

## INTERNATIONAL MARKET SELECTION OF NONPROFIT ORGANIZATIONS (NPOS): DO WE NEED A NEW THEORY?

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### Abstract

*Despite the growth in the number of NPOs operating abroad, very few studies have been devoted to understanding the international market selection of NPOs. The objective of this paper is to highlight the differences between the for-profit (FPO) and non-profit sectors and thereby argue that the international market selection decisions faced by organizations belonging to these two sectors are different. The study argues that current theories on traditional and for-profit internationalization have to be extended if they are to be used to predict non-profit international market selection. Further in order to highlight the critical differences between the two sectors, the study has examined the international market selection decisions faced by these firms and then developed propositions so that future studies might further develop and empirically test them. As a starting point, the study argues that due to structural differences in the two sectors NPO and FPO, in terms of mission, financing and planning, NPOs tend to have different objectives and pursue different strategies in achieving those objectives compared to FPOs. Furthermore, examining the existing for-profit theories reveal that certain assumptions (e.g., opportunism) on which these theories are based can be challenged in the non-profit context due to the sector's unique characteristics (e.g., the profit distribution constraint). Therefore, the study argues that certain long-held assumptions on for-profit internationalization cannot be used in their current form to explain the behaviour of non-profit organizations.*

**Key words:** Non-profit internationalization, internationalization, non-profits, NPO, NGO, market selection

### Introduction

For-profit organizations (FPOs), whose main objective is to earn profits and non-profit organizations (NPOs), whose main objective is not to earn profits but to help its beneficiaries (Lewis, 2003) while being driven by a certain mission, differ fundamentally in terms of their objectives. The strategies used by an organization are largely dependent on the organization's objectives and, therefore, it can be assumed that the strategies used by FPOs and NPOs are different from each other (Sabert and Graham, 2014). Furthermore, using for-profit theories to explain non-profit organizations poses theoretical and practical challenges. In addition to their strategies and objectives, NPOs are also different from FPOs in terms of their legal forms and funding mechanisms (Crittenden and Crittenden, 1997; Hull and Lio, 2006; Nutt and Backoff, 1992). The unique characteristics of NPOs, coupled with the relative shortage of studies in the area, have created a considerable research gap when it comes to understanding the

internationalization of NPOs (Sabert and Graham, 2014; Sirisena and Shneor, 2018). Therefore, the objective of this paper is to assess the extent to which the internationalization decisions faced by these two types of organizations are different. This study also formulates new propositions on the international market selection of non-profits, which may serve as a springboard for future empirical studies, and by extension, may offer some intuition for a new area of internationalization research.

## **Theoretical Foundations**

### ***Non-profit organizations: Key characteristics***

An NPO can be defined as “an organization which is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees” (Hansmann, 1980, p. 838). From a functional perspective, an NPO can be defined as an organization that aims “to serve the underserved or neglected populations, to expand the freedom of or to empower people, to engage in advocacy for social change, and to provide services” (McCarthy, Hodgkinson, and Sumariwalla, 1992, p. 3). There are four main economic theories that address the existence and growth of the non-profit sector, namely, contract failure theory, public goods theory, subsidy theory (Clarke and Estes, 1992), and supply-side theory (Valentinov, 2008). These theories explain the different environmental factors that contribute to the growth of the non-profit sector, and they often complement rather than contradict each other.

First, according to contract failure theory, in order for a contract to be effective and efficient, the market system requires the following conditions: Reasonable knowledge of the markets by all parties, an ability to reach explicit agreements with the intended parties, and, finally, an ability to confirm the compliance of all the parties with the agreement (Hansmann, 1987). In the absence of these conditions, “a for-profit firm has both the incentive and the opportunity to take advantage of customers by providing less service to them than what was promised and paid for” (Hansmann, 1987, p. 29). However, a non-profit organization, due to its nondistributive constraint, tends to be less opportunistic in the same scenario (Clarke and Estes, 1992; Hansmann, 1987). It has been argued that especially in “situations characterized by asymmetric information ex-ante, NPOs have become superior to their for-profit counterparts as opposed to situations where quality is known as ex-post” (Chillemi and Gui, 1991, p. 8). For example, “donors may be willing to donate only to nonprofit institutions, given the difficulty of monitoring charitable work, fearing that for-profit firms will convert gifts into profits for the owners” (Rose-Ackerman, 1996, p. 716). It has indeed been noted that “NPOs tend to increase the confidence of people in the good faith behaviour of companies” (Shaviro, 1996, p. 1001). Thus, a compelling argument for the existence of the non-profit sector is the possibility of contract failure due to information asymmetry between parties on an agreement.

“Collective goods [or “public goods”] are products or services like national defense or clean air that, once produced, are enjoyed by everyone whether or not they have paid for them” (Salamon, 1987, p. 35). The provision of public goods, exclusively through the market system, leads to short supply since few consumers volunteer to pay for products that they can enjoy without paying (Salamon, 1987). To prevent such shortages, governments can support the production of public goods (Salamon and Anheier, 1998). However, in a democracy, where there are considerable differences of opinion about which public goods to be produced, the provision of public goods tends to reflect the preferences of the median voter only and, as a result, the demand for public goods is often unsatisfied (Weisbrod, 1975). Thus, certain goods and services are provided at the expense of other goods and services creating a situation of

government failure in providing public goods. “It is to meet such unsatisfied demand for collective goods, the argument goes, that a private, voluntary sector is needed” (Salamon, 1987, p. 35). For our purposes, it is important to note that NPOs try to meet this unsatisfied demand by targeting the marginalized communities that government programmes fail to provide for (Clarke and Estes, 1992).

Another theory used by non-profit scholars to explain the existence of the non-profit sector is subsidy theory. “In most industries in which they are common, non-profit organizations tend to benefit from a variety of explicit and implicit subsidies [...], and it is often suggested that such subsidies are in large part responsible for the proliferation of nonprofit organizations” (Hansmann, 1987, p. 33). For example, governments can use different tools, such as grants, subsidies and tax relief to influence the type and number of non-profit entities operating in a given area. These tools help non-profit organizations to operate effectively in the marketplace despite their inherent inefficiencies compared to for-profit organizations (Kim and Kim, 2016).

Finally, supply-side theory attributes to the existence of the non-profit sector to entrepreneurs who opt to start non-profit organizations instead of for-profit organizations. These “ideological” entrepreneurs seek to promote a given set of ideologies or beliefs and are less concerned about profit (Valentinov, 2008, p. 758).

#### ***For-profit organizations and non-profit organizations: Key differences***

Despite sharing some common features with the for-profit sector, the non-profit sector has its unique characteristics (Goulet and Frank, 2002). The discussion below is focused on establishing the main differences between the non-profit and for-profit sectors at the operational level. Broadly speaking, three main differences between the two sectors can be identified: Mission (Epstein and McFarlan, 2011; Gilmour, 2007; Hansmann, 1987; Hull and Lio, 2006), financing (Epstein and McFarlan, 2011; Lewis, 1999; Moore, 2000) and revenue generation (Bryson, 1995; Epstein and McFarlan, 2011; Moore, 2000; Oster, 1995).

The mission statement of an organization can generally be regarded as a statement that highlights the main purpose and direction of the organization (Baetz and Kenneth, 1998; Campbell, 1992). According to Campbell and Yeung (1991), a mission statement touches upon four important areas of an organization; its purpose, strategy, behavioural standards and values. The purpose of an organization has to do with why a given organization exists in the first place (Campbell, 1992). Based on the purpose, we can divide companies into three major groups: Those that satisfy shareholders, those that satisfy stakeholders and those that satisfy needs that are greater than the combined needs of shareholders and stakeholders (Campbell and Yeung, 1991). The strategy of an organization defines how the organization is going to achieve its primary purpose (Porter, 1985) including “the business that the company is going to compete in, the position that the company plans to hold in that business and the distinctive competence or competitive advantage that the company has or plans to create” (Campbell and Yeung, 1991, p. 14). Behavioural standards deal with the daily operations of the organizations while values explain the main moral principles that relate to the company’s culture (Campbell and Yeung, 1991). Thus, a typical mission statement of a for-profit organization communicates the organization’s purpose of maximizing shareholder wealth while identifying the means to achieve it within the organization’s value system (Baetz and Kenneth, 1998). By contrast, a typical mission statement of a non-profit organization communicates the organization’s purpose of creating value for society while identifying the means to generate a positive social change (Hull and Lio, 2006).

“The sources of financial support for all organizations, whether nonprofit, for-profit or government are crucial determinants of the organization’s behaviour – the kinds of goods and services it produces, combinations of labour and capital it uses to produce them and the ways it distributes the outputs” (Weisbrod, 1998, p. 168). The financing of a for-profit organization is comprised of funds from capital markets (equity and debt) and funds from operations, whereas the financing of a non-profit organization depends mainly on grants and donations (Epstein and McFarlan, 2011). In terms of organizational structure, for-profit organizations are owned by their shareholders and thus, these organizations are primarily responsible for them and have a clearer chain of command (Hull and Lio, 2006). The case of non-profits, on the other hand, is more complex. Here, none of the parties involved, including corporate and individual donors, governments and employees own the nonprofit. Yet, all of them exert differing levels of influence over its operations (Rosenthal, 1996); therefore the chain of command in a non-profit is not so clear (Sabert and Graham, 2014).

The third and final difference between the non-profit and for-profit sectors has to do with the main sources of income. “An organization that is completely dependent on revenue from sales of goods and services – ‘commercial activities’ – will produce only things it can sell profitably, will use production processes that minimize production costs, and will provide outputs to all who are willing to pay more than the marginal cost of production” (Weisbrod, 1998, p. 168). Furthermore, for-profits get their main sources of income from selling products and services to customers. Thus, profitability through customer satisfaction is critical for them (Moore, 2000). For most non-profits, on the other hand, the major sources of income are donations from corporate, governmental or individual donors. As long as no strings are attached to the donations, NPOs can produce the output they prefer and distribute it according to their wish (Weisbrod, 1998). Table 01 highlights the above-mentioned differences between the two sectors.

**Table 01.** Main differences between non-profit and for-profit organizations

<b>Criteria</b>	<b>Non-profit</b>	<b>For-profit</b>
Mission	Social: to create as much positive social change as possible	Economical: to generate as much profit as possible.
Ownership and initial financing	Not clear (donors, employees, many stakeholders)	Clear (shareholders)
Principal source of revenue	Selling products and services	Charitable donations

***Internationalization process: The FPO Context***

Internationalization is “the process of adapting [the] exchange transaction modality to international markets” (Calof and Beamish, 1995 p. 115 ) by “adapting the [organization’s] operations (strategy, structure, and resources) to the international environment” (Calof and Beamish, 1995, p. 116). Researchers have tried to explain the internationalization of organizations using two main research orientations. First, the economic approach to internationalization including the internalization theory (Buckley and Casson, 1976), international product life-cycle theory (Vernon, 1966, 1979) and monopolistic competition theory (Hymer, 1976). Second, the behavioral approach to internationalization including the eclectic paradigm as an important envelope theory (Dunning, 2000), that includes the Uppsala model (Johanson and Vahlne, 1977), network theory (Johanson and Mattsson, 1988) and

international entrepreneurship theory (Knight, 1996; Knight and Cavusgil, 2004; Knight and Liesch, 2016; Oviatt and McDougall, 1994; Zahra, Ireland, and Hitt, 2000). This study will address these three commonly used behavioural theories.

### *The eclectic paradigm*

“The eclectic framework represents a multi-theoretical approach, which use[s] international trade theory (location advantages), resource-based theory (ownership advantages), and transaction cost theory (internalization advantages) in order to predict internationalization decisions” (Andersen, 1997, p. 35). The initial idea of the eclectic paradigm was presented by Dunning in 1976 at a Nobel Symposium and was further developed to include three factors that influence an organization’s internationalization. They are; (1) ownership advantages (OA): the net ability of firms from one country to provide a better service to a particular market or markets, compared with firms from another country; (2) internalization advantages (IA): the extent to which firms believe that internalization of resources is the best value-adding method; and (3) location advantages (LA): obtaining access to customers or a lower production cost due to locating activities outside their national boundaries. (Dunning, 1980, 1988).

Ownership advantages (or “firm-specific advantages”) can be divided into three main categories (Dunning, 2000). First, there are advantages stemming from the possession and exploitation of monopoly power (Dunning, 1980) which help organizations to create entry barriers in the product market (Porter, 1985). Second, there are advantages stemming from the possession of scarce, unique and sustainable resources and capabilities which help organizations to create barriers to enter in the factor market (Dunning, 2000). Third, there are advantages stemming from the competence of the managers of a particular organization to identify, evaluate, harness and coordinate the resources from different markets with those already in the organization’s possession in order to further the long-term interests of the organization (Dunning, 2000).

Location advantages are represented by the “comparative cost of country-specific inputs (e.g., materials, labor, natural resources) accessible to enterprises operating within that country’s borders and the cost of trade barriers between countries which may include transportation costs, tariffs and non-tariff barriers” (Buckley and Hashai, 2009, p. 59). Location advantages can come in many forms including locations with favorable demand conditions, favorable supply conditions, favorable competitive conditions and availability of immovable resources (Dunning, 1973; Dunning, 1980; Hoover, 1948); locations that are psychically closer (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) and/or subject to fewer transaction costs (Andersen, 1997; Anderson and Gatignon, 1986a); locations with clusters and economies of scale and scope (Dunning, 1999; Porter, 1996); locations with complementary assets (Teece, Pisano, and Shuen, 1997); locations with government incentives (Loree and Guisinger, 1995); locations with diversified location-based risks (Rugman, 1975); locations with better exchange rates (Aggarwal, 1977; Jacquillat and Solnik, 1978); and locations with access to knowledge-based resources (Dunning, 1997; Porter, 1994).

Internalization advantages are advantages created as a result of a firm’s decision to integrate its activities ranging from production to distribution (Nakos and Brouthers, 2002) into its corporate structure rather than acquire them from the market (Anderson and Gatignon, 1986a; Dunning, 1988, 2000). When the firm needs resources that are readily and efficiently available in the market, it has less incentive to produce them within its national boundaries because the integration costs would be higher than obtaining those from the market (Anderson and Gatignon, 1986b). However, in cases where a firm cannot acquire the necessary resources

from the market efficiently or in cases where a firm is vulnerable to opportunistic behaviour as a result of exposing firm-specific resources to competition when acquiring the necessary resources from the market, the firm may decide to integrate despite the costs (Nakos and Brouthers, 2002). Hence, according to Agarwal and Ramaswami (1992), internalization advantages arise from contractual risks and, therefore, these advantages increase with the risks.

### *The Uppsala model*

The Uppsala model goes back to the 1970s when new research emerged on the internationalization of traditionally large manufacturing companies, commonly known as stage models of internationalization. During the 1970s, and based on Nordic companies, it was observed that organizations that operate initially in their home markets, with time, receive demand from foreign customers and start to export their products in order to meet those demands, and gradually expand their operations and ultimately become fully fledged foreign operations (Johanson and Vahlne, 1977). The Uppsala model, which was subsequently developed based on these observations, explains internationalization as a chain of gradual events.

The Uppsala model is based on three major assumptions. First, it highlights the importance of acquiring knowledge, since “lack of knowledge is the major barrier for successful internationalization of firms” (Johanson and Vahlne, 1977, p. 23). Furthermore, the model acknowledges the tacit nature of knowledge and highlights the importance for the firm to gain knowledge by actual operations in the given market (Johanson and Vahlne, 1990). The second assumption builds on the first one arguing that in obtaining market knowledge in order to reduce uncertainty and thereby risk, firms need to be incremental in their internationalization activities (Johanson and Vahlne, 1977). Therefore, a firm should move to a new environment only when it has enough knowledge about that market to allow it to reduce uncertainty and risk (Sullivan and Bauerschmidt, 1990). The third and final assumption is that firms need to treat knowledge as tacit and contextual (Johanson and Vahlne, 1977). As a result, the model assumes that the problems and opportunities related to a particular market are best understood by those who work and operate in that particular market (Johanson and Vahlne, 1990). The Uppsala model thus highlights four key concepts: Market knowledge, market commitment, commitment decisions and current activities (Johanson and Vahlne, 1977).

### *The network theory*

Network theory assumes that organizations internationalize through mutually beneficial relationships with other network partners (Johanson and Mattsson, 1988; O’Farrell, Wood, and Zheng, 1998a). Network theory assumes that “the individual firm is dependent on resources controlled by other firms” (Johanson and Mattsson, 1987, p. 36) and recommends cooperation rather than competition (Sharma and Blomstermo, 2003). According to Malhotra, Agarwal and Ulgado (2003), networks develop in a dynamic, complex and relatively unstructured way. Networks can be categorized using several criteria. One criterion for categorizing networks is according to whether they are formal or informal (Kunčič and Jaklič, 2014). However, the formal/informal distinction lacks a clear line of demarcation (Ojala, 2009). Another criterion for categorizing networks is according to whether they are active or passive; a network is active if it is initiated by the seller and passive if it is initiated by the buyer (Johanson and Mattsson, 1988). Network theory defines three types of international expansions: Establishing new positions (international expansion), developing and increasing commitments in current positions (penetration) and increasing coordination between current positions (international integration) (Johanson and Mattsson, 1988, p. 118). According to Johanson and Mattsson

(1988, p. 120), network theory categorizes internationalizing firms into four different types, namely, early starter, lonely international, late starter and international among others, based on their unique configurations in terms of the degree of internationalization of the market and the firm. Johanson and Vahlne (2009) introduced the concept of “liability of outsider-ship” according to which a firm is regarded as an insider or an outsider depending on the number of network resources it shares with other firms in its new environment. Indeed, one of the main factors that determine the success or failure of the internationalization process is how quickly the firm can become an insider using its networks (Johanson and Mattsson, 1988).

### ***Conceptualizing internationalization in the NPO context***

Current theories on the internationalization process of for-profit organizations rest on assumptions specific to for-profit organizations. Therefore, it is important to exercise caution when applying models and approaches based on these theories to non-profit organizations because non-profit and for-profit organizations do not share the same set of assumptions and characteristics. For example, the eclectic paradigm which is based on for-profit organizations takes opportunism as a main assumption (Dunning, 1980). Therefore, one may question whether the eclectic paradigm can explain the internationalization of non-profit organizations because nonprofits, with their restraints on profit distribution, tend to be less opportunistic (Hansmann, 1987). Furthermore, all three internationalization approaches discussed above (eclectic paradigm, Uppsala model, and network theory) assume uncertainty which can impact profitability. Thus, uncertainty can affect for-profit organizations (Andersen, 1997), whereas its effect on non-profit organizations is much smaller due to their non-profit status (Clarke and Estes, 1992). Moreover, non-profit organizations tend to reduce uncertainty in markets by helping to build physical infrastructure (Salamon and Anheier, 1996) and strengthening local institutions (Mosley, 2010). Therefore, it is important to take the aforesaid theories with a pinch of salt when using them to explain and interpret the non-profit internationalization process.

### ***International Market Selection***

Once an organization decides to go international, it has to decide what markets to enter. International market selection is a process of establishing criteria for selecting foreign markets classifying them according to the set criteria, and finally selecting the best candidate locations (Kumar, Stam, and Joachimsthaler, 1994). Market selection is a very important decision for an internationalizing organization (Papadopoulos and Martín, 2011). Organizations can choose which markets to enter using systematic methods (i.e., rational and scientific criteria) or non-systematic methods (i.e., personal beliefs) (Alexander, Rhodes, and Myers, 2007).

Systematic market selection is studied in the international business literature using two main approaches; normative and descriptive (Swoboda, Schwarz, and Hälsig, 2007). The normative approach views international market selection as a one-stage process and assumes that the decision is taken in isolation rather than directly linking to other strategic decisions (Papadopoulos, Chen, and Thomas, 2002).

By contrast, the descriptive approach sees the decision as a combination of several incremental stages, namely, initial screening of all target markets, identification of a more plausible set of target markets and final decision (Swoboda et al., 2007). The international business literature highlights two sets of factors that can be used to evaluate foreign markets. The first set consists of target country-related factors, including demographic environment (Mullen, 2009), political environment (Cavusgil, 1985), economic environment (Cavusgil, 1985, 1997; Sakarya, Eckman, and Hyllegard, 2007), sociocultural environment (Johanson and

Wiedersheim-Paul, 1975) and industry condition (Cavusgil, 1997; Sakarya et al., 2007). The second set consists of organization-based factors including strategic orientation (Papadopoulos et al., 2002), experience (O'Farrell and Wood, 1994), organizational resources (Brouthers, Mukhopadhyay, Wilkinson, and Brouthers, 2009) and network relationships (Zain and Ng, 2006).

## **The Proposition Development**

### ***Market failure and Beneficiary Needs***

As pointed out earlier, the main motive for NPOs to go international is to increase the welfare of beneficiaries living in foreign countries where the market and the government have failed to provide such welfare, and thus, we can intuitively argue that needy beneficiaries are central to NPO market selection decisions. Because NPOs purport “to alleviate distress and disadvantages” (Grønbjerg and Paarlberg, 2001, p. 688), they need to serve beneficiaries with needs. Yet, despite the intuitive nature of this logic, research on the impact of needs on location selection is in dispute; some researchers have found out that need influences location decisions (e.g., Koch, 2009; Avellaneda, Johansen, and Suzuki, 2016), while others have found no such relationship (e.g., Brass, 2012; Fruttero and Gauri, 2005).

One reason for the mixed results may be differences in sampling methods (i.e., national/local versus international organizations). Another reason may be differences in the definition of “need” (e.g., using GDP versus using crime rate as a proxy for need) (Avellaneda et al., 2016). Whatever the reason, the mixed results highlight the importance for more new studies to explore the issue of the impact of needs on market selection. Moreover, it is important to note that beneficiaries’ needs are perceived differently by FPOs and NPOs. Specifically, although client needs are the primary concern of FPOs and the basis for their decisions, these client needs must be supported by purchasing power (Arnold and Quelch, 1998; Ramasamy, Ramasamy, Yeung, and Yeung, 2016). In contrast to FPOs, which are not interested in serving clients who lack purchasing power, NPOs, in accordance with their altruistic and idealistic motives, select countries with needy beneficiaries and are likely to prioritize precisely those clients who lack purchasing power.

As mentioned earlier, one explanation for the existence and growth of the NPO sector is market failure. “The performance of a market economy depends on the perception of economic agents regarding the technological and market opportunities available to them” (Datta-Chaudhuri, 1990, p. 38). Market failure is explained as “the failure of a more or less idealized system of price-market institutions to sustain ‘desirable’ activities or to stop ‘undesirable’ activities” (Bator, 1958, p. 351). While market failure reduces the effectiveness of FPOs, it encourages NPOs to step in and intervene in order to minimize the resulting marginalization of the affected population (Chillemi and Gui, 1991). Thus, market failure reveals NPOs to be less opportunistic (Hansmann, 1987) and more trustworthy (Leonard, 2002) in the eyes of their beneficiaries. Therefore, we argue that while market failure discourages FPOs from operating, it encourages NPOs to intervene in the market. Accordingly, we formulate the following two propositions regarding the international market selection decisions of NPOs.

*PI<sub>a</sub>*: Target-country selection of NPOs is positively influenced by the dire need of beneficiaries.

*PI<sub>b</sub>*: Target-country selection of NPOs is positively influenced by conditions of market failure.

### ***Institutional Strength***

A lack of strong institutions is a critical issue in international market selection (Peng, Wang, and Jiang, 2008; Ragland, Brouthers, and Widmier, 2015). Institutions are “humanly devised constraints that shape human interaction” or “the rules of the game in a society” (North, 1990, p. 3). A lack of strong institutions increases transaction costs for organizations (Brown, 2011). Furthermore, a lack of strong institutions leads to greater risks arising from the unpredictability and instability of the market (Brown, 2011; Peng et al., 2008). Therefore, in the absence of other strong motives (e.g., a very large market, access to rare natural resources, etc.), FPOs avoid potential markets with weak institutions, because they negatively affect their profitability (Pajunen, 2008).

By contrast, due to their unique characteristics, non-profit organizations are better equipped to work effectively in countries with weak institutions than their for-profit and governmental counterparts (Fisher, 1997). Further, needy beneficiaries often live in institutionally unstable and less economically developed countries (Banks, Hulme, and Edwards, 2015) making those countries more attractive to NPOs (Salm, 1999). Nevertheless, NPOs must wage a difficult battle to operate in countries characterized by weak institutions because the results of their activities (i.e., the impact of the aid provided by the NPOs) are much slower to emerge (Fruttero and Gauri, 2005) and the backers of the NPOs who rarely have full information about the operational difficulties require evidence of these results as a condition for sustained funding (Koch, Dreher, Nunnenkamp, and Thiele, 2009, p. 903). Paradoxically, the results are more prominent in countries that are institutionally stronger compared to institutionally weak counterparts (Dirk-Jan, 2009). Hence, NPOs are likely to be caught in a constant dilemma between ensuring their own survival and doing the right thing by operating in relatively difficult environments (Frumkin and Andre-Clark, 2000). In light of these considerations, we formulate the following two propositions.

P2a: Target-country selection of NPOs is positively influenced by the presence of weak institutions in the target country.

P2b: The extent to which the target-country selection of NPOs is positively influenced by the presence of weak institutions in the target country is negatively moderated by the intensity of the results orientation of donors.

### ***Sectoral Clustering***

Another important dimension of international market selection is the clustering (agglomeration) of organizations. Assuming that, in general, NPOs operate in comparatively more uncertain and unstable environments than their for-profit counterparts (Fast, 2007), it is also reasonable to assume they prefer to face such environments as a group rather than as lone organizations (Foster and Meinhard, 2002). This is contrary to the behaviour of FPOs which view other organizations that cater to the same clients as competitors that impact their bottom line negatively. Clustering is thus a concern of FPOs in international market selection decisions (Vahlne and Nordström, 1993). Why clustering occurs can be explained in terms of two of its major effects: intra-industry economies of scale from firm clustering and positive inter-industry externalities (Ellison, Glaeser, and Kerr, 2010). It is important to note that clustering can provide benefits to FPOs as well provided that they weigh the benefits against potential costs arising from competitors' actions.

By contrast, NPOs can almost always benefit from working together with other NPOs because collaboration increases their redundancies by improving the quality of service delivery

and enhances their ability to attract resources (Foster and Meinhard, 2002). Thus, the presence of other NPOs in a given market becomes a positive factor for the NPO in the selection of a particular market. NPOs tend to collaborate with multiple types of partners at various levels including governments, FPOs and other NPOs in order to achieve their objectives (Foster and Meinhard, 2002; Mitchell, 2014). Furthermore, Mitchell (2014) identifies multiple benefits arising from NPO collaboration including better results, broader programmes, increased funding, greater learning, enhanced visibility, better access and higher credibility, all of which are critical to the survival and success of an NPO. Despite its many advantages, collaboration needs to be handled carefully by the organizations involved (Fast, 2007). Furthermore, the presence of other NPOs implies the presence of a certain level of infrastructure, relations with authorities and availability of locally skilled labour that new entrants can tap in environments that otherwise suffer from weaker infrastructure (Fruttero and Gauri, 2005; Koch and Ruben, 2008). The first entrants into the market will require greater resources and will exert greater effort to build up the infrastructure and may require NPOs to pool resources in order to establish an infrastructure of operations in areas where it would be difficult for them to build such an infrastructure on their own (AbouAssi, Makhoul, and Whalen, 2016; Uphoff, 1993).

However, organizations need to worry about picking the right partners. Wrong collaborations cannot only impact the success of NPOs but can also threaten the very existence of the organization (Mitchell, 2014). Challenges in forming collaborations include mission drift, decreased autonomy, decreased accountability, financial instability and even co-optation (Gazley and Brudney, 2007). Nevertheless, reducing operational risks and increasing the likelihood of achieving goals are likely to be more dominant considerations and to push NPOs to enter markets where other NPOs are already present (Brass, 2012). Based on the above arguments, we propose the following proposition.

P3: Target-country selection of NPOs is positively influenced by the presence of other NPOs in the target country.

### *Network Relations*

“All firms in markets despite their governance form are considered to be embedded in one or more networks via linkages to their designers, suppliers, subcontractors, customers and the like” (Chen and Chen, 1998, p. 447). It is important for firms to keep the interactions going in the networks for their proper functioning. Networks help organizations to succeed in their international markets because they reduce uncertainty and risk by providing more information about a given market (Sharma and Blomstermo, 2003). Furthermore, firms that engage in higher levels of networking can achieve faster internationalization (Belso-Martínez, 2006; Evers and O’Gorman, 2011). Thus inter-firm relationships play a vital role in helping, guiding and shaping international market selection decisions (Chen and Chen, 1998; Ellis, 2000; Hohenthal, Johanson, and Johanson, 2014). “Network resources are particularly useful in entering a primitive market in which institutions that facilitate internationalization are still lacking” (Chen and Chen, 1998, p. 448), and this point is supported by many other researchers as well (e.g., Dunning and Narula, 1996; Hohenthal et al., 2014; Johanson and Mattsson, 1987). Since NPOs tend to work in countries that lack strong institutions (Salm, 1999), networks are all the more important for NPOs. Moreover, the importance of networks to organizations increase with the increasing diversity of the market, and NPOs mostly tend to operate in diverse markets. (Blomstermo, Eriksson, Lindstrand, and Sharma, 2004). Furthermore, networks play a crucial role when NPOs select local partners for collaboration (Ellis, 2000). “Social networks refer to the ability of certain individuals to extract benefits from their social structures, connections, and memberships through privileged connections” (Pinho and Prange, 2016, p. 392). In the case

of FPOs, managers significantly contribute to the internationalization efforts of their organizations through these types of connections (Naudé, Zaefarian, Tavani, Neghabi, and Zaefarian, 2014). In the case of NPOs, in addition to top managers, donors also play an important role in finding and developing networks. In all these ways, and regardless of their nonprofit status, network relationships are extremely important for NPOs and a critical factor in their market selection decisions (Buxton, 2009; Katz and Anheier, 2005).

Additionally, networks can help NPOs to pick not only the right country to enter but also the right partner to collaborate with. Furthermore, economic and political connections in the host country (Buxton, 2009) are important factors for NPOs when selecting their markets. Therefore, we formulate the following proposition with respect to the international market selection of NPOs.

P4: Target-country selection of NPOs is positively influenced by the extent and quality of pre-existing network contacts in the target country.

### ***Donors' Priorities***

As regards financing, unlike FPOs, which are based on commercially generated funds, NPOs typically depend on donor and/or home government funding, and therefore need to satisfy donor and home government interests in return for sustained funding (Brass, 2012). For example, during the 90s, half of the funding for Canadian and Dutch NPOs came from their home governments (Fowler, 1991). The UK-based Save the Children Fund (with an annual budget of around £110 million) and the Belgium-based CARE International (with an annual budget of around 420 million USD) received more than half of their funds from their home governments (Beloe, Compact, Katie, and Sue, 2003). It has been observed that partnerships between US NPOs and the US government are also on the rise (Dichter, 1999). Moreover, there is a growing body of development management literature suggesting that “even the need-based allocation of resources by NPOs can be distorted by donor government motives” (Avellaneda et al., 2016, p. 4). For example, when the Swiss government provides aid to NPOs, most of it is already aligned with conditions that support and promote governmental needs and priorities (Nunnenkamp, Weingarh, and Weisser, 2009). The more an NPO depends on government funding, the more it is subject to government influence and pressure (Edwards and Hulme, 1996b). Furthermore, a government can fund an NPO on condition that it is located in a particular area or that it remains in a certain area preferred by the government (Edwards and Hulme, 1996b). Building on claims that organizations located in places that give them access to resources (Dunning, 1980; Pfeffer, 1982), we argue that NPOs are likely to operate in markets preferred by their donors due to their resource dependency on them. Therefore, we formulate the following proposition that the country selection of NPOs is influenced (positively or negatively as the case may be) by donor priorities and biases.

P5: Target country selection of NPOs is influenced by donor interests and priorities.

## **Discussion**

### ***For-profit versus Non-profit internationalization: Understanding the assumptions***

The Study examined three widely used behavioural theories to explain the internationalization of organizations: Eclectic Paradigm, Uppsala Model and Network Theory. First, we will compare the assumptions of these theories in the for-profit internationalization context. There are three main assumptions on which the eclectic paradigm rests, namely, bounded rationality, opportunism, and uncertainty (Andersen, 1997). Accordingly, the eclectic

paradigm assumes (1) that people have limited cognitive capability and thus cannot adhere to the requirements of full rationality when making decisions (Simon, 1957), (2) that individuals take advantage of favourable situations (“self-interest seeking with guile”) (Williamson, 1975, p. 5), and (3) that uncertain outcomes as a result of unknown factors create risk for organizations. In light of these assumptions, the eclectic paradigm predicts and interprets internationalization efforts of for-profit organizations by recommending strategies to increase the success of foreign operations.

The Uppsala Model assumes that a firm’s internationalization efforts are influenced by the level of knowledge acquisition by the firm, the level of market commitment by the firm and the level of uncertainty prevailing in the foreign market (Andersen, 1997). As a result, the model views a lack of knowledge as the major obstacle to internationalization. Since accumulation of knowledge help firms reduce uncertainty and thereby risk the Uppsala model recommends a strategy of sequential internationalization in the for-profit context.

Network theory is based on three main assumptions, namely, uncertainty, bounded rationality, and trust. Since we have already explained the concept of uncertainty and bounded rationality in the discussion of the eclectic paradigm, we limit the discussion here to the concept of trust. Trust can be defined as the belief in the other party’s actions in terms of fulfillment of agreed obligations in an exchange (Pruitt, 1981). Trust is a critical component here since network theory suggests that a given individual firm is dependent upon other firms’ resources (Johanson and Mattsson, 1987). Testing these assumptions in the context of non-profit internationalization requires careful attention because of the unique characteristics of the non-profit sector that distinguish it from the mainstream for-profit sector.

We also discussed the applicability of the assumptions of theories of for-profit internationalization; opportunism, bounded rationality and risk to non-profit internationalization and proposed some new assumptions for non-profit-oriented internationalization theories. In fact, opportunism and bounded rationality are interrelated to a certain degree. For example, bounded rationality limits the ability of one party to foresee and consider every potential outcome of a contract allowing the other party to become opportunistic when unforeseen situations occur (Hill, 1990). While opportunism is characteristic of the for-profit sector, it is less likely to be present in the non-profit sector due to its unique characteristics, status and ownership structure (Clarke and Estes, 1992; Hansmann, 1987). Therefore, while we cannot ignore the possibility that opportunism and bounded rationality exist in the non-profit context, we can safely argue that their impact will be much lower than in the for-profit context. Furthermore, the way risk impact non-profits are also different from for-profits, non-profits are mostly worried about non-financial risks while their for-profit counterparts are more concerned about financial risks with respect to markets (Clarke and Estes, 1992).

Moreover, the main objective of an NPO is to do good for people in need (Hansmann, 1980). So, once a given market has been sufficiently transformed into a status where it can independently support and improve the wellbeing of its people, the need for NPO in that given market vanishes (Hayman, 2015). As a result, NPOs define market commitment in a fundamentally different way than FPOs which want to capitalize on the markets they enter. While we argue that mainstream theories of for-profit internationalization are of limited applicability to non-profit internationalization, they help to expose the underlying principles of the non-profit sector from which new theories based on different assumptions may emerge. Based on the existing theories of NPOs, I argue that market failure in given countries, mainly due to a lack of proper institutions, creates an environment and need for NPOs which are better

equipped due to their status and structure to operate in such markets (Chillemi and Gui, 1991). The need for public accountability and utility maximization towards its beneficiaries and donors further justifies the entry and operation in these markets.

### ***International market selection and NPOs***

Based on the discussion above, we suggested five main propositions to explain international market selection by NPOs. These first four propositions show how the two sectors are different from one another. Specifically, we argued that in contrast to for-profit organizations, non-profit organizations are driven to enter markets that are characterized by (1) market failure and needy beneficiaries, (2) lack of strong institutions, (3) clustering and (4) cultural distance. With regard to clustering, we argued that while clustering provides further proof of need-based country selection, it also indicates that NPOs learn from their partners who are already on the ground and ascribe great importance to knowledge accumulation (Mitchell, 2014) when evaluating international markets. Even though NPOs are not concerned about profits, they are aware that lack of knowledge in certain markets might reduce their ability to achieve their social objectives as well as threaten their very existence.

On the other hand, we suggested a fifth main proposition that shows how the two sectors are similar to one another. Like for-profit organizations, non-profit organizations prefer to move into countries where they have good network contacts and relations because networks can help NPOs achieve their objectives more effectively and efficiently. Such network relations are additional sources of relevant knowledge providing access to local beneficiaries and access to relevant resources, and may serve as trust facilitators and conduits of legitimacy. The importance of networks is further highlighted by the fact that NPOs in most cases operate in more difficult and hostile places than FPOs (Edwards and Hulme, 1996a). See Table 02 for a summary of the relevant propositions.

**Table 02:** Summary of propositions regarding international market selection

International Market Selection	
Number	Proposition
P1a	Target-country selection of NPOs is positively influenced by dire need of beneficiaries.
P1b	Target-country selection of NPOs is positively influenced by conditions of market failure.
P2a	Target-country selection of NPOs is positively influenced by the presence of weak institutions in the target country.
P2b	The extent to which the target-country selection of NPOs is positively influenced by the presence of weak institutions in the target country is negatively moderated by the intensity of the results orientation of donors and their reporting demands.
P3	Target-country selection of NPOs is positively influenced by the presence of other NPOs in the target country.
P4	Target-country selection of NPOs is positively influenced by the extent and quality of pre-existing network contacts in the target country.
P5	Target-country selection of NPOs is influenced by donor interests and priorities.

## **Conclusion**

Despite the growth in the number of NPOs operating abroad, very few studies have been devoted to the internationalization of NPOs. The objective of this paper was to highlight some differences between the for-profit and non-profit sectors and thereby argue that the internationalization decisions faced by organizations belonging to these two sectors are different. The study argued that current theories on traditional, for-profit internationalization have to be extended if they are to be used to predict non-profit internationalization. In order to highlight the critical differences between these sectors, the study examined the international market selection decision. In line with these differences, the study then developed propositions relating to each one of these aspects of the internationalization of NPOs so that future studies might further develop and empirically test them.

The study first argued that due to the structural differences in the two sectors in terms of mission, financing and planning, NPOs tend to have different objectives and pursue different strategies to achieve those objectives compared to their for-profit counterparts. Furthermore, the study examined three current internationalization theories, namely, the Eclectic Paradigm, the Uppsala Model, and Network Theory. Examining these theories revealed that certain assumptions (e.g., opportunism) on which these theories are based can be challenged in the non-profit context due to that sector's unique characteristics (e.g., the profit distribution constraint). Therefore, the study argued that certain long-held assumptions on for-profit internationalization cannot be used in their current form to explain the behaviour of non-profit organizations. The study then proposed seven propositions to explain the international market selection of non-profit organizations across multiple decision-making contexts.

First, the study argued that the NPOs' main motive for internationalization is a mission-driven one aimed at serving beneficiaries and every other motive comes after that. Second, the study argued that in order to achieve the main motive, NPOs select and operate in countries where needy beneficiaries reside. Thus, the market selection of NPOs is mainly influenced by the locations of beneficiaries. As a result, the study argued that the impact of traditionally important factors in market selection (such as market risk and cultural distance) is smaller in the non-profit context as long as needy beneficiaries live in those countries.

## **Limitations of the Study**

The study derived propositions by drawing from multiple theories that are used to explain for-profit internationalization as well as by understanding the conceptual underpinnings of theories explaining the unique characteristics of the non-profit sector. Despite their solid theoretical anchoring, the propositions remain a conceptual contribution that requires proper empirical validation. Moreover, it should be acknowledged that the analysis was constrained by conceptual path dependency. Since the discussion builds on specific theories, it is also coloured by these approaches.

## **Contributions and Implications for Future Research**

The study provides a basis for future empirical research to bridge the knowledge gap in an area that, despite its relevance and importance, is rarely studied. The study extends and enriches the existing literature by integrating multiple theories on international market selection of firms in general and NPOs in particular. The study formulates propositions about the internationalization of NPOs in terms of motives, market selection and entry modes and tests them quantitatively while further developing and fine-tuning them qualitatively.

For example, an interesting avenue for empirical research is the issue of the motives underlying the internationalization of NPOs. While there are many studies investigating this issue from a for-profit perspective (e.g., Cuervo-Cazurra and Narula, 2015; Dunning, 2009; Etemad, 2004; Franco et al., 2008), there are very few such studies in the non-profit context (Teegen et al., 2004), and even those are either wholly conceptual in nature (e.g., Hansmann, 1987) or based on narrow samples (Baguley et al., 2004).

Another viable area for empirical research is international market selection of NPOs. Despite the importance of the NPO sector and its predominant international presence, the issue of international market selection of NPOs is relatively absent from management literature (Brass, 2012; Fruttero and Gauri, 2005). The very limited work available focuses on single-country case studies or large organizations (Brass, 2012; Fruttero and Gauri, 2005; Galway et al., 2012) rather than comparative panel data (Dragseth, 2016, p. 49). Furthermore, compared to the other internationalization aspects (e.g., entry mode), international market selection is a relatively understudied area, even when it comes to for-profit internationalization (Papadopoulos, Martín Martín, and Yeoh, 2011; Papadopoulos and Martín, 2011). Thus, the question of market selection provided an opportunity to generate both interesting and much-needed knowledge.

Finally, even though there is a considerable amount of literature on the entry mode choices of for-profit firms (Slangen and Hennart, 2007; Tihanyi, Griffith, and Russell, 2005), the same does not hold for the entry mode choices of non-profit firms. This question, too, provides another viable area for future research.

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