ARTICLES

The Nonprofit/For-Profit Continuum: Theorizing the Dynamics of Mixed-Form Markets

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A growing body of research has emerged on "mixed-form" markets—markets for goods and services in which for-profit, nonprofit, and government providers coexist. This article seeks to understand the dynamics between nonprofit and for-profit organizations operating within the same market. The authors propose a five-step theoretical framework that includes both nonprofit and for-profit actors to capture what is fundamentally a temporal process: market identification; market growth; increasing cost for goods/services; increasing price for goods/services; and cross-sector competition. The authors use data from extended qualitative investigations in distinct service markets to analyze the unique contributions and capacities of each organizational form, and the transformation of market structure over time. The authors conclude that the dynamic interplay between nonprofit and for-profit forms within markets produces three possible outcomes: stratified, displaced, and defended markets.

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A growing body of research has emerged on "mixed-form" markets—markets for goods and services in which for-profit, nonprofit, and government providers coexist. This literature begins from the observation that many service markets—health care, education, culture, research, social services—contain providers of all three forms (e.g., Steinberg, 1987, p. 120). This empirical fact has both helped drive the development of theories explaining the existence of nonprofit organizations and generated numerous empirical studies

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comparing inputs and outputs of different organizational forms within specific service markets.

On the theoretical side, "contract failure" theory (Arrow, 1963; Hansmann, 1980; Nelson & Krashinsky, 1973) posited that nonprofits come into being to combat information asymmetry between consumers and producers of particular services; because nonprofits face the nondistribution constraint, they are unlikely to cut back on service quality to funnel profits into directors' pockets. This theory suggested that certain service markets—namely, those with high information asymmetries—will be served only by nonprofit providers. Critics pointed out, however, that even in such markets, for-profit and government providers remained. Much subsequent theory development about nonprofit organizations can be seen as pursuing an explanation for this phenomenon. For example, "public goods" theory (Weisbrod, 1977, 1988) argued that nonprofits arise to provide collective goods to social groups that exhibit preferences other than those of the median voter, whereas government supplies median voter-preferred public goods. In an inversion of this rationale, "voluntary failure" theory (Salamon, 1987, 1995) stated that nonprofits are the first response to the desire for public goods, whereas government supplies only those that are beyond the scope of (private) nonprofit provision. Both of these theories try to explain the existence of the nonprofit organizational form within a particular service market but shed little light on why service markets might contain several organizational forms or how each one's market share might shift over time.

Empirical studies of mixed-form markets largely have concentrated on comparing the relative quality of for-profit, nonprofit, and sometimes government provision of a single service. Studies of this kind especially have focused on health care, including hospitals (Bays, 1977; Ferris & Graddy, 1999; Forder, 2000; Johnson, 1971; Kushman & Nuckton, 1977; Rosenau & Linder, 2003), insurance providers (Robinson, 2003; Schlesinger, Gray, & Bradley, 1996; Schlesinger, Mitchell, & Gray, 2003), and nursing homes (Clarke & Estes, 1992; Grabowski & Hirth, 2003; Harrington, Woolhandler, Mullan, Carrillo, & Himmelstein, 2002). A few authors have asked the same question about child day care providers (Kushman, 1979; Rose-Ackerman, 1986).[1] Beyond the issue of relative service quality, some studies have specifically examined whether the nonprofit form produces unfair competition for for-profit firms in the same service market (Chang & Tuckman, 1990; Goodspeed & Kenyon, 1993; Gulley & Santerre, 1993; Nelson & Krashinsky, 1973; Tuckman, 1998).

Few of these empirical examinations of mixed-form markets, however, have addressed the potentially dynamic relationships that arise when different provider forms operate in the same market. This is partly a data problem, as these studies mostly use cross-sectional data to give us market-share snapshots at particular points in time.[2] A more productive way to examine questions of market dynamics uses historical and life course perspectives. A pioneering study by Schlesinger, Marmor, and Smithey (1987) applies this approach to health-related service markets, including hospitals, nursing

homes, and insurance plans. They argue that changing regulatory and financing environments in the United States since 1900 advantaged the nonprofit form in some periods and the for-profit form in others. Attuned to the details of these historical circumstances, the authors posit a three-stage life course trajectory for service markets, which includes distinct roles for nonprofit and for-profit providers. In the first stage, a new service is developed, usually by a nonprofit provider, which uses donations to subsidize the risks of innovation. Second, if demand for the service grows quickly enough, for-profit organizations will leverage their superior access to capital markets to begin competing with slower responding nonprofits. Third, nonprofits and for-profits serving the same market will begin to look alike as they compete for clients primarily on the basis of price.[3]

In this article, we seek to further develop our theoretical understanding of the dynamics between for-profit and nonprofit organizations operating within the same service market.[4] We are particularly interested in the question of whether nonprofits may sow the seeds of their own destruction by developing innovative solutions to social needs, and how the process of competition between for-profit and nonprofit providers arises. We first present a five-step theoretical framework for the initiation and transformation of social needs markets. We then use data from extended qualitative investigations in two distinct service markets—community development corporations in real estate markets and nonprofit technology organizations in technical assistance markets—to illustrate the theory. The analysis captures the unique contributions and capacities of each organizational form, pegged to changes in the market environment over time. We conclude by offering three potential pathways for mixed-form markets.

THEORETICAL FRAMEWORK

Our theory identifies five stages in a temporal process: market identification; market growth; increasing cost for goods/services; increasing price for goods/services; and cross-sector competition. We do not assume a teleological progression through all five stages; depending on the particular structure and environment of a market and its providers, the process we describe may halt at any stage.

Step 1: Market identification. New profits can be generated by the creation of new markets, including both product markets (new goods or services) and consumer markets (new consumer segments for existing goods or services). Nonprofit organizations (NPOs) traditionally are understood to create charitable products, not profitable ones. There is increasing recognition, however, of the commercialization of NPO activities (i.e., the capacity of NPOs to generate revenues; e.g., James, 1986; Skloot, 1987). Whereas such revenue generation could become profit in a for-profit firm, NPOs face the nondistribution

constraint; this ensures that revenues support ongoing service operations rather than get distributed as profit to organizational directors. In the past 20 years, NPOs have become more dependent on revenue generation to meet their operational costs (Salamon, 2002). This indicates that they have successfully identified and cultivated markets for their services.

An NPO identifies a market by first identifying a social need. By social need we mean the kind of nonmedian voter public good discussed by both Weisbrod (1977) and Salamon (1987): a collective good desired by some group of people, where the group is insufficiently large for the government or the market to provide the service. Our conception of social need extends beyond basic survival goods such as health care and housing to incorporate ancillary collective goods such as culture and professional support. Social needs give rise to markets when they exhibit two important features: (a) an overwhelming pool of potential consumers and (b) a negative cost-price ratio. When an NPO defines its mission, it consciously demarcates a social need in such a way that it ensures an oversupply of consumers for the forseeable future.[5] A negative cost-price ratio exists when the cost of meeting the social need exceeds the price that consumers can or will pay. Unlike for-profit organizations (FPOs), however, NPOs can receive donations from third parties—including individuals, governments, or private organizations—to subsidize the cost of meeting a social need. Furthermore, as Schlesinger et al. (1987) argue, the availability of donations makes nonprofits more likely than for-profit or governmental organizations to take the necessary risks to discover solutions to social needs. Donations will cover all or part of the NPO's cost of providing a social needs service, which then can be sold to the consumer within a price range beginning at zero. The distinction between NPO donors and consumers must be recalled here: NPO donors provide the means for NPOs to offer services to a distinct set of consumers—donors do not receive services themselves. To receive donations, however, an NPO must establish itself as a socially and institutionally legitimate solution to the social need it has identified.

Step 2: Market growth. Following Suchman (1995), we understand legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate, within some socially constructed set of norms, values, beliefs, and definitions" (p. 574). Legitimacy is necessary for organizations to operate within normative and regulatory frameworks and has also been shown to predict organizational survival rates in mixed-form markets (Scott, Ruef, Mendel, & Caronna, 2000). Once an NPO has identified a potential market, there are two outcomes: either (a) the NPO's play for legitimacy is successful, and it begins to receive donations from one or more donors; or (b) legitimacy is denied, and the NPO cannot move beyond market identification. In the former case, a market is created. This new market begins with one or a few NPOs implementing the newly legitimated solution to a social need. If the legitimacy of the NPO's approach moves beyond the original NPO-donor agreement, new NPOs and new donors will recognize the

effort to meet the social need. They will thus enter the market as well, producing market growth as long as the social need remains unsatisfied.

Step 3: Increasing cost. NPOs will attempt to respond to market growth with internal organizational changes, such as adding program components, staff, and space. This organizational growth leads to a more complex internal division of labor as NPOs seek to meet growing service demands and coordinate activities with other institutional constituents, such as regulatory bodies and funding sources. In response, NPOs will develop departments like administration and fundraising to accomplish specific tasks and coordinate in-house activities. The complexity of additional and specialized tasks and staff adds various costs to producing the services NPOs provide.

Step 4: Increasing price. To offset cost increases, NPOs must increase the price they charge for service. Unlike FPOs, NPOs have a choice about where to pass along price increases: to donors, via what we call a donative revenue strategy; or to consumers, via what we call a commercial revenue strategy (cf. Hansmann, 1980). A donative revenue strategy attempts to increase charitable donations to the NPO to offset higher service costs. This strategy is preferred under conditions of inelastic prices, which in the case of social needs markets often is due to consumers' inability to pay. A commercial revenue strategy offsets higher costs by increasing prices for the service to the consumer. If consumers tolerate price increases such that the price rises beyond a break-even point, this signals the market's potential profitability. FPOs may then attempt a foray into the market. To the extent that NPOs employ "cross-subsidization" (James, 1986) of a service, however (i.e., NPO development of net revenue-generating activities to subsidize deficit-producing services), FPO entry into a market may be delayed because the profit-making potential of the service is less clear.[6]

Step 5: Cross-sectoral competition. When FPOs enter a market populated exclusively by NPOs,[7] the NPO effectively has created a market for FPO activities. Due to better access to capital and other resources (Schlesinger et al., 1987), the potential to usurp legitimacy (Scott et al., 2000), and perceived differences in quality, FPOs may threaten to displace NPOs in the market. The commencement of this cross-sectoral competition gives rise to three potential pathways for any market that addresses a social need. We call these possibilities the stratified market, the displaced market, and the defended market. A *stratified market* contains both NPOs and FPOs, but the consumer population is split in two. NPOs serve poor consumers whose costs of service are subsidized by donors, whereas FPOs serve wealthy consumers who pay market rates for service in a direct exchange. A *displaced market* is one in which the NPOs that identified and created a market are pushed out by later-entering FPOs. Donor subsidies to NPOs either no longer are forthcoming or prove insufficient for NPOs to cover the increased costs of providing service. A *defended market* describes the scenario in which NPOs fight back against FPO incursions,

using any number of fundraising, regulatory, legitimacy, or other tools of defense. We will return to a discussion of these three potential market outcomes and their significance in the conclusion.

In the remainder of the article, we apply our theory of market creation and transformation to two very different empirical cases. Using qualitative data that incorporate historical and temporal components, we discuss nonprofit community development corporations in real estate markets and nonprofit technology organizations in technical assistance markets. We then conclude with a more elaborate discussion of the market outcomes theorized above.

DATA

Data for the two case studies are drawn from independent qualitative research projects conducted by the two authors. The data on community development corporations come from Marwell's 3-year participant-observation study of eight community-based organizations (CBOs) in a low-income area of Brooklyn, New York (see Marwell, 2000, 2004a, 2004b). Begun in May 1997, the first 15 months of the study involved intensive participant observation at the eight CBOs, where Marwell worked as a volunteer in each of the organizations for a half-day each week. Volunteer work was staggered over the 15 months, such that she volunteered continuously in each CBO for a period of 6 to 9 months. Marwell also attended a wide variety of neighborhood events, community meetings, and family gatherings during this time and accompanied staff and participants of the CBOs on trips and events carried on outside the study area. Over the next 4 months, while carrying out a series of interviews, Marwell checked in with the study groups on a regular basis and also continued to attend neighborhood events and gatherings. After withdrawing from the field for approximately 8 months, Marwell resumed participant observation from September 1999 to September 2000. The case study material presented here focuses on one of the eight study organizations.

The data on nonprofit technology assistance providers (NTAPs) come from McInerney's participant observation, interviews, and archival work on the NTAP community. The study took place from April 2001 to November 2003 and included between 10 and 20 hours of participant observation each week at NTAP organizations and events throughout the United States. McInerney also interviewed 53 key staff members at 30 NTAPs across the United States, ranging from individual consultants to executive directors of NTAP organizations. Because most NTAPs are small organizations (all had fewer than 25 employees, most fewer than 6) with low turnover, the people with whom McInerney spoke were in positions to comment on the development of their organizations and the field in general. Interview respondents were identified through snowball sampling, which was corroborated with a sample drawn from the membership and conference attendance lists of the Nonprofit Technology Enterprise Network, the trade association for NTAPs. Interviews were tape-

recorded and transcribed. To triangulate participant observation and interview data, McInerney collected electronic and physical archival materials, including data from documents he solicited and procured, as well as retrospective Internet materials housed in the Internet archive (http://www.archive.org).

REAL ESTATE MARKETS AND NONPROFIT COMMUNITY DEVELOPMENT CORPORATIONS

Community development corporations (CDCs) are common nonprofit institutions in poor urban neighborhoods and exist to a lesser extent in poor rural areas. CDCs are created by local residents to address community decline through a focus on housing and other infrastructure concerns within a bounded geographic space (e.g., an urban neighborhood). The CDC movement grew out of the federal government's failed "urban renewal" and "Model Cities" approaches to urban redevelopment in the 1950s and 1960s. As political fights between the federal government and city officials froze progress on Model Cities programs in the latter half of the 1960s, private foundations began to support a new, neighborhood-based model of urban revitalization spawned by nonprofit organizations. The CDC model began to draw wide attention in 1966, when Senators Robert Kennedy and Jacob Javits became involved with the Bedford-Stuyvesant Restoration Corporation in Brooklyn, New York (Yin & Yates, 1975, p. 145). In the 1972 Economic Opportunity Act, the federal government sanctioned CDCs as important players in the redevelopment of distressed urban areas (Halpern, 1995, p. 132).

The CDC movement originally focused on business development, with an eye toward creating self-sustaining local economies. These efforts, however, proved largely ineffective (Halpern, 1995; Vidal, 1992), and thus CDCs began to search for another way to create significant improvements within poor places. They found a winning strategy in housing development, which not only produced highly visible results—brand-new apartment buildings where there previously had been vacant lots or rubble—but also met a pressing local need. By many accounts, the housing work of CDCs enabled them to log their most significant progress in improving the environments of low-income neighborhoods. By 1980, there were more than 1,000 CDCs in operation nationwide (Peirce & Steinbach, 1987). Looking back on the 1980s, Vidal (1992) estimated that CDCs produced between 23,000 and 40,000 new or rehabilitated low-income housing units each year. This was more than triple the average number of housing units that federal public housing programs produced annually during that same period (Vidal, 1992, p. 87).

We turn now to an illustration of our theoretical framework using the detailed story of one CDC in New York City. New York offers us a telescoped version of the temporal process described by the theory because even the least desirable New York real estate possesses the distinct advantage of being

located within one of the world's major commercial and cultural centers. Whereas many northeastern and midwestern U.S. cities (e.g., Baltimore, Washington, D.C., Detroit, Cleveland) are still struggling to regain viability following their decline in the 1960s and 1970s, New York has experienced a full-fledged resurgence. This broader context makes the New York CDC a useful case for the purposes of this article, as the entire five-step process described by the theory actually has occurred.

Step 1: Market identification. New York City's CDC movement began in urban neighborhoods suffering the consequences of racial change and disinvestment by private capital. By the end of the 1950s, African Americans migrating from the south and Puerto Ricans arriving from the island had moved into numerous working-class and poor neighborhoods in the Bronx, Brooklyn, and Manhattan. White flight ensued, helped along by underhanded real estate practices such as blockbusting. A combination of neglect toward their new tenants and rising costs for residential services—heat, hot water, electricity, and so on—spurred a rash of landlord abandonment of buildings in these areas. The 1970s fiscal crisis only added to the problems, as neighborhoods lost city services such as sanitation, parks, and libraries, becoming even less livable. Local real estate markets became so unprofitable that many building owners resorted to arson to claim insurance payoffs: a last-ditch effort to get something out of their investments. The nation witnessed this nadir from afar during the 1977 World Series, as television cameras panned to an outdoor shot of Yankee Stadium only to catch flames leaping into the air from the apartment buildings just outside. Watching this, ABC's Howard Cosell intoned, "Ladies and gentlemen, the Bronx is burning" (quoted in Freeman, 2000).

While the Bronx's travails became internationally infamous, the same process was happening across New York City's poor neighborhoods. In Williamsburg, Brooklyn, large-scale abandonment and arson were destroying what once had been a vibrant neighborhood. Over the course of the 1960s, previously lively blocks turned into rubble. In the wake of this destruction, population loss accelerated: Between 1970 and 1980, Williamsburg lost 20% of its population. With their neighborhood falling down and disappearing around them, a small group of community activists, including priests at three of Williamsburg's Catholic churches, responded. In 1970, the group began to organize residents whose landlords were refusing to provide basic services in their buildings. Organizers encouraged tenants to band together, pool the funds they would otherwise spend on rent, and purchase necessary building services themselves. In buildings with vacant apartments in need of rehabilitation to make them livable, organizers found new tenants, moved them into the apartments, and allowed them 3 months before they were required to start paying into the building services fund. This strategy allowed tenants to spend rent money on initial renovations and then integrated them into the larger structure of the building, making the entire building more viable.

Step 2: Market growth. Through this work, the Williamsburg group secured legitimacy with neighborhood residents, but it still needed to be recognized by government and private donors as a legitimate solution to the housing crisis. In 1972, the Williamsburg activists and a few similar groups from other neighborhoods convinced the city's Housing Development Agency to establish a program that would use the organizing strategies they had been engaging in with great success for several years (Schur & Sherry, 1977). The city yielded, establishing the Community Management Program (CMP) to contract with local organizations to take over the management of landlord-abandoned residential buildings in their neighborhoods.[8] That same year, the Williamsburg group incorporated as an independent nonprofit called the Southside United Housing Development Fund Corporation, known colloquially as "Los Sures." Working with tenants, Los Sures began providing regular services, including heat, hot water, and repairs. CMP also provided city funds for Los Sures to undertake moderate structural rehabilitation of the properties in the program, such as replacing a roof, boiler, or plumbing system. As the 1970s progressed, Los Sures helped shape new city housing assistance programs, brought state and federal resources into the organization, and began securing private foundation funding.[9]

Step 3: Increasing cost. Moving into the 1980s, the CDC strategy was transforming itself from an organizing-based approach that drew on local residents' collective spirit and minimal resources, to a disciplined science of real estate development (Peirce & Steinbach, 1987). Land deals, financing, design, and other aspects of CDC work became more complex, necessitating staff with a range of expensive, highly technical skills. At the same time, however, the federal funds that had spurred the growth of the CDC sector were being cut as part of the Reagan Revolution. This meant that each new construction effort involved a greater number of financers and other participants, thereby increasing complexity even more (Vidal, 1992). The trend moved toward fewer and larger CDCs, as groups like Los Sures developed more and larger properties and expanded the property management tasks of their portfolios. By 1997, Los Sures had developed more than 1,500 units of housing in 100 different buildings; managed approximately 1,400 of those units on a daily basis; and annually worked with more than 1,000 tenants in their efforts to get adequate services in their privately owned buildings.

Los Sures's development work had been slowing down since the early 1990s, as each project became more and more expensive to complete. Costs for site control rose as the supply of local city-owned properties—which Los Sures had purchased for nominal fees in the early days—dwindled. Construction costs increased. Bridge loan and mortgage subsidy terms became less favorable. And the larger size of the organization produced greater general operating costs. Faced with a decision on how to meet these cost increases, Los Sures sought new sources for donations at the same time that numerous other old and new CDCs were doing the same. Some parts of the decision about how

to meet cost increases were made for Los Sures by outside actors: Regulated rents were set at higher levels by the city's Rent Guidelines Board, reduced federal housing subsidies required higher rent payments from tenants, and units built for purchase via government mortgage packages required down payments. But even as financing and construction costs rose, the biggest barrier for Los Sures was land use. After 15 years of steady rehabilitation and reconstruction on the streets of Williamsburg, not only were vacant lots now few and far between, but land prices were going up. Building owners who before had let their properties default to city ownership now recognized their increased value and returned to rehabilitate buildings and rent to the young urban professionals who now sought to live in newly "hip" Williamsburg. The process of gentrification was under way.

Step 4: Increasing price. Gentrification is one way to improve a distressed neighborhood. For-profit business responds when it sees a customer base that can afford to pay profit-making prices for its product. With real estate costs skyrocketing in Manhattan during the boom of the second half of the 1990s, many young, college-educated professionals could no longer afford to rent or buy there. They started discovering Williamsburg, just one subway stop across the East River. Meeting up with an earlier arriving artist colony, these young people helped create a thriving real estate market with hipster cachet. As new amenities—restaurants, stores, art galleries—blossomed, real estate prices followed. Los Sures and its low-income constituents had a short-term reprieve from rising prices as the new arrivals settled mostly on the Northside of Williamsburg, close to the L train that runs along Fourteenth Street in Manhattan. But soon, Los Sures watched glumly as prices rose on the Northside and housing seekers turned to the historically Latino Southside, where Los Sures and its constituents had put down deep roots.

As a nonprofit with a social need mission to provide quality housing to low-income New Yorkers, the expanding gentrification threatened Los Sures's very existence. In 1997, Los Sures issued a statement in their 25th anniversary report that read as follows (Southside United Housing Development Fund Corporation, 1997, italics added):

> Los Sures anticipates tremendous changes in the Williamsburg area in the next decades. The waning of the older industrial businesses, the possible incursion of market rate housing in the Southside, combined with budget cuts in rent subsidy programs and the continued assault on tenant protections *threatens to transform our community into one that the current Latino residents may neither recognize or be able to live in*. Consistent with our mission, Los Sures will continue to fight for the right to be an active participant in the shaping of the future of the Southside.

This statement illustrates Los Sures's concern for the social effects that gentrification posed for the area's low-income, Latino residents. Whereas for-profit

developers made investments solely on a financial basis, the nonprofit Los Sures sought mission- and value-based returns on its work. Within the context of the neighborhood's shifting real estate market, however, maintaining these returns became extremely difficult.

A number of changes in the housing market made it impossible for Los Sures to continue making housing available to poor local residents at the very low prices it originally had. One issue involved changes to the federal housing subsidies (so-called "Section 8") received by many of the tenants in buildings developed or managed by Los Sures. In 1997, the federal Department of Housing and Urban Development (HUD) began its "mark to market" program for all Section 8 properties. Recognizing that many private building owners—including some nonprofits—were not receiving rents high enough to maintain buildings properly, or in some cases to remain in the program at all, HUD raised rent ceilings, including both its own subsidy and the portion of the increased price that tenants paid. Mark to market made things more difficult financially for Los Sures tenants, although few were forced to give up their apartments.

Protecting new low-income housing development was a greater challenge. Federal policy changes meant that funds for new construction increasingly focused on home ownership rather than rental housing. Research had begun arguing that residents of poor neighborhoods who owned their housing made greater investments in keeping it up and that these investments redounded to the surrounding neighborhoods (DiPasquale & Glaeser, 1999; Rohe & Basolo, 1997; Rohe & Stegman, 1994; Rossi & Weber, 1996). Policy makers eagerly followed this hypothesis, and New York City implemented the federal home ownership directive through a public-private agency called the New York City Partnership. The partnership used subsidies, mortgages, and tax credits to build two- and three-family homes for purchase by low- and moderate-income families. Los Sures was a key partner in home construction in Williamsburg: During the last years of the 1990s, Los Sures built approximately 178 new units through the partnership. The higher cost of purchasing a home, however, as opposed to renting, put this new housing out of the reach of many of Los Sures's low-income constituents. Some of them, whose incomes fell just under the ceiling of income eligibility limits, were able to buy their piece of the American Dream in their home neighborhood. A number of the new two-family houses, however, went to people from outside the area.

Step 5: Cross-sectoral competition. Los Sures was being squeezed from all sides by for-profit housing owners and developers. Landlords often charged rents well above legally set limits, taking advantage of new New Yorkers who had no knowledge of the city's labyrinthine rent regulations. Because these new tenants often still saw those rents as a bargain, they rarely investigated or challenged them. It thus became advantageous for landlords to buy long-standing, low-rent tenants out of their apartments and move higher paying tenants in. When buy-out offers were refused, owners sometimes resorted to

harassment, as in incidents such as this one, recounted to me by one of the Los Sures staff (author's field notes, May 19, 1998):

> *Lydia [Bonilla, Los Sures Housing Resources organizer] points across the street, indicating a two-story brownstone building with an odd, gray concrete extension built on top of it, making it one story taller than the rest of the buildings on the block. . . . An elderly Latina woman lived there, and the owner started building the extension, illegally, while the woman was living there. The woman's ceiling cracked, and water poured in when it rained, to say nothing of the constant harassment by the owner, the continual pounding from the construction, etc. Los Sures worked with the woman for about a month, stopping the work several times by finding absent permits, permit violations, noise violations, etc. After a while, though, the woman couldn't take it any more, and moved out.*

By the late 1990s, Los Sures had moved into a primarily preservationist position. Its organizing staff encouraged tenants to resist buyout offers and harassment, helping them access the protections of bureaucratic and regulatory mechanisms. In 38 buildings Los Sures had helped to incorporate as low-income housing cooperatives over the years, staff drafted new bylaws that strictly limited residents' ability to sell their units. In numerous other buildings, organizers assisted tenants in the long process of establishing and fixing building code violations by organizing rent strikes, documenting violations, and appearing in housing court. Los Sures mounted its last major new construction project, 82 two-family homes built through the New York City Partnership, only after the mayor of New York brokered a complicated agreement between competing low-income Latino, low-income Hasidic, and luxury private developer interests. Once the project was under way, Los Sures struggled mightily to implement the informal consensus that most of the houses would go to local low- and moderate-income Latinos; it was only partially successful in doing so, however, which damaged its reputation within the neighborhood. Today, Los Sures and its low-income constituents occupy an increasingly tenuous position in the Williamsburg real estate market.

NTAPs AND THE CREATION OF THE NONPROFIT TECHNOLOGY ASSISTANCE MARKET

NTAPs help nonprofit organizations with information and communications technologies (ICTs) by offering consulting and training services specifically tailored to the needs and constraints of NPOs. In this way, they are part of the larger field of technical assistance providers, like management support organizations, that work to build the capacity of individual nonprofit organizations and the nonprofit sector as a whole. NTAPs work to eliminate what researchers have identified as an "organizational divide" separating the nonprofit sector from the business world and government: Nonprofits have far

less access to ICTs than either of the other two sectors (Corder, 2001; Kirschenbaum & Kunamneni, 2001). The studies that documented the organizational divide grew out of annual studies commissioned by the U.S. Department of Commerce to examine individual-level inequality in access to the Internet. These studies found persistent differences in access across income and racial categories, a problem christened the "digital divide" (National Telecommunications and Information Administration, 1999). Thus, just as disenfranchised individuals lacked access to ICTs, the nonprofit organizations that served them fared just as poorly.

In the past decade, the nonprofit technology assistance field has grown from a few loosely knit individuals and organizations into a burgeoning economy. Starting with the W. Alton Jones Foundation's Circuit Rider Program in 1995, the NTAP community has grown to more than 2,000 organizations and individuals. The largest NTAPs in the United States now have annual budgets of 3 to 5 million dollars. Most important, however, NTAPs are beginning to influence nonprofit technology policy through relationships with foundations and nonprofit clients. NPOs thought little of technology before the spread of NTAPs. Now, many NPOs dedicate some portion of their budgets to information technology procurement and training. In the following application of our theoretical framework, we outline the development of a field of organizations that created a market for information technology tailored specifically to the needs and constraints of NPOs.

Step 1: Market creation. In the mid-1990s, computers were getting cheaper, more abundant, and easier to use; the Internet was gaining momentum as a communications medium; and NPOs were facing increased demands for services in an environment of sharply constrained budgets. Technology had been touted for years in the for-profit sector as a panacea for efficiency problems. Nonprofits, however, continued to lack access to ICTs. Compounding this problem, the nonprofit sector lacked the general expertise to implement technology and train NPO staff in its use (Robertson, 2001).

NTAPs identified a market by reconceptualizing technology as a programmatic expense, not simply an overhead cost. Charitable foundations generally do not support NPO overhead costs (i.e., infrastructure costs such as rent, furniture, supplies, phones, and other office technologies, including computers). When a program officer at the W. Alton Jones Foundation convinced his colleagues that technology was indeed part of program funding, the foundation created its "Circuit Rider" Program to provide technology services to its grantees. Under the program, more than 50 nonprofit environmental groups in the foundation's portfolio received these services. Because the circuit riders (as the foundation-based technology consultants were called) arrived at NPOs with the foundation imprimatur, many organizations became more open to receiving technology services. At the same time, however, the idea of technology assistance was still foreign to the bulk of the nonprofit sector, which was just becoming acclimated to the idea of management assistance.

Early NTAPs struggled to convince NPOs that technology could help them become more effective and efficient.

Step 2: Market growth. The success of the W. Alton Jones Circuit Rider Program inspired other private funders to explore technology assistance to nonprofits. When the Rockefeller Family Fund, an influential foundation with international reach, implemented its own technology assistance program based on the circuit rider model, this enhanced the legitimacy of the NTAP effort. NTAPs also organized the National Strategy for Nonprofit Technology, an initiative bringing together leaders in the foundation world with advocates for nonprofit technology. The focus was on "evangelizing" for technology (i.e., convincing NPOs that their lack of technology and expertise was an unmet need). Evangelism legitimized the ideas of technology and technology assistance to NPOs. In 1999, the group reorganized as the Nonprofit Technology Enterprise Network (N-TEN), becoming a trade association for NTAPs. Building on the evangelism tradition, N-TEN organized annual conferences to promote their work to NTAPs and to standardize practices in the field. N-TEN saw its mission as "help[ing] nonprofits make more effective use of technology to advance their missions" and pursued this mission by supporting NTAPs. The trade association worked on two fronts: lobbying foundations to fund technology work for their grantees, and promoting the use of technology directly to NPOs. The trade association and its uniform message contributed to the growing market for NTAP services.

Around the same time, research on the "organizational divide" was emerging, and analysts recommended that the nonprofit sector begin to address this gap. As NPOs became aware of some of the efficiencies and benefits that computers and other technologies could provide, they began calling on NTAPs to help them navigate the complicated world of computer technology. During the late 1990s, the Internet boom was picking up speed, and many for-profit businesses were building Web sites. Many of these firms had little idea what a Web site would do for them or why they needed one; they just knew they had to have one. NPOs experienced a similar trend. Amid the growing nonprofit clamor for Web sites, NTAPs rode this "Trojan horse" technology into many NPOs and then were able to demonstrate the value of more sophisticated technologies, like internal networks and databases. With access to the inner workings of NPOs, NTAPs learned more about how information technologies could enhance NPO work. Such strategies helped expand the NPO market for more sophisticated technologies and services.

Step 3: Increased cost. As the stock market headed south and foundations watched their endowments shrink, they soon found in-house circuit rider programs too expensive to support. W. Alton Jones closed its circuit rider program in 1997. In 2000, the Rockefeller Family Fund spun off its technology assistance project as a free-standing NTAP. Many foundation-supported technology programs followed this path, leading to a predominance of fee-for-

service NTAPs such as Compumentor, the IT Resource Center, ONE Northwest, and NPower. These stand-alone programs deviated from earlier models by acting as full-service technology shops that charged NPO consumers directly for their services through what we have designated a commercial revenue strategy. Although most NTAPs started with small staffs (e.g., ONE Northwest began as a two-person shop), as they grew to meet the increased demand for services, their staffs diversified, adding to the administrative costs of doing technology assistance. ONE Northwest added internal support staff to maintain office operations while the technical consultants traveled throughout the Pacific Northwest to client sites. Such staff additions were necessary to handle the billing procedures required to charge NPOs for services and fundraising activities that could no longer be done by the technical staff. Growing administrative costs meant a greater cost per hour of consulting or training time, which had to be offset if the NTAP model was to survive.

Compounding the division of labor problem within NTAPs, NPOs began to demand increasingly sophisticated technologies, like database-supported Web sites. This required NTAPs to hire technical staff members with advanced training or considerable experience. On the open market, information technology staff—such as network administrators—could command annual salaries in the $60,000 to $80,000 range. NTAPs could not afford such salaries and opted instead to find committed individuals with fewer formal certifications and a greater sense of social progressivism. Although this practice may have postponed the next step in our theory, the extent to which it did so is unclear.

Step 4: Increased price. Stand-alone NTAPs derive a considerable portion of their revenue from commercial, as opposed to donative, activities. Because they do not do direct programmatic work in the traditional nonprofit sense, stand-alone NTAPs have found it difficult to secure foundation support and impossible to win government funding. As such, an enhanced donative revenue strategy proved inadequate for meeting increased costs. One solution was for NTAPs to borrow from earlier models of technology assistance: for example, partnering with specific foundations to provide technology services to their portfolio of grantees, thereby securing third-party commercial revenue. This strategy required, however, that NTAPs locate foundations with coherent portfolios and an interest in supporting technology. For example, the NPower affiliate in New York partnered with the New York-based Robin Hood Foundation to provide technology consulting and training to its grantees. Other NTAPs partnered with NPO clients to write grants to pay for their services. Media Jumpstart, a New York City-based NTAP, often works with potential clients to write technology assistance services into foundation grant proposals. Still other NTAPs specialized their services, finding and serving niche markets. For example, Beth Kanter, an independent nonprofit technology consultant from Massachusetts, focused on servicing the local arts community, tapping into networks she had formed during earlier jobs.

A second strategy for meeting increased costs was for NTAPs to diversify their price structures, creating elaborate billing schemes for client NPOs based on the budget size of the client or the complexity of the task. Although sliding-scale fees often reduced the prices for the smallest agencies with the simplest technical needs, those price reductions generally were more than offset by increases for the medium and large organizations. Because these latter groups provide the bulk of the larger NTAPs' work, this practice effectively raised average prices to NPO consumers.

Step 5: Cross-sectoral competition. According to N-TEN, there are approximately 2,000 NTAPs currently operating in the United States. By contrast, there are more than 1.6 million NPOs in the United States (Weitzman, Jalandoni, Lampkin, & Pollak, 2002). At this stage, the potential pool of consumers far outstrips the capacity of current NTAPs to meet it. It is too early to tell whether for-profit technology assistance organizations can displace NTAPs in providing technology services to the nonprofit sector. However, we are beginning to see trends in the stratification of the market. The largest NPOs (e.g., the United Way or the Red Cross) forego NTAPs to work with large for-profit consulting firms like Accenture and McKinsey. Smaller FPOs, like the Summit Collaborative in Amherst, Massachusetts, effectively compete with NTAPs for clients (and legitimacy) in regional and national venues. For-profit technology assistance providers do not have access to foundation funding. However, much like their nonprofit counterparts, they are able to contract with foundations to provide services to grantees. In this way, they apply a pure earned-revenue model to providing technology assistance to the nonprofit sector. With such a model, the FPO is able to reduce accountability and fundraising costs, streamline its overhead, and provide similar services at competitive prices.

CONCLUSION: STRATIFIED, DISPLACED, AND DEFENDED MARKETS

Nonprofit scholars increasingly are turning their attention to the dynamics of service markets in which nonprofit providers operate. Categorical distinctions between nonprofit and for-profit providers no longer suffice to understand either changing service outputs or the characteristics of NPOs themselves. The first two steps of our model—market identification and market growth—rely on traditional understandings of NPOs as providers of nonmedian voter-preferred public goods (Salamon, 1987; Weisbrod, 1977). NPOs identify social needs and then use donations to support the development and dissemination of innovative solutions (cf. Schlesinger et al., 1987). The next two steps of our model capture core market processes—increasing cost and increasing price—that are driven by temporal alterations in fiscal, regulatory, technical, and other dimensions of NPO environments. The final

step in the model—cross-sectoral competition—indicates the transformation of social needs markets in ways that offer opportunities for FPO incursion. When both organizational forms are present in a market, we see three potential pathways: stratified, displaced, and defended markets.

In a stratified market, nonprofit and for-profit firms serve distinct groups of consumers. NPOs offer basic services to poor consumers with less (or no) ability to pay, whereas FPOs provide a higher quality version of the same service to wealthier consumers. Stratified markets will emerge when NPO innovation has created and transformed a market in such a way that the original social need's negative cost-price ratio is reversed. NPOs will find themselves squeezed as they attempt to pass on increased prices to donors, who may or may not respond. Given that both private and public donations[10] have limits, NPOs in stratified markets may face shrinking capacity to serve the poor sector of consumers. NPOs may then turn to other revenue-generating strategies, such as cross-subsidization (James, 1986) or policy advocacy to initiate third-party payments for individual consumers (Gray & Schlesinger, 2002).

Our real estate market is an example of a stratified market, where the rebounding of Williamsburg has ushered in for-profit developers to build bigger, more luxurious apartments and charge higher prices, thereby serving a different set of consumers than the nonprofit Los Sures, which has been working for years in the neighborhood. Fixed or declining donations cover less and less of the increasing price of development, leaving Los Sures with fewer and fewer opportunities to expand housing for Williamsburg's poor residents. Given the existing low-income housing stock it already has developed, however, Los Sures can still serve a fixed number of the poorer consumers in Williamsburg's real estate market. The NTAP case provides an example of a market in the process of stratification. We observe that NTAPs are being excluded from servicing large, rich NPOs, which instead are hiring for-profit firms to deliver their technology consulting. For-profit NTAPs boast highly educated, credentialed technical staff, whereas nonprofits in the same industry rely on largely self-taught staff with commitments to the nonprofit sector. Poorer NPOs can afford the lower prices charged by nonprofit NTAPs, but if rising prices outpace these NPOs' budgets, even nonprofit NTAPs will serve fewer of these clients.

Displaced markets are most likely to occur when environmental conditions create a rapid reversal of a social need's negative cost-price ratio, leading to a large pool of consumers newly able to purchase the service. Because FPOs have superior access to capital markets necessary to quickly expand provision and perhaps realize economies of scale, NPOs will become disadvantaged in these markets. Gray and Schlesinger (2002) document this process in certain areas of the health care system as the result of the institution of Medicare and Medicaid. Access to existing housing in the Williamsburg real estate market clearly has become stratified, but the market to develop new housing is likely to become displaced very soon. Following 20 years of Los Sures's slow but steady revitalization of the neighborhood, the 1990s saw gentrification take

off, with real estate prices rising much more quickly over that decade. When low-cost government-owned land parcels are no longer available for nonprofit development, the value of Williamsburg real estate will push costs of new housing development beyond the reach of Los Sures's reliance on donations and subsidies. The result will likely be complete FPO dominance over new real estate development in Williamsburg.

In the NTAP field, the fast-growing recognition of the large pool of NPOs with technology demands may similarly lead to a displaced market. This scenario depends, however, on NPOs maintaining significant quantities of discretionary revenue that can actually be spent on technology services. Without a guaranteed payment source, the negative cost-price ratio of technology services may reverse itself only in a few wealthy NPOs, leaving lower priced nonprofit NTAPs to service much of the NPO technology market. Donors can play a role in maintaining a place for nonprofit NTAPs if their technology-specific donations are pegged to cover only the lower prices charged by nonprofit providers. To track the development of a social need market at risk of displacement—like this one—researchers will require data that capture historical changes in the environment of the market and the dynamic responses of nonprofit and for-profit providers over time.

At times, NPOs are able to hold their ground in the face of FPO incursions into a market. We call these defended markets. We suggest that defended markets are rooted in the continuing legitimacy—in the eyes of both consumers and donors—of NPO efforts to address social needs. NPOs will defend markets by invoking values, calling on the regulatory powers of government, or further innovating solutions. So, for example, community development corporations like Los Sures have urged low-income residents not to sell their properties and lobbied for increased governmental intervention to protect low-income housing in gentrifying neighborhoods. In a similar vein, nonprofit NTAPs are claiming a unique affinity to their NPO consumers by aligning themselves with the mission and ideologies of the nonprofit sector. Some of these organizations increasingly are emphasizing their identities as NPOs themselves, asserting mission-based connections to their NPO clients that for-profit technology consultants cannot access. The stakes in this particular service market are high: If FPOs are allowed to dictate technology standards in the nonprofit sector, they may be able to implement proprietary solutions (e.g., Microsoft products) as de facto standards. These standards would cause NPOs to be locked into certain technologies, meaning that they face potential price gouging by software and hardware manufacturers. In response, one defensive strategy by nonprofit NTAPs is to advocate for open source technology solutions. Open source software is free to procure, change, and distribute and would allow NTAPs to avoid tying NPOs to a technology platform whose owners can change licensing terms.

Identifying which of these three potential pathways a mixed-form social needs market takes requires attention to the multiple dimensions of its changing environment and the distinctive capacities of NPOs and FPOs to respond.

Our theory breaks down this process into its key steps so that future research might measure these critical junctures and shed further light on the dynamic development of mixed-form markets and the particular contributions of NPOs.

Notes

1. For a recent summary of the percentages of nonprofit, for-profit, and government provision in different service sectors, see Salamon (2002).

2. But see Gulley and Santerre (1993) for a rare study using panel data.

3. See Gray and Schlesinger (2002) for a more extended treatment of the life course approach to mixed-form health care markets.

4. Abzug and Webb (1996) provide an interesting analysis of the dynamics between nonprofit and for-profit organizations, although not within the same market for services. They instead look at nonprofit service sector responses to for-profit business operations, pointing out how nonprofits either can assist for-profit business development or respond to the negative consequences of business activity; the authors refer to these nonprofit organizational roles as "nursemaids" and "mop-ups," respectively.

5. There are occasions in which the mission turns out to be defined too narrowly (i.e., the social need is met and no consumers remain). Two potential outcomes result. First, the NPO goes out of business. Second, the NPO may redefine its targeted social need (Powell & Friedkin, 1987). The most famous instance of the latter outcome was the March of Dimes (originally the National Foundation for Infantile Paralysis), whose original mission was the eradication of polio. When a viable vaccine was discovered and distributed, the organization changed its mission to the eradication of prematurity, birth defects, and low birthweight.

6. James argues that cross-subsidization leads to organizational growth, which in our theory is one of the main factors leading to increased costs for the NPO as a whole. Cross-subsidy, however, implies the introduction of a new profit-generating enterprise within the NPO rather than the evolution of the characteristics of the social needs market that our theory proposes (specifically, in this stage, rising prices that are tolerated by consumers and then pass the break-even point).

7. We acknowledge that NPOs and government are likely to share markets prior to FPO entry. However, government provision and government-nonprofit coprovision raise a number of complicated issues that deserve extended treatment in a separate analysis. As such, we bracket the consideration of the role of government for the purposes of this article, identifying it as an area for future research for which our theory can serve as a building block.

8. These buildings, known as "in-rem," had been seized by New York City from their private owners for nonpayment of real estate taxes. By the end of the 1970s, the city had 40,000 in-rem buildings under its control (Plunz, 1990). Unfortunately, the city often proved to be no better at providing services to in-rem tenants than were their private landlords, and miserable housing conditions continued.

9. Although we recount the specifics of the Los Sures case, similar processes were taking place throughout New York and in cities around the nation, making the CDC movement a leading strategy for addressing the housing needs of distressed urban neighborhoods. The 1970s represented the strongest period of growth for the CDC movement; according to a national survey of CDCs, more than 50% were founded between 1973 and 1980 (Vidal, 1992, p. 35).

10. Government support of NPOs can be divided into two categories: donations and third-party payments. By government donations we mean legislative appropriations for specific public programs, like low-income housing, which have expenditure ceilings. By third-party payments we refer to individually based entitlements, such as Medicare, which will pay all costs incurred by

eligible entitlement holders (Weaver, 1985). See Marwell (2004b) for an extended discussion of the distinctions between government donations and entitlements and their implications for NPOs.

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