The Marketization of Nonprofits

Four Essays on Stakeholder Management and Market Orientation in Nonprofit Organizations

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PREFACE

Introduction

In this thesis I examine different aspects of the marketization of nonprofit organizations (NPOs), the process that describes how NPOs deal with their stakeholders in an increasingly market-type way (Maier, Meyer, & Steinbereithner, 2016). NPOs often find themselves between "mission and margin" (Best, Miller, McAdam, & Moffett, 2020), constantly managing the different expectations of their numerous stakeholder groups and staying true to their social purpose, while working as efficiently and effectively as possible. Marketization is a contested concept in the nonprofit literature and the nonprofit sector, as it implies that a market logic can be applied to NPOs' processes and structures, although they differ substantially from for-profit entities (businesses/corporations) in many aspects. This thesis addresses the extent to which marketization can benefit or harm NPOs' character and aims to contribute to the literature on the concept and consequences of marketization in NPOs. In doing so I aim to reconcile the two opposing views on marketization – mission vs. margin – and show that it does not have to be either or. The thesis consists of four articles that were part of my PhD project and all address questions of the applicability of market instruments to NPOs and the consequences thereof. This preface will serve as an overview of the larger context of this research by emphasizing the relevance, motivation, and approach of my thesis, explaining the research questions and research process, and providing an overview of the subsequent four articles.

Relevance

NPOs are increasingly adopting the strategies, concepts and practices of the business world. Organizations, where "customer" and "market" once had negative connotations hire market researchers or consultants, identify their target markets, segment their customers, and develop strategies. Tools developed in the business world such as Porter's Five-Forces Strategy Framework or Kaplan's Balanced Scorecard are increasingly being adapted and used by non-profit organizations (Dees & Anderson, 2003). At the same time, marketization describes the increasing financing of NPOs through self-generated funds, earned income (Eikenberry & Kluver, 2004). This process of applying market logic and tools to both the financing and operating side of NPOs is also known as "the marketization of welfare" (Salamon, 1993). It has its roots in New Public Management reforms, which were brought about by the underlying assumptions that NPOs can benefit from being "more business-like" in the way they are managed, perceived, and how they operate (Maier et al., 2016). Marketization is, as already implied, primarily associated with "a heightened emphasis on competition and earned income, the celebration of (social) entrepreneurship, and the emergence of new actors, such as for-profit providers and donors" (Thümler, 2016, p. 362).
There are several reasons for this increased marketization. First, the numbers of NPOs are increasing globally (Salamon, Sokolowski, & Haddock, 2017), which leads to increased competition for scarce resources. More and more organizations try to finance part of their operations through revenue they generate themselves (Froelich, 1999). This increased reliance on earned income has fostered the adoption of business-like tools and concepts, as NPOs may compete with for-profit businesses that have competitive advantages over them and are more efficient (Weerawardena, Mcdonald, & Mort, 2010). Second, the nonprofit sector has

undergone a professionalization over the last couple of decades. That is visible in the rise of nonprofit university programs or executive education courses (O'Neill, 2005) and the increase in self-regulation-measures (e.g., the Swiss Foundation Code) (Bies, 2010). Third, watchdog organizations and public and private donors have exerted pressure on NPOs to keep their overhead costs low and operate as efficiently as possible, so that as much of the funding stream as possible is invested directly in mission-related activities (Lecy & Searing, 2015). Fourth, public service contracting procedures have become more competitive, with public authorities increasingly demanding higher standards in terms of contracting and service provision by NPOs (Bode, 2006). And lastly, the nonprofit sector has undergone a "financialization", where concepts of rationality and value-maximization have become the paradigm to model social action after (Thümler, 2016).

However, both research and practice do not agree on the extent to which an application of market logic makes sense for NPO. Some see this as a threat to the original character and purpose of NPOs (Eikenberry, 2009), since, as they argue, the ideology of the market is based only on self-interest and is part of the problem, not the solution. Others emphasize the potential to deliver services more efficiently and effectively, thereby enhancing the impact of an organization (Modi & Mishra, 2010). As resources become increasingly scarce, entrepreneurial practices and models could and should offer solutions to operate successfully, i.e. with a socially relevant impact, in this environment (Dart, 2004). While research has shown that applying market ideologies and practices can increase nonprofit efficiency and even legitimacy, it can also potentially lead to a loss of mission and effectiveness (Suykens, De Rynck, & Verschuere, 2019). This "janus-faced"-character of the marketization of NPOs (Meyer, 2008) has dominated the debate on this topic, which is why researchers call for "more comprehensive and evidence-based understanding of the effects of becoming business-like (…), because currently the field is characterized by polarized and inconclusive findings" (Maier et al., 2016, p. 79). Others emphasize that the tension between market and mission has become an inherent characteristic of NPOs that researchers should embrace and explore further (Sanders, 2015). So far, however, "knowledge on the organizational effects of NPOs incorporating business practices in their day-to-day functioning" (Suykens et al., 2019, p. 623) is scarce.

Motivation

By offering services or products where NPOs see a need and/or demand, be it social, cultural, or environmental, NPOs can create new markets and market relations, which are essential for the fulfillment of the purpose of an organization (Lichtsteiner, 2007). Through their purpose and value orientation, NPOs can often override the principle of exchange that applies in traditional profit-oriented markets to mobilize funding or unpaid labor. However, there are big differences within the nonprofit sector in terms of the type of NPO and the economic importance of those. While some NPOs provide services in the classical sense, others are only funding, and some NPOs are primarily dependent on donations, while others also generate their own income. What is central to all types of NPOs is a very complex stakeholder network (Balser & McClusky, 2005). NPOs must respond to the needs of a wide range of stakeholders and "market" their services and products to all of them in some form or another (Chad, Motion, & Kyriazis, 2013). While for-profit companies are also concerned with the challenges of their environment, they can usually put their customers first, since the benefits of successful marketing in this area benefit all other stakeholders (Helmig, Jegers, & Lapsley, 2004). NPOs have a responsibility to a wider range of stakeholders with different or even competing expectations and their core mission to serve society, not investors or owners (Morris, Coombes, Schindehutte, & Allen, 2007). One speaks explicitly of the multi-stakeholder environment of NPOs. This makes NPOs highly sensitive to legitimacy, as they do not only have to meet many different stakeholder requirements, but are also evaluated differently in terms of efficiency and effectiveness (Balser & McClusky, 2005). Applying market logic and tools to NPOs' day-to-day operations and strategies affects these stakeholder relationships. As mentioned in the

previous section, research is inconclusive about the consequences of marketization: Some researchers believe it to be the destruction of the nonprofit character and encourage NPOs to "refuse the market" and "resist marketization" in order to stay true to their mission (Eikenberry, 2009). Very often, marketization is thereby equated primarily with reliance on earned income, often as a substitute for other, more traditional funding sources (Eikenberry & Kluver, 2004). Others see it as a possibility to be more mindful – i.e., oriented – towards the diverse range of stakeholders and a way to increase organizational effectiveness (Wright, Chew, & Hines, 2012). This strand of research often analyzes the adoption of management tools, marketing strategies, and mindsets, rather than looking at funding sources (Wymer, Boenigk, & Möhlmann, 2015).

This thesis was driven by the motivation to connect these two opposing views and take a fresh look at the concept of marketization. "Market" is a contested term among nonprofit practitioners and at most permissible in a fundraising context, whereas often among economists NPOs are seen as a phenomenon of do-gooding, without any strategic or economic component behind it. On the one hand, this thesis aims to shed some light on economic and business concepts like markets, marketing, performance, strategy, and stakeholder management, albeit in a nonprofit context. On the other hand, it seeks to explore the consequences of marketization in different situations: the implications of (changing) funding sources on the nonprofit sector, the effect of funding strategies on organizational development, the impact of active marketization in the form of stakeholder-based market orientation, and of the passive marketization brought about by external isomorphic pressures. Both sides of the debate around the consequences of marketization are motivational enough to take a closer look at them: if applying market logic and tools will lead to a loss of mission has some merit to it, this outcome should be examined closer; as the fulfillment of the mission is an NPOs' raison d'être and gives it legitimacy to rely on public funding and private donations. However, if marketization can have positive effects on an organizations performance in the sense of effectiveness, it should be worthwhile to find out which aspects of it are drivers of such good practice. Last but not least, if the tension between market and mission has become an indispensable characteristic of NPOs (Sanders, 2015), knowing how to deal with this tension and which tricks and knacks drive marketization in one direction or the other is of utmost importance.

Approach

This thesis consists of conceptual and empirical research and has both some exploratory and confirmatory aspects to it. The first article ("Between Donors and Beneficiaries: A Conceptual Approach to Nonprofits Operating in Two-Sided Markets") is of conceptual nature and applies two-sided market theory (Rochet & Tirole, 2004) to nonprofits. I extend the framework to make it more applicable to the changing nature of the nonprofit sector and funding structure of NPOs and present an exploratory model of a dynamic, two-sided nonprofit market and the implications of such a model. The second article ("Multitasking NPOs: An Analysis of the Relationship between Funding Intentions and Organizational Development in NPOs") initiates the empirical, quantitative part of the thesis, which is based on data collected through a survey among Swiss NPOs. It follows on from the previous understanding of branding, which mainly refers to the sources of financing of NPOs, and analyzes through a regression analysis how the funding strategy affects effort invested into organizational development. The third ("Never Mind the Markets? - A Stakeholder Perspective on the Market Orientation of Swiss Nonprofit Organizations") and fourth ("Institutional Isomorphism and Nonprofit Managerialism: For

Better or Worse?") article of the thesis approach marketization from a more managerial point of view and examine the consequences of active and passive marketization on the performance of NPOs. Existing concepts (nonprofit market orientation) and theories (institutional isomorphism) are utilized in structural equation models that test both confirmatory and exploratory hypotheses.

Research Questions

The thesis aims at answering one central research question:

- What are the consequences of marketization of NPOs?

This primary research question is subdivided into several working questions. These questions are presented subsequently, categorized by different scopes of research.

Conceptual questions
- How can NPOs be described as markets?
- How can marketization be analyzed in a neutral manner?

Theoretical questions
- What is the consequence of a nonprofit organization being a marketplace for various stakeholders?
- What is the effect of active marketization (application of a business concept) on NPOs?
- What is the effect of passive marketization (external pressures) on NPOs?

Empirical questions
- Which components are included in a scale of nonprofit market orientation?
- How do the market orientation scale components affect NPOs' social and economic performance?
- How does the funding strategy of NPOs affect the efforts invested in markets?

Practical questions
- What are the implications of a changing NPO market system, from donative to transactional?
- Does marketization (managerialism) lead to mission drift or increased organizational performance?

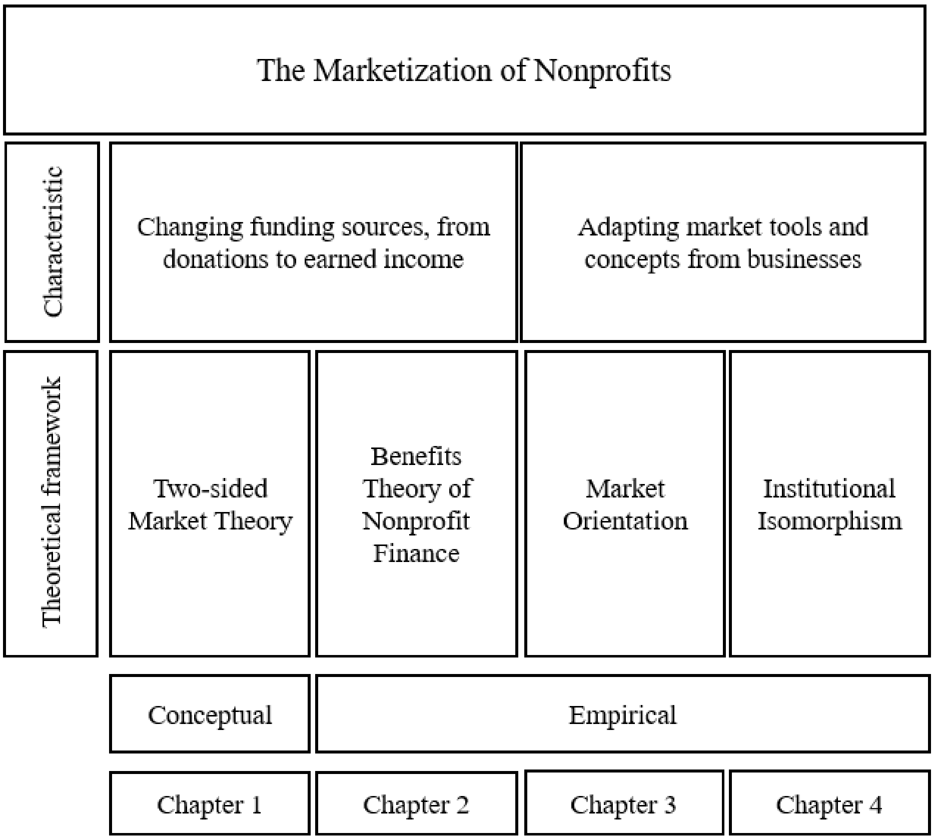
Research Process

The research process behind this thesis is – as it is often – not completely linear, and grew somewhat organically. As mentioned beforehand, this thesis was motivated by connecting positive and negative views on the marketization of NPOs. To do so, the term "market" had to be analyzed closer and a framework and terminology established to describe a nonprofit market model. NPOs fulfill several criteria for two-sided markets, so the theory seemed appropriate to apply and extend to picture the changing nonprofit sector, thereby dealing with one of the main characteristics of marketization: the changing reliance from donations to earned income. The second article of the dissertation (chapter 2) builds up on this, but uses survey data to analyze the influence of funding sources empirically. The theoretical framework for this article draws mainly the benefits theory of nonprofit finance, which takes into account the strong influence of a nonprofit's mission. The data was collected as part of several research projects, including three articles of this thesis. It was sent out to more than 3000 Swiss NPOs in 2017 and consisted of survey items asking about various managerial challenges, stakeholder relationships, and mission achievement of NPOs.

After looking at the changing funding sources of NPOs, the third and fourth article of the thesis were supposed to examine two further important aspects of the ongoing debate on marketization: the adoption of business-like practices and the influence of marketization on the performance of NPOs. The third article looks at the concept of market orientation and focuses on a stakeholder-based approach in adopting such a concept. It is therefore a more active form of marketization, which may come from within the NPO, should it choose to follow a market-oriented strategy. The fourth article complements this by looking at the passive or involuntary form of marketization, brought about by external pressures. The theoretical lens most suited for this research was the theory of institutional isomorphism. The thesis therefore draws on theories from economic (two-sided markets) and business (market orientation), nonprofit (benefits theory), and sociological (institutional isomorphism) literature.

Figure 1 below provides an overview of the structure of the thesis. The following section on the research output of the thesis then describes the four articles in more detail.

Figure 1*: Structure of the Thesis*



Research Output

The first article of this thesis ("Between Donors and Beneficiaries: A Conceptual Approach to Nonprofits Operating in Two-Sided Markets") applies two-sided market theory (Rochet & Tirole, 2004) to describe traditional charities that rely on donations and provide services to beneficiaries. From a theoretical perspective, donative NPOs are well described as a platform serving and connecting stakeholder groups. These stakeholder groups – donors and beneficiaries – are clearly separate from each other in this traditional model. In a second step, the theoretical framework is expanded to model the changing and more dynamic nature of many NPOs: the reliance on earned income, which blurs the line between donors and beneficiaries of an organization. This challenges contract failure theory, which assumes that NPOs exist to overcome the principal-agent-problem between donors and beneficiaries. The article offers theoretical and practical implications derived from the dynamic market-model in which NPOs operate. I predict, for instance, that if the model assumptions hold, network effects will cause a reallocation of philanthropic resources in the nonprofit sector and challenge NPOs to adapt to changing political and societal agendas.

The second article ("Multitasking NPOs: An Analysis of the Relationship between Funding Intentions and Organizational Development in NPOs") deals with the consequences of marketization, but keeps the focus on the financing side of an organization. It aims to answer the research question how the funding strategy of NPOs affects the effort invested into organizational development tasks, namely resource attraction, impact focus, and public relations. These development tasks are to a large extent the consequence of marketization; measuring and reporting impact, for instance, is often associated with the increased managerialization of the sector, which is a manifestation of marketization. The theoretical framework of this article is built on the benefits theory of nonprofit finance (Wilsker & Young, 2010) and the economic multitasking theory (Holmstrom & Milgrom, 1991), which predicts that organizations, when facing several tasks, will prioritize the task with the highest measurable reward. Using several regression models, the study examines whether the desired type of financing of an organization has an impact on the type and extent of organizational development. I show that seeking funding through private donations and public funding affects effort invested into resource attraction and public relations, respectively. The results for impact focus, however, show that they are only to some extent influenced by seeking a particular funding. Focusing on and measuring success by impact achieved seems a consequence of marketization that has reached organizations funded by all kinds of sources, not just those relying on earned income, which is often equated with marketization.

The third article ("Never Mind the Markets? – A Stakeholder Perspective on the Market Orientation of Swiss Nonprofit Organizations") continues with analyzing the consequences of marketization, but looks at the management challenges and strategies associated with it. I focus on the concept and applicability of market orientation (Kohli & Jaworski, 1990; Narver & Slater, 1990), which is rooted in business literature and strategies. It is often used as a positive argument for marketization, since its positive effects on performance are assumed to also apply to NPOs. The study deals with the applicability of such a business concept to NPOs and the consequences of active marketization (the application of a concept). Results from an exploratory and confirmatory factor analysis based on survey data show that a market orientation scale should include an internal component and four main stakeholder groups (the public sector, competitors, donors, beneficiaries). Through a structural equation model, I test the effect of these components on the social (mission achievement) and economic (organizational growth) performance of an organization. I show that internal and beneficiary orientation positively affect both performance measures, whereas public sector orientation positively affects the growth of organizations. Competitor orientation negatively affects mission achievement, which shows that the nonprofit sector may not need to fear marketization itself, but that the wrong focus can in fact lead to a loss of mission.

The fourth article ("Institutional Isomorphism and Nonprofit Managerialism: For Better or Worse?") concludes with a complementary view on the consequences of marketization, by looking at the passive marketization of NPOs, brought about by external pressures. It builds on the theory of institutional isomorphism (DiMaggio & Powell, 1983), which states that organizations are subjected to mimetic, normative, and coercive pressures. The article analyzes how these pressures affect marketization in the form of managerialism, and how this marketization in turn influences mission achievement of an organization. The relationships between these concepts are tested through a structural equation model based on survey data. Exploratory hypotheses about the direct effect of the isomorphic pressures on mission achievement are included in the model as well. The results show, amongst other things, that one aspect of marketization, strategic behavior, and normative isomorphism can increase organizational performance while preventing loss of mission. This implies that the positive effects of marketization can be reinforced by investing in strategy and the professional development of NPOs' staff.

Presentations and Publications

The first article ("Between Donors and Beneficiaries: A Conceptual Approach to Nonprofits Operating in Two-Sided Markets") was presented and reviewed at the University of Pennsylvania in June 2017, during a one-month doctoral fellowship at the Center for Social Impact Studies. During this time, I was also able to present the research at the McDonough School of Business at the Georgetown University in Washington, DC. The paper is currently in the second round of peer review at the *Voluntary Sector Review* journal.

The second article ("Multitasking NPOs: An Analysis of the Relationship between Funding Intentions and Organizational Development in NPOs") was written together with Sara Stühlinger. It is currently under review at the *European Journal of Management*.

The third article ("Never Mind the Markets? – A Stakeholder Perspective on the Market Orientation of Swiss Nonprofit Organizations") was presented at the 13th International Conference of the International Society for Third Sector Research (ISTR) in Amsterdam in 2018 and a revised version at the 9th International Conference of the European Research Network On Philanthropy (ernop) in Basel in 2019. It is currently under review at the *Journal of Nonprofit & Public Sector Marketing*.

The fourth article ("Institutional Isomorphism and Nonprofit Managerialism: For Better or Worse?"), co-authored with Sara Stühlinger and Georg von Schnurbein, was presented at the 48th annual conference of the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA) in San Diego in 2019. It was also presented at the Economics Lunch at the Faculty of Business and Economics at the University of Basel in 2019. The article is currently in the second round of peer review at the *Nonprofit Management and Leadership* journal.

Critical Assessment

This thesis contributes to the understanding of the concept and consequences of marketization by looking at both primary aspects of it – reliance on earned income and adoption of business tools – and considering positive as well as negative outcomes of it. The results of the empirical analyses show that it does not have to be mission or money; when marketization takes place through appropriate strategies and by including the relevant stakeholders, it can increase both the social and economic performance of an organization. Due to the limited availability of data and the selected method of then using survey data, some limitations have to be taken into account.

Contribution

This thesis contributes to a holistic understanding of the concept and consequences of marketization in the nonprofit sector. First, it is theory building by applying two-sided market theory to NPOs and deriving theoretical implications from it in the first chapter of the thesis, therefore challenging some of the prevailing theories on the existence of NPOs and offering an alternative view on the way NPOs operate on the market. The second chapter of the thesis also builds on the benefits theory of nonprofit finance and extends it by finding that the pre-defined mission also influences the organizational development tasks. Second, the thesis answers the call for non-polarized research on the consequences of marketization and embraces the inherent tension between market and mission that NPOs find themselves in. It does so by including measurements of social and economic performance, and mission fulfillment and mission loss in the structural equation models presented in the third and fourth chapter of the thesis. The results shed lights on the stakeholder groups, external pressures, and operative and strategic aspects of marketization that can influence one or the other. By that, the thesis also responds to the call for more research on the effects of incorporating market logic into NPOs operations. Third, the thesis improves the data basis and state of knowledge on Swiss NPOs by collecting and analyzing data on managerial challenges in the nonprofit sector. Finally, it provides practitioners with insight on how to best utilize the increased marketization of their organizations.

Limitations

The articles presented in this thesis are not without limitations. The most important one is the lack of possibility to generalize results too much. This is due to the limited availability of data on the nonprofit sector in Switzerland, which is why data had to be collected via survey. The resulting sample consists of organizations from some of the largest nonprofit sectors in Switzerland, but it is by no means representative of either the total population of NPOs – which is unknown – or applicable to nonprofit sectors of other countries without some adaptation, due to the different legal forms and requirements for NPOs existing there. The database used in three of the four articles also consists of self-stated data, which always leaves room for a method bias, although I tried to prevent this as good as possible by pre-testing and designing the survey and survey items in an appropriate way. The dependent variables in the third and fourth article regarding the performance of NPOs are also constructs based on self-stated data. Further research should operationalize these constructs with financial or impact-related data, to see if the results still hold when not relying on survey data. Lastly, the concept of marketization in the literature consists of more specifications than just reliance on earned income or adoption of business tools and concepts. Other aspects worth considering could include the rise of social enterprises, the increased use of accounting and evaluation standards, or the investing behavior of NPOs.

Implications

As mentioned in the previous paragraph, this thesis offers several implications for further research. The most obvious one might be the replication of the empirical analyses with non-survey data. The performance constructs in the third and fourth article presented here are based on self-stated assessments of nonprofit managers. Although performance in a nonprofit context cannot only be measured by financial data, it would complement the self-stated data and give a more comprehensive view of the performance of NPOs.

Another next step building up on this thesis is to examine the link between the changing funding sources and such a performance measure. The results from article three and four show that active and passive marketization on a managerial level can have a positive impact on performance. The first and second article look at the funding sources, but do not include performance measures. Establishing this link would complete the research process pictured in Figure 1.

The results of the empirical analyses also leave room for further research on industry-specific differences and characteristics. While the data collected includes the larger nonprofit industries in Switzerland, it does not provide detailed information on a specific area of activity. Further research could focus on industries that are more prone to certain aspects increasing marketization, e.g., the competition with for-profit providers that can be observed in the health and homing sector.

The thesis also has some implications for practitioners. The market model presented in the first chapter of this thesis should serve nonprofit managers as a framework to analyze their own market position. Being aware of their main stakeholder groups and markets is key when trying to achieve mission fulfillment or organizational growth. An adapted version of the two-sided market model has already been used in consulting projects of the Center for Philanthropy Studies (CEPS). This thesis should offer nonprofit managers strategies to deal with the increased and apparently inevitable marketization of the sector. The results of the study presented in the fourth chapter, for instance, show that a clear strategic focus can increase organizational effectiveness while preventing loss of mission orientation. The third article emphasizes the importance of internal and beneficiary orientation to effectively achieve the mission, while organizational growth takes place when focusing on the public sector, which in Switzerland is an important funder and partner for many NPOs. Focusing on competitors or mimicking behavior of other organizations without taking into account the own organization's characteristics has no effect on organizational performance, or can even decrease it. Lastly, the results presented in the second article suggest that nonprofit managers should focus on an appropriate interpretation of their mission, as it determines the extent to which organizational development can take place.

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- CHAPTER 1 -

Between Donors and Beneficiaries: A Conceptual Approach to Nonprofits Operating in Two-Sided Markets

Sophie E. Hersberger-Langloh

Abstract

The nonprofit sector has experienced significant changes and growth in the last decade. Market failure theories explain why traditional NPOs exist but fail to account for the diversity and complexity we observe in the third sector today. This paper takes a first step in applying a two-sided market model to describe the evolution of that sector. It finds that "classic" purely donative NPOs may have once fulfilled the characteristics of platform in a two-sided market featuring donors and beneficiaries linked by nonprofit intermediaries. However, the transition of the sector from donative to earned income-reliant requires an extension to the model of two-sided markets to a less static approach. The demand and supply sides in the two-sided market model have become more complex. The paper therefore suggests a dynamic model, in which consumers and financiers of NPO products and services can move from one side of the platform to the other and take on different and at times overlapping roles.

Keywords: Two-sided markets, nonprofit organizations, third sector, transition

1.1 Introduction

The nonprofit world has experienced some significant changes over the last decades and is still in the process of being re-shaped. Many western countries observe increasing numbers of nonprofit organizations (NPOs) across all forms and sectors (Salamon, Sokolowski, & Haddock, 2017). Especially the first decade of the 21st century brought a proliferation of the third sector with it, with not just more, but bigger nonprofit organizations (Kim & Bradach, 2012). However, due to this growth of the sector, many NPOs are under pressure to find new ways of funding or compete with for-profit organizations, since, in some countries, governments and private donors are cutting back their support, whereas in others, governments increasingly contract out services through competitive procedures. Increased competition for limited resources, such as volunteers, government funding or private donations, combined with changes in the nature of government support, has resulted in many NPOs becoming more market-like (Eikenberry, 2009; Froelich, 1999). New types of NPOs and hybrid organizations have emerged, such as the social enterprise, and new technologies have given rise to various forms of revenue sources and have changed the structure and shape of the sector (Billis, 2010). These developments have led to the spectrum of NPOs today ranging from organizations that have become increasingly commercial in their activities and thus rely more heavily on earned income[1], to those that still rely primarily on philanthropic funding through donations from individuals, institutions, or the government (Ecer, Magro, & Sarpça, 2017). Philanthropic transactions, in a classical sense, are considered to be something entirely different than commercial transactions (Schervish & Ostrander, 1990). Both funding strategies (donations- and earned income-oriented) are supposed to respond to increasing pressures and secure financing for their core mission-related activities (Moeller & Valentinov, 2012). However, the line between NPOs which are commercially active and for-profit firms has become blurred (Eisenberg, 2000). Many researchers have criticized this development (see Eikenberry (2009) or Maier, Meyer, & Steinbereithner (2016) for a comprehensive overview). The classic image of a nonprofit organization is still one of a fundraising charity, collecting donations from individuals and businesses to finance programs and services, which are valued by a community (Froelich, 1999).

The economic debate on NPOs has focused mainly on why they exist, and not sufficiently taken into account the rise of such different forms of NPOs. Theories such as contract failure theory (Hansmann, 1980) or market failure theory (Weisbrod, 1988) fall short in explaining how NPOs operate and coexist in a market. And "(…) the construction of consistent theoretical explanation of the nonprofit sector is complicated by the significant diversity of nonprofit organizations. (…) major existing economic theories of nonprofits, in spite of their important complementarities, still do not offer equally convincing explanations for every possible structural and organizational types of these organizations." (Valentinov, 2005, p. 22).

To add to this debate and stimulate an understanding of shifts in the nonprofit sector, I utilize two-sided market theory to explain the transition of a sector from traditionally being mostly donative to evermore transactional. Two-sided market theory (Rochet & Tirole, 2004) has successfully been applied and used to describe the behavior of industries and businesses in the for-profit world (Eisenmann, Parker, & Alstyne, 2006; Evans & Schmalensee, 2007; Finley, 2017; Rysman, 2009; amongst others). Two-sided markets are generally defined as markets in which one or more platforms enable interactions between independent agent groups and try to get the two sides to use the platform by appropriately charging each side (Rochet & Tirole,

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[1] Throughout this article, earned or commercial income is broadly defined as "fees for services, memberships, commercial sales, royalties and license fees, rental income, and special events" (Young, 2017, p. 83), which includes government contracts (fees for services).

2006). Classic charities fulfill all the characteristics of a two-sided market and the model is a good fit for those types of NPOs, in which donors act as third parties who demand a NPOs' service on behalf of a beneficiaries group, to which donors do not belong (Finley, 2017). However, a modern understanding of NPOs calls for a revised model. The rapidly growing number of NPOs today are facing stagnant or even decreasing government support on one hand, and pressing global issues on the other hand. Private contributions no longer make up the majority of revenue sources, but fees and charges are becoming crucial funding bases (Chetkovich & Frumkin, 2003; McKeever, 2015; Salamon et al., 2017). Impact investing, crowdfunding, donor-advised funds, and other innovations have changed the way NPOs operate and raise funds. Drawing on two-sided market theory, I will analyze the changing nonprofit market, transitioning from a classic to a dynamic model, and add to a better understanding how NPOs co-exist and operate in dynamic market situations. The article thereby addresses two type of organizations at the end of the spectrum of revenue sources: in the first part, classic charities that depend on donations are modeled as platforms in two-sided markets. In the second part of the article, where the shift to a dynamic model is presented, the focus lies on organizations relying to a large part on earned income coming from commercial activities. Member-based organizations, which in some countries make up for a large part of the nonprofit sector thereby fall into the latter category, as membership dues and fees can be a form of earned income (Anheier, 2014; Guo, 2006) and they are often seen as competing with for-profit providers (e.g. consulting, insurance, leisure activities) (Helmig et al., 2011). It has to be noted that while this article addresses types of organization at both ends of the commercialization-spectrum, research suggests that following a mixed, diversified revenue strategy leads to more organizational stability, rather than relying primarily on donations or commercial income (Guo, 2006; Teasdale, Kerlin, Young, & In Soh, 2013). The goal of this article is to present predictions that emerge from economic modeling of nonprofit markets and to derive research propositions from this transition into dynamic two-sided markets. The article should by no means represent an entirely conclusive theory, but stimulate the debate on the consequences of commercialization and the concept of the market in the nonprofit context.

The remainder of this article is structured as follows: I will first introduce the concept of two-sided markets and apply it to donative NPOs. The following section will extend the model to make it more suitable for NPOs relying on earned income, transforming it into a dynamic two-sided market model. I will conclude with implications derived from this model and offer an agenda for further research.

1.2 The Classic Two-sided Market Model

1.2.1 What are two-sided markets?

The term "two-sided markets" was introduced by Jean-Charles Rochet and Jean Tirole in 2003 (Rochet & Tirole, 2003). They identified two-sided markets as a form of markets where platform businesses or organizations act as a liaison between two or more independent groups of customers. Members of both customer groups benefit from the existence of the other group and interact with each other through the platform. The intermediary organization hence needs customers from one side to attract customers from the other side and vice versa, which they then can connect and manage (Evans, 2003).

Rochet and Tirole (2006) name videogames, operating systems or credit card companies as examples for such two-sided markets. Further examples are financial exchanges, insurance or real estate agencies, employment agencies, airports, academic journals, flea markets, web portals, stock markets, and newspapers (Wright, 2004).

The price of using the platform (usage or membership charges) influences the willingness of the customers to trade on such a platform. The platform has to charge each customer group appropriately to attract them. Customers will only use a platform if the transaction costs, the cost of bringing or getting a good or service from a market, are cheaper than trading directly and if these transaction costs and externalities (the cost or benefit resulting from the production or consumption of a good or service) prevent them from interacting without an intermediary. Two-sided markets therefore exist in settings where they can elude externalities and minimize transaction costs. Opposed to traditional thinking about competition, it is found that in two-sided markets welfare is often maximized at prices below the or other than marginal cost (Caillaud & Jullien, 2003; Eisenmann, Parker, & Alstyne, 2006; Evans & Schmalensee, 2007; Rochet & Tirole, 2003; Wright, 2004; amongst others). An example for this would be a free newspaper, which covers its costs through revenues from advertisers.

Another economic characteristic of two-sided markets is the non-applicability of the Coase theorem, which states that under perfect conditions (no transaction cost, free and symmetrical information, costless bargaining), two parties will settle on an economically ideal solution of property rights (Coase, 1960). Rochet and Tirole (2006) identify the failure of the Coase theorem as a necessary, yet not sufficient, condition for a market to be two-sided. Because two-sided markets display mediated interactions between buyers and sellers, the benefit or gain from a trade does not depend on the allocation of the resources, but on the price level on both market sides, which influences the transaction volume (how many goods and services are provided) and the platform’s profit. This is called price non-neutrality. Organizations competing in two-sided markets experience feedback effects on one side of the market from a price change on the other side of the market (Evans, 2003). The dependency of the transaction volume on the price structure – which side of the market has to pay which price – , rather than just the price level, is the main criterion that differentiates two-sided and one-sided markets (Rochet & Tirole, 2006).

Two-sided markets are characterized by strong network benefits and most commonly arise as a consequence of these network externalities. Network benefits, or network effects, can be differentiated between direct and indirect effects. Direct network effects occur when one transaction partner benefits from an increase in the number of people using the platform. The utility received from using a service directly increases, the more people access the platform on his or her side of the market (Katz & Shapiro, 1985). Examples for this would be social networks (e.g. Facebook, LinkedIn, and Myspace) or online calling services, which are only useful when other people are using them.

Indirect network effects, on the other hand, describe how users on one side of the market indirectly benefit from an increase in the number of users on their market side, as it attracts more potential transaction partners on the other side. An example for this is eBay. It is not very attractive to sell something on eBay if there are no buyers. The more sellers there are, the more likely it is that buyers register with eBay and vice versa. In this case, we often find a “chicken–and– egg–problem”, where no side can emerge without the other (Caillaud & Jullien, 2003). The presence of indirect network effects is a key difference to other market forms (Haucap & Heimeshoff, 2014).

The size and structure of two-sided platforms is determined by various factors (Evans & Schmalensee, 2007). Indirect network effects and economies of scale have a positive effect on the size or concentration of two-sided platforms, whereas physical constraints (congestion), the degree of platform differentiation and the option to use more than one platform (multi-homing) have a negative impact. Multi-homing, as opposed to single-homing, can be done by either one or both customer groups (Armstrong, 2006). Empirical evidence shows that multi-homing on at least one side of the market is common in many industries (Evans, 2003). This indicates that platforms are making use of horizontal differentiation, meaning they choose specific characteristics and prices to engage a certain group of customers.

Due to the heterogeneity of these various two-sided platforms it is not possible to draw a general conclusion about competition intensity among them. Evans and Schmalensee (2007) argue that it is uncommon for two-sided platforms to be in a monopoly position, due to the fact that they would have to hold a monopoly position on both sides of their markets. Their research reveals that in some industries (operating systems, video game consoles, and payment cards) one dominant player holds 45% or more of the market. These platforms are able to monopolize because one side of the market is usually single-homing. Single-homing is promoted through (high) switching costs, physical constraints to use more than one platform (e.g. use only one operating system) and whether platforms charge usage-based or flat rates (Haucap & Heimeshoff, 2014).

1.2.2 A model of a classic two-sided NPO

The "classic" model is based on the traditional image of a fundraising NPO, relying on donations from individuals and institutions, to provide programs and services to society (Froelich, 1999). A classic NPO therefore falls into the donative category as described by Hansmann (1980), who dichotomizes NPOs into donative (charitable donations as the main revenue source) and commercial entities (earned income as the main revenue source). Figure 2 shows a simplified model of a donative NPO:

Figure 2*: Model of a donative NPO as a two-sided platform, own illustration*

A classic, donative NPO is a two-sided platform in several ways. Recall how two-sided platforms serve as a platform between two distinct user groups that would face externalities and higher transaction costs if they interacted with each other without the intermediary.

There are two parties connected to the NPO: donors (including individual donors, corporations, charitable foundations, and government grants (Young, 2017, p. 112)) and beneficiaries (consumers of the service or product provided by the NPO). Donors participate in the transaction via the platform because it is more efficient for them to do so than to administer the donations to the beneficiaries directly (Krashinsky, 1986). The nonprofit platform does not simply pass on the money (with the exception of grant-making foundations or NPOs giving out loans), but usually transforms them into services or goods. Sargeant (2005) states that NPOs can be viewed as having a "market for resource acquisition and a market for resource allocation" (p.57). By catering to the needs of two markets or customer groups, the NPO holds the platform position and is responsible for matching the donors with the beneficiaries, creating a two-sided structure. The institutional design of the NPO prevents the donors and beneficiaries from reducing externalities (over-consumption, under-provision, etc.) that might arise if they traded directly with each other.

Network effects are present on both the donors' and the beneficiaries' side. For new or potential donors, the signaling effect from existing donors has an impact on their decision to commit to a donation (Glazer & Konrad, 1996). Due to economies of scale, the cost of administration and fundraising are expected to decrease with more donors, making it less expensive to donate. For beneficiaries, on the other hand, direct network effects occur in the form of an increased awareness by NPOs, donors and the government, if there are larger numbers of a particular group of beneficiaries. Awareness of need is a main driver of charitable giving (Bekkers & Wiepking, 2011) and increases beneficiaries' chances of receiving funding or financial aid.

Indirect network effects are closely connected to this argument. If there are more potential beneficiaries or a pressing concern for a larger group of people, chances are that it is easier to find volunteers and other people who will get involved with this project. Beneficiaries, in contrast, are more likely to seek help with an organization that they know has the financial and human resources to address their problem. Both direct and indirect network effects exist in the NPO's stakeholder circle and have a positive effect on NPO size and number of NPOs active in a particular field.

The option of multi-homing, another feature of two-sided markets, is more likely to be taking place on the donors' than on the beneficiaries' side. While consumers of NPO programs and services often find their needs met with one organization helping them or do not have the funds to seek more help (Ostrander, 2007), donors can freely choose to donate to more than one organization, even though major donors might select only a few organizations to support to keep their cost of information low.

Rose-Ackerman's (1982) economic model of NPOs' competition behavior states that there are many NPOs competing for donations through fundraising. They each produce a unique mix of services, in a market with no entry barriers. NPOs want to attract as many of these multi-homing donors as possible and appeal to their target donor groups, so they choose horizontal differentiation to present their particular features by specializing themselves, rather than just imitating their competitors (Bilodeau & Slivinski, 1997). They follow a strategy of vertical differentiation to address different donor groups, ranging from one-time donors to committed donors or major donors (cf. donor pyramid theory). NPOs use both differentiation strategies, but horizontal differentiation is more common, since donations are voluntary and NPOs can hardly charge donors for higher quality in their service provision. Increasing numbers of NPOs put additional pressure on incumbent organizations to be different and stand out, which creates a lot of niche-NPOs and a crowded market (Irvin, 2010). Horizontal differentiation can take various forms in NPOs and can often be value-based or ideological. Two organizations might provide the same service, but one of them is a catholic organization and the other a protestant one, for instance. Bilodeau and Slivinski (1997) showed in their model that organizations tend to differentiate themselves by specializing, rather than imitating their competitors, which confirms the assumption that NPOs want to attract multi-homing donors through horizontal differentiation.

As described in the previous section, donors tend to multi-home, whereas beneficiaries have fewer choices and usually depend on one NPO, due to fund scarcity (Ostrander, 2007). Donors are not forced to give money to a particular NPO, but can give financial support to whomever they want. Following the theory of two-sided markets, an NPO is in a monopoly position as soon as one of the markets it caters to is forced or determined to single-home.

When looking at a generic donative NPO, the "fees" or "price" paid by the donor are positive. It is the (saved) opportunity cost of having the NPO redistribute the donation, instead of having to find beneficiaries to give the money directly. The sum actually redistributed is the amount of the donation minus the cost of redistribution, for example administrative or fundraising expenses. The beneficiary often pays no explicit membership fee. The fee structure is therefore one-sided, which makes the price non-neutral, since changes in price or cost on one side cannot be reallocated to the other market side. This implies price non-neutrality, a main criterion to differentiate "regular" from two-sided markets. The non-applicability of the Coase theorem is given anyway, as NPOs have no property rights to trade.

A separation of donors and beneficiaries, as modelled in a classic two-sided market with no direct interactions between the two groups, explains the existence of NPOs not only because they reduce transaction cost, but because they serve as a trustworthy intermediary. The non-profit form is necessary to execute the desired action (i.e. helping the poor), which donors are not able to supervise or do themselves. Nonprofit services are a trust good, with someone paying for them without knowing the quality of the produced good yet (Weisbrod, 1988). There is an information asymmetry between the individuals paying for the service and the provider of the service. This is directly linked to a form of market failure, namely "contract failure theory", a theory originally developed by Hansmann (1980). He described this as follows:

> "In other words, the advantage of a nonprofit producer is that the discipline of the market is supplemented by the additional protection given the consumer by another, broader "contract," the organization's legal commitment to devote its entire earnings to the production of services. (…) In sum, I am suggesting that nonprofit enterprise is a reasonable response to a particular kind of "market failure," specifically the inability to police producers by ordinary contractual devices, which I shall call "contract failure."" (Hansmann, 1980, p. 844-845)

He argues that the non-distribution constraint that characterizes NPOs protects customers in circumstances where normal contractual arrangements fail (Chillemi & Gui, 1991), since it reduces incentives for the organization to supply the product at a lower level of quality than agreed upon. However, as Krashinsky (1986) notes, for-profits also exist due to contract failure on markets.

In the context of classic two-sided markets, contract failure theory holds because donors are not able to see the beneficiaries on the other side of the platform. The nonprofit platform acts as a separator between those who pay for and those who consume a product or service. In more economic terms, buyers and end-users are broken apart and they need the non-distribution constraint to overcome this distance and inability to observe. The two-sided non-profit structure is needed to increase donors confidence in the organization's sincere behavior (Shaviro, 1997). It has to be noted, however, that this platform position between donors and beneficiaries gives the NPO power to influence how the money is spent on beneficiaries. While the non-distribution constraint may, in theory, act as a remedy for the existing information asymmetry between the two market sides, misuse of the platform position can still occur in practice. Because of this separation of donors and beneficiaries, the NPO may decide to take the interests of one side more into account than those of the other. This often takes the form of too much focus on donors, which in the worst case can lead to mission drift (Jones, 2007).

I demonstrated that classic, donative NPOs are well described by a two-sided market model. In such a context, classic market failure theories, such as contract failure theory, can explain the existence of NPOs, but lack to account for the diversity of NPOs emerging and the coexistence of providers from various sectors in the same field (Steinberg, 2006).

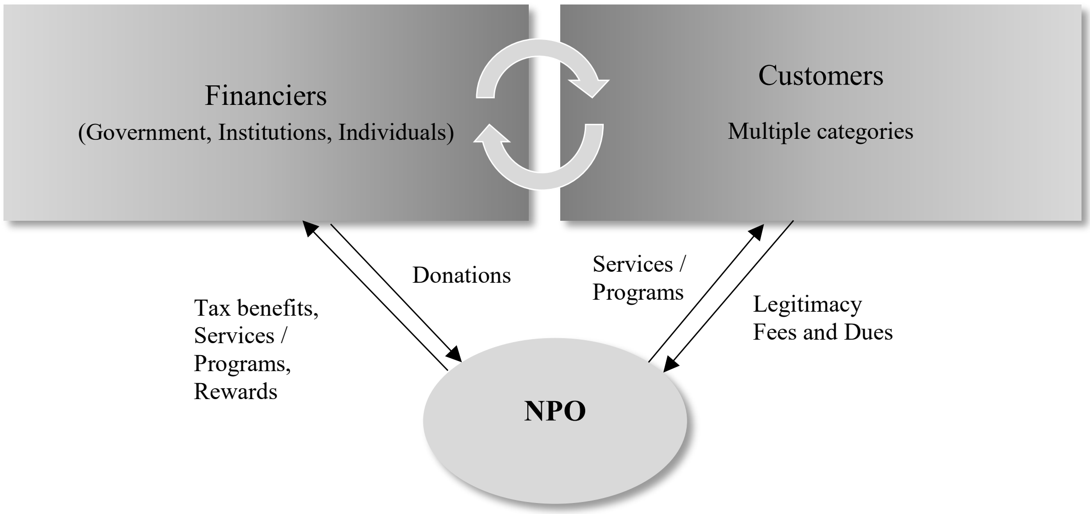
1.3 The Shift to a Dynamic Two-sided Market Model

Over the course of the last decades, the entire nonprofit sector has experienced some significant changes. It has gained economic importance in many developed countries as a service provider (H. K. Anheier, 2009), more responsibilities have been transferred to NPOs due to decreasing government spending (Austin, 2000) or increased contracting-out to NPOs, and as a consequence we observe an increase of NPOs and foundations in most Western countries (Dolnicar, Irvine, & Lazarevski, 2008; Irvin, 2010; Porter & Kramer, 1999; Thornton, 2006; amongst others). Researchers describe a commercialization of the sector (H. K. Anheier, 2009; Maier et al., 2016; Tuckman, 1998), with the term "commercialization" describing an increased reliance of NPOs on earned income (Maier et al., 2016; Salamon, 1993). There are opposing views to this (Child, 2010), but generally scholars agree that many NPOs have experienced a turn towards the market and observe a shift in funding from mostly private donations to increased reliance on earned income (Froelich, 1999). Kerlin and Pollak (2011) find that commercial earnings makes up for more than half of all revenue of US NPOs and has been steadily increasing, while the US Nonprofit Almanac 2012 reports that almost half (47.5 %) of public charities' revenue comes from fees for programs and goods, and 24.5 % of total revenue comes from the government (grants excluded) (McKeever, 2015). Clifford and Mohan (2016) show that 12% of the registered charities in the UK receive at least 90% of their total income from fees in connection with their charitable activities. Zhang and Guo (2020) find that NPOs in Singapore have doubled their commercial revenue between 2008 and 2015. These numbers show a very different situation than the classic, donative two-sided NPO model portrays. Revenue generation through market-oriented activities is often seen as s solution from dependencies and restraints from government grants and private donations (Zimmerman & Dart, 1998). This commercialization of the nonprofit sector is one aspect related to the larger concept of marketization of the sector, the process that describes how NPOs deal with their stakeholders in an increasingly market-type way (Maier et al., 2016). Marketization is thereby characterized by the adoption of for-profit management and business practices (Dees & Anderson, 2003) and/or the increase in revenue generation from commercial activities (Eikenberry & Kluver, 2004; McKay, Moro, Teasdale, & Clifford, 2014); this article focuses on the latter.

NPOs have very complex stakeholder structures (Balser & McClusky, 2005), and the commercialization of the sector increases this, since they are now not only relying on donations, but also have to satisfy their customers' (the beneficiaries') needs, attract volunteers, fulfill government requirements, and uphold a good reputation. Bills and Glennerster (1998) even suggest that multiple stakeholders, and the overlap between some of the stakeholder roles ("stakeholder ambiguity") is a key characteristic of NPOs, and that managing these ambiguities (e.g. tensions between paid staff and volunteers) is both a challenge and defining aspect of NPOs. In the case of an increasing number of NPOs that rely heavily on commercial income – for instance the art sector or nonprofit schools – not only beneficiaries, but other stakeholders such as donors have a direct output from the NPO that they can consume and enjoy.

I therefore propose a dynamic model of a two-sided platform to describe organizations relying on commercial income, as depicted in Figure 3 below.

Figure 3: *A dynamic two-sided market in a nonprofit context, own illustration*



When relying on income from sales, fees, government contracts, and other commercial activities, the NPO still functions as a platform between two customer groups, earlier called the donors and the beneficiaries. However, the distinction between those two groups is no longer a very clear one and for this reason, donors become "financiers" and beneficiaries "customers", based on the terminology of the for-profit sector Theoretically, the two market sides remain the same (someone giving input and someone receiving an output from the NPO), but since now both sides can be consumers of the organization's output (Eikenberry, 2009), their roles overlap substantially. Stakeholder ambiguity, something that even small and/or donative NPOs have to manage, increases considerably: Donors can now "buy" a service or product from the NPO and therefore become financiers of the organization. Beneficiaries may now have to pay for services/products and therefore become customers of the organization. Although now similar, yet even overlapping roles, their role depends on whether someone would have been a donor or beneficiary of the organization in a purely donative setting. Depending on the type of commercial income the NPO seeks, an organization might have mostly "financiers" (for instance individuals shopping in a charity thrift store) or "customers" (for instance participants of a language class for migrants). As the model is dynamic, the original role of the financier or customer is decisive. Financiers are now able to better judge the quality of services, thereby overcoming information asymmetries that existed in a setting there donors and beneficiaries are strictly separate. Customers may have higher demands on the quality of services/goods, as they are now paying for it.

The nonprofit organization in a classical sense, described by and as a two-sided market, already includes the aspect of "giving and getting" to some extent (Schervish & Ostrander, 1990), but when NPOs generate their own income, financiers get more than a warm glow, but can actually buy services or receive some material reward for their donation. When beneficiaries no longer only receive services and goods for free, they contribute to the NPO's revenue and therefore move to the left side of the platform, where they add onto donations made by government, institutions and individuals and constitute the group of "financiers". One example for this would be a lunch table for kids from low-income families, where they can have a meal at a reduced price. The NPO running the lunch table might use donations or government funding to subsidize these meals, but does not offer them for free. Donors, on the other hand get a reward for their contribution to the nonprofit, may it be in a material (consumption of good or service, gifts) or non-material (tax benefits, recognition, warm glow) form. Research has shown that material rewards can in fact decrease donations (Newman & Jeremy Shen, 2012) by crowding out their intrinsic motivation to give.

In spite of this new connectedness, most assumptions and characteristics of a two-sided market still hold. The NPO still serves as a platform between user groups, even though they are no longer completely distinct from each other, but the boundaries are blurred. While the non-profit platform in the classic, donation-based setting played more of an *intermediary* role, it now functions more as a *facilitator* for groups to come together. Direct and indirect network effects are present and have a positive effect on platform size and concentration. The ability to multi-home will lead to an increase in size of a platform without taking customers away from another platform. Multi-homing is now common on both sides – the increasing number of NPOs and the lack of attachment to an NPO will bring customers to try and find cheaper alternatives with other service providers. Financiers are solicited by competing NPOs and may switch between NPOs without increasing their overall financial input (Thornton, 2006). We can still observe price non-neutrality, since NPOs have different customer groups that they can price differently. For example, a public health clinic may charge patients a fix amount, but use the surplus to subsidize services for people who are financially worse off. One characteristic of two-sided markets, however, has become obsolete in the dynamic model. Attaining a monopoly position on one side of the market is almost impossible, if the boundaries between these groups are blurred. The strong customer/financier-fluidity dissolves market side boundaries, which leaves the NPO with no option to force either one of their customer groups to single-home. However, the government as an important provider of earned income through service contracts can influence the organizational field substantially by promoting one organization to become a dominant player, even though there might be other organizations offering the same service/good, which customers and financiers can consume. An example for this would be a large contract with a nonprofit home nursing service to relieve pressure on public hospitals. Although there are other (both nonprofit and for-profit) providers of such services, the contract might boost the selected organization to hold a position in the market that is similar to a monopoly. In this case, the financier side is forced to single-home (unless it makes sense for the government to have contracts with other home nursing services). Two-sided market theory predicts that if one side of the market is forced to single-home, it can create a monopoly position.

Table 1 presents an overview of the two types of NPO, modeled as two-sided markets.

Table 1: Overview of market characteristics

	Donative NPO	Commercial NPO
Described by…	*Classic two-sided model*	*Dynamic two-sided model*
NPO as platform	Yes, NPO serves as intermediating platform.	Yes, NPO serves as facilitating platform.
Two distinct user groups	Yes, donors and beneficiaries.	No. Donors can now «buy» a service/product from the NPO and therefore become financiers of the organization. Beneficiaries may now have to pay for services/products and therefore become customers of the organization.
Direct and indirect network effects are present	Yes. Direct effects: Donors may benefit from the signaling of other donors, beneficiaries may benefit from increased awareness through a multitude of beneficiaries. Indirect effects: Donors will give to causes they think have someone benefitting from the donation, beneficiaries seek help from organizations that have resources to help them.	Yes, but mostly direct effects, since the boundaries between the two user groups are blurred and roles are overlapping.
Multi-homing vs. single-homing	Multi-homing usually only occurs on the donors' side. If one side can be forced to single-home through high switching costs or physical constraints to use more than platform a monopoly position can be achieved, which theoretically could take place on the beneficiaries' side.	Multi-homing is common on both sides of the platform. However, government contracts or other large sources of earned income can create a single-homing situation on the financier side, which can lead to a monopoly situation.
Price non-neutrality	Yes, since someone pays for a service/good that is given to someone else for free.	Yes, since some services/products might still be given away for free or below the market price.

1.4 Implications

The transition from a donative to a transactional, more commercial two-sided nonprofit sector has several theoretical implications. First, it confirms Steinberg's (2006) considerations regarding the existence of NPOs. Contract failure theory loses its explaining power, now that the beneficiaries are part of the payees and can be found on either side of the platform. The opacity of the platform and inability of financiers to observe diminishes and both financiers and customers are funding and receiving. Information asymmetries become smaller, as both sides are better able to judge the quality of the provided service or good – e.g. the quality of a meal at a lunch table or the quality of a language class for migrants. Even if financiers just consume a warm glow, they are giving and getting at the same time (Ostrander, 2007). The dynamic two-sided market model supports supply-side arguments for the existence of NPOs. NPOs therefore exist to offer a "trading" platform between two or more parties, similar to for-profit firms. Consequently, the reason for choosing the nonprofit over a for-profit company must be based on intrinsic or ideological motivation (Valentinov, 2006).

NPOs' desire to achieve a monopoly position that is – theoretically speaking – almost unattainable, can also explain the lack of cooperation often observed among NPOs. In donative NPOs, this is most likely due to beneficiaries that can be forced to single-home, or to fierce competition for donations. In commercial NPOs, constraints on the number of service contracts a government can have in an organizational field might create a single-homing situation that can lead to a monopoly position. . For both types of organizations, being a single-home on one side of their market seems to be a better strategy for survival than cooperation with other organizations. Policymakers and industry organizations need to provide a better regulatory framework to encourage cooperation among NPOs competing for scarce resources, such as private donations or government funding.

Furthermore, the presence of network effects in a two-sided market setting can cause a constant reallocation of resources. Theory states that it is more attractive for one group to use the platforms if customers on the other side are using it as well (Evans & Schmalensee, 2007). If one customer group changes or moves away for some reason, then the other group will most likely follow. Changing trends in philanthropic behavior, for example, can shift awareness from one issue to another. Ten years ago, the pressing issues in philanthropy were quite different than today (Phillips & Jung, 2016). Where indigent people and causes go, volunteer workers (and funding) will follow due to indirect network effects between the two groups. This constant reallocation of resources can make it very risky for an NPO to build up long-term involvement with a project or specialize through horizontal differentiation in the provision of a particular service or good. A reallocation of the workforce and financial flows can also affect the economy of a whole country, depending on the extent of the reallocation.

Analog to for-profit firms, in a context of nonprofits generating earned income, financiers – as the term already implies – may act like shareholders. The NPO becomes more similar to a production facility, where both financiers and consumers of the organization hold property rights onto it. This transitioning from being stakeholders to something resembling shareholders of an NPO could reduce managerial shirking, something that is considered to be one of the main issues of the attenuation of property rights in an organization (Alchian & Demsetz, 1972). While stewardship theory (Donaldson & Davis, 1991) paints a more positive picture of managers, further research could compare managerial attitudes and effectiveness of earned income-reliant and donative NPOs.

When relying on commercial income, NPOs are often required to better meet market needs. This increasing similarity with the features of a for-profit firm can be considered part of the "marketization" of NPOs (Eikenberry & Kluver, 2004). As NPOs become more exposed to these rotated, transitional markets, where donors are getting benefits and beneficiaries are becoming funders, they are more likely to be competing with for-profit firms (Rose-Ackerman, 1990). This raises the question: can NPOs in these circumstances hold on to their markets or areas of activities and keep for-profit competition out? Further research needs to analyze (sub-) sector competition in more detail to investigate if NPOs can still hold on to their base when clients can choose between for- and nonprofit entities. Increased competition among for-profits and NPOs can also inflate wages paid to an NPO's employees, to be able to attract workers who could otherwise seek employment in a for-profit firm fulfilling a similar role in a sector.

Market orientation in literature about non-profits has often been considered orientation towards donors (Macedo & Carlos Pinho, 2006), but in a dynamic two-sided market it means orientation towards both financiers and customers. The success of NPOs no longer just lies on attracting the right resources from donors (Galaskiewicz & Bielefeld, 1998), but on serving two client groups who both contribute to the prosperity of an organization. This presents an organization with certain managerial challenges and further research could test empirically whether two-sided organizations have higher administrative expenses due to the complexity of managing such a dynamic environment. A possible further operationalization of those challenges could be higher measured stress levels of employees or a higher turnover rate of employees.

Lastly, there are some implications for the finances of an organization in a dynamic two-sided market. What drives growth of NPOs is still an under-researched topic (von Schnurbein & Fritz, 2017) and further research should investigate whether organizations that generate their own income through programs and services show a steadier growth rate. In some countries, earned income might be a more reliable income source, since it is easier to control for an organization. In other countries or specific areas, government funding or donations could be easier to sustain due to the nature of service or the legal framework in a country. Relying more heavily on donations than earned income is a choice that every NPO needs to make for itself. As Benefit Theory states, the nature of service or good produced by an NPO can lead to a different optimal income source for each organization (Wilsker & Young, 2010).

1.5 Conclusion

In this article, I propose a new theoretical framework to analyze and understand nonprofit organizations in dynamic markets. The notion that NPOs are two-sided markets will potentially have further implications than those mentioned here, for both practice and research. The concept needs to be further explored and applied to NPOs in a more detailed approach, potentially looking at different forms of NPOs, rather than using a generic model. Further research should, for example, address the different types of commercial income, and look at what the theoretical and practical implication of a focus on one of these sources for a non-profit might be. It remains a conceptual approach, but two-sided market modeling offers an explanation for diversity of NPOs. It reproduces an image of NPOs in a very dynamic, ever changing, transactional market, which challenges the traditional view of a donative, classic two-sided nonprofit sector. The dynamic model calls into question the market failure theories and offers an agenda for further research.

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- CHAPTER 2 –

Multitasking NPOs: An Analysis of the Relationship between Funding Intentions and Organizational Development in NPOs

Sara Stühlinger, Sophie E. Hersberger-Langloh

Abstract

Nonprofit organizations often find themselves under pressure to invest all available income in mission-related activities rather than organizational development. We investigate one factor that can influence the decision to invest in development-related tasks: the choice of funding sources pursued by an organization. Drawing on the benefits theory of nonprofit finance, we take these funding sources as pre-determined by an organization's mission . Through regression analyses of survey data from Swiss nonprofits, we analyze the extent to which funding sources affect the amount of effort invested in three areas: public relations, impact focus, and resource attraction. Multitasking theory predicts that organizations will prioritize tasks offering a higher measurable reward. The results support this prediction, showing that the extent and direction of the relationship between funding sources and development tasks differ. Public relations efforts are positively influenced by seeking public funding. Organizations that seek funding through earned income focus more on their impact, measuring their success through beneficiaries' satisfaction. The amount of effort invested in attracting financial and non-financial resources is positively influenced by all three income sources (public funding, earned income and donations). This indicates that the kind of financing sought by organizations affects their organizational development.

Keywords: Benefits theory, multitasking theory, organizational development, nonprofit organizations

2.1 Introduction

Organizational development in a nonprofit organization (NPO) can be challenging, as although funding has decreased in recent decades, demand for NPOs' services has increased (Kahnweiler, 2011). As a result, they have to make do with limited resources, and are under pressure to invest all of the funds they receive directly in their mission to keep overhead costs low (Gregory & Howard, 2009; Lecy & Searing, 2015). For NPOs, mission fulfillment is not just the ultimate goal, but also serves as a long-term strategy, setting the guide rails for an organization's development (McDonald, 2007). Additionally, when it comes to organizational development, NPOs must consider and manage their complex stakeholder structures, with different expectations of the NPO (Balser & McClusky, 2005). All of this creates, to some extent, a barrier to organizational growth, with NPOs being "locked in" by environmental or organizational constraints that dictate their development (von Schnurbein, 2017).
This predetermination of organizations is also discussed in the benefits theory of nonprofit finance (subsequently shortened to benefits theory), which states that the source of an organization's financing depends on its purpose (Wilsker & Young, 2010). According to this theory, the kind of goods an NPO produces – which are inherent to its mission – influences the funding sources available to it. This results in two factors being determined from the outset: the organization's purpose, and its funding sources. These funding sources are a primary concern for NPOs, which are for the most part unable to fulfill their mission without this external support (Drucker, 1989). Accordingly, the preoccupation with finding funding has the potential to dictate the agenda of many NPOs, as well as influencing their organizational development.

This paper aims to examine which factors contribute toward investment in organizational development by NPOs. Drawing on the benefits theory of nonprofit finance and multitasking agency theory, we specifically look at the funding intentions of organizations, and how these intentions affect the extent to which organizations devote themselves to securing resources, focusing on their impact, and maintaining relations with the public. We do this by recourse to ordinary least square (OLS) regressions with survey data collected from Swiss NPOs.

The article begins with a review of the relevant theories and literature, in which we explain the tasks an NPO has to perform in pursuit of organizational development, highlight the transactional nature of the services offered by NPOs, and introduce our research proposition and model. We then provide an overview of how the data was collected and analyzed using OLS regressions. The paper concludes with a discussion of the results.

2.2 Theoretical framework

Nonprofit managers are under pressure to direct as much efforts and expenditure as possible toward the organization's defined mission. Moreover, as they often rely on donations or government funding, this must be done as efficiently and effectively as possible (Gregory & Howard, 2009; Lecy & Searing, 2015). This has led researchers and practitioners alike to emphasize the importance of capacity building (Faulk & Stewart, 2017): enhancing the organization's ability to fulfill its mission by means of targeted investments in operational areas. This includes improving organizational and financial stability, program quality, and organizational growth (Blumenthal, 2003). In their study of the Canadian nonprofit sector, Hall et al. (2003) identified investments in financial and human resources and structural capacities as crucial factors for an organization's ability to fulfill its mission. Structural capacities include relationship and network management, maintaining appropriate infrastructure and processes, and having strategic plans in place. The management tasks that arise from these capacity-related investments are different from those directly involved in mission-related activities. This differentiation into two (or more) different kinds of management tasks can also be found in business concepts, e.g. the primary and secondary activities in Porter's value chain model (Porter, 1985). Accordingly, in order to survive and achieve long-term stability and healthy growth, it is not enough for NPOs to simply deliver their services or programs; they must also invest in organizational development (Kuna & Nadiv, 2013). In light of challenges such as increased public scrutiny (Ostrander, 2007), heightened competition for scarce resources (Kerlin & Pollak, 2011), and limited room for programmatic change, in some cases due to a narrowly defined mission, it is essential to understand which factors contribute to investment in these development tasks by NPOs. In the paper at hand, we specifically look at the effect of NPOs' funding sources.

In the following section, we first present three such development tasks and build a conceptual model based on the benefits theory of nonprofit finance and multitasking theory.

2.2.1 Development tasks of NPOs

We define development tasks as any activities that facilitate improved mission achievement in the future, and concern an organization's long-term organizational development. We will look at three development tasks that are of crucial importance to NPOs: 1) attracting and securing resources, both financial and otherwise (know-how, infrastructure, etc.), 2) focusing on the organization's impact, and 3) maintaining a positive reputation through public relations. After all, an NPO's survival and development frequently depends on its access to the necessary resources. However, the reasons behind an NPO's inability to adequately secure the resources it needs are not necessarily the result of an insufficient focus on fundraising, but can arise from underlying problems such as a negative reputation or inadequate provision of services. Accordingly, these three tasks are to a certain extent mutually dependent, insofar as they affect each other and are all aimed at ensuring the organization's survival and development. However, they can be clearly distinguished in terms of the associated operations and the underlying competencies needed to put them into practice. In the following paragraphs, we will explore what these tasks involve and why they are crucial for NPOs.

Securing and strengthening access to resources increases on organization's long-term survival chances (Pfeffer & Salancik, 1978), which makes this an indispensable development task. While financial resources are important to NPOs, they are not the only kind. Many NPOs rely on other resources such as volunteers, or services provided on favorable terms. Thus, NPOs have to identify an appropriate mix of resources from among the many possibilities (Young & Soh, 2016). In this light, it is essential that NPOs are aware of their key suppliers and maintain these relationships, but also review their financing (management) to identify potential improvements (Hall et al., 2003). For NPOs, securing and strengthening access to resources does not mean constantly searching for entirely new resources or funding structures, but rather improving and maintaining current financing structures and relationships with partners.

Focusing on their impact allows NPOs to assess whether they are implementing the right activities with an adequate level of quality. Driving forces behind an NPO's focus on and assessment of impact include information asymmetries, regulations and expectations, and how they achieve change (von Schnurbein, 2016). Social change, for example, can be achieved through innovative programs or services (Shier & Handy, 2014). The research literature emphasizes that focusing on the customer or service recipient is crucial to an organization's long-term survival (Padanyi & Gainer, 2004). Hence, in an environment where resources are often scarce, clear knowledge of how to best serve its beneficiaries helps an organization's development. This can improve its chances of survival, as satisfied beneficiaries are more likely to continue to use or recommend a service in the future. It can also lay the foundation for communication tasks aimed at maintaining a positive reputation by meeting expectations. Moreover, it is sometimes a requirement imposed by funders.

Another important development task for NPOs is managing their public perception or reputation. NPOs are highly sensitive to legitimation: as multiple-stakeholder organizations, they not only have to satisfy a wide range of different requirements, but are also assessed differently in terms of efficiency and effectiveness (Balser & McClusky, 2005). Consistency in communication and strategy increases an NPO's predictability, thereby reducing uncertainty on the part of stakeholders with regard to the organization's performance and impact (Balser & McClusky, 2005). How an NPO and its mission are perceived impacts cooperation with companies (Wymer & Samu, 2003) or other NPOs (Foster & Meinhard, 2002) or its ability to attract employees and volunteers (Leete, 2006), besides having a decisive influence on the donation behavior of the population (Padanyi & Gainer, 2003). Lobbying is an important instrument with which to signal the importance of the NPO's mission to political actors (Almog-Bar & Schmid, 2014). Accordingly, public relations and lobbying play an important role in securing resources for the survival and development of NPOs.

2.2.2 The transactional nature of NPOs' services

Based on the idea that incentives play a fundamental role in the financing of NPOs, Young (2007) develops a normative conceptual framework that can be regarded as the foundation of the benefits theory of nonprofit finance, first mentioned and empirically tested by Wilsker and Young (2010). The theory states that an organization's funding structure is determined by the kind of goods it provides. They argue that in pursuit of their particular mission, which is specified when an NPO is established, NPOs produce various public and private goods which benefit their stakeholder groups. In return, these stakeholders support the NPO through diverse funding and financing mechanism (Young, 2017). The sources of income should therefore be consistent with the nature of the services and goods offered to the providers of these resources. According to the theory, NPOs providing public goods (such as disease prevention) are more likely to receive public funding or donations; those that provide private goods (such as nursing homes) are more likely to finance themselves through earned income. In previous research, the benefits theory has been studied empirically by looking at the funding structure of NPOs and categorizing them according to whether their services are private, public or mixed goods (see Young 2017, pp. 46–47) for an overview). The findings are mostly consistent with the basic ideas of the benefit theory, and robust with respect to the international context of different organizational forms of NPOs.

Linking the financing of NPOs to the kind of goods or services they offer emphasizes an underlying assumption: that the services an organization offers are transactional in nature. Someone (for example donors, beneficiaries, the public sector) benefits from a product or service provided by an NPO, and depending on *who* benefits, there are different (appropriate) income sources available to the NPO (von Schnurbein, 2017; Young, 2017).

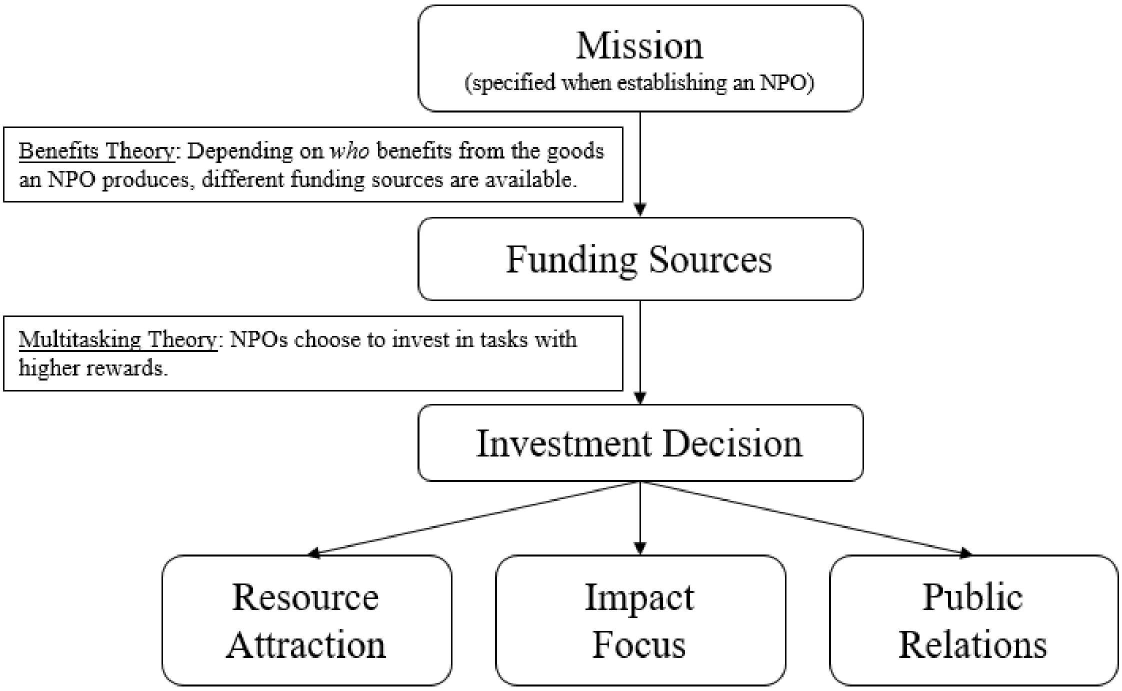
For certain types of funding and goods, this transactional nature is evident. Earned income, for example, is clearly transactional in nature: customers are rewarded for their payment with goods or services from an NPO (Daniel & Eckerd, 2019). For other links between funding and goods, the rewards are not as obvious, but research has shown that even altruistic acts such as donating money creates a reward (Andreoni, 1990; Roberts & Roberts, 2012), albeit an intangible one. Valentinov (2008), in his theory of positive transaction cost, argues that compared to traditional firms, NPOs are utility-driven rather than profit-driven. All transaction partners – i.e.

stakeholders – must either derive utility or receive financial compensation from an exchange with an NPO.

NPOs have diverse monetary and non-monetary exchange relationships with their stakeholders (Padanyi & Gainer, 2004), in contrast to most exchange relationships characteristic of for-profit companies. Since these transactional relationships can involve intangible benefits and rewards, it is often difficult to determine the quid pro quo between NPO and stakeholder, and specify these relationships in contractual terms (Speckbacher, 2003). This in turn makes it difficult for an organization to prioritize a stakeholder group and its expectations, especially as NPOs operate within such complex stakeholder networks (Padanyi & Gainer, 2004; Wellens & Jegers, 2014), with each stakeholder having a different perception of the NPO's identity and a different interpretation of organizational activities (Balser & McClusky, 2005). It is a challenge for NPOs to invest their organizational capacities in such a way that all their stakeholders are satisfied. This puts them in the position of an agent with multiple principals that make different or even conflicting demands on the NPO (van Puyvelde, Caers, du Bois, & Jegers, 2012). According to the multitasking theory developed by the economists Holmstrom and Milgrom (1991), agents focus their efforts on those tasks which are measurable and rewarded, potentially at the expense of other tasks, due to time or monetary constraints (crowding out). The allocation of effort to tasks is determined by the relative benefit derived from each task. Although the theory was developed and tested on an individual level (workers as agents), it can also serve as a framework with which to predict the behavior of an organization as an agent (Dewatripont, Jewitt, & Tirole, 2000). One example of this phenomenon are regulatory measures imposed on organizations aimed at cutting costs; such measures will lead to a reduced focus on tasks that improve quality due to the increased production cost that these tasks involve (Laffont & Tirole, 1991). Similarly, when faced with the demands of multiple stakeholders (principals) and multiple tasks to be performed, NPOs may choose to prioritize the tasks which offer the highest reward or utility. These rewards do not necessarily have to be of a financial nature, although considering that many NPOs are notoriously short on resources (Drucker, 1989), this is one possible incentive. We therefore expect NPOs to focus their efforts on those organizational development tasks that are linked to their most important funding source(s). Of course, some specific tasks are directly determined by the organization's mission – for instance, an advocacy organization has to conduct lobbying to fulfill its mission. Almost all organizations think about and plan their activities *before* they receive their first funding, but the funding they aim for affects the tasks they focus on *in order to* receive that funding.

In Figure 4, we summarize the relationships between the aforementioned theories and present our research framework. According to the benefits theory, an NPO's mission determines the funding sources available to it, according to who benefits from the goods and services it offers. In line with multitasking theory, organizations invest their efforts in development tasks associated with higher rewards. Accordingly, our research proposition is as follows: The funding intentions of an NPO influence the effort put into certain development tasks, as some tasks are more highly rewarded than others.

Figure 4*: The Research Framework*



2.3 Methodology

2.3.1 Data

Switzerland constitutes an interesting case because it has a relatively large NPO sector in terms of work force (Helmig et al., 2017) and its non-conclusive classification to a type of civil sector. From a social origins theory perspective, Switzerland can be assigned both to the social-democratic (Einolf, 2015) and the liberal category (Helmig et al., 2017). The latter represents a special case within continental Europe because this type of sector is normally found in the Anglo-Saxon world (Helmig et al., 2017). As regards the number of organizations, the sector comprises approximately 100,000 organizations, including over 13,000 charitable foundations (von Schnurbein & Perez, 2018) and around 80,000 associations, most of them of a charitable nature (Helmig, Gmür, & Bärlocher, 2010). 58% of their financing comes from fees and sales, 35% from government funding, and 8% from philanthropy; however, financing structures vary widely depending on the field of activity (Helmig et al., 2017). There is no central register of NPOs in Switzerland, so the exact population and distribution across areas of activity is unknown.

Accordingly, for the empirical analysis we used survey data from Swiss NPOs from various smaller indices, e.g. organizations bearing the Swiss quality seal for charitable organizations. The survey, sent to 3,053 Swiss NPOs in 2018, was part of a larger research project on management challenges in NPOs. The data was collected by means of a postal survey in German and French, after the questionnaire had been pretested in both languages in line with the recommendations of Hak, van der Veer, and Jansen (2008). Organizations were sent the questionnaire, a covering letter explaining the overall goal of the research project, and a return envelope. Of the 622 questionnaires received (response rate 20.4%), 544 questionnaires contained complete answers for all relevant questions.

2.3.2 Variables

As described above, the survey was designed with a broader scope and included questions on research projects relating to management challenges in NPOs, such as financial competencies or market orientation. The variables used were selected from this pool of survey items. All dependent and independent variables used concerned questions answered by the respondents on a five point Likert-scale, ranging from 1 = [I agree] to no extent, to 5 = [I agree] to a large extent. We treated the data as continuous, as we assumed equal distances between the five possible response options (Hair, Black, Babin, & Anderson, 2014). The control variable, *size*, was measured as number of employees. Table 2 provides an overview of the descriptive statistic for each variable and the item text.

Table 2. *Overview and descriptive statistics of variables used.*

	Questions	Mean	Standard Deviation	Median
Dependent variables				
RA1	We are looking specifically for convenient partnerships in order to obtain resources.	3.25	1.30	3
RA2	We regularly reflect on how we can improve our financing.	4.06	1.13	4
IF1	Our strategy is based on our beliefs about how we can create greater value for our beneficiaries.	4.32	0.84	5
IF2	We define the success of projects and services in terms of beneficiaries' satisfaction.	3.79	0.94	4
PR1	We actively inform public offices about our activities.	3.80	1.35	4
PR2	We use public relations to spread information about our organization, projects, or services.	3.84	1.36	4
Independent variables				
Donations[2]	We seek to acquire money donations from individuals, foundations and/or companies.	3.73	1.50	4
Public Funding	We seek to acquire public funding.	3.31	1.60	4
Earned Income	We seek to acquire funding through pricing of our projects and services.	3.55	1.49	4
Control variables				
Size	Measured as number of employees	62.12	133.69	15
Log(1+Size)		2.81	1.76	2.77

[2] The question on donations was asked in three separate questions asking about each type of donations (from individuals, foundations and companies). Since we are interested in the composed effect, we compiled the data using the maximum value from the three responses.

The dependent variables were selected based on the development tasks we identified from the literature. The two impact focus (IF) variables, IF1 and IF2, capture the focus of NPOs on their beneficiaries, their most important stakeholder group (Bruce, 1995). They are adapted versions of a customer orientation item from Narver and Slater (1990) and the beneficiary orientation item from Modi and Mishra (2010). Resource attraction (RA) is measured through RA1 (adapted from Duque-Zuluaga & Schneider (2008)), which covers the aspect of partnerships to attract resources, both financial and non-financial. The second item, RA2, measures the degree to which NPOs are concerned with and want to improve their financial resources. The public relation (PR) items, PR1 and PR2, also cover two aspects of public relations. PR1 asks about the provision of information to government offices, while PR2 captures the more traditional public relations work of organizations (adapted from Wymer, Boenigk, & Möhlmann (2015)).

The independent variables concern the organizations' financing intentions, and were based on statements reflecting support dimensions suggested by Wymer et al. (2015). The categories used (donations, public funding, earned income) are the broad funding sources often used to categorize nonprofit finances (von Schnurbein & Fritz, 2017). Financial resources in the form of private donations are a traditional cornerstone of NPO support. However, the share of these sources of financing as a share of total revenue has been declining for some time (Froelich, 1999; Guo, 2006). Support from the public sector, another important resource for NPOs, is also declining in many fields of activity (Boris, 1998). The decline or stagnation of these financing flows is sometimes one of the reasons why NPOs are increasingly turning to commercial activities, which enables them to generate their own revenues with which to finance the fulfillment of their core mission (Maier, Meyer, & Steinbereithner, 2016).
The independent variable items measure the intention of an organization to seek funding from this source, and not the organization's actual financing model. The reason for this is twofold. First, data availability: The section of the questionnaire where NPOs were asked to report their actual financial numbers was left unanswered by more than half of the organizations. Second, the intention of seeking financing from a specific funding source allows us to draw conclusions about strategic decisions made in an organization.

2.3.3 Model

To answer the research question(s), we calculated ordinary least squares (OLS) regressions. The following model was calculated with the six dependent variables (IF1, IF2, RA1, RA2, PR1, PR2) displayed in Table 2 replacing the dependent variable (DV):

$$DV = \alpha + \beta_1 \times Donations_i + \beta_2 \times Public\ Funding_i + \beta_3 \times Earned\ Income_i + \beta_4 \times \log(1 + Size_i) + \varepsilon_i$$

We examined the partial regression plots as recommended by Hair et al. (Hair et al., 2014) to assess the linearity of the relationship between dependent and independent variables of all six regression analyses. Furthermore, partial regression plots help to discover outliers (Hair et al., 2014). Based on the analyses of the partial regression plots, we excluded one observation from the sample due to its high value for the variable *size*, and applied a logarithmic transformation to the variable *size*. The Breusch-Pagan test is significant for five of the six regressions, indicating the presence of heteroscedasticity. To address this issue, we used a heteroscedasticity consistent covariance matrix estimation to calculate the standard errors and p-values of the coefficients (Kleiber & Zeileis, 2008). For the heteroscedasticity consistent covariance matrix estimation we followed the approach presented in Fox and Weisberg (Fox & Weisberg, 2019). The correlation matrix can be found in the appendix (Table A1).

All calculations were performed using the software R, version 3.6.1 (R Core Team, 2019) using the packages car (Fox & Weisberg, 2019), lmtest (Zeileis & Hothorn, 2002), and sandwich (Zeileis, 2004).

2.4 Results

The results of the six OLS regressions are presented in Table 3. All regressions are significant to the 0.1% significance level. Seeking financial revenue from donations and/or public funding has positive significant effects on the development tasks associated with resource attraction. Additionally, seeking earned income has a positive significant effect on RA2. For RA1, the two significant effects have almost the same effect size (0.191 respectively 0.194), whereas for RA2 the effect size for donations is higher than the other two (0.216 compared to 0.112 and 0.136). The adjusted R^2 of the two development tasks referring to resource attraction are 0.27 and 0.21 respectively.

The two regressions examining the effects of funding goals on impact focus show divergent results. For IF1, the significant variable is donations, while for IF2 earned income is significant. Both regressions have an adjusted R^2 below 0.10, which indicates that the independent variables only explain a small part of the two development tasks on impact focus.

Donations and public funding are the two independent variables with significant effects on public relations. Seeking public funding positively effects these development tasks. Donations, however, have different effects depending on the type of public relations activities engaged in. Public relations aimed at the general public are positively related to donations (0.293). Meanwhile, NPOs that strongly pursue donations invest significantly less effort (-0.170) in the development task PR1, which asks about the provision of information to public offices. Both regressions on the development tasks associated with public relations resulted in an adjusted R^2 higher than 0.25.

The control variable *size* has a positive effect on all six variables, with four being significant (IF1, RA1, PR1, PR2). We also calculated the model without the control variable *size*. The results are similar, though the adjusted R^2 is higher for IF1, RA1, PR1 and PR2 when the control variable is added. Only for IF2 does the adjusted R^2 decrease by 0.01 if the control variable is included. Accordingly, we decided to keep the control variable in the model.

Table 3. *Results of OLS Regression analyses.*

N=544	**RA1**	**RA2**	**IF1**	**IF2**	**PR1**	**PR2**
Donations	0.191*** (0.039)	0.216*** (0.037)	0.107*** (0.028)	0.032 (0.032)	-0.170*** (0.038)	0.293*** (0.042)
Public Funding	0.194*** (0.039)	0.112** (0.035)	-0.013 (0.025)	0.003 (0.031)	0.374*** (0.036)	0.121** (0.042)
Earned Income	0.057 (0.036)	0.136*** (0.034)	0.026 (0.026)	0.120*** (0.029)	0.011 (0.039)	-0.001 (0.039)
Size (log(1+x))	0.190*** (0.029)	0.037 (0.026)	0.093*** (0.023)	0.000 (0.023)	0.205*** (0.029)	0.220*** (0.032)
Intercept	1.162*** (0.167)	2.292*** (0.188)	3.611*** (0.165)	3.238*** (0.175)	2.582*** (0.216)	1.732*** (0.200)
Multiple R^2	0.27	0.22	0.08	0.04	0.29	0.26
Adjusted R^2	0.27	0.21	0.07	0.03	0.28	0.26
F-Statistic	56.50***	30.35***	7.18***	4.90 ***	53.49***	43.29***

****=0.001 **=0.01 *=0.05, robust standard errors in parentheses*

2.5 Discussion and Implications

The results in Table 3 show that there is a relationship between funding intentions and development tasks in organizations. In particular, the amount of effort invested in public relations and resource attraction is affected by seeking funding through donations and public funding. However, the results for the impact focus items are ambiguous. In the following paragraphs we will discuss each of these relationships in more detail and address the implications.

2.5.1 Effects on resource attraction

Seeking donations and public funding has a significant positive effect on resource attraction development tasks. The variable RA1 asked about partnerships, and therefore looked at resources in a broader sense than merely financial resources. Only earned income has no significant effect on this item, implying that organizations focused on generating their own revenue are less concerned with establishing and maintaining partnerships. Their primary stakeholders are their clients, indicating that other partnerships are less important. All three funding intentions examined have a positive significant effect on RA2, the question regarding ongoing improvement of financing. The effect is strongest when seeking donations. This is not surprising, as fundraising for private donations requires a great deal of effort and is highly competitive (Ashley & Faulk, 2010; Dolnicar & Lazarevski, 2009). The control variable *size* has a positive significant effect on partnerships, which shows that larger organizations tend to have and seek more partnerships than smaller ones. Strategic reflections on financing, however, are not dependent on an organization's size.

2.5.2 Effects on impact focus

The R^2 for the two impact focus items is very low (7% and 3% respectively), indicating that any variation that might occur in terms of NPOs' impact focus is not well explained by their funding intentions. Looking at the descriptive statistics for IF1, it is obvious that the median and mean for this item are very high, and the standard deviation is relatively low. Hence, most organizations seem to base their strategy on how they believe they can create greater value for their beneficiaries. Organizations seeking funding through private donations seem to do so to a slightly greater extent. This is in line with the recent push in impact measurement in the nonprofit sector, with grant-making foundations and watchdog organizations calling for an increased focus on impact (Polonsky & Grau, 2011; von Schnurbein, 2016). The only significant relationship affecting IF2, which relates to defining success in terms of beneficiaries' satisfaction, is seeking earned income. Organizations that aim to finance themselves through earned income are much more dependent on satisfied customers, which for some organizations means their beneficiaries. For these organizations, investing in impact offers the highest reward in the form of increased revenue from sales or fees, so in the context of multitasking theory it makes sense for them to invest the most effort in this task.

2.5.3 Effects on public relations

Seeking public funding positively affects both types of public relations examined; informing public offices (PR1) and providing information about the organization's work to the general public (PR2). However, only PR2 is positively influenced by seeking donations, whereas PR1 is negatively affected. This implies that organizations invest significantly less in their relationship with public offices when they strongly seek private donations. This could be due to a fear of losing their independence if they collaborate too closely with government and state institutions, which could consequently lead to the loss of donations (Gazley & Brudney, 2007). For these organizations, multitasking theory seems to hold, as they prioritize tasks (informing the general public) with higher rewards (private donations) at the expense of other tasks (informing public offices), which have a lower or even negative reward. Organizations that seek both donations and public funding may find themselves in a dilemma. Their pursuit of public funding would be helped by providing information to public offices, but this could involve a trade-off resulting in fewer private donations if funders disapprove of close ties with the government. This depends on the organization's type and field of activity; donors might have different expectations of an advocacy organization than a food bank. Size positively affects both PR-items, indicating that larger organizations tend to have a greater capacity for communication.

2.5.4 Theoretical and practical implications

As described in the literature review, the benefits theory states that an organization's purpose determines the funding sources available to it (Wilsker & Young, 2010). We extended this model by assuming that funding sources in turn affect the effort put into organizational development tasks. For two of the three development tasks examined this turned out to be the case. An organization's purpose therefore has an indirect effect on its organizational development. This must be kept in mind when investing in organizational development: An organization's purpose implies a certain degree of predetermination that not only affects available funding sources, but also the scope for pursuing development tasks. Research on the benefits theory has shown that organizations intuitively find funding sources that work best for them and in accordance with the theory's predictions (Young, 2017). Additionally, multitasking theory suggests that organizations will focus their efforts on tasks that offer the highest reward (Holmstrom & Milgrom, 1991). We therefore assume the same to be true of the link between funding intentions and development tasks. From a theoretical perspective, the majority of organizations will not invest effort in organizational development tasks that are inefficient for them. However, our results say nothing about the effectiveness of these development tasks. Funding strategy X, which leads to a certain organizational development Y, might not necessarily lead to more successful organizations.

The results emphasize how the benefits theory can be regarded as a form of path dependence, a theoretical construct of organizational research that describes, broadly speaking, "increasingly constrained processes that cannot easily be escaped" (Vergne & Durand, 2010, p. 736). The connection between mission and financing can be extended by the development tasks, which are affected by the type of funding an organization seeks. This emphasizes the strong influence of the predetermined organizational purpose. NPOs are therefore prone to find themselves in a lock-in position (von Schnurbein, 2017). Organizations with a narrow mission are naturally more inclined toward certain development tasks. Although it may benefit them to review their strategy from time to time, they are most likely already tapping into their optimal funding sources, as stated by the benefits theory, as well as putting optimal effort into their organizational development tasks. Organizations with a broader mission theoretically have more options regarding their funding sources and the amount of effort they invest in development tasks. If such an organization wants to change their strategic focus, they can benefit from planning ahead and anticipating the amount of effort put into development tasks.

There are further implications for practitioners that can be derived from the development of these theoretical frameworks and empirical analyses. Nonprofit managers should be aware of the strong impact of their organizational mission, which can lead to a lock-in status. Strategic considerations should take into account the predetermined options with regard to organizational development. This is particularly true for organizations with a narrow mission focus. Larger organizations have a broader scope in terms of development, but strategic thoughts should always start "at the top" of the framework proposed in Figure 4, i.e. the organization's mission and how it should be implemented.

2.6 Conclusion

This study analyzed the relationship between funding sources and the amount of effort invested in organizational development tasks. NPOs often find themselves in a starvation cycle in order to keep overheads low, focusing more on delivering their services than having the necessary organizational or financial slack to develop the organization further. It is therefore essential to better understand which factors contribute to NPOs investing in organizational development in light of the pressures they are subject to and the limited resources available to them. We built our framework on the benefits theory of nonprofit finance, which states that the kind of goods an NPO provides determines which funding sources are available to it. By taking funding sources as pre-determined, we extended the influence of this lock-in state to the effort put into organizational development tasks. We hypothesized that funding is a measurable reward for

NPOs, and that, in line with multitasking theory, organizations prioritize tasks that offer a higher reward over others.
We tested this framework by analyzing survey data from NPOs in Switzerland and running linear regressions with questions about the effort invested into development tasks as dependent variables and intended funding sources as independent variables. The results show that seeking a specific funding source affects the amount of effort invested in attracting resources, focusing on impact, and maintaining public relations. Seeking donations has the strongest (positive) effect on resource attraction. Depending on how impact focus is measured, both donations and earned income show significant effects. Public relations are strongly affected by public funding, and in some aspects also by private donations.

The study is not without limitations. First, there are more nuances to the development tasks we measured and other aspects of these tasks to consider. Organizational development can take place through a number of activities, such as knowledge management, that we did not include in our study. Second, development tasks are also influenced by factors other than funding and size. External pressures such as watchdog organizations, policies, funders, and competing organizations might also affect the effort put into organization development tasks, which could explain the low R^2 for impact focus. Third, since the population of Swiss nonprofits is not known, our study does not claim to be representative of the entire sector.

Further research should more closely examine the different aspects of each development task. Observable differences exist *between* the overarching development tasks, but our results also show differences *within* a development task. No results are the same for the two questions associated with the same development task. This shows that these development tasks can be fulfilled in several ways. Depending on which aspect or subtask of a development task are being looked at, different funding sources have an effect. These subtasks need to be examined more closely and distinguished from each other in greater detail. Furthermore, the relationship between the proposed research model and organizations' performance should be investigated further in order to include a measure of its effectiveness in the theoretical framework. Additionally, it would be worth taking a closer look at some of the relationships observed, e.g. the negative effect of seeking donations on providing information to public offices. Some established relationships are not necessarily the result of efficiency, but could be due to institutional forces, such as uncertainty, regulation, or professionalization (DiMaggio & Powell, 1983). Analyzing exceptions to our findings (for example an organization that seeks public funding, but does not invest in public relations) could provide deeper insights in this regard.

This paper lays the groundwork for future research by contributing to the development of various theoretical frameworks: First, to the benefits theory of nonprofit finance, by extending the well-researched link between mission and funding sources with organizational development tasks. Second, to the theory of path dependency in nonprofits, as the results shed light on the strong influence of an organization's mission on the extent of organizational development through resource attraction, impact focus, and public relations. Third, by applying the economic theory of multitasking to the nonprofit context.

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2.8 Appendix

Table A1. *Correlations between variables used.*

		1	2	3	4	5	6	7	8	9	10
1	IF1	1.000									
2	IF2	0.199	1.000								
3	RA1	0.178	0.082	1.000							
4	RA2	0.273	0.120	0.346	1.000						
5	PR1	0.123	0.140	0.220	0.154	1.000					
6	PR2	0.278	0.063	0.413	0.281	0.264	1.000				
7	Donations	**0.186**	**0.069**	**0.332**	**0.370**	**0.005**	**0.387**	*1.000*			
8	Public Funding	**0.112**	**0.079**	**0.410**	**0.345**	**0.425**	**0.343**	*0.429*	*1.000*		
9	Earned Income	**0.106**	**0.195**	**0.218**	**0.262**	**0.190**	**0.140**	*0.082*	*0.277*	*1.000*	
10	Log(1+Size)	**0.202**	**0.052**	**0.330**	**0.143**	**0.366**	**0.318**	*0.009*	*0.218*	*0.265*	*1.000*

Note. Italic numbers show the correlation between the independent variables, the bold numbers show the correlations between the independent and dependent variables, the grey numbers show the correlations between the dependent variables

- CHAPTER 3 -

Never Mind the Markets? - A Stakeholder Perspective on the Market Orientation of Swiss Nonprofit Organizations

Sophie E. Hersberger-Langloh

Abstract

The adoption of business-like practices by nonprofit organizations (NPOs) has often been associated with focusing too much on markets and margins, rather than on mission. Yet, the concept of market orientation, which is rooted in business management strategy, does not view profits as the goal, but rather as a consequence. This makes it highly relevant for NPOs. In this paper, we argue that identifying, monitoring, and managing the relevant stakeholder groups through a market orientation approach can enhance both the economic and social performance of an organization. We do so by developing a preliminary scale of stakeholder-based market orientation based on survey data from Swiss NPOs and show that components of such a scale need to include stakeholder groups other than those found in the business literature. The effect of these different components on organizational growth and mission achievement are examined using a structural equation model. The results suggest that adopting a stakeholder-based market orientation concept can have positive effects on organizational growth and mission achievement.

Keywords: market orientation, stakeholder perspective, nonprofit marketing, nonprofit organizations, organizational performance, marketization

3.1 Introduction

NPOs, like for-profit entities, have to identify their markets, develop relationships with their constituents in these markets, monitor changes, and analyse the behaviour of their current and potential stakeholder groups to achieve their social mission (Devece, Llopis-Albert, & Palacios-Marqués, 2017). Stakeholders, as a source of both legitimacy and resources, need to be monitored and managed (Balser & McClusky, 2005), as their expectations and how these are met greatly influence the value creation and effectiveness of an organization (Best, Moffett, & McAdam, 2019; Wright, Chew, & Hines, 2012). This is especially important since the nonprofit sector has been under much pressure to balance economic and social performance due to increased competition (Polonsky & Grau, 2011) and media scrutiny (Gallagher & Weinberg, 1991) over the last decades. In many Western countries, the number of nonprofit organizations (NPOs) has grown substantially across all sectors (Salamon, Sokolowski, & Haddock, 2017). As a result of this growth period and simultaneously stagnant or even decreasing government spending and donations, many NPOs are forced to acquire new funding sources or to generate earned income (Yu & Chen, 2018). In addition to increasing competition, the public's expectation of NPOs to improve performance (Polonsky & Grau, 2011) is pushing organizations away from the classical model of a donation-based charity (Toepler, 2004). They are becoming and behaving more like for-profit organizations (Froelich, 1999; Moeller & Valentinov, 2012; Yu & Chen, 2018); commercial activities, dues and fees are gaining greater importance (Chetkovich & Frumkin, 2003; McKeever, 2015; Salamon et al., 2017). NPOs are increasingly adopting management strategies from for-profit organizations to gain legitimacy and improve their operations, therefore bending and blurring the lines between the two sectors (Dees & Anderson, 2003).

This *marketization* of NPOs is seen as a critical development by many researchers (Eikenberry, 2009; Frumkin & Andre-Clark, 2000), because it implies inter alia an increasing focus of NPOs on the market(s) and on the corresponding stakeholder groups. They fear that the adoption of for-profit practices, a process called *managerialization* (Maier, Meyer, & Steinbereithner, 2016), may lead to "aggressive profit-seeking behaviour" (Guo, 2006, p. 124) whereby they "compromise their underlying ethos" (Chad, 2013, p. 10) and lose sight of their mission. Correspondingly, nonprofit marketing activities are perceived as "undesirable, too expensive, and a waste of stakeholders' money" (Helmig, Jegers, & Lapsley, 2004, p.108). Money spent on anything else than service delivery is still often viewed as unnecessary expense by funders. This perception is reinforced by regulations for NPOs (e.g. a maximum administrative ratio allowed by watchdog organizations or quality seals) and the views of the media and the general public (Chad, Kyriazis, & Motion, 2013).

There are also researchers and practitioners who emphasize the positive aspects of marketization. Adopting a business-like mindset and practices can help NPOs to improve their programs and services (von Schnurbein, 2014). The focus of these studies is often the positive effect on financial performance (Shirinashihama, 2018) by being cost-efficient (Ni, Chen, Ding, & Wu, 2017). In the nonprofit-context, however, performance is not unidimensional, but encompasses more than financial success (Kaplan, 2001; Padanyi & Gainer, 2004). On this basis, it makes sense to take a closer look at concepts from the business world whose goal is not primarily to increase profits: market orientation, for example, is the idea that organizations can increase profits by focusing on market demands. Profits are therefore not the *goal*, but rather an *effect* of market orientation (Kohli & Jaworski, 1990; Narver & Slater, 1990), which is largely compatible with the subjective performance measure – mission fulfilment – that NPOs aim for.

Admittedly, as researchers have pointed out, the mission objective and complex stakeholder structures of NPOs make it difficult to transfer some business concepts as they are on to NPOs, especially in the context of the heated debate about mission versus money (Dolnicar, Irvine, & Lazarevski, 2008). But incorporating stakeholders' expectations to increase value creation and performance of an organization is something that the business sector has been trying to do for a while (Donaldson & Preston, 1995). This makes the applicability of a market orientation concept to NPOs much more feasible and researchers have called for a nonprofit scale of market orientation (Kara, Spillan, & Deshields, 2004). Attempts to establish such a scale have been made (e.g. Balabanis, Stables, & Phillips, 1997; Choi, 2014; Modi, 2012; Padanyi & Gainer, 2004; Voss & Voss, 2000; Wood, Bhuian, & Kiecker, 2000) and some have already analysed how their scale affects performance (see Shoham (2006) for an overview). However, the debate around marketization has largely been internally oriented, putting the NPO in the centre and taking external influences as given and therefore unmanageable. This study contributes to this existing research by drawing on the theory of stakeholder management *and* on findings from the market orientation literature to include those external influences, framing them as management tasks, which organizations can handle. The paper aims to establish a preliminary stakeholder-based market orientation scale of Swiss NPOs, to see a) which stakeholder groups are relevant for a market orientation concept in a Western country, that is characterized by increased regulatory and competitive pressure on the nonprofit sector, and b) how these stakeholder groups affect an organization's economic and social performance. Switzerland offers an interesting case because the number of NPOs have been increasing over the last couple of years (Hengevoss & Berger, 2018), its nonprofit sector is a hybrid between the liberal, welfare, and social-democratic model (Helmig et al., 2011), and almost two-third of nonprofit financing comes from fees and sales (Helmig et al., 2017). The paper therefore also contributes to the debate on the effects of marketization by showing that adopting for-profit practices does not simply impact economic measures, but can also serve an organization's mission.

The paper begins with a review of the literature and theory that this research is based on to develop the hypotheses. The following section on the methodology describes the context and process of the data collection, the questionnaire design, and the process of the data analysis. It is followed by a presentation and discussion of the results, before ending with some concluding remarks.

3.2 Theoretical Background

3.2.1 Market Orientation and Stakeholder Orientation

Market orientation is based on the idea that organizations can maximize profit by focusing on market demands. Market-oriented NPOs can react to their stakeholder groups and satisfy their needs more appropriately to achieve better performance (Shoham et al., 2006). In for-profit literature, the concept of market orientation as part of strategic marketing has been thoroughly explored and applied. The two most prominent schools of thoughts, on which most business research is built upon, are MARKOR (Kohli & Jaworski, 1990) and MKTOR (Narver & Slater, 1990). MARKOR proposes a behavioural view of market orientation and suggests that organizations therefore implement market orientation through marketing activities. The MARKOR scale measures how an organization generates, disseminates, and responds to intelligence by developing and implementing its marketing activities (Kohli, Jaworski, & Kumar, 1993). MKTOR argues that market orientation is an organizational trait or culture. This culture moves the organization to conduct business in a certain way (Brady, Brace-Govan, Brennan, & Conduit, 2011). MKTOR measures market orientation by analysing customer orientation, competitor orientation, and interfunctional coordination (Narver & Slater, 1990; Slater & Narver, 1995). Some researchers argue that there is considerable overlap between the two concepts (e.g. Cadogan & Diamantopoulos (1995)). Both MARKOR and MKTOR hold that the main objective of market orientation is not profitability, but rather that profitability is a consequence of market orientation with profits simply one element of this.

The concept of market orientation has been applied in the nonprofit context both conceptually and empirically (Modi & Gurjeet, 2018). Existing research on the market orientation of NPOs largely assumes that concepts from the private sector can be applied to the nonprofit sector (Chad, 2013; Shoham et al., 2006). Few authors argue that this is not the case, or at least only to some extent (Choi, 2014; González, Casielles, & Vázquez, 2001; Liao, Foreman, & Sargeant, 2001; Sargeant, Foreman, & Liao, 2002), and try to propose frameworks to measure the market orientation of NPOs. Some researchers use a modification of the MARKOR scale, including Vázquez, Álvarez, and Leticia Santos (2002), who expand the concept to include beneficiaries, donors, competitive alternatives, and potential collaborators. Others (although fewer) modify MKTOR, for example Duque-Zuluaga and Schneider (2008), who split customers into three subgroups: beneficiary/recipient, donor, and volunteer/employee. They further add learning and social entrepreneurship to the scale. Choi (2014) also uses a MKTOR-based scale, but does not include collaboration as an option for NPOs. Some authors combine the two scales, for instance Sargeant, Foreman, and Liao (2002), who measure five components of nonprofit market orientation: stakeholder focus, competitor focus, collaboration, interfunctional coordination, and responsiveness. Modi (2012) has developed and tested a market orientation scale for NPOs in India, which comprises donor orientation, peer orientation, beneficiary orientation, and interfunctional coordination. Liao, Foreman, and Sargeant (2001) suggest abandoning the term market orientation in a nonprofit context entirely and instead use “societal orientation”, since this term does not imply orientation towards a market in a literal, economic sense. Similarly, Wymer, Boenigk, and Möhlmann (2015) argue that one should use the term “nonprofit marketing orientation”, since market orientation only refers to customers or markets in a classical sense.

Classic market orientation concepts focus primarily two stakeholder groups, namely customers and competitors (Greenley, Hooley, & Rudd, 2005). Stakeholder orientation, on the other hand, does not see a specific stakeholder group as more important than others, but acknowledges that some stakeholders need to be prioritized in some situations, depending on the issue, the country, industry, or strategic group within an organization (Ferrell, Gonzalez-Padron, Hult, & Maignan, 2010). This view is based on stakeholder theory (Freeman, 1984), which states that every organization has obligations and relationships to a variety of stakeholders, and that the development of the organization depends on the management of these stakeholder groups (Wellens & Jegers, 2014). Stakeholders of an NPO are all individuals or groups who can influence organizational goals or are affected by the achievement of organizational goals (Theuvsen, 2001). Stakeholder theory takes into account that each stakeholder group might have differing or even clashing interests and that they therefore need to be dealt with individually, with a different weight on each relationship (Mitchell, Aigle, & Wood, 1997). This makes the management of stakeholders a strategic issue, especially since this relationship management is resource-intensive (Theuvsen, 2001), and different stakeholders control different resources that are of various importance for the organization's survival (Pfeffer & Salancik, 1978). Organizations can be oriented to a smaller or larger extent to the different stakeholder groups (Greenley et al., 2005).

3.2.2 Nonprofit Stakeholders

NPOs do not have shareholders who directly benefit from the organization's activities, but must cater to the needs of a variety of stakeholders and market their services and products to all of them (Chad et al., 2013). This can foster the prioritization of one stakeholder group over the others, due to a lack of resources to respond to all needs equally (Leroux, 2009; Theuvsen, 2001). For-profit organizations also deal with the challenges of multiple markets, but can usually put their customers first, because the profit made from successful marketing in that area benefits all other stakeholders (Helmig et al., 2004). NPOs have a responsibility towards a more diverse range of stakeholders with differing or even competing expectations and to their core mission to serve society rather than investors or proprietors (Morris, Coombes, Schindehutte, & Allen, 2007). The stakeholder groups as such are much more diverse and complex than is the case for most for-profit organizations. Accordingly, their information requirements – a key factor in the MARKOR scale – are equally diverse and intricate. Due to this complex stakeholder structure, only some of the for-profit components of a market orientation concept are applicable to (certain) NPOs, e.g. those that operate in a competitive environment such as health care (Shoham et al., 2006).

In view of the diversity of NPOs and the decisions to be taken within them, any list of possible stakeholders of an NPO is not conclusive. **Beneficiaries** are traditionally considered one of the main stakeholder groups of an NPO (Shapiro, 1973) and most often the reason an organization exists (Hansmann, 1980). Beneficiary orientation therefore is the equivalent of "customer orientation" in for-profit market orientation measurement (Narver & Slater, 1990). **Donors** constitute the second "customer" group in Shapiro's model (1973) of a dual target-customer perspective. NPOs have to acquire resources from a variety of donors and often depend on them, because they do not have access to capital markets for funding (Helmig et al., 2004). Narver and Slater's model (1990) captures many aspects of donor orientation, but following Shapiro's (1973) dual target-customer perspective, a stakeholder-based nonprofit market orientation scale needs both a beneficiary *and* a donor orientation component, since they constitute two separate customer groups. Many other authors follow this dual perspective in their conceptualization of nonprofit market orientation and incorporate both a beneficiary and a donor component (Macedo & Carlos Pinho, 2006; Modi & Mishra, 2010; Morris et al., 2007; Vázquez et al., 2002; inter alia). **NPO members** fall somewhere between the categories of donors and beneficiaries. Member-based organizations rely on membership fees for funding. However, member-based organizations also have a clear mission to serve their members in return, making them their primary beneficiaries. Based on the financial relevance of membership dues and fees, which are usually referred to as earned income (Anheier, 2014) or commercial income (Guo, 2006), members are considered donors of an organization in this study. Another main resource of many NPOs is a **volunteer workforce** (Guo, 2006) and their **employees**. Social service or health care NPOs are very labor-intensive (Salamon & Dewees, 2002) and the workers' – both volunteers (incl. the **board** of an organization) and paid staff - motivation and job satisfaction is crucial (Duque-Zuluaga & Schneider, 2008). **Competitors** are a relevant stakeholder group for NPOs because they can be in competition both for resources and service delivery (Bilodeau & Slivinski, 1997; Thornton, 2006), including the attention and loyalty of both donors and/or beneficiaries (González et al., 2001). Yet, organizations working in the same field are often **collaborators**, rather than competitors when it comes to serving their beneficiaries better (Huxham & Vangen, 1996). Modi and Mishra (2010) call this relationship "peer orientation" in their concept of nonprofit market orientation. NPOs can choose to compete or collaborate with each other (Sharp, 2018), with for-profit businesses (Austin, 2000), and/or with the government (Salamon & Toepler, 2015). The component of **internal orientation**, e.g. interfunctional coordination, in an NPO is at least as important as it is in for-profit companies, due to the potential conflicts that arise from lack of ownership and a separation of decision-making power and executive power that can often be observed in NPOs (van Puyvelde, Caers, du Bois, & Jegers, 2012). Just as NPOs have multiple organizational stakeholders, they also have multiple principals. Several of these are internal such as the board, paid staff, and operational volunteers (Stone & Ostrower, 2007). Governance mechanisms need to be put into place to coordinate and monitor these internal principals to ensure orientation towards a common goal. Internal orientation includes the coordination between various strategic units or functions to meet common organizational goals (Narver & Slater, 1990). NPOs have to coordinate projects and activities between their employees, volunteers, and collaborators (Duque-Zuluaga & Schneider, 2008). Lastly, orientation towards the **public sector** as a regulatory agency and major donor is a stakeholder group that is given little consideration in existing NPO market orientation concepts, in spite of some early suggestion by researchers to include such a component in an NPO market orientation concept (Balabanis et al., 1997). Where authors of previous studies have dealt with the public sector, they have included it in their donor/funder component: for example, Padanyi and Gainer (2004) use the term "government-funder-related culture and activities". Yet, the public sector is an important shaper of the nonprofit sector, as institutional theory states (Frumkin & Galaskiewicz, 2004), and worth seeing as a separate stakeholder group.

The various stakeholders group mentioned make it eminent that NPOs operate in very complex environments. They serve as platforms for a number of different market actors (Hersberger-Langloh, 2019). The first hypothesis is therefore as follows:

> H1: Nonprofit stakeholder groups can clearly be differentiated in a stakeholder-based market orientation concept.

3.2.3 The Effect on Performance

Studies on market orientation of for-profit organizations and its effect on the performance of an organization mostly conclude that the more market-oriented an organization, the more profitable it is (see Kara, Spillan, & DeShields Jr, 2005; Narver & Slater, 1990; Pelham & Wilson, 1996). These studies use a wide range of performance measurement variables, e.g. return on investment (ROI) or return on assets (ROA), the growth of sales, or market share. Even in a nonprofit context, market orientation can serve as a self-assessment tool to determine whether the organization is doing well. It becomes especially relevant when linked to performance variables (Duque-Zuluaga & Schneider, 2008). Most studies that look at market orientation in the nonprofit sector find a positive link between market orientation and performance (see Modi & Mishra (2010) or Shoham, Ruvio, Vigoda-Gadot, & Schwabsky (2006) for a comprehensive overview), although with high deviation. Shoham et al. (2006) identify the location of an NPO, the market orientation operationalization, and the performance measure used in the study as three potential moderators of this relationship. They find that studies using a MARKOR scale show a stronger relationship between market orientation and performance of NPOs.

But besides the positive link that has been found in for-profit literature (Greenley, 1995; Kirca, Jayachandran, & Bearden, 2005; Morgan, Vorhies, & Mason, 2009; Narver & Slater, 1990; inter alia) and nonprofit research (Modi & Mishra, 2010; Shoham et al., 2006), industrial organization theory predicts a positive effect of managing relationships with the relevant stakeholder groups on performance (Shoham et al., 2006). NPOs have to manage relationships within their stakeholder environment in order to increase performance by creating market orientation and encouraging market-oriented behaviour. And by doing so, NPOs can also ensure alignment of their stakeholders with the mission and values of the organization (Balser & McClusky, 2005).

The performance of an NPO can be measured in objective or subjective dimensions and is multidimensional (Padanyi & Gainer, 2004). A single overall performance construct might not always be the best choice to differentiate the duality of the nature of success for NPOs (Kanter & Summers, 1986; Sowa, Selden, & Sandfort, 2004). Camarero and Garrido (2009) suggest breaking down performance into social and economic components, to measure the performance of an NPO. A separation of social and economic performance measurement is especially useful in view of the fact that the application of a marketing concept is not primarily aimed at increasing profits.

The second and third hypotheses are therefore formulated as follows:

> H2: A stakeholder-based market orientation has a positive effect on the economic performance of an organization.
>
> H3: A stakeholder-based market orientation has a positive effect on the social performance of an organization.

3.3 Methodology

The data collection was part of a larger research project regarding management challenges, financial competencies, and command structures in NPOs. The data was collected from Swiss NPOs. The Swiss nonprofit sector consists of approximately 100,000 active NPOs, according to the country report issued by the Johns Hopkins Comparative Nonprofit Sector Project (Helmig et al., 2011), although an exact population number does not exist. The two dominant legal forms are associations and foundations, of which both can be either grant-making or operative, or both (von Schnurbein, 2013). Only operative foundations were included in the sample, as they fulfil very similar functions as associations and cannot be differentiated easily from an outside perspective. Most Swiss NPOs operate in the areas of social and health services, education and research, or culture and leisure. When looking at the workforce active in the nonprofit sector, Switzerland has a comparatively large nonprofit sector in relation to other countries (Helmig et al., 2011). Having four national languages, Switzerland presents an interesting case when looking at any management dimension of NPOs, as it encompasses more than one cultural space in which NPOs operate (Ritz & Brewer, 2013).

3.3.1 Questionnaire design

Dillman et al.'s (2014) suggestions were followed when designing and composing the questionnaire. Each question had response options using a five-point Likert-scale format, with answers ranging from 1="to no extent" to 5="to a large extent". The cover letter enclosed to the survey explained the significance of the study: participants were told that the research project addresses managerial challenges that NPOs face, but did not reveal or mention the underlying constructs so as not to influence any answers and avoid over-justification effects. To avoid consistency effects, the questions were presented in no particular order and with equal importance (Podsakoff & Organ, 1986). Several rounds of pre-testing were conducted to reduce the number of items and assess how each of the items was understood in a field setting. According to Burns and Bush (2014), five to ten representative respondents are sufficient to point out flaws in a questionnaire. Eleven pre-test interviews for the German version of the questionnaire and, after the final version of the questionnaire was translated, an additional two for the French version were conducted.

3.3.2 Measures

3.3.2.1 Independent Variables: Stakeholder Orientation

As NPOs usually have relationships to several stakeholder groups at once, defining a specific "market" (e.g. donors, beneficiaries, collaborators) to which an organization is oriented towards is difficult (Padanyi & Gainer, 2004). Organizations have to be aware of all relevant stakeholder groups and develop their strategies accordingly (Bhattarai, Kwong, & Tasavori, 2019).

Measures for the different stakeholder orientations were extracted both from business and nonprofit literature. Narver and Slater (1990) and Kohli et al. (1993), with their well-known market orientation scales, offered a template for the beneficiaries and internal orientation items. Items from Balabanis et al. (1997), Duque-Zuluaga and Schneider (2008), and Modi and Mishra (2010) were partially adapted and used for items conerncing donors, peer organizations, and also internal orientation. Wymer et al. (2015) served as reference for items concerncing public image and the relationship to the public sector.

3.3.2.2 Dependent Variables: Social and Economic Performance

A combination of subjective and objective dimensions can give a more comprehensive view of performance (Sowa et al., 2004). As Kanter and Summers (1986) argue, one should view these dimensions as separate variables, since they show the varying priorities of different stakeholder groups. Various studies (Bennett, 2005; Padanyi & Gainer, 2004; Sargeant et al., 2002; Vázquez et al., 2002) have assessed the degree of mission achievement by asking organizations to evaluate the extent to which they believed they have fulfilled their mission using survey items based on Brown (2005). Two items of this item battery were used to measure the degree to which an organization has reached its goals or achieved its mission, making it a proxy for social performance. Social performance refers to creating social value by catering to the needs of beneficiaries (Bhattarai et al., 2019). Another one of these items asked respondents whether an organization had expanded their programmes or services over recent years; this was used as a proxy for economic performance. It can be assumed that service recipients are more satisfied if there are more programmes and services for them, which is why the model allows for the influence of organizational growth (economic performance) on mission achievement (social performance).

3.3.3 Data collection

The questionnaire was sent to the senior managers of 3,053 Swiss NPOs, following a key informant approach. Since there is no central register that lists the population of NPOs and charities in Switzerland, a non-probability sample of operative organizations was chosen. Typical case sampling was applied, consisting of cases from charities bearing a quality seal, NPOs with a focus on environmental issues, and a sample of NPOs from the trade register. For the latter, selection criteria using keywords from the health and housing sector were applied. This over-coverage allowed us to have typical cases from important nonprofit sectors with large organizations in the dataset.

All organizations in the sample were sent the questionnaire, a cover letter with the institute's letterhead, and a stamped return envelope by mail in mid-April 2018. We ultimately received questionnaires from 622 organizations (20.4% response rate). The average age of respondent organization is 49 years, the average size is 56 full-time equivalents, and the average number of board member is seven. After listwise deletion of cases with missing data, 533 organizations were analysed in the factor analysis, and 528 cases using the structural equation model. Non-respondent bias was checked by comparing the responses from early respondents with those of later respondents through t-tests (Armstrong & Overton, 1977), and non-respondent bias was not problematic, as the results showed no difference.

3.3.4 Data analysis

Listwise deletion of missing cases resulted in 528 responses that could be analysed further. We conducted exploratory factor analysis in R (psych package version 1.8.12) to analyse the underlying structure of the data and used principal axis factoring (PAF) with oblique rotation (Oblimin with Kaiser Normalization) to generate a factor structure, following Conway and Huffcutt (2003). Unlike principal component analysis, PAF focuses on the common variance among items and detects underlying or latent factors in the data (Fabrigar, Wegener, Maccallum, & Strahan, 1999). The oblique rotation allows for some correlation among the factors, which is a realistic assumption for a scale with some overlap between the components

(Conway & Huffcutt, 2003). The corresponding confirmatory factor analysis and finally the structural equation model were calculated using Lavaan 0.6-3 in R. Since the distribution of the data did not allow multivariate normal distribution to be assumed, we chose a maximum likelihood estimation with robust (Huber-White) standard errors.

3.4 Results

Items with factor loadings lower than 0.3 were eliminated from the further analysis, as factor loadings in the range of ±.30 to ±.40 are considered the minimal level to be able to interpret the structure (Hair, Black, Babin, & Anderson, 2014, p. 115). Discriminant validity was ensured by eliminating items with substantial cross-loadings (Anderson & Gerbing, 1988). Parallel analysis of the remaining items (Lim & Jahng, 2019) resulted in a five-factor structure, consisting of 18 items and explaining 50.1% of the total variation. All standardized factor loadings are above 0.4, with the majority of the items loading above 0.7 (see Table 4). The average variance extracted (AVE) of each latent construct for the stakeholder orientation components is above 0.4 and below the composite reliability, which supports the convergent validity of all constructs (Fornell & Larcker, 1981; Hair et al., 2014). The Kaiser-Meyer-Olkin (KMO) statistic was 0.82, which is sufficient for an exploratory scale (Denis, 2016, p.612). Bartlett's test of sphericity was statistically significant at $p < .0001$. All stakeholder orientation factors have a Cronbach's alpha of at least 0.68 and a composite reliability (CR) above 0.66, which is still in the acceptable range for good internal consistency of the scale (Hair et al., 2014).

Construct validity was tested through confirmatory factor analysis (Jöreskog, 1969). The goodness-of-fit statistic show an adequate model fit with the data (chi square ($\chi 2$) = 290.2 (df=125), robust comparative fit index (CFI) = .946, robust root mean square error of approximation (RMSEA) = .052).

Table 4 provides an overview of the measurements, the descriptive statistics for the items, and the goodness-of-fit-indices.

Table 4: *Measurements (n=528).*

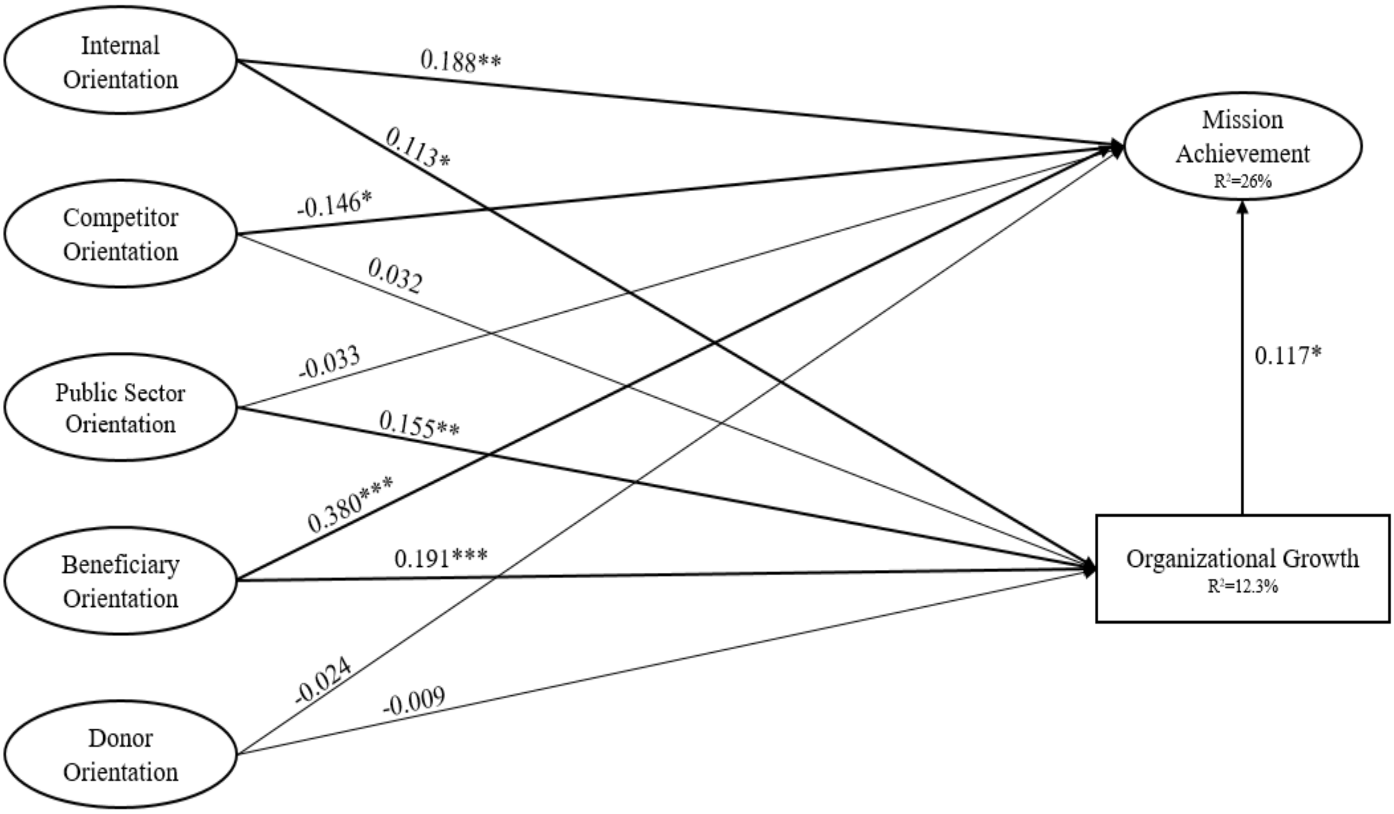
	Internal Orientation	Competitor Orientation	Public Sector Orientation	Beneficiary Orientation	Donor Orientation	Mission Achievement	Organizational Growth	M	SD	α	CR	% of Variance	AVE
We meet regularly with our beneficiaries to find out what products and services they will need in the future.				.523				3.45	1.21				
We regularly survey our beneficiaries to assess the quality of our projects and services.				.818				3.49	1.27	.68	.66	6.9%	.43
Feedback from beneficiaries is disseminated throughout our organization.				.531				3.77	1.08				
We regularly review the impact of changes affecting our major donors.					.757			3.60	1.21				
We constantly strive to understand the expectations of our donors.					.887			3.90	1.09	.77	.76	9%	.55
We are open to suggestions from donors regarding the development of new projects and services.					.479			3.65	1.18				
In our organization, the degree of coordination between the various functions is high.	.716							3.90	1.05				
All our functions are actively involved in the planning of projects and services.	.715							3.87	1.01	.81	.8	12%	.51
Information and resources are regularly shared between our functions.	.836							4.03	0.94				
We organize regular meetings between our function heads to plan and develop strategies and projects.	.612							4.08	1.11				

Table 4 *(continued)*

	Internal Orientation	Competitor Orientation	Public Sector Orientation	Beneficiary Orientation	Donor Orientation	Mission Achievement	Organizational Growth	M	SD	α	CR	% of Variance	AVE
We actively inform the public offices about our activities.			.441					3.81	1.35				
In recent years, we have adapted our projects and services to increase the chances of public funding.			.833					2.80	1.37	.82	.8	11.9%	.6
We participate in public sector programmes to raise additional funds.			.778					2.38	1.36				
We seek to acquire public funding.			.727					3.28	1.62				
We regard some nonprofit organizations as competitors in the procurement of resources.		.507						2.45	1.37				
We regard some nonprofit organizations as competitors in the provision of services.		.865						2.28	1.28	.79	.76	10.3%	.49
We regard some profit-oriented companies as competitors in the provision of services.		.591						2.13	1.34				
We regard some public institutions as competition in the provision of services.		.687						2.01	1.21				
Generally, clients, members, or consumers are satisfied with the services provided						.841		4.43	0.63				
Overall, the organization has been successful in meeting its goals or objectives.						.528		4.28	0.76	.57	.65	22.1%	.49
The number of programmes and services offered has increased during recent years.								3.73	1.24				

Figure 5 displays the structural equation model, including the paths between the five factors, the mission achievement construct, and organizational factor, and the responding standardized coefficients. Statistically significant relationships are indicated by an arrow in bold and asterisks to mark the significance level. The model showed an adequate fit ($\chi2$ = 375.3, df = 169, p<.001, Robust RMSEA = .050, Robust CFI = .938).

Figure 5*: Structural Equation Model (n=528)*



**p<0.1. **p<0.05. ***p<0.01.*

3.5 Discussion

The goal of this research project was to establish a stakeholder-based market orientation scale for NPOs that considers NPO-specific characteristics and includes relevant stakeholder groups of NPOs. This scale was then used to test the relationship between these stakeholder components and the economic and social performance of an organization.

The results of the exploratory and confirmatory factor analysis support the hypothesis that stakeholder groups are clearly distinguishable in a stakeholder-based market orientation scale. Factor analysis produced five factors explaining 50.1% of the variance; namely, beneficiary orientation, donor orientation, internal orientation, public sector orientation, and competitor orientation. Of the initial survey items, 18 items were retained. This makes the scale similar in length to other previously developed scales (Modi & Mishra, 2010). When looking at the effects of the stakeholder components on the two performance measurements, mission achievement and organizational growth, it becomes clear that not all components have a statistically significant and positive effect on organizational performance and, thus, hypotheses 2 and 3 are not fully supported. Some of the market orientation components can be found in a similar format in the for-profit concepts they are rooted in; however, as the following discussion shows, some elements are still unique to NPOs.

Internal orientation explains 12% of the variance and has a statistically significant and positive effect on both organizational performance measures. Interfunctional coordination, which includes this internal orientation, is an important aspect of many for-profit market orientation concepts (Narver & Slater, 1990). The results of this study confirm findings by authors such as González et al. (2001), who state that NPOs have a strong internal orientation, but do not support the findings of Modi and Mishra (2010), who found that market orientation in a nonprofit context is more outward focused, as opposed to a more internal orientation. Due to the lack of benchmarking instruments in the Swiss nonprofit sector, NPOs seem to have a strong inward focus. The positive effect on organizational performance shows that this kind of capacity building strengthens NPOs sustainably, although they often face pressure from donors to direct all organizational or managerial efforts towards their service delivery (Chad et al., 2013).

Donor orientation comprises three items and explains 9% of the variance. While many NPOs still depend on donations (Helmig et al., 2004), they increasingly play a subordinate role in the financing of Swiss NPOs (Helmig, Bärlocher, & von Schnurbein, 2009). Earned income, such as fee-based programmes, are gaining importance due to greater competition for donations and government funding (Chetkovich & Frumkin, 2003). Donor orientation also does not significantly affect the sense of mission achievement or the growth in the number of services or programmes that an organization offers. The lack of a significant effect on organizational growth in particular might seem counterintuitive, since donor orientation might be expected to be a key component of nonprofit market orientation because they provide financial resources that allow an organization to operate. Although a previous study of nonprofit market orientation has shown a positive relationship between donor orientation and organizational performance (Vázquez et al., 2002), the results of the structural equation model imply that an orientation towards beneficiaries, their social value, is more central to NPOs than financial values (Padanyi & Gainer, 2004). Donor orientation therefore seems to be more of a constraint that NPOs must fulfil. It is decisive in *whether* they can achieve their mission, but not to *what extent* they do so.

Beneficiary orientation significantly and positively affects both performance measurements used in this study. Since market orientation is a concept from for-profit literature and management, it is often associated with a loss of idealism and mission drift (Maier et al., 2016). However, this study shows that market orientation in a nonprofit context is much more focused on beneficiaries as a component of such a scale and, subsequently, on the positive influence on mission achievement and organizational growth. Beneficiaries remain one of the most important constituents of NPOs. This confirms the argument by Wymer et al. (2015) that NPOs should orient themselves towards the society they serve, rather than simply implement existing market orientation strategies from the private sector without adaptation.

Public sector orientation is a factor that has not been previously included in research about nonprofit market orientation. The items relating to this factor (see Table 3) describe the relationship with the public sector as a funder, yet it is a distinctively different factor than the donor component of market orientation. The public-sector orientation items clearly load onto one factor, explaining 11.9% of the total variance, and positively influence organizational growth. This could be due to the significance of government funding for Swiss NPOs, which is the second largest stream of income for Swiss NPOs, accounting for 45% of income for health and social service organizations (Helmig et al., 2011).

Competitor orientation is a main component in for-profit concepts and is also represented in market orientation of NPOs, as Gonzaléz et al. (2001) predict in their theoretical framework. Modi and Mishra (2010) include competitor orientation in their peer orientation construct, but do not examine how it relates to organizational performance when analysing overall nonprofit market orientation. In this study, the factor loads significantly negatively onto mission achievement, implying that organizations that focus more on competitors are more prone to have a lower degree of mission achievement. A possible explanation is that this is a strong outward perspective of NPOs (towards their peers/competitors), but with no imminent financial reward, therefore diverting resources from their primary social value goal of serving their beneficiaries.

Two limitations regarding the chosen method and sample have to be addressed here. First, all the groups surveyed consist of quite large organizations. The results do not let us draw conclusions about the market orientation of smaller organizations. However, one could argue that the concept of market orientation is less relevant for smaller organizations, since a certain organizational size is required in order to even have the resources to implement a marketing concept. Second, there is a social desirability bias that may distort the results and threaten the validity of any survey (Malhotra, 1988). We tried to avoid this as far as possible by pre-testing extensively, formulating items appropriately, and giving organizations the option to remain anonymous. The fact that there is variance in the data shows that this bias is quite small, but further research should include a social desirability marker, as exemplified by Modi (2012). Further research should also make sure that there is no common source bias that can arise when the dependent and independent variables are measured through the same instrument.

3.6 Conclusion

Although marketization is a contested concept in the nonprofit literature, with researchers arguing that it has to be "either mission or money" (Dolnicar et al., 2008; Eikenberry & Kluver, 2004; Frumkin & Andre-Clark, 2000), this paper has shown that it can be both. The adoption of business-like practices, such as market orientation, does not necessarily have to lead to mission drift, or only be achieved through aggressive profit-seeking behaviour. On the contrary, by identifying the relevant stakeholder groups, and monitoring and managing relationships with them, organizations can achieve more both socially *and* economically. This confirms the original concept of market orientation, in which profits are not the goal, but rather a consequence thereof (Kohli & Jaworski, 1990; Narver & Slater, 1990), but extends it by taking a stakeholder-based approach. The results presented in this paper show that a systematic alignment with and of relevant stakeholder groups in a nonprofit context need not have only economic advantages in the form of organizational growth, but can also bring benefits to society through higher degrees of mission achievement.

The results of this paper show that an orientation towards competitors, the public sector, beneficiaries, donors, and the internal functions are components of a stakeholder-based nonprofit market orientation scale in a sample of more than 500 Swiss NPOs. To test how these stakeholder groups affect economic and social performance of NPOs, a structural equation model was used to link the stakeholder components and two performance measurements, mission achievement and organizational growth. The results show that internal orientation and beneficiary orientation are components that positively affect both performance measurements. Public sector orientation also has a positive effect on growth, which is an important finding for NPOs in countries where the state is the major funder of NPOs. A higher orientation towards competitors would seem to lead to a lower degree of mission achievement. Finally, donor orientation does not have any significant effects on either performance measure.

Further research should explore the antecedents and moderators of nonprofit market orientation. A better understanding of the relationship between market orientation, the stakeholder management, and other characteristics of an NPO may help NPOs to concentrate their strategies on measures that improve their efficiency and effectiveness. The measurement model should also be applied to the nonprofit sector of other countries to understand which components of this model (e.g. public sector orientation) might be context-specific.

The findings from the study at hand suggest that the adoption of for-profit management concepts, such as market orientation, can be adapted and applied to NPOs. Furthermore, they may even have a positive impact on the economic and social performance of an organization, if done well. However, nonprofit managers need to be aware of their key stakeholder groups and their significance for the organization. The process of identifying these stakeholders and then managing them well is a time-consuming activity for any NPO, especially given that strategic management of stakeholders requires not just responding to stakeholders' needs, but also guiding their expectations as well as their evaluations of the organization (Oliver, 1991). When entering this resource-intensive process, the results presented in this paper should serve as encouragement for nonprofit practitioners. These results show that marketization is not something that NPOs need shy away from; on the contrary, being aware of the presence and expectations of several stakeholder groups as important market actors can help NPOs to achieve their mission and serve their beneficiaries with greater success.

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- CHAPTER 4 –

Institutional Isomorphism and Nonprofit Managerialism: For Better or Worse?

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Abstract
Nonprofit organizations (NPOs) have increasingly adopted business-like practices as a response to institutional pressures. Some researchers argue that this development leads to mission drift, whereas others find a positive effect on organizational performance. However, the institutional pressures responsible for shaping the nonprofit sector have remained hard to distinguish from each other. This study explores the consequences of mimetic, normative, and coercive pressures, and looks at how they affect managerialism, organizational performance, and mission drift. We link these concepts through a structural equation model based on survey data and find that one aspect of managerialism, strategic behavior, is a key construct in influencing the response to isomorphic pressures and can positively affect organizational performance, while holding off mission drift. Normative isomorphism even has a direct positive effect on organizational performance. Mission drift can take place when organizations are under coercive pressure without having strategies or internal processes in place. These findings imply that organizations should invest in their strategy and the professional development of their staff to increase organizational performance and avoid mission drift.

Keywords: Managerialism; isomorphism; nonprofit management; organizational performance; mission drift

4.1 Introduction

In recent decades, management practices have received growing attention in the nonprofit sector due to an increasingly complex resource and stakeholder environment (Moeller & Valentinov, 2012; Salamon, Sokolowski, & Haddock, 2017; Yu & Chen, 2018). This has led to greater demand for sophisticated managerial skills (Stone, 1989) to address these challenges, and consequently to the adoption of business-like practices in nonprofit organizations (NPOs) (Maier, Meyer, & Steinbereithner, 2016). This process is also rooted in a desire for greater legitimacy; managers seek to bring their organization into line with social expectations to enhance legitimacy and thereby boost organizational success (Dart, 2004).

Institutional theory predicts that NPOs experience the same kind of pressures and, by responding to them, may become similar in their culture and structure through a process known as institutional isomorphism (DiMaggio & Powell, 1983). One example is the institutionalization of business-like practices in recent decades, that has resulted in NPOs across all areas of activities increasingly looking alike (Dolnicar, Irvine, & Lazarevski, 2008). DiMaggio and Powell (1983) have identified three mechanisms that drive this institutionalization: coercive, mimetic, and normative isomorphism. These mechanisms can occur simultaneously, but tend to arise from different conditions (DiMaggio & Powell, 1983). Coercive isomorphism results from political and regulatory influences, mimetic isomorphism is a response to uncertainty, and normative isomorphism is brought about by pressures from professions.

The adoption of business-like practices in response to institutional pressures has led to a rise in managerialism, an ideology that NPOs should adopt business-like management practices, in the nonprofit sector (Maier et al., 2016). However, managerialism is a controversial issue that has elicited diverging opinions among researchers (Sanders, 2015). Some argue that a strong focus on strategy, management, and for-profit practices dilutes an organization's true purpose (Bush, 1992; Eikenberry & Kluver, 2004; Froelich, 1999; among others), a process known as mission drift (Dees & Anderson, 2003; Jones, 2007). Others find that applying for-profit practices, such as a more pronounced market orientation, has a positive effect on organizational performance (Guo, 2006; Modi & Mishra, 2010). Whereas managerialism is an opportunity to use resources more effectively and efficiently on the one hand, it also risks losing sight of the organization's mission by applying business practices too resolutely on the other (von Schnurbein, 2014).

In this study we explore whether a particular type of institutional pressure on a NPO – to fulfill regulatory requirements and be accountable for its actions (*coercive isomorphism*), to monitor competitors' actions (*mimetic isomorphism*), or to invest in the development of its leadership (*normative isomorphism*) – is responsible for shaping the organization's response to managerialism. The discussion around the causes of NPOs becoming more business-like has included a variety of vague concepts and loose definitions (Maier et al., 2016), but studies often implicitly addressed a single isomorphic pressure as the underlying cause for it, e.g. political institutions who impose rules on NPOs for accountability reasons (coercive isomorphism) (Harmer et al., 2013) or the influx of people from a certain profession (normative isomorphism) (Hwang & Powell, 2009). This study aims at looking at all three isomorphic pressures as possible reasons for managerialism. Rather than focusing on similarity among organizations, we seek to explore the different ways in which organizations respond to these institutional pressures, while also investigating their effects on perceived (self-stated) organizational performance and mission drift. Research concerning institutional isomorphism has, starting in the 1990s, increasingly dealt with the question why organizations respond differently to these pressures (Boxenbaum & Jonsson, 2008), but very few researchers have looked at the three isomorphic pressures simultaneously (Greenwood & Meyer, 2008). Existing literature has also concentrated either on reasons for isomorphism and its direct impact on an organization's behavior, or on the influence of managerialism on performance. To our knowledge, no studies to date have combined the two lines of research. Moreover, most studies discussing the consequences of managerialism on an organization's behavior use qualitative methods (Suykens, De Rynck, & Verschuere, 2019). Researchers often view the concept and consequences of managerialism either as something positive and desirable, or negative and to be avoided, with very little gradation in between (Hvenmark, 2016). Our study aims to close this research gap and contribute to the literature by linking institutional isomorphism, managerialism, and its effects on mission drift and perceived organizational performance by recourse to a quantitative analysis, and offers a neutral perspective on the consequences of managerialism.

We aim to answer the following research questions:

> RQ1: How do the different isomorphic pressures affect managerialism in NPOs?
>
> RQ2: How does managerialism affect organizational performance and mission drift?
>
> RQ3: How do the different isomorphic pressures affect organizational performance and mission drift?

We address these research questions by creating a structural equation model (SEM) using data from a survey among Swiss NPOs. We begin by presenting the literature on institutional isomorphism, managerialism, organizational performance, mission drift, and how these concepts relate to each other in order to derive hypotheses. We then introduce the data and measures used for the SEM before presenting the results. The final section consists of the discussion, implications, and limitations.

4.2 Literature Review

4.2.1 How institutional isomorphism shapes organizations

The concept of institutional isomorphism is rooted in new institutional theory. The term was coined by DiMaggio and Powell (1983), who use it to describe the process whereby organizations come to resemble others in the same field. They argue that organizations become homogenous in their structures and processes by responding to (external) isomorphic pressures, which can be coercive, mimetic, or normative in nature. Pressure exerted by policies, regulations, or rules mandated by external stakeholders leads to *coercive isomorphism*. *Mimetic isomorphism* occurs when organizations mimic the behavior or strategies of other organizations that they perceive to be superior in response to uncertainty. Finally, when norms and beliefs from outside the organization are transferred into the organization by individuals or groups (e.g. due to the employment of persons with a specific education or degree), the organization responds with *normative isomorphism*. The distinctions between these three types of pressure are not always clear, since organizations are often subjected to more than one type (Sowa, 2008). Although these pressures may appear simultaneously and are, in practice, sometimes hard to distinguish, institutional theory assumes that these pressures stem from different causes (DiMaggio & Powell, 1983; Heugens & Lander, 2007; Zorn, Flanagin, & Shoham, 2011).

Organizations submit to these isomorphic pressures over time and adapt their own structures to gain legitimacy, becoming more homogenous (Meyer & Rowan, 1977). Accordingly, institutional isomorphism seeks to explain why organizations are similar, not why they are different. Although the theory of institutional isomorphism can largely be attributed to

DiMaggio and Powell (1983), it was further developed by a number of researchers, especially since researchers have, during the 1990s, started to look for answers why organizations respond differently to the same pressures (Hasse & Krücken, 2008). Greenwood and Meyer (2008) or Boxenbaum and Jonsson (2008) give a comprehensive overview of the history of the theory and how it was – sometimes wrongfully – applied in various research contexts. They emphasize that there is little research that looks at how the isomorphic pressures interact with each other, although some meta-analyses have tried to do so: Mizruchi and Feinstein (1999) have compared 26 studies and noted that mimetic isomorphism has received disproportionate attention. Heugens and Lander (2007), almost twenty years later, found that "the strength of the relationship between mimetism and isomorphism was greater than that of either coercive or normative pressures" (p.23). Other studies have come to different conclusions, for example Milstein, Hart, and York (2002), who found that coercive pressure exerts the strongest influence.

When looking specifically at the nonprofit research literature, evidence of these isomorphic pressures abounds; in fact, as neo-institutionalism has become more popular in organizational analysis, extensive research has been done on the increasing homogeneity observed among NPOs (see Ramanath, (2009)). Leiter (2005) finds that the degree of similarity among NPOs in Australia is dependent on the interactions among them, and that isomorphism can be observed in some areas, though not the entire sector. Martinez (2008) conducted a case study among Spanish development NGOs, and concluded that structural isomorphism is present in the sector. Smith and Lipsky (1993) find isomorphism occurring among NPOs as a result of their increasing reliance on government support, which is often conditional on specific requirements. Other research suggests that funders such as the government, major individual donors or philanthropic foundations can exert coercive pressure on NPOs to, for example, adopt certain management practices or planning processes (Claeyé & Jackson, 2012; DiMaggio & Powell, 1983; Ostrander, 2007; L. M. Parsons, Pryor, & Roberts, 2017). However, such management practices are also adopted by NPOs to emulate what they perceive to be "best practice" – an example of mimetic isomorphism (Beck, Lengnick-Hall, & Lengnick-Hall, 2008; Tucker, Thorne, & Gurd, 2013). Evidence for normative isomorphism can be found in the application of accounting standards by nonprofit hospitals (Krishnan & Yetman, 2011), among nonprofit human service providers (Frumkin & Andre-Clark, 2000), or in the adoption of evaluation processes among NPOs (Carman, 2011).

Despite the fact that on a fundamental level isomorphism can include the dissemination of good practices (Leiter, 2013) or drive collaboration (Sowa, 2008), the term is often associated with the concern that NPOs will lose significant characteristics as they become increasingly similar to public sector organizations (Smith & Lipsky, 1993) or businesses (Dolnicar et al., 2008; Hwang & Powell, 2009). The institutionalization of corporate practices in particular has led researchers to criticize this development (Eikenberry & Kluver, 2004) for fear of mission drift or loss of idealism (Maier et al., 2016).

4.2.2 The influence of managerialism on organizational performance and mission drift

The way in which organizations respond to institutional pressures can vary widely, depending on the characteristics of the isomorphic pressures and the organization itself, and their organizational environment (Arvidson, 2018). Dolnicar et al. add that clarity of and commitment to organizational mission is crucial in determining how an organization reacts to institutional pressure (2008, p. 111). NPOs are often seen to adapt and comply with new institutional logics (Arvidson, 2018), which has led them to increasingly adopt values and practices from the private sector – an approach known as managerialism, which is characterized by the adoption of business management knowledge and practices (Mitchell, 2018). This trend of adopting managerial practices from the business sector has been observed since the 1990s, when new public management methods were introduced to create organizational strategies, assess organizations' quantitative performance, and train managers to improve operations and increase funding (Horvath, Brandtner, & Powell, 2018). As suggested by Hvenmark, in this study managerialism is defined as "*an ideology prescribing that organizations ought to be coordinated, controlled, and developed through corporate management knowledge and practices*" (2016, p. 2849). Managerialization, then, describes the process through which managerialism occurs.

While acknowledging the existence of different forms of managerialism (Dobrai & Farkas, 2016), researchers have concluded that there are both positive and negative consequences of adopting business strategies and tools in NPOs (Maier et al., 2016; Shirinashihama, 2018). Generally, research has shown that the effects of managerialism depend on how an organization reacts to competing institutional norms, namely their nonprofit character and certain for-profit tools or practices (Kravchenko & Moskvina, 2018). After all, when faced with managerialization of their processes and cultures, organizations are challenged to accommodate both their mission-driven "normative" identity, and a new, commercial "utilitarian" identity (Lee & Bourne, 2017, p. 796).

One of the main arguments in favor of the positive effects of managerialism is the opportunity it offers for more effective and efficient use of resources (von Schnurbein, 2014) by helping NPOs to improve their programs and services. By achieving more objectives with fewer resources, they enhance their financial performance (Shirinashihama, 2018) with greater cost-efficiency (Ni, Chen, Ding, & Wu, 2017). Organizations that exhibit signs of managerialism, for instance by offering additional commercial services to subsidize their programs (Meyer & Simsa, 2014) or by investing in their organizational capacities (Faulk & Stewart, 2017), can benefit from social *and* financial returns on investment.

While most studies on managerialism examine its effect on objective measures such as financial performance, few authors have sought to assess its consequences on subjective measures such as mission achievement (Helmig, Ingerfurth, & Pinz, 2014). These subjective measures are often self-stated (e.g. survey data), which is why researchers refer to this as perceived organizational performance (Brown, 2005). Examples of research on the positive effect on subjective performance are studies on the adoption of a market orientation mindset, a management concept from the business sector that has been shown to have a positive effect on organizational performance, measured by various scales of mission achievement (Choi, 2014; Duque-Zuluaga & Schneider, 2008; Modi & Mishra, 2010). Another study showed that more professionalized NPOs, such as human service organizations, might be better able to attract and retain qualified volunteers (Guo, 2006). Generally, Maier et al. find that the positive effects seem to prevail in NPOs that are already have a stronger business orientation (2016, p. 75).

Negative aspects of managerialism include a loss of legitimacy caused by the perception that organizations are acting in their own interest rather than for the public good (Eikenberry, 2009); higher costs, e.g. caused by employee monitoring (Parsons & Broadbridge, 2004); and, most importantly, the fear of mission drift. Mission drift describes a diversion of time, energy and money away from a nonprofit's original mission (Weisbrod, 2004), often caused by funders exerting influence over an NPO's programs or services (Bennett & Savani, 2011) By focusing on commercial rather than mission-related activities, organizations tend to neglect their mission-related services and programs (Dart, 2004). Researchers have raised concerns that NPOs are shifting towards a dominance of instrumental orientation, rather than following their mission (Chetkovich & Frumkin, 2002). Mission drift is exacerbated by vague organizational goals (Koch, Galaskiewicz, & Pierson, 2015), reliance on donor transactions (Froelich, 1999), market orientation (Liao, Foreman, & Sargeant, 2001), increased hybridity of organizations (Eikenberry & Kluver, 2004), and dependence on government grants (Dolnicar et al., 2008).

Adopting managerial practices from the business sector is often associated with an increased strategic perspective of organizations (Dolnicar et al., 2008; Horvath et al., 2018), either because the business tools and practices require the implementation of such a strategy (Chad, Kyriazis, & Motion, 2013; Dobrai & Farkas, 2016) or because it helps organizations to stay focused on their mission by having a clear vision of who they are and where they are headed (Beck et al., 2008). A strategic orientation can lead to behavior that results in superior performance (Narver & Slater, 1990). Faced with different institutional logics from the nonprofit and private sector, professionalized NPOs also need strong internal guidance to overcome identity issues and, consequently, mission drift (Lee & Bourne, 2017). Internal management tools such as evaluations of program outcomes or independent financial audits are of crucial importance for NPOs faced with managerialism (Hwang & Powell, 2009).

The literature review in the previous sections should highlight a couple of issues that the paper at hand addresses. First, when talking about managerialism, researchers often either take a positive (increased organizational performance) or a negative view (fear of mission drift), with little middle ground (Sanders, 2015). Second, the studies on managerialism often emphasize one possible cause for it (Maier et al., 2016), which is in fact often an isomorphic pressure (e.g. influence from a profession or regulations). Third, and building up on this, most studies which apply or analyze institutional isomorphism focus on one type of isomorphic pressure, and very few look at how they interact with each other (Greenwood & Meyer, 2008; Mizruchi & Fein, 1999). The paper at hand aims to a) offer a neutral view on the consequences of managerialism, b) look at all three isomorphic pressures simultaneously as reasons for managerialism, and c) link the research on institutional isomorphism, managerialism, and organizational performance and mission drift.

4.3 Hypotheses

As described in the previous section, isomorphic pressures are responsible for a homogenization of the nonprofit sector (Dolnicar et al., 2008; Frumkin & Galaskiewicz, 2004; Meyer & Rowan, 1977; Ramanath, 2009), with organizations increasingly adopting business tools and practices in a process described as managerialism (Maier et al., 2016). This managerialization of organizations can boost organizational performance (Duque-Zuluaga & Schneider, 2008; Shirinashihama, 2018), but brings with it a risk of mission drift (Eikenberry & Kluver, 2004; Jones, 2007), depending on how an organization reacts to different or even competing institutional logics (Kravchenko & Moskvina, 2018). We therefore hypothesize that mimetic, normative, and coercive isomorphic pressures affect organizations distinctively in terms of performance and mission drift via managerialism.

Managerialism can present itself in the form of increased strategic behavior (Horvath et al., 2018) and/or improved internal management (Hwang & Powell, 2009), as "isomorphic change processes can be observed not merely through examination of structural features of organizations, but also manifest themselves in internal decision-making processes and behavioral features." (Ramanath, 2009, p. 54). We therefore also expect a direct effect on organizations' strategic behavior and internal management.

H1: a) Mimetic, b) normative, c) coercive pressure has an effect on organizational performance via strategic behavior.

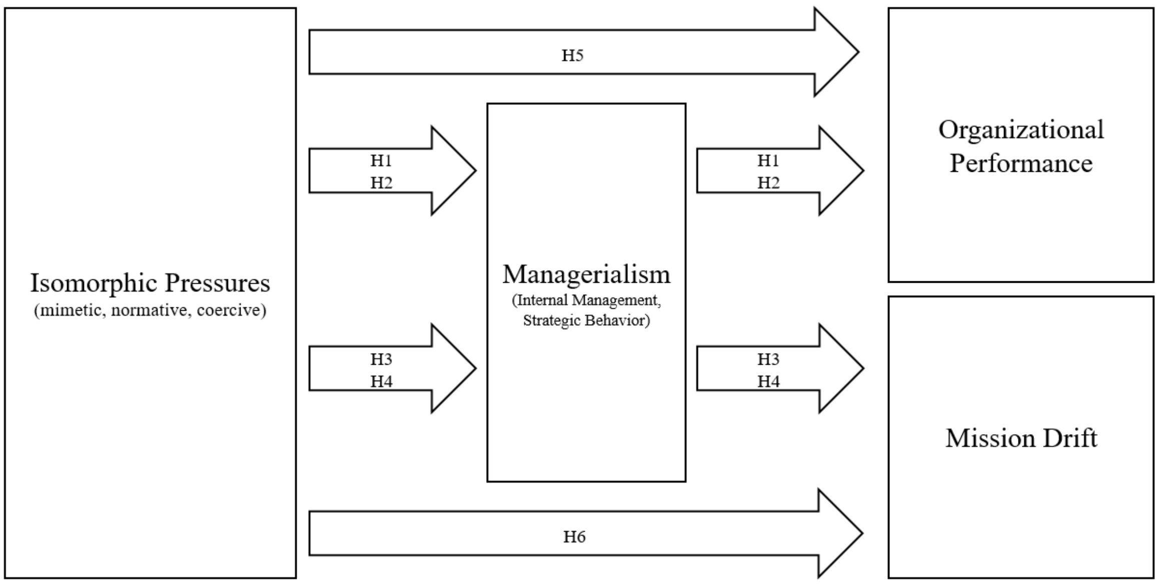
H2: a) Mimetic, b) normative, c) coercive pressure has an effect on organizational performance via internal management.
H3: a) Mimetic, b) normative, c) coercive pressure has an effect on mission drift via strategic behavior.
H4: a) Mimetic, b) normative, c) coercive pressure has an effect on mission drift via internal management.

The existing literature focuses on either the relationship between isomorphic pressures and managerialism, or the relationship between managerialism, organizational performance, and mission drift. However, the possibility of a direct effect of isomorphic pressures on organizational performance and mission drift has yet to be examined. We therefore add two exploratory hypotheses linking isomorphic pressures to both organizational performance and mission drift.

H5: a) Mimetic, b) normative, c) coercive pressure has a direct effect on organizational performance.
H6: a) Mimetic, b) normative, c) coercive pressure has a direct effect on mission drift.

A graphical depiction of the hypotheses is displayed in Figure 6.

Figure 6: *Hypotheses*



4.4 Methodology

The hypotheses were tested with a structural equation model (SEM) using a maximum likelihood estimation with robust standard errors and a Satorra-Bentler scaled test statistic. The model consists of constructs of isomorphic pressures, managerialism, perceived organizational performance, and mission drift. We allowed all isomorphic constructs to load on all the managerialism, organizational performance, and mission drift constructs. The two constructs on managerialism were allowed to load on both organizational performance and mission drift and the correlation between the isomorphic pressures as well as between perceived organizational performance and mission drift were added as free parameters. The constructs are based on measurement models that we first analyzed with a confirmatory factor analysis (CFA). We computed all analyses with the software R version 3.6.2 (R Core Team, 2019).

4.4.1 Data

The data was collected in 2018 from Swiss NPOs. Switzerland has a strong nonprofit sector, but the entire population is unknown, since registration is only mandatory for foundations, and not associations. The number of associations is estimated at around 80,000 (Helmig et al., 2017). The number of charitable foundations has more than doubled in the last 30 years, to over 13,000 (von Schnurbein & Perez, 2018). Both legal forms can be grant-making and/or operational, with the majority of associations belonging to the latter category.

As the population of Swiss NPOs is unknown, the sample is based on a non-probability sample. We applied typical case sampling to include larger NPOs from important sectors, such as health, social services, or environmental affairs (Helmig et al., 2011; Helmig, Lichtsteiner, & Gmür, 2010). We also included organizations possessing the Swiss quality seal for social charities, as these are usually larger in size in terms of budget or number of employees. The resulting sample comprised 3,053 Swiss NPOs. The survey serves various research projects and contains questions on the topics of market orientation, financial management and managerialism in NPOs. The paper-and-pencil questionnaire was addressed to the organizations' CEOs. Pretesting in German and French was carried out based on the recommendations of Hak, van der Veer, and Jansen (2008). We received 622 responses (response rate 20.4%) and 521 organizations remained in the sample after listwise deletion of missing data among the relevant variables. The average age of the 521 organizations was 50.4 years, and they had on average 93 employees and operating expenses of 10.8 million CHF in 2017 (see Appendix Table A.2.). About half of them were foundations (221) and the other half associations (294). The responding organizations could select all areas of activities (ICNPO categories) that applied to them. The most selected categories were health (43.8%, 228 organizations), social services (38.4%, 200), education and research (22.3%, 116), and culture and recreation (22.1%, 115). These are the categories with the highest share of employees and largest budgets in the nonprofit sector in Switzerland (Helmig et al., 2010), which reflects the focus on larger organizations in the sampling process.

4.4.2 Measures

The SEM is based on seven latent constructs. All items were collected by a survey, i.e. represent a subjective perception of the respondent. We tried to avoid any bias by collecting the data anonymously and not revealing any of the underlying constructs, which could influence the answers and lead to over-justification effects.

The three isomorphic pressures are measured as follows: Mimetic pressure is measured through questionnaire items concerning competitor scanning. Coercive pressure is measured through questions on the degree of accountability an organization feels vis-à-vis funders and authorities. Both scales are based on items used by Zorn, Flanagin, and Shoham (2011). Normative pressure is measured using three items concerning the expertise and continuing education of managers, and is partly based on the items proposed by Zorn et al. (2011).

Managerialism is operationalized on two levels – strategic and operational. As stated before, our understanding of managerialism is non-judgmental and entails the application of corporate management practices in terms of control, coordination, and development. The strategic behavior construct includes survey items on organizations' written strategy and long-term planning. It draws on a scale by Shumate et al. (2017). The operational construct internal management captures the degree of coordination and standardized procedures within an organization. It is based on items from various studies on the market orientation of organizations, i.e. the application of a business concept to NPOs, which includes, besides customer and competitor orientation, a component of inter-functional coordination (Duque-Zuluaga & Schneider, 2008; Modi & Mishra, 2010; Narver & Slater, 1990).

Organizational performance can be measured using both financial measures and measures relating to mission achievement. However, given that the ultimate goal of an NPO is achieving its mission, we decided on a measure focusing on effectiveness. This is in line with various studies (Bennett, 2005; Padanyi & Gainer, 2004; Sargeant, Foreman, & Liao, 2002; Vázquez, Álvarez, & Santos, 2002), who have assessed performance by asking respondents to evaluate the extent to which they believe they have succeeded as an organization, e.g. have fulfilled their mission. The three items on performance measurement are drawn from a scale of perceived organizational performance developed by Brown (2005) which comprises items on improvements for beneficiaries, extent of and improvements to services. Although it is an established scale, two of the original five items did not correlate well with the other three items, which is why they were dropped from the organizational performance construct.

Mission drift comprises two items measuring the openness to suggestions from funders. We were unable to find an established scale for mission drift. One item (MiDr2) measuring mission drift in this study is based on Balabanis et al. (Balabanis, Stables, & Phillips, 1997) and the other item (MiDr1) is self-developed.

The two dependent variables, perceived organizational performance and mission drift, are not mutually exclusive and can theoretically occur at the same time, as mission drift is more concerned with the financing of the organization, whereas organizational performance focuses on effective mission achievement.

All survey items were measured on a five-point Likert scale ranging between 1 = [I agree] to no extent, and 5 = [I agree] to a large extent. Because we measured all items on a five-point scale, we assume that the variables are continuous (Hair, Black, Babin, & Anderson, 2014). The list of items is displayed in Table 5 along with the descriptive statistics.

Table 5: *Descriptive Statistic for Survey Items (n=521).*

Variable	Item	Factor Loadings	Item Text	Mean	SD	Median
Perceived Organizational Performance (α=.61, CR=.64, AVE=.40)	OrPe1	.423	The majority of our beneficiaries experienced significant improvements because of the services we provided.	4.32	0.81	4
	OrPe2	.655	The number of projects and services we offer has increased in recent years.	3.75	1.24	4
	OrPe3	.734	The quality of our services has improved.	4.04	0.82	4
Mission Drift (α=.66, CR=.68, AVE=.53)	MiDr1	.614	We are open to suggestions from funders regarding the development of new projects and services.	3.67	1.17	4
	MiDr2	.810	When we find that funders would like us to modify the service offering, we make an effort to do so.	2.93	1.28	3
Strategic Behavior (α=.77, CR=.78, AVE=.54)	Strat1	.771	We consciously take our time to make strategic considerations.	4.07	0.90	4
	Strat2	.876	We define our goals regularly.	4.09	0.93	4
	Strat3	.631	We have a current written strategy.	3.83	1.27	4
Internal Management (α=.78, CR=.78, AVE=.55)	IntCo1	.778	All our functions are actively involved in the planning of projects and services.	3.87	0.99	4
	IntCo2	.758	Information and resources are regularly shared between our functions.	4.02	0.95	4
	IntCo3	.697	We organize regular meetings between our various function heads to analyze information.	4.08	1.12	4
Mimetic Pressure (α=.84, CR=.84, AVE=.64)	Mime1	.672	Information on organizations that provide similar services is considered important for decision making.	3.57	1.05	4
	Mime2	.854	We actively keep informed of new and innovative ways of working used by similar organizations.	3.71	1.06	4
	Mime3	.861	We monitor the moves of similar organizations very closely.	3.52	1.10	4
Normative Pressure (α=.75, CR=.75, AVE=.50)	Norm1	.743	It is important to us that our managers are experts in their field.	4.22	0.89	4
	Norm2	.708	When recruiting managers, it is vital to us that the chosen persons have the professional training required.	4.16	1.04	4
	Norm3	.683	Our managers are constantly undergoing further training.	3.77	1.03	4
Coercive Pressure (α=.79, CR=.80, AVE=0.57)	Coerc1	.706	Our organization is accountable to an external body (e.g. public authorities, donors) for its actions.	4.36	1.19	5
	Coerc2	.802	We systematically collect information about our activities in order to meet the requirements of government agencies or donors.	3.95	1.23	4
	Coerc3	.750	Legal or funding guidelines require us to compile statistics on our activities.	3.67	1.55	4

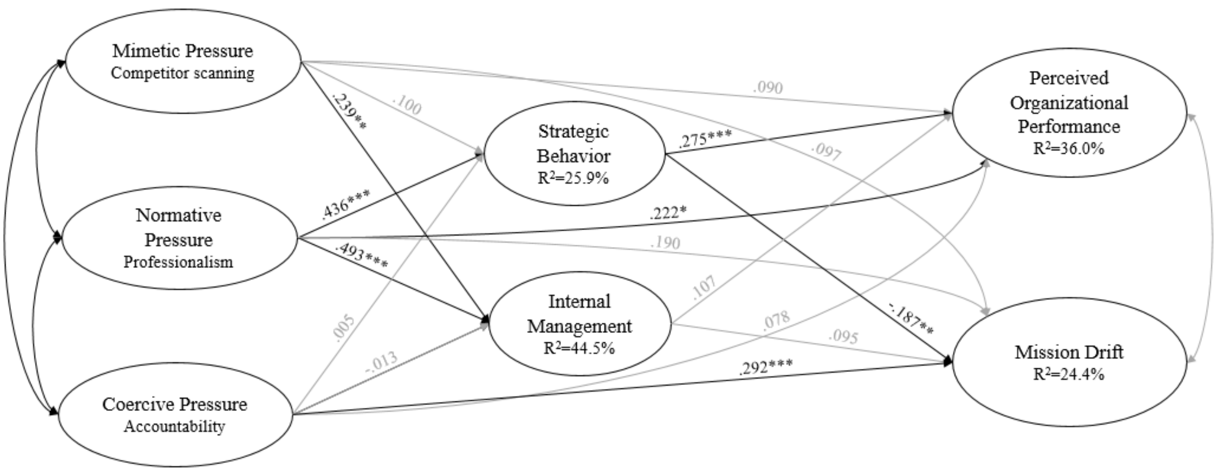
SD= Standard deviation, α=Cronbach's alpha, CR=Composite reliability, AVE = Average variance extracted

4.5 Results

We calculated a confirmatory factor analysis (CFA) for all the constructs using the R packages lavaan (Rosseel, 2012) and semTools (Jorgensen, Pornprasertmanit, Schoemann, & Rosseel, 2018). The resulting standardized factor loadings, Cronbach's alpha, Composite Reliability (CR), and average variance extracted (AVE) are displayed in Table 5. All factor loadings are significant to the 1% significance level and the majority of them is higher than .7. The CR values are between .64 and .84, which can be considered acceptable (Bagozzi & Yi, 1988). The AVE of all but one construct are higher than .5 which Hair et al. (2014) call "a good rule of thumb" to assume "adequate convergence" (p. 619). Only perceived organizational performance shows an AVE below .5. Because it is a crucial construct in our model and the CR is acceptable, the factor was retained in the model. Furthermore, we tested the discriminant validity by relating the squared correlation of the constructs with the AVE (Fornell & Larcker, 1981). Because the AVE of all constructs are higher than their respective squared correlations, we assume discriminant validity. The correlation of the constructs are shown in Appendix Table A.3. All absolute correlation values are below .7, which excludes effects of multicollinearity (Dormann et al., 2013). The robust fit-indices of the CFA show an adequate fit (Robust $\chi2$ = 239.550, Degrees of Freedom (df) = 149, p<.001, Scaling correction factor for the Satorra-Bentler correction 1.230, Robust Root Mean Square Error of Approximation (RMSEA) = .038, Standardized Root Mean Square Residual (SRMR) = .043, Robust Comparative Fit Index (CFI) = .970, Robust Tucker-Lewis Index (TLI) = .961).

The results of the structural equation model show an adequate fit (Robust $\chi2$ = 254.824, df = 150, p<.001, Scaling correction factor for the Satorra-Bentler correction 1.233, Robust RMSEA = .041, SRMR = .046, Robust CFI = .965, Robust TLI = .955). Figure 7 shows the model with standardized coefficients; the significant paths are displayed in black, all other paths in grey. Mimetic pressure has a significant effect on internal management (.239). Normative pressure has significant effects on strategic behavior (.436) and internal management (.493). Coercive pressure has a significant effect on mission drift (.292). Strategic behavior shows a positive significant effect on perceived organizational performance (.275) and a negative significant effect on mission drift (-.187). Internal performance showed no significant effects on the two dependent variables. The correlation between organizational performance and mission drift is positive but not significant (.070).

Figure 7*: Result of structural equation modeling*



*Significance levels: *p<0.1. **p<0.05. ***p<0.01.*

We checked the significance of the indirect and total effects by recourse to bootstrapping, as recommended by Mair (2018). Table 6 shows the standardized significant indirect and total effects resulting from the bootstrapping analysis. Normative pressure has a significant indirect effect via strategic behavior on organizational performance (.120) and on mission drift (-.082). It also shows a significant total effect on organizational performance (.395). Coercive pressure has a significant total effect on mission drift (.290).

Table 6: *Standardized significant indirect and total effects resulting from the bootstrapping analysis*.

Significant Indirect Effects	
Normative Pressure → Strategic Behavior → Organizational Performance	.120***
Normative Pressure → Strategic Behavior → Mission Drift	-.082**
Significant Total Effects	
Normative Pressure → Organizational Performance	.395***
Coercive Pressure → Mission Drift	.290***

*Significance levels: *p<0.1. **p<0.05. ***p<0.01.*

The results of the above analysis are consistent with hypotheses 1b, 3b, 5b, and 6c. The partial support for Hypotheses 1 and 3 shows that normative pressures have a positive indirect effect on organizational performance (Hypothesis 1b) and a negative indirect effect on mission drift (Hypothesis 3b). We did not find support that isomorphism affects perceived organizational performance or mission drift via internal management (Hypotheses 2 and 4). However, we did find partial support for the exploratory Hypotheses 5 and 6. Normative pressure has a positive direct effect on perceived organizational performance (Hypothesis 5b). Coercive pressure has a positive direct effect on mission drift (Hypothesis 6c). The last two direct effects are supported by the two significant total effects between normative pressure and perceived organizational performance as well as coercive pressure and mission drift.

4.6 Discussion

In this study, we combined two streams of literature. On the one hand, we looked at the influence of isomorphic pressures on organizational behavior, and on the other we examined the relationship between managerialism and both organizational performance and mission drift. We were especially interested in the analysis of both positive and negative influence or consequences of isomorphism on an organization's mission achievement.

First, we want to discuss some results concerning the different constructs. The indicators for the different isomorphic pressures proved to return solid results. All three were clearly distinguishable. Our model allowed measuring the influence of all three isomorphic pressures simultaneously. The different effects will be discussed afterwards. The constructs for strategic management and internal management were built on criteria taken from literature and showed satisfactory results. We focused on standardization and coordination in processes as indicators of increased management behavior instead of asking for specific management tools. The reason for this was twofold. First, there is a lack of consistent management tools for NPOs, which increases the danger of misinterpretation. Second, we align with other researchers that managerialism is rather a process than a set of instruments (Hvenmark, 2016). Finally, the constructs for organizational performance and mission drift were not fully satisfactory. This shows that measuring nonprofit success or failure is difficult and the right measurement persists contested (Helmig et al., 2014).

Our major contribution to existing literature concerns the relationships between the different constructs. In terms of the scientific debate on the influence of isomorphic pressures on organizational behavior, we affirm the existing literature, which emphasizes the direct influence of isomorphic pressures on organizational management. However, there is a need to differentiate between the various types of isomorphic pressures, and separate the positive and negative outcomes of managerialism. Normative pressure, e.g., professional conformity, has a considerable positive influence on both strategic behavior and internal management. This highlights the importance of developing professional standards, for instance in fundraising, which leads to more efficient management of an organization. The findings on mimetic pressure, e.g. copycat behavior, are double-edged. There is no significant influence on strategic behavior, which means that a copy-cat strategy rarely leads to a clear strategic position, and does not strengthen the organization's self-conception (Anheier, 2000). However, imitating others results in cost-saving on the operational level. This result emphasizes why imitation is both alluring and risky at the same time. Imitation is a quick answer to uncertainty and saves costs, albeit only where the alternative danger is reinventing the wheel. However, it also hinders organizational development when there are long-term decisions to be made. To our surprise, coercive pressure, e.g. compliance to regulation, has no significant influence on the strategic or operational level. There is no question that organizations must follow regulations and standards. However, our explanation for this result is decoupling behavior, i.e., managers find formal answers without practical consequences, and do not go beyond the basic standards (Bromley, Hwang, & Powell, 2012). As we shall see below, this does not mean that coercive pressure has no impact whatsoever. Our findings on the relationship between isomorphic pressures and managerialism are in line with existing literature in so far that managerialism is a response to isomorphic pressures. However, by including all three pressures in the structural equation model, it becomes evident that they each do not affect managerialism to the same extent.

The second theoretical debate concerns the link between managerialism and organizational performance. This ongoing debate comprises two lines of argument. One emphasizes that managerialism leads to mission drift and endangers an organization's social purpose. The other states that managerialism strengthens organizational performance. By using a structural equation model, we were able to include both arguments in one analysis. Our findings clearly support the more positive understanding of managerialism. Both strategic behavior and internal management have a positive influence on organizational performance, but only the influence of strategic behavior is significant. Organizations with a long-term perspective and goal-oriented management processes will find a positive influence on their mission achievement (Christensen & Ebrahim, 2006). This finding is consolidated by the negative and significant influence of strategic behavior on mission drift. Thus, sincere strategic management may function as a backstop against mission drift.

So far, we have dealt with results that are grounded in and support existing literature on isomorphism and managerialism. However, our interest was not limited to the influence of isomorphic pressures on management practices, and we also included direct links between the isomorphic pressures and the outcome measures of organizational performance and mission drift. These direct links revise some previous findings, and advance the understanding of isomorphic pressures as they apply to nonprofits. In particular, coercive and normative isomorphism were found to be directly connected to the level of mission achievement. Coercive isomorphism has a direct effect on mission drift, confirmed by the total effects analysis. This emphasizes that regulatory frameworks and the regulations or sanctions they impose can have ambiguous effects on organizations (Prakash & Gugerty, 2010). Standardization processes increase effectiveness through clarification and alignment, provided the NPOs involved have sufficient internal capacities to meet the demands (Bies, 2001). However, mandatory regulation may lead to mission drift, for example if it increases costs without bringing improvements, or if it hinders adaptability to new social needs. Given the fact that we operationalized mission drift mainly as response to funders' expectations, this finding entails a reminder for funding institutions that pre-formulated requirements for support may lead the receiving NPOs astray. Normative isomorphism has a direct influence on organizational management, confirmed by the total effects analysis. Additionally, the improvement of leadership through norms and professional development have an indirect positive influence on organizational performance via strategic behavior, but not through internal management. This finding helps to better understand the divergent research results on professionalization or managerialism (Maier et al., 2016). Professionalism may foster mission achievement, especially if it is embedded in a strategic setting linked to the overall mission. Investing in management competencies for mere internal purposes may be less sufficient.

Finally, our model shows neither direct nor indirect significant paths between mimetic pressure and the measures of organizational performance or mission drift. This can be explained by the fact that mimicking behavior is usually a short-term reaction (e.g. in response to a position in a ranking), while the specific purpose of a nonprofit organization can rarely be effectively achieved using the strategy of another organization.

4.7 Conclusion

Our findings are in line with previous research highlighting the variable outcomes of the different types of isomorphism (AbouAssi & Bies, 2018). Before we conclude with implications for both research and practice, some limitations must be mentioned. Firstly, our results should be generalized with caution. Our sample of Swiss NPOs is not representative, as the total size of the Swiss nonprofit sector is not known. Due to resource limitations, a selection of specific fields of activity and number of organizations was necessary. Nevertheless, it is one of the largest samples of Swiss NPOs existing. Secondly, we are aware of the common method bias in our survey design. We dealt with this issue as thoroughly as possible by means of pretests and respondent anonymity. Finally, measuring the organizational performance of nonprofits is contested, and no dominant measure has emerged to date (Helmig et al., 2014). Although we applied an existing item box from the literature, there might be other justifiable ways to measure organizational performance. Additionally, we measured the influence of management on organizational performance, understood as mission achievement. However, the mission of a nonprofit is dependent on many different aspects, of which management might be of lower importance. Other aspects such as service provision, client satisfaction, as well as the field of activity (among others) have an influence on organizational performance, too.

Despite these limitations, we are convinced that the results of this study contribute to a better understanding of nonprofit management, and pave the way for future research in the field. One possible line of research is a more nuanced analysis of isomorphic pressures. Like previous studies, our findings show divergent consequences of isomorphic pressures on NPOs, and the interpretation of pressure sources remains vague (Beckert, 2010). Future research should aim for a better differentiation of isomorphism in study design in order to develop a more granulated set of pressures. Additionally, we call for further investigation into the direct effects of institutional pressures. Is professionalism only noticeable at the level of efficiency, with no direct bearing on effectiveness? How should mandatory regulations be constructed in order to support mission achievement, rather than facilitating mission drift? Is mimicking behavior a good strategic choice at all? Our research emphasized differences between the types of isomorphic pressure. Building on recent theorizing on isomorphism, we suggest future research based on longitudinal or panel data. This would allow analyzing interactions between the different types how they gain or lose strength over time. Finally, we see an urgent need for a better understanding and measurement of mission drift, as mission drift explains a deviation and not necessarily the opposite of mission achievement.

In addition to these theoretical implications, this survey also offers helpful insights for nonprofit managers. Increasingly, managers are faced with the causes of isomorphism, such as uncertainty, regulations, or professionalism (Hersberger-Langloh, 2019). The items used in this survey can be applied by nonprofit leaders in order to test how their organizations is positioned against isomorphic pressures. The crucial question for managers is: when should a nonprofit adjust or align to external impulses? Our research suggests that professionalism should be valued over other pressures. Copycat behavior is a short-term solution and may endanger the organization's mission fulfillment. Following the rules may put the organization in a good light in front of their funders, but not necessarily strengthen mission fulfillment. Instead, improving the knowledge and capacities of your staff, investing in new technologies, or developing leadership skills will help your organization to find the right answers in times of uncertainty, or in response to mandatory regulation. Especially, developing and pursuing a clear strategy is of high value for mission fulfillment. From this perspective, mission drift can be seen as a consequence of insufficient rather than too much managerialism.

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4.9 Appendix

Table A.2. *Descriptive Statistics of Sample Characteristics.*

	n	Mean	Standard deviation	Median
Age	503	50.44	40.01	38
Operating expenses in million CHF	450	10.75	83.26	2.61
Number of employees	508	93	676	16

Table A.3. *Results of the Correlation Between Constructs (CFA).*

	Mimetic Pressure	Normative Pressure	Coercive Pressure	Strategic Behavior	Internal Management	Perceived Organizational Performance	Mission Drift
Mimetic Pressure	1						
Normative Pressure	0.649***	1					
Coercive Pressure	0.468***	0.515***	1				
Strategic Pressure	0.378***	0.468***	0.278***	1			
Internal Management	0.551***	0.612***	0.354***	0.490***	1		
Perceived Organizational Performance	0.433***	0.515***	0.349***	0.488***	0.452***	1	
Mission Drift	0.340***	0.372***	0.419***	0.069	0.288***	0.245***	1

*Significance levels: *p<0.1. **p<0.05. ***p<0.01.*