith, Cronley, & Barr, 2012) - No crowding out of voluntary and public resources (Enjolras, 2002a) - Inverse relationship between commercial revenue and donative income (Guo, 2006; Salamon, 1993; Young, 1998) - Limited relationship between donative- and commercial revenue (Kerlin & Pollak, 2011; McKay et al., 2015) - Cross-subsidization (Dart, 2004; Enjolras, 2002a; Khieng & Dahles, 2015; Toepler, 2006) - Contributes to self-sufficiency (Guo, 2006; Khieng & Dahles, 2015) - Increased organizational autonomy vis-à-vis funders (Khieng & Dahles, 2015) 	<ul style="list-style-type: none"> - Decentralization of operational responsibility (Khieng & Dahles, 2015) - Introduction of formal financial management practices (Khieng & Dahles, 2015) - Commercial revenue as "salary top-up," thereby bolstering the NPO's ability to attract qualified staff (Dart, 2004)

TABLE 2 (Continued)

NPOs hybridizing towards the market sphere	Goals	Governance	Income	Management
			<ul style="list-style-type: none"> - Increases organizational reputation (Guo, 2006) - Increases organizational capacity to attract and retain professionals (Guo, 2006; Khieng & Dahles, 2015) - Business- and market risk (Toepfer, 2006) - curvilinear relationship between commercial income and organizational survival (Gras & Mendoza-Abarca, 2014) 	
Conversion (change of legal status from nonprofit to for-profit)	<ul style="list-style-type: none"> - Risk of cherry picking (competition for "affluent" clients, avoidance of costly clients) (Gurewicz, Prottas, & Leutz, 2003) 		<ul style="list-style-type: none"> - Decrease in organizational income (Garrity & Fiedler, 2016) - Increase of profitability (Joynt, Orav, & Jha, 2014; Mark, 1999; Shen, 2003) 	<ul style="list-style-type: none"> - Lower staffing level (Garrity & Fiedler, 2016; Mark, 1999; Shen, 2003) - Increase of workplace participation (Anderson, Allred, & Sloan, 2003)
Corporatization (introduction of corporate managers/ knowledge within nonprofit governance mechanisms in order to improve organizational functioning)		<ul style="list-style-type: none"> - Accountability focuses on major funders (Maier & Meyer, 2011; McDermont, 2007) - Accountability is demonstrated by means of measurable performance indicators (Maier & Meyer, 2011) - Board members with a corporate background can (a) facilitate access to corporate networks, and (b) infuse corporate management knowledge (Vidovich & Currie, 2012) - Potential intra-board conflicts due to diverging professional backgrounds (Vidovich & Currie, 2012) - Professional expertise as the main determinant of right to speak in board meetings (McDermont, 2007) 		

TABLE 2 (Continued)

NPOs hybridizing towards the market sphere	Goals	Governance	Income	Management
<p>Managerialization (belief that—in order to be successful—a NPO should operate as a business firm)</p> <p>Internal level</p> <ul style="list-style-type: none"> • Performance measurement • Standardization of operational procedures • Use of corporate management instruments • Diffusion of managerial professionals 	<ul style="list-style-type: none"> – Standardization of operational procedures hampers experimentation, and thereby, the expressive goals of NPOs (Hwang & Powell, 2009) – Managerial professionalism induces a depoliticized view of clients (King, 2017) – Performance measurement constricts social- and hampers expressive goals of NPOs (Baines, Charlesworth, Turner, et al., 2014) 	<ul style="list-style-type: none"> – Payment of board members may result in less commitment (Considine et al., 2014) – Managerial professionalism shifts accountability demands from client to funders (King, 2017) 	<ul style="list-style-type: none"> – Use of corporate management instruments contributes to financial performance (Keller, 2011) 	<ul style="list-style-type: none"> – Managerial professionalism induces an increase in the use of corporate management instruments (Hvenmark, 2013; Hwang & Powell, 2009) – “Fragmentation” of operational tasks (Baines, Charlesworth, & Cunningham, 2014; Carey, Braunnack-Mayer, & Barraket, 2009) – Unpaid overtime of female care workers as an “inherent part” of the job (Baines, Charlesworth, & Cunningham, 2014) – Unrealistic expectations regarding professional staff performances by volunteers in volunteer-based NPOs (Kreutzer & Jäger, 2011) – Trade-off between volunteer motivation and the use of standardized procedures and corporate management instruments (Kreutzer & Jäger, 2011) – Decrease of workplace participation (Baines, 2010; Baines et al., 2011) – Social impact measurement can induce strategic decoupling (Arvidsson & Lyon, 2014) – Performance measurement as a trade-off to performing the core-activities, thereby negatively affecting the self-image of nonprofit care workers (Baines, Charlesworth, Turner, et al., 2014) – Tension over organizational leadership in volunteer-based NPOs between volunteers and managerial professionals (Kreutzer & Jäger, 2011)

TABLE 2 (Continued)

NPOs hybridizing towards the market sphere	Goals	Governance	Income	Management
External level <ul style="list-style-type: none"> • Consumerism • Commodification • Market orientation • Venture philanthropy 	<ul style="list-style-type: none"> - Venture philanthropy increases the focus on financial goals (Onishi, 2015) - Market orientation contributes to the fulfillment of financial and social goals (Wood, Bhuian, & Kiecker, 2000) 	<ul style="list-style-type: none"> - Venture philanthropy leads to an increased presence of managerial knowledge and professionals, causing tensions in organizational decision-making processes (Onishi, 2015) 	<ul style="list-style-type: none"> - Market orientation contributes to fundraising activities (Kara, Spillan, & DeShields, 2004) 	<ul style="list-style-type: none"> - Unhealthy work-life balance (Dempsey & Sanders, 2010) - Un(der)paid labor (Dempsey & Sanders, 2010)
Social enterprise (organization that seeks to solve a social problem through a market-based approach)	<ul style="list-style-type: none"> - Risk of mission drift, in the form of cherry picking and commodification of clients (Hustinx & De Waele, 2015) - Tactical mimicry (Dey & Teasdale, 2016) 		<ul style="list-style-type: none"> - Business- and market risk (Cooney, 2006) - Social entrepreneurship bias (Andersson & Self, 2015) 	

On the level of organizational income, one critique is that increased exposure to market competition constitutes a risk, as NPOs become more susceptible to fluctuating business cycles (Cooney, 2006; Toepler, 2006). Furthermore, the effect of commercial income on public funding and private grants remains ambiguous to date (Young, 1998), as support exists for the argument that commercial revenue can (a) substitute for decreasing donative revenue (Guo, 2006; McKay et al., 2015) and (b) be complementary to donative revenue (Child, 2010; Kerlin & Pollak, 2011).

On the level of organizational *governance* and *management*, our findings show that hybridization towards the market domain can hamper the participatory character of a NPO. Both the standardization of operational procedures as well as the introduction of corporate management instruments can erode workplace democracy (Baines, 2010; Baines et al., 2011), which in turn can fuel organizational tensions (Kreutzer & Jäger, 2011) and increased levels of unionization (Baines, Charlesworth, Turner, et al., 2014). Similarly, McDermont (2007) describes how board professionalization infused by a managerial mindset can limit participation. These findings resonate with the broader argument of Eikenberry and Kluver (2004) that hybridization towards the market domain deteriorates both the advocacy and community building role of NPOs.

Second, contrasting with the overarching critical tone of the literature, some studies also point to opportunities. In terms of organizational income, the sale of nonprofit services and goods can—up to a certain degree (Gras & Mendoza-Abarca, 2014)—contribute to the financial stability of a NPO by means of cross-subsidization (Dart, 2004; Enjolras, 2002a; Khieng & Dahles, 2015; Toepler, 2006) and revenue diversification (Froelich, 1999), thereby increasing its capacity to attract and retain professional staff (Guo, 2006). For example, Dart (2004, p. 304) reported that commercial revenue can allow NPOs to adequately pay their professionals as it can serve as a financial “*top-up*” of their salary. Furthermore, proponents argue that commercial income is more stable over time and “free to use” in comparison to public funding and private giving (Froelich, 1999; Khieng & Dahles, 2015).

Additionally, the review shows that hybridization towards the market domain can contribute to organizational legitimacy. Indeed, commercial activity is positively associated with organizational reputation (Guo, 2006), managerial values such as efficiency, effectiveness and innovation constitute important building blocks for organizational legitimation (Meyer et al., 2013), and self-identification as a “social enterprise” can strengthen the organizational capacity to solicit funds (Andersson & Self, 2015; Dey & Teasdale, 2016). Therefore, paradoxically, imitating for-profit enterprises might contribute to nonprofit organizational functioning in perception, rather than in practice. This view is supported by the observation that NPOs adopt coping strategies such as strategic decoupling (Arvidson & Lyon, 2014), redefining market discourses by assigning social meaning to them (Sanders, Harper, & Richardson, 2015; Sanders & McClellan, 2014; Sanders, 2015) and tactical mimicry (Dey & Teasdale, 2016). In particular, Dey and Teasdale (2016) provide a case in point by describing how an UK-based NPO consciously pretended to be a social enterprise vis-à-vis external stakeholders in order to gain access to public funding (allowing them to further their social goals), while avoiding the potential perils associated with social entrepreneurship.

1.4 | Research agenda

In light of these findings, how does a possible future research agenda might look like? Besides more methodological variation, and a broader empirical scope beyond the Anglo-Saxon world, the debate could be advanced by increased attention to the (causal) interconnectedness between the different ways in which NPOs can hybridize towards the market domain. This is not trivial, as different notions appear in different research fields. Whereas the social enterprise literature tends to view the incorporation of business practices in the nonprofit domain as one phenomenon (Dart, 2004), the

nonprofit management literature tends to approach this as a related set of different trends. For the moment, we only observe empirical evidence regarding the link between managerialism and corporatism (Considine et al., 2014; Hwang & Powell, 2009; King, 2017). A lot of ground remains to be covered in terms of the interplay between commercial venturing, managerial belief and nonprofit boards implementing corporate governance practices. Furthermore, as the current literature mainly focuses on the meaning and effects of managerialism, commercialism and social entrepreneurship, we encourage further research on less studied aspects such as corporatization in order to better comprehend hybridization of NPOs towards the market domain in its entirety.

Second, as the introduction of business practices can contribute to nonprofit legitimacy while potentially impairing its social effectiveness, future research could further examine the different response strategies that NPOs can develop to deal with these competing demands, as these can range from passive conformity to active resistance (Oliver, 1991). After all, the challenge for hybrid NPOs is in finding an equilibrium of (a) maintaining nonprofit legitimacy (safeguarding the mission and values—“what are we for?”—including expressing that mission), (b) avoiding some managerial and governance pitfalls (e.g., decreased attention for workplace democracy and participation), while (c) simultaneously running the organization in a managerial way in order to secure sufficient resources, efficient use of these resources, financial stability, and ultimately organizational survival.

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