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# JPNA

JOURNAL OF PUBLIC AND NONPROFIT AFFAIRS

## Research Articles

Understanding government-nonprofit funding agreements in human service organizations using resource dependence theory and organizational legitimacy

*Dr. Aaron Turpin; Dr. Micheal Shie*

The Influence of Branding on Charity Advertising and Fundraising Effectiveness

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A Platform Theory of Nonprofit Pricing and the Nonprofit Platform Lerner Index

*Dr. Jeremy P. Thornton; Dr. Jennifer Kuan*

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*a journal of the Midwest Public Affairs Conference*

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The *Journal of Public and Nonprofit Affairs (JPNA)* focuses on providing a connection between the practice and research of public affairs. This is accomplished with scholarly research, practical applications of the research, and no fees for publishing or journal access. *JPNA* publishes research from diverse theoretical, methodological, and disciplinary backgrounds that address topics related to the affairs and management of public and nonprofit organizations.

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# J P N A

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## Editor's Introduction

*Christopher R. Prentice – University of North Carolina Wilmington*

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This issue of the *Journal of Public and Nonprofit Affairs* brings together research that advances understanding of funding relationships, branding, organizational strategy, and pricing in nonprofit and social enterprise contexts. Collectively, these studies offer fresh perspectives on how organizations secure resources, build legitimacy, and optimize performance in complex environments.

The issue begins with Turpin and Shier's (2025) examination of government-nonprofit funding agreements in human service organizations. Drawing on resource dependence theory and organizational legitimacy, the authors analyze interviews with 32 leaders from Canadian nonprofits to understand how funding structures shape organizational behavior. The findings identify key dependencies embedded in eligibility criteria, distribution processes, and reporting requirements, and highlight how these dynamics influence legitimacy and operational decision-making.

Extending the focus on resource acquisition to public engagement, Najev Čačija and Wymer (2025) explore the role of branding in charity advertising and fundraising effectiveness. Using survey data and PLS-SEM analysis, the study demonstrates that brand familiarity influences support intentions through brand attitudes, with brand remarkability strengthening this relationship. The authors also find that perceived donor risk moderates the link between brand attitudes and social media sharing, underscoring the strategic importance of branding in shaping donor behavior.

Shifting to organizational strategy in constrained environments, Wang (2025) investigates how social enterprises in China navigate legitimacy and resource challenges. Drawing on resource dependence theory and bricolage, the study shows that nonprofit social enterprises rely on community-oriented strategies, certified enterprises build diverse partnerships, and for-profit enterprises leverage market access while facing legitimacy barriers. These findings highlight how organizational form shapes resource mobilization and strategic positioning.

Finally, Thornton and Kuan (2025) introduce a novel framework for nonprofit pricing by conceptualizing organizations as multi-sided platforms. Their Nonprofit Platform Lerner Index (NPLI) accounts for both client demand and donor-side dynamics, demonstrating how nonprofits can strategically subsidize services through donor market power. By reframing donor engagement as a core production input, the study offers new insights into pricing, governance, and policy considerations within the nonprofit sector.

Together, these articles emphasize the interconnected roles of resources, legitimacy, and strategy in shaping nonprofit and social enterprise outcomes. From funding agreements and branding to organizational forms and pricing mechanisms, this issue highlights innovative approaches that enhance both theory and practice.

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# Understanding Government-Nonprofit Funding Agreements in Human Service Organizations Using Resource Dependence Theory and Organizational Legitimacy

Dr. Aaron Turpin - MacEwan University

Dr. Micheal Shier - University of Toronto

Government-nonprofit funding agreements are often laden with numerous funder-driven imperatives that dictate how financial resources are to be used within human service organizations. The following study adopts resource dependency theory and organizational legitimacy as a framework to better understand how nonprofits experience the acquisition and use of monies captured through government grants. Thirty-two leaders from Canadian nonprofit human service organizations were interviewed, and data from qualitative thematic analysis identified resource dependencies within funding eligibility criteria, funding distribution, and funding reporting mechanisms. Tenets of resource dependency theory and organizational legitimacy are then used to further enhance understanding of government-nonprofit funding agreements, including a discussion on the role of resource typologies, value diffusion, and interstructuring.

Keywords: Human service organizations; Government funding; Resource dependence theory; Nonprofits

## Introduction

In their quest for sustainability, many human service organizations (HSOs) receive public funding in the form of government grants and contracts to carry out organizational activities (Coupet & Schehl, 2021), which are commonly combined with other revenue sources, such as private donations, earned income, and investment returns. Partnerships between government funders and nonprofit HSOs typically contain stipulations regarding the use of said monies within an overarching funding structure, all of which is considered as characterizing a “funding agreement” (Piatak & Pettijohn, 2021). However, increases in the overall number of nonprofits in Canada (Statistics Canada, 2024), combined with widespread resource cutbacks in the public sector (Bendaoud & Graefe, 2024), have contributed to a resource landscape that is characterized by tenuous and restrictive funding agreements (Lasby & Barr, 2021). Related research focusing on resource relationships is critical to supporting the delivery of impactful programs in nonprofit HSOs. This study aims to develop a better understanding of government-nonprofit HSO funding agreements using resource dependency theory (RDT) and organizational legitimacy, by answering

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the research question - *What are the characteristics of government-nonprofit funding agreements with HSOs?* An exploratory qualitative approach harnesses RDT and organizational legitimacy to better understand how nonprofit HSOs experience the development and implementation of funding agreements with government partners.

## **Literature Review**

### *Government – Nonprofit Funding Agreements*

Federal, provincial, and municipal state funding actors in Canada have long been found to shape the nonprofit sector through their funding agreements with HSOs (Clément, 2019; Malenfant et al., 2019). Increasingly nuanced methodological approaches have disentangled these agreements somewhat, although findings can be variable or discrepant. For example, although receiving government funding has been shown to improve the financial health (Thornton & Lecy, 2023) and operational capacity (Menezes & Peci, 2024; Lu & Zhao, 2019b; Yu et al., 2021) of HSOs, the characteristics of those funding agreements may negatively impact program development, administrative costs, and relationships between government and nonprofit organizations (Lee et al., 2023). Public funding is often stopped or interrupted unexpectedly for many reasons, causing changes to HSO human and administrative resources, while limiting spending and adversely impacting community groups through unplanned service cutbacks (Kim & Mason, 2020; Willems et al., 2022). It is also argued that government funders often place too much emphasis on accountability, leaving undue burden on the funding recipient to adhere to onerous monitoring and reporting requirements (Lee et al., 2023). It follows that governments are seen to prioritize HSO ‘performance’ in resourcing decisions (Coupet & Schehl, 2022), which leads funders to favor certain sectors and organizations that conform to ascribed output measures (Clément, 2022). This has been found to lead to inflexible HSO organizational structures (Kim & Mason, 2020), which may negatively affect an organization’s ability to capture grant monies from other sources (Schatteman & Bingle, 2017).

Conversely, administrative burden has been found to wane once government funding reaches one to two thirds of a nonprofit’s total operating budget (Lu & Zhao, 2019a). This may explain why Canadian governments are more likely to fund nonprofits with higher administrative budgets and favor previously selected nonprofits when awarding grants (Ben-Amar et al., 2023). Government funders have also been found to enhance administrative and media advocacy (Yanagi et al., 2021; Yu et al., 2021), although this relationship is strengthened when private donations increase (Bi et al., 2025). Supporting these findings, organizations with more formalized and professionalized structures are found to leverage more government funding (Seo, 2016), which may allow them to engage in broader advocacy efforts (Dong & Lu, 2021).

### *Resource Dependence Theory and Organizational Legitimacy*

Resource dependence theory (RDT) adopts perspectives that seek to understand organizational behaviors within the context of resource procurement and the development of sustainable resource inflows (Pfeffer & Salancik, 1978). Resources can include any functional input an organization may need to achieve its goals (McCarthy & Zald, 1973), and are categorized as *moral* (support, validation, and external endorsement); *informational* (knowledge relevant to conducting services); *material* (money and other items needed to carry out services); and *human* (labor or leadership) resources (Cress & Snow, 1996). The crux of RDT examines interchanges between resource providers and resource recipients by accounting for the extent to which resources are controlled by specific actors, how these resources are distributed among an

organizational network, and how important specific resources are to supporting the outcomes of those organizations (Pfeffer & Salancik, 1978).

Within highly competitive resource environments, organizations vie for consistent and predictable resource inflows to enhance sustainability, and resource-yielding actors hold significant status and power as purveyors of organizational legitimacy through resource distribution (Benson, 1975). Organizational legitimacy is a branch of institutional theory and is defined by Maurer (1971) as “the process whereby an organization justifies to a peer or superordinate system its right to exist” (p. 361). This justification is endowed through resource provision, as well as the value of those resources upon the receiving organization (Pfeffer & Salancik, 1978). As such, organizational legitimacy embodies power in the form of control over resources and, by extension, other organizations, which is enacted through inter-organizational relationships (Benson, 1975). Within these inter-organizational resource relationships, actors with power (i.e., resource providers) can attempt to change the broader environment by forcing resource recipients to conform to specific norms and behaviors (DiMaggio & Powell, 1983; Nienhuser, 2008), which may result in a loss of autonomy for those resource-scarce organizations (Benson, 1975; Pfeffer & Salancik, 1978).

Though RDT and organizational legitimacy are longstanding theoretical frameworks in organizational studies, continued nonprofit research is needed to further develop the knowledge base. A handful of related studies have laid some groundwork for the use of RDT in funding relationships, revealing how HSOs seek financial sustainability through government funding (Ilyas et al., 2020) but are often challenged by unexpected changes in funding priorities brought on by government restructuring (Maya-Jariego et al., 2020). High resource dependency on government funding is also positively associated with organizational formalization (Seo, 2016) and an increase in organizational outputs (Berrett & Holliday, 2018) but negatively associated with fundraising and operational efficiencies (López de los Mozos, 2016). Where resource competition is enhanced, nonprofits have been found to experience frequent goal change (Seo, 2016), which can have a negative effect on overall social value creation (Seo, 2020). There exists little research examining the characteristics of funding agreements between government and nonprofit actors (Peng et al., 2020), and studies identifying principles upheld by the government that impact nonprofits are needed (Coupet & Schehl, 2022). Addressing this gap in knowledge, the current study operationalizes RDT and organizational legitimacy as a lens to understand government-nonprofit funding agreements through an analysis of qualitative data from HSO leaders.

## **Methods**

### *Author Positionality*

Author 1 is an Assistant Professor at a small urban university in Alberta, Canada. His background includes research and practice in nonprofit human services management across a range of community-based organizations, with a special interest in resource development and evaluation. As a multi-methods researcher, author 1 incorporates diverse methodological approaches borrowing from pragmatic and social constructivist traditions.

Author 2 is a Professor of social work with many years of experience researching social innovation and social entrepreneurship, partnership engagement and development, and resource development within the nonprofit human services sector. He has extensive experience in both

quantitative and qualitative methodologies and follows a pragmatic epistemological approach to knowledge development and understanding.

### *Sample and Recruitment*

Respondents were identified using a sample frame from a previous quantitative study (Turpin & Shier, 2024) among those that identified a willingness to participate in a follow-up qualitative interview about (among other things) their engagement in resource development. This quantitative sample was compiled from a database of HSOs by province in Canada through a careful review of the Canada Revenue Agencies list of charitable nonprofits. HSOs are generally defined to be those organizations that provide some aspect of direct service to a service user group or to meet a social need. Organizations participating in this study engaged with diverse communities, including (but not limited to) those seeking mental health and substance use services, housing supports, youth wellness programming, disability services, newcomer services, employment services, and food insecurity programming (such as Food Banks). Executives and senior management of HSOs were chosen because they are commonly tasked with capturing revenue and liaising with government funders, allowing them to provide unique perspective on the characteristics and impact of those partnerships. Email scripts were developed explaining the purpose and aims of the study, including a description of the nature of participation (i.e. qualitative interview), and sent to 100 executive directors of HSOs in Canada with the expectation of generating a 25 to 30 percent response rate given previous research utilizing similar methods (for example, Turpin & Shier, 2023; Turpin et al., 2021). The corresponding sample size was deemed sufficient to reach theoretical saturation (Miles & Huberman, 1994).

Eligibility requirements for study participation were clearly articulated in the email (i.e., the respondent must be a senior management staff of a registered nonprofit receiving at least some portion of their revenue through government grants/contracts). Attached to the emails was a copy of the informed consent form, which included information regarding study parameters. Recipients were made aware of the voluntary nature of their participation, how authors would de-identify data by removing personal and professional information (such as title, names, and organization), and limitations to study withdrawal, which could not be facilitated after data was de-identified. Thirty-two respondents participated in an interview, at which point interviews were concluded due to theoretical saturation. In some cases, recipients of the email (Executive Directors) did not participate in the interview but recruited a senior management person who worked directly with funding activities.

### *Data Collection*

A semi-structured interview guide was developed for the study, focusing on the characteristics of funding agreements between HSOs and government funders. Interview questions were designed to contribute to RDT and organizational legitimacy, focusing on how government funding agreements were enacted during different processes of the funding cycle. Due to the sensitive nature of the questions (i.e. respondents critiquing the processes and decisions of current funders), identifying organizational information was not collected per the request of study participants. Interviews were conducted by the first author and sought to identify specific behaviors, policies, and guidelines that were espoused within funding agreements. Respondents were asked to comment on how these processes impact organizational functioning, and how they respond to challenges and opportunities presented by government funding agreements. Main questions included: *What are some of the ways you engage with government funders to obtain resources?; What is involved in designing and submitting a funding proposal?; How would you describe your relationship with current/potential government funders?; What are some of the*

expectations that government funders have of your organization?; What are some of the requirements included in government funding agreements? How do government funding agreements impact the operation of your organization? Interviews were conducted virtually and lasted 30-45 minutes. Audio was recorded on a separate device and transcribed verbatim (removing identifying information).

## Analysis

Data were analyzed following a thematic qualitative approach (Miles & Huberman, 1994; Creswell, 2018) utilizing constant comparison techniques (Goetz & Lecompte, 1984). The goal of thematic analysis is the identification of emergent ‘themes’ within the dataset that represent respondents’ ideas, thoughts, and conceptualizations of a given topic (Glaser and Strauss, 1999). As such, data in this study were first organized into broad categories reflecting processes of interest in the development of funding agreements. The researchers (n=2) then independently arranged the same coded blocks of respondent data into key themes that qualified general categories by identifying specific factors reflecting resource dependence, including examples and cases where respondents encountered these factors in practice. This led to the development of several themes under each category that were cross-referenced between both researchers to address discrepancies in the placement of data, theme development, and descriptions of themes. This process is referred to as ‘constant comparison’ and enhances the validity of study findings (Grinnell, 2001). Results from independent coding were compared until both researchers agreed on a single cohesive set of findings. This approach to the development of qualitative themes is considered to contribute to the overall trustworthiness of findings (Grinnell, 2001). Data analysis was supported by NVivo14 Software (2023).

## Findings

Findings from the qualitative analysis were arranged into three main themes pertaining to salient aspects of government funding agreements as experienced by HSOs, including *funding eligibility*, *funding distribution*, and *funding reporting*. Each main theme included codes that describe processes contributing to resource dependence. Themes and codes are summarized in Table 1.

**Table 1:** List of themes and codes

<b>Main Themes</b>	<b>Codes</b>
<b>Funding Eligibility Criteria</b>	Articulating Community Needs Aligning with Funding Priorities Meeting Size and Experience Thresholds
<b>Funding Distribution</b>	Funding Scarcity Lack of Operational Supports Adhering to Funding Targets
<b>Funding Reporting</b>	Measuring Impact Meeting Pre-defined Funder Metrics

### *Funding Eligibility Criteria*

The general theme *funding eligibility criteria* included three codes describing eligibility requirements for government grants, and how respondents experienced these criteria through the resource procurement phase. Codes included: *Articulating community needs*, *aligning with funding priorities*, and *meeting size and experience thresholds*. Each code is described in further detail, including examples from the dataset, below.

*Articulating Community Needs:* Respondents cited several examples of conforming to funder expectations by presenting community needs in specified ways. Commonly, HSOs were asked to demonstrate how their approach to service provision was evidence-based and data-driven. This was experienced by respondents in two main ways: Through the implementation of real-time primary data collection within an evaluation framework, and/or by integrating extant research in program planning and decision-making. However, respondents reported that funding dollars often do not cover ongoing monitoring and evaluation activities, making it difficult for organizations to resource the accountability procedures that were required for funding eligibility. One respondent stated:

We do see difficulties around evaluation. There is all this expectation for prescribed outcomes, for common outcomes, without funding going to that...because donors, or the government, or the constituents of the government...they want to see the evidence of evaluation, and they want to see complex evaluations sometimes conducted without paying for them. (NP20)

For HSOs, the use of data and evidence legitimized community needs to government funders. This superseded less informal ways of knowing, such as practitioner wisdom or community advocacy. Paradoxically, HSOs were also commonly asked to identify how a given project addressed a ‘gap’ in services and encountered difficulties when seeking to articulate a known community need when data and evidence pertaining to the related issue did not exist. As such, adopting an evidence-based approach while meeting unaddressed community needs was often viewed as incongruent. The tension between data and community needs was articulated by the following respondent:

We noticed a huge gap, but we can't just say “we think there is,” there has to be research that says somewhere, somebody studied this population and identified that this is an issue. Well, basically, there is nothing out there...it's really one of the most vulnerable populations... Anyway, when we applied for the first time, they [government funder] turned us down, we had no evidence...We have no evidence because there actually isn't any evidence...you have to show evidence, but if there is none, then you're kind of, yeah. (NP01)

For the above respondent, there was a lack of alignment between funding requirements and government asks pertaining to how social issues were selected and addressed by HSOs. It was difficult to procure resources for community groups that had not received empirical attention, yet experienced high levels of marginalization.

*Aligning with Funding Priorities:* Respondents discussed the implication of narrow or stringent funding priorities as particularly problematic when seeking eligibility for government grants. In several cases, criteria for government grants were found to be exceedingly specific, especially in relation to the types of programs and corresponding social issues that are identified by funders as

key targets. There was a perceived inflexibility to considering HSOs that may operate outside of pre-selected mandates, which was exacerbated by a funding environment that tended to change or shift priorities often and without warning. Respondents commented that they were not confident about ongoing eligibility when government granting programs were prone to abandon existing criteria to pursue new directions. One respondent commented that “...when you get government funding, you are at the besiege of whoever is in power at the time, and governments change, people in those roles change...or the philosophy changes, and you’re cut off” (NP17).

In response to an unpredictable funding environment, some respondents discussed strategies to change their programs in a way that better fit funding criteria. There was a tendency for HSOs to seek funding with any government program, regardless of fit or alignment, due to the precarious nature of funding availability. As noted by one respondent:

You’ve got to...grab whatever you can get...because nobody is going to help you...and you also have to be a bit of a consummate buffet eater, you’ve got to go up to the trough and just shove everything in, and just hope something gets in your belly. (NP31)

Related data illustrated how HSOs may bend their own strategic initiatives to benefit funding eligibility, although not all HSOs were found to engage in this practice. One respondent outlined their tenacity when advocating for more appropriate funding guidelines: “We didn’t fit in. At one point I had a senior bureaucrat tell me we didn’t ‘fit into any of our boxes.’ And I said ‘make us fit. Let’s find a new box.’” (NP18). However, instances of challenging government funding approaches were rare in the data, and more commonly, respondents were prone to engage in organizational change to better align with potential granting opportunities.

*Meeting Size and Experience Thresholds:* Government funders were perceived by respondents as carrying significant biases toward selecting organizations with specific attributes regarding size, experience, and financial viability. This was operationalized through granting programs in several ways. Most funding applications were found to include minimum ask requirements that limited applicants from pursuing small projects. According to one respondent:

...they [government funder] have become incredibly unforgiving. The most minor technical error will disqualify people. So, for instance, I’ve been in some meetings where a very small agency will ask for \$25,000 for a good project, but [government funder] says ‘your minimum ask is \$30,000. You’re technically disqualified.’ (NP13)

Minimum ask requirements were also perceived to favor larger organizations with more resources and greater financial viability. Respondents noted that without some previous project experience and financial resource procurement, smaller organizations would be deemed high risk investments for the government and therefore were not considered as serious candidates. However, smaller organizations found it difficult to gain the requisite funding experience without being eligible for said grants. As one respondent discussed: “...previous experience running a project like this...something that shows that you have done this before... It’s very, very tough to get money if you have no experience. This is kind of a catch-22” (NP10). Similarly, applications were found to be onerous and requiring resources that were not obtainable to smaller organizations. Committing critical and limited organizational assets to developing a complicated grant proposal without the guarantee of success was a difficult task for small organizations. Respondents commented on ethical concerns related to maneuvering key resources away from frontline services to pursue government funding:

...they [government funder] really need it customized, which takes an enormous amount of time, and never knowing for sure if you'll ever see a penny. So, you invest... thirty hours into writing something, when you have no idea if you're ever going to see that money back. So, I just have my staff dedicate 30 hours that could have been supporting 30 families, for the chance [of getting funding], like a lottery...I don't love that gamble. (NP03)

Like this respondent, the risk associated with completing onerous funding applications was difficult to manage for those in smaller organizations. Without dedicated grant writers or funding staff, creating a proposal usually entailed temporarily shifting resources away from service delivery, and several respondents could not reconcile or justify this action.

### *Funding Distribution*

Examples of resource dependency were provided by respondents within the domain of *funding distribution*. Specifically, respondents cited challenges related to *funding scarcity*, a *lack of operational supports*, and *adhering to funding targets*. Below, codes provide further explication.

*Funding Scarcity:* Respondents commented on the scarceness of available government funding opportunities and subsequent competition for limited funding. As one respondent articulated: "The funding coming from the government is never enough. We have to fundraise about 40,000 to 50,000 dollars a year to complement it, and now that we have grown, it's far from enough" (NP10). With too few grants and growth in the amount of organizations vying for the same funds, respondents found it difficult to generate sustainable resource inflows and support organizational stability. Managing service delivery while continually searching for new funding streams was found to stymie organizational growth as leadership became preoccupied with addressing short-term resourcing needs. Limited spending windows and a lack of multi-year funding were identified as contributing to ongoing resource crises that preoccupied HSO management. One respondent stated: "...the system keeps... organizations with just enough money to just do the work and kind of tire themselves out, but not enough money to thrive, and not so little money that they're not able to do anything..." (NP05). This was a familiar position for respondents, who provided similar comments regarding the insufficiency of government funds and subsequent operational consequences.

*Lack of Operational Supports:* There was agreement within the sample that, as stated by one respondent, "...typically governments do not fund nonprofit operating costs, and it's difficult getting that" (NP06). Obtaining unrestricted monies with government funders was cited as rare, and most grants were found to be limited to frontline service delivery. Respondents discussed the critical need for resources providing salary support for managerial positions, developing staff training, and facility development. The inability to procure sufficient funds for indirect service needs often stymied organizational growth and hindered respondents' ability to support program sustainability. Neglecting structural needs would then lead to concessions that hindered healthy operation of the organization. One respondent offered an example:

In the funding that we have from [ministry-x], there's only support for 1.5 staff, and that's me, and I cut my own salary as the executive director because I saw that the two salaries would consume 90% of the funding, and the 10% that was left was to pay the bills, like the rent or phone, etc. etc. No, it's not possible. (NP12)

Government funders were perceived as myopic in their resourcing philosophies by adopting an approach that solely focused on direct program investment and generating specific outputs for community members. Sometimes this handcuffed respondents' ability to make programming

decisions by reducing the flexibility in how funding dollars were spent. The specificity of spending requirements prevented an organization from being nimble or adjusting to the changing needs of the community. One respondent commented: “[government] funders... [funds] can only be used for the clinician for this one program, but it has to be online only. So, there’s...like a hyper focus of where the money is going to go...” (NP30). This case presents an example of limiting funds to a specific organizational domain and service modality. Even when minor changes to the program were needed, restricted funding (such as the above) would not have the requisite flexibility to ensure spending requirements were adhered to.

*Adhering to Funding Targets:* Pre-defined funding targets were often perceived as serving government requirements over community needs. Respondents discussed how government funders were increasingly worried about avoiding ‘overlap’ in their portfolios, which occurred when multiple branches support the same program, or fund several organizations that are perceived as overly similar in how they address a specific social issue. Consequently, organizations were forced to differentiate programs in a way that may not be as effective to capture or maintain funding dollars. One respondent commented: “It’s very purposeful because none of the work is overlapped or duplicated...every department has very specific mandates...very focused on a specific service” (NPO3). This limited the amount of funding that could be received, while existing amounts were often insufficient to support the full operation of a program.

Adhering to funding targets was difficult for respondents when areas of focus were incongruent with the lived realities of community members. As one respondent discussed: “The tools probably would work and make sense, but they don’t reflect, I would argue, the actual conditions we’re faced with, and we’re not funded to address those conditions” (NPO6). This became problematic for respondents when faced with situations requiring a response that may fall outside of funding parameters. One respondent provided an example of a mismatch between spending targets and a community need:

...whenever I come into a situation where a [service user] doesn’t fall nicely into a category...I get my hand slapped by the ministry...‘You can’t go into that community.’ If I was just funded by [ministry-x], for example...you’re a lot more restricted with what you can do. (NPO7)

In this case, a spending target outlining which community members can and cannot receive a service creates a barrier to access for some. The respondent described how they use multiple funding sources to navigate the issue; alone, government funds would be insufficient to provide services for everyone who needs them due to spending restrictions.

### *Funding Reporting*

Two codes, including *measuring impact* and *meeting pre-defined metrics*, describe how respondents encountered resource dependence when engaging in funding contracts with government bodies. This section will outline how each was operationalized within human service organizations.

*Measuring Impact:* Respondents found government funders placed emphasis on articulating the impact of services in a variety of ways. Funders were found to ask for multiple types (qualitative and quantitative) of data to demonstrate service provision, which were burdensome to organizations that had limited capacity for enhanced service data collection. Data were used to evidence how organizations adhered to spending requirements and addressed specific funder targets. Some funders had several indicators they required that ranged from basic service use to

more sophisticated outcomes. Respondents provided several examples of onerous reporting requirements, such as: “We have to be able to show how concretely...these are the dollars that we save the government...So we had to start studying and documenting it...we had to be able to be quantitative and qualitative [researchers] for the government” (NP20). Specifically, respondents reported on how government funders emphasized the importance of collecting qualitative stories from service users in an effort to articulate impact. This was sometimes identified as problematic for respondents that worried about ethical concerns related to the collection and use of service user stories by government bodies. Further, if organizations were unable to provide service user stories, there could be funding cutbacks, as mentioned by one respondent:

...[service users] used to be so resistant, but...If we don't tell a story of what we're doing, then there's, government funders...they want the story versus the data. If they're not seeing what we do, it leads to a reduction of funding, a reduction of staff. (NP16)

Related concerns about the collection and use of data often hindered respondents' ability to fully conform with funder accountability requirements and would lead to a discontinuation of funding.

*Meeting Pre-defined Funder Metrics:* Beyond articulating outcomes through data collection, government funders could be specific about the quantitative tools and measures that were to be used during this process. There were several common aspects of service delivery that respondents reported as important to government funders, such as providing proof of program sustainability beyond a given funding period. This was sometimes perceived as paradoxical by respondents, who relied on government funding to keep a program functioning. One respondent commented:

...one of the keys is to provide [government funder] with a sense of sustainability, that this isn't just a one-shot idea, that we will find a way to have supports.... But they want to see some form of sustainability, that they're not going to pour \$50,000 or \$100,000 into a project that's going to be folded up in three or four years. And I know everybody says 'Oh, I want to see proof of sustainability,' especially [name of government funder] ...but it's a challenge to show it. (NP11)

Compounding the challenges associated with evidencing sustainability, respondents found some government funders to require a burdensome amount of pre-defined metrics, without the requisite supports. The implementation of a complex evaluation plan was commonly cited by respondents as a funding requirement that became onerous and usurped important organizational resources. Overemphasizing evaluation activities was found to distract from more important community service work, and often veered from what respondents perceived as core to their organization. This was articulated by one respondent:

...this is not necessarily about the social service delivery and strengthening the community, it's about...hitting the metrics with less of an emphasis on recognizing the barriers to the clients we serve. It's like 'get them in, get them out'...Well, cool, but that's not working. (NP19)

When evaluation and reporting requirements increased, respondents reported associated challenges with meeting lofty expectations of government funders and inhibiting organizational functioning to provide pre-defined metrics.

## **Discussion**

The current study addressed a gap in resource dependency theory (RDT) and organizational legitimacy by focusing on the characteristics of government-nonprofit human service funding agreements. Using findings from a qualitative analysis of one-to-one interviews with nonprofit leaders, these theoretical frameworks can be applied to develop a novel understanding of how the distribution of funding dollars is tied to broader resourcing practices. To start, the category of resources defined by RDT can be examined in this study. For instance, while funding dollars may traditionally be defined as having exclusively material properties (McCarthy & Zald, 1973), respondents also attached several key attributes pertaining to moralistic (for example, the validation of social issues through funding), informational (for example, through control of programming decisions), and human (for example, the need for specified skills to complete reporting requirements) resource types. Whereas these categories have been treated as mutually exclusive in the past (for example, Berrett & Holliday, 2018; Seo, 2016), data from this study highlight the overlap between each as funding becomes distributed and operationalized in HSO programming. This is because respondents were keen to attach value to funding beyond its material use as a vehicle to support program development and delivery. Funding agreements communicated meanings that were often a diffusion of the resource provider's (government) values. This is referred to in RDT as 'interstructuring' (Allport, 1962), and it could be witnessed within the sample when respondents emphasized specific parameters related to resource use, such as accountability, sustainability, and impact.

Most respondents referred to government funding as important to supporting an organization's ability to deliver services. However, this funding was not perceived as promoting long-term program sustainability due to the tenuous nature of government-nonprofit funding agreements, and respondents often doubted whether government monies would continue to be a primary driver of social outcomes in their organization. For example, the sufficiency of government funds was questioned, there were gaps identified in how funding was to be used, and spending periods were cited as becoming increasingly smaller. RDT measures the importance of a resource by how much it can be accounted for in organizational outcomes (Pfeffer & Salancik, 1978), and assigns higher value to predictable, consistent resource inflows that support organizational sustainability (Benson, 1975). Study data was saturated by accounts of government funding agreements that did not support these goals, suggesting that associated funds may be valued less than other, less restrictive financing options. Still, government grants were highly sought after, perhaps due to non-monetary benefits that are endowed on HSOs when funded by public institutions, such as increased legitimacy within the broader human service organizational sector.

According to organizational legitimacy theory, funding priorities are understood as reflections of wider policy imperatives, which often have public support (Helm & Andersson, 2010). However, these priorities may not always be aligned with community needs. Nonprofits in this study were found to be caught in the middle, requiring supports from government while balancing funding priorities with designing and implementing impactful programming. In pursuit of government funds and the legitimacy they may offer, some respondents recounted shifts in their social missions to better conform to funding requirements. When organizations change their activities to better align with resource providers, both RDT and organizational legitimacy posit that the process communicates "meanings" (Friedland & Robertson, 1990) across a network of organizations about dominant values and attitudes. Communicated meanings can entail which services are valued highest, who should be providing those services, and by what means (Benson, 1975). The current study sample identified several communicated meanings, including efficiency, accountability, and evidence-based programming. Organizations which fail to adhere, or meaningfully incorporate a resource providing organization's communicated meanings, may risk the loss of resources and identity. This was also upheld in the data when respondents commented on tensions when government funding processes were overburdensome and misaligned with

organizational capacity. In these cases, nonprofits must assess the value acquired in resource exchanges by examining the costs and gains associated with government funding agreements. As previously stated, an RDT approach understands that control of resources begets a control over other resource-constrained organizations (Senge, 1990). This was exhibited in several ways through government-nonprofit funding agreements, including unilateral government decisions of the amount of funding dollars distributed, dictating ways in which funding money was to be spent, and how the impact of funding was to be articulated (for example, through coopting client stories and pre-defined quantitative measures). Consequently, some loss of autonomy was found in nonprofits by restricting ways in which services were delivered, the social issues addressed (and not addressed), and how funding programs were structured. Respondents also experienced a loss of ability to implement new and innovative programs using restrictive government funds in lieu of compliance to funding requirements, such as illustrating an evidence base and providing proof of sustainability.

While RDT and organizational legitimacy offer insight about structural factors influencing resource distribution within tightly-bound organizational networks (such as HSOs), it can also lend some understanding of the way in which resource receiving actors may successfully navigate this environment (Scott & Meyer, 1983). Recent research has supported revenue diversification as a strategy for protecting organizational autonomy in nonprofits (Berrett & Holliday, 2018; Peng et al., 2020), including the integration of multiple revenue streams, such as fundraising efforts, foundation grants, and/or earned revenue activities. Revenue diversification may be a new path toward establishing organizational legitimacy, in that nonprofits engaging in multiple resource procurement streams may be perceived as highly legitimate within their networks. However, this area of scholarly focus is underdeveloped, and the topic lacks an established epistemology (Hung et al., 2024), resulting in conflicting discourses about key factors that establish legitimacy within this field. A limitation to RDT and organizational legitimacy is their inability to produce widely recognized processes of legitimation in areas that are poorly understood (Kuhn, 1962). This might pose a barrier in fully understanding the impact of revenue diversification on organizational legitimation in nonprofits and should be dually considered within this context.

Lastly, it is important to acknowledge the role of HSO autonomy within the context of funding distribution. While RDT and organizational legitimacy tend to dilute the resource provision process as strictly linear (Senge, 1990), where resource-rich actors download funding unto those organizations in need (thereby diffusing normative values and behaviors), this process was often mired by study respondents who challenged patterns of funding that were perceived as problematic. In pursuant to their social mission, leaders of HSOs noted several government funding approaches that were incongruent with community needs. RDT and organizational legitimacy may not have the requisite theoretical flexibility to capture how such tensions may cause upstream change in the funder-recipient relationship. Contrary to the private sector, where profit maximization is a primary goal, nonprofit HSOs (and their funders) are shared stakeholders in more complex social outcomes that exist at the community level. HSOs may therefore have more authority over resource distribution, given they are formal representatives of community groups. This may manifest as advocacy activities, community organizing, policy development, or other related work. RDT and organizational legitimacy must make room for the bidirectional nature of funding agreements in the nonprofit sector if it is to be adopted as a fully legitimate theory explaining HSOs.

The current study has limitations that are important to consider when applying findings. The dataset was purely qualitative, and therefore it is not possible to extract inferential insights. Although the sample size was relatively strong, it may not be completely representative of the Canadian or international nonprofit sector. Due to confidentiality limitations, the authors did not

collect descriptive data from respondents, and it was not possible to make comparative determinations about sample-population representation. The diversity of nonprofits in mission and structure may contribute some heterogeneity in how RDT is manifested. For example, issues related to government-nonprofit funding agreements may differ across HSOs that have charitable status or are registered cooperatives. This is not accounted for in the study analysis. Finally, the theoretical framework used to analyze data also has limitations in its scope. For example, RDT often neglects institutional processes that may also influence resourcing within organizations, such as the development of social controls through the infusion of norms and rules that influence behaviors of organizational members. These factors may also be important to the development of government-nonprofit funding agreements.

## Conclusion

Resource dependence theory (RDT) and organizational legitimacy are longstanding conceptual frameworks that have traditionally been used to explain resourcing behaviors of organizations. However, they have not been given due attention in the nonprofit sector, particularly within the context of government-nonprofit funding agreements. Addressing this gap, the current study analyzed interview data from 32 leaders of nonprofit organizations receiving government funding in Canada using RDT to generate an understanding of how funding agreements may have contributed to resource dependence. Findings pertaining to *funding eligibility criteria*, *funding distribution*, and *funding reporting*, described how respondents encountered challenges regarding resource distribution and experienced resource dependency with government funders. Future research should focus on expanding the scope of RDT and organizational legitimacy by applying it to different aspects of financial resource acquisition in nonprofits, while accounting for ways in which resource receiving organizations may influence the development of funding imperatives in their approach to funding agreements.

## Disclosure Statement

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### Author Biographies

**Dr. Aaron Turpin** – Dr. Aaron Turpin is an Assistant Professor in the Human Services Administration program at MacEwan University.

**Dr. Micheal Shier** – Dr. Micheal Shier is a Professor and Associate Dean, Academic, at the Factor-Inwentash Faculty of Social Work, University of Toronto, and holds a Canada Research Chair in Social Innovation and Social Entrepreneurship in the Human Services.

# The Influence of Branding on Charity Advertising and Fundraising Effectiveness

Ljiljana Najev Čačija – University of Split  
Walter Wymer - University of Lethbridge

In this paper, we describe a study designed to contribute to the stream of research on nonprofit brand-related topics. Specifically, we develop and test a conceptual model to add to our knowledge of the influences of brand familiarity, brand remarkability, and brand attitudes on audience support intentions (donation intentions, word-of-mouth intentions, and social network sharing intentions). We also examined the moderation influences of perceived donor risk, value congruence, and evoked sympathy. A sample of 266 individuals completed an online questionnaire. Data were analyzed using PLS-SEM. We found that brand familiarity's influence on audience support intentions was fully mediated by brand attitudes and moderated by brand remarkability. We also found that brand attitudes' influence on social network sharing intentions was moderated by perceived donor risk. Additional findings are presented. Theoretical and managerial implications are discussed.

Fundraising, Charity advertising, Brand management, Nonprofit marketing

## Introduction

Traditionally, charities often relied on advertising as an important tactic for presenting messages to audiences, often for the purpose of attracting donations (Wymer et al., 2006). A common practice in charity advertising was to present images of vulnerable people (often children) to evoke sympathy or pity in the audience to motivate them to donate to the charity (Baberini et al., 2015; Bae, 2019). In addition to constructing charity appeals to evoke audience sympathy, researchers have sought ways to make charity appeals even more effective, such as examining spokesperson effects or message framing (Jiang et al., 2023; Kim et al., 2024).

In contrast, comparatively less attention has focused on the influence of organizational factors on audience responsiveness to messaging. In their literature review of charity advertising, Wymer and Gross (2023) recommended that future research is needed to fill a knowledge gap on the influence of organizational characteristics on charity messaging effectiveness.

In addition to the gap identified on the influence of organizational factors in the charity advertising research stream, nonprofit marketing scholars have called for a greater emphasis on brand-related topics (Apaydin, 2011; Romero & Abril, 2023). Sepulcri et al. (2020) recommended future research on organizational factors that influence donations like branding. Hence, there is a literature gap in the charity advertising and nonprofit marketing research streams in our knowledge of how branding influences an organization's messaging

effectiveness in attracting manifestations of audience support (e.g., donations, social media likes and shares).

To help fill this literature gap, Wymer and Yacout (2024) examined the influence of three brand-related organizational constructs on a sample of Generation Z (Gen Z, born 1995-2010) respondents. They examined the influence on brand familiarity, brand remarkability, and brand attitudes on three audience response variables: donation intentions, intentions to make favorable comments on social media, and intentions to share the fundraising campaign on social media. The investigators' conceptual model also included two moderators: personal impulsiveness and social media engagement. They found that the influences of brand remarkability and brand familiarity on the outcome variables were mediated through their influence on brand attitudes. With respect to potential moderation effects, their results were not significant.

Wymer and Yacout's (2024) findings contributed to nonprofit brand research. More research is needed in nonprofit branding to learn more about how nonprofit organizations can create stronger relationships with donors, volunteers, and beneficiaries (do Paço et al., 2014; Sepulcri et al., 2020). While the practical use of branding in the nonprofit sector is growing, extant research is fragmented, and more systematic research is needed to provide a clearer and more coherent understanding of the field (Werke & Bogale, 2024).

Replication studies help to reduce fragmentation in the literature by verifying previous findings, helping to support reliability and validity of prior research, helping to identify errors or biases, and helping to improve our theoretical understanding (National Academy of Science, 2019). Specifically, we replicate and extend the findings of Wymer and Yacout (2024). Like Wymer and Yacout (2024) we examine the influences of brand familiarity, brand remarkability, and brand attitudes on audience outcomes. This replication provides an opportunity to examine the robustness and reliability of the nonprofit brand construct relationships reported in Wymer and Yacout (2024). Wymer and Yacout (2024) noted that a limitation of their research was their sample of Gen Z participants (students at an Egyptian university). The focus of our study is not on the Gen Z cohort, but on the general population.

Additionally, whereas Wymer and Yacout (2024) used a simple print format for their message channel, we use a video format as our message channel. Nonprofit organizations increasingly rely on disseminating their appeals in video format on social media (Seo & Vu, 2020; Yousef et al., 2021). Examining the nonprofit brand construct relationships in a different format on a different population may enhance the external validity of Wymer and Yacout's (2024) findings.

Furthermore, we extend the work of Wymer and Yacout (2024) who examined two potential moderators: impulsiveness and social media engagement. In our study, we investigate the potential moderating influences of value congruence, evoked sympathy, and perceived donor risk.

In sum, we re-examine the nonprofit brand construct relationships of Wymer and Yacout (2024) on a different sample, not limited to a single generational cohort. We re-examine these relationships using a different message, using different brands, and using a different messaging format. We also investigate the moderation effects of three different constructs.

## **Literature Review**

As noted in the introduction, we are interested in investigating the influence of brand-related organizational factors on an audience's responsiveness to a nonprofit organization's message appeal. An organization's brand is a latent psychological construct that refers to the perceptions, associations, and meaning of the organization in the minds of priority audiences (individuals whose engagement and support the organization seeks to acquire and retain) (Wymer, 2013; Wymer & Casidy, 2019).

In this investigation, we are interested in three focal brand constructs: brand familiarity, brand remarkability, and brand attitudes. Brand familiarity refers to the level of knowledge a priority

audience has about the nonprofit organization. Brand remarkability refers to the degree to which a nonprofit organization is perceived by a priority audience to be extraordinary and exceptional. We define brand attitudes as the degree to which a nonprofit organization is perceived favorably by a priority audience (Wymer et al., 2016).

### *Sponsoring Charity Brand*

Charity advertisements feature a sponsoring charity for which the ad is requesting support, often in the form of donations (Wymer & Gross, 2023). A weak charity brand would be expected to have lower brand familiarity than a strong brand (Wymer et al., 2016). We operationalized this effect in our model by having two charity brands, one fictitious (unknown charity brand) and a well-known charity brand. Hence, the sponsoring charity brand will be operationalized as a two-condition dummy variable.

Familiarity with a charity is the result of information about the brand and brand experiences. Sources of brand information may be from the charity or from other sources. Charities send fundraising appeals to audiences which familiarizes audiences with their work, beliefs, and values (Sargeant, Hudson, & West, 2008). We predict that an established charity will experience greater brand familiarity than a fictitious charity.

*H1:* An established charity will have greater brand familiarity than a fictitious charity.

### *Brand Familiarity*

People tend to donate to charities with which they are familiar (García-Madariaga et al., 2024; Ha et al., 2024). Bourassa and Stang (2016) found that knowledge about a charity moderates the effects of trust, transparency, and accountability on donation behavior. Perhaps this effect is due to the influence of familiarity on trust. Wymer et al. (2021) wrote that well-known charities are more trusted than less-known charities and that people tend to have greater trust in organizations with which they are familiar. García-Madariaga et al. (2024) reported that brand familiarity influenced the way in which audience members process print ads. Familiarity with a charity provides a context that aids in an audience's comprehension of its messages and appeals (Ha et al., 2022). Wymer and Yacout (2024) reported that brand familiarity influenced supporter outcome variables. Based on this prior research, it is reasonable to believe that brand familiarity will have an effect on our outcome variables.

*H2:* Brand familiarity has a positive influence on audience support intentions.

### *Brand Attitudes*

Prior consumer branding research has found that brand attitudes have a positive effect on brand equity (Chang & Liu, 2009). Ebrahim (2013) reported that brand preferences are a manifestation of brand attitudes. Boubker and Douayri (2020) found that brand attitudes predicted brand preference which predicted purchase intentions.

Recent research has found that people's attitudes toward a charity's brand are linked to their intentions to donate. For example, Ramayanti (2025) reported that attitudes towards a charity influenced donation intentions and mediated the influence of brand orientation on donation intentions. Wymer and Yacout (2024) found that charity brand attitudes influenced audience outcomes, including donation intentions. Prior research has reported similar influence of charity brand attitudes on donation intentions (Smith & McSweeney, 2007; Teah et al., 2014).

*H3*: Brand attitudes have a positive influence on audience support intentions.

As brand familiarity increases, individuals develop their attitudes toward the brand (Junior Ladeira et al., 2022). Prior research has found that brand attitudes can serve a mediational role. For example, Gregory et al. (2020) reported that charity brand salience is positively related to charity brand choice intention through the mediating effect of brand attitudes. Prior research has found that when attitudes are improved, intentions to donate are boosted (Lee & Kim, 2023). Attitudes toward charities have been found to be good predictors of donation intentions (Erlandsson et al., 2018). Prior research supports the role that brand familiarity has on attitude formation (Auschaitrakul and Mukherjee, 2017; Boronczyk and Breuer, 2020; Catalán et al., 2019; Herédia-Colaço et al., 2019; Li et al., 2020; Morgan et al., 2021). Wymer and Yacout (2024) reported that brand familiarity's influence on supporter intentions was partially mediated through brand attitudes. Hence, we predict a replication of Wymer and Yacout's (2024), that brand familiarity's influence on our audience support intentions will be (partially or fully) mediated through its influence on brand attitudes.

*H4*: Brand attitudes mediate brand familiarity's influence on audience support intentions.

#### *Brand Remarkability*

As discussed above, brand familiarity aids in the development of brand attitudes. As one becomes more familiar with an organization, one begins to form attitudes about the organization. One's perceptions of the degree of organizational exceptionalism also aids in attitude development. Brand attitudes pertain to how strongly one likes or dislikes a brand. Brand remarkability concerns the degree to which one perceives a brand to be exceptional and superior (Wymer, 2015). Charities are generally known to do good work, often helping others, or reducing suffering. Hence, most people tend to have positive attitudes toward most charities (AFP, 2021). While attitudes towards charities are important, individuals prefer to support charities they perceive as exceptional and superior (Wymer & Casidy, 2019). Hence, brand remarkability exerts an influence on brand attitudes.

*H5*: Brand remarkability has a positive influence on brand attitudes.

There is an interaction between brand familiarity and brand remarkability and their shared influence on the formation of brand attitudes (Wymer & Casidy, 2019). Low and Lamb (2000) reported a relationship among brand familiarity, brand quality, and brand attitudes. Familiarity with a charity facilitates the formation of attitudes towards that charity. The more one knows about a charity, the more one can determine the degree to which that charity is perceived favorably (Junior Ladeira et al., 2022). However, the more remarkable a charity is perceived to be, the more brand remarkability positively influences brand attitudes. Brand familiarity may have a positive influence on brand attitudes. However, that familiarity helps to shape perceptions of brand remarkability. As one becomes more familiar with an organization, one's perception of the organization's exceptionalism can influence the valence and magnitude of brand attitudes. The formation of strong positive charity attitudes requires an audience to be somewhat familiar with a charity and then perceive the charity to be exceptional (Werke & Bogale, 2023).

*H6*: Brand remarkability moderates brand familiarity's influence on brand attitudes.

### *Evoked Sympathy*

Evoked sympathy refers to the stimulation of individuals' feelings of pity and sorrow for the misfortune of victims featured in a fundraising appeal. It is an emotional response that is elicited in individuals when they witness or learn about misfortune or suffering (Vossen, Piotrowski, & Valkenburg, 2015). Charity advertising often seeks to stimulate sympathetic feelings among audience members for the unfortunates featured in charity fundraising ads (Wymer & Gross, 2023). Studies have reported that evoking feelings of pity for a victim influences donation intentions (Baberini et al., 2015; Bae, 2019; Homer, 2021; Sudhir, Roy, & Cherian, 2016).

Although portraying victims or suffering is often used in charity appeals, its use has been criticized as exploitative (Ong, 2015). If audiences perceive the charity to have manipulative intentions, the audiences' responses may be negatively affected (Kang, Leliveld, & Ferraro, 2022). Generally, however, charities feel that evoking audience sympathy is important in motivating donations that can help victims (Homer, 2021). In their analysis of charity ads, Mittelman and Neilson (2011) reported that the ads tended to show the hardships faced by victims but did not exceed the limit into what might be considered exploitative. The somewhat negative evoked emotion is often coupled with positive message framing to show the potential ameliorative effects for the victims from audience support (Wymer & Gross, 2023). Although evoked sympathy is commonly used in charity advertising, audiences are also influenced by audience attitudes toward the charity (Wymer & Gross, 2023). Hence, it is likely that the appeal's ability to evoke sympathy will interact with the audience's perceived charity brand attitudes.

*H7: Evoked sympathy moderates the influence of brand attitudes on audience support intentions.*

### *Perceived Donor Risk*

Perceived donor risk refers to the degree to which a person believes it is likely that something unfavorable may happen if a donation is made (Wymer & Najev Čačija, 2023). Perceived risk that the charity will not use the donation properly or effectively may negatively influence donation intentions (Exley, 2016). Beldad et al. (2014) found that perceived risk of donating negatively influences repeat donation intentions. The influence of perceived donor risk on charity donations may explain why trust has been found in the literature to be associated with donation behavior (Chapman et al., 2021; Werke & Bogale, 2023).

There is an antagonistic relationship between trust and risk (Paulssen et al., 2014). As trust increases, perceived risk decreases; and as trust decreases, perceived risk increases. Prior brand research has reported this antagonistic relationship between brand image/reputation and customer trust (Power et al., 2008; Zatwarnicka-Madura et al., 2016). In the fundraising literature, trust in a charity's brand has been found to influence donation intentions (Bilgin & Kethüda, 2022). When individuals have favorable brand attitudes, they are more likely to perceive it as trustworthy (Srivastava, 2020). Favorable brand attitudes reduce audience skepticism and help build confidence in the organization's ability to effectively use donations (Lopes et al., 2024). Based on the prior literature, it is reasonable to predict that perceived donor risk will interact with brand attitudes' influence on audience support intentions. That is, as perceived donor risk increases, the influence of brand attitudes on audience support intentions should decrease.

*H8: The influence of brand attitudes on audience support intentions is negatively moderated by perceived brand trust.*

### *Value Congruence*

Value congruence refers to individuals' perceptions of the degree to which their values are like those of an organization, such as a charity presenting a donation appeal (Peng, Pandey, & Pandey, 2015; Wymer, Becker, & Boenigk, 2021). Prior research has reported that value expressive attitudes are key determinants of volunteering and donating to charities (Sneddon, Evers, & Lee, 2020). People are more likely to donate to organizations that align with their own values (Gardner & Pierce, 2022; van Dijk et al., 2019). Conversely, the discovery of an incongruence between a charity's values and supporters' values can lead to negative outcomes (Sanderson, 2021).

An organization's brand is a manifestation of stakeholder group perceptions of how they conceive the organization (Wymer et al., 2016). An organization's values are included in audience perceptions of their conceptualizations of the organization, the organization's brand (Sargeant et al., 2008). In the consumer behavior literature, the value congruence between consumers and a brand influences the consumer-brand relationship quality (Elsharnouby et al., 2024). You and Hon (2021) reported that a company's reputation interacted with value congruence to stimulate favorable word-of-mouth referrals from consumers.

With respect to charities, people form attitudes about a charity based on their perceptions of its values and how they are reflected in its brand (da Silva et al., 2020). Hence, there is likely an interaction effect between brand attitudes and value congruence. Brand attitudes are likely to be influenced by an individual's attitudes toward the values inherent in the brand's meaning. A perceived value congruence between an individual and a nonprofit brand may amplify the influence of brand attitudes.

*H9:* The influence of brand attitudes on audience support intentions is moderated by value congruence.

### *Audience Support Intentions*

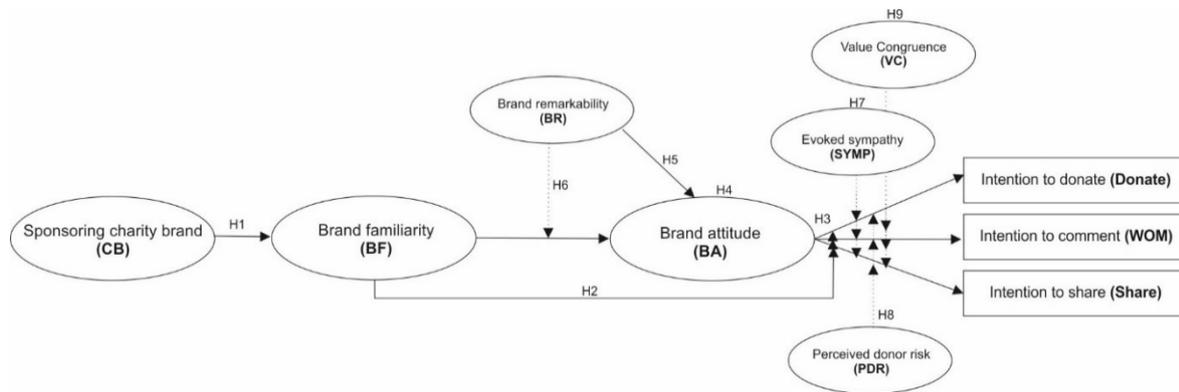
Outcomes are the desired effects from an organization's communication activities. In practice, charities use marketing activities to attain desired benefits or outcomes, such as persuading audience members to provide support. Charities seek support from individuals in a variety of ways like donating, volunteering, word-of-mouth referrals, and so forth (Peloza & Hassay, 2007).

We follow examples in prior nonprofit marketing research to include multiple outcome variables to enrich our understanding of phenomena under investigation (Bennett & Barkensjo, 2005; Wymer & Rundle-Thiele, 2016). In our study, we include three audience support intention variables from Wymer and Yacout (2024). They are donation intentions, positive word-of-mouth (WOM) intentions, and social media sharing intentions. Behavioral intentions are one of the most widely used constructs in consumer research and one of the best predictors of behavior (Lee, Kotler, & Colehour, 2024; Morwitz & Munz, 2021). Donation intentions are the most used outcome variable in prior charity advertising research (Wymer & Gross, 2023).

Donation intentions refer to individuals' plans to donate money to the sponsoring charity (Kashif et al., 2015). Positive word-of-mouth (WOM) intentions refers to individuals' plans to make positive comments and referrals to others about the charity and its campaign (Schlesinger et al., 2023). Social media sharing intentions refers to individuals' plans to share the campaign appeal on their social media pages (Kim et al., 2020).

To attain our desired contributions to gaps in this research stream, we developed and tested the conceptual model presented in Figure 1.

**Figure 1.** Conceptual model



Next, we report a study we conducted to test these hypothesized relationships.

### Methods and Procedures

Data collection procedures were approved by the appropriate ethics review board. We used a one-minute video fundraising appeal and created two versions of the appeal by using a different charity sponsor in each. World Wildlife Fund (WWF), a well-known and established charity brand used in prior research (Wymer, McDonald, & Scaife, 2014; Wymer, Gross, & Helmig, 2016) was selected as the well-known charity brand. For the unknown charity brand, we created a fictitious charity, CharityShare (CS). We used the same video fundraising appeal for each ad. The ads were identical except for the sponsoring charity name and logo. Respondents were randomly split to view one of the two appeals and then completed the corresponding questionnaire. After viewing the informed consent statement, participants viewed a video that played to its end before allowing participants to proceed to the control question, “Who was the sponsor of the appeal?”. Only cases with the correct answer on the control question were considered for further analysis. The two ads were operationalized as a dichotomous dummy variable (code 1 for WWF and code 0 for CS). To check that the two-subgroups only differed with respect to the charity ad they viewed, socio-demographic characteristics were compared. No significant differences were found.

### Sample and questionnaire

A questionnaire was created using the Qualtrics online survey tool. An informed consent statement was included, discussing the study’s purpose, and assuring the participants’ anonymity. Invitations to participate were sent via email and social networks, creating a convenience sample using a snowball sampling approach, which can be defended since cognitive processes being investigated are equally valid for each person (Leiner, 2017) and since snowball sampling has been used in other nonprofit and fundraising related studies (Cao, 2016; Asante et al., 2021). A starting point in snowball sampling was the authors’ peer network, as referrals (Fricker, 2016), known to be supporters of various nonprofit activities. In total, 350 participants enrolled; 60 either did not consent or did not proceed after watching the video. Furthermore, 19 cases with missing answers on more than 20% of questions were excluded, and five more were excluded as error outliers. The final size contained data from 266 respondents (N=266). Respondents ranged in age from 18 to 75, with mean age of 40.2 years, with 71.4 % being female. Respondents’ education levels were 15 % with high school diplomas, 10% with undergraduate degrees and 75% with master or postgraduate degrees. Approximately 81% of respondents resided in Southeast Europe. With respect to political orientation, respondents’ mean score was approximately neutral (mean value 3.81 on a scale from 1 to 7), not identifying as politically left or right.

**Table 1.** Measurement scales descriptives

code	Constructs and items	Mean	SD	Loading	Weights	t values	Cronbach Alpha
	<b>Brand familiarity (BF)</b>						0.882
bf1	I am knowledgeable about WWF (or) CS activities.	3.5	1.987	0.895	0.328	15,683	
bf2	I can describe WWF (or) CS to others.	3.85	1.894	0.890	0.390	17,576	
bf3	I have a good understanding of what WWF (or) CS has done in the past.	3.03	1.801	0.911	0.394	21,170	
	<b>Brand remarkability (BR)</b>						0.926
br1	No organization is better than WWF (or) CS at doing what it does.	3.95	1.381	0.913	0.323	28,083	
br2	WWF (or) CS really stands apart as being exceptional.	4.19	1.505	0.939	0.372	31,428	
br3	WWF (or) CS stands out in comparison to others.	4.36	1.506	0.948	0.376	35,068	
	<b>Brand attitude (BA)</b>						0.907
ba1	I have positive thoughts when I think of WWF (or) CS.	5.38	1.166	0.907	0.362	30,599	
ba2	I like WWF (or) CS.	5.32	1.136	0.924	0.361	30,098	
ba3	I have a positive impression about WWF (or) CS.	5.44	1.165	0.923	0.366	32,766	
	<b>Value congruence (VC)</b>						0.844
vc1	WWF (or) CS and I have similar values.	5.32	1.064	0.814	0.392	11,095	
vc2	The purpose for which funds are being raised represents values that are important to me.	5.65	1.039	0.896	0.337	11,930	
vc3	Supporting this campaign is consistent with my values.	5.63	1.042	0.907	0.418	14,974	
	<b>Perceived donor risk (PDR)</b>						0.844
pdr1	I believe WWF (or) CS will misuse the funds it raises.	3.14	1.507	0.849	0.323	9,873	
pdr2	I believe WWF (or) CS will not effectively use the funds it raises.	3.48	1.493	0.876	0.362	11,169	
pdr3	I am hesitated to share this campaign with friends because it could be a scam.	3.44	1.776	0.890	0.459	12,987	
	<b>Evoked sympathy (SYM)</b>						0.913
sym1	I feel bad for the tiger in the fundraising appeal.	6.03	1.007	0.897	0.334	8,595	
sym2	I feel pity for the tiger in the fundraising appeal.	6.09	0.969	0.929	0.338	9,665	
sym3	I feel sorrow for the tiger in the fundraising appeal.	6.08	0.964	0.942	0.410	12,568	
	<b>Intention to donate (Donate)</b>						
donate	If this were a real campaign, I would contribute a donation.	4.66	1.435				
	<b>Intention for positive eWOM (WOM)</b>						
Share	If this were a real campaign, I would make a favorable comments about this campaign on my social networks.	4.39	1.527				
	<b>Intention to share on social media (Share)</b>						
WOM	If this were a real campaign, I would share this campaign on my social media pages.	4.33	1.642				

### Measures

Scales developed by Wymer et al., (2016) were used to measure brand familiarity (BF), brand remarkability (BR), and brand attitudes (BA). The value congruence (VC) scale was adapted from Peng et al. (2015) based on O'Reilly & Chatman (1986). The evoked sympathy (SYM) scale

was created based on Vossen et al. (2015). The perceived donor risk (PDR) scale was adapted from Hou et al. (2017) and Lee (2009). Scale items were measured using 7-point Likert scales ranging from 1 (completely disagree) to 7 (completely agree).

*Analysis*

We employed variance-based partial least squares structural equation modelling (PLS-SEM) as a preferred method for exploratory research for theory development (Hair et al., 2019). PLS-SEM is robust for small-size samples, models with single and multi-item constructs (Chin, 2010), and for non-normally distributed data (Hair et al., 2019). PLS-SEM is a frequently used method in research dealing with donors’ behavior and attitudes that include complex structural models (Bin-Nashwan et al., 2022; da Silva et al., 2020; Wymer et al., 2021; Chen et al., 2019). SmartPLS 4.0 software was used for analysis (Ringle, Wende & Becker, 2024).

Minimal sample size was calculated with the inverse square root method (Kock & Hadaya, 2018) on a level of a minimal expected path of 0.2, indicating sample size adequacy (266 cases obtained compared to 155 needed). The dataset was checked for missing values, and eight missing values were replaced with a mean value of the represented item. Since histograms indicated no highly asymmetric parameter distribution, the nonparametric percentile bootstrapping method was used with 266 cases and 10,000 sub-samples (Becker et al., 2023).

To avoid the threat of common method bias, a procedure proposed by Podsakoff et al. (2003) was applied with temporal, proximal, and psychological separation of independent and dependent variables in the questionnaire, followed with Harman’s single-factor test (Kock, 2015). Results of unrotated principal component analysis revealed the first factor accounted for 41.52 % of the variance, below the threshold of 50% (Kock, 2020). Hence, common method bias was not a concern. Variance inflation factor (VIF) values of the outer and inner model were analyzed, with all values below the cut-off value of 3.3. for the inner model and all values for the outer model below the 5.0. Hence, collinearity issues were not a concern. In the next phase, the measurement model was estimated following the steps proposed by Chin (2010) and Hair et al. (2019).

**Measurement model**

The PLS analysis of the measurement model included validity and reliability checks, revealing a good fit of the data with the model. All factor loadings and Cronbach alphas were above the threshold of .70 (Hair et al., 2019). Composite reliability scores range from .905 to .953, which are above the .7 cutoff (Hair et al., 2019).

**Table 2.** Discriminate validity

	BA	BF	BR	PDR	SYM	VC
BA	<b>0.918</b>	<i>0.664</i>	<i>0.708</i>	<i>0.700</i>	<i>0.280</i>	<i>0.628</i>
BF	<i>0.597</i>	<b>0.899</b>	<i>0.656</i>	<i>0.551</i>	<i>0.139</i>	<i>0.303</i>
BR	<i>0.651</i>	<i>0.597</i>	<b>0.933</b>	<i>0.579</i>	<i>0.142</i>	<i>0.303</i>
PDR	<i>-0.619</i>	<i>-0.486</i>	<i>-0.517</i>	<b>0.872</b>	<i>0.170</i>	<i>0.390</i>
SYM	<i>0.256</i>	<i>0.124</i>	<i>0.129</i>	<i>-0.145</i>	<b>0.923</b>	<i>0.505</i>
VC	<i>0.553</i>	<i>0.267</i>	<i>0.314</i>	<i>-0.328</i>	<i>0.444</i>	<b>0.873</b>

*Note: Square root of average variance extracted (AVE), in bold and grey, are diagonal elements; above the diagonal, in italics, are HTMT values and below the diagonal is the latent variable correlation matrix.*

With respect to the measurement model’s convergent and discriminant validity, the average variance extracted (AVE) are above the 0.50 cutoff, supporting convergent validity (Hair et al., 2019). Discriminant validity was checked with the Fornell-Larcker criterion, finding each construct’s square root of AVE higher than the correlation with other constructs and the heterotrait-monotrait (HTMT) ratio of correlation below .90 (Chin, 2010), as presented in Table 2.

*Structural model*

Assessment of the structural model was conducted following the procedure recommended by Hair et al. (2019) and Sarstedt et al. (2022): examining the coefficients of determination ( $R^2$ ), redundancy measures ( $Q^2$ ), and significance and relevance of the path coefficients. Out-of-sample predictive power was evaluated using the PLSpredict procedure (Shmueli et al., 2019).

The  $R^2$  values for brand attitudes and outcomes ranged from .322 to .503, indicating model explanatory power is moderate. Model predictive relevance was assessed focusing on audience support intentions as three single-item variables.  $Q^2$  values were higher than 0 for all latent constructs, confirming the predictive relevance of the model. In the final step, predictive power of the model was assessed by comparing PLS-SEM RMSE values with the naïve (linear regression model) benchmark (LM RMSE) for key endogenous constructs. Results showed lower or equal values of PLS-RMSE for two (Donation and WOM) out of three dependent constructs compared to the naïve LM benchmark, therefore, the majority.

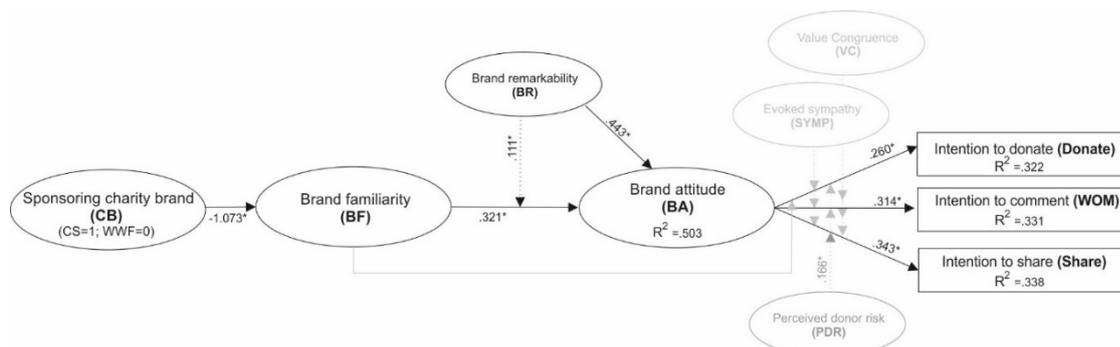
*Robustness check*

To validate our results’ robustness (Hair et al., 2019; Guenther et al., 2023; Sarstedt et al., 2020), additional tests were conducted on the structural model (Hair et al., 2019), including tests for nonlinearity, endogeneity, and heterogeneity (Sarstedt et al., 2020).

All quadratic effects of paths were insignificant ((QE)  $BF \rightarrow BA$  (.129); (QE)  $BA \rightarrow$  Donate (.881), WOM (.087), Share (.830)), offering proof for the linear effect’s robustness (Sarstedt et al., 2020). Endogeneity was checked with the Gaussian copula approach. P-values of all 18 regression models were nonsignificant, indicating no endogeneity issues. Unobserved heterogeneity was assessed following the procedure applied by Sarstedt et al. (2020). Results were analyzed based on several indicators and the suggested number of segments. Akaike’s information criterion (AIC) and AIC with factor 3 ( $AIC_3$ ) pointed to a 3-segment solution. Consistent AIC ( $CAIC$ ) pointed to a 2-segment solution, and finally, minimum description length with factor 5 ( $MDL_5$ ) pointed to a 1-segment solution. Results are ambiguous, varying from 1 to 3 segments, indicating that unobserved heterogeneity is not at a critical level (Sarstedt et al., 2020).

The proposed structural model with significant standardized path coefficients and  $R^2$  values is presented in Figure 2 and hypothesis testing results are presented in Table 3.

**Figure 2.** Structural model, with significant path estimates



**Table 3.** Structural model analysis and hypotheses testing

Hypotheses	Relationship	Path coefficient/ $\beta$	Mean	SE	t value	p value	BCCI 2.5%-97.5% (two-tailed test)	f <sup>2</sup> values	Decision
Direct effects									
<b>H1</b>	<b>CB -&gt; BF</b>	<b>1.073</b>	<b>1.076</b>	<b>0.096</b>	<b>11.199</b>	<b>0.000</b>	<b>0.869</b> <b>1.245</b>	<b>0.404</b>	<b>Supported</b>
H2 a	BF -> Donate	0.009	0.009	0.064	0.146	0.887	-0.119   0.133	0.000	Not supported
H2 b	BF -> Share	0.001	0.001	0.058	0.014	0.989	-0.113   0.115	0.000	Not supported
H2 c	BF -> WOM	0.012	0.010	0.066	0.169	0.866	-0.122   0.134	0.000	Not supported
<b>H3 a</b>	<b>BA -&gt; Donate</b>	<b>0.260</b>	<b>0.253</b>	<b>0.084</b>	<b>3.102</b>	<b>0.002</b>	<b>0.088</b> <b>0.420</b>	<b>0.057</b>	<b>Supported</b>
<b>H3 b</b>	<b>BA -&gt; Share</b>	<b>0.343</b>	<b>0.339</b>	<b>0.082</b>	<b>4.186</b>	<b>0.000</b>	<b>0.188</b> <b>0.509</b>	<b>0.094</b>	<b>Supported</b>
<b>H3 c</b>	<b>BA -&gt; WOM</b>	<b>0.314</b>	<b>0.311</b>	<b>0.087</b>	<b>3.623</b>	<b>0.000</b>	<b>0.146</b> <b>0.486</b>	<b>0.067</b>	<b>Supported</b>
<b>H5</b>	<b>BR -&gt; BA</b>	<b>0.443</b>	<b>0.4446</b>	<b>0.063</b>	<b>6.854</b>	<b>0.000</b>	<b>0.306</b> <b>0.563</b>	<b>0.265</b>	<b>Supported</b>
Mediation effects									
<b>H4 a</b>	<b>BF -&gt; BA -&gt; Donate</b>	<b>0.083</b>	<b>0.080</b>	<b>0.030</b>	<b>2.763</b>	<b>0.006</b>	<b>0.033</b> <b>0.155</b>		<b>Supported</b>
<b>H4 b</b>	<b>BF -&gt; BA -&gt; Share</b>	<b>0.110</b>	<b>0.108</b>	<b>0.033</b>	<b>3.356</b>	<b>0.001</b>	<b>0.058</b> <b>0.190</b>		<b>Supported</b>
<b>H4 c</b>	<b>BF -&gt; BA -&gt; WOM</b>	<b>0.101</b>	<b>0.100</b>	<b>0.034</b>	<b>2.958</b>	<b>0.003</b>	<b>0.046</b> <b>0.184</b>		<b>Supported</b>
Moderation effects									
<b>H6</b>	<b>BR x BF -&gt; BA</b>	<b>0.111</b>	<b>0.112</b>	<b>0.049</b>	<b>2.277</b>	<b>0.023</b>	<b>0.009</b> <b>0.202</b>	<b>0.024</b>	<b>Supported</b>
H7 a	SYM x BA -> Donate	-0.013	-0.015	0.074	0.179	0.858	-0.159   0.130	0.000	Not supported
H7 b	SYM x BA -> Share	0.012	0.013	0.063	0.195	0.845	-0.115   0.132	0.000	Not supported
H7 c	SYM x BA -> WOM	0.043	0.045	0.060	0.712	0.477	-0.074   0.162	0.002	Not supported
H8 a	PDR x BA -> Donate	0.119	0.114	0.067	1.787	0.074	-0.022   0.240	0.016	Not supported
H8 b	PDR x BA -> Share	0.166	0.164	0.056	2.952	0.003	0.053   0.274	0.031	Not supported
H8 c	PDR x BA -> WOM	0.045	0.041	0.058	0.772	0.440	-0.070   0.156	0.002	Not supported
H9 a	VC x BA -> Donate	0.091	0.086	0.085	1.073	0.283	-0.075   0.258	0.008	Not supported
H9 b	VC x BA -> Share	0.037	0.034	0.067	0.548	0.584	-0.094   0.165	0.001	Not supported
H9 c	VC x BA -> WOM	0.053	0.049	0.062	0.868	0.386	-0.069   0.170	0.003	Not supported

As predicted in H1, the established brand (WWF) exerted a stronger influence than the fictitious brand (CS) on brand familiarity, ( $\beta=1.073$ ,  $t=11.199$ ,  $p=.000$ ), supporting H1. Since we intended to explore direct and indirect effects of brand familiarity (BF) on audience support intentions, both relationships were included in the model, not examining the path significance of direct relationship a priori (Nitzl et al., 2016). Brand familiarity significantly and positively influences brand attitudes ( $\beta=.318$ ,  $t=5.179$ ,  $p=.000$ ), and brand attitudes significantly and positively influences audience support intentions: Donate ( $\beta=.260$ ,  $t=3.101$ ,  $p=.002$ ), Share ( $\beta=.343$ ,  $t=4.198$ ,  $p=.000$ ) and WOM ( $\beta=.315$ ,  $t=3.640$ ,  $p=.000$ ), confirming H3. In comparison, brand familiarity's direct effect on audience support intentions is not significant: Donate ( $\beta=.009$ ,  $t=.146$ ,  $p=.887$ ), Share ( $\beta=.001$ ,  $t=.014$ ,  $p=.989$ ) and WOM ( $\beta=.012$ ,  $t=.169$ ,  $p=.866$ ), therefore H2 was not supported. All specific indirect effects are significant, with path coefficient values ranging from .083 to .110 (see Table 3). Accordingly, results indicate that the influence of brand familiarity on our audience support intentions is fully mediated through brand attitudes, supporting H4. The direct proposed relationship between brand remarkability and brand attitudes was also significant ( $\beta=.443$ ,  $t=6.854$ ,  $p=.000$ ), supporting H5.

We predicted four moderation relationships. Evoked sympathy (SYMP), value congruence (VC), and perceived donor risk (PDR) were hypothesized to moderate the influence of brand attitudes (BA) on audience support intentions (Donate, Share, WOM). Brand remarkability (BR) was hypothesized to moderate the influence of brand familiarity on brand attitudes. We find that two hypothesized moderation effects were significant (BR x BF  $\rightarrow$  BA;  $\beta=.111$ ,  $P=.023$  and PDR x BA  $\rightarrow$  Share;  $\beta=.166$ ,  $P=.003$ ). Hence, brand remarkability has a positive moderation effect on BF  $\rightarrow$  BA, supporting H6. Surprisingly, perceived donor risk had a significant moderation effect on BA  $\rightarrow$  Share, but in a positive direction rather than a negative direction, as predicted, and H8 is not supported.

## **CONCLUSIONS AND DISCUSSION**

This research contributes to the literature by furthering our knowledge of the influence of certain brand constructs on audience support intentions. Our findings show that brand familiarity influences our outcome variables through its influence on brand attitudes. Brand familiarity's effects on audience support intentions are fully mediated through brand attitudes. Our findings add to prior literature reporting on the beneficial audience effects of brand familiarity (do Paço, Rodrigues, & Rodrigues, 2014; Ha, Pham, & Lee, 2022; Rim, Yang, & Lee, 2016). These findings, like those of Wymer and Yacout (2024), suggest that familiarizing audiences with a charity improves brand attitudes and should enhance fundraising appeals. This is somewhat true, but it is a more complex relationship. Our findings contribute to prior research by finding that brand remarkability moderates the influence of brand familiarity on brand attitudes. Our findings suggest that as a charity becomes better known to an audience, and as the charity is perceived to be exceptional and extraordinary, our audience's attitudes toward the charity become more favorable. As brand attitudes improve, the fundraising appeal becomes more effective. Conversely, as audience members become more familiar with a charity, they may perceive the charity to be average or below average, in comparison with other, similar charities (low brand remarkability). This would reduce the magnitude of brand attitudes and its influence on audience outcomes.

As one purpose of this research was to replicate the findings of Wymer and Yacout (2024), we will elaborate a comparison of our study with theirs. Brand attitudes had a significant influence on audience outcomes in both studies. In both studies, brand familiarity's influence on audience outcomes was mediated through brand attitudes. Brand remarkability's influence on audience outcomes was mediated by brand attitudes in both studies. A contribution of our study was that we found that brand remarkability moderated brand familiarity's influence on brand attitudes, a relationship which was not examined in Wymer and Yacout (2024).

Much of charity advertising is grounded on the belief that evoking an emotional response increases an audience's responsiveness to the ad (Wymer & Gross, 2023). The evoked emotion is often sympathy for the featured victims in the charity ad/appeal. We, therefore, included

evoked sympathy as a potential moderator in our conceptual model. We found that evoked audience sympathy was not a significant moderator of brand attitudes' influence on audience support intentions. Perhaps a greater emphasis should be placed on strengthening the charity's reputation (brand remarkability) and becoming better known to the priority audience (brand familiarity) as a means of improving the effectiveness of charity efforts to attract and retain support. It may be that the influence of brand attitudes is substantially greater than evoked sympathy. Future research could enhance our understanding of the relationship between charity brand attitudes and audience evoked emotions for charity appeal effectiveness.

Prior research has shown that civic participation and charity support are value expressive behaviors (Clary et al., 1998; Kropp, Holden, & Lavack, 1999). Hence, we included value congruence as a moderator in our conceptual model. Contrary to our prediction, value congruence was not found to be a significant moderator. In interpreting this result, we posit that value congruence's effects, if any, were markedly less than brand attitudes or that audience members' value congruence are accounted for in their perceived brand attitudes. Future research is needed to clarify our understanding on this issue.

We also examined the influence of perceived donor risk in our conceptual model. We found that perceived donor risk had an anomalous positive moderating effect on brand attitudes influence on social media sharing intentions rather than the negative effect we predicted. In general, perceived donor risk did not have a meaningful influence within our conceptual model. In considering explanations for this finding, it may be that since respondents knew they were not actually going to donate money, they did not really incorporate risk into their response considerations. It may also be that the positive charity ads and WWF's good reputation were perceived favorably and did not evoke any meaningful risk threat among audience members. Future research could clarify the relationship between brand attitudes and perceived donor risk.

### *Managerial implications*

Our findings support the potential efficacy of nonprofit leaders adopting a brand orientation (García-Madariaga et al., 2024). Nonprofit managers may benefit by developing and implementing a brand strategy (Ha et al., 2022). Becoming a strong brand facilitates supporter cultivation, retention, and commitment. Brand strength has a leveraging effect on an organization's marketing activities (Wymer, 2015). Our findings show that brand familiarity and brand remarkability both influence brand attitudes, which enhances a charity's appeal for support.

Management practices for strengthening brands begin with increasing brand remarkability. If audience members are familiar with an organization, would they describe it in superlative terms? To increase brand remarkability, nonprofit managers should engage in a program of continuous improvement in ways that enhance stakeholders' perceptions of the organization's exceptionalism and superiority (Wymer & Yacout, 2024).

Our findings show that brand remarkability interacts with brand familiarity's influence on brand attitudes. Brand attitudes, in turn, influence audience support intentions. Ideally, nonprofit managers should aim for high levels of both brand remarkability and brand familiarity as strategic marketing objectives. We recommend that managers emphasize increasing brand remarkability first and then focus on increasing brand familiarity. It is desirable to familiarize audiences with an organization through exposure to communications emphasizing the excellence of the organization. It is also important for managers to ensure stakeholders have favorable experiences (brand experience). Brand experiences are assimilated with other brand-related information to form brand familiarity and brand remarkability perceptions.

*Limitations and future research*

We hope our findings will inspire future research. Other brand constructs can be examined for their respective influences, such as brand authenticity, brand experience, brand preference, brand salience, brand identification, or brand loyalty. Brand remarkability serves such an important role in establishing a strong brand that future research discovering brand remarkability's antecedents would be edifying. The relationship between an organization's managerial orientation, such as a marketing orientation, and its emphasis on engaging and influencing external audiences would also contribute to our knowledge of nonprofit marketing.

Social media is now dominating the communication space and more needs to be known about how to be effective (attain desired audience outcomes) using it. Extant research has made clear the importance of getting one's message/appeal supported within social networks by motivating audience members to (1) make favorable comments about a charity's posting, and (2) share a charity's message/appeal within their own social networks. The growing importance of social media motivated us to include positive WOM intentions and social media sharing intentions as outcome variables in our conceptual model. We encourage other researchers to include relevant social media constructs in their own conceptual models to further enhance our understanding on social media marketing for nonprofit organizations.

The symbiotic roles of trust and risk need further exploration to understand their conceptualizations and relationships more fully. Does risk act as an intention inhibitor and trust act as a motivator? Are they mutually exclusive constructs or do they exist on different poles within the domain of a higher order construct? Is trust a hygiene factor, for which a positive value is a necessary but insufficient determinant of donation intentions? In this study, our moderation predications for perceived donor trust were not supported. We posit that perceptions of trust may be embedded in brand attitudes and, hence, offset perceived donor trust, but this is speculation, and future research is needed to better understand this relationship.

With respect to charity advertising, more needs to be understood about the audience influences of focal constructs like brand familiarity and evoked sympathy. The mechanisms of how the constructs exert their audience effects are not well understood. Some constructs may stimulate attention to further processing of the appeal. Other constructs may motivate compliance with a charity appeal. Mere exposure effects are not often examined because of the added complexity in research designs. Repeated exposure effects of a charity ad may accentuate construct influences, bringing greater clarity in understanding construct relationships.

Like all research, ours has limitations and our results should be interpreted accordingly. We collected data using a sample of 266 respondents that were not randomly selected. Hence, our convenience sample may not be representative of the general population. Given the modest sample size, our statistical power was also modest, meaning that small but significant relationships existing in the data may not have been detected. The external validity and, hence, the generalizability of our findings will be made clearer over time with future research replicating and extending our results using data from diverse samples.

An important limitation of this study relates to the experimental manipulation with the use of a real brand (WWF) versus a fictitious brand (CharityShare), which could affect not only familiarity but also other constructs of the proposed model. These unintended effects could partially affect the comparability of the groups and should be taken into account when interpreting the results. In future studies, several real and fictitious brands should be included in order to better isolate the influence of brand familiarity and at the same time minimize the influence of other constructs.

Finally, in this study, our proposed moderators were not found to have significant relationships as predicted. One possible explanation for these nonsignificant findings is that there are no true moderation relationships as predicted. Another possible explanation is that there are true moderation effects, but that they are too weak to be detected in our analysis (insufficient statistical power, small true effect sizes, practical effects too small relative to noise). To detect

very small true effect sizes would require very large samples, and such weak relationships would have limited practical value. Yet another possible explanation for nonsignificant moderation effects might be a manifestation of measurement problems. We consider this an unlikely possibility given that our measurement model evaluation showed favorable measurement properties. Furthermore, the face validity of our measurement scales indicates their appropriateness in covering their respective constructs' conceptual domains.

## Disclosure Statement

The author(s) declare that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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## Author Biographies

**Ljiljana Najev Čačija** is an Associate Professor of Marketing at the Faculty of Economics, Business and Tourism, University of Split, Croatia. Her research focuses on nonprofit marketing, philanthropy, educational marketing, and social entrepreneurship.

**Walter Wymer** is a Professor of Marketing at the Dhillon School of Business, University of Lethbridge, Canada. His research focuses on nonprofit marketing topics, philanthropy, and giving behaviour.

# **Navigating Legitimacy and Resource Constraints: A Typology of Organizational Forms and Resource Mobilization Strategies Among Chinese Social Enterprises**

*Dr. Rong Wang - Vanderbilt University*

Social enterprises (SEs) engage in business activities to address social issues and fulfill social missions. Existing literature has mainly focused on a resource-oriented perspective, assuming that SEs either have or do not have resources. Therefore, we know very little about SEs in non-munificent institutional environments. Drawing on resource dependence theory and the bricolage framework, this study analyzes how SEs in China strategically select organizational structures to navigate legitimacy and resource challenges. Findings reveal that nonprofit SEs often employ social bricolage to enhance community engagement and visibility, while certified SEs leverage diverse partnerships for resource acquisition. In contrast, for-profit SEs face unique challenges in building organizational legitimacy but can access private sector resources through their business-oriented status. This research underscores the importance of tailoring strategies to maximize legitimacy and resource mobilization in the pursuit of social impact.

Social Enterprises, China, Bricolage, Resource Dependence Theory, Interorganizational Partnerships

## **Introduction**

Social enterprises (SEs) are organizations that engage in business activities to address social issues and fulfill social missions (Mair & Marti, 2006). SE organizations have hybrid organizational forms due to the coexistence of traditional business models and the goal of creating social values (Doherty et al., 2014). They span the boundaries of the private, public, and nonprofit sectors, thus facing multiple and conflicting institutional logics (Pache & Santos, 2012). Nevertheless, evidence has shown SEs bring contributions to local communities and particularly socioeconomically disadvantaged people, with empirical support from both developing and developed countries (Kerlin et al., 2021; Powell & Barry, 2021). As argued by Chandra and Paras (2021), SEs could fulfill demands for public goods left unsatisfied by the government.

According to a resource-oriented framework, SEs either have or do not have resources, leading to the under-investigation of non-munificent institutional environments where social enterprises

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can still emerge (Baker & Nelson, 2005). Tauber (2021) suggests that SEs in a non-munificent institutional environment need to be redefined and examined in a country's specific context to uncover their objectives and functions. China has a non-munificent institutional environment for social entrepreneurship due to the legacy of a historically planned economy model and a lack of a vibrant civil society sector. At the same time, the recent transformation in China affords potential opportunities for social entrepreneurship endeavors to address neglected social problems with positive externalities (Santos, 2012). These social problems could range from migrants' rights, elderly care, and equitable employment for people with disability, to affordable health care (Chen et al., 2019). China has been witnessing rising SEs formed to serve the most vulnerable population in the past decade (Yu, 2019).

The institutional environment in China poses a dilemma in understanding the emergence of SEs, which centers on two issues: *legitimacy* and *resources*. First, organizational legitimacy is defined as the degree to which a set of established cultural accounts provide an explanation for an organization's existence, operation, and jurisdiction (Meyer & Scott, 1983). Achieving organizational legitimacy is crucial, as it entails that no questions would be raised about the organization. In the Chinese context, the understanding and acceptance of SEs are pivotal, particularly given the general public's conflicting views on this model, which can significantly influence their legitimacy (Chandra & Wong, 2016). Second, the issue of resources is critical, particularly for traditional Chinese nonprofits, which struggle with resource independence due to their heavy reliance on government funding, and the complex regulation surrounding their registration (Yang et al., 2016). This dependence restricts their operational flexibility and ability to innovate. In response to these challenges, SEs have emerged as a new organizational form designed to survive competitive funding environments, aiming to create social value through profitable business operations (Wang et al., 2016). In summary, the intertwining issues of organizational legitimacy and resource dependency critically shape the emergence and acceptance of SEs in China.

Guided by resource dependence theory and the bricolage framework, this study examines the following research questions: How do SEs determine which organizational form to adopt to obtain legitimacy for their operations?; What strategies do SEs use to acquire and mobilize resources?; and How do these strategies vary based on the organizational form of the enterprise? This paper posits that the motivation for legitimacy influences the choice of organizational form, which in turn affects the legitimacy achieved by the organization. The goal of this study is twofold using China as a research context. First, it examines organizational forms that SEs in China adopt to obtain legitimacy for their operation. Second, it investigates how SEs use interorganizational partnerships as resource acquisition strategies and bricolage as resource mobilization strategies to survive in a non-munificent environment, and under what circumstances they employ different strategies to acquire and mobilize resources. With interview data from 14 social entrepreneurs located in China, this study first identified specific forms of organization Chinese SEs adopted and then discussed strategies they utilized to obtain legitimacy and to survive. We propose a typology of Chinese SEs to describe how different organizations may select among various resource utilization strategies to survive.

This study makes several contributions to the literature on social entrepreneurship. First, it examines how the non-munificent institutional environment may shape or constrain the various forms of SEs. Findings thus revealed the heterogeneity of organizational forms available in the process of obtaining legitimacy. Second, our findings offer suggestions on how to match organizational forms with specific strategies in utilizing resources that would not be available otherwise. The results also provide implications on the bricolage framework by emphasizing the role of cross-sectoral partnerships and technology use.

*Social Enterprises in Non-munificent Institutional Environments*

Social Entrepreneurship is broadly defined as the “innovative use of resource combinations to pursue opportunities aiming at the creation of organizations and/or practices that yield and sustain social benefits” (Mair & Noboa, 2006, p. 122). Simply put, it leverages commercial activity for social purposes, often focusing on local needs (Mair & Rathert, 2019). Entities engaged in social entrepreneurship could be individuals, groups, or organizations. This current study focuses on SEs that take on organizational forms, such as nonprofits or non-government organizations (NGOs), businesses, and B-corporations (Ko & Liu, 2021).

Social entrepreneurship is not unique to either developing or developed countries (Santos, 2012). Its global relevance rests on its proposed synergy of business and social missions to tackle local issues. However, scholars have admitted that theories on social entrepreneurship lag far behind their practices, as the nature of social entrepreneurship demonstrates institutional complexity. In particular, existing literature fails to address the intersections between institutions and SEs (Bhatt et al., 2019). Institutions refer to “clusters of norms with strong but variable mechanisms of support and enforcement that regulate and sustain an important area of social life” (Rueschemeyer, 2009, p. 210). From a resource-dependence perspective, the literature often assumes that SEs emerge with or without resources (Bake & Nelson, 2005). This results in a limited number of studies that investigated SEs in non-munificent institutional environments. Therefore, little is known regarding how SEs took place in emerging markets such as China.

Bhatt et al. (2019) identified the following institutional factors that could be used to define non-munificence: norms of a strong role for government, misperception of the role of SEs, non-supportive rules and regulations, and a lack of socio-cultural values and beliefs in support of social goals. They further pointed out that non-munificence for SEs goes beyond tangible material resources to public perception and wider support by stakeholders due to their focus on social missions. Studies on non-munificence have been conducted in various contexts, including developing countries, rural regions in a developed country, and indigenous communities (Mika et al., 2024; Rickett et al., 2017). We focus our review on studies in developing countries. Li et al. (2022) reported survey data collected from SEs in Pakistan and demonstrated that environmental factors (such as macroeconomic fluctuation and government regulation) could substitute the positive effect of SEs’ co-value creation activities on their growth. Truong and Barraket (2018) conducted a case study with SEs located in Vietnam, a country with a transitional economy. Drawing from interviews with SE founders and employees, they found that SEs in Vietnam face significant constraints of both financial and human resources and centralized power and lack of succession are potential vulnerabilities. These studies further suggest that non-munificence defined in terms of limited government support and unawareness could hinder the sustainability of SEs.

Scholars have argued that the non-munificent context of China offers a valuable opportunity to advance scholarship on SEs and identify purposive activities these organizations may undertake to address institutional challenges (Kerlin et al., 2021; Wang, 2022). Chandra et al. (2021) criticized that there has been a lack of novelty and new discovery in the Chinese SE scholarship that tends to focus on obvious factors from the eyes of the Western literature, which further warrants the need to examine strategies Chinese SEs leverage to navigate institutional challenges. The relevance of China as a case study in resource non-munificence is further emphasized by its unique institutional landscape characterized by strong government involvement and a rapidly evolving socio-economic environment. SEs in China must navigate a complex interplay of limited

government support, regulatory challenges, and societal perceptions, which significantly impacts their sustainability and growth, thereby offering a rich context to explore innovative strategies for overcoming these obstacles (Bhatt et al., 2019).

Compared to other parts of the world, the number of SEs in China still remains relatively low due to the long history of a planned economy model, stringent regulation of the non-government sector, and a general lack of social initiatives in the country (Yu, 2011). Since 2015, SEs in China have been experiencing fast growth. Certified SEs are now present in 27 out of a total of 34 provinces, municipalities, and special administrative regions across the country (China Charity Fair, 2019). Besides a large presence of SEs in tier 1 cities (such as Beijing, Shanghai, Guangzhou, Shenzhen), there are growing activities in newly minted tier 1 cities (such as Nanjing, Chengdu, Hangzhou, and Suzhou) and tier 2 cities (such as Wuhan, Kunming, and Changsha). The relatively developed social, economic, and cultural environments and supporting policies in larger cities may have contributed to these trends. In addition, the literature shows that policy support is pivotal in the development and growth of Chinese SEs (Ye, 2021). One thing worth noting is that emerging SEs in China have heavily focused on serving the most vulnerable populations in the country (Yu, 2013), tapping into resource niches largely ignored by government intervention in an era of rapid urbanization and globalization.

### *Organizational Forms and the Issue of Legitimacy*

Understanding the interplay between legitimacy and organizational forms is essential in the context of social entrepreneurship (Battilana & Lee, 2014). The motivation for legitimacy serves as a fundamental condition influencing the choice of organizational form (Suchman, 1995). Specifically, organizations motivated by a need to secure legitimacy strategically select their structural frameworks—whether nonprofit, for-profit, or hybrid models—to align with institutional expectations. This sequence—where motivation shapes form and, subsequently, affects legitimacy—provides a nuanced understanding of how SEs navigate their institutional environments (Dart, 2004).

To begin our understanding of how Chinese SEs may emerge, we first investigate the various organizational forms they may take on to address the challenge of institutional legitimacy. Organizations often need to fulfill expectations related to three types of legitimacy: pragmatic, moral, and cognitive (Suchman, 1995).

*Pragmatic legitimacy* is based on the need to maintain efficiency, effectiveness, and practicalness when considering the outcomes related to an organization's actions, decisions, and policies. For instance, Chinese SEs may focus on demonstrating the impact of their interventions to secure support from funders and stakeholders, thereby ensuring operational viability. Moral legitimacy pertains to the broader societal judgment regarding whether an organization's procedures, structures, outputs, or activities are deemed the right thing to do. This type of legitimacy drives Chinese SEs to align their missions with prevailing social values and norms (e.g., community development, environmental sustainability, or social welfare), further solidifying their position within their communities. Cognitive legitimacy captures the audience's comprehensibility and taken-for-grantedness, focusing on how stakeholders perceive and understand the organization's purpose and existence. This may manifest in Chinese SEs' effort to frame their missions in ways that reflect cultural traditions and social expectations that stakeholders readily recognize (e.g., familiar organizational structure).

Connecting these types of legitimacy to SEs, existing literature has focused on moral legitimacy as a means to explain the emergence of multiple institutional logics and the growing salience of pro-market emphasis (Blessing, 2015; Dart, 2004). Obtaining and managing organizational

legitimacy entails navigating potential identity conflicts for SEs, which influence what organizational forms to adopt. Organizational forms with which SEs are registered may vary by institutional environment they are embedded in.

Debate exists regarding whether SEs are essentially products of the evolutionary development of nonprofits, or whether they are necessarily a new organizational form (Santos, 2012). The organizational form Chinese SEs may take on is worth investigating due to the complexity of “*social organizations*,” an umbrella category that includes nonprofits or non-government organizations in China. Or more accurately, they could be categorized into Civilian-Run Non-Enterprise Units, Civilian-Run Educational Institutions, and Social Organizations (Yu, 2019).

Historically, the Chinese government required a dual registration system for social organizations in the country to receive approval and oversight from both a professional supervisory unit (PSU) and the local public security bureau (Yang et al., 2016). A PSU needs to be a government or quasi-government unit (e.g., state-owned media or certification agencies). This restriction was lifted in recent years; however, for social organizations to have legal status, they are still required to register with the Ministry of Civil Affairs. The breaking with PSUs also poses challenges to nonprofits’ financial stability as they now need to rely on charitable donations or membership dues to remain operational (Yang et al., 2016).

As a relatively new institutional phenomenon, SEs face legitimacy challenges in China as they are intended to disrupt the institutionalized ways of solving complex social issues (Kerlin et al., 2021). Tension arises when innovative organizational forms (such as certified SEs, businesses, social organizations, or hybrid forms) aim to combine business and nonprofit institutional logics. In China, government agencies are expected to play a strong role in addressing social issues. The power relationships between the government sector and the civil society sector thus need to be maintained to support existing institutions (Kerlin, 2009), resulting in a high reliance on government funding. However, the different organizational forms SEs take on may influence whether they qualify for government funding. Furthermore, relationships with different stakeholders (e.g., foundations, business funders, customers, or local residents) and types of innovation activities an organization engages in may also influence what organizational form to adopt (Bunduchi et al., 2022). To unpack these tensions, we first examine the following research question:

*RQ1:* How do social enterprises determine which organizational form to adopt to obtain legitimacy for their operations?

### *Social Enterprises’ Resource Mobilization Strategies in a Non-Munificent Environment*

Another challenge SEs in China face is the availability of resources to operate and remain in business. Literature has documented how SEs ventured out to have diverse sources of income and reduce their reliance on government funding (Wang et al., 2016). The mixed sources of funding include government grants and contracts, earned income, donations from individuals and organizations, and investment income, and are intended to build long-term sustainability and stability for the organizations to achieve both social and business goals (Hendrick 2002).

However, revenue diversification negatively impacts financial health and the effect still remains significant after accounting for organizations’ income level (Guan et al., 2021). This suggests that SEs may offer a promising opportunity for Chinese organizations to address social issues through a market logic; nevertheless, they do not necessarily have the skills, experience, or resources to navigate the non-munificent institutional environment for survival. We now dive into the literature to explore strategies Chinese SEs may utilize when confronting these challenges,

drawing from resource dependence theory (RTD) and the bricolage framework. RTD emphasizes the notion of strategic alliances to collectively pool resources and it advocates the logic of “*the more the better*”; while bricolage emphasizes “*less is more*” and the need to mobilize existing resources via innovation and improvisation (Liu et al., 2021). These two perspectives complement each other in examining how SEs address resource constraints in achieving both social and business goals.

#### *Resource Dependence Theory and Resource Acquisition via Partnership Building*

RDT focuses on strategic actions organizations undertake to manage their interdependence with the external environment (McKinney et al., 1993; Pfeffer & Salancik, 1978). The goal is to enhance their autonomy and exert power and influence. Developed by Pfeffer and Salancik (1978), this theory provides valuable guidance for organizations to understand considerations and consequences relevant to different types of interorganizational partnerships. RDT rests on three important assumptions: first, an organization needs resources to survive and to pursue its goals; second, an organization can acquire resources from other organizations in its environment; and third, resource dependence creates an inverse power relationship and the balance of power usually favors the organization that possesses critical resources other organizations need.

Resources refer to anything of value, tangible or intangible, that can be exchanged between organizations. For example, government agencies provide revenues, information, and political support to SEs whereas SEs offer service delivery capacity and information to public agencies. Subsequently, both government agencies and SEs have mutual resource dependence on each other. The tipping of power dynamics resulting from resource dependence depends on the importance of the resource, availability of alternatives, and ability to compel the provision of the resource (Saidel, 1991).

One important strategy in resource mobilization is through partnering with other organizations (Austin, 2010). Resource-based theories suggest that organizations will enter into partnerships when one partner can contribute the resources or capacities beneficial to, but not possessed by, another organization (Pfeffer & Salancik, 1978). By establishing strategic alliances with partners, an organization may gain access to tacit knowledge and complementary skills, new technologies or markets, and the ability to provide a wider range of products and services than otherwise (Chen, 2010; Milagres & Burcharth, 2019).

To acquire resources, SEs in China have engaged in various alliances to seek funding, conduct community engagement, and influence policies (Liu et al., 2021). Given the non-munificent environment, these SEs form and leverage partnerships with various organizations to tap into resources that would be otherwise unavailable. Existing studies have also shown that partnerships also allow organizations to access various stakeholders and build a collective vision toward social impact (Liu et al., 2018).

From the resource dependence perspective, strategic alliances that SEs build should emphasize the logic of “*the more the better*” and require sufficient resources to be available in the first place to form the alliances (Liu et al., 2021). However, the dilemma remains in how less resourceful organizations (due to institutional constraints or organizational limitations) may form partnerships or afford the acquisition of resources in the first place. Therefore, in the next section, we review the framework of bricolage as an alternative pathway for organizations to mobilize resources in a non-munificent situation.

### *Bricolage and Mobilization of Existing Resources*

In addition to acquiring new resources, SEs may also leverage existing resources at hand for survival. One lens to explain the emergence of SEs in a non-munificent environment is the framework of bricolage, a resource mobilization strategy when an organization's environment makes it difficult to access capital or when its institutional support is lacking (Di Domenico et al., 2010; Desa & Basu, 2015). Lévi-Strauss (1967) introduced the original concept of intellectual bricolage to refer to the process of "making do with what is at hand" (p.17). Rao et al. (2005) explained bricolage as hybridization, using the blending of elements between classical and nouvelle cuisine styles within French gastronomy to illustrate the process. Bricolage stands in contrast to seeking out more resources and focuses on the mentality of "less is more" (Liu et al., 2021).

The literature connecting SEs and bricolage has identified two general categories of strategies: *business bricolage* which is more focused on promoting entrepreneurship and achieving business goals; and *social bricolage* focused on achieving social goals. Business bricolage includes the following dimensions: making do, refusal to enact limitations, and improvising (Di Domenico et al., 2010; Johannisson & Olaison, 2007). *Making do* captures the action of using existing resources for new purposes. For example, an organization utilizes discarded, disused, or unwanted resources for new problems and opportunities, often in ways other organizations would not recognize or value. *Refusal to enact limitations* refers to organizations trying out solutions to counter limitations imposed by the institutional environments and to create social value. *Improvising* captures the actions of adapting standard ways of working and creative thinking to counter limitations imposed by institutional environments. It is related to refusal to enact but emphasizes an organization's ability to initiate a range of projects and consistently respond to opportunities, through its embedded agency and community engagement.

Social bricolage includes the following: social value creation, stakeholder participation, and persuasion (Di Domenico et al., 2010). *Social value creation* focuses on how organizations alter existing arrangements as necessary, work with limited resources available, and create something from nothing for a social end. *Stakeholder participation* involves active involvement of stakeholders in the creation, management, and governance of an organization. It includes engaging in social networking activities, adapting governance structures, and gaining access to expertise/new contacts. *Persuasion* occurs when an organization focuses on convincing stakeholders of the potential usefulness of its resources, assets, and business case and thus leverages negotiated resources and support to create social value. Though resource acquisition is possible, persuasion often captures the need to mobilize whatever resource is available instead of reaching out for additional resources through other significant actors in a community.

There has been limited research that evaluates the combined use of both partnership alliances and bricolage, possibly due to seemingly conflicting assumptions underlying these strategies. As mentioned earlier, resource mobilization via partnership advocates for "the more the better"; while the bricolage framework is guided by "less is more," which is about mobilizing limited resources via innovation and improvisation. Guided by this institutional dilemma, we argue that the synergy of RDT and the framework of bricolage allows us to investigate how prevalent each strategy may occur in a non-munificent environment where SEs emerge and how SEs of different organizational forms decide to adopt what resource strategies. We ask the following research question:

**RQ2:** What strategies do SEs use to acquire and mobilize resources, and how do these strategies vary based on the organizational form of the enterprise?

*Research Context: Chinese Social Enterprises*

SEs in China have emerged as innovative organizational forms in recent years. However, the legal landscape for SEs in China remains ambiguous, as there is currently no specific legislation that explicitly defines or regulates social enterprises. Instead, SEs operate under a complex framework of existing laws governing nonprofits, businesses, and other forms of social organizations. Historically, the concept of social entrepreneurship in China has gained traction, particularly since the government began to recognize various forms of social organization in response to rising social issues, such as poverty alleviation, environmental sustainability, and social inclusion.

The development of SEs in China can be traced back to the early 2000s when the government initiated reforms aimed at promoting civil society and encouraging entrepreneurship (Yu, 2011). As a result, several organizational forms emerged, with SEs either registering as nonprofits or informal entities, or adopting business-oriented models. Among these, "certified SEs" refer to organizations that have sought formal recognition from the government or designated certification bodies, allowing them to access specific benefits, such as government funding or partnership opportunities (Yu, 2019). However, the certification process is often fraught with complexities, and the benefits may be limited.

The lack of clear legal status complicates the landscape for SEs, as they must navigate a bureaucracy that historically emphasized state control over social welfare. Many organizations hesitate to fully adopt the SE label for fear of losing eligibility for government subsidies that are typically reserved for traditional nonprofits. Consequently, many SEs operate under the umbrella of "social organizations," which include a wide range of entities such as foundations, NGOs, and community-based organizations that aim to address specific social needs.

This research investigates how these varying organizational forms influence the ability of SEs to access resources and legitimacy within the non-munificent institutional environment of China. By examining the organizational dynamics of certified SEs alongside traditional nonprofits and for-profits, this study aims to illuminate the pathways through which these entities mobilize resources and sustain their operations amidst institutional challenges.

## **Method**

### *Data Collection*

Interview data were collected from Chinese SEs that were registered in China regardless of the founder's nationality or the geographic scope of their activities. Participants were recruited through two channels between Spring and Fall of 2019. First, a list of SEs servicing marginalized populations in China was compiled based on two sources: a national SE investment conference that takes place annually and keeps a list of active members; and a national SE incubator (NPI.org). Direct inquiries were sent to the founders of these organizations. Second, referrals from the SEs that participated in the survey were contacted. A total of 14 interviews were completed, 8 conducted in person and 6 over the phone. Interviews lasted between one hour to 90 minutes.

The interviews were semi-structured and included questions on the following topics: social issues to focus on, founding background, funding sources, main challenges faced, partnerships, use of

technology, and community outreach activities. The sampled organizations ranged in issue focus and the development level of their SE models. The variation thus allows the examination of the antecedents of social entrepreneurship. See Table 1 for a summary of the interviewed organizations.

**Table 1.** *Social Enterprise Characteristics*

Case	Description	Location
1	A certified social enterprise and a management consulting firm, delivering services related to community building, social renovation, interior design, and community innovation	Shanghai
2	An impact investment startup providing a platform, space, and funding for social entrepreneurs	Shanghai
3	A certified social enterprise specialized in providing electricity and electronic devices to BOP population in developing countries (mainly India and countries in Africa such as Kenya, Ethiopia, Rwanda) with affordable price	Shenzhen
4	A family-run architecture and design firm advocating for women’s rights, gender equality, inspiring to be a benefit corporation	Shanghai
5	A certified social enterprise and a service provider for elderly care	Shanghai
6	A nonprofit that provides services and assistance to hemophilia patients and their families. Currently exploring how to build a database and start a SE branch.	Beijing
7	A nonprofit providing medical emergency relief to kids and their families, inspired by a model like the Ronald McDonald House Charities but on a much smaller scale	Shanghai
8	Bakery affiliated with a national foundation, providing skill training and employment for people with disability	Nanjing
9	A travel agency affiliated with a national foundation, providing cultural experiences to funders and the general public to visit program sites across the country	Nanjing
10	A charity focusing on building a network platform for poverty alleviation, by leveraging engagement of college students’ volunteerism	Nanjing
11	A commercial housing provider for people of disability	Nanjing
12	A nonprofit specialized in promoting sustainable development finance, including impact investing and ESG investing in China	Shenzhen
13	A certified SE specialized in community development leveraging technology and crowdsourcing	Shanghai
14	A company that specializes in mentoring students to successfully navigate the college admissions process; “Khan Academy for college admissions”	Shanghai

*Coding and Analysis*

The transcripts from the interviews were analyzed through two rounds of coding. First, we followed the existing literature on SEs' organizational forms to create a dichotomy of SEs: nonprofit SE and for-profit SE (Guo & Peng, 2020; Ko & Liu, 2021). The following information from organizations' websites and interviews was used to code social issues tackled, legal registration status, and sector representation. Second, the author went through the interview scripts and coded resource mobilization and bricolage strategies used by each organization. Following Saldaña (2013), this step refers to provisional coding. Then, a provisional list of strategies was developed based on the literature review (Miles & Huberman, 1994). In the coding process, this list served as a guide and can be revised or modified. Final codes were then reviewed and condensed as themes emerged, as a process of focused coding (Saldaña, 2013). Interviewees are referred to by the name of their organization as opposed to their individual names. All the coding was conducted in Atlas.ti.

To answer RQ1, the coding focused on themes related to the underlying legitimacy motivations of SE operations and how specific motivations were linked to the adoption of a specific organizational form. The initial coding started with the dichotomy of nonprofit vs for-profit forms; the author was also mindful of potential other organizational forms that might be unique to the Chinese institutional environment. To answer RQ2, main strategies for each organizational form in terms of resource mobilization and bricolage were coded and summarized. In doing so, the coding captured detailed examples of how organizations in each sector differed in specific strategies but also demonstrated common patterns. See Table 2 for a summary of what interview questions were used in the coding process to answer RQs.

**Table 2.** *Summary of interview protocol questions and RQ analysis*

	Protocol question
RQ1	Social issues
	Founding background
	Challenges
RQ2	Funding sources
	Challenges
	Partnerships
	Use of technology

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Community outreach

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**Results**

In this section, findings are synthesized to answer the RQs and to map out possible pathways for each sector identified in the sample.

*Organizational Forms and Underlying Motivations*

All of the organizations interviewed self-identified as SEs and tackled a variety of social issues. Their focus ranged from offering skill training and employment to people with disabilities, providing support to children and adults with rare diseases, providing service to the elderly, alleviating poverty, building a more sustainable and livable community, promoting gender equality, to offering educational consulting.

The coding revealed three specific forms these organizations are legally registered as: nonprofit, for-profit, and certified SE. Four organizations (organization ids 6, 7, 10, and 11) were registered as nonprofits (2 foundations, 1 service center for youth of disability, and 1 charity organization). Several reasons were given to describe why organizations chose this particular form. First, there is a relatively low awareness of SEs and what they actually do in China. It is still viewed as a foreign concept, with a mixed understanding of what it entails. Second, the SE identity does not bring any tangible benefits but tax losses to most organizations. In China, low-income families and people with disabilities are eligible for government subsidies. Working in a nonprofit or social organization keeps them qualified for the subsidy while employment at a registered for-profit business would disqualify them. In other words, a SE status does not bring direct benefits financially for their employees. One interviewee stated: *“Social enterprise is more of a mindset and does not really require a legal registration.”* For these organizations, the first motivation speaks directly to their concern of moral legitimacy and the second motivation is more centered on the achievement of cognitive legitimacy demanded by the government.

Eight organizations (ids 1, 2, 3, 5, 8, 12, 13, and 14) registered as certified SEs. They covered a variety of services, ranging from education, sustainable energy, career development for people with disability, business consulting, community development, elder care, and impact investment. For SEs that sought legal registration and certification of formal status, one reason is the sophisticated bureaucratic registration process for social organizations in China. One stated: *“As government supervision of nonprofits tightened, it is now taking longer to complete a registration for a social organization... Another practical limitation is that the social organization registration process requires your organization to be located in a specific city with a defined jurisdiction. A certified social enterprise can function as a business or company with branches and offices, or a network. It is much easier for us.”*

Certified SEs acknowledged that being a SE indeed would make them disqualified from certain tax benefits but would also open up other opportunities. For example, one SE mentioned the recent government subsidy for technology startups that they would qualify for. Another interviewee stated: *“Certification does not bring benefits directly, but visibility and potential relations to leverage upon... I do think being a social enterprise helped with our branding and allowed us to position ourselves uniquely on the market to obtain government funding if we found a niche.”* To summarize, these organizations emphasize the motivation of pragmatic legitimacy behind their decisions of going through the formal registration process, despite low social awareness and the cost associated with the certification.

Two remaining organizations (ids 4, and 9) in our sample were registered as regular for-profit organizations without going through the SE certification process. One unique example is Organization 9, which was initially registered as a nonprofit with the mission to advocate tourism and educational programs in remote areas that had not been fully discovered by commercial travel agencies (e.g., the Qinghai province in western China). However, they received significant pushback from private travel agencies that criticized the fees they charged to organize tours (demanding that the tours should be free). The competitors argued that the fees were against the organization's nonprofit status. Eventually, the organization decided to register as a for-profit business while maintaining its social mission to bring tourism revenues to remote areas. Organization 4 was a small architecture advocating for gender equality at the workplace. It inspires to be a benefit corporation. Because of its size, young age, and niche market focus on design, the company chose to stay as a pro-profit business. Its co-founder (female) said: "*In a way, I believe certification might limit how much we can achieve on social goals.*" To summarize, for-profit organizations were intrinsically motivated to balance their focus on both social and business goals, while subject to the concern of cognitive legitimacy perceived by industry competitors and customers.

Several challenges were brought up in the interviews about running a SE in China, including public distrust, and dilemma in organizational identity and targeted stakeholders (i.e. too niche to raise awareness yet too broad to have any success). SE in China in general has no clear market orientation, no clear business model.

#### *Resource Mobilization Strategies via Diverse Partnerships: Certified SEs*

The results showed distinctive resource mobilization strategies used by certified SEs to obtain resources and sustain their business models: building strong partnerships with the government sector while maintaining a diverse pool of partners. To begin with, certified social enterprises have maintained a sustainable relationship with *local governments*. They viewed the government as an important partner. While they acknowledged challenges in communicating and working with the government, they emphasized that the key was to show what unique value SEs could offer. This could include filling in a niche market that the government simply could not have the capacity to tackle, e.g. elderly care. One person mentioned that: "*We always looked out to see how to take advantage of government policies and go after a specific market that could receive government subsidy.*" Certified SEs worked with government agencies in a variety of ways. Besides receiving start-up funding from the government, they considered the government sector as a client that has purchasing power. Thus, alliances are formed to have more integrated relationships. One certified social enterprise (id 1) was hired by the county government to work on a renovation project to revive a historic street, because of its design specialty.

Certified SEs also reached out to *diverse partners* to reduce their dependence on government agencies. Most of these organizations stated that over 60% of their partners were nonprofits. Notable partners include media, foreign companies (such as HSBC and Starbucks), foreign foundations, and other domestic businesses (small enterprises, and state-owned enterprises). Partnership activities ranged from charity sales, and branding to raise public awareness, to implementing programs together. The company that sold solar-power devices to BoP (id 3) shared their partnership stories. Initially, they hesitated about working with local partners for product distribution and marketing in Africa. The locals did not trust their product would work; they did not trust the locals either. Communication was a major challenge, because of language barriers and concerns for efficiency. Once the company was more stable financially, the founder started attending more fair trade exhibitions to scout local partners. The organization started working

with smaller distributors in Kenya, which led to the word-of-mouth effect. Eventually, they started running workshops in local communities, so the younger generation could gain skills by learning how to assemble and repair the devices themselves.

*Less Integrated Partnerships toward Securing Funding and Name Recognition: Nonprofit SEs*

Our data showed that organizations registered as a nonprofit engaged in less integrated partnerships. Take Xinghou foundation (id 10) as an example. The founder discussed the partnerships built with local universities but emphasized that the intention was to recruit volunteers. They viewed college students as resources that the organization could tap into for free when the organization had limited capital. Nonprofits' partnerships are primarily with other nonprofits such as foundations, public hospitals, and media. One organization (id 7) specified that having a good relationship with local and national media helps with word-of-mouth, and also helps them build a good reputation when seeking funding. Another organization (id 11) mentioned their initiatives of utilizing big data in collaboration with the disability association however they disclosed that due to the quasi-government nature of the association, the partner organization was relatively close-minded and therefore had limited capacity to serve people of disability. In other words, these partnerships are more to facilitate name recognition and much less about mobilizing resources.

Nonprofits in our sample often faced limited institutional support and access to capital, having to survive by relying on existing resources, instead of seeking out new resources. They viewed partners as important and paid particular attention to government agencies as funders. Though they acknowledged the need to move away from the sole reliance on the government funding model, other pressing needs took priority such as building enough credibility in local communities and making ends meet. Thus, nonprofits remain reliant upon governments for financial support.

*Limited Cross-sector Partnerships and the Need to Main Sustainable Finance: For-profit SEs*

Two organizations that identified as SE businesses without being certified also demonstrated unique partnership strategies in accessing resources. The strong reliance on a single sector for partnerships stands out from the interviews, whether it is government agencies or private firms. The limited effort was placed on reaching out to more diverse partners. For example, one organization (id 9) focused on developing a funder base by contacting small business owners in the city and large enterprises (particularly foreign-owned firms) to receive sponsorship for events and programming. Though it has partnerships with local schools (by recruiting student travelers), mainly tourism programs are run with employees at private firms. Similarly for Organization 4, government organizations remained as its main clients. There was limited collaboration with environmental nonprofits but primarily it was through employee volunteering programs that took place infrequently. These organizations' partnership patterns seemed to connect back to their cognitive concerns and also the practical challenges of being financially sustainable. See our summary of specific partnership strategies by sector in Table 2.

*Bricolage Strategies*

Across all three organizational forms, all the bricolage strategies were identified but each organizational form demonstrated unique patterns (see Tables 3 and 4). This section begins by discussing the main examples that used each of these bricolage strategies and then zoom in to discuss the main patterns in each sector.

*Making Do:* The first bricolage is *making do*. Three out of 4 nonprofits used this strategy. For example, Xinghuo Foundation (id 10, nonprofit) recruited college students as volunteers and administrative forces of the organization, utilizing untapped resources by other organizations.

These students view their experiences as unpaid internships with leadership training opportunities. In a similar strategy, 9958 Charity (id 7) relied on a volunteer’s donation for an apartment rental to host children in need and their parents who came from out of town. This bricolage strategy was also used by 5 certified SEs (out of 8), particularly startups or during the early days of their business. For example, an education consulting firm (Dyad, id 14) was founded by a foreigner who had to navigate all the complex systems of business registration, and what a SE identity represents in China. The founder had to wear different hats to move things forward. In addition, we found examples in both business organizations. For example, the cultural travel agency (id 9, the less resourceful business in our sample) mentioned limited human resources and had to rely on volunteers when hosting events and tours.

**Table 3.** *Summary of partnership strategies by sector*

	Partner sector	Partnership diversity	Partnership purpose
Certified SEs	Government as clients, nonprofits, media, domestic and foreign companies	High	Product delivery in niche markets, charity sales, cause marketing, training
Nonprofits	Government as funders, foundations, public hospitals, and media	Almost none	Funding, name recognition, volunteer recruiting
For-profits	Government, firms, or NGOs	Limited	Financial support, project collaboration

*Refusal to Enact Limitations: Second, refusal to enact limitations.* This strategy was used by one nonprofit in our sample (9958 Charity, id 7). The organization came up with a strategic plan of having parents work on second-hand goods and resell them to generate revenue. However, this revenue generation model did not work out, as they lacked storage space and could not afford designers. Six out of 8 certified SEs also used this bricolage strategy while leveraging technology. For example, several companies have built their own database and digital platforms to ensure product delivery and customer engagement when no government funding was available. One SE (id 5), whose founder had experience working at a tech start-up in Silicon Valley built a comprehensive user database to connect their existing customers (the elderly and their family members) to third-party service providers (in areas such as meal delivery, online shopping, and dog sitting), and government platforms (such as the national ambulance hotline). This strategy based on big data has helped streamline their services and gain name recognition in the niche market of elderly care. They intended to expand their service to be connected with other service providers such as ambulance, social workers, and pharmacies as they continued to improve the database. Both business SEs also used this strategy to overcome challenges. Organization 9 decided to change its registration status and redefine its target audience groups after facing criticism from commercial competitors. Organization 4 started pilot-testing programs in local communities for free, as a part of its effort for raising awareness for gender-equitable employment practices.

*Improvising: Third, improvising.* Only one nonprofit used this strategy (9958 Charity, id 7). The interviewee talked about having to rely on existing resources (its volunteer base) to ask for favors

(e.g., donation) when new needs emerged (e.g., paying for clients' hospital bills and travel cost). Four out of 8 certified SEs used this strategy. For example, Amity Bakery (id 8) initially raised funding for training so the trainees could have skills for employment. However, their first cohort of graduates could not get jobs due to discrimination. Instead of calling off the training program, they decided to use the rest of the funding to invest in a bakery and hired the graduates of the training program. One of the two business SEs used improvising (id 4). The company had been a strong advocate for breastfeeding among female employees but also had invested in awareness raising in the broader community. The interviewee (the female co-founder) talked about her role in taking initiative to battle stigmas whenever a conversation took place.

**Table 4.** Summary of Bricolage Strategies

	Business Bricolage	Social Bricolage
Nonprofit SEs	<ul style="list-style-type: none"> <li>- Making do: relying on volunteer base for donation and human resources</li> <li>- Refusal to enact limitations: building credibility, communicating challenges to funders</li> <li>- Improvising: creative ways to mobilize funds for emerging needs</li> </ul>	<ul style="list-style-type: none"> <li>- Stakeholder participation</li> <li>- Social value creation</li> <li>- Persuasion</li> </ul>
Business SEs	<ul style="list-style-type: none"> <li>- Making do: creative ways to reduce cost</li> <li>- Improvising: Aide programming, advocacy</li> </ul>	<ul style="list-style-type: none"> <li>- Social value creation: diverse community partners for engagement</li> <li>- Stakeholder participation</li> <li>- Persuasion</li> </ul>
Certified SEs	<ul style="list-style-type: none"> <li>- Refusal to enact limitations: leveraging technology, changing organizational form, navigating tax systems</li> <li>- Making do: recognizing and finding value in resources (such as a less ideal location for the business) to further objective, niche market, wearing multiple hats</li> <li>- Improvising: pivoting organizational models to adapt to market need; innovative programming</li> </ul>	<ul style="list-style-type: none"> <li>- Stakeholder participation: word-of-mouth to increase sales</li> <li>- Social value creation: educational program</li> <li>- Persuasion</li> </ul>

*Social Bricolage:* Lastly, we found evidence that social bricolage strategies were heavily used by all organizations. To begin with, *social value creation* was used by 1 nonprofit, 5 certified SEs, and 2 business organizations. For example, Ruize (the for-profit SE which is also a care center for people with disabilities, id 11) developed a new program to have their residents offer package delivery services to other residents in the neighborhood. It attracted national coverage through CCTV. This helped to build a relationship with the locals by breaking the stigma and to raise the

awareness that they can fully function as independent individuals. Among certified SEs, the key was to emphasize their social mission such as intentionally supporting sustainable business models of clients (id 2, id 12) despite the initial hurdles of getting funds on their own. Another certified SE (id 1) defined itself as a social innovation center that offered diverse services which included a mix of free and charged programs. As a management consulting firm, its mission was to apply effective business models toward social goals such as community development, sustainability living to provide public goods. Another social value creation model is the one from Amity travel agency (business SE, id 9) where they built a strong relationship with local residents at their project sites. These relationships helped bring some younger residents back from the city to take on jobs as tour guides and chefs in their hometowns. This change in local communities helped to generate a sense of purpose and sustain the local economy among the residents.

Second, *stakeholder participation*. This strategy was identified in 3 nonprofits, 3 certified SEs, and both businesses. One nonprofit that advocates for hemophilia patients (id 6) started as an online peer support group and has since relied on its members for advocacy and awareness-raising for this rare disease. One certified SE (Amity Bakery, id 8) discussed their strategies to have regular customers help them with word-of-mouth and spread the news about what they sell (since western pastries are not well received by local residents) and what is unique about them (the dual mission). Business SEs made an intentional effort to brand their social mission focus (for id 4 it was advocating gender equality through organizational practices and policies; for id 9 it was revitalizing remote communities through sustainable tourism and educational programs) to potential customers and stakeholders.

The last social bricolage strategy was *persuasion*. This strategy was only identified in 2 nonprofits, 1 certified SE, and 1 business SE. For example, the nonprofit 9958 Foundation (id 7) relied on personal relationships with doctors and nurses to convince the urgency of children that need hospital care. This relationship building took a lot of meetings since the founding of the organization. The certified SE (id 3) actually viewed their certification as a way of persuading others that it is possible to achieve both social and business goals. For organization 4, persuasion has been a part of their organizational practices, from educating employees, and closely monitoring government policies related to gender equality at the workplace, to conducting community outreach activities. The co-founder who identified as female invested herself in attending educational conferences in relevant topics (e.g., benefits of breastfeeding, trends in blockchain and other technology innovation, and timeshare philanthropy) and providing free workshops to employees.

To identify specific patterns, we summarized how each sector engaged in both general and social bricolage strategies in mobilizing resources. The results showed that nonprofit SEs were the most active in utilizing social bricolage strategies (6 appearances for 4 organizations), also showing a slight preference over the general bricolage strategies (5 appearances). Certified SEs were the most active in utilizing general bricolage strategies (15 appearances for 8 organizations), showing a preference over the social bricolage strategies (9 appearances). One thing worth noticing is that business SEs utilized both categories of the bricolage strategies equally, without a preference based on our coding (for each category, we identified 5 appearances).

## **Discussion**

Guided by the RDT and the bricolage framework, this study offers important insights into the diverse organizational forms and resource mobilization strategies employed by SEs in a non-munificent institutional environment. By first identifying three organizational types, our findings

revealed underlying legitimacy motivations for each sector's registration status. Then we presented findings related to specific examples of resource mobilization via partnerships, and general and social bricolage strategies utilized by each sector. They highlight the critical role of motivation in shaping organizational forms, which help to unpack how SEs navigate institutional challenges in their pursuit of legitimacy. In this section, we offer a more systematic understanding of the possible pathways each of the sectors may engage in to respond to specific challenges. The summary also allows us to further investigate the values partnerships may bring to SEs in non-munificent environments, and the opportunities offered by technology such as blockchains and big data analytics.

### *Organizational Forms and Legitimacy Motivations*

The analysis of the different organizational forms adopted by Chinese SEs sheds light on their underlying legitimacy motivations. Nonprofit SEs prioritized moral and cognitive legitimacy, as they sought to align with the traditional understanding of nonprofits and maintain eligibility for government subsidies. In contrast, certified SEs were more focused on pragmatic legitimacy, leveraging the formal registration process to access new funding opportunities and enhance their visibility. Interestingly, for-profit SEs demonstrated a balance between social and business goals, highlighting their emphasis on cognitive legitimacy as perceived by industry peers and customers.

These findings suggest that SEs in non-munificent environments strategically choose their organizational forms based on the specific legitimacy challenges they face (Blessing, 2015). In a non-munificent environment where the concept of SE is not yet widely understood, nonprofits leverage their existing identity to justify their social mission, while certified SEs and for-profit SEs navigate the tension between innovative organizational models and institutional expectations. This nuanced understanding of legitimacy motivations contributes to the literature on social entrepreneurship, which has traditionally focused on the broader institutional complexity faced by SEs (Kerlin et al., 2021). For example, in Pakistan, SEs encounter operational barriers due to bureaucratic hurdles and socio-cultural perceptions that may undervalue the role of social entrepreneurs (LI et al., 2022). The findings revealed here highlight the necessity for policymakers in different countries to consider context-specific strategies that support SEs in aligning their organizational forms with prevailing legitimacy frameworks.

### *Resource Mobilization Strategies*

The analysis of resource mobilization strategies employed by Chinese SEs further reveals diverse pathways they take to address resource constraints. Certified SEs demonstrated a sophisticated approach that is guided by the logic of "the more the better" (Liu et al., 2021). They leverage partnerships with government agencies and a diverse pool of stakeholders to acquire resources. This multifaceted collaboration allows them to leverage not only financial support but also critical non-financial resources, thereby enhancing their operational capabilities. In contrast, nonprofit SEs relied more on social bricolage strategies, such as stakeholder participation and persuasion, to mobilize limited resources within their existing network. These strategies are more aligned with the logic of "less is more" (Liu et al., 2021), where they maximize limited resources by creatively mobilizing local assets and fostering community involvement. Interestingly, for-profit SEs exhibited a more limited cross-sector partnership approach, focusing primarily on either government agencies or private firms. This narrower focus, while enabling them to balance social and business objectives, may limit their ability to establish a broader legitimacy and resource network that certified SEs enjoy. Such challenges resonate with existing concerns regarding revenue diversification among for-profits (Guan et al., 2021).

The findings also highlight the role of technology in enabling resource mobilization through bricolage. SEs across different organizational forms utilized technology-enabled strategies, such as building customer databases and digital platforms, to overcome resource constraints and engage with their stakeholders. This aligns with the literature on how technology can empower social innovation toward sustainability in resource-scarce environments (Goggin et al., 2019).

Resource mobilization strategies utilized by Chinese SEs offer implications for other non-munificent environments as well. For example, SEs in Vietnam face financial constraints and power centralization, demonstrating that the hurdles encountered in China are reflective of broader challenges in similar contexts (Truong & Barraket, 2018). This scenario highlights the necessity for SEs to cultivate strategic partnerships with local governments and other stakeholders, mirroring the collaborative practices of certified SEs in China.

### *Pathways for SEs in Non-Munificent Environments*

By integrating insights on organizational forms, legitimacy motivations, and resource mobilization strategies, this study proposes a more comprehensive understanding of the pathways available to SEs in non-munificent institutional contexts. Nonprofit SEs, often driven by moral and cognitive legitimacy concerns, may prioritize social bricolage strategies to mobilize limited resources within their existing networks. By leveraging stakeholder participation and persuasion, they can enhance community engagement and visibility, potentially leading to increased funding and support from local governments and other nonprofit partners, as seen in contexts like Vietnam and Pakistan, where governmental and societal understanding of SEs is still developing.

Certified SEs, which strive for pragmatic legitimacy, can adopt a more balanced approach by utilizing both resource acquisition through diverse partnerships and resource mobilization through general bricolage strategies. Their formal registration and certification can provide access to government funding and support, while technology-enabled bricolage enhances their capacity to innovate service delivery and overcome resource constraints. This is particularly relevant in regions with similar institutional barriers where certified SE status can lead to greater legitimacy and resource opportunities.

For-profit SEs, aiming to balance social and business goals, may face the challenge of building broader organizational legitimacy in non-munificent environments. They can leverage their for-profit status to access private sector resources yet also explore opportunities to engage in social bricolage strategies to demonstrate social impact and enhance their cognitive legitimacy with customers and industry peers. This dual approach becomes essential in environments where stakeholders may be skeptical of the motivations behind for-profit social enterprises, facilitating their ability to secure support and build trust.

### **Implications And Contributions**

The findings of this study have important implications for policymakers, practitioners, and scholars interested in the development of social entrepreneurship in non-munificent institutional environments. For policymakers, the insights on organizational forms and legitimacy motivations can inform the design of policies and support mechanisms that better address the diverse needs and challenges faced by SEs. Recognizing the heterogeneity of SEs and their varying resource mobilization strategies can help policymakers develop more targeted interventions to foster a more conducive ecosystem for social entrepreneurship. Practitioners, including social

entrepreneurs and support organizations, can also benefit from the understanding of the different pathways available to SEs. This knowledge can inform their strategic decision-making, such as the selection of organizational forms, the development of partnership networks, and the effective utilization of bricolage strategies to address resource constraints.

This study makes several contributions to the literature on social entrepreneurship. First, it examines how the non-munificent institutional environment may shape or constrain the various forms of SEs in China through the integration of resource dependence theory and the bricolage framework. Findings demonstrate how SEs strategically choose their organizational structures based on their underlying legitimacy motivations. This nuanced understanding of how legitimacy motivations shape organizational forms advances the literature on social entrepreneurship, which has traditionally focused on the broader institutional complexity faced by SEs. Second, our findings offer suggestions on how to match organizational forms with specific strategies in utilizing resources that would not be available otherwise. By unpacking the diverse pathways SEs take to obtain legitimacy through resource mobilization and acquisition, this study provides a more comprehensive perspective on the heterogeneous landscape of social enterprises, particularly in contexts where the concept is still emerging and faces institutional constraints.

### **Limitations and Future Directions**

Several limitations in this study warrant future research. First, the sample strategy that took place over six months via purposeful and snowball approaches, although providing rich insights, limits generalizability. Future research could benefit from a more comprehensive sampling approach to fully capture variability in organizational forms and service types across a broader geographic and demographic context. Second, data collection was primarily based on self-reported information from SE leaders. While the interviews provided in-depth perspectives, there may be some potential biases or incomplete information that could not be entirely verified. Incorporating additional data sources, such as financial records, program evaluations, and external stakeholder perspectives, could strengthen the analysis. Third, this study focused on the Chinese context, which has its unique institutional environment and support mechanisms for social enterprises. While the insights generated can inform research and practice in other non-munificent settings, the generalizability of the findings to significantly different institutional contexts may be limited. Comparative studies across countries could shed more light on the contextual factors shaping social enterprise strategies. Finally, we used an inductive approach to determine the three types of organizational forms. There might be other less recognized forms in existence. Future research should investigate hybrid models and other informal SE initiatives to provide a more comprehensive understanding of their strategies in surviving a non-munificent institutional environment.

### **Conclusion**

This study offers a comprehensive understanding of the diverse organizational forms and resource mobilization strategies employed by SEs in China's non-munificent institutional context. The findings reveal the heterogeneity of organizational forms adopted by SEs and how they navigate the complex challenges of legitimacy and resource constraints. Nonprofit SEs prioritized moral and cognitive legitimacy, while certified SEs focused on pragmatic legitimacy, and for-profit SEs balanced social and business goals. The analysis of resource mobilization strategies further demonstrates the varied pathways SEs take to address resource constraints. Certified SEs leveraged partnerships with diverse stakeholders, nonprofit SEs relied on social bricolage

strategies, and for-profit SEs exhibited a more limited cross-sector partnership approach. These insights can inform policymakers, practitioners, and scholars in their efforts to foster a more supportive ecosystem for social entrepreneurship, particularly in emerging markets characterized by resource constraints and institutional complexities.

## **Disclosure Statement**

The author(s) declare that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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### **Author Biography**

**Dr. Rong Wang** – (Ph.D., University of Southern California) is an Assistant Professor in the Department of Human and Organizational Development at Peabody College, Vanderbilt University. Dr. Wang is the Director of the Network Dynamics for Social Change Lab, where she studies how inter-organizational networks and collaborative alliances address complex social issues and scale impact. Her research, published in leading communication and organizational journals, focuses on collective action, open collaboration, and the role of nonprofits, social enterprises, and corporations in tackling structural inequities. Dr. Wang's work has been supported by the NSF, NIH, Army Research Office, and other major funders, and she leads interdisciplinary teams to generate insights that bridge scholarly rigor and real-world impact.

# **A Platform Theory of Nonprofit Pricing and the Nonprofit Platform Lerner Index**

*Dr. Jeremy P. Thornton - Samford University*

*Dr. Jennifer Kuan - California State University – Monterey Bay*

This paper develops a novel framework for nonprofit pricing by conceptualizing nonprofits as multi-sided platforms (MSPs) that mediate exchanges between clients and donors. It introduces the Nonprofit Platform Lerner Index (NPLI), a tool that helps nonprofit managers optimize pricing by accounting for both client-price elasticity and donor-side cross-platform effects. The framework demonstrates how nonprofits can strategically leverage donor market power to subsidize client prices, including scenarios where prices fall below marginal cost or become negative. The study reconceptualizes donor engagement activities as core production inputs rather than overhead costs, aligning them with mission-critical objectives. It also explores policy implications, offering insights into antitrust considerations in donor markets. The NPLI provides regulators and managers with a quantitative tool to measure market power across donor and client markets. Future research avenues include empirical validation and applications to nonprofit governance and stakeholder management.

Keywords: Platform Theory, Nonprofit, Lerner Index

JEL: L21, L11, L31

## **1. Introduction**

Nonprofit managers face a complex challenge when determining pricing strategies for their clients. Setting low prices can enhance access to nonprofit services, aligning with their distributional goals (Steinberg & Weisbrod, 2005). Conversely, higher prices may strengthen a nonprofit's financial sustainability, supporting its ability to fulfill charitable objectives over the long term (Young et al., 2010). Recent scholarship has advanced our understanding of charitable pricing by modeling nonprofits as multi-sided platforms (MSPs), analogous to "two-sided" platforms such as Google, Facebook, or Mastercard (Hagiu et al., 2015; Hagiu, 2009, 2014). MSPs are organizations that cater to two or more distinct customer groups simultaneously, with interdependent consumption demands mediated through the platform (Evans & Schmalensee, 2007; Glen Weyl, 2009; Rochet & Tirole, 2003, 2006).

A classic, though somewhat dated, example of a multi-sided platform is a newspaper, which sells news coverage to subscribers while simultaneously selling advertising space to businesses. The

newspaper caters to two distinct customer groups, or "sides," whose demands are interdependent. The value businesses place on advertising space (i.e., their willingness to pay) depends on the size of the newspaper's subscriber base. A key insight from the MSP literature is that a firm can increase its overall revenues by significantly discounting prices on one side of the platform below what would be optimal for a single-sided market (Belleflamme & Peitz, 2021, Chapter 5). Kuan & Thornton (2022) extend the applicability of the MSP framework to the nonprofit sector, which often serves two interdependent groups: clients and patrons. This perspective introduces a wide range of strategic management applications for nonprofits, analogous to those developed for for-profit platforms. This paper will specifically explore optimal pricing strategies for a two-sided nonprofit organization.

Existing research on nonprofits tends to normatively advocate for low prices for clients (Eikenberry, 2009; Kluver et al., 2004; Moeller & Valentinov, 2012). Charging even a modest price to clients has been described as an "ugly necessity" (Oster et al., 2003, p. 30). However, the nonprofit management literature provides limited practical guidance on how organizations can balance the tension between financial sustainability and charitable access. This challenge becomes particularly acute during periods of shifting demand, such as economic downturns, climate-related disasters, or pandemics, when demand for services increases alongside rising costs (Exley et al., 2023). To address this gap, we develop an intuitive theoretical model of nonprofit pricing within a platform framework. Historically, nonprofit scholarship has treated donations (e.g., Okten & Weisbrod, 2000) separately from research on client pricing (e.g., Tinkelman & Mankaney, 2007). Yet, from the manager's perspective, donor and client markets are interdependent (Weisbrod, 2000).

We build on the general platform model developed in Kuan & Thornton (2022) by introducing three practical extensions tailored for nonprofit managers. First, our model demonstrates how prices for both clients and donors are interdependent and should be jointly determined. A defining characteristic of the nonprofit sector is the commitment to setting client prices below the marginal cost of production. Achieving this requires subsidies from donors or other patrons, such as government agencies or foundations. The multi-sided platform (MSP) framework reveals that such subsidies depend on the nonprofit's ability to exert market power on the donor or patron side of the platform. In extreme cases, the MSP model also explains scenarios where client prices may set prices below zero, effectively paying clients to participate. Traditional nonprofit pricing theories do not account for negative prices (i.e., subsidies), yet they are increasingly employed as tools to achieve charitable goals, such as providing free or incentivized vaccinations (Ives, 2021), weight loss (Campbell, 2021), or violence mitigation (Stanton, 2021).

Second, our paper develops the concept of donor demand, which recasts donors as customers who "purchase" a bundle of services from the nonprofit in exchange for their gift. This perspective shifts the traditional view of donor engagement activities, such as galas, fundraising events, and naming opportunities, from being ancillary or "non-preferred" activities (Weisbrod, 1991, 1998) to core elements of the nonprofit's production process that are essential to achieving its charitable objectives. Furthermore, expenditures often categorized as "overhead" can instead be understood as products designed to meet the specific preferences and expectations of donors (Chaudhry & Heiss, 2021; Qu & Daniel, 2021). This reconceptualization positions donor-focused activities as integral to the nonprofit's mission rather than as administrative burdens.

Finally, we introduce a practical pricing tool for nonprofit managers, which we term the Nonprofit Platform Lerner Index (NPLI). The Lerner Index, traditionally used by for-profit firms, helps identify market power and determine optimal pricing strategies based on demand elasticities (Froeb et al., 2018, p. 74; Lerner, 1934; Spierdijk & Zaouras, 2016). Adapting this concept, the

NPLI enables nonprofit managers to set prices by accounting for the elasticities of both donor and client demand. By identifying areas of market power, nonprofits can develop strategies to maximize subsidies available to clients.

For policymakers, the NPLI offers a quantitative measure of market power for both client and donor markets separately, extending antitrust analysis beyond client-side only measures. This tool can enhance existing measures of market concentration (e.g., HHI and concentration ratios), barriers to entry, and potentially suggests interesting questions about anticompetitive behavior in fundraising markets. We conclude by examining policy applications and future research opportunities for this innovative approach to nonprofit management.

## **2. Previous Approaches to Nonprofit Pricing**

Hansmann (1980) notes that many nonprofits generate revenue by charging clients directly for services (e.g., school tuition, theater tickets, or operating room fees), while others charge clients nothing for their services and finance their operations via donors who do not directly consume the nonprofit's output (e.g., homeless shelters, drug rehabilitation, or disaster relief). Many nonprofits fall in between these two extremes, generating revenues from a mix of clients and donors. Goodwill or American Harvest are examples of this mixed revenue approach.<sup>1</sup>

Hughes and Luksetich (2018) attribute this heterogeneity to variation in the nonprofit's managerial objectives, which may range from budget maximization to output maximization. The existing theoretical literature provides a menu of objectives, each with their own unique pricing strategies (James, 2013; Steinberg, 2006; Valentinov, 2008; Valentinov et al., 2013). At one extreme, managers have a strong distaste for commercial activity, which drives them to emphasize charitable over commercial output (Schiff & Weisbrod, 1991). At the other extreme, Malani & Choi (2004) posit that some nonprofits are simply profit maximizing, or "for-profits in disguise," mimicking the objectives of their for-profit counterparts. Crucially, existing theories impose preferences on the nonprofit organization *post hoc* to explain the range of observed pricing outcomes. Yet it is not clear who chooses these objectives or if they are subject to managerial discretion (Brooks & Ondrich, 2007; Hirth, 1999; Steinberg, 1986; Vitaliano, 2003).

A distinction of the nonprofit firm is offering charitable output to clients at a price below what would be optimal for a for-profit firm. Theorists have typically applied two adaptations to economic models to generate this charitable behavior. First, researchers use variation in the objective function to impose altruistic preferences on the firm (Liu & Weinberg, 2009). Steinberg (1986) was an early paper to demonstrate that adding output to the nonprofit objective function will induce the nonprofit to offer charitable output below the price of for-profit competitors. His paper was followed by other model variations which demonstrated that adding a preference for client consumption will result in lower effective prices to clients (Brooks, 2005; James & Rose-Ackerman, 1986; Lakdawalla & Philipson, 1998, 2006).

A second common modification is to impose a balanced budget constraint on the nonprofit organization, where the nonprofit must spend all its generated revenues on charitable output. This constraint is motivated by the IRS prohibition against private inurement in IRC 501(c)(3), whereby net earnings may not be allocated to any private shareholder or individual (Hopkins &

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<sup>1</sup> Nonprofits may also generate significant revenues from government sources or foundations. Our model can be extended to these types of agencies without a loss of generality.

Gross, 2016). The doctrine is typically applied in models by setting the profit function equal to zero (James, 2013; James & Rose-Ackerman, 1986; Rose-Ackerman, 1996; Schiff & Weisbrod, 1991). The combined effect of the balanced budget constraint and placing output in the objective function results in models where the nonprofit organization will spend all of its accumulated surpluses during a given period to subsidized charitable output.

Both modeling approaches have drawbacks. Empirical evidence that nonprofit organizations maximize their charitable output is mixed. For example, many nonprofit nursing homes do appear to behave charitably toward their clients (Vitaliano, 2003). However, select nonprofit hospitals set prices and output more like profit maximisers than charities (Brickley & Van Horn, 2002; Malani et al., 2003; Malani & Choi, 2004). Similarly, nonprofit foster care placement agencies, on average, do not behave more charitably than for-profits (Thornton & Cave, 2010). Inclusion of output in the objective function accurately models some, but not all, nonprofit organizations. Furthermore, it is unclear how these preferences for client consumption emerge only in certain nonprofit industries, or what governance structures maintain those preferences over time.

The balanced budget constraint faces similar criticisms. Despite its name, the non-distribution constraint (more precisely, the private inurement doctrine) does not prohibit the accumulation of profits by the nonprofit.<sup>2</sup> Nonprofit organizations often retain residual earnings for a variety of legitimate business purposes (Bowman et al., 2012; Calabrese, 2012; Chang & Tuckman, 1990). The private inurement doctrine only prohibits distributing those profits for non-charitable purposes (Hopkins, 2011). Thus, the imposition of a balanced budget constraint into a theoretical model may lead to misinterpretation of nonprofit behavior.

Our model offers an extension to existing theory. We treat charitable giving as a transaction between donors and nonprofits rather than a transfer. Instead of imposing constraints on the objective function, our model has altruistic donors exchanging charitable gifts for a bundle of nonprofit services. By characterizing charitable giving as a mutually beneficial exchange, our approach is useful for identifying strategies to increase donor subsidies or detect anti-competitive behaviors in donor markets. Furthermore, by placing altruistic preferences to donors, rather than embedding them in the nonprofit firm, we allow for charitable pricing behaviors to emerge endogenously. Crucially, we do not claim that nonprofits are never charitable. Instead, we demonstrate altruistic preferences in the firm are not necessary to induce charitable pricing and that offering a low price to clients does not preclude the exercise of market power in donor markets.<sup>3</sup>

In the following section, we formally present both the client and donor sides of our nonprofit platform pricing model, highlighting the distinction and interdependence between donor and client demand. We introduce the concept of the Nonprofit Platform Lerner Index (NPLI) on the client side of the market to illustrate how a self-interested nonprofit might rationally set prices below marginal cost. The remainder of the paper focuses on the donor side, where we develop the concept of donor demand, explore pricing strategies for donations, and discuss their implications for nonprofit strategy. We conclude by proposing an empirical research framework for measuring market power in donor markets and considering its broader policy implications.

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<sup>2</sup> Nonprofits must be organized and operated exclusively for exempt purposes, with no part of their net earnings inuring to the benefit of any private shareholder or individual. This prohibition applies to individuals who have significant control or influence over the organization, such as board members, executives, founders, or their family members. Violations of the private inurement doctrine, even in small amounts, can result financial penalties and potential loss of tax-exempt status. [irs.gov/pub/irs-tege/eotopicho1.pdf](https://www.irs.gov/pub/irs-tege/eotopicho1.pdf)

<sup>3</sup> Google and Facebook are for-profit examples of firms that offer services at a zero price on one side of a platform while still facing anti-trust scrutiny (Hovenkamp, 2021). Visa and Mastercard have also been investigated for anti-competitive practices while charging negative prices to one side (Rysman & Wright, 2014).

### 3. An MSP Model of Nonprofit Pricing

This section extends the multi-sided platform (MSP) model of nonprofit organizations originally developed in Kuan & Thornton (2022). We model nonprofits as intermediaries that link clients to donors via a one-way platform, where donors value consumption of a charitable output by clients, but not vice versa. This is analogous to technology platforms where advertisers value viewers, but viewers do not value more advertisers. The model considers two interconnected sides: clients consuming charitable output and patrons providing financial support in the form of donations.

On the client side, nonprofits operate in a market offering charitable output  $x$  at price  $p_x(x)$ , which may be positive, zero, or negative. Client demand is downward sloping, such that  $\frac{dp_x(x)}{dx} < 0$ . The nonprofit has a constant unit cost of production for client output  $c_x$ .<sup>4</sup> See Figure 1 (Panel A) for a visual representation.

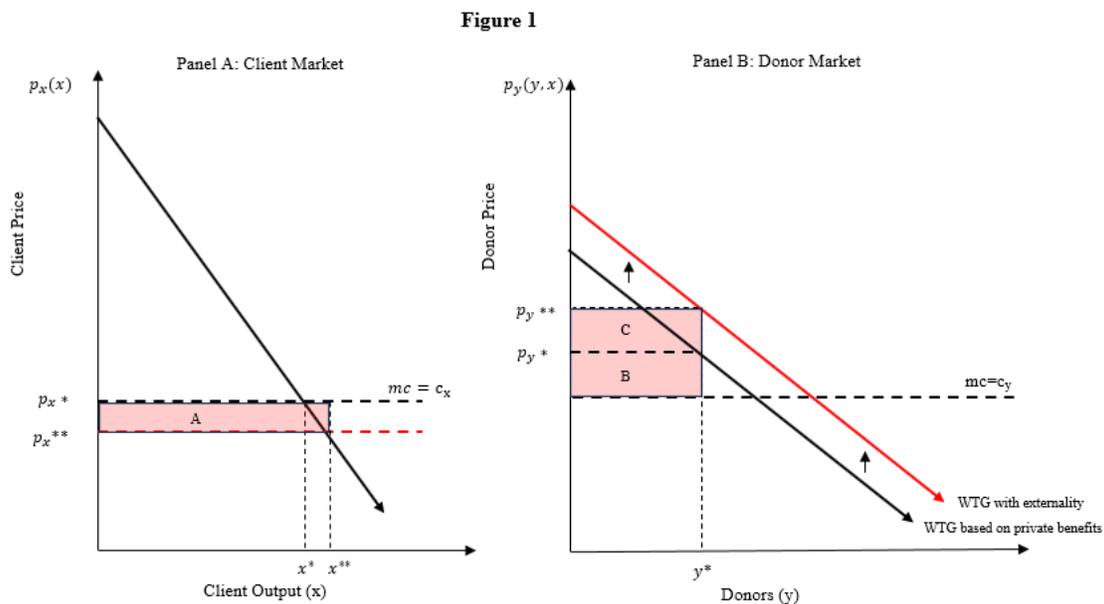


Figure 1: Market Dynamics in Nonprofit Multi-Sided Platforms

Figure 1 illustrates a nonprofit organization operating as a multi-sided platform. Panel A shows the inverse demand curve for charitable output, where  $p_x(x)$  is the price clients are willing to pay for output  $x$ . The nonprofit operates in a competitive client market, so equilibrium price equals marginal cost,  $p_x^* = c_x$ , and quantity expands to  $x^*$ . Panel B shows the inverse donor demand function  $p_y(y, x)$  which gives the marginal donor's maximum willingness to give (WTG) for donor services when  $y$  donors are solicited, and client output is  $x$ . The nonprofit asks for a donation of value  $p_y^*$ , resulting in extracting area B of donor surplus of  $(p_y^* - c_y)y^*$ . The nonprofit exerts market power on the donor side and uses this surplus to subsidize client-side services, lowering effective marginal cost and expanding charitable output to  $x^{**}$ . As client output increases, donors derive additional indirect utility from their gifts, causing an upward shift in the donor inverse demand curve (in red) to  $p_y^{**}$ . This cross-platform effect increases donor willingness to give and generates additional surplus (area C), which can also be used to expand charitable services.

On the donor side (Figure 1, Panel B), nonprofits solicit donors, each of whom receives a bundle of donor services that include benefits such as: networking events, preferred admission, warm-

<sup>4</sup> We assume constant marginal costs for analytic clarity. This assumption allows the NPLI to isolate the effects of elasticity and market power on pricing decisions. In practice, nonprofits may face increasing marginal costs as output expands due to capacity limits, rising labor costs, or diminishing returns to scale in fundraising. Incorporating increasing marginal cost would not alter the intuition of the NPLI but increase analytic complexity. In the model, increasing MC would reduce the range over which below-cost pricing is optimal and mitigate feedback loops that could induce winner-take-all markets.

glow (Andreoni, 1990), social status (Kumru & Vesterlund, 2010), or reputational enhancement (Bénabou & Tirole, 2006).<sup>5</sup> Let  $p_y(y, x)$  denote the inverse donor demand function which denotes the maximum willingness to give (WTG) for the  $y^{th}$  donor, conditional on client output  $x$ . Donors are heterogeneous in their valuation of these services. Ordering their maximum values for donor services from high to low creates a downward sloping demand curve, whose slope is represented by  $\frac{\delta p_y(y, x)}{\delta y} < 0$ . Nonprofits segment the donor market by starting with high-WTG individuals (top of the demand curve) and progressively soliciting donors with lower WTG, thus moving down the inverse demand function  $p_y(y, x)$  as  $y$  increases.

The marginal donation received per donor (i.e., the donor transaction price) is denoted by  $p_y^*$  and may differ from the height of the demand curve. Under perfect (first-degree) price discrimination, the nonprofit could extract the entire area under the inverse demand curve above cost, capturing all donor surplus (Cabral et al., 2019). Yet WTG is difficult for the manager to observe directly, making precise donor price optimization difficult. Strategies such as giving tiers, matching gifts, and personalized appeals serve as tools to approximate and extract donor surplus (Barbieri & Malueg, 2014; Gneezy et al., 2012). To make our analysis tractable, we first consider a single donor transaction price equal to  $p_y^*$ . This simplification corresponds to a fundraising “ask” which may be either too low (the donor had a higher WTG) or too high (the donor walks away without giving). Analogous to standard consumer theory,  $p_y^*$  is the WTG of the marginal donor. Infra-marginal donors receive some surplus, as their WTG is higher than  $p_y^*$ . Donors to the right of  $y^*$  do not give because their  $WTG < p_y^*$ . The model can be extended with various forms of price discrimination (where donors contribute different amounts and their entire WTG is extracted) without loss of generality.

The model includes a cross-platform effect where donors derive indirect value from client consumption of charitable output, meaning their WTG increases with  $x$ , such that  $\frac{\delta p_y}{\delta x} > 0$ . Visually, this cross-platform effect is represented by an upward shift in the donor demand curve to the red donor demand curve in Figure 1, panel B. This effect formalizes a concept originally described in Schiff & Weisbrod (1991), where nonprofits receive larger gifts from donors when they serve more clients. Preference for charitable output (i.e., altruism) enters the model via this cross-platform elasticity from donors rather than through manipulation of the nonprofit’s objective function. Our view is that this formulation is preferable by placing charitable preferences on donors, rather than assigning them to the organization as formulated in Glazer (2016) and Lakdawalla & Phillipson (2006).

Putting both sides of the nonprofit platform together, the nonprofit sets  $x$  and  $y$  jointly to maximize net value from both markets. Importantly, this does not imply that the organization is acting selfishly. Rather, altruistic preferences are placed on the donor via the inverse demand function  $p_y(y, x)$  rather than the organization’s objective function. The nonprofit organization serves as a transmission mechanism to channel donor altruism into client output. The value function can be written as:

$$V = \underbrace{p_x(x) x - c_x x}_{\text{client market}} + \underbrace{p_y(y, x) y - c_y y}_{\text{donor market}} \tag{1}$$

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<sup>5</sup> In this context, the nonprofit is not producing a pure public good as in (Bergstrom et al., 1986; Samuelson, 1954), but more like a club good (Berman & Laitin, 2008; Scotchmer, 2002) where the nonprofit can exclude non-donors from its services.

where:

$x$  = quantity of charitable output

$p_x(x)$  = client inverse demand

$y$  = quantity of donors

$p_y(y, x)$  = donor inverse demand

$c_x$  = marginal cost of charitable output

$c_y$  = marginal cost of donor services & acquisition

As an illustration, imagine that a donor offers naming gifts for rooms in a university hospital. The donor receives two streams of value in exchange for the gift. First, the nonprofit generates a bundle of client services such as their name on the building, increased social status via press releases and events, as well as the private satisfaction (warm glow) of giving, all of which are granted by the nonprofit. For this, the marginal donor is willing to offer a gift of maximum value  $p_y^*$  (Figure 1, Panel B).<sup>6</sup> From this donor market, the nonprofit generates a potential surplus equal to area B in Figure 1. This surplus can then be used to subsidize patient output on the client side.

The donor also derives indirect value from the expectation that the hospital will use their gift to subsidize treatment for clients. This altruistic valuation of client consumption increases the donor's maximum willingness to give to  $p_y^{**}$ . This cross-platform effect is represented by shifting the entire inverse donor demand curve upward. Consequently, the total amount that donors are now willing to give is a function of both nonprofit direct services they receive and indirect client consumption. This cross-platform effect increases the surplus available to the nonprofit to B+C. To capture this surplus from donors, the nonprofit must maintain some monopoly power in the donor market via its distinct ability to convey donor benefits. Without such power, another solicitor could offer a comparable bundle of donor services and access to client consumption in exchange for a smaller gift, reducing the surplus to the incumbent nonprofit. Intense competition on the donor side would eventually drive the  $p_y^{**}$  downward toward the marginal cost of donor services  $c_y$ , leaving no surplus for the charitable subsidy.

On the client side, our nonprofit operates in a competitive environment where they charge clients price  $p_x^*$  to consume charitable medical services. A single-sided nonprofit would not charge a price lower than  $c_x$ , its marginal cost of production. However, surpluses from the donor market (B+C) may be transferred to clients (A), lowering their effective cost of production. Via competition, the price to clients will be bid down, and consumption will increase from  $x^*$  to  $x^{**}$  as client price falls from  $p_x^*$  to  $p_x^{**}$ . Competition on the client side draws the surpluses generated on the donor side.

#### **4. Nonprofit Platform Lerner Index (NPLI)**

We extend the baseline model to develop a pricing tool for nonprofit managers. The Lerner index is a widely used measure of a firm's market power, or the ability to charge a price above its marginal cost (i.e., markup) of production, or  $L = \frac{p-mc}{p}$  (Lerner, 1934). The index ranges from 0 to 1, with higher values indicating greater market power. In a competitive market, prices are driven down through competition to the firm's marginal cost, or  $p = mc$  and  $L = 0$ , indicating no market power. Firms facing less competition can maintain higher prices, where  $p > mc$  and  $L > 0$ , indicating positive market power. The Lerner condition describes how a profit-maximizing firm

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<sup>6</sup> It is a deliberate simplification in this example that donors are constrained to a uniform gift amount. This allows us to focus on partial impacts of the platform. Full equilibrium impact of the platform would depend on relative cross-platform elasticities and are discussed more fully in Belleflamme & Peitz (2021, Chapter 3)

will set its price such that  $L = \frac{p-mc}{p} = \frac{1}{|\epsilon_D|}$ , where  $|\epsilon_D|$  is the own-price elasticity of demand for output. The Lerner is particularly useful because it does not require knowledge about specific market boundaries or competitors (Landes & Posner, 1981) as would be required by a Herfindahl-Hirschman Index (HHI).<sup>7</sup>

If the elasticity of demand is known ( $\epsilon_D$ ), then the desired markup can be calculated. Managers can then infer if their current markup is more or less than would be prescribed by the Lerner condition. We demonstrate how nonprofit managers could use a similar approach even though they are operating in a two-sided (donor and client) market in section 8. The Lerner formulation was discussed in early platform papers (Armstrong, 2006; J. Rochet & Tirole, 2003), but our application of a Lerner condition to nonprofits is novel.

To construct a NPLI, recall that our nonprofit organization maximizes joint revenues in a value function from (1).

$$\max V(x, y) = p_x(x) x - c_x x + p_y(y, x) y - c_y y$$

Which implies the following first order conditions.

$$\frac{\delta V}{\delta x} = \frac{dp_x(x)}{dx} x + p_x + \frac{\delta p_y(y, x)}{\delta x} y - c_x = 0 \quad (2)$$

and

$$\frac{\delta V}{\delta y} = \frac{\delta p_y(y, x)}{\delta y} y + p_y - c_y = 0 \quad (3)$$

## 5. Markup for clients

To examine market power on the client side, we can rearrange equation (2) to give us:

$$p_x - c_x = -\frac{dp_x(x)}{dx} x - \frac{\delta p_y}{\delta x} y \quad (4)$$

Dividing (4) by  $p_x$  yields equation (5) which identifies the organization's desired markup normalized to  $p_x$ .

$$\frac{p_x - c_x}{p_x} = -\frac{dp_x(x)}{dx} \frac{x}{p_x} - \frac{\delta p_y(x, y)}{\delta x} \frac{y}{p_x} \quad (5)$$

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<sup>7</sup> The appropriateness of market structure measures and market definition is an open discussion for the nonprofit literature. See (Harrison & Thornton, 2014) for a review of that literature.

The expression  $\left\{ \frac{\delta p_x(x)}{\delta x} \frac{x}{p_x} \right\}$  is the inverse of the standard formulation for own-price elasticity of demand for  $x$ , or  $\frac{\delta p_x(x)}{\delta x} \frac{x}{p_x} = \frac{1}{\epsilon_x}$ . Where  $\epsilon_x$  measures the sensitivity of client consumption  $x$  to changes in client price  $p_x$ . Price elasticity is typically negative,  $\epsilon_x < 0$ , so a larger elasticity (higher sensitivity to own price) reduces the desired markup. This portion of the equation is identical to a standard for-profit Lerner index.

The second expression on the right-hand side of equation (5) represents the cross-platform externality which links the donor market to pricing decisions in the client market. Donors will increase the maximum value of their gift with higher client consumption of charitable output, or  $\frac{\delta p_y}{\delta x} > 0$ . The term  $\frac{y}{p_x}$  scales this change to the number of donors  $y$  as a fraction of client price  $p_x$ . A positive cross-platform externality implies that donor contributions increase with client consumption, effectively subsidizing client prices and reducing the nonprofit's reliance on client revenue. This condition implies that the desired markup is lower than it otherwise would be without the cross-platform externality because donors are subsidizing client prices. We express the cross-platform externality as  $\epsilon_{p_y x} = \frac{\delta p_y(x,y)}{\delta x} \frac{y}{p_x}$  which will be positive under normal conditions.

Applying this notation generates equation (6). This is the NPLI for the client side. On the left-hand side of (6) is the markup, or price to clients less their marginal cost, expressed as a fraction of client price. The right-hand side decomposes this markup into the difference between the organization's inverse client-price elasticity and the cross-platform effect. This formulation highlights how the nonprofit's pricing strategy for clients is influenced by both terms. The inverse own-price elasticity,  $\frac{1}{\epsilon_x}$ , captures how responsive clients are to their own price changes, while the cross-platform externality,  $\epsilon_{p_y x}$  reflects how donor willingness to give depends on client consumption levels.

$$\frac{p_x - c_x}{p_x} = -\frac{1}{\epsilon_x} - \epsilon_{p_y x} \tag{6}$$

To restate, the client-price elasticity is typically negative,  $\epsilon_x < 0$ , so increases in the magnitude of client-price elasticity will *reduce* the desired markup, or the amount the nonprofit will want to markup client price. The cross-platform effect is typically positive,  $\epsilon_{p_y x} > 0$ , so that increases in its magnitude will, by itself, also *reduce* the desired client markup. A positive cross-platform externality implies that donor contributions increase with client consumption, effectively subsidizing client prices and reducing the nonprofit's reliance on client revenue.

It is the cross-platform externality that incentivizes the nonprofit to lower the price of client output below marginal cost. Unique to our approach, below-cost pricing does not require charitable preferences of the nonprofit. Instead, nonprofit managers are simply responding to the incentives from donors. Thus, it is important for the nonprofit manager to identify pockets of demand where donors are willing to subsidize client consumption. In the extreme case, the optimal price for client output may become negative. Negative prices occur when donor subsidies tied to client consumption are so strong that they outweigh any losses on the client side. For nonprofit managers aiming to lower prices for their clients, the cross-platform externality becomes a critical strategic parameter to manage. Activities that strengthen the connection between client consumption and donor value, such as donor engagement initiatives or mechanisms that link donors to client outcomes, effectively reduce the price faced by clients.

## 6. Markup for donors

Subsidizing client consumption requires identifying markets where donors are willing to contribute a dollar amount higher than their cost of solicitation and maintenance. In this context, nonprofits are seeking to maximize the dollar value of a gift  $p_y$  relative to the cost of donor solicitation and maintenance  $c_y$ . The NPLI on the donor side represents the markup, or donation value above cost. To calculate a donor-side NPLI we re-arrange equation (3) to give us:

$$p_y - c_y = \frac{\delta p_y(y, x)}{\delta y} y \quad (7)$$

Dividing (7) by  $p_y$  generates the following expression.

$$\frac{p_y - c_y}{p_y} = \frac{\delta p_y(y, x)}{\delta y} \frac{y}{p_y} \quad (8)$$

Which can be rewritten as a standard Lerner condition, where  $\epsilon_y^* = \frac{\delta y}{\delta p_y(y, x)} \frac{p_y}{y} < 0$ .

$$\frac{p_y - c_y}{p_y} = \frac{1}{\epsilon_y^*} \quad (9)$$

Equation (9) expresses the NPLI for the donor side.<sup>8</sup> Typically donor WTG is not directly observable by the nonprofit. Willingness to give represents the maximum monetary value each donor is prepared to contribute to a nonprofit organization in exchange for the benefits of the donor services they receive from the nonprofit. Cabral et al. (2019) discussed this concept by noting how nonprofits must manage relationships with donors, to align their interests with public value creation, then devise methods to extract that value, which mirrors our process of estimating and extracting WTG.

While the inverse donor demand curve  $p_y(y, x)$  represents each donor's upper limit of their contribution, the actual value of the gift extracted by the nonprofit depends on their solicitation strategies. Nonprofits rarely know or capture the full WTG because donors are unlikely to disclose it to solicitors. Yet nonprofits may employ a common set of strategies to solicit a donation as close as possible to the donor's maximum WTG. Some donors may voluntarily reveal their maximum WTG to fundraisers (Gneezy et al., 2012; Isaac et al., 2015). In other cases, the value can be approximated through experimentation (Altmann et al., 2019; Karlan & List, 2020; Karlan & Wood, 2017). Nonprofit fundraisers may also attempt to estimate WTG based on observed donor characteristics such as income, previous giving history, or affinity group. In practice, fundraisers often apply a segmentation strategy of giving tiers to approximate donors' willingness to give via giving levels or circles (Barbieri & Malueg, 2014; Kolhede & Gomez-Arias, 2022; Srnka et al., 2003).

The donor surplus available to transfer is a function of the elasticity of demand for donors. If the donor demand curve steepens (i.e.,  $|\epsilon_y|$  becomes smaller or more inelastic), the nonprofit gains additional surplus to transfer to clients. Nonprofits may deploy a variety of strategies to increase

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<sup>8</sup> We include the "star" in the elasticity expression to emphasize that  $p_y$  is a function of both  $y$  and  $x$ , which is not typical in a traditional Lerner index.

market power in donor markets. Each of these strategies has the objective of reducing donor elasticity by mitigating competition from other solicitors. Examples include creating regulatory barriers to entry in education (Andersson & Ford, 2017) or healthcare (Paul et al., 2019). Nonprofits may also seek to increase differentiation from competitors via fundraising messaging so that other nonprofits will not be perceived as a viable substitute for their services (Barman, 2002; Weerawardena & Mort, 2012). Nonprofits may exercise unique control of a desirable resource such as patents (Firpo & Mireles, 2020) or certificates of need (Noh & Brown, 2018). More abstractly, prestige generating nonprofits such as elite universities or arts organizations may function as “status monopolies” to extract surpluses from esteem seeking patrons (Basu, 1987; Sexton & Sexton, 2014).

## **7. Empirical Estimation of the NPLI**

To date, market power has remained a periphery concern for nonprofit managers and researchers. When it is considered, research has typically focused only on the client side (Philipson & Posner, 2009; Prufer, 2011; Searing, 2014). Our model demonstrates that market power measures that only examine the client-side may be underestimating total organization level market power. Furthermore, we demonstrate that charitable nonprofit organizations will need to exercise market power over donors to create client subsidies. Examples could include political organizations, religious sects, or elite educational organizations that extract large donations from elite donors to subsidize preferred client groups. The NPLI developed in this paper offers conceptual guidance for identifying market power in donor markets and strategies for nonprofit managers to extract those surpluses.

On the donor side, equation (9) on the left-hand side demonstrates one approach to calculate the NPLI directly  $\left\{ \frac{p_y - c_y}{p_y} \right\}$ . This calculation requires knowledge of both the donor price and the marginal cost of donor services. However, these parameters are difficult to quantify with existing accounting data. Managers and researchers typically have access to accounting measures of average costs, which can differ substantively from marginal costs (Tinkelman, 2006). In some cases, industry or firm-level data can be collected to identify both the marginal donation value and marginal cost of donor services. Yet, even with such data, the true cost of donor maintenance may be underestimated, as many important costs are implicit. For example, the time executives spend on fundraising or large opportunity costs, such as naming rights for buildings or programs, are not reflected in accounting statements. Consequently, accounting measures likely underestimate the full cost of solicitation.

Fortunately, the NPLI offers an alternative approach to estimating market power for donor markets based on the right-hand side of equation 9, or  $\left\{ \frac{1}{\epsilon_y^*} \right\}$ . Measuring elasticity only requires knowledge of donation amounts and the number of gifts to estimate the slope of the donor demand curve. Unlike traditional measures of market power that require detailed price and output data, this elasticity-based method is particularly suited to nonprofit contexts where such information may be unavailable or difficult to observe.

One common empirical approach to estimate donor demand is to place consumers into relevant “bins” (Epple et al., 2019; Kutlu & Sickles, 2017) of donors by the value of their gift. This approach is most viable when donors are organized into identifiable giving levels or circles, common in university or arts fundraising schemes. Elasticities can then be approximated by measuring the slope of the donor demand curve at these levels. Quick approximations of demand curves can also

be made via experimentation (e.g., A/B testing) with donor subsidies or matching schemes to identify price sensitivity (Gallo, 2015; Helms-McCarty et al., 2016). Such experiments provide quick insights into donor price sensitivity and help refine elasticity estimates. More elaborate econometric techniques for estimating elasticity are outlined in Bresnahan (1989) and Perloff et al. (2007). These methods often involve estimating demand curves through direct market experiments or econometric models that account for both observed and unobserved factors influencing donor behavior.

On the client side, the NPLI decomposes markup into the contributions of clients and donors. Varying the elasticities on the right-hand side of equation 6, makes clear that it is the relative magnitude of these elasticities that determines whether to offer a price above or below marginal cost to clients. For example, if the cross-platform externality exceeds the client-price elasticity  $|\epsilon_{xp_y}| > |\epsilon_x|$ , then the nonprofit should charge a price greater than the marginal cost of production  $p_x > c'_{xy}$ , indicating a positive markup. This markup will increase in value as the ratio between the cross-price externality and client-price elasticity rises. In this circumstance, the organization should raise its prices.

The situation is reversed when  $|\epsilon_{xp_y}| < |\epsilon_x|$ , where the cross-platform externality is less than the organization's client-price elasticity. Under this circumstance, the nonprofit should charge clients less than the marginal cost of production, or  $(p_x < c'_{xy})$ . Intuitively, a modest decrease in price will result in large increases in client consumption. However, donors are relatively insensitive to output, so the marginal value of their donations will not fall. Thus, the optimal price for clients can fall below the cost of production. In a single-sided market, an organization would incur significant losses by lowering its client price. Yet, with a two-sided platform, losses on the donor side will be more than offset by increases in revenue from output insensitive clients. As client-price elasticity increases, the optimal price for clients could become negative. In this circumstance, the organization's revenues and sustainability are maximized by subsidizing the consumption of charitable clients.

The application of antitrust principles to donor markets generates unique policy questions, as nonprofit organizations' ability to subsidize client services often depends on their capacity to exercise market power over donors. This relationship conflicts with traditional antitrust goals of promoting competition. Regulators must balance preventing anticompetitive donor market consolidation against preserving nonprofits' ability to generate mission-critical surpluses. The NPLI framework reveals a paradox, limiting donor-side market power through antitrust enforcement could inadvertently reduce subsidies available for low-income clients. This tension underscores the need for more nuanced antitrust analysis. Emerging empirical evidence suggesting donor markets reach competitive equilibrium with four or fewer participants provides a potential bright-line rule for merger review (Harrison & Thornton, 2014). The NPLI's capacity to quantify cross-platform externalities offers regulators a novel tool to distinguish pro-competitive donor strategies (e.g., impact reporting that increases giving elasticity) from anti-competitive ones (e.g., exclusive donor agreements), enabling targeted interventions that preserve nonprofits' social value creation while curbing monopolistic practices.

## **8. Operational Example of the NPLI and Use Cases**

To make the application of the NPLI more concrete, we begin this section with a stylized example that demonstrates how nonprofit managers might use local elasticity estimates to guide pricing

decisions. Our aim is not to solve a full equilibrium model but to demonstrate how managers can use elasticity-driven pricing adjustments and reallocate surpluses to expand mission delivery.

Consider a hypothetical nonprofit youth music program that charges a fee to service families (clients) and solicits donations from patrons who value youth access to the arts. Managers observe that if clients are charged \$100, then one hundred students will participate in the program. As client price falls, more students enroll. Furthermore, when donors are “asked” for a \$150 sponsorship, fifty patrons from their donor list respond with a gift of that amount. Donors who give then receive access to a bundle of donor benefits (e.g., complementary tickets, public recognition, special donor social events, etc.). The nonprofit managers approximate the cost of both client services and donor solicitation at around \$100 each.

Using historical giving data, A/B testing, and surveys, the nonprofit manager intuits a donor price elasticity of  $-1.5$  (i.e. a 10% increase in the donor “ask” results in a 15% reduction in the number of donations, or  $\epsilon_y = -\frac{15\%}{10\%}$ ). They further estimate a client price elasticity of  $-2.0$ , (i.e., a 10% decrease in client price results in a 20% increase in the number of students enrolled in the program, or  $\epsilon_x = -\frac{20\%}{10\%}$ ). From their giving data, the manager also notes a cross-platform effect of 1 (i.e., each additional client served increases a donor’s willingness to give by \$1, or  $\epsilon_{xy} = \frac{1\%}{1\%}$ ). From the managers’ perspective, these local elasticities are taken as given. Applying the Lerner condition of  $(\frac{p-mc}{p} = \frac{1}{|\epsilon|})$  to the donor side, the nonprofit notes that its current 33% donor markup ( $L_{current} = \frac{(\$150-\$100)}{\$150} = 0.33$ ) is too low relative to its desired markup of 66% ( $L_{desired} = \frac{1}{|-1.5|} = 0.66$ ).

Suppose that the nonprofit manager considers a small increase in the “ask” price to donors. The manager raises the donor price by 10% from \$150 to \$165. With a donor elasticity of  $\epsilon_y = -1.5$ , the manager expects a 15% decrease in donor quantity, from 50 to 42.5 donors. However, total donation surpluses increase from \$7,500 to \$7,012.50 because net surplus per donor has increased from \$50 to \$65.

Assuming the manager reallocates donor surpluses to the client side, the per-client subsidy will increase by \$15 (from \$50 to \$65), which enables the nonprofit to reduce the client fee from \$100 to \$85. With a client elasticity of  $\epsilon_x = -2.0$ , this 15% price cut yields a 30% increase in client quantity demanded, or 100 to 130 students. This expansion in client output further raises donor willingness to give. Given a cross-platform elasticity of  $\epsilon_{xy} = 1$ , an increase of thirty clients boosts donor WTG by \$30, implying a revised donor WTG of \$195, further increasing the donor surpluses available to the nonprofit.

Importantly, each constituency will adjust its behavior (and elasticities will change) as the nonprofit alters its prices. The equilibrium outcome in the market is sensitive to how those elasticities change over their relevant demand curves. We do not model a full equilibrium in this simple example. Nonprofit managers operate within a comparative-statics decision framework, where they first infer local elasticities, then make directional changes in price, and re-observe local elasticities to repeat the sequence. This iterative process does not require knowing general equilibrium outcomes, which are sensitive to the behavior of elasticities over the relevant demand curves.

Practically, the Nonprofit Platform Lerner Index (NPLI) framework is applicable across a broad spectrum of nonprofit settings, furnishing managers and researchers with a systematic tool to

evaluate pricing strategies and optimize the allocation of surplus. For example, nonprofit museums frequently implement tiered pricing structures such as student discounts, general admission, or “pay what you can” nights. The NPLI framework can assess whether these pricing tiers are congruent with underlying market power by examining both client-side elasticity and donor willingness to subsidize access. For example, elevated cross-platform elasticity may support the maintenance of free or discounted entry, particularly when such pricing is underwritten by donor-supported campaigns.

Similarly, universities routinely extract surplus from donors through mechanisms such as naming rights, exclusive events, and affinity programs. The NPLI is instructive in evaluating whether institutions are appropriately capturing surplus from elite donors and whether tuition pricing remains viable under cross-subsidization. By systematically analyzing elasticity alongside the marginal cost of donor services, managers can implement more strategic segmentation of donor tiers. Performing arts nonprofits also employ tiered giving circles or matching grants as means of incentivizing donations. By estimating donor elasticity and cross-platform effects, managers can calibrate ticket prices and donation appeals to optimize both accessibility and financial sustainability.

In fields like political action organizations or housing development, a concentrated group of high-capacity donors may coordinate giving through community foundations, donor-advised funds, or informal alliances. While client markets may display characteristics of competition, this concentration of donor funding has the potential to constrain nonprofit market entry and output in nuanced ways. The NPLI facilitates the detection of such distortions, particularly when low client prices coincide with stagnant client volumes and increasing donor-side markups, indicative of donor-side monopsony power. These scenarios merit policy attention even where client-side competition is ostensibly robust.

Collectively, these examples demonstrate that the NPLI constitutes a versatile analytical framework for nonprofit managers. It is well-suited to diagnostic assessment of pricing consistency as well as the strategic realignment of pricing and surplus allocation to ensure coherence with both mission and market structure across the nonprofit sector.

## **9. Conclusions, Limitations, & Extensions**

This paper introduces a novel framework for assessing pricing strategies in nonprofit platforms by integrating donor and client markets, thereby addressing the unique pricing dynamics of two-sided nonprofits. To assist managers, we develop a Nonprofit Platform Lerner Index (NPLI) to provide a practical heuristic for predicting the impact of prices on charitable output. The model challenges conventional assumptions by demonstrating that charitable pricing can emerge from donor preferences, which then subsidize client consumption. This reframing positions donor engagement as a core strategic activity rather than ancillary, emphasizing the importance of understanding and leveraging donor preferences to achieve organizational objectives.

The relationship between donor support and client expansion is particularly relevant in economically volatile periods. As Exley et al. (2023) note, organizations often face increased program demand during recessions precisely when donor funding becomes uncertain. The NPLI framework offers managers a way to assess whether donor-side pricing power can sustain or expand output during downturns. Our model also reveals that the normative discussion around market power in the nonprofit sector is more complex than in traditional consumer markets.

Elevated levels of market power in donor markets can benefit charitable clients, challenging conventional perspectives on competitive practices in the nonprofit sector.

Our model highlights the complexities of managing donors, particularly given the challenges of measuring donors' maximum willingness to give (WTG) and the marginal costs of donor services. While WTG is often unobservable, the paper suggests alternative empirical approaches such as price experimentation, segmentation strategies, and techniques to approximate the relevant demand elasticities. Additionally, it underscores the importance of considering cross-platform externalities whenever altering client prices. When donors are highly responsive to client consumption (high cross-platform elasticity), nonprofits may want to lower client prices below marginal cost to increase organizational sustainability.

While this model focuses on individual donors as the primary source of subsidy, many nonprofits receive substantial support from foundations, corporate sponsors, and government grants. These institutional patrons can also exhibit platform-like behavior, deriving value from client output (e.g., measurable impact, public accountability, or policy outcomes). In principle, the NPLI framework can be extended to accommodate such multi-patron platforms, where each funding stream responds differently to client-side expansion. Extending the model to multiple constituencies simultaneously is an attractive extension for research.

We acknowledge several limitations of the NPLI framework. For example, our model assumes constant marginal costs for donor services and focuses on revenue maximization, which may not align with every nonprofit's mission or diverse objectives. These limitations open avenues for future research to explore alternative objective functions that better reflect the variety of nonprofit goals and missions. Additionally, future research could expand upon this framework by applying multi-sided platform (MSP) theory more broadly to issues such as nonprofit governance, donor segmentation strategies, and stakeholder management.

In summary, this study extends multi-sided platform (MSP) theory to nonprofit organizations by formalizing the concept of donor pricing and integrating it into strategic decision-making. The NPLI offers a conceptual tool for analyzing market power across donor and client markets simultaneously, providing insights into how nonprofits can optimize their dual-market strategies. Future research could expand beyond pricing to explore other MSP-related strategies in the nonprofit context, such as platform governance, feature design for donor and client engagement, and decisions about which stakeholder groups to serve. These areas present significant opportunities for adapting the rich theoretical framework of MSPs to address the unique challenges and opportunities in the nonprofit sector.

## **Disclosure Statement**

The author(s) declare that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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## **Author Biographies**

### **Author 1...**

Jeremy Thornton, Ph.D. serves as the Dwight Moody Beeson chair of business, professor of economics and the coordinator of the social entrepreneurship program at Brock School of Business. He teaches micro-economic theory, game theory, and social entrepreneurship. Prior to his academic career, Thornton was involved in international economic development. In that role, he facilitated the design micro-finance and anti-poverty programs for civil society organizations in developing countries, primarily Latin America. His projects ranged from micro-lending programs for refugees to medium-sized agricultural and manufacturing operations.

### **Author 2...**

Jennifer Kuan is an Associate Professor of Entrepreneurship and Economics at the College of Business at Cal State University Monterey Bay where she teaches entrepreneurship as well as nonprofit management. She earned a PhD from UC Berkeley's Haas School of Business and studies the role of member nonprofits in structuring innovative industries, including in the history of venture capital and in the promotion of publicly-funded R&D in the semiconductor industry. Dr Kuan is also Executive Director of the Institute for Innovation and Economic Development at the College of Business.

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