

Institutional isomorphism among nonprofits in cause marketing partnerships

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Numerous cases of unsuccessful cause marketing partnerships are caused by nonprofits' proclivity to modify their motive when pursuing optimal decisions. This study's main goal is to determine if there exists a significant difference between nonprofit strategic decisions and motive under various game theoretic conditions. The researcher conducted a field experiment among supervisors and managers of nonprofit organizations in the Philippines. Results indicate that nonprofit strategic decisions in the final rounds of Prisoner's Dilemma and Snowdrift Game have a significant difference with nonprofit motive. The findings explain why a nonprofit optimizes its gains but eventually loses its organizational goals and why it chooses to remain in partnership with a for-profit that has reduced its collaboration effort.

Keywords: goal displacement, game theory, nonprofit motive, nonprofit strategy, strategic alliance

JEL Classifications: C70, D64, M31

Introduction

Cause marketing allows nonprofits to partner with companies when the former lacks access to capital markets. It has influenced companies to use consumerism as a tool for social change (Waters, 2010). In fact,

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97 percent of marketing executives believe that cause marketing is a valid strategy to their business (Bruell, 2010).

In the Philippines, Rebolledo and Nuguid-Anden (2003) observe that a growing number of corporations practice CSR as evidenced by the cause marketing programs of multinational and local corporations (Botana, 2011).

However, statistics and literature reveal that firm-nonprofit partnerships are one too many but success is not a guarantee. Nonprofits may exhibit opportunistic behaviors that undermine their efficiency and modify their philanthropic nature when they are too market-oriented (Enjolras, 2009; Stole, 2006). Parker and Selsky (2004 cited in Graf and Rothlauf, 2011) also point out that nonprofits have a tendency to adapt the firm's culture and eventually lose their focus or mission. As such, a predilection for opportunistic behavior eventually damages their credibility.

As a result, numerous cases of nonprofit mismanagement occur (Greenlee, Fischer, Gordon and Keating, 2007). Some nonprofits also remain in partnership with for-profits even though poor brand-cause fit and lack of accountability exist. For example, the Susan G. Komen for the Cure, a breast cancer organization, marred its reputation after partnering with for-profits that offer cause marketing products known to cause the disease (King, 2006).

One way to explore this issue is through game theory suited to comprehend reaction to interdependencies (Oster, 1995). For example, models of cooperation have also been used in various studies based on Prisoner's Dilemma and Snowdrift Game (Doebeli and Hauert, 2005).

With these issues, this study's primary goal is to relate strategic decisions of nonprofits to changes in their motive while in collaboration with for-profit firms to verify if their choices lead to institutional isomorphism and goal displacement. Specifically, it seeks to find out if nonprofits have a propensity for modifying their motive

in a cause marketing partnership when making strategic decisions under different game theoretic conditions.

The following hypotheses were tested in this study:

H₁: There is a significant difference between nonprofit motive and nonprofit strategic decisions in an Iterated Prisoner's Dilemma.

H₂: There is a significant difference between nonprofit motive and nonprofit strategic decisions in an Iterated Snowdrift Game.

H₃: There is a significant difference between nonprofit motive and nonprofit strategic decisions in a game with Tit-for-Tat condition.

Methodology

This research utilized a field experiment method since it is highly applicable in research that deals with social preferences in cooperation (Cardenas and Carpenter, 2005 cited in Désolé, 2007). To ensure that responses replicate strategic decisions in the real world, the research employed induced valuation as utilized by Smith (2000).

Stratified random sampling was used to divide the population of nonprofit organizations in Davao City, Philippines into homogenous subgroups by congressional district. From the list of Securities and Exchange Commission (SEC), 79 nonprofits were selected based on nonprofits that participated in successful programs listed by Hessekiel (2010). Total sample size reached 43 respondents using a 10 percent level of confidence.

A self-administered questionnaire was provided to supervisors and managers of the selected nonprofits. They indicated their response – *Cooperate* or *Not Cooperate*, as their strategic decision when playing various games under a cause marketing partnership scenario.

The type of iterated games in the study include Prisoner's Dilemma, Snowdrift Game and Game with Tit-for-Tat Condition based on Cai and Kock's (2008) study. The authors also plugged in an adjustment factor called *social punishment*, which represents an agglomeration of adverse consequences (reputation, punishment, shadow of future,

altruism and other psychological and sociologic factors akin to individual behaviors). The lower social punishment there is in a game, the higher chance that players will defect. Conversely, the higher the social punishment, the higher chance that players will cooperate. The authors developed the following discrete strategy game where each game's payoff in this study was based upon (see Table 1).

Table 1

Symmetric Collaboration Game Matrix

Player 1	Player 2	
	Cooperate	Defect
Cooperate	$b - c/2, b - c/2$	$b - c, b - \delta$
Defect	$b - \delta, b - c$	$0, 0$

Source: Cai and Kock (2008)

In this symmetric game, where b = benefit; c = cost; and δ = social punishment, the optimal solution is given by:

$$q^* = (b - c) / [(b - c) / (2 - \delta)] \quad (3.1)$$

$$p^* = (b - c) / [(b - c) / (2 - \delta)] \quad (3.2)$$

Where $\{p^*, q^*\}$ or $\{Cooperate, Cooperate\}$ represent the Nash equilibrium.

Each respondent played three rounds of each type of game in this study. To test if there is a significant difference between nonprofits' strategic decisions in each game theoretic model and their nonprofit motive, responses were first categorized according to their conformity to optimal strategy. To identify if the respondents changed their nonprofit motive, each respondent was classified as *Employing Nonprofit*

Motive (ENM) when all of his or her responses fulfill the criteria developed in this study based on Harrison and Lybecker's (2005) nonprofit motive factors (quantity maximization, charity, and quality maximization). Otherwise, the respondent was considered *Employing For-profit Motive* (EFM) if at least one criterion is not met.

Responses were tested for significant difference as against the nonprofit's classification (ENM or EFM) using the Pearson Chi-square analysis similar to what Plitz (1996) employed in his study of nonprofit enterprises. Only the final round of each game was considered for interpretation in this study to reflect the significance of playing iterated games in evolutionary game theory as indicated by Cai and Kock (2008) instead of a single-round game that does not capture actual player behavior.

Results

3. 1 Iterated Prisoner's Dilemma

Analyzing individual decisions of respondents in all three rounds of Iterated Prisoner's Dilemma, the following table (see Table 2) shows strategic decisions (represented by black dots) of each nonprofit superimposed on optimal decisions (represented by red cells) for each round that the game was played.

Among those that were classified as ENM, only one nonprofit has chosen the optimal strategy in all rounds while keeping its nonprofit motive. This implies an ideal nonprofit that balances the organization's well-being and its authentic social purpose. On the other hand, six respondents classified as EFM have chosen optimal strategies in all rounds.

Table 2

Responses in Iterated Prisoner's Dilemma

Rounds	Respondent Number																					
	1		2		3		4		5		6		7		8		9		10		11	
	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N
IP																						
FRC																						
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Legend: <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <div> <div style="width: 15px; height: 15px; background-color: yellow; border: 1px solid black; display: inline-block;"></div> = ENM <div style="width: 15px; height: 15px; background-color: lightgreen; border: 1px solid black; display: inline-block;"></div> = EFM <div style="width: 15px; height: 15px; background-color: red; border: 1px solid black; display: inline-block;"></div> = Optimal Decision </div> <div> IP = Initial Partnership FRC = First Renewal of Contract SRC = Second Renewal of Contract </div> <div> C = Cooperate N = Not Cooperate • = Decision </div> </div>																						

In the second and third rounds, majority of EFM respondents are not willing to cooperate anymore. As the Prisoner's Dilemma paradox suggests, the tendency of players in this game is to eventually settle at $\{Defect, Defect\}$ or the for-profit and nonprofit not cooperating where they earn a lower payoff when in fact, they could have earned much higher had they both chosen to cooperate. This is evident in real collaborations between nonprofits and private companies according to Chung (2004) where majority of her respondents reveal that only a few partnerships were actually renewed with the same organizations. Among EFM respondents, majority have decided to defect, which suggests that they may exhibit firm-like behavior but have inefficient strategic decision-making skills since they fail to optimize their utility.

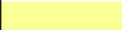
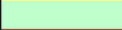

3.2 Iterated Snowdrift Game

In this game, nonprofits had to decide strategically given that benefits outweigh collaboration costs and social punishment. When in a condition where $\{Cooperate, Cooperate\}$ is impossible, the first mover secures higher benefits, and the other will settle at $(b - \delta)$ instead of $(b - c)$. It implies that if social punishment (δ) is still low and factors in such game are present, it is better for nonprofits to defect since they can still keep a sizable payoff equivalent to $(b - \delta)$ to fund their operations. On the other hand, they may arrive at $\{Not\ Cooperate, Not\ Cooperate\}$ with a payoff equivalent to $\{0, 0\}$ and thus, have nothing to lose in the end.

In terms of individual decisions, three ENM nonprofits made the optimal decision in every round while no EFM-classified nonprofit made similar decisions (see Table 3). This implies that they keep their nonprofit motive without being affected by their strategic decisions that resemble optimal choices. On the other hand, 10 EFM nonprofits made strategic decisions that do not conform to optimal decisions in all rounds.

Table 3

Responses in Iterated Snowdrift Game

Rounds	Respondent Number																					
	1		2		3		4		5		6		7		8		9		10		11	
	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N
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	34		35		36		37		38		39		40		41		42		43			
IP																						
FRC																						
SRC																						
Legend:  = ENM  = EFM  = Optimal Decision IP = Initial Partnership FRC = First Renewal of Contract SRC = Second Renewal of Contract C = Cooperate N = Not Cooperate • = Decision																						

3.3 Iterated Game with Tit-for-Tat Condition

Cai and Kock's (2008) condition in this game states that social punishment is larger than benefits and collaboration cost. More so, the collaboration cost is also larger than the benefits. Thus, following the partner's move in the previous round is a strategic move, opposite of the optimal strategy in a Snowdrift Game.

In the final round of the game, nonprofits were asked to decide what their strategy will be if the contract is renewed for the second time and the for-profit firm did not cooperate in the previous round. Instead of following the Tit-for-Tat strategy, 27 nonprofit respondents have instead chosen to cooperate. This failure to accurately predict that majority of nonprofit respondents will follow suit can be attributed to the low iteration of the entire game and their fear of high social

punishment, forcing them to work harder even if the for-profit did not previously cooperate.

Finally, in terms of individual decisions, no ENM respondent made the optimal decision in all three rounds while four EFM respondents strategically decided relative to optimal choices (see Table 4). This implies that those who did not keep their nonprofit motive made better decisions on behalf of their organization.

Table 4

Responses in Iterated Game with Tit-for-Tat Condition

Rounds	Respondent Number																					
	1		2		3		4		5		6		7		8		9		10		11	
	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N	C	N
IP																						
FRC																						
SRC																						
	12		13		14		15		16		17		18		19		20		21		22	
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<div><div>C = Cooperate</div><div>N = Not Cooperate</div><div>• = Decision</div></div>																						

Analysis

The dilemma in deviating from $\{p^*, q^*\}$ implies that if the nonprofit may decide to cooperate but the firm reduces its collaboration effort (a situation where $\{Cooperate, Not Cooperate\}$ exists), the firm is likely to show lack of support in enforcing the partnership contract. It may only be concerned with the payoff but not with its intention to work

together with the nonprofit. Thus, society suffers from the for-profit's causewashing campaign.

On the other hand, if the situation is reversed or a *{Not Cooperate, Cooperate}* situation exists, the for-profit exercises full collaboration effort while the nonprofit does not. The latter may not adhere to rules stipulated in the contract or decide to keep its mission that may lead to misuse of funds. In such case, the nonprofit is only interested in the donations and not on establishing sustainable partnership.

Analyzing these effects in all three games, both parties can suffer from their deviation away from $\{p^*, q^*\}$. In the Prisoner's Dilemma, the final round in the experiment shows more nonprofits not cooperating to secure their payoff. Should their partners also decide not to cooperate, the paradox now holds. This would help explain why some nonprofits opt to remain in partnership with a for-profit even if the latter commits infractions in the contract.

On the other hand, in the Snowdrift Game, the first mover that decides not to cooperate simply takes advantage of the situation where the repercussions cannot fully impact its balance sheets. A nonprofit that decides to do so may be optimizing its gains from the partnership but in fact, loses its real motive. This can be minimized or avoided if it values the impact of social punishment in the partnership more than its profit-maximizing tendencies that arise out of changed motive.

Although there was no exhibit of optimal strategy in the final round of the game with 'Tit-for-Tat' condition in the experiment, nonprofits must be aware of their position in such game. Since 'Tit-for-Tat' is mainly played either to retaliate or show altruism to the opponent, nonprofits may use it to warn for-profits that they can impose harsh penalties when their partner fails to fulfill its obligations. With this move, partners are more likely to cooperate given that social punishment is larger than benefits and the costs.

In analyzing institutional isomorphism among nonprofits, the following Chi-square analysis results of the final rounds of each game are presented (see Table 5).

Table 5

Chi-square Analysis Results in the Final Round

Iterated Games	Pearson Chi-square	Asymp. Sig. (2-sided)	Decision
Prisoner's Dilemma	12.824	0.000*	Reject Null Hypothesis
Snowdrift Game	10.404	0.001*	Reject Null Hypothesis
Game with Tit-for-Tat Condition	0.283	0.594	Accept Null Hypothesis

**significant at 0.05 level*

With results in Prisoner's Dilemma and Snowdrift Game being significant, strategic decisions of nonprofits in these games have a significant difference with nonprofit motive. This can be explained by a number of factors. First, behavior mimicry is caused by nonprofits' loss of independence. Parker and Selsky (2004, cited in Graf and Rothlauf, 2011) observe nonprofits acting in such way by being apparent in their change of focus or mission as soon as they adapt the for-profit's culture. In the case of cause marketing, nonprofits may become followers in a leader-follower model (Cai and Kock, 2008) where for-profits' strategic decision as first mover in a Snowdrift Game deny nonprofits of the opportunity to strategize given the other party's capacity to dictate partnership rules. This occurs when a for-profit firm has engaged in cause marketing for quite some time and has an inexperienced nonprofit partner.

Second, reputational risk remains a seminal consideration among nonprofits. Cai and Kock's (2008) diffusion of social punishment in the collaboration matrix explains well how nonprofit respondents in this study adjust their strategies from one round of game to another.

Third, nonprofits are pressured to secure funding for their survival. The significance of the final rounds in Prisoner's Dilemma and Snowdrift Game indicate that their decisions are related to their behavior. Too much profit motivation, therefore, may drive nonprofits to a loss of their authentic purpose as they confuse the means (which is fundraising, in this case) with the ends.

Fourth, uncertainty is always a part of firm-nonprofit partnerships given that predicting partner behavior is difficult. It is clear from the iterated games in the experiment that nonprofits may be inconsistent with their strategic decisions even in subsequent rounds, thus indicating signs of institutional isomorphism similar to what Oliver (1991) observed among his nonprofit respondents.

Finally, lack of focus contributes to nonprofits' shift of behavior as they become vulnerable to external control. As Bailly and Chapelle (2011) conclude, nonprofits bear the risk of adopting for-profit behavior for the sake of funding.

The interpretation of results, however, must be treated with caution. Since the study assumes that the choice of optimality is possessed by for-profits in all three types of games, it implies that nonprofits have to refrain from becoming profit-oriented similar to for-profits to keep them from shifting their motive. However, they must also learn to strategize their partnership decisions to prevent unfair advantages by for-profits and likewise learn to secure their motive to avoid the risk of adopting behavior similar to their partner.

Institutional isomorphism, on the other hand, does not always involve detrimental effects, especially if the change in behavior is for the organization's own benefit. However, its effects may not be as efficient. When nonprofits deviate too much from their motive,

society may ultimately suffer from their inefficiency. Therefore, nonprofits must resist losing their philanthropic nature (Stole, 2006) once they engage in cause marketing partnership so they can avoid becoming too market-oriented.

Conclusions and Recommendations

The findings conclude that there is a significant difference between nonprofit motive and nonprofit strategic decisions in an Iterated Prisoner's Dilemma and in an Iterated Snowdrift Game. As such, when nonprofits engage in cause marketing or other commercial activities with for-profits, they must learn to select optimal choices to ensure the welfare of their organization but likewise retain their nonprofit motive.

The varying strategic decisions that do not match optimal strategies point out nonprofits' need for strategic decision-making that will minimize the risk of partnership failure. For example, cause marketing partnership contracts may include more stringent termination rights for both parties should any of them be proven to have taken advantage of the other such as exerting less collaboration effort to earn a higher payoff (opting to deviate from $\{p^*, q^*\}$ in the model) when it would have been mutually beneficial if they had cooperated together.

Therefore, nonprofits must learn to weigh the scale of partnership benefits, collaboration costs and social punishment so they can better assess what strategy to use in different cause marketing partnership situations should the for-profit digress from $\{p^*, q^*\}$. As evidenced by the lack of relationship in the game with Tit-for-Tat condition, nonprofits must also decide well should social punishment be higher than benefit. Although the game theoretic model employed in this study bears assumptions, it should not limit nonprofits from analyzing situations that call for strategic decisions that maximize their utility.

In terms of renewing contracts as simulated in the experiment, the impact of strategic decision on nonprofit motive must always be considered by both nonprofits and for-profits when they are at the initial stage of collaboration. This will reduce the probability of nonprofits becoming extremely market-oriented and highly dependent on funding from their partners.

Further experiments that relate to this study must contain larger sample size to ensure stronger generalization across the entire population of cause marketing beneficiaries. In addition, experiments must also involve for-profits to elicit their strategic decisions in game theoretic scenarios since this study assumed that they were to act according to their profit-driven, risk-taking motive.

Finally, further studies may also increase the number of iterations with the use of laboratory tools in testing game theory. Through this, they can come up with more accurate interpretations between interactions of players. For example, in Snowdrift Game, they can test whether settling for the decisions *{Cooperate, Not Cooperate}* or *{Not Cooperate, Cooperate}* will eventually be replaced with mutual cooperation.

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