

CHAPTER HIGHLIGHTS

THE STATE OF NONPROFIT AMERICA

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Chapter 13 Highlights **COMMERCIALIZATION, SOCIAL VENTURES, AND FOR-PROFIT COMPETITION**

Dennis R. Young and Lester M. Salamon

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COMMERCIALIZATION, SOCIAL VENTURES, AND FOR-PROFIT COMPETITION *

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Perhaps the dominant force shaping the nonprofit sector at the present time is the widespread commercialization or "marketization" of social and economic life. While commercialization is nothing new to the nonprofit sector, in recent years the sector has not only reacted to the market but also embraced it on a scale not previously seen, integrating market impulses into nonprofit operations in often creative ways, though with consequences that are not completely clear. In this chapter, Dennis R. Young and Lester M. Salamon examine this marketization process within the nonprofit sector and assess both the pros and the cons it has brought with it.

This analysis is part of a broader assessment of America's nonprofit sector coordinated by Dr. Lester M. Salamon of the Johns Hopkins University and published by the Brookings Institution Press in collaboration with the Aspen Institute in a book entitled *The State of Nonprofit America*.

Sources of Market Pressures. As Young and Salamon make clear, the pressures propelling nonprofit organizations towards greater engagement with the prevailing market system are multiple. They include declining government financial support, slow growth in private giving, increased service demands from widely disparate population groups, growing competition from for-profit and nonprofit organizations, increased accountability demands, and the increasing presence of potential corporate partners.

Growth of Fee Income. In response to this combination of push and pull factors, many more nonprofit organizations seem to be reaching out to the market, and on a much broader front. Perhaps the most obvious evidence of this is the growth of nonprofit reliance on fees for service charges. As of 1997, the most recent year for which figures are available, 49 percent of nonprofit revenue, including that of religious congregations, came from commercial sources compared to 31 percent from government and less than 20 percent from charitable contributions. Most of this came from mission-related services, such as tuition for education institutions and box office receipts for theaters. But nonprofits are also deriving money from the sales of ancillary goods and services, such as merchandise in museum gift shops and facility rentals by religious congregations.

Social Purpose Enterprises. Nonprofits are also integrating the market more directly into the pursuit of their social missions through the formation of "social purpose enterprises," or "social ventures." These hybrid organizations use market means to pursue nonprofit objectives—e.g. by forming a catering business through which to train former drug addicts. Here the market is not simply a source of revenue but a preferred vehicle through which to achieve a social purpose.

Corporate Partnerships. Nonprofits are being drawn further into the commercial orbit by alliances with the corporate world. Businesses have found that teaming up with nonprofits adds respectability and trust to their images while cultivating new markets, new sources of employees, and new

pools of research and expertise. In exchange, corporations donate money, form employee volunteer programs, sponsor events, loan out executives, and provide equipment, space and contacts.

Incorporation of the Market Culture. As they have come to operate in an increasingly competitive, market-oriented environment, nonprofits have also increasingly absorbed the culture and manner of the market into their internal structures and operations. Nonprofits are no longer bashful about aggressively advertising their services or competing for charitable contributions. Indeed, they have become increasingly "entrepreneurial," worrying about their "market niche" and engaging in "strategic planning." Agencies are increasingly adopting performance measurement techniques, adopting smaller, corporate-style boards, and building more elaborate organizational structures.

A New Enterprising Social Sector. Emerging from these various developments is a new picture of the "social sector," a picture of a self-propelled set of organizations loosened from their original moorings in charity or as a passive agent of government and much more closely connected to the market system, while still somehow tied, however tenuously, to the pursuit of public benefit. Unquestionably, the nonprofit sector has gained many advantages from this closer association with the market. Marketization has offered the nonprofit sector access not only to an enlarged resource base but also to the energy and creativity that the market system has long represented. Armed with earned income, nonprofits may become more fully independent than either government support or private charity has made possible. Engagement with the market also opens possibilities for leveraging enormous private resources and talents for social purposes, and for erasing widespread images of nonprofit ineffectiveness, establishing instead the image of a set of organizations that has learned how to bring the most efficient means to the service of the most valued ends.

But if the potential advantages of the nonprofit sector's embrace of the market are considerable, so too are the risks. Market pressures can undermine nonprofits' commitments to their core values, to doing what is right as opposed to what is popular or commercially viable. They can also threaten the sector's public support if efforts are not made to keep the public engaged and informed.

The solution to these problems may not lie either in restricting the commercial involvement of the nonprofit sector or in relying blindly on the restriction on distribution of profits to ensure appropriate nonprofit performance. Rather, more direct mechanisms of control may be desirable—performance measurements and mechanisms that empower key stakeholders, such as donors or the users of nonprofit services. Under any circumstances, while it is essential to keep the challenges posed by the market clearly in view, it would be foolhardy to let the opportunities it presents to the nonprofit sector go unexplored.

* Adapted from "Commercialization, Social Ventures, and For-Profit Competition" by Dennis R. Young and Lester M. Salamon in Lester M. Salamon, editor. *The State of Nonprofit America*. Washington: The Brookings Institutions Press, 2002. Published in cooperation with the Aspen Institute.

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Praise for
THE STATE OF NONPROFIT AMERICA

“The State of Nonprofit America gives us a much-needed assessment of one of the true treasures of American society – our private, nonprofit organizations – at a critically important moment in their development. All of those concerned about the special qualities of our society should read and ponder its message.”

– President Jimmy Carter, 2002 Nobel Laureate

“Tells a readable story of how a multitude of intertwined public and private trends – shifts in demography, public policy and attitudes, technology, the marketplace – have combined to shape today’s diverse nonprofit sector. Beyond reporting on how the sector has responded to past challenges, it provides provocative suggestions for changes necessary to promote nonprofits’ health over the long term. It is a welcome addition to the literature, and I commend this book to anyone interested in the special role nonprofits play in American life.”

– Dorothy S. Ridings, President, Council on Foundations

“Provides a revealing insight into the important role that nonprofit organizations have come to play in the effective operation of our publicly funded services. It makes clear why we must make this partnership work.”

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– Sara E. Meléndez, President and CEO, Independent Sector

“The State of Nonprofit America is an indispensable resource for those who seek to understand America’s nonprofit sector and the forces that are shaping it. So good, so complete, it is both immediately relevant and bound to stand the test of time.”

– Peter B. Goldberg, President and CEO, Alliance for Children and Families

Chapter highlights are from “Commercialization, Social Ventures, and For-Profit Competition” by Dennis R. Young and Lester M. Salamon, a chapter in *The State of Nonprofit America*, edited by Lester M. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

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Hybrid social ventures offer an exciting model for harnessing the power of business as a force for good. Hybrid organisations such as Grameen Bank and TOMS Shoes, for example, have fundamentally changed how we think about the purpose of business. Gender norms hobble women's full participation in business model innovation, and our research suggests that female role models in the business community may help women social entrepreneurs make the leap towards commercialisation. But our study also shows that empowerment is only the beginning: Successful entrepreneurship also depends on access to resources.

Commercialization of Social Enterprises: Stemming the Tide of Mission Drift. Find out how to avoid mission drift when transitioning a social enterprise or microfinance venture into a for-profit organisation. Join course for free.

Commercialization of Social Enterprises: Stemming the Tide of Mission Drift. Join course for free.

Overview. Many social enterprises are becoming more commercial, adopting the techniques, funding or governance more usually associated with for-profit ventures. In this online course, we will shed new light on this trend. We will ask how commercialisation affects the management and operations of social enterprises, and which avenues could or should be used to avoid mission drift.

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