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**Abstract**

Private not-for-profit organizations combine characteristics of a public sector agency with those of a private, proprietary firm. In particular, nonprofits are required to address designated social missions while breaking even financially. This structure underlies the difficulty that nonprofit organizations face in making decisions with important resource implications. Specifically, choices that would achieve maximal mission impact may differ from choices that reward the organization in purely financial terms. As result, nonprofit managers face a variety of trade-offs between mission-responsive and financially rewarding actions. This paper considers some of these trade-offs by exploring how tensions between mission and market manifest themselves in a variety of nonprofit decision making applications. The analysis is based on a set of task forces assembled by the National Center on Nonprofit Enterprise in eight areas of nonprofit decision making. The paper suggests the development of metrics to reconcile mission goals with market incentives and research on appropriate nonprofit practices in areas such as pricing, employee compensation, outsourcing, collaboration, investment, fund raising and the undertaking of commercial ventures.

## Introduction

Structurally, private not-for-profit organizations combine characteristics of a public sector agency with those of a private, proprietary firm. In particular, nonprofits are required to address designated social missions while breaking even financially. As a result, nonprofits are often described as having a "double bottom-line", that is both a financial and programmatic standard by which their performance is to be assessed (Bell-Rose, 2004; Clark et al, 2004). In fact, from a normative point of view, the notion of a double-bottom line is misleading. Achievement of the mission *is* the bottom line, while financial success may be prerequisite to such achievement. While devices such as double-bottom lines or balanced scorecards (Kaplan and Norton,1996; Clark et al, 2004) may be helpful management tools, they can be counterproductive if allowed to obfuscate the ultimate criterion of success.

In terms of a positive theory, however, it is less clear how nonprofits actually behave. As organizations they have a natural inclination to survive and grow, and their managers and leaders are as likely to be judged by standards of organizational sustainability and growth as by any objective measure of mission achievement. This behavioral reality underlines the difficulty that nonprofit organizations face in making decisions with important resource implications (James, 1998). Specifically, choices that would achieve maximal mission impact may differ from choices that reward the organization in purely financial terms. As result, nonprofit managers require clear focus, strong discipline and appropriate measurements in order to keep to the normatively prescribed path, and they face a variety of trade-offs between mission-responsive and financially rewarding actions.

Certainly nonprofits are not entirely unique in facing mission/market tensions and requiring a clear focus and direction. For-profit businesses and governmental organizations also have missions and must sustain themselves economically. And sometimes business or government executives will, for personal or other reasons, be dedicated to mission in ways that fail to align completely with maximum financial gain or to the prevailing political mandate that drives the allocation of public resources. However, mission/market tension is generally more wrenching for nonprofits because financial sustenance and mission achievement are less likely to be as congruent as they are in business or government. In business, mission is generally instrumental to the ultimate goals of profit-making and wealth enhancement of owners and stockholders. Thus, missions are often adjusted or reframed with this in mind, usually without extraordinary conflict. In government, agencies are charged with a mission through the same political process that allocates their resources, so tensions between mission and market (i.e. resource acquisition) may be restricted to bureaucratic enclaves which challenge the majority view. For nonprofits, however, financial success is instrumental to the achievement of social mission, while the acquisition of financial resources often requires choices that can limit mission effectiveness. For example, financial success can be enhanced by selling services to those who can better afford to pay, or by promoting causes that are popular with certain donors, although such actions may short change the social mission for which the organization may have been established. Thus, special tensions are created that can pit organizational prosperity against mission achievement.

The purpose of this paper is to consider how tensions between mission and market manifest themselves in a variety of nonprofit decision making applications. The primary

source of information is a set of reports of eight task forces assembled by the National Center on Nonprofit Enterprise (NCNE) to review the issues and challenges to nonprofits in eight different areas of nonprofit decision making (Young, 2004). The conclusion of this analysis is that nonprofit managers must adopt a decision making framework that answers the following questions: (1) To what extent does mission require the organization to survive and grow over time? (2) How does each potential activity or program undertaken by the organization contribute to mission and/or to net revenues? (3) What economic choices must be made for each such activity and how do alternative choices affect the activity's mission and financial impact? And (4) what combination of activities leads to the largest overall impact on mission?

**Literature Review**

Mission-market tension is not a new issue for nonprofits. Indeed, it has been observed and studied in various forms over the past two decades, though with much greater attention since the 1990s. The relevant research literature follows two main thrusts. First, there are numerous studies that document the variety of manifestations of this tension in different fields of nonprofit service. Second, there has been substantial effort devoted to helping resolve this tension by identifying ways of measuring nonprofit performance that would appropriately reconcile the concerns of addressing social mission while maintaining economic viability.

The literature on mission-market tensions can be traced to studies of nonprofit-government relations and concerns about "vendorism" in the delivery of social services. Kramer (1981) was concerned that heavy reliance on government funding in the form of

purchase of service contracts would lead nonprofit social service agencies to become service delivery appendages to government and lose their independent perspectives as advocates for improvements in social welfare policy. Young and Finch (1977), while documenting the internal motivating forces and private resources of nonprofit foster care agencies, also recognized the constraining factors on their mission-related behavior deriving from government per diem funding. A general review of research on this subject by Kramer (1987) found "the dysfunctional consequences of agencies receiving public funds [namely] dependency, cooptation and a dilution of advocacy and autonomy, goal deflection and loss of an agency's voluntaristic character through increased bureaucratization and professionalization" to be "considerably exaggerated" (p.247). However, these concerns continued to build and a key study by Smith and Lipsky (1993) expressed considerable alarm over the loss of independence and autonomy by nonprofit social service organizations as a result of the increased emphasis on contracting with government for service delivery.

Paradoxically, recent research studies have been more concerned with reductions and other changes in the public funding environment that have driven nonprofit social service organizations towards greater involvement in the private marketplace, with other mission vs. market consequences. In particular, Alexander (1999) noted that, especially for smaller and medium sized community and faith-based nonprofit organizations, changes in government policies, including funding cutbacks, cost pressures deriving from new reporting and staffing requirements, opening of competition with for-profit suppliers, and a more distressed clientele population, have created financial pressures that force nonprofits to make mission-related compromises, including raising prices, retrenching

certain services, redirecting services away from the neediest clients, and reducing emphasis on research, education and advocacy for client needs. Indeed, similar coping strategies were documented by Liebschutz (1992) when funding cutbacks occurred during the Reagan administration.

The *State of Nonprofit America* project led by Lester Salamon (2002) made a special point of highlighting growing mission/market tensions in the nonprofit sector of the early twenty-first century. The relevant trends include growing reliance on, and pervasiveness of, fee revenues, an increasingly entrepreneurial culture within the nonprofit sector, growing involvement of nonprofits with corporate partners, and intensifying competition with for-profit service providers. With these forces in play, Salamon observes: "The move to the market may thus be posing a far greater threat to the nonprofit sector's historic social justice and civic mission than the growth of government support before it." (p.47).

Mission/market tensions appear to take different forms in different fields of service. For example, in social services, consistent with the discussion above, Smith (2002) highlights increasing for-profit competition, the advent of managed care arrangements, and a new emphasis on performance measurement which requires nonprofits to focus on service output measures to the possible neglect of less quantifiable accomplishments in advocacy or work with more difficult clients for whom it is harder to show results. In health care, Gray and Schlesinger (2002) note that increased competition with for-profit providers, and pressures from third party payers to control costs, have reduced the ability of nonprofits to devote resources to their traditional public service missions such as education and charity care. These researchers cite a

convergence in the behaviors of for-profit and nonprofit providers, noting that "Even where nonprofits have maintained their role, they have often found it necessary to respond to the challenges confronting them in the health care field by becoming more like commercial enterprises." (p.92). Indeed, in the hospital field, the Senate Finance committee in the U.S. is now asking pointed questions of major institutions about the nature of their charitable work and the degree to which it may be compromised by market-oriented practices (Trefinger, 2005).

Parallel issues arise in higher education where Stewart, Kane and Scruggs (2002) find institutions struggling, in the context of escalating costs, to set tuitions that will allow good students of modest means to attend, and coping with new for-profit competitors and pressures from corporate funders to commercialize research. Kirp's (2003) in-depth study of the practices of a selected sample of U.S. universities expresses particular concern about the infusion of business values and mission orientation into American higher education.

In the arts, Wyszomiriski (2002) cites the uncertainty and instability of government funding, escalating costs, changes in technology and competition with the profit-making sector, as trends that continue to challenge nonprofit arts organizations. In particular, pressures to increase earned income have resulted in "..changes in marketing, more emphasis on entrepreneurial activities, and a sharper concern for cultivating new audiences and new donors." (p.191) These developments are forcing nonprofit arts organizations to continually reconcile their mission foci with market incentives and pressures, and reappraise their relationships with the business sector and with for-profit arts organizations.

Studies of mission/market tensions in nonprofits generally recognize the complexity of the issues and the challenges nonprofit managers face in dealing with them. Dees (1998), for example, argues that nonprofits span a wide spectrum of motivations and interests, ranging from philanthropic to commercial, and that this richness can be a source of innovation and increased capacity so long as social mission is kept firmly in mind. Other authors such as Weisbrod (2004) and Foster and Bradach (2005) complain that nonprofits' pursuit of commercial ventures is diverting these organizations from fulfilling their social missions. A common theme in the literature is the need for nonprofits to maintain a clear identity and focus tied to social mission. To do that, various authors cite the need for better means of measuring nonprofit performance in order to reconcile financial and mission-related performance. For example, Bell-Rose (2004) suggests a social return on investment approach and the use of logic models to identify intermediary indicators that lead to desired social outcomes. Anheier (2005) reviews several other generic approaches to nonprofit performance measurement, including Kendall's and Knapp's production of welfare framework, the balanced scorecard, corporate dashboards, benchmarking, and other sets of performance measures developed by umbrella organizations such as Independent Sector, the National Council of Voluntary Organizations, and United Way of America. And Paton (2003) offers a comprehensive study of performance measurement in "social enterprises". An interesting dimension of Paton's analysis is his inquiry into whether performance measurement itself, often encouraged or imposed by outside (market) agents, can compromise mission in the quest of better performance. While Paton finds that the broader environment of nonprofit organizations does push them towards adopting methods of performance measurement,

he finds little evidence that this is problematic: "If the organizations were becoming more like each other and more like public agencies and private companies, this was not happening in ways that were either obvious or particularly burdensome. This may yet happen…." (p.158). Still, Paton does take careful note of the reasons for concern: "..it can be argued on theoretical grounds that the very reasons why activities are undertaken in the nonprofit sector are also the reasons why performance measurement will be deeply problematic (Krashinsky 1986; Hansmann 1987) (p.49). This is a particularly acute observation, as the promise of appropriate performance metrics to reconcile nonprofit mission objectives with market pressures also contains the potential to make them worse by failing to account for mission-related benefits that are hard to measure, or by imposing uniformity from the outside.

**Methodology**

The eight NCNE task forces, convened in 2001, were composed of leading nonprofit, business and foundation officials and scholars, each led by an academic chairperson. The mandates of the task forces were to gain the benefits of multiple expert perspectives in key areas of nonprofit economic decision making; to articulate key issues and challenges; to apply rigorous analytic thinking to these issues; to offer practical information and advice based on theory, research and experience; and to identify key issues for further research. The eight areas of decision making on which the task forces focused were: pricing of services, compensation of staff, outsourcing of activities and programs, spending on fund raising, investment and expenditure of funds, new ventures and venture philanthropy, institutional collaboration, and Internet commerce and fund

raising. These areas, chosen through consensus after extensive discussions with members of NCNE's board and advisory committees, were felt to reflect issues of high contemporary interest among nonprofits. In each area, nonprofits are struggling with appropriate choices and strategies for effectively deploying scarce resources. In fact, any area of nonprofit decision making that involves the allocation of scarce resources is likely to reflect difficult trade-offs between mission achievement and economic sustenance. However, the areas selected cover most of the important subcategories associated with the development of nonprofit resources on the one hand (e.g., pricing (fees), fund raising, returns on investment, and commercial ventures) and the expenditure of those resources on the other (compensation, outsourcing, collaboration, spending on programs and resource development initiatives).

The task forces each produced a report that was vetted at a national conference in January of 2002, appropriately revised, and then published as a book by the Foundation Center (Young, 2004). In the process, the task force reports were examined for common themes and cross-cutting issues. The tension between mission and market incentives is one of the prominent cross-cutting themes that emerged from this analysis. Below, this tension is explored within each of the areas examined by the NCNE task forces. First, however, it is logical to explore further the source and nature of this tension in general, and how it fits within a general conceptual framework for nonprofit economic decision making.

## Conceptual Framework

While tensions certainly exist between financial return and mission-achievement in the nonprofit context, these goals are not in diametric opposition. Given that nonprofits are intended to address a social mission, financial performance may be viewed as an instrumental variable contributing to that mission. The degree to which financial success is required to achieve mission may indeed depend on the nature of the mission. In some cases, nonprofits may legitimately decide to use their resources in a time-limited manner to achieve some goal, and then disband when resources are depleted. The Markey Trust provides one such illustration where a foundation (Dickason and Neuhauser, 2000) decided to concentrate its grant making for biomedical research over a limited period of time. Similarly, the John M. Olin Foundation is intentionally closing up shop after having financed a generation of conservative intellectual programming (DeParle, 2005). In these and other cases, part of the rationale for the time limitation was to concentrate resources on the mission, to avoid having that mission become obsolete, and to limit spending funds on maintaining a bureaucratic organization.

However, time-limited nonprofits are the exception rather than the rule. The classic case of a nonprofit deciding to continue operations once the mission was achieved is the March of Dimes, which adopted a new mission to address birth defects once polio was cured (Bowen et al, 1994). Here the rationale was that the existing organizational infrastructure represented valuable capital that could be effectively redeployed for a new, related mission. Unfortunately, many nonprofits fail to address the desirability of sustainability and growth explicitly. Many organizations die a slow death or slide into dormancy without ever determining if this was the best way to allocate charitable

resources. Indeed, it is even hard to find official records of what happened to many nonprofit organizations that stopped reporting their operations or filing tax returns (Bowen et al, 1994).

Given that most nonprofits decide, implicitly or otherwise, that ongoing economic viability is a prerequisite to mission achievement, further understanding of their behavior can be developed through the theory of nonprofit organizations as multi-product firms – first proposed by James (1983) and later expanded by Weisbrod et al (1998). In this framework, nonprofit organizations are viewed as producing two kinds of services – those which are profitable and help sustain the organization, and those which directly impact its mission and may require subsidy. Assuming that managers of the organization intend to maximize its mission impact while maintaining its financial integrity, their challenge is to find just the right combination of these two types of activities. Hence, in each instance they must determine what the objective of the activity is – profit or mission impact – and then design effective policies for its execution.

In reality, nonprofit activities are not necessarily cleanly separable into profit making and mission-focused activity. Rather many nonprofit activities encompass both objectives in some combination. For example, a fund raising event may have a community-building objective as well as a financial one. And a mainstream mission-focused activity such as providing day care for young children may be counted on to produce a certain level of revenues as well as to achieve a social goal. In all cases, however, the nonprofit manager must deal explicitly with the balance of financial and mission goals and the tensions between them, in order to determine how best to maximize mission impact. Thus, while the double bottom line rationale is dubious for the

organization as a whole, it commonly applies in some way to the components of activity that make up the nonprofit's overall portfolio of activity. In the next section we examine how this tension plays out within the eight identified areas of nonprofit economic decision making.

**Tensions between Mission and Market**

The tensions between mission and market manifest themselves within a nonprofit organization at both the operational and strategic levels. In the former category, nonprofits must decide what to charge for the services they offer, whether to produce a given service in-house or to outsource it, whether and how to compensate the people it employs to carry out the work of the organization, how much to spend on activities intended to raise net funds, and how to allocate funds held for later expenditure or for investment to produce operating revenues. At the strategic level, nonprofits must decide about undertaking new ventures, entering collaborations with other organizations, and adapting to change as represented by technological innovations such as the Internet. The mission-market tension takes different forms within each of these areas of economic decision-making, but the tension is nonetheless pervasive.

Pricing. Nonprofit organizations produce many services for which charging a fee is feasible. In particular, if it is possible, at reasonable cost, to exclude people from consuming the service unless they pay for it, then prices may be imposed. Such nonprofit services include arts performances, museum visits, social service counseling, day care, educational programs, health and mental health treatment services, memberships in YMCAs and JCCs, gift shop items and many others. While certain nonprofit products,

such as policy advocacy or public art cannot be priced, a host of nonprofit services certainly can. The real questions are whether prices should be charged, and if so, how price schedules should be designed. The answers lie at the nexus of mission-market tension in nonprofit decisions affecting the financing of services.

From a market incentive viewpoint, any excludable nonprofit service can be priced in such a way as to maximize net revenues, although in some cases (e.g. high fixed costs and modest demand) even a profit maximizing price may result in losses (negative profits; see Young and Steinberg, 1995). Given the decision to produce such a service, a nonprofit manager responding solely to market incentives will likely decide (a) to charge a price, and (b) to set prices in a manner that yields maximum net revenues. From a mission viewpoint, however, the price decision could be quite different. If charging a price substantially contravenes the mission or values of the organization, the mission-driven manager may decide not to charge a price at all. A Free Clinic that provides basic health care services to indigent or uninsured community residents is based on the very notion of free care. An endowed museum established as a community resource may have a long standing tradition of free access to galleries that is considered intrinsic to its institutional identity. In the same vein, recently the Salvation Army had to retreat from a proposal to impose modest fees for use of its homeless shelters (National Briefing, 2003).

In many other cases, however, the imposition of a fee is accepted. Here, the mission-market tension is manifested in the nature of the pricing policy or fee schedule. For example, maximizing mission impact may require servicing as many clients as possible. Such services may be associated with “external benefits” that accrue to society at large as well as to the individuals who actually consume the service. Examples include

children in pre-school programs, recipients of inoculations for various diseases, clients in therapeutic mental health or substance abuse programming, or visitors to museum programs. In such cases, mission focus favors a price lower than that which would maximize net revenues (Young and Steinberg, 1995).

Furthermore, a mission-driven pricing policy may wish to differentiate among alternative groups of consumers. Fine arts organizations or institutions of higher education may wish to encourage younger consumers or accommodate lower income community residents. Accordingly, they may wish to tailor price schedules, e.g. through sliding scales or other differential measures. A net-revenue maximizing price policy might also employ price discrimination so as to better capture the willingness to pay of high demanders. But in general, such a market responsive pricing policy would not reflect a prejudice to serve any particular societal group aside from those who can pay.

In order to resolve the mission-market tension in pricing decisions, the nonprofit organization must first decide the particular purpose of any given service or activity. If the gift shop or facility rental program is designed solely for fund raising purposes, then the tension is resolved by recognizing that the rules for profit-maximizing pricing apply. If, on the other hand, the children's concert series or the vaccination program is intended to maximize mission impact then pricing must be designed to serve the target groups and to maximize the net social benefits associated with consumption by those groups.

Often, nonprofits find it difficult to make such a clear differentiation between mission-serving and revenue generating programs. In particular, some programs may serve both purposes. A nonprofit might decide as a matter of policy or fiscal discipline, for example, to run a day care service on a break even basis. This may be an appropriate

value judgment in the context of the larger picture of how the organization intends to maximize its overall social impact. In essence, it says that the day care program should maximize its mission benefits within an imposed fiscal constraint. Setting that constraint at zero profits is only one of many possible choices, depending on the availability of financial support from other sources.

Finally, it is worth observing that over time there may be homogenizing forces at work in nonprofit pricing practices. Under intense competition a nonprofit must price its services to permit economic survival, no different from its for-profit or nonprofit competitors. In particular, as traditionally nonprofit service areas open up to for-profit provision, or where government changes the form of its support from supply-side grants and contracts to demand side vouchers and reimbursements, nonprofits often lose the flexibility to differentiate their pricing practices from competitors in order to address mission-related objectives. Nonetheless, the tension between mission and market remains, even if the ability to adjust to mission imperatives is highly constrained.

Compensation. Like pricing decisions, mission/market tensions in staff compensation manifest themselves at two levels. First, one must decide whether to employ paid or unpaid workers. Second, one must determine the level of compensation for the paid worker.

From a purely market perspective, the nonprofit manager would want to pay a competitive wage so as to attract the best possible talent, hence to achieve the greatest possible organizational output per dollar allocated to staff.. However, the form of that "wage" can vary. In many cases it may be efficient to employ volunteers, where wages effectively take the form of supervisory and other costs and the provision of non-

pecuniary benefits sufficient to enable the nonprofit to compete for the talent it seeks. In many other cases, however, nonprofits must compete with money wages and benefits in order to attract the talent they need. Here too, however, nonprofits may enjoy an advantage that allows them to compete with lower money wage offerings than comparable for-profit firms must offer for the same skills. Again, nonprofits can do this because of certain intangible benefits they may be able to offer, such as the opportunity to work for a social cause or the chance to enjoy access to certain educational or entertainment benefits.

The mission/market tension enters into compensation decisions in both subtle and less subtle ways. First, the market-driven policy of paying competitive wages may screen for individuals who in the long run are less strongly motivated by the social mission than other individuals who would be willing to work for less money. That is, by deliberately paying less than a fully competitive wage, nonprofits may in some cases be able to attract workers that are more dedicated to achieving the organization's social mission. The lower wage may, in effect, screen out those more heavily driven by material motivations. By focusing on mission more than money, nonprofit managers may be able to achieve both greater mission effectiveness and more efficient use of resources. To a certain extent, this strategy is available to business sector organizations as well, i.e., good people may be willing to accept lower wages in order to ensure working for a socially responsible corporation or one engaged in an exciting area of endeavor. However, business's competitive advantage in the labor market centers on its ability to pay well. While a nonprofit must also pay reasonably well in order to remain competitive, its

relative advantage is more likely to be the less tangible benefits of addressing a worthy social mission or working in a collegial atmosphere.

Second, in some cases, even where volunteer workers are saliently less productive, they may be more effective in addressing mission in the long term by embodying and maintaining the basic values of the organization. Girl Scout programs or Red Cross emergency rescue programs would simply not be the same programs without their huge volunteer contingents. Decisions that focused strictly on productivity in replacing some volunteers with paid workers at the margin might undermine mission in the long term.

In sum, nonprofits often behave differently in the labor market than their profit-making counterparts. In some cases, such as clerical or maintenance workers, there may be little difference. An organization wishing to hire someone with particular qualifications must pay the going wage. In many other cases, however, such as professional or managerial workers, mission considerations interpose themselves in interesting, even counterintuitive ways – by suggesting that unpaid work or under-market wages can better serve mission objectives.

Outsourcing. In purely market terms, the decision to outsource a particular program or activity should be made on the basis of comparative advantage and relative costs of oversight. If another supplier can perform a function more efficiently than can be done in-house, and if an external supplier can be trusted to carry out the work as promised, with "transactions costs" comparable to in-house supervision, then an organization can use its resources more efficiently by contracting out than by carrying out the work internally. This same basic logic applies to nonprofit and for-profit organizations.

However, from a mission point of view, the nonprofit decision maker faces additional complications. In particular, the nonprofit must be very careful not to outsource aspects of its operation that impinge closely on its core mission. The reason is that nonprofits operating in a market environment are very often built on trust. Outsourcing an activity closely connected with mission could undermine that trust. This is what appears to have happened in the recent controversy over the King Tut 2 exhibit which was organized by a profit-making company – the Anshutz Entertainment Group. According to the New York Times editorial page (King Tut, 2004):

"Museums often present exhibitions developed entirely by other museums. But the content of this exhibition will be assembled and presented by a group whose lead company has nothing to do with the museum world….The museums involved – including the Field Museum in Chicago, the Los Angeles County Museum of Art, and perhaps the Brooklyn Museum of Art – will be participating in a fundamental redefinition of their enterprise…..the sorry irony of its packaging and presentation threatens to undermine the mission of cultural monuments in this country: the museums." (p.A30). In other words, the museums in this case seem to be outsourcing their core, mission-related work, that of curatorial selection and presentation.

Alternatively, a nonprofit day care center that chooses to expand by outsourcing some of its care to other day care suppliers in nearby communities is, in essence, lending its credibility and good name to the contractor. In the event of a problem, or even if the outsourcing is successful but carried out without prior notification, consumers may feel a sense of disquiet or betrayal. What may first appear to be an efficient market-responsive decision may ultimately sacrifice mission.

Similar effects may be experienced in the realm of fund raising. From a purely market perspective, it may be efficient for a smaller nonprofit to outsource its telephone campaign to a telemarketing firm. However, some careful donors may discern whether the telemarketer is a hired hand reading a script or a volunteer who is actually involved and knowledgeable about the organization, and they may respond more positively to the latter. Moreover, the engagement of a profit-making fund raising firm which takes a large share of the gifts as its payment may actually alienate donors, ultimately undermining mission impact. In these cases, nonprofits face difficult trade-offs in terms of often substantial cost-savings on the one hand, and the potential alienation of donors (with consequent long term revenue implications) on the other.

In short, what may appear to be a cost-efficient outsourcing decision of a mission-related activity may, for the nonprofit organization, be ultimately less efficient than if the activity were maintained in-house. In such cases, the mission-market tension is resolved only by asking questions about the connections between the activity in question and the potential losses of trust, reputation or control that may occur under outsourcing.

Fund-Raising. We have already mentioned ways in which mission-market tensions may arise in the context of charitable fund raising. Fund raising is an interesting area to examine further because, ostensibly, fund raising should be a profit-maximizing activity. Presumably, the very purpose of fund raising is to generate as much in net funds as possible for allocation to other organizational purposes. That is, fund raising programs should be designed such that the difference between the costs of raising funds and the revenues raised is maximized. However, often fund raising initiatives are not so designed, for reasons that include both inefficiency and mission-market tension.

Inefficiency results when nonprofits fail to realize that fund raising should be treated as a profit maximizing exercise, equating marginal costs with marginal revenues, rather than trying to control or even minimize the average ratio of costs to revenues. However, the tendency of nonprofits to focus on average fund raising ratios or to set fund raising revenue targets without clear connections to fund raising costs reveals underlying mission-market tensions. In particular, nonprofits are sensitive to the perceptions of donors, regulators, watchdog bodies and other constituencies when these groups employ such ratios to make judgments about efficiency or organizational integrity. The fear is that less support for mission will ultimately be forthcoming if the nonprofit is not perceived as frugal. Similarly, nonprofit organizations set fund raising targets because they work well as motivational devices, helping to encourage constituents to give or solicit more vigorously in order to reach the goal. Within bounds of feasibility, higher targets can invoke greater energy and higher revenues, even if they come at costs that exceed returns at the margin. More than that, however, collective fund raising exercises can build organizational morale, ultimately contributing to mission effectiveness in ways that are not reflected in the financial accounting of the fund raising initiative.

The mission/market tensions in fund raising are resolved only by appropriate information and educational efforts directed to donors, overseers and nonprofit executives and development officers. All these groups must better understand the logic of fund raising to maximize net funds. At the same time, nonprofit managers and development officers must also integrate the mission-related benefits of target setting and calculation of performance ratios into the design of their fund raising programs.

Investment and Expenditure of Funds. Like fund raising, investment of a nonprofit organization's funds is an activity that easily and often appropriately responds to a conventional market rationale. Particularly where nonprofits manage large endowments or other funds that are counted upon to generate investment revenues that can be used for operating purposes, the nonprofit should generally seek to generate the largest possible financial return, subject to its tolerance for risk. Even in this realm, however, tensions arise between market incentives and mission.

For one thing, the division between financial management of funds and the expenditure of funds for program purposes within the context of a nonprofit organization is somewhat artificial. Ultimately, the organization should be judged by its social impact. So if funds can be allocated in such a way that they have direct social impact, or social return, this must be weighed against the traditional alternative of maximizing financial return and then spending that return on conventional programming. This is the rationale with which foundations allocate funds to so-called "program-related investments", i.e., market ventures that incorporate social objectives and which may offer greater risk or lower financial return than a conventional investment. But the tension goes further than this. Is a university with a large endowment but a deteriorating physical plant better off allocating part of its endowment, including part of its principal, to repair and rebuilding rather than to financial securities? Is a social services agency better off investing some of its scarce funds to upgrading the skills of its staff than to maximizing the returns on its bank balances?

There is no pat answer to these dilemmas. However, it is clear how such dilemmas should be framed. Ultimately investments should make the largest possible

contributions to the social mission of the organization. Sometimes this is best done by maintaining the organization's financial health and its capital infrastructure. In other instances, it is best accomplished by generating investment income that can be spent on programming. In still other instances, it is best done by broadening one's definition of investment so that allocations to new programming and new infrastructure can be considered as alternative ways to maximize the organization's social returns.

Institutional Collaborations. A number of market pressures exist for nonprofit organizations to collaborate with other nonprofits or with profit-making corporations or government agencies. Potential collaborations run the gamut from simple, one-time projects to full mergers. Often, funding intermediaries such as United Ways or community foundations or federations encourage such collaboration in order to achieve perceived efficiencies or eliminate unnecessary duplication of services. In addition, for-profit businesses often seek nonprofit partners as an element in their strategies to make the corporation more profitable. In both of these contexts, there are usually market incentives that lure nonprofits with financial benefits of collaboration. However, such incentives can also conflict with mission.

For example, consolidations of social service agencies, which might promise cost savings, can also undermine support by loyal constituencies of the partner organizations, such as community residents, board members or donors. Or, subtle but important differences in treatment or service approaches may be lost, with potentially detrimental impacts on effectiveness. These are some of the reasons why nonprofits often resist collaborations of a radical nature such as full mergers. Sometimes such collaborations

are justified in a full economic sense, financially and programmatically. But sometime they are not.

Corporate collaborations can be even more perplexing because the financial gains to nonprofits may be highly tempting while the mission risks can be subtle. There are certainly a number of significant market benefits that may follow from corporate collaborations – including financial assistance, in-kind goods and services, consulting and management expertise, and marketing benefits. Often these benefits contribute directly to mission effectiveness, for example, by increasing a charity's visibility through a corporate marketing campaign. However, what nonprofits often bring to the table in these collaborations are their good names. Thus, if the corporate partner proves unethical or in some way undermines what the nonprofit is trying to accomplish, the collaboration may conflict with the nonprofit's mission effectiveness by diminishing its credibility. Thus, the American Medical Association's disastrous proposed collaboration with Sunbeam or AARP's controversial arrangements with insurance companies threatened to seriously undercut the effectiveness of these organizations (Weisbrod, 1998).

One issue that arises in these situations is the number and depth of collaborations a nonprofit proposes to undertake. Market incentives push in the direction of pursuing only one or at most a few intensive collaborations. This approach minimizes the costs of negotiating, administering, participating and monitoring such arrangements. In addition, more "exclusive" collaborations are likely to be more remunerative. For example, the arrangements that the American Lung Association or the American Cancer Society have made with pharmaceutical companies involve the approval of particular brands of

tobacco patches, not tobacco patches in general. These deals also involve very substantial financial payments from the companies to the charities (Weisbrod, 1998).

However, such arrangements put the charities at some risk of undermining their missions or organizational integrity. If the products prove unreliable or harmful or if the companies engage in unethical or illegal practices, the charities will incur serious damage. On the other hand, a more diversified approach may be less remunerative. For example, the American Heart Association authorizes use of its "heart healthy" seal to many companies, to attach to particular products, for a modest fee. However, should one of these products encounter problems it is unlikely that the Heart Association's overall reputation or integrity will suffer, given the larger context.

The resolution of mission-market tensions that surround institutional collaborations requires due diligence by the charity in investigating potential partners and associated products, clarity with respect to the motivations of those partners, careful exploration of the mission-related benefits and risks of collaboration, and a diversification strategy that will ensure that the nonprofit's welfare is not tied irrevocably to that of its partners.

New Ventures. Nonprofit organizations may undertake new programs or activities for different reasons. New initiatives may be pursued to address mission-related objectives, or to generate net funding for the organization, or both. It is common for nonprofits to distinguish between their core, mission-related initiatives and commercial ventures intended to raise net funds. Often, however, the distinction is not clear cut – mission-related services can make money, and so-called social enterprises may be worthwhile even if they are not profitable. Hence, with every new venture

decision, a nonprofit is potentially faced with resolving a mission-market tension: To what extent is the venture intended to pay for itself or to generate surpluses that can help finance other organizational activities, and to what extent does the venture generate mission-related benefits that should be pursued in their own right within constraints of financial feasibility? Too often perhaps, this question is obfuscated when nonprofits fail to do a careful job of monitoring costs and calculating profits - in which case they may believe they are addressing social objectives while running a profit or breaking even. However, researchers have found that in many cases, a proper accounting of costs would show that so-called profitable social ventures lose money (Foster and Bradach, 2005).

The intrinsic problem with new ventures is that they often have the potential for achieving both financial and mission-related objectives, but not necessarily both at the same time. For example, a pre-school program can appeal to a well-to-do clientele and set its prices at a level which maximizes profits, or it can take account of social benefits associated with educating children from lower income families by providing subsidies or reducing prices. Or, a small business enterprise, such as a beauty shop or a bakery, undertaken by a community nonprofit organization, could hire the most cost/effective workers to make its product, in order to maximize its profits, or it could hire local ex-offenders and teach them skills on the job, perhaps losing money but helping to address social needs.

In order to resolve such mission/market tensions, a nonprofit organization must address its portfolio of programs at the strategic level. That is, it needs to have a balance of mission-focused and financially successful programs such that, in total, it is able to address its social mission with maximum impact. Some initiatives best contribute to the

latter goal by generating net financial resources. Others do so by directly impacting mission. Still others can be both remunerative and mission-impacting. The point is that resolving mission-market tension may be different in each case. What is required is an overall portfolio scheme that allows the nonprofit to develop in advance the appropriate criterion by which to choose and judge new initiatives by specifying where each initiative is supposed to fit into the organization's mission/profitability tableau. This in turn will permit the organization to design appropriate pricing and marketing policies so that the venture can be maximally effective according to the criterion selected for it.

e-Commerce. Activity on the Internet is not really a separate domain of nonprofit economic decision making but rather a new medium through which mission market tensions are experienced along all of the above dimensions: pricing, outsourcing, collaboration, employee compensation, new ventures, fund raising and investment. What is different about the Internet environment is that it may be changing the nature of nonprofits' competitive advantage vis-à-vis for-profit competitors. In particular, the Internet provides a richer information environment for consumers of services. Traditionally, nonprofits enjoy a competitive advantage in many services because consumers are willing to trust nonprofits more than for-profits where they face an information deficit or asymmetry (Hansmann, 1987). As this information disadvantage decreases, presumably so does the nonprofit advantage (Te'eni and Young, 2003). This presents a new kind of mission-market dilemma for nonprofits. Should they intensify their competition with for-profits in their core service areas or should they withdraw as consumers find it more satisfactory to use for-profit providers? To compete more

aggressively risks becoming more like for-profits themselves, or possibly losing the competition (Young and Steinberg, 1995). However, withdrawal may mean redefining mission or the means through which it is addressed.

It is not obvious how to resolve this tension except to note the importance of remaining true to mission, even if that means losing the competition. However, another approach is suggested by the nature of the Internet environment itself. This environment is information rich and tends to deluge consumer with information which in turn may be difficult for vulnerable consumers to absorb or put into perspective. This suggests a potentially new role for nonprofits as trustworthy "information intermediaries" (Te'eni and Young, 2003).

**An Illustrative Example**

In order to bring all these dimensions of mission-market tension together it is helpful to consider questions that arise in the context of a hypothetical but realistic example. Consider *Save the Penguins*, an environmental advocacy organization that seeks to protect penguins by preserving their natural habitats. The organization addresses its mission by educating the general public about penguins and taking public policy positions on environmental issues.

*Save the Penguins* is considering the development and sale of a series of educational pamphlets about the life of penguins and their place in the natural ecology. In order to make wise decisions about this proposed initiative, *Save the Penguins* must answer a number of questions which resolve the mission vs. market tensions intrinsic to this initiative:

- Is the purpose of this venture to make a profit which can be used to support other activities of the organization, or is it to address the mission directly, or both? If both, in what combination?
- Should the project be outsourced to a vendor or carried on internally? The answer will depend on the relative costs of in- vs. out-of-house production and the transactions costs of administering each, as well as how closely the activity is thought to relate to the core mission of the organization.
- If the project is run internally, should it be staffed with workers at competitive wages or should it employ volunteers or staff willing to work for less than market wages? If the initiative is considered a core activity, it might be more suitable for volunteers or lower paid workers who are willing to sacrifice wages in order to contribute to mission.
- How should the pamphlets be priced? If the purpose is to make money, pricing should be set to maximize profits. If the purpose is to educate the general public or to influence policy makers, prices might be set lower than the profit maximizing price or the pamphlets might indeed be distributed for free. Alternatively, if the project entails a mix of profit and mission objectives, prices might be set to break even.
- Suppose one or more profit-making travel and tourism companies were willing to collaborate on the project in exchange for using *Save the Penguins*'s name on their promotional literature? Should *Save the Penguins* enter such a partnership, and if so, under what conditions? How many such partnerships would be sensible? Association with the wrong corporate partner might cause

substantial damage to mission, while dealing with too many partners might be financially dubious.

- How much of *Save the Penguins*'s investment funds should be allocated to this venture? This would depend on the expected financial and social returns compared to other investments the organization could make with those funds.
- Can *Save the Penguins* raise new funds for the venture? If so, how much should be expended on this fund raising effort? The answer will depend on whether that effort is considered in purely financial terms or if it would incorporate mission-related objectives such as the engagement of new volunteers and conservation advocates.
- To what extent should the Internet be used as a medium for the publication and dissemination of the pamphlets, or for the prospective fund raising effort? Would *Save the Penguins* have any competitive advantage in this domain, relative to other sources of information about penguins? Indeed, would the organization be better off serving as an information intermediary on penguins rather than as a direct provider of this information?

As this series of questions demonstrates, the mission market tension pervades practically every aspect of *Save the Penguins*'s decision to undertake the proposed new venture. Nor does this example contain anything atypical of the spectrum of economic decisions that most nonprofit organizations face on a continuing basis.

Awareness of financial/mission trade-offs implicit in such decisions is one step towards resolving them in an effective way. However, as considered below, this

discussion also highlights various areas where research could improve the quality of nonprofit economic decision making.

## Conclusion

This paper argues that in principle, it is clear that nonprofit organizations should ultimately judge their performance in terms of impact on social mission. Nonetheless, because nonprofits operate in a market environment, tensions between responding to the incentives of the marketplace and addressing the mission pervade virtually all dimensions of their economic decision making. In order to deal effectively with these tensions, nonprofits must therefore analyze both the direct and indirect mission impacts of any initiative. The latter may be positive or negative. For example, profits generated may be used to advance mission-related activity. Moreover, market-based activity, such as engaging challenged workers in a for-profit business, can contribute directly to mission. At the same time, attention solely to market success can restrict mission achievement or indeed negatively impact mission-related goals.

The richness and complexity of this subject matter suggests this it is fertile for future research. Two particular dimensions of such research stand out. First, there is a need for appropriate metrics that would help guide nonprofits through these murky waters. How can the bottom line of mission achievement be measured in a way that helps the nonprofit manager make the appropriate trade-offs at the operational level? Such a metric would have two components: a direct measure of mission impact framed in terms of social benefit, and an indirect measure framed in terms of the mission-related social benefits that would be generated by a financial gain or the opportunity cost in lost social

benefits implied by a financial loss. As noted earlier, the problem with "double-bottom line" thinking is that it fails to reconcile the financial and social dimensions of performance. Metrics that would bring the two together, and which could then be adapted to a variety of nonprofit economic decisions, would be an important step forward.

In the context of such metrics, a future research agenda could also include detailed theoretical and empirical studies of nonprofit practices in the various decision making realms considered in this paper – pricing, employee compensation, outsourcing, collaboration, investment, fund raising and so on. In each case, alternative policy designs need to be analyzed to determine how each contributes to financial and program impact, and ultimately to the bottom line of mission impact. For example, how do various sliding scale pricing schemes work to meet the financial and program objectives of nonprofit services in a social service or a performing arts organization? How will various mixes of volunteers and paid professionals affect the mission impact of a nonprofit in an advocacy organization or an educational institution? And so on. By framing a research agenda in these terms, the potential exists not only for a rich scholarly literature but one that can inform nonprofit decision makers on the critical resource-related issues they will face into the indefinite future.

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