

# Commercializing nonprofit organizations? Evidence from the Chinese nonprofit sector

Jiahuan Lu<sup>1</sup>  | Shanshan Guan<sup>2</sup> | Qiang Dong<sup>3</sup> 

<sup>1</sup>School of Public Affairs and Administration, Rutgers University-Newark, Newark, New Jersey, USA

<sup>2</sup>Faculty of Humanities and Social Sciences, Beijing University of Technology, Beijing, China

<sup>3</sup>College of Humanities and Development Studies, China Agricultural University, Beijing, China

## Correspondence

Qiang Dong, College of Humanities and Development Studies, China Agricultural University, Beijing, 100193, China.  
Email: [dongqiang@cau.edu.cn](mailto:dongqiang@cau.edu.cn)

## Abstract

The increasing reliance on commercial income in the nonprofit sector (“nonprofit commercialization”) in various countries has become a highly contested topic. In recent years, Chinese nonprofits have also paid growing attention to commercial activities and revenue. However, empirical studies on the commercialization of Chinese nonprofits are limited. This study conducts the first empirical research to examine the scope and antecedents of nonprofit commercialization in China. Through a nationwide survey of 336 service-delivery nonprofits (private nonenterprise organizations), the study finds that Chinese nonprofits' overall level of commercialization is modest, but the level varies substantially by organization. Further, informed by resource dependence theory, institutional theory, and organizational ecology theory, the study finds that Chinese nonprofit commercialization is driven by resource insufficiency, government connections, and environmental munificence. These findings extend the literature on nonprofit commercialization with new empirical evidence from a non-Western, authoritarian context.

## 摘要

在许多国家，非营利部门对商业收入的日益依赖已经成为一个备受争议的话题。近年来，中国的非营利组织也开始重视商业活动以及随之带来的服务收入。然而，关于中国非营利组织商业化的实证研究并不多见。本研究首次实证分析了中国非营利组织商业化的规模和驱动因素。根据对全国336家服务性非营利组织(民办非企业单位)的定量分析，本研究发现中国非营利组织的商业化水平总体上是适中的，但是不同组织间的商业化水平存在较大的差异。此外，结合资源依赖

理论、制度理论和组织生态学理论，本研究发现，组织内部资源匮乏、一定程度的政治关联和丰沛的外部资源环境是中国非营利组织商业化主要的驱动因素。这些基于非西方、威权国家情境的经验证据拓展了非营利组织商业化的相关文献。

## 1 | INTRODUCTION

Over the last few decades, nonprofit organizations have become increasingly commercialized and business-like (Skelcher & Smith, 2015; Young & Salamon, 2002). Conceptually, nonprofit commercialization refers to the growing reliance on market-based revenues from sales of goods and services (Maier et al., 2016).<sup>1</sup> In many countries, commercial income not only represents the largest single source of nonprofit revenue but also the most rapidly growing source (Salamon et al., 2017). The commercialization of the nonprofit sector has become a highly contested topic in many countries around the globe, including Belgium, Canada, the Czech Republic, Mexico, Norway, the United Kingdom, and the United States (e.g., Enjolras, 2002; Gras & Mendoza-Abarca, 2014; Kerlin & Pollak, 2011; Khieng & Dahles, 2015; McKay et al., 2015; Suykens et al., 2021; Vaceková et al., 2017).

Within the growing body of literature on nonprofit commercialization, there are essentially two opposite opinions regarding nonprofit commercialization. Supporters recognize that commercialization is a promising way for nonprofits to reduce revenue volatility and vulnerability when facing resource uncertainty (Dees, 1998; Froelich, 1999; Lee et al., 2021; Lu et al., 2020). Opponents generally think that profit-seeking activities will increase the danger of losing their moral reputation and the risk of having their social missions take a backseat to revenue and profitability goals (Eikenberry & Kluver, 2004; Mitchell, 2014; Park et al., 2021). It is important to note that the extant literature on nonprofit commercialization largely rests on Western democratic contexts, with limited attention paid to non-Western contexts, especially authoritarian ones where state, market, and civil society interact differently. In authoritarian contexts, state typically dominates social and public affairs, leaving limited room for market and civil society to function. How nonprofit commercialization occurs in such contexts is mostly unknown. This study examines nonprofit commercialization in the authoritarian Chinese context.<sup>2</sup>

In the past several decades, the nonprofit sector in China has experienced significant growth in its size and impact. Nonprofits have become active agents in public governance in China, engaging in service delivery and policy advocacy in a range of service fields (Chen et al., 2022; Guo & Zhang, 2013; Li et al., 2017; Teets, 2014). However, obtaining sufficient resources has always been a major challenge (Zhang & Baum, 2004). The Chinese nonprofit sector faces a prohibitive political environment, where the party-state imposes various legal and administrative regulations on nonprofits in seeking legal registration, obtaining tax-exempt status, and raising funds (Hildebrandt, 2011; Zhan & Tang, 2013). In recent years, many Chinese nonprofits have started to pay increasing attention to commercial activities and social enterprise models as a means to overcome resource constraints and political hurdles (Guan et al., 2021; Kerlin et al., 2021; Zhao, 2012). Along with this change, similar to many other countries, nonprofit commercialization has evolved to be a controversial issue in China. Some scholars highlighted the financial autonomy and benefits brought by commercial income (Yu & Chen, 2018), while others emphasized the risks of introducing commercial motives and practices into nonprofit operations (Kang, 2018; Lai & Spiers, 2021). As Kang (2018) argued, commercial ideology and capital would damage nonprofits' altruistic motives, philanthropic values, and humanity nature.

However, despite the normative debate on nonprofit commercialization in China, our current understanding of Chinese nonprofits' commercialization is limited because of the lack of empirical studies. It is therefore very difficult

to know the extent to which Chinese nonprofits engage in commercial activities and rely on commercial income in a strong authoritarian setting.

This study conducts the first empirical research on nonprofit commercialization in China. Using data collected from a self-administered nationwide survey of service-delivery nonprofits (private nonenterprise organizations) ( $n = 336$ ), we explore the scope and antecedents of nonprofit commercialization. The study finds that Chinese nonprofits' overall level of commercialization is modest, with government funding and private donations still being the two main funding sources on average. However, the level of nonprofit commercialization varies substantially by organization. Moreover, the study finds that nonprofits' resource insufficiency, government connections, and environmental munificence help to explain the variation in levels of commercialization. The findings contribute to the literature in two ways. First, theoretically, we expand our understanding of the antecedents of nonprofit commercialization by examining the factors that stem from resource dependence theory, institutional theory, and organizational ecology theory. Among these factors, the effect of government connections on commercial income is the least discussed in previous studies. Second, empirically, this study adds new empirical evidence from a non-Western authoritarian context.

## 2 | LITERATURE REVIEW

Nonprofits have been engaging in commercial activities to acquire revenue to support their operations for decades (e.g., James, 1983). However, what attracts increasing scholarly attention is the significant growth of commercial income in the nonprofit sector in many countries around the world. For example, in the United States, the amount of commercial revenue among public charities rose by 219% between 1982 and 2002 (Kerlin & Pollak, 2011). In England and Wales, commercial revenue among charities increased by nearly £10 billion between 2001 and 2008 (McKay et al., 2015). The commercialization of the nonprofit sector leads scholars to explore its underlying motivation (e.g., Enjolras, 2002; Guo, 2006; Kerlin & Pollak, 2011; Suykens et al., 2021). Building on this body of literature, we approach our research question using resource dependence theory, institutional theory, and organizational ecology theory and explore how these theories could explain nonprofit commercialization in an authoritarian context. Specifically, we focus on two internal factors (resource insufficiency and government connections) and two external factors (resource competition and resource munificence).

### 2.1 | Resource insufficiency

Resource dependence theory has been used by many studies to explain nonprofit commercialization (e.g., Hung, 2021; LeRoux, 2005; Suykens et al., 2021). Resource dependence theory argues that organizations are dependent on external environment for resources to enable their operations and further their missions. Such resource dependence, however, will create power imbalance and uncertainty for organizational survival and growth (Malatesta & Smith, 2014; Pfeffer & Salancik, 1978). When organizations suffer resource shortage from external environment, they will become even more vulnerable. As a result, organizations need to take actions to manage the power imbalance and uncertainty. From this perspective, commercial income is beneficial for nonprofits to manage their resource dependence and uncertainty in several ways (Froelich, 1999; Guo, 2006; Lu et al., 2020). For example, commercial income helps nonprofits diversify revenue structures and thus increases their financial stability. Again, commercial income is subject to fewer constraints in funding allocation and thus increases nonprofits' autonomy and flexibility. Put together, as LeRoux (2005, p. 356) noted, nonprofits "may seek to exert some control over their environment and reduce financial uncertainties through efforts to generate earned income." Suykens et al. (2021) found nonprofits in Belgium are more likely to generate commercial income when they perceive higher levels of resource insufficiency.

Compared with their Western counterparts, Chinese nonprofits face a politically restrictive environment and embedded government control (Ni & Zhan, 2017). The stringent government regulations on nonprofits' public fundraising qualifications and tax-exemption status could affect nonprofits' ability to obtain financial resources (Hildebrandt, 2011; Zhan & Tang, 2013). The deficiency of private donations also presents a challenge. Private donations typically only account for a small proportion of nonprofits' total income (Deng, 2001). Resource insufficiency thus has been considered one of the most crucial challenges for many Chinese nonprofits (Zhang & Baum, 2004). When nonprofits face resource shortage and uncertainty, nonprofits may have stronger motivations to operate in a business-like way and draw income from commercial sources (Yu et al., 2011), which helps them better navigate resource uncertainty and enhance financial self-sufficiency. Accordingly, we hypothesize that:

**H1.** Nonprofits experiencing higher resource insufficiency will have higher levels of commercialization.

## 2.2 | Government connections

Institutional theory indicates that organizations are “embedded within communities, political systems, individuals, or coordinate fields of organizations” (Feeney, 1997, p. 490). Organizations should thus obey the shared norms, principles and beliefs in their fields to gain legitimacy, social support, approbation, and survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Developing connections with regulative institutions, such as government and community institutions, brings a variety of advantages to organizations, including increased stability and predictability, enhanced legitimacy, and easy access to resources (DiMaggio & Powell, 1983; Oliver, 1991). In their study of child care organizations in Toronto, Baum and Oliver (1991) found that organizations with institutional linkages exhibited a significant survival advantage. Provan (1983) indicated that social service nonprofits that join federations increase their stability, public visibility, and community status. In sum, nonprofits are driven to incorporate practices that meet the norms and social expectations of their institutional environment.

The development of institutional theory is largely based on the Western context where the state plays a much smaller role than it does in China. The Chinese nonprofit sector exists in an authoritarian context where the party-state and its policy mechanisms have a much stronger institutional influence on nonprofits. Existing literature highlights the decisive role the party-state system plays in shaping the development of the nonprofit sector and the operations of individual nonprofits (Ho, 2007; Lu & Dong, 2018; Spires, 2011; Teets, 2014). In this institutional context, building linkages to the party-state system constitutes a strategic choice that many nonprofits employ to attain legitimacy and political support. The literature on *guanxi* in China demonstrates the importance of building political embeddedness and connections to the government to secure a favorable political and resource environment (Ni & Zhan, 2017; Whiting, 1991; Zhan & Tang, 2016). For example, Dong and Lu (2021) observed that co-opting elites from the party-state system into nonprofits' governing boards helps nonprofits create linkages to the government, which further has a positive impact on leveraging government funding.

Despite the importance of government connections, there is limited empirical evidence about how government connections affect nonprofits' reliance on commercial income. On the one hand, nonprofits with government connections may more readily depend on the government for resources and thus have weaker incentives to engage in commercial activities. Hsu and Jiang (2015) found that Chinese nonprofits whose founders previously worked in the party-state system were more likely to treat the government as a main revenue source. On the other hand, government connections may also have a crowding-in effect on commercial revenue. Government connections can be considered a signal of legitimacy and trustworthiness, putting nonprofits in an advantageous position to leverage commercial income (de Wit & Bekkers, 2017; Lu, 2016). We argue that the signaling effect could be even stronger in an authoritarian Chinese context where the government plays a decisive role in shaping nonprofits' operations and legitimacy (Lu & Dong, 2018; Ni & Zhan, 2017; Teets, 2014). Indeed, Yu et al. (2021) found that a higher level of central government funding leads to a stronger organizational capacity for service provision through leveraging matching

funds (including local government funding, private donations, and market revenue) in China. Following this line of reasoning, we hypothesize that:

**H2.** Nonprofits with more government connections will have higher levels of commercialization.

In addition to nonprofits' internal factors, we also explore the effect of resource environment from an organizational ecology perspective. Organizational ecology theory aims to explain "how social, economic and political conditions affect the relative abundance and diversity of organizations" (Baum & Amburgey, 2017, p. 304). Niche is one of the key concepts in organizational ecology theory, and it provides a useful way to study how environmental variation and competition affect the growth rates of organizational populations (Hannan & Freeman, 1986). According to Baum and Oliver (1996, p. 1379), organizations are located in a niche, which is defined "by the intersection of resource requirements and productive capabilities at the organization level, [and] depends on where an organization is located and what it does." In a niche, organizations compete for funds, legitimacy, clients, labor, expertise and prestige. Niche characteristics thus affect organizations' behaviors and development (Baum & Singh, 1994; Freeman & Hannan, 1983). Studies show that the organizational ecological process is a function of geographic proximity (Baum & Singh, 1994; Carroll & Hannan, 1989). We propose two geographically bounded niche characteristics that may influence the likelihood that nonprofits obtain commercial income: resource competition and resource munificence.

## 2.3 | Resource competition

In organizational ecology theory, density dependence is the key model to explain the relationship between population density (the number of organizations) and organizational founding/mortality rates (Carroll & Hannan, 1989; Hannan & Freeman, 1986). The theory assumes that limited resources in a given landscape determine the carrying capacity—the number of organizations the landscape can support over time. Dependent on limited resources, existing organizations compete intensely for supplies, members, patrons, and resources. The competition would be even severer when these organizations have similar resource requirements, productive capabilities, and target customers (i.e., they have overlapping niches). Within such a densely populated environment, organizations have to confront more competition and suffer from higher failure and mortality rates (Baum & Singh, 1994). As a response, organizations need to take measures to cope with the competitive pressure.

In general terms, nonprofits may adopt commercial practices as a strategy to cope with resource competition for at least two reasons (Tuckman, 1998; Young & Salamon, 2002). First, commercial income is more predictable than other revenue sources and thus promises less revenue volatility and has less impact on operations (Froelich, 1999). In the meantime, engaging in commercial activities implies greater adherence to business strategies and principles, which makes nonprofits more rational, effective, and cost-effective in their operations (Dees, 1998; Hwang & Powell, 2009). Many studies observe that nonprofits with high proportions of commercial income show sustained viability and growth (Carroll & Stater, 2009; Lu et al., 2020). Second, commercial income is subject to fewer constraints in funding allocation and thus increases nonprofits' autonomy and flexibility in producing program services (Froelich, 1999). By generating and increasing commercial income, nonprofits promote financial self-sufficiency and put themselves in a more favorable position in the competition. Accordingly, we hypothesize that:

**H3.** Nonprofits confronting higher resource competition will have higher levels of commercialization.

## 2.4 | Resource munificence

According to organizational ecology theory, organizations' niche characteristics involve not only the level of organizational density (resource competition) but also the availability of resources (resource munificence). Conceptually,

resource munificence refers to the extent to which critical resources that are needed by organizations are available in the environment (Castrogiovanni, 1991). The more munificent the resource environment, the greater an organization's opportunity to acquire resources. In this way, the scarcity or abundance of resources in an environment affects the survival and growth of organizations within the environment. Research documents that organizations in munificent environment tend to enjoy better survival prospects and become more proactive (Brittain & Freeman, 1980; Tang, 2008).

Nonprofits are usually community-based organizations, serving local needs and relying on community resources (Wolpert, 1993). The geographic location of a nonprofit, especially the socioeconomic conditions and the attributes of its client populations, determines the abundance and scarcity of environmental resources the nonprofit can access (Garrow, 2011). Many studies indicate that nonprofits tend to locate in affluent neighborhoods with higher socioeconomic status in order to have access to human and economic resources. For example, Bielefeld et al. (1997), Grønbjerg and Paarlberg (2001), and Liu (2017) report that nonprofits are more likely to locate in neighborhoods characterized by higher income. When operating in resource-munificent communities, nonprofits are more likely to be proactive in launching commercial activities and charge community residents for services. Accordingly, we hypothesize that:

**H4.** Nonprofits operating in a more munificent environment will have higher levels of commercialization.

### 3 | EMPIRICAL CONTEXT AND METHOD

We tested the above hypotheses using the Chinese nonprofit sector as an empirical context. Nonprofit organizations, as the key players in Chinese civil society, have increasingly drawn attention from scholars and policy makers in the last few decades (e.g., Howell, 2015; Ma, 2005; Saich, 2000; Teets, 2014; Whiting, 1991). Along with the transition from a planned economy to a market-based economy starting in the 1980s, the authoritarian party-state began to partially transform its central role to become a “service-oriented” government by decentralizing some power to local authorities and encouraging people, communities, and multi-stakeholders to participate in public service provision and the public policy process. This change has created opportunities for the emergence and growth of nonprofits in China, especially grassroots nonprofits (Ho, 2007; Lu & Dong, 2018; Spires, 2011; Zhan & Tang, 2013). However, despite the significant growth, the Chinese nonprofit sector still develops within an authoritarian setting, with the party-state playing a profound role in cultivating and influencing the development of the sector. In most cases, nonprofits have to face a restricted political environment where the party-state imposes legal and administrative regulations and embeddedness on various aspects of nonprofit operations, such as seeking legal registration, obtaining tax-exempt status, and raising funds from overseas (Hildebrandt, 2011; Kang & Han, 2008; Ni & Zhan, 2017; Sidel, 2019). Under this uncertain circumstance, obtaining sufficient resources to sustain operations has always been a major challenge for Chinese nonprofits (Zhang & Baum, 2004). It is in this context that we explore Chinese nonprofits' commercial income.

#### 3.1 | Data collection

Unlike many other countries, there is no national database or list of nonprofit organizations available for research use. To overcome this challenge, we collected our data through a self-administered nationwide survey of service delivery nonprofits (private nonenterprise organizations) in China. We relied on the NGO Directory (<http://www.chinadevelopmentbrief.cn/directory/>) compiled and updated by China Development Brief (CDB). CDB is China's first independent information platform that provides research, consultancy, and resource sharing to nonprofits, research

institutions, and the general public. The NGO Directory was initially created in 2005 and contains information on Chinese nonprofits across multiple service fields. Nonprofits may choose to register with CDB on a voluntary basis to use its platform to disseminate information or may be invited by CDB to participate in the NGO Directory. The Directory thus represents a group of Chinese nonprofits that is active and sustainable over time. Previous studies on Chinese nonprofits have used this database and indicated its validity (e.g., Dong & Lu, 2021; Zhan & Tang, 2016).

We drew 7077 organizations from the NGO directory in June 2020. We then removed the following organizations that were not eligible for our analysis: (1) organizations operated as for-profit business entities, (2) organizations that were duplicates in the directory, (3) organizations located outside mainland China, and (4) organizations whose primary function was not service provision (i.e., associations and foundations). These measures yielded a final sampling frame of 2003 organizations. Among these organizations, we formed a random sample of 700 organizations.

Before starting the survey, we pretested our survey questionnaire with three nonprofits in Beijing in late July 2020. After that, we programmed the revised questionnaire on an online survey platform and sent out the first round of survey invitations via email and/or social media to the executive directors or equivalents (e.g., CEOs, program directors) of the sample organizations in early August 2020. The survey asked a range of questions concerning nonprofits' organizational characteristics and operations in 2019. We sent three rounds of follow-up reminders through various channels, including landline phones, cell phones, emails and social media, over the following 6 weeks. Organizations with missing or inaccurate responses were contacted by research assistants for clarification. Finally, we received a total of 336 valid responses in mid-September 2020, with a response rate of 48%.

### 3.2 | Variable measurement

Our dependent variable, *nonprofit commercialization*, refers to the extent to which nonprofits rely on revenue from sales of goods and services. Similar to previous literature (e.g., Carroll & Stater, 2009; Guo, 2006; Hung, 2021), we measured this variable as the percentage of program service revenue (fee-for-service income from private sources) in the organization's total revenue.<sup>3</sup>

Our four independent variables were measured as follows. *Resource insufficiency* describes the extent to which a nonprofit lacks resources to maintain its operation and serve its mission. We asked nonprofits to compare their total revenue in 2019 and 2018, with 1 = substantial increase, 2 = slight increase, 3 = no change, 4 = slight decrease, and 5 = substantial decrease. *Government connections* captures the strength of a nonprofit's ties to the party-state system. Similar to previous studies (e.g., Dong & Lu, 2021; Sun et al., 2016; Zhang et al., 2016), we measured it as the percentage of governing board members who had current or former working experience in the party-state apparatus.

*Resource competition* and *resource munificence* describe a nonprofit's resource environment.<sup>4</sup> We identified a nonprofit's geographic location (prefectural city/municipality) based on its organization location. Resource competition is measured as the density of nonprofits (i.e., the number of nonprofits per 10,000 people) in the prefectural city/municipality where a nonprofit operates. This density measure has been used widely in previous studies (e.g., Lacey & Van Slyke, 2013; Lu, 2020; Ni & Zhan, 2017). We draw each prefectural city/municipality's number of registered nonprofits (associations, private nonenterprise organizations, and foundations) from the Chinese Social Organization Database (*Shehui Zuzhi Xinxu Chaxun*) (<http://www.chinanpo.gov.cn/search/orgindex.html>, accessed on March 2018) and population size from its provincial/municipal Statistical Yearbook. Similar to previous studies (e.g., Bielefeld et al., 1997; Kim & Kim, 2015; Liu, 2017; Sun & Andrews, 2022), we used the per capita gross domestic product (GDP) of the prefectural city/municipality where a nonprofit operates to measure resource munificence. The data for this variable came from each prefectural city's provincial/municipal Statistical Yearbook and were then converted to logarithm form.

We also included a number of control variables. First, we controlled for two basic organizational characteristics, *organizational size* and *organizational age*, calculated as the amount of total expenditures in logarithm form and the



years since a nonprofit's founding, respectively. Second, we included *board size*, the number of board members, to control for the board's boundary-spanning role in resource acquisition (Ostrower & Stone, 2015). Third, given the interaction between private donations and commercial income suggested by previous studies (Enjolras, 2002; Hung, 2020), we controlled for *private donations*, measured by the proportion of total revenue represented by charitable contributions.<sup>5</sup> Fourth, we controlled for a nonprofit's primary service area using dummy variables, since nonprofits in different service areas may face unique operating environments (Grønbjerg & Smith, 2021). Given the lack of a unified classification system of nonprofit service areas in China, we asked each survey participant to identify the most important service area. Based on this information, we classified all the nonprofits into 12 broad service areas, including arts and culture, community development, education, elderly and disabled, environmental protection, legal assistance, health care, poverty relief, rural development, scientific research, women and children, and others.

Given that we used data collected from a single survey, the risk of common source bias requires attention (Jakobsen & Jensen, 2015; Meier & O'Toole, 2012). In this study, we took a series of measures suggested by Podsakoff et al. (2012) to mitigate common source bias. First, in designing the survey questionnaire, we paid attention to using short and unambiguous survey instruments, implementing different scale properties, and reducing social desirability in wording. Second, all the variables used in this study are factual, rather than perceptual or attitudinal, and thus are not likely to be biased. Third, in this analysis, we measured two of the explanatory variables (i.e., resource competition and resource munificence) using different data sources. Putting these measures together, our data are less likely to be contaminated by common method bias. This argument was confirmed by the Harman's single factor test, which produced a score of 35.76%, below the 50% threshold. Therefore, we proceed to data analysis without further remedies.

## 4 | RESULTS

Table 1 reports descriptive statistics. Appendix S1 reports the correlation matrix. The summary statistics of nonprofit commercialization are worth noting. Among all the nonprofits in our sample, commercial income on average represented 11.4% of a nonprofit's total revenue in 2019, with a standard deviation of 23.2% and a range from 0% to 100%. These findings are largely consistent across different service areas, although some service areas (legal assistance and women and children) are slightly less commercialized than others (Table 2). Figure 1 further shows an average breakdown of these nonprofits' revenues across main revenue sources (i.e., government funding, charitable donations, commercial income, and others). All these findings have two implications. First, when compared with many other countries, Chinese nonprofits' overall level of commercialization seems modest, with government funding and charitable donations still being two dominant revenue sources. For example, Salamon et al.'s (2017) comparative analysis of the nonprofit sector in 41 countries reports that fee income now accounts for over 50% of nonprofit sector revenue on average, much more than charitable donations and government support. Second, despite its modesty, the level of commercialization varies substantially by organization. This significant variation motivates us to explore the factors shaping the differences among them.

We then examined the effects of explanatory variables on the dependent variable. Since our dependent variable takes fractional values that are  $\geq 0$  and  $\leq 1$ , we employed fractional response regression (Papke & Wooldridge, 1996; Wooldridge, 2010). Specifically, we used the Stata command *fracreg* to compute quasimaximum likelihood estimators based on probit. The regression results are provided in Table 3. Overall, our model as a whole is statistically significant ( $p < 0.01$ ). The results are discussed as follows.<sup>6</sup>

First, resource insufficiency has a positive association with a nonprofit's level of commercialization, and the relationship is statistically significant ( $p < 0.05$ ). In other words, a nonprofit suffering from a higher level of resource insufficiency is likely to have higher reliance on commercial income. This finding supports H<sub>1</sub>. Second, government connections also has a positive and statistically significant association with nonprofit commercialization ( $p < 0.05$ ).



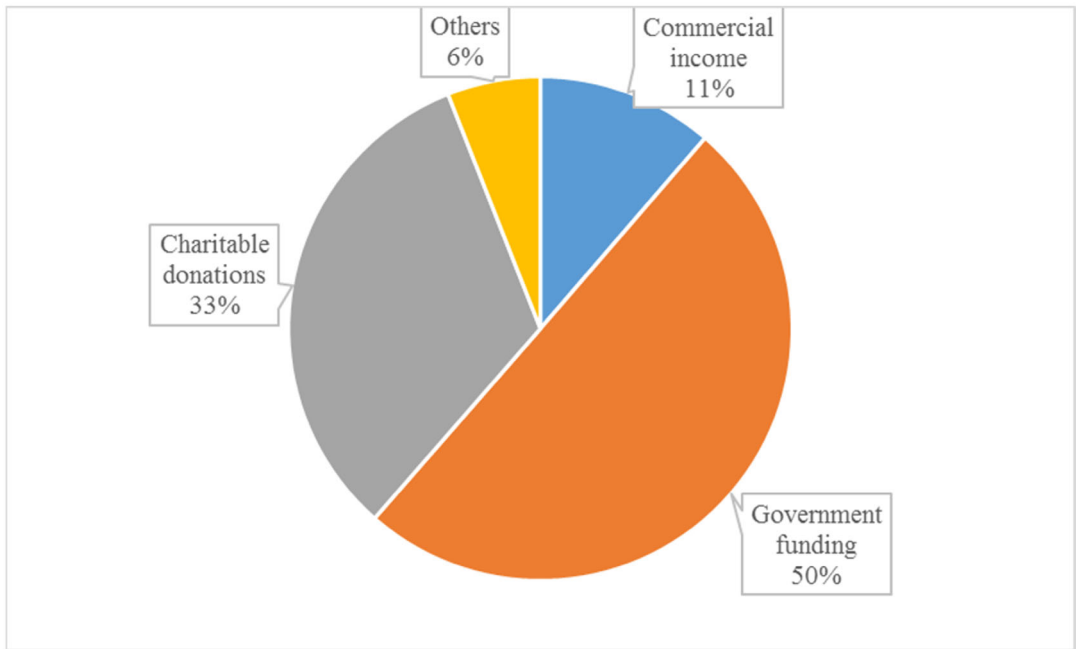
**TABLE 1** Descriptive statistics ( $N = 336$ )

Variable	Mean	SD	Min	Max
Commercial income	0.114	0.232	0	1
Resource insufficiency	3.402	1.271	1	5
Government connections	0.039	0.121	0	1
Resource competition	6.990	2.484	0.701	16.870
Resource munificence	11.475	0.547	9.429	12.595
Organizational age	7.592	4.403	1	29
Organizational size	13.583	2.231	0	18.222
Board size	5.747	3.291	0	33
Private donations	0.326	0.389	0	1
Primary service area (%)				
Arts and culture	0.89			
Community development	27.98			
Education	6.25			
Elderly and disabled	12.80			
Environmental protection	8.04			
Health care	1.79			
Legal assistance	1.49			
Poverty relief	3.87			
Rural development	3.87			
Scientific research	0.6			
Women and children	14.88			
Others	17.56			

Note: The numbers for primary service areas refer to the percentages service areas represented in our final sample.

**TABLE 2** Percentage of commercial income by service area

Service area	Number of organizations	Mean (%)	SD (%)	Min (%)	Max (%)
Arts and culture	13	7	11.27	0	20
Community development	43	7.18	16.95	0	90
Education	21	7.19	19.95	0	80
Elderly and disabled	3	17.62	27.78	0	93
Environmental protection	6	13.15	25.54	0	100
Health care	50	17.5	40.46	0	100
Legal assistance	13	1.2	2.68	0	6
Poverty relief	5	16.38	29.85	0	75
Rural development	27	16.15	25.95	0	92
Scientific research	94	27	12.73	18%	36
Women and children	2	4.3	10.18	0	59
Others	59	17.81	30.12	0	100



**FIGURE 1** Revenue breakdown of nonprofits under study. Source: Self-made. [Color figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]

**TABLE 3** Predictors of nonprofit commercialization

Predictors	Commercial income
Resource insufficiency	0.098** (0.049)
Government connections	1.098** (0.463)
Resource competition	-0.024 (0.028)
Resource munificence	0.046* (0.028)
Organizational size	0.030 (0.029)
Organization age	0.033** (0.015)
Board size	-0.005 (0.018)
Private donations	-1.114*** (0.201)
Constant	-0.079 (1.430)
Wald Chi-square	71.75***
N	336

Note: Fractional response regression employed; coefficients reported, with robust standard errors in parentheses; service area dummies included in the analysis but not reported here; \*\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ .

Increases in government connections could expand a nonprofit's proportion of commercial income. This finding lends support for  $H_2$ .

Third, the effects of the resource environment on nonprofit commercialization display a mixed picture. On the one hand, resource competition does not have a statistically significant relationship with a nonprofit's extent of commercialization ( $p > 0.1$ ). It means that a nonprofit's engagement in commercial activities seems not to be a response

to the competition landscape the nonprofit confronts in resource acquisition. This finding rejects  $H_3$ . On the other hand, resource munificence has a positive association with nonprofit commercialization, and this relationship is statistically significant at the 10% level. Nonprofits operating in more resourceful environment are more likely to rely on commercial revenues. The finding shows support for  $H_4$ .

The findings of the control variables are worth mentioning. First, organization size does not seem to affect nonprofits' levels of commercial income, but organizational age matters. Older nonprofits tend to have higher proportions of commercial income ( $p < 0.05$ ). Second, a nonprofit's board size does not have a statistically significant relationship with its level of commercial income. Third, consistent with previous studies (Enjolras, 2002; Hung, 2020), there is a significant crowding-out relationship between private donations and commercial income ( $p < 0.01$ ).

## 5 | DISCUSSION AND CONCLUSION

The present study delineates the scope of nonprofit commercialization in China and analyzes its underlying motivations. The findings extend the literature in several ways. To begin with, the extent of Chinese nonprofit commercialization seems modest, especially when compared with that of many other countries (Salamon et al., 2017). There is a widespread concern in many countries that nonprofits may over-commercialize themselves and further lead to unintended consequences such as mission drift and goal displacement (Eikenberry & Kluver, 2004; Park et al., 2021; Weisbrod, 1998). The reliance on commercial income among Chinese nonprofits also arouses similar concerns. For example, Lai and Spires (2021, p. 72) argued that commercialization could transform Chinese nonprofits into "social product providers and resource-chasing machines, detracting from the self-directed social missions that many NGO leaders see as their original calling." Our finding suggests that on average the Chinese nonprofit sector's reliance on commercial income is still moderate, much less than its reliance on government funding and charitable donations. Although our data do not allow us to track the longitudinal development of commercial income among Chinese nonprofits within an authoritarian context, the present study seems to imply that the over-commercialization concern may not apply to the Chinese nonprofit sector at least at this phase of development. In other words, the risks associated with commercialization may not yet be a pressing issue for the Chinese nonprofit sector.

Moreover, despite a modest level of commercialization in general, there is wide variation among Chinese nonprofits in terms of their reliance on commercial income. In this sense, a more meaningful question for research is what factors contribute to this large variation among Chinese nonprofits. Informed by previous literature, we approach this research question from the lenses of resource dependence theory, institutional theory, and organizational ecology theory, and explore whether and to what extent the factors derived from these theories could explain nonprofit commercialization in the authoritarian Chinese context. Our analysis presents a mixed picture. First, consistent with previous studies (e.g., LeRoux, 2005; Suykens et al., 2021), we find support for the resource-dependence line of argument. Nonprofits' resource insufficiency is one driving force that leads nonprofits to rely on commercial income. When nonprofits face adverse financial conditions, they pursue market strategies to cope with resource deficits and mitigate environment uncertainty. Commercialization thus acts as a financial strategy for nonprofits to achieve self-sufficiency.

Second, government connections help nonprofits leverage commercial income. The effects of nonprofits' institutional linkages to the government on their commercial income have not been examined by previous studies. However, within the Chinese authoritarian context, the party-state system has a profound influence on various aspects of nonprofit operations. It is thus hard to imagine that nonprofits' engagement in commercial activities proceeds without any influence from the party-state system. Theoretically, government connections could affect nonprofits' commercial income in two different ways. On the one hand, government-connected nonprofits may choose to predominantly rely on the government for resources and thus have weaker incentives to compete for commercial income. On the other hand, government connections enhance nonprofits' legitimacy and credibility, putting

nonprofits in a more favorable position to leverage additional funding. Our result suggests that the latter mechanism drives the relationship in a more forceful manner. In this way, nonprofits can more readily take advantage of the crowding-in effect of government connections in expanding their resource base. This finding extends the literature on nonprofit commercialization with new knowledge from an institutional perspective and an authoritarian context.

Third, the external resource environment seems not to play a robust role in shaping nonprofit commercialization. From an open-system perspective in organizational studies, nonprofits' operations and behaviors are not only affected by their internal dynamics, but also their external environment. Following this line of reasoning and informed by organizational ecology theory, we examine how resource competition and munificence in nonprofits' operating environment influence their reliance on commercial income. The results indicate that nonprofits operating in an affluent environment tend to have more commercial income, possibly because nonprofits in munificent environment are more proactive in commercial activities and residents in affluent communities are more likely to afford service charges. It is important to note that the relationship is less robust, as it is statistically significant at the 10% level.

In addition, although some previous studies find that reliance on commercial income is one financial strategy nonprofits employ to cope with external competition (Tuckman, 1998; Young & Salamon, 2002), our result suggests that might not be the case for Chinese nonprofits. It is possible that even in localities with higher numbers of nonprofits, the level of competition is still not significant enough to warrant that nonprofits develop coping strategies (e.g., commercialization) to deal with external competition.<sup>7</sup> Putting the findings of both environmental variables together, the resource environment does not seem to matter much in Chinese nonprofit commercialization. In this way, we also add new empirical evidence to the literature concerning the environmental antecedents of nonprofit commercialization in an authoritarian context with limited nonprofit competition.

Our analysis is subject to a number of limitations. First and foremost, the usual caveats concerning cross-sectional data apply. In particular, we are not able to track the change over time, and thus fail to document how Chinese nonprofits' levels of commercialization have evolved. It would be very valuable if future research could revisit this research question. In addition, the cross-sectional nature of the analysis also implies that our results are best understood as correlational rather than causal. For example, although we used revenue change from 2018 to 2019 to explain commercialization in 2019, this time difference might not be sufficient for causal inferences. Future studies relying on longitudinal data will be in a better position to delve into causality. Second, as noted above, there are no comprehensive lists of Chinese nonprofits available for public access. As a result, we cannot accurately evaluate the representativeness of our sample and the generalization of our findings. Third, in measuring nonprofits' resource environment, we identified nonprofits' geographic locations based on their organization locations, which could be different from their service locations and thus introduce bias into our analysis. A nonprofit can locate in one area but provide services in another area. Fourth, the variables included in the analysis are in no way exhaustive. There are many other variables that future research may examine, such as organizational culture and local policy (Maier et al., 2016).

Despite these limitations, this study conducts the first empirical analysis of the scope and antecedents of nonprofit commercialization in China. It delineates the Chinese nonprofit sector's modest level of reliance on commercial income and identifies that resource insufficiency, government connections, and environment munificence help explain the large variation in commercialization levels across nonprofits. The study extends the literature on nonprofit commercialization with new knowledge from a non-Western, authoritarian context. Given the modest level of nonprofit commercialization in China, the debate on the benefits and risks of over-commercialization among nonprofits in many countries might not be relevant to the Chinese nonprofit sector. For many Chinese nonprofits, soliciting sufficient funds from various sources to enhance their financial capacity is more compelling than debating on whether one particular source is beneficial or detrimental. Specific to commercial income, given its potential role as a gap filler for nonprofits to overcome their resource shortage and promote financial sustainability, commercialization could be one viable financial strategy for Chinese nonprofits to pursue. From a policy perspective, the government should maintain a supportive policy environment for nonprofits to engage in commercial activities and raise

commercial revenue (Roy et al., 2015). Moreover, policy makers could also design policies and programs to leverage policy tools such as seed grants and impact investments to facilitate nonprofits' capacity building and help them prepare for market-oriented activities (Choi et al., 2020; Hazenberg et al., 2016).

## ENDNOTES

- <sup>1</sup> Similar to previous studies (e.g., Guo, 2006; Weisbrod, 1998; Young, 1998), we treat commercial income, earned income, and program service income as synonyms in this study.
- <sup>2</sup> This study only examines the nonprofit sector in mainland China, excluding Hong Kong, Macao, and Taiwan.
- <sup>3</sup> Government contracts were not included in this measure.
- <sup>4</sup> Due to data availability, these two variables were measured using 2018 data. However, it is reasonable to assume no dramatic changes in the two variables between 2018 and 2019.
- <sup>5</sup> Government funding (measured as the proportion of total revenue from government sources) was excluded from the analysis because of the multicollinearity concern.
- <sup>6</sup> We did a robustness test using a logistic regression with the dependent variable measured as a dummy variable (1 = a nonprofit with commercial income and 0 = a nonprofit without commercial income). The results are largely consistent.
- <sup>7</sup> We thank one anonymous reviewer for raising this thoughtful point.

## DATA AVAILABILITY STATEMENT

Research data are not shared.

## ORCID

Jiahuan Lu  <https://orcid.org/0000-0001-9773-2627>

Qiang Dong  <https://orcid.org/0000-0002-4832-8406>

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## SUPPORTING INFORMATION

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