

**STRATEGIC HUMAN RESOURCE MANAGEMENT IN NONPROFIT ORGANIZATIONS:
A RESEARCH FRAMEWORK**

Mark L. Lengnick-Hall
Professor
Department of Management
University of Texas at San Antonio
One UTSA Circle
San Antonio, Texas 78249-0634

Cynthia A. Lengnick-Hall
Professor
Department of Management
University of Texas at San Antonio
One UTSA Circle
San Antonio, TX 78249-0634

Julio Canedo-Soto
Doctoral Student
Department of Management
University of Texas at San Antonio
One UTSA Circle
San Antonio, TX 78249-0634

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ABSTRACT

Nonprofit organizations are a significant sector of the economy and they fill many needs unmet by for-profit organizations. Not-for-profit organizations are generally defined as associations, charities, and other voluntary organizations formed to further cultural, educational, human service, religious, or public service objectives (Bottiglieri, et al., 2011). The purpose of this paper is to provide a research framework for exploring strategic human resource management issues in nonprofit organizations. The paper makes three contributions to the research literature. First, we clarify the need for a more differentiated perspective on nonprofit organizations, especially with regards to studying strategic human resource management issues. Second, we identify the challenges of studying strategic human resource management issues in the nonprofit sector using the same research lens which has been developed for studying for-profit organizations. And third, we identify a research agenda for studying strategic human resource management incorporating the differentiated nonprofit organization typology.

Keywords: strategic human resource management; nonprofit organizations

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Nonprofit organizations are a significant sector of the economy and they fill many needs unmet by for-profit organizations. The Urban Institute's National Center for Charitable Statistics (<http://nccs.urban.org/statistics/quickfacts.cfm>) provides a snapshot of nonprofit organizations in the United States. Over 1.6 million nonprofits are registered with the Internal Revenue Service, including public charities such as arts, education, health care, human services, and other organizations to which donors can make tax deductible donations to enable them to serve vital public needs. Other types of nonprofit organizations range from advocacy organizations, to labor unions, business and professional associations, fraternal societies, cemetery companies, and state-chartered credit unions. In 2009, nonprofit organizations accounted for 9% of all wages and salaries paid in the United States. The nonprofit share of gross domestic product was 5.4% in 2009. Many Americans volunteer their time and efforts to support these organizations. Between September 2009 and September 2010, approximately 26.3% of Americans over the age of 16 volunteered their time with a nonprofit group.

Not-for-profit organizations are generally defined as associations, charities, and other voluntary organizations formed to further cultural, educational, human service, religious, or public service objectives (Bottiglieri, et al., 2011). Non-profit organizations provide a wide array of tangible (clothing, shelter, food, health) and non-tangible (support, recreation, counseling) services (Kosny & Eakin, 2008). Public and non-profit organizations are differentiated from their commercial counterparts in the private sector along several dimensions: (1) the focus is not on maximizing profits, (2) there is little potential for income generation, and (3) there is no bottom line against which performance can ultimately be measured (Micheli & Kennerley, 2005).

Additionally, nonprofit organizations may be identified by the following criteria (Salamon & Anheier, n.d.). They are *formal* organizations with some degree of permanence as opposed to informal and temporary gatherings of people. They are *private*—that is separate from government—neither part of the governmental apparatus nor governed by boards dominated by government officials. They *do not distribute profits* generated to their owners or directors; nor do they exist primarily to generate profits. They are *self-governing* and not controlled by outside entities. Finally, they involve some meaningful degree of *voluntary participation* either in the conduct of the organization’s activities or the management of its affairs or both.

Despite the number and variety of nonprofit organizations, surprisingly little research attention has focused on strategic human resource management (SHRM) in this sector (Lengnick-Hall, et al. 2009). The purpose of this paper is to provide a research framework for exploring strategic human resource management issues in nonprofit organizations. The paper makes three contributions to the research literature. First, we clarify the need for a more differentiated perspective on nonprofit organizations, especially with regards to studying strategic human resource management issues. Second, we identify the challenges of studying strategic human resource management issues in the nonprofit sector using the same research lens which has been developed for studying for-profit organizations. And third, we identify a research agenda for studying strategic human resource management incorporating the differentiated nonprofit organization typology.

A Typology of Nonprofit Organizations

As with for-profit firms, there is so much variety in the characteristics of nonprofit organizations that it makes little sense to treat them as a single category for research purposes. A number of approaches have been proposed for categorizing nonprofit organizations (Hansmann,

1980; Dart, 2004; Peloza & Hassay, 2007; Brown & Iverson, 2004; Wymer Jr. & Samu, 2003; Johnson, 1998). We believe that Hansmann's (1980) typology is the most useful for addressing strategic human resource management issues. He identifies two overall dimensions: financing and control. Nonprofit organizations that receive all or most of their income in the form of grants or donations are classified as "*donative*." Examples of donative nonprofits include the Salvation Army and the American Red Cross. Nonprofit organizations that receive all or most of their income from prices charged for their services are classified as "*commercial*." Examples of commercial nonprofits include nursing homes, hospitals, and the American Automobile Association. Nonprofit organizations that are controlled by their patrons (donors or customers who constitute the ultimate source of a nonprofit's income) are categorized as "*mutual*." Examples of mutual nonprofits include country clubs and Common Cause, the citizen's lobby. In these organizations directors are elected by the membership. Nonprofit organizations that are largely free of the exercise of formal control by their patrons are classified as "*entrepreneurial*." These organizations are usually controlled by a self-perpetuating board of directors. Examples of entrepreneurial nonprofits include the American Diabetes Association and local food banks.

Hansmann's (1980) categorization scheme results in four types of nonprofit organizations. *Donative mutual organizations* include examples such as Common Cause, the National Audubon Society, and political clubs. *Donative entrepreneurial organizations* include examples such as CARE, the March of Dimes, and art museums. *Commercial mutual organizations* include examples such as the American Automobile Association, Consumers Union, and country clubs. *Commercial entrepreneurial organizations* include examples such as the National Geographic Society, Educational Testing Service, community hospitals, and nursing homes. Based upon Hansmann's (1980) categorization, we propose a continuum of how similar

different types of nonprofit organizations are to for-profit organizations. This is analogous to the institutional distance construct popularized in the international business literature. The continuum ranges from less similar (to for-profits) (1) donative mutual and (2) donative entrepreneurial, to more similar (to for-profits) (3) commercial mutual, and (4) commercial entrepreneurial. We propose that SHRM research (developed in the for-profit sector) will more readily generalize to commercial entrepreneurial and commercial mutual than to donative entrepreneurial and donative mutual nonprofit organizations. We argue that differences in type of nonprofit organization are related to different emphases of SHRM and different types of HR system configurations.

Challenges in Studying SHRM in Nonprofit Organizations

Context matters in the study of SHRM (Jackson & Schuler, 1995; Budhwar & Sparrow, 2002). Similar to arguments made in the international human resource management literature that question whether models of HRM developed in the U.S. are generalizable to other countries (c.f., Sparrow & Budhwar, 2002), we argue that contextual differences in nonprofit organizations determine whether models of SHRM developed in the for-profit sector are generalizable to the nonprofit sector. For example, consider the construct of competitive advantage developed in for-profit strategy research (as well as SHRM research). An argument can be made that a nonprofit organization such as Goodwill Industries (commercial entrepreneurial) competes with discount clothing stores and other traditional retailers. Pursuing a low cost, differentiation, or innovation strategy makes sense in this context and provides an opportunity for aligning HR systems both externally and internally (Baird & Meshoulam, 1988) in order to create competitive advantage. Furthermore, developing human resources that are valuable, rare, difficult to imitate, and nonsubstitutable (Barney & Wright, 1998) seems to apply well in this context. But does the

same construct of competitive advantage apply to a nonprofit organization providing food and shelter to a homeless population? Do they have competitors? Is competitive advantage a relevant concept? As illustrated by the following quote, some nonprofits operate from a very different frame of reference than for-profit organizations. “In my job as the Development Director for the Cleveland Orchestra, when we were subjected to questions regarding our "profit-making" capabilities, we responded half-jokingly that we could not increase our productivity even if we played a Beethoven symphony faster than it was played 200 years ago. We could not speed up our musician "assembly line," nor could we reduce the number of orchestra violinists required through automation. If the "widget" we produced was symphonic music, we could not cut costs and make a profit by turning ourselves into a chamber orchestra and still produce our symphonic-music "widget" which was needed and desired in the community.”

A Research Agenda for SHRM in Nonprofit Organizations

We propose that variety in nonprofit organization types requires variety in approaches to SHRM. We develop a framework for studying SHRM across nonprofit organization types that addresses research questions such as the following: (1) What are the main determinants of SHRM policies and practices across different nonprofit organizational types? (2) What is the applicability to nonprofit organizations of SHRM research conducted in the for-profit sector? (3) What determines the strategic use of volunteers versus paid staff in fulfilling the mission of the organization? (4) To what extent do for-profit constructs of strategy (e.g., low cost producer, product differentiation, innovation) apply to nonprofit organizations and how should these be modified?

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