# ORGANIZATIONAL HYBRIDIZATION: A BUSINESS MODEL TO INTEGRATE BEST PRACTICES OF FOR-PROFIT AND NON-PROFIT ORGANIZATIONS

*Orneita Burton and Jozell Brister*
Abilene Christian University

## ABSTRACT

The goal of this research is to identify factors that occur in highly competitive, profit-oriented businesses that are also successful in serving the needs of customers and employees and key constituents of the operation's stakeholder network. This research defines factors needed to bridge the best practices of non-profit or not-for-profit (NFP) and for-profit (FP) entities to suggest a hybrid business form that serves as a stewardship model to promote ethical management practices in profit-making businesses. Best practices are defined as suggested by professionals who manage for-profit businesses as hybrid organizations by successfully incorporating fundamental principles of a non-profit organization. Such practices focus on management processes that sustain business operations while positively impacting the people served by the organization and the environment where the company operates. The first phase of a survey has been developed to address the question, *"Which non-profit business practices promote the longevity of for-profit organizations that successfully serve the needs of people?"* The integrative nature of this research implies the need for a second research question: *"Which indicators of successful operations co-exist in for-profit and non-profit businesses?"*

Key Words: for-profit, non-profit, hybrid business models, agency, resource dependence

## INTRODUCTION

The global economy continues in its attempts to recover from the impact of unethical, consumer-unfriendly practices that have weakened several economies and threatened the competitive position of both US and international businesses (Authers, 2010). Recent reports of unethical business decisions to generate profit in lieu of consumer safety continue to emphasize the reality of the pressures faced by managers at all levels in for-profit organizations to place profit generation over the interests of the consumer (Mishkin, 2010).

However, the need to sacrifice one business goal to achieve another suggests either an ineffective business model or fragmented business structures that separate business concerns and do not properly identify and integrate key aspects of business strategy. In fact, the need to integrate business strategy, people, and technology to create a cohesive business environment is a concern that has received heightened attention in many business schools and justifies investments in enterprise resource planning systems (Rosenberg et al., 2010). Such institutions recognize the need to develop enterprise architectures that, 1) create conditions of sustainability and profitability in business, and, 2) meet the needs of people or stakeholders, as both external or internal customers and partners.

The importance of this research is reinforced by continued concerns regarding the instability of financial markets and failing confidence in the ability of government and business sectors to independently manage financial assets to promote the economic well-being of people. There is a particular interest in current research around management processes that are robust to prevent exploitation and that discourage the unintended use of public resources to promote private ambitions (Burton et al., 2009). Profit-making incentives that motivate managers to excel can also inadvertently encourage management practices that create positions of dominance or result in decisions that underutilize resources or create a disproportionate distribution of wealth. As a result, internal resources that are uniquely aligned with organizations and individuals as well as external resources that are strategically positioned within a firm are misused and often are not properly allocated to address the interests of either party.

This research contributes to prior efforts to improve instruction in business management to better equip students for Christian service in both for-profit (FP) and non-profit or not-for-profit (NFP) organizations. This initial effort attempts to address this issue by defining indicators of successful operations that co-exist in for-profit and non-profit businesses to create conditions of both sustainability and charity in business management. In this research, a Delphi study approach is used to collect data from representatives from for-profit and not-for-profit sectors to identify key management practices that govern the operations of successful businesses that, 1) ensure longevity and sustainability of business operations, and 2) focus on the needs of people as customers and employees. In this paper, we attempt to answer the following research question: *"What non-profit business practices promote the longevity of for-profit organizations that strive to serve the needs of people?"* A second research question extends this effort in support of the integrative nature of this issue, and asks, *"Which indicators of successful operations co-exist in for-profit and non-profit businesses?"*

The remaining sections present the following areas: 1) non-technical literature to present theoretical and historical perspectives around the development of non-profit organizations and their impact on for-profit businesses; 2) a review of technical literature to present theories used to motivate this research. Literature in this section was also used to formulate questions and to demonstrate the overall intent and approach used in this research; 3) the research method and data collection environment; 4) an analysis of the data; 5) a discussion of results and limitations; and 6) plans for future research.

## LITERATURE REVIEW

### The Need for Non-Profit Interests

Throughout the history of Western civilization, those who live and interact in a communal culture have always demanded services that address the issues of societal preservation. It has been the challenge of many governments to solve the ever-evolving economic problem of allocating resources to meet the needs of its citizens. In many cultures, this is addressed through the formation of social policies that enable a government to reach out to those most in need of these services.

Of particular interest is the historical heritage aspect of social policy formation (Axinn, 1996). An example of this would be the impact of Elizabethan poor law on early colonial America. Social welfare was a prevalent obstacle faced by this culture, and the chosen method of addressing this problem was to use the English system of governance, in that it was familiar to this class of people. A close examination of this legal concept reveals its true function, as best described by Section 43:2 of the Elizabethan poor law:

> It is agreed and ordered by this present assembly, that each towne shall provide carefully for the relief of the poor, to maintain the impotent, and to employ the able, and shall appoint an overseer for the same purpose. (Quigley, 1996, p. 3)

This set of laws attempted to satisfy the social requirement to create a system that served both the essential needs of those in the community incapable of doing so themselves as well as employ those capable of providing human capital to sustain economic processes (Matt. 26:2). However, consideration for the poor seemed to institutionalize poverty in the Elizabethan poor law and led to a belief that poverty was inevitable and incurable by means other than government mandate.

In addition to these established regulations, there were noteworthy advocates of social welfare who independently responded to the present need. Early in the development of colonial America, John Winthrop delivered a speech calling on the formation of a "Model of Christian Charity" to his Puritan associates (Winthrop, 1630). This highly influential address set the tone for the Christian's God-given duty to render aid to those in need, as demonstrated by the early church. The nature of his speech is well depicted in the following segment:

> By the first of these laws [the moral law], man, as he was enabled so, [is] commanded to love his neighbor as himself; upon this ground stand all the precepts of the moral law, which concerns our dealings with men. To apply this to the works of mercy, this law requires two things: first, that every man afford his help to another in every want or distress; secondly, that he perform this out of the same affection which makes him careful of his own good according to that of our savior: "Whatsoever you would that men should do to you." This was practiced by Abraham and Lot in entertaining the angels and the old man of Gibea. (Winthrop, 1838, p. 40)

The infusion of Puritan ideologies in colonial government was crucial in meeting the level of social welfare needed by the people of that time. However, the principles asserted by John Winthrop and others like himself called for the independent support only available through the goodwill of the citizens of the era. Although activities of the church continued to support the efforts of social welfare policy throughout the development of the American colonies and proved to be invaluable in assisting the needs of the poor, a more organic, hierarchical structure of provision is implied by these efforts to integrate the fullness of God's provision for society (Phil. 4:19; Deut. 8:18; 2 Thess. 3:10). Prior research suggests that a misuse of structures, or in not allowing for provision through the development of natural structures, often results in inefficiencies, i.e., waste, want, and problems of resource misallocation (Williamson, 1975; Dyck et al., 2006). Pope John Paul II in his 1991 encyclical Centesimus Annus, challenged the "social assistance state," writing that the Welfare State of his time was contradicting the principle of "subsidiarity" by intervening directly and depriving society of its responsibility. The Catholic principle of subsidiarity holds that nothing should be done by a larger and more complex organization which can be done as well by a smaller and simpler organization, i.e., higher order means of provision should not interfere with what lower orders are capable of performing (Bosnich, 2011). The Pontiff suggested that such practice "leads to a loss of human energies and an inordinate increase of public agencies which are dominated more by bureaucratic ways of thinking than by concern for serving their clients and which are accompanied by an enormous increase in spending." It is worthwhile to note that this principle is consistent with natural structuring mechanisms suggested in organizational theories, which describe how certain costs influence the development of markets vs. organizational hierarchies (Williamson, 1975).

However, some sources suggest that radical measures of giving are supported by Scripture

(Dyck et al., 2006; Deut. 15:7-11; 1 Tim. 6:17-18). Although such provision has often been regarded as unconventional, motivated by selfless acts of obedience (Surdyk, 2009), such actions can become inconsistent with God's provision when motivated outside of divine directive (Chauncey, 1752; 2 Thess. 3:10). Seemingly excessive acts of monetary giving have been widely challenged in that they do not take advantage of the full measure of God's purpose in providing for the multi-faceted needs of people (e.g., emotional, relational, sacrificial, and more) through joint participation in a viable, working community (Phil. 4:19; Deut. 8:18; 2 Thess. 3:10).

**Official Recognition and Limitations of the American Non-Profit**

Societal recognition of need, and a philanthropic approach to addressing such concerns, is evident throughout the course of American history. It wasn't until the 1950s, however, that these efforts were formally recognized by the government and special provisions established. With the enactment and subsequent revisions of the Internal Revenue Code of 1954, a non-profit entity was legally recognized and given certain considerations by the American government.

In sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code of 1954, non-profit entities are classified according to their affiliation and function. The creation of such entities allowed the efforts of those attempting to provide support for a specific purpose the ability to do so without the burden of government-imposed taxes. With the business structure of many non-profits closely resembling that of a for-profit business, the absence of tax liability should allow for greater outreach and potential for accomplishing the desired goal.

However, the origins of today's non-profit are closely intertwined with the early development of social welfare policy and the Old Testament laws that guided it (Prov. 31:8-9; Jeremiah 7:5-7). Additionally, religious institutions have always promulgated this effort and continue to have a significant impact on the way non-profit business is conducted. With both legal and moral motivations to maintain a separation of church and state, the American response to social welfare needs has become a multi-faceted endeavor addressed by government entities, businesses and other non-government organizations (NGOs), and the general populace. Therefore, today's non-profit, although regarded as a not-for-profit business entity, is an example of a socially derived organizational structure that is entirely supplemental and significantly influenced by everyone, including government programs established to provide aid in times of economic failure.

Now that more and more NGOs are assisting in charitable efforts in a formally recognized fashion, the increased availability of funding sources heightens the response to need and contributes to societies' demand for action in this effort. Although the societal needs of the poor have been identified as spiritual as well as material, charitable demands are typically met through financial means, placing the management of non-profit services under the governance of economic principles. This condition implies an expected supply-demand relationship at the foundation of both FP and NFP operations. As such, we can represent the social welfare relationship as one of suppliers of social services provided by government programs, FP enterprises, NFP organizations, and other NGOs and the many who legitimately require these services. However, demand in this case is derived from millions of individuals now supported through government mandate, including many who could be compensated through the private sector, and swamps the expected increase in the quantity of social services intended mainly for the unemployable. This relationship simply suggests that, as the supply for social welfare increases, the demand for such provisions also increases, thus creating an increase in the price of providing for these needs. Although the analogy may appear intuitive, the question to consider is, "To what extent should both for-profit (FP) and not-for-profit (NFP) business models exist in a fully functioning economy?" We have considered this question based on historical accounts of the formation and formal recognition of NFP organizations. Yet, we see from this literature that, although there exists a growing demand for the provision of social services, many NFP activities are strongly influenced by imbalances in a system of separated provision, and are not the product of natural social and economic activity. As a result, severe inefficiencies exist in the provision of social welfare that occurs through government intervention.

**Motivation: Not-For-Profit/For-Profit Management Approaches**

*"Elite business schools are overhauling their M.B.A. curricula in an effort to produce more ethical and globally savvy leaders."*
February 2011, Chronicle of Higher Education

Business leaders and educators in higher education recognize the need to improve business outcomes through a more holistic approach to educating students in business disciplines (Hegeman et al., 2011). Therefore, this research further motivates the need to consider hybrid structures that integrate best practices of business, government, and civil organizations to help in educating students in providing ethical, more socially effective and economically efficient business outcomes (Dees & Anderson, 2003; Dekker, 2009). A worthwhile approach to this problem would be to form legal hybrid FP/NFP institutions where economic activity is channeled through distinct organizational structures that, 1) provide for a true societal need, and 2) efficiently manage the supply-demand relationship. Although variations exist in either business model, typical FP and NFP organizational forms operate according to their legal description, serving either profitable or charitable ends (Dees, 2007). However, the advantages of such structures are not well-defined in a single business model, as performance deficiencies exist in the management of both FP and NFP organizations.

A gap that has been widely considered and confirmed in literature where business practice intersects religious values is the problem of shared or conflicting motivation (Pattison, 1997; Chewning, R.C., 2009; Machowsky, 2010; Robbins, 2010). Global research in the economics of both for-profit and non-profit management relationships has characterized the problem as one of agency, where the preferences of agents or employees are not aligned with those of upper management who in turn represent the interests of corporate stakeholder groups (Jensen & Meckling, 1976; Fama and Jensen, 1983a; Callen et al., 2010). This work suggests that Agency Theory and Resource Dependence (Boundary Spanning) Theory can be used to explain relationships where stakeholder interests are not congruent with governance mechanisms. Pfeffer and Salancik (1978) define Resource Dependence as "the organization's need to construct internal mechanisms toward managing or strategically adapting to its external environments." Nonprofit organizations manage their external environment by establishing a board of directors who are capable of influencing the outside world to the organization's advantage through such activities as fundraising, helping the organization interface with government or other organizations, or by improving the organization's public image. In the nonprofit literature, this is typically referred to as ''boundary spanning'' (Harlan & Saidel, 1994; Jun & Armstrong, 1997). In this research stream, Callen et al. (2010) found that the two theories are complementary and address different areas of nonprofit performance.

Miller-Millesen (2003) emphasizes the importance of employing unambiguous objectives such as profit maximization to improve NFP performance outcomes. Economic theory suggests that the profit maximizing firm will maximize its profit if it produces where marginal cost equals marginal revenue, MC = MR. The authors claim that such measures are needed to mitigate a more complex set of performance deteriorating effects faced by NFP boards when compared to FP boards. NFP boards face factors such as a large number of stakeholder types, a mixture of ideologies, and a heterogeneous set of goals when compared with FP boards (Miller-Millesen, 2003). This measure is the proper course for firms if their goal is, in fact, to maximize profit. However, the extant literature suggests that upper level management of large corporations may not maximize profit in the short run (Baumol & Blinder, 2010). Rather, managers of even FP companies may have goals which are quite distinct from profit maximization.

Prior research also suggests that managers of firms may set a goal to "satisfice" rather than maximize their company's profits. Satisficing is a term coined by Herbert Simon (1989), defined as having an aim to achieve only satisfactory results, recognizing that aiming for the best-achievable result would call for additional costs, effort, and accepting higher levels of risk. As such, proper governance becomes a factor in influencing management to opt for goals that satisfice vs. those that promote profit maximization and other goals that emphasize the competing interests of managers. As such, related interest on biblical perspectives in management may support objectives that satisfice, denouncing profit or wealth maximization as a strategic yet undesirable state in the proper stewardship of God's resources (Dyck et al., 2006; Luke 16:1-12)

John Kenneth Galbraith's seminal work, "The New Industrial State," established the position that competing goals and objectives exist because the managers of a firm and the owners of the firm are often not the same group of people (Galbraith, 1967). For example, the shareholders of a firm are only the putative owners—owners in name only. According to Galbraith, the degree to which one owns something is the degree to which one controls that asset or resource. As such, Galbraith claims that the shareholders do not control the corporation; in fact, the "techno-structure" typically runs the modern corporation. The techno-structure is a set of overlapping and interlocking committees composed of technicians, managers, engineers, and computer specialists. However, because of the scientific or technical nature of this group, members of the techno-structure tend to focus more on individual effort and are often interested in maintaining or improving their own position. Because this collective intelligence runs the modern corporation, within certain contexts, major decisions in giant corporations are made by a techno-structure with competing goals and interests.

Miller-Millesen (2003) discusses similar occurrences when NFP boards experience agency issues in dealing with executive staff. The author concludes that NFP boards are less likely to engage in activities such as monitoring managers to mediate agency problems when this group is professionalized and knowledgeable, where the board actually becomes dependent upon managers (typically executive level managers) for information. Executives who are knowledgeable and responsible in the day-to-day running of the organization are more likely to be in a superior position to affect the agenda and decisions of the board.

While agency theory suggests that governing bodies such as boards would not improve NFP performance by monitoring a professionally trained staff, the resource dependence perspective would suggest a positive impact using boundary spanning (Hyndman & McDonnell, 2009). Based upon the insights from Miller-Millesen (2003) and Fama and Jensen (1983a, b), nonprofit boards that depend on management are less likely to involve themselves in administrative issues, and involve themselves instead in boundary spanning activities. For example, Pfeffer (1973) finds that hospital boards dependent on local communities for support tend to recruit local well-known community leaders in order to raise funds. In contrast, hospitals dependent upon religious groups or the federal government for support have boards that are involved to a greater extent in administrative vs. boundary spanning activities. As such, we would expect administrative costs to be higher in NFP/NFP relationships compared to NFP/FP relationships.

## RESEARCH APPROACH

### Data Collection

Because organizational performance has numerous dimensions and is judged differently in various contexts, no one theory can adequately explain the proper dimensions of a hybrid NFP-FP business model. When a research area is relatively new or if many unknowns exist, modeling is used to quantify and evaluate the conditions under consideration. However, modeling with limited knowledge is analogous to modeling in a vacuum; the result would be models at levels of abstraction that are of little or no practical use.

In prior research, studies conducted under these conditions have obtained some insight from domain experts using Delphi Study methods (Linstone, 1975). The Delphi Study method is an iterative process that creates an interactive communication structure between the researcher and experts in a field. This approach has been used to provide the insight needed to develop realistic models and has been invaluable in revealing expertise and knowledge that resides only within the expert. Prior studies have defined this as knowledge that is not codified or “tacit” knowledge (Nonaka & Takeuchi, 1995). Giddens (1984) makes a distinction between discursive and practical knowledge where the former relates to knowledge that can be articulated and the latter refers to tacit knowledge that experts are able to utilize but not necessarily able to express (Orlikowski, 1992). Related research has defined uncodified knowledge as “unconscious” learning (Lewis, 2000).

The Delphi process involves asking qualitative and quantitative questions of domain experts. Respondent information is analyzed and fed back to each person using additional questions. Participants’ responses are then analyzed and iteratively shared with all experts until a consensus is reached to offer synthesis and clarity on the factors under investigation. Because the study involves "experts" it is assumed that some reasonable level of quality information is attained. Because it is an iterative process, it is assumed that good quality knowledge evolved from this effort.

Data collected from the Delphi Study group was analyzed using a grounded theory approach using open coding techniques, where concepts were identified and their properties and dimensions were defined by the data. Results from both analyses were used to identify patterns of relevance in identifying a hybrid structure to bridge best practices of FP and NFP operations.

Interviews were conducted with six participants who currently or in recent years have overseen operations for FP and/or NFP businesses. Data were collected from upper level executives, each with management and leadership experience in at least one of six different industries: financial services, computer and natural sciences, computer application development, accounting, management consulting, and non-profit management. Each participant interviewed has guided organizations using strategies that create profitability and also focus on the long-term sustainability of the organization. These organizations balance financial goals with a special emphasis on meeting the needs of its employees and customers.

To identify key characteristics of their management processes, the following questions were asked during the initial round of interviews:

*Q1) In your opinion, what decisions can managers of for-profit and/or non-profit organizations actively make to promote the* ***longevity*** *of their operation? Please respond to either or both areas based on your background.*

*Q2) In for-profit businesses, customer relationships are key to sustaining a successful company. Considering your background, who would you consider to be your* ***customers****? What* ***measures*** *do you take to enhance these relationships? How does that correlate to the growth of a company/organization?*

*Q3) Your involvement in business has been recognized as most successful in promoting positive returns/outcomes for a business/organization. What business* ***practices*** *and/or decisions do you attribute to this* ***success****?*

*Q4) What do you consider to be your company's or organization's* ***bottom line****? Is this measured qualitatively, quantitatively or a combination of both?*

*Q5) What can professors do at the university level to foster the development of future managers* ***equipping*** *them to make these decisions in their own careers?*

During the second-round interviews, an additional question was presented to clarify responses that would apply specifically to FP vs. NFP entities, to establish consensus around the responses, and to identify uniquely novel approaches to FP/NFP integration:

*Q6) If you were to* ***integrate*** *the best business practices of non-profit and for-profit organizations, what would you do that is* ***uniquely*** *different from other managers or organizations?*

Each manager received a copy of the questions prior to the interview. Interviews in the first round were conducted during separate visits to the manager's job site. Second round interviews were conducted through face-to-face interviews with one interview conducted by phone.

## ANALYSIS

### Content Analysis

An analysis of the content of the six interviews was conducted using a field study approach as suggested by Miles and Huberman (1994). A deductive coding scheme was used to initially guide the analysis of data obtained from the respondents to, as suggested by grounded theory, identify, "the properties that we can use to examine the incident in the data" (Glaser & Strauss, 2006). In this case, we are looking for properties that would define the structure that generates the FP-NFP model.

Table 1 identifies the key concept associated with each question and responses summarized from the Delphi group under each concept. In some cases, for clarification, more detailed responses are quoted for the benefit of the reader. For each concept, we have also added a term beginning with the letter "S" to develop a 6S model for this structure, representing the six participants in this field study.

**Table 1**

**Open-Ended Responses**

*Question 1:* ***Longevity (What <u>Sustains</u>)***

1. Reactive to changing business climate
2. Relationships are key to the success and longevity of business
    i. Identification of stakeholder (i.e., partner/customer/donor/stockholder) relationships
    ii. Responsiveness to customers
    iii. Customer satisfaction (pleasing)
    iv. Employee/Customer Selection
    v. Employee training/empowerment
3. Strong, healthy performance (in terms of bottom line/accomplishing a mission)
4. Exceptional performance relative to competition
5. Nurture and sustain key stakeholdersemployees, customers
6. Focus on business integrity
7. Definition and management of the company's culture is of utmost importance to its continued success
8. NFP should not focus on longevity, but instead on relevance and flexibility
9. FP should become an institutional entity; desperate to survive/preserve
10. Learn to survive or merge: 7 of the top 10 players will go away in 10 years

*Question 2:* ***Customer <u>Service</u> (What it means to serve)***

1. Eat, sleep and breathe customer service
2. Availability
3. Consistency of operations between locations

4. Equitable treatment of customers
5. Careful maintenance and selection of customers
6. Deliver a quality product/service that is good for the customer
7. Obtain customer feedback and incorporate responses into your business model (Responsiveness)
8. Everything you do speaks about you and your company
9. Being genuinely kind, polite, hospitable
10. View business services through the eyes of the customer
11. Know your customers
12. Don't rely on third-party analysis of customer information
13. Cultivate customers
14. Allow customers to be actively engaged in prioritizing the company
15. Meet with customers on a regular basis
16. Constantly improve product/service offerings
17. Identify hurdles that hinder company from offering unparalleled service
18. "Wow" the customer, going above and beyond customer expectations
19. Rewarding associates for "exceptional" customer service
20. Mass communication of superior service offered by associates in interacting with customers

*Question 3:* ***Practices leading to <u>Success</u> (what works)***

1. Establish and communicate financial indicators (i.e., growth measures)
2. Establish an environment that differentiates between leaders and managers
3. Establish an environment that differentiates between a job and work
4. Reward managers for retention, development of people, contribution to revenue stream, and contribution to margin
5. Be a good steward
6. Be responsible
7. Be flexible; NFP should be relevant or go away
8. Be flexible; FP will go away if they do not change
9. Manage through influence vs. power
10. Know what you can control and what you can not
11. Create environment that allows change to happen healthily
12. Treating customers/stakeholders with respect and integrity will sometimes be reciprocated
13. Good companies can change bad companies through their interactions
14. Have a Christian worldview that values more than profit
15. Staying true to your value fulfills our purpose and reaps dividends
16. In B2B relationships, consider the well-being of your suppliers
17. Make profit and grow it; focus on the creation of capital vs. redistribution

*Question 4:* ***Bottom Line (<u>Scorecard</u>—what to measure)***

1. Growth measures
2. Employee and customer satisfaction surveys
3. Emphasis on quantitative measures that drive qualitative measures
4. Tracking of location specific issues to facilitate resolution
5. Consider future trade-off versus current trade-off of every business decision
6. Evaluate business partner alignment (customer, supplier, shareholder, others)
7. Company culture measures (integrity, others)
8. Consideration of correlations between financial and social measures
9. Ratios drive the bottom line and how you define value

*Question 5:* ***Equipping <u>Students</u> (what to teach)***

1. Model based learning within the context of business to understand factors and relationships
2. Stakeholder models
3. Low cost vs. usury models
4. Core values, critical behaviors
5. Mentorship and coaching
6. Teamwork and peer reviewing– nothing is an individual contribution
7. The value of win-win outcomes
8. Make a distinction between leaders and managers and train appropriately
9. Teach what is in the book - knowledge of core business principles
10. Teach what is not in the book, e.g., forces, control, value vs. what feels good

11. Knowledge and understanding of key business performance measures
12. Math, critical thinking, integrity, ethics, values, cultural differences
13. Practical knowledge regarding the way a business functions at its core
14. How to gain an understanding of the current business environment
15. Fresh business ideas that are relevant to the current environment
16. Sharing of real-world experience
17. A thorough understanding of "customer" and customer service
18. Understanding of baseline vs. exceptional performance and the impact on the company
19. Understand how the business operates in community with people (customers, employees, and others)
20. Use of business cases to ensure relevancy of business concepts and provide actual examples of real world business operations
21. How businesses solve their problems and issues
22. Focus on how to generate vs. redistribute wealth
23. Modest living

*Question 6:* ***Integration (what is Special, unique)***

1. Terminology may be different, but more relevant
2. Full stakeholder analysismust identify names and needs
3. Model-based understanding needed of business within its proper context
4. Focus on balance of purpose and performance
5. Define true value, include hard (quantitative) measures and ratios
6. Maintain relevance, purpose
7. Plan to survive or merge to accommodate change, maintain relevance

### *Development of Stewardship Model*

In developing the stewardship model, Table 2 has been provided to compile and categorize NFP business practices that, as stated in our research question, promote longevity of FP organizations that successfully serve the needs of people. A grounded theory approach requires that, in order to define the point of integration between two models, the researcher must first be able to define the properties and dimensions of each entity (Strauss and Corbin, 1998). Following this approach and using responses from the Delphi group, the properties of the resulting stewardship models are shown in Column 1. To define the point of integration, Table 2 also compares characteristics of FP and NFP models as provided by respondents. These characteristics form the dimensions for both FP and NFP businesses as shown in Column 3 and Column 4, respectively. The integrated 6S stewardship model proposed by this research as a response to the second question, *"Which indicators of successful operations co-exist in for-profit and non-profit businesses?"* is provided in Column 5 of the table.

**Table 2**
**Entity Properties—Dimensions**

| Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|---|---|---|---|---|
| **6S Properties** | **Description** | **FP** | **NFP** | **FP-NFP** |
| Sustainability | What sustains | Focus: ROI<br>flexibility, service, profit, true value, real growth | Focus: mission, flexibility, relevance, mission | Focus: balance—survive or merge, purpose w/ performance |
| Stakeholders | What is service | fit, treat w/respect/integrity | purpose, modesty | Balanced stakeholder model |
| Success | What works | Christian worldview, agency relationships | flexibility, resource dependence | context based relationships |

| | | | | |
|---|---|---|---|---|
| Scorecard | What to measure | True value, ind/mkt/perf ratios | purpose, relevance | value, purpose, ratios |
| Students | What to teach | leadership, math, financials, balanced focus, mentorship, influence, responsibility, win-win, value, forces, control, service | management, modest lifestyles, service, responsibility | All in context in model-based relationships, stewardship |
| Special | What is different | institutional | need sunset | thrive or merge for relevance |

## DISCUSSION

These results suggest that all six members of the Delphi study group favor the importance of an integrated approach to business management to ensure the success of both the company and the stakeholders or people involved in various business relationships. Although all respondents agreed that the purpose of a NFP is different when compared to a FP organization, an integration of business practices would add value to both environments.

The following sections discuss each property and associated dimensions in greater detail. Implications of each are also provided to extend this work in future research by developing a survey to administer to a larger population.

### Sustainability (Longevity)

*"NFPs live forever, often whether or not they need to."*
(Anonymous Delphi respondent)

All respondents associated longevity or the long term sustainability of a FP company with meeting customer and stakeholder needs and a strong bottom line performance. To sustain operations, the FP must satisfy investors who seek to maximize their return on investment (ROI). Otherwise, investors will fund other ventures, and the company will not continue. Therefore, a focus on service, profitability, true value, and real growth are necessary to sustain the FP organization.

Most agreed that the FP company must also be "in it for the long haul." To do so, the organization must be flexible and create an environment for change to occur naturally, in a healthy manner. However, the objective of the NFP should *not* be longevity or sustainability; instead, the goal of the NFP should be to fulfill its mission, to serve its purpose. With this in mind, the NFP must be flexible enough to fulfill its mission, and, then, when fulfilled, go away or adopt another.

The implication is that the organization following an integrated model may need to seek balanced approaches to ensure both survival and relevance. A measure of this would be to determine if the company has a working mission statement and performance measures in place that monitor profitability.

### Stakeholders (Service)

The customer relations property quickly expanded into a stakeholder category with many dimensions. Delphi respondents all emphasized the importance of people in every aspect of the business, from employee, to customer, to stockholder, to include even the interests of the supplier. FP companies express the importance of fit when hiring associates and in choosing customers. Considering the network of business relationships, it is also important to treat all people with respect and integrity, even if the need arises to separate from the company.

NFPs serve a mission or purpose. It is therefore important for managers of NFPs to keep a healthy focus on the spirit and intent of the mission and not to live in a way contrary to the interests of the same (Luke 16:11). One respondent provided an example of when an influx of missionaries to an impoverished village resulted in an increase in the price of housing, thus making housing unaffordable for local residents.

Because stakeholders can take many forms in the integrated FP-NFP model, a stakeholder analysis would play a critical role in the larger survey. Companies with interests in both the people as well as the performance of an organization and its impact on the environment should have a full understanding of who is to be served by the mission of the organization and understand the unique needs of each party.

**Success (what works)**

We intentionally chose Christian leaders with an active spiritual relationship to participate in the Delphi study group. Although this could be considered a limitation of this study (threats to validity, i.e., selection bias, Miles & Huberman, 1994), the intent was to ensure outcomes consistent with the will of God. As a result, each respondent emphasized the importance of having a Christian worldview. A Christian worldview suggests being led by a divine power, not thinking as the world thinks, even in FP business ventures. Respondents supplied numerous statements to define this worldview as an influential FP leader and a NFP manager:

*"Treating customers/ stakeholders with respect and integrity will sometimes be reciprocated."*

*"Good companies can change bad companies through their interactions."*

*"Have a Christian worldview that values more than profit."*

*"Staying true to your values fulfills our purpose and reaps dividends."*

The theories suggested through the literature review support the positive contributions made by following a Christian worldview. Agency theory explains the impact on organizations when interests between owners and agents or managers differ and are not aligned—in strategy, motivation, and goals. Although the reasons vary across industries, the cause still rests in the hearts and minds of individuals, where, by nature, self-promoting interests will reign. Although agency problems can be mitigated to some extent by governance mechanisms and contracts or agreements, the most effective solution is to create an environment where people in the organization understand the impact on the bottom line of holding a Christian worldview.

Resource dependence theory (RDT), which explains how organizational behavior is influenced by external resources, can especially be operationalized through a Christian worldview. The basic tenets of RDT are:

- Organizations depend on resources;
- These resources exist within the organizational environment;
- This environment includes other organizations;
- The resources needed by one organization often exist in another organization;
- Resources are a basis of power;
- Legally independent organizations can be dependent on each other;
- Power and resource dependence are directly linked; and
- Power is thus relational, situational and potentially mutual.

Resource Dependence Theory is one of many organizational theories that take a resource-based view of the firm. To fully understand how to successfully appropriate interlinking resources is beyond the ability of individuals, even with good intentions, and even more so beyond the ability of a diverse management team in a complex, global operation. Such management requires the adoption of a Christian worldview to be true to values implanted by an all-knowing God, to allow the allocation of His Spirit to operate in a fallen world (1 Corinth. 13:4). One Delphi participant provided a real-life example of how the company he managed, along with a team of individuals who shared a Christian worldview, was saved from the downfall with Enron. His company was a sister company of Arthur Andersen that operated under a separate corporate identity. The separation happened shortly before the Enron scandal. He attributes the decision to separate as resulting from *"having integrity...staying true to your values…keep focused…do what is right, which means do the right thing...keep the end in mind."* Of the many suggestions made by the Delphi group, holding to a Christian worldview was stated as the most reliable contributor to a successful business.

**Scorecard (what is measured)**

A consensus was reached during the second-round iteration that quantitative measures were needed to successfully operate both FP and NFP organizations. In FPs, although quantitative measures or key performance indicators (KPIs) are available, it was agreed that many stakeholders below the executive level did not understand the meaning of various ratios or how to use them to manage operations or make decisions. Most agreed that quantitative measures are typically not a part of the NFPs' scorecard, but that success is measured by a mission fulfilled. However, the reality is that, as one participant phrased it, "the NFP often lives on forever whether or not they really need to."

Without relevant performance measures, inefficiencies persist and resources continue to be misallocated by individuals with good intentioned yet subjective motivations. Agency problems go unchecked and organizations flounder under the blind guide of mismanagement. Many financial measures exist that could be used to guide the NFP manager. However, in the FP environment (as introduced in the literature review), theoretical guides such as profit maximization, are not always the goal of groups such as the corporate techno-structure.

For an integrated FP-NFP model, different relationships must be considered to balance the focus of an organization. Although not fully developed in this research, we propose investigating complementary relationships where, as one participant recommended, NFPs are reframed as Service Organizations (SO) with performance measures similar to a FP organization. For example, the profit-maximizing relationship in economic models, where MR = MC, could be used to frame a similar relationship where the SO maximizes the service component of their mission, i.e., where Marginal Service (MS) equals Marginal Cost (MC). In this way, efficiencies are introduced into the operation of the NFP or Service Organization, and an appropriate "sunset" or endpoint is established.

**Students (what is taught)**

*"Goal of Business Education: To be good stewards of things that don't belong to us."*
(Anonymous Delphi respondent)

The Delphi participants suggested a fairly extensive list of requirements for preparing students for leadership in FP companies. Most members placed a clear distinction between leadership and management. Leaders were said to be vision casters, where one leader might oversee a number of managers. NFPs are often managed by an executive staff under the direction of a board. Although specific areas of preparation were provided for the NFP manager, the emphasis is that corporate responsibility carries with it demanding requirements for the leader of a FP business. For this study, the significance of the difference is that students are often taught to be good managers yet are not prepared to be good leaders. With this in mind, students must be taught both management and leadership skills, as leaders have great influence on the outcome of the FP business.

An aspect of this study that is particularly interesting is the impact that a professionally prepared executive or management staff can have on maintaining the focus of the NFP organization. Because prior research confirms the observation that nonprofit boards that depend on management are less likely to involve themselves in administrative issues, students that are properly trained in business schools increase the likelihood that board members will involve themselves in boundary-spanning activities and thus increase their involvement in activities that the board was enlisted to perform. When we add to the model the provision for social needs through FP activity and contrast this with NFPs that depend upon religious groups, including individuals with good intentions who lack sufficient business education, or the federal government for support, and therefore have governing bodies that are involved to a greater extent in administrative vs. boundary-spanning activities, we would anticipate lower administrative costs and an overall increase in efficiency when serving societal needs with NFP-FP relationships.

**Special (what is special)**

In the second round of interviews, we attempted to identify the unique or "special" aspects of integrating FP and NFP models. A number of the suggestions in this research are common practices, or "what is already in the book," in the FP business school curriculum. However, in the tradition of true research, our goal is to make a significant contribution to the existing body of knowledge. Therefore, the Delphi group was asked, "*If you were to **integrate** the best business practices of non-profit and for-profit organizations, what would you do that is **uniquely** different from other managers or organizations?*

The statement that follows is short, yet it summarizes the consensus of a group of Christian business leaders devoted to improving the quality of the business function:

Be relevant; thrive or merge (partner with others) as good stewards who are entrusted to lead and serve people by managing resources that do not belong to us. Teach others (students) to do so within the context of real business, using model-based relationships to ensure they understand how to influence others (individuals, organizations, and their environment) for good.

## CONCLUSION

The FP-NFP column in Table 2 provides a list of guiding principles that can be used to teach students the importance of business leadership (agency) and the management of unique resources (resource dependence) using model-based relationships to successfully create an integrated for-profit/not-for-profit or service organization. These principles are critical to any effort to integrate best practices of both structures to improve operations through both models, and particularly the for-profit model. Historical perspectives on the development of non-profits suggest that the origins of today's non-profit are closely intertwined with the early development of social welfare policy and the laws that guided it. Additionally, religious institutions have always promulgated this effort and continue to have a significant impact on the way non-profit business is conducted. The separation of church and state, although necessary for religious freedom, has also created an unintended outcome in the provision of societal needs. As a result, inefficiencies and resource allocation problems persist in business activity through misguided management and lack of leadership, which together continue to drain resources needed to balance the economy and spur economic growth.

In this research, we attempt to bring to light the impact Christian business schools can have on for-profit businesses without the direct influence of government or social welfare policy. Effective (i.e., Christ-centered, integrated, people-focused, relevant, outcome-based, measureable) management practices as taught by Christian institutions of higher education can have a significant impact on the business environment by properly equipping students with proven approaches that ensure the sustainability of businesses and the communities served through business operations.

Historical records establish that the creation of a non-profit sector allowed the efforts of entities attempting to provide support for a specific purpose the ability to do so without the burden of government-imposed taxes. Although this benefit alleviates certain financial concerns for organizations with altruistic missions, tax- or government-motivated incentives can offset core management practices as businesses work to comply with tax requirements that conflict with a company's business strategy. Prior research supports findings that successful businesses understand and operate under basic economic principles such as supply and demand; whereas government policy-makers often ignore such principles when establishing regulations and policies (Lewis, 2007). As a result, government intervention often results in economic imbalances, where, for example, demand might dramatically exceed supply. Government interference with free markets usually has unintended, detrimental side effects (Olasky, 2008; Baumol & Blinder, 2010). Such intervention often results in increasingly higher prices, which can invariably lead to unhealthy corrections in financial markets and global economies. Because the business structures of many non-profits closely resemble those of for-profit businesses, economic principles apply to non-profits as well. Therefore, the emphasis on relevant business practices governed by sound economic, leadership, and management principles vs. government regulation or tax liability can provide the foundation needed for managers to successfully operate both organizations.

Preliminary results from this analysis suggest that for-profit and non-profit business structures have congruent goals: longevity/sustainability and/or relevance, and meeting the needs of people. Although the business motivation and people-orientation (i.e., identification of significant stakeholder relationships) may differ for the two sectors, both for-profit and non-profit organizations recognize the need to focus on the interests of people to ensure continuity of operations. This idea is supported in practice by general economic principles, where buyers and sellers in free market economies complement each other, when, by pursuing their own self-interests, people inadvertently promote societal well-being as a whole (Baumol & Binder, 2010). The idea is also supported in Scripture, where the daily interactions of people are often complementary in serving individual needs as well as those of the community.

## LIMITATIONS

Although the findings of this initial effort are of importance, we recognize the limitations in this research in the number and scope of responses. Data was collected from six executives with management and leadership experience in six industries: financial services, computer and natural sciences, computer application development, accounting, management consulting, and non-profit management. Additional data would be needed from a larger population for validity and significance to be established with confidence in the results achieved. Responses are also needed from a larger subset of managers of non-profit organizations to balance the results obtained in this research. Although more variability in responses would be expected in surveying a wider industry base and population, additional insight is expected from the extended data set after insignificant variability is identified and separated in the analysis of data from the full survey.

## PLANS FOR FUTURE RESEARCH

This research is an initial attempt to understand the for-profit and non-profit business environment and to identify factors that can be used by Christian and other universities in equipping students in management approaches that combine the best practices of for-profit and non-profit organizations. Plans are to continue this research effort by adding additional responses from key for-profit managers as well as successful managers of non-profit organizations to develop a survey instrument that can be administered to a larger population. The resulting data will then be used to develop business models and performance measures that can be used to guide business operations and also provide guidance in the instruction of students to equip them in effectively leading, supporting, and managing a business, regardless of its mission or business structure. The anticipated outcome of this second research effort is to help develop strategies to equip business schools with the tools needed to properly identify and train leaders in the practices and success indicators of "best of brand" businesses that are profitable and also serve their stakeholder network.

## REFERENCES


Authers, J. (2010). *The fearful rise of markets*. Upper Saddle River, NJ: FT Press.

Axinn, J. & Levin, H. (1997). *Social welfare: a history of America's response to need* (4th ed.). White Plains, NY: Longman.

Baumol, W. J. & Blinder, A. S. (2010). *Economics: principles and policy* (11th ed.). Nashville: Thompson-Southwestern.

Bosnich, D. A. (2011). The principle of subsidiarity. *Religion and Liberty*. Retrieved 6/15/11 from http://www.acton.org/pub/religion-liberty/volume-6-number-4/principle-subsidiarity.

Burton, O., Brister, J., & Lytle, R. (2009). *Educating the head, heart, and hand to support missional processes in change management*. Paper contributed to the *Christian Business Faculty Conference*, Rogers, AR.

Callen, J. L., Klein, A., Tinkelman, D. (2010). The contextual impact of nonprofit board composition and structure on organizational performance: agency and resource dependence perspectives. *Voluntas: International Journal of Voluntary & Nonprofit Organizations,* March, 21(1), 101-125. Cardone, Jr., M. (2009). *Business with soul: creating a workplace rich in faith and values*. Nashville: Thomas Nelson.

Chauncey, C. (1752). *The idle poor secluded from the bread of charity by the Christian law. A sermon preached in Boston, before the Society for encouraging industry and employing the poor.* Boston: Thomas Fleet.

Chewning, R. C. (2009). Capitalism: From its Genesis to its eschatology, its compatibilities with Christianity; its insidious challenges to Godliness. *Journal of Biblical Integration in Business*, 13, 5-45.

Dees, J. G. & Anderson, B. B. (2003). Sector bending: Blurring the lines between nonprofit and for-profit. *Society*, 40(4), 16-27.

Dees, J. G. (2007). Taking social entrepreneurship seriously. *Society*, 44(3), 24-31.

Dekker, Paul. (2009). Civicness: From civil society to civic service. *Voluntas: International Journal of Voluntary & Nonprofit Organizations*, 20(3), 220-238.

Dyck, B., Starke, F. A., & Dueck, C. (2006). Just what was Jesus saying? Two interpretations of the parable of the shrewd manager. *Journal of Biblical Integration in Business,* 111-140.

Fama, E. F., & Jensen, M. C. (1983a). Separation of ownership and control. *Journal of Law and Economics,* 26, 301–326.

Fama, E. F., & Jensen, M. C. (1983b). Agency problems and residual claims. *Journal of Law and Economics,* 26, 327–349.

Galbraith, J. K. (1967). *The new industrial state*. New York: Signet Books.

Giddens, A. (1979). *Central problems in social theory: Action, structure and contradiction in social analysis.* Berkeley: University of California Press.

Glaser, B. G., & Strauss, A. L. (1967). *The discovery of grounded theory: Strategies for qualitative research*. Chicago: Aldine Publishing Company.

Grossman, P. J. (1988). Government and economic growth: A non-linear relationship. *Public Choice*, 56(2), 193-200.

Harlan, S. L., & Saidel, J. R. (1994). Board members influence on the government-nonprofit relationship. *Nonprofit Management and Leadership*, 5, 173–196.

Haugen, G. (2009). *The good news about injustice.* Downers Grove: InterVarsity Press USA.

Hegeman, J., Edgell, M., Jochemsen, H. (2011). Practice and profile: Christian formation for vocation. Eugene, OR: Wipf & Stock Publishers.

Hyndman, N., & McDonnell, P. (2009). Governance and charities: An exploration of key themes and the development of a research agenda. *Financial Accountability and Management,* 25, 5–31.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3, 305–360.

Jun, S. P., & Armstrong, G. M. (1997). The basis of power in churches: An analysis from a resource dependence perspective. *Social Science Journal*, 34, 105–125.

Lewis, T., Amini, F., & Lannon, R. (2000). *A general theory of love*. New York: Vintage Books.

Lewis, H. (2007). *Are the rich necessary? Great economic arguments and how they reflect our personal values*. Mount Jackson, VA: Axios Press.

Linstone, H. A., & Turoff, M. (1975). *The delphi study method: Techniques and applications*. Boston: Addison-Wesley.

Machowsky, I. (2010). Changing the paradigm: Leveraging infrastructure and technology to advance the business of not-for-profit organizations. *Journal of Jewish Communal Service,* 85(2/3), 244-250.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis*. Thousand Oaks: Sage Publications.

Miller-Millesen, J. L. (2003). Understanding the behaviour of nonprofit boards of directors: A theory-based approach. *Nonprofit and Voluntary Sector Quarterly*, 32, 521–547.

Mishkin, F. S. (2010). *The economics of money, banking, and financial markets (9th ed.)*. New York: Addison-Wesley.

Nonaka, I. & Takeuchi, H. (1995). *The knowledge creating company: how Japanese companies create the dynamics of innovation*. New York: Oxford University Press.

Olasky, M. (2008). *The tragedy of American compassion*. Wheaton, IL: Crossway Books.

Orlikowski, W. J. (1992). The duality of technology: Rethinking the concept of technology in organizations. *Organization Science*, 3(3), 398-426.

Pattison, S. (1997). *The faith of the managers: When management becomes religion.* London: Cassell.

Pfeffer, J. (1973). Size, composition and function of hospital boards of directors: A study of organization environment linkage. *Administrative Science Quarterly,* 18, 349–364.

Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective.* New York: Harper and Row.

Powell, W. W. & Steinberg, R. (2006). *The non-profit sector: A research handbook*. New Haven: Yale University Press.

Quigley, W. P. (1996). Work or starve: Regulation of the poor in colonial America. *University of San Francisco Law Review,* 31, 35.

Robbins, H. E. (2010). Soul searching and profit seeking: Reconciling the competing goals of Islamic finance. *Texas Law Review*, 88(5), 1125-1150.

Rosenberg, A., von Rosen, M., Chase, G., Rukhshaan, O., Taylor, J. (2010). *Applying real-world BPM in an SAP environment*. Dedham, MA: SAP Press.

Simon, H. (1997). *Models of bounded rationality*, *Volume 3.* Cambridge, MA: MIT Press.

Surdyk, L. K. (2009). Business ethics' best corporate citizens doing what they can, with what they have, where they are, to address poverty in America. *Journal of Biblical Integration in Business,* 12, 106-119.

Trattner, W. I. (1999). *Poor law to welfare state*. New York: The Free Press.

Williamson, O. (1975*). Markets and hierarchies: Analysis and antitrust implications: A study in the economics of internal organization*. New York: Free Press.

Winthrop, J. (1630/1838). A model of Christian charity. *Collections of the Massachusetts Historical Society (3rd series),* 7, 31-48.

Zodhiates, S. (1985). *The new international version Bible.* Chattanooga, TN: AMG International.


## ABOUT THE AUTHORS

Orneita Burton is an Assistant Professor of Management and Information Systems at Abilene Christian University in Abilene, TX. She holds a PhD in Business and Computer Information Systems from Arizona State University and conducts research on the integration of faith-based approaches in business management and in information systems design. Orneita lives in Abilene with her husband, Dwain, and her son, Brian.

Jozell Brister, Associate Professor of Economics at Abilene Christian University. Research areas: Labor Economics, Case Studies in Economics, including "The Economic Effects of Downsizing Lessons for Eastern Europe," and more recently, Not-for-Profit Enterprise.