
The Marketization of Human Service Nonprofits: Charity at Risk?

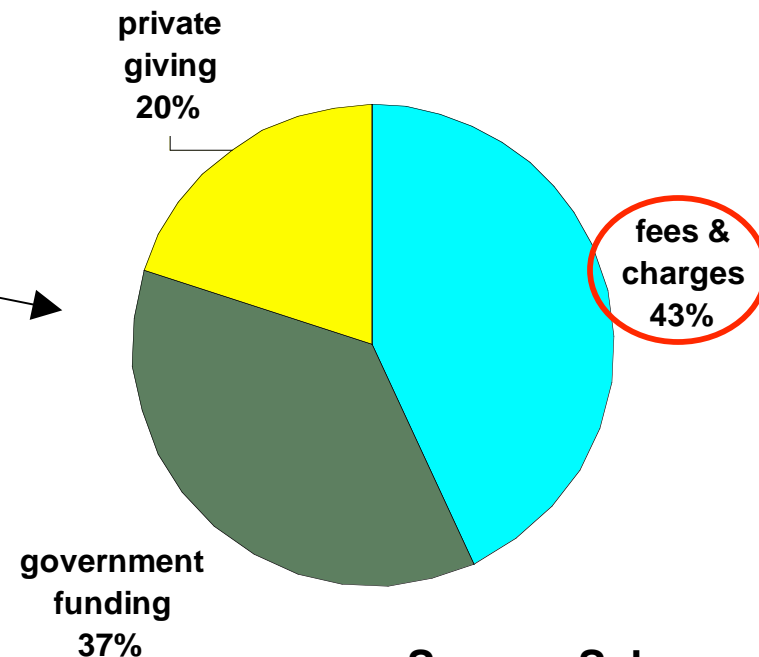
**Baorong Guo, Ph.D., Assistant Professor
School of Social Work
University of Missouri–St. Louis**

Defining Marketization

- A process in which the human service sector is increasingly involved with selling services, products and other commercial activities, and becomes more reliant upon commercial income instead of private contributions and public funding (Salamon, 1995).
-

Background

- Human service nonprofits
- For-profits in human services
(establishments: 47%;
total revenues: 28%;
employment: 22%)



Source: Salamon (1999)

Debate

■ Pro:

- ❑ Diversify funding streams
- ❑ Create sustaining revenues
- ❑ Become self-sufficient

■ Con:

- ❑ How to serve the poor?
 - ❑ Nonprofits: for-profits in disguise?
 - ❑ Non-profit-distribution?
-

Overview

- **Literature review**
 - **Research questions**
 - **Conceptual model**
 - **Methodology**
 - **Results**
 - **Implications**
-

Literature Review

- **Empirical studies**

- Reasons leading to marketization
- Outcomes of marketization

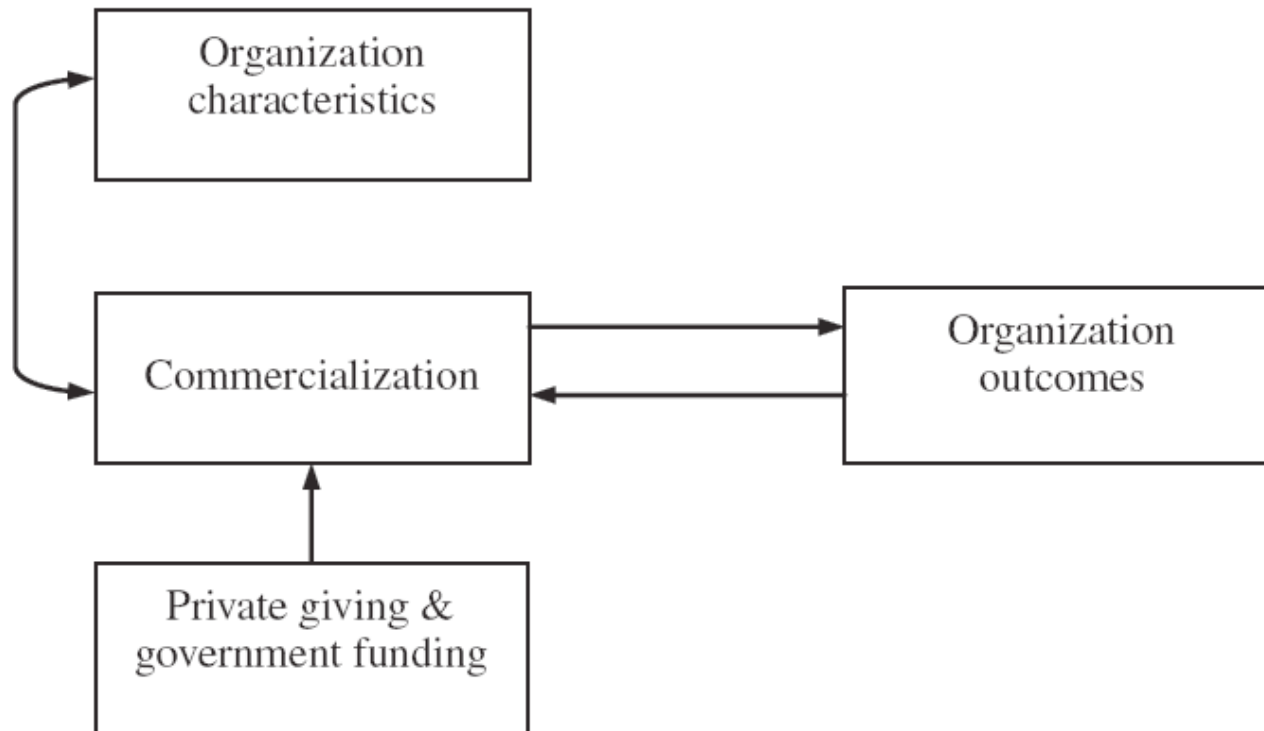
- **Theoretical perspectives**

- Market/government failure theory
 - Contract failure theory
 - Voluntary failure theory
-

Research questions

- How the shift of funding streams impacts organizational behaviors?
 - How organizational behaviors in turn impact the funding pattern of human service nonprofits?
-

Conceptual path model



Methodology

- Data from Yale School of Management Survey on Nonprofit Ventures (n=519).
- Sampling & data collection
- Survey instrument

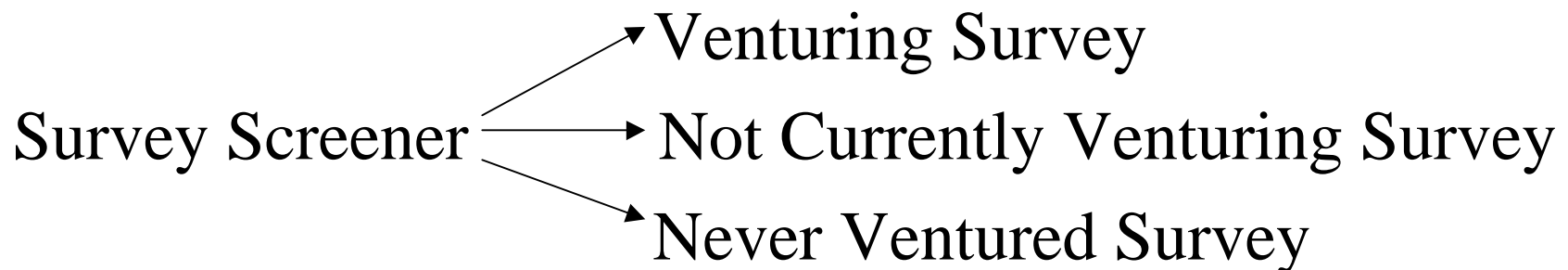


Table 1. Human Service Organizations by Service Area (N = 155)

<i>Type of Human Service</i>	n	%
Public protection	4	2.6
Employment and/or jobs	18	11.6
Food, nutrition, agriculture	12	7.7
Housing and/or shelter	16	10.3
Public safety, disaster preparedness and relief	3	1.9
Recreation, leisure, sports, athletics	2	1.3
Youth development	39	25.2
Human services: Multipurpose and other	61	39.4
Total	155	100

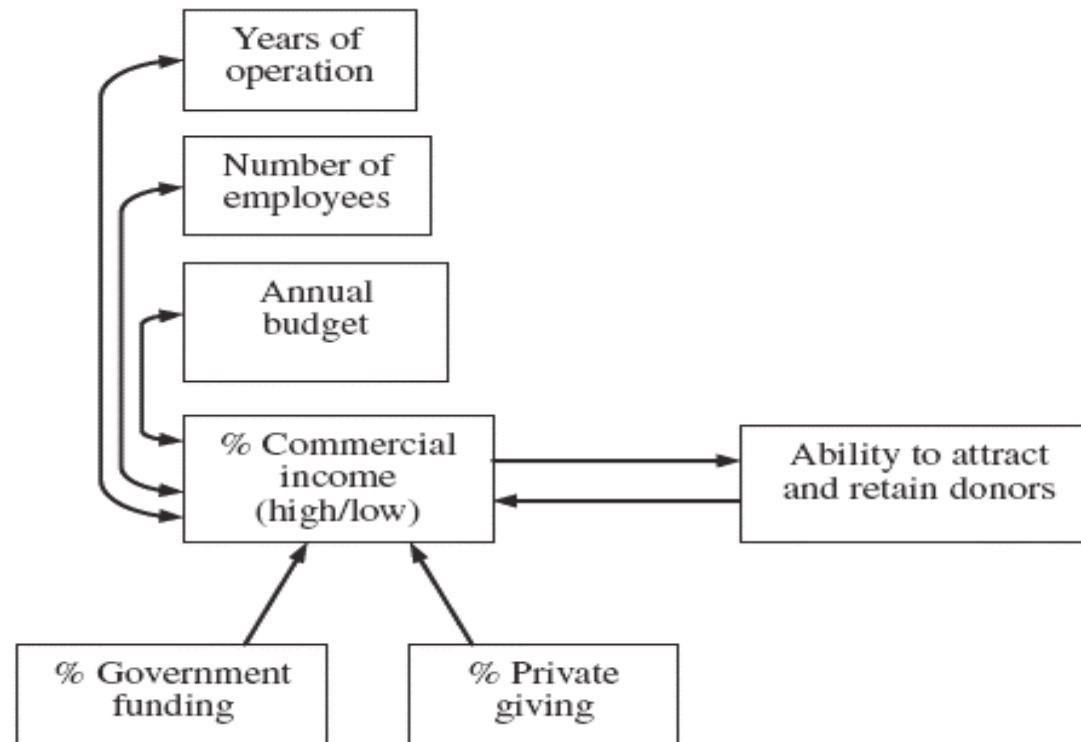
Table 2. Characteristics of Human Service Nonprofits

<i>Variable</i>	<i>Total Sample (N = 155)</i>		<i>Venturing Nonprofits (N = 67)</i>	
	<i>n</i>	<i>%</i>	<i>n</i>	<i>%</i>
Age of organization (year)				
< 1	10	6.5	1	1.5
1 to 5	40	26	12	18.2
6 to 10	18	11.7	4	6.1
11 to 20	27	17.5	13	19.7
More than 20	59	38.3	36	54.5
Number of full-time employees				
0 to 10	71	45.8	16	23.9
11 to 20	19	12.3	9	13.4
21 to 30	12	7.7	5	7.5
31 to 40	6	3.9	1	1.5
41 to 50	5	3.2	4	6.0
51 to 99	13	8.4	10	14.9
More than 100	29	18.7	22	32.8
Annual budget (U.S. \$)				
< 250,000	49	31.6	10	14.9
250,000 to 499,999	13	8.4	2	3.0
500,000 to 999,999	17	11	8	11.9
1,000,000 to 2,499,999	25	16.1	11	16.4
2,500,000 to 4,999,999	16	10.3	9	13.4
5,000,000 to 11,999,999	15	9.7	13	19.4
12,000,000 to 24,999,000	11	7.1	10	14.9
More than 25,000,000	9	5.8	4	6.0
Involved in earned-income business ventures				
Yes, currently operating	67	43.2		
Not currently operating	9	5.8		
Never operated	79	51		

Measurement

- Organizational characteristics
 - Commercialization
 - Organizational outcomes
-

Path analysis



Model testing

- **Nonrecursive path model**
 - Reciprocal relationship between commercialization and organizational outcomes
 - Assessing model fit with observed variables
- **General Least Squares Estimation Procedure**



Table 2: Correlation Matrix

Table 3. Correlation Matrix (N = 67)

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Years of operation	1.00													
2 Number of employees	.70	1.00												
3 Annual budget	.67	.87	1.00											
4 % Private giving	-.40	-.47	-.54	1.00										
5 % Government funding	.17	.30	.33	-.37	1.00									
6 % Commercial income ^a	.12	-.07	-.12	-.42	-.53	1.00								
7 % Commercial income ^b	.03	-.02	.03	-.44	-.49	.99	1.00							
8 Ability to attract donors	-.29	-.14	-.14	.19	-.06	-.03	-.08	1.00						
9 Ability to attract employees	.04	.08	.10	-.14	-.20	.28	.29	.39	1.00					
10 Ability to attract volunteers	-.41	-.33	-.18	.26	-.16	-.20	-.00	.66	.49	1.00				
11 Organization's mission	-.28	-.01	.04	-.08	-.14	.30	.29	.48	.38	.42	1.00			
12 Organization's reputation	-.29	-.08	-.04	-.11	-.20	.50	.27	.55	.47	.45	.66	1.00		
13 Service and/or program delivery	-.30	-.29	-.35	.01	-.16	.07	.14	.51	.33	.38	.56	.63	1.00	
14 Self-sufficiency	-.05	-.04	.05	-.22	-.20	.36	.26	.40	.53	.33	.22	.47	.32	1.00

Note: a. Dichotomous variable (high/low).

b. Continuous variable.

Model results

- The seven models demonstrate acceptable to good fit (χ^2 , SRMR, GFI & AGFI, except RMSEA)
 - Path model is conceptually and empirically acceptable.
-

Table 4. Results of Path Analyses (N = 67)

Variable	Outcome Variables						
	Model 1 (Donors)	Model 2 (Staff)	Model 3 (Volunteers)	Model 4 (Mission)	Model 5 (Reputation)	Model 6 (Service)	Model 7 (Self-sufficiency)
% Private giving → % Commercial income	-.73**	-.73**	-.68**	-.70**	-.67**	-.72**	-.74**
% Government funding → % Commercial income	-.80**	-.82**	-.81**	-.78**	-.74**	-.81**	-.82**
% Commercial income → Outcome	-.13	.35**	-.06	.07	.34**	.17	.44**
Outcome → % Commercial income	.10	-.08	-.14	-.23	.20**	-.10	-.09
Model fit							
Degrees of freedom	1	1	1	1	1	1	1
Chi-square	1.48	.01	4.16	.04	.07	.47	.13
<i>p</i>	.22	.93	.04	.85	.79	.50	.72
RMSEA	.09	0	.23	0	0	0	0
CFI	.99	1.00	.96	1.00	1.00	1.00	.95
SRMR	.058	.004	.10	.02	.01	.03	.02
AGFI	.88	1.00	.67	1.00	.99	.96	.99

Note: RMSEA = root mean square error of approximation; CFI = (Bentler's) Comparative Fit Index; SRMR = standardized root mean square residual; AGFI = Adjusted Goodness-of-Fit Index.

p* < .05. *p* < .01.

Mixed findings

- Donative revenues vs. commercial income
 - Effects on the organization's
 - Ability to attract/retain donors & volunteers
 - Mission
 - Program and service delivery
 - Self-sufficiency
 - Reputation
 - Ability to attract/retain staff
-

Back to research questions

- How the shift of funding streams impacts organizational behaviors?
 - How organizational behaviors in turn impact the funding pattern of human service nonprofits?
-

Limitations

- Sampling method
 - Small sample size
 - Measures of commercialization and organizational outcomes
 - Measures of organization characteristics
 - Cross-sectional study
-

Implications

- Outcomes of the marketization of human service nonprofits: Evidence of significant positive effects of marketization?
 - How marketization has shaped human service nonprofits? – Emphasis on performance evaluation
 - What can public policy do? –Balance between revenue enhancement and service ideology.
-