

Balancing Mission and Market: Hybrid Nonprofit Organization and Financial Health (Evidence in Ghanation Foundation, East Java)

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Abstract

This article provides a comprehensive description of the practices and strategies of a hybrid nonprofit in balancing its core mission while dealing with limited resources. Using a qualitative case study method, the researcher analyzes the financial report and utilizes participant observation in the Ghanation Foundation, one of the prominent health human service nonprofits in East Java. The finding reveals that this organization manages its solvency and liquidity well, indicated by its asset base to liabilities and the ability to meet short-term obligations using current assets. However, the financial flexibility demonstrates the struggle to maintain in case of any unexpected financial demands in the future. Further, balancing the core mission and financial resilience is conducted through cross-subsidization and labor in lieu of payment. Despite the comprehensive descriptions of the results, there may be some limitations in this study, including limited generalizability and potential research bias. The finding may not be generalizable to the broader population, and subjective data interpretation may occur.

Keyword: *human service nonprofit, hybrid organization, financial health*



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Introduction

The emerging trend of the organizational hybrid model in the nonprofit context has blurred the boundaries between the primary mission to generate social value and the business-like practices aimed at optimizing revenue. While the organizational hybridity benefits in enhancing financial capacity and legitimacy due to abundant resources (Suykens et al, 2019; Carre et al, 2019; Hersberger-Langloh et al, 2021), this model brings some risks in terms of mission drift and negative public perception (Beaton, 2021; Xu, 2024). The failure of hybrid organizations often results from a dependent coupling relationship, compounded by legitimation misalignment and nonconformity to expectations (Siwale et al, 2021). Moreover, shifting social service delivery to a business-like approach has generally been perceived as a departure from the core mission.

This movement toward hybridity is strongly linked to broader pressures on nonprofit financial sustainability. Attention to organizational financial health has increased as the fund-seeking competition for government grants and private donations

becomes tighter (Malhotra et al, 2025; Ahmadsimab & Chodwury, 2021). The ability to secure stable resources while safeguarding the mission has become a central challenge in nonprofit governance. Consequently, revenue diversification and financial management become essential tools to maintain the organizational survival.

Bunger et al (2019) examine the interrelated correlations between financial health and program quality. Utilizing online surveys of 32 nonprofit children's behavior organizations in the Midwestern urban region, United States of America, the findings revealed that some organizations struggled to secure sufficient financial reserves, whereas others with higher quality capacities reported larger and growing assets. The findings concerning this issue were mixed and equivocal as to whether the financial health influences the quality aspect or vice versa. Likewise, Beckham (2023) highlights the challenges faced by mid-sized human service nonprofit organizations in diversifying revenue and structuring expenses. These ways encompass strategic partnerships, community involvement, and optimal resource employment. The findings revealed that building a strategy in revenue and spending leads the organizational viability to gain financial flexibility and stability. Despite these strategies, the study acknowledges the difficulty nonprofits face in achieving full financial independence, which compels them to adopt additional financial approaches.

While prior studies have theoretically contributed to the organizational financial health associated with program quality, this further study attempts to expand empirically the impact of hybrid organizations in achieving social and economic value (Battilana, 2018). This raises a question for nonprofit practitioners and scholars: How do nonprofits adopt the hybrid model of organizations? With a single case study of a human service nonprofit organization, this article addresses the empirical gap on how it maintains its financial health by balancing social mission and earned income, particularly in developing countries.

Ghanation Foundation is one of the human service nonprofit organizations helping persons with substance use disorder, located in East Java Province. The decision to choose this organization for a case study is twofold: first, it exemplifies how organizational hybridity is implemented, even though relatively few social service nonprofits adopt this model to diversify income through business-like approaches; second, it provides empirical insights into nonprofit financial health within a developing-country context. Based on solvency, liquidity, and financial flexibility, this research explores the empirical insights of how the foundation sustains its mission under financial tensions, while also contributing to broader debates on hybridity and financial resilience.

Methods

This study employed a qualitative case study approach with participant observation to collect the primary data. This participant observation allows the researcher to view unique insider perspectives, yielding rich and nuanced qualitative data

on the “backstage” culture. The researcher was embedded in the organization within upper-level management, enabling participation in the managerial decision-making process, financial management strategies, and strategic partnership development. Financial statements of 2024 and annual reports were systematically analyzed to describe underlying meanings and observable behaviors. Qualitative research utilizing participant observation is beneficial to obtain comprehensive descriptions of financial health in a hybrid organization.

Results and Discussion

Table 1. Statement of Activities (Cash-flow information)

No	Indicator	2024 (IDR)	Remarks
Revenue			
1	Service/program income	701,015,000	Service delivery fees
2	General donation	115,000,000	Unrestricted
3	Other income	157,500,000	Income from the rehab program in a correctional institution
Expenditure			
1	Service-related expenses	664,215,000	Includes salaries, program supplies
2	Supporting expenses	221,000,000	Includes office supplies, utilities, and promotions

Source: Year-end financial report (2024)

Table 2. Statement of Financial Position

No	Indicator	2024 (IDR)	Remarks
Assets			
1	Cash & Cash equivalents	140,034,000	Year-end cash balance
2	Government grant	0	Vehicle Asset
3	Property and equipment value	1,400,000,000	Fixed Asset
Liabilities			
1	Accounts Payable	0	No short-term obligations
2	Long-term debt	275,000,000	5-years loan

Source: Year-end financial report (2024)

According to Tables 1 and 2, the organization reports total assets of Rp 1,540,034,000 and total liabilities of Rp 275,000,000. The solvency ratio, computed as total assets divided by total liabilities, is **5.6**, indicating that the organization possesses assets approximately 5.6 times greater than its liabilities. This reflects a strong capacity to meet long-term financial obligations.

Liquidity is determined by dividing cash equivalents by short-term obligations; however, this results in an **undefined value** because the organization has no short-term liabilities (Liquidity ratio = Rp 140,034,000 ÷ Rp 0). In practical terms, this signifies an exceptionally high liquidity position, as there are no immediate debts requiring settlement.

Finally, financial flexibility is assessed by dividing cash equivalents by total expenses, yielding a ratio of **0.158** (Rp 140,034,000 ÷ Rp 885,215,000). This indicates that the organization's available cash reserves represent 15.8% of its annual expenses, suggesting a moderate ability to respond to unforeseen financial demands.

Revenue Streams Management

As a social service nonprofit organization, Ghanation Foundation relies on several sources of revenue to keep the program running, i.e., fees for services, government grants, and donations. The most significant revenue is obtained from rehab service fees. This scheme adopts a social enterprise approach where clients must incur expenses to access

social services. Clients pay monthly, and the cost covers medicines, meals, and mental health support. These three service items are enhanced or offered preferentially in terms of VIP service to clients who need access to premium services, personalized care, and other amenities not commonly available to the general patient population. Offering VIP services reveals a viable strategy to achieve financial stability without letting the organization's mission slip away.

Besides service charges, the management expands its revenue sources by partnering with local governments. The local government put the rehab services under the annual program of the local agency for political unity and national resilience (BAKESBANGPOL), which finances the cost of drug treatment for persons with Substance Use Disorder (SUD), as proven by ID Citizenship. This scheme of financing, practiced by the Sumenep local government, provides the payment certainty and stable revenue for Ghanation Foundation that eventually strengthens the financial capacity. Another partnership model by the Pamekasan local government is implemented through a government grant mechanism, by provides funds without a specific purpose. This funding mechanism offers the flexibility to the organization to manage the capital, whether for drug treatment costs or operating expenses.

Unlike typical nonprofit organizations relying on donations, Ghanation Foundation is struggling to raise funds through both individual and community giving. This challenge is due to the stigma towards drug addicts that prevents people willing to donating to the nonprofit organization helping drug abusers. The majority of charity comes from the client's family in the form of in-kind donations, including recreational items, food and snacks, and household goods. Despite a little contribution to the total revenue, charity appears sufficient to reduce the high operating cost.

In terms of financial capacity, the revenue stream of this organization tends to fluctuate over the years. Though fees for services make the largest proportion of the organization's revenue, at around 60% of the total income, the certainty can be unstable due to the varying factors such as the social stigma and economic conditions. Adversely, government financial support is revealed to provide certainty and stability, while the proportion is slightly less than the rehab service fee, at around 30%. The remaining is the percentage of the organization receiving from the donation.

Strategy of financial expenses

To balance social and financial goals, Ghanation Foundation can be considered a hybrid organization. This organizational model entails the effort to conduct priority-based spending in which the social mission is better off without making the organizational income worse off. The director made the policy that spending is only directed to the most essential objectives and needs, while promoting the efficient and effective allocation. For this drug rehab-delivered institution, the main priority is allocated to detoxification, counseling therapy, and operating expenses, including meals, electricity, and water.

Outing, recreational activities, promotional and branding costs, and excessive ceremonial welcoming towards organizational partners are part of the demands that the organization is passing off.

In addition to the policy of priority-based spending, the organization seeks ways to reduce existing costs while maintaining the quality of service delivery. One of the most costly expenses in drug rehab treatment is detoxification. Detoxification, or detox, is a medicinal process to remove toxic and addictive substances from the human body and minimize health risks. While putting clinical safety and recovery forward, the organization utilizes generic drugs, instead of high-priced detox drugs such as acamprosate and disulfiram, and switches to affordable non-pharmacological interventions such as wet cupping and herbal medicine. Exemption can be given to clients requesting highly effective drugs and who expect to shorten recovery programs. Another retrenchment is by eliminating non-essential personal expenses to only what is medically and therapeutically necessary. The management encourages clients to cover their additional needs through their own means or family support, if feasible. Without this action, the organization could lead to a budget leak in which any spending goes unnoticed, as occurred years before. Eventually, these two cost-efficiency mechanisms are effective in increasing revenue even without government assistance and external donations.

Interpreting Financial Practices through the Lens of Financial Health

Combining Blessing & Sakouvugoi's (2023) and Elgayar & Libda's (2025) financial health indexes, specifically measuring human service nonprofit organizations, this discussion is analyzed through three key components, i.e., solvency, liquidity, and financial flexibility. These indicators provide a comprehensive instrument to assess not only whether the organization can survive in the short term, but also how the organization adapts to financial turbulence and delivers its mission statement over time. Solvency is indicated by the debt-to-assets ratio, while liquidity is gauged by the current ratio of assets and liabilities. Financial flexibility is assessed by cash-expense reserves.

The organization's finance reveals proficient solvency with a value of 5.6. This number conveys that the assets are 5.6 times greater than the liabilities. In the long run, the organization's financial capacity to meet its financial obligations and survive without defaulting on its debts is sufficient. Such a ratio pinpoints the strength of viability to secure financing and signals stability and credibility. This factor is particularly beneficial to attract donors and potential partners for additional funding in terms of the non-profit context.

Likewise, due to the lack of short-term obligations, the liquidity of the organization's finances appears to be in a stable financial position. The organization is capable of meeting its financial obligations by utilizing available cash. Holding cash for day-to-day management is essential not only for covering current liabilities but also for securing operational continuity. According to this condition, the organization's liquidity

reveals the capacity to pay staff promptly, sustain the program without disruption, and persuade partners of its fiscal responsibility.

However, financial flexibility depicts that the organization only has 15.8% cash over the yearly total expenses. With the low-to-moderate level of flexibility, it shows that, without reserves, the organization will find it arduous to cover any future necessities, if there is an immediate decrease in revenue or an increase in any expenses. With limited reserves, the organization could face significant challenges if external funding suddenly declines, government contracts are delayed, or unexpected costs arise. In other words, while the organization may be structurally solvent and presently liquid, its capacity to weather financial shocks or invest in new opportunities is constrained.

Finally, while the organization seems to be financially stable in a normal situation, its financial sustainability is threatened. This paradox might be normal for the nonprofit context; a solution to address to strengthen the financial flexibility is necessary. The nonprofit managers could come up with strategies to build operating reserves gradually, to diversify revenue streams, and to create endowment funds. These steps not only provide a cushion against financial volatility but also enhance strategic agility, allowing the organization to seize opportunities for growth or innovation without jeopardizing core services.

Tensions Between Mission and Market in a Hybrid Nonprofit Organization

As a hybrid nonprofit organization, Ghanation Foundation faces a challenge to balance between social mission and financial sustainability. Providing inclusive and affordable services would lead the organization to a social impact on the well-being of the community, regardless of socioeconomic status. Yet, ensuring the management is financially sustained is also essential, which will eventually lead to the implementation of a market-based financing approach to cover operating and overhead costs. Hung & Berrett (2023) argue that commercialization of free access to services is not driven by intended leaders for material gain and cost-benefit mentality, but rather by the motivation to enhance nonprofit management towards professionalism.

This mission-market tension results in a dilemma in ethics and management. Kulshrestha (2022) pointed out that, despite the potential for higher revenue, the cost to the social mission due to an intense concern for the economic orientation is highly risky. Increasing the higher tariffs may reduce the clients' motivation to access the rehab facility, while lower prices weaken the organizational capacity to finance the management and program services. To address this issue, the director conducted a couple of strategies:

- a) Cross-subsidization: This strategy leverages revenue received from affluent clients to charge lower prices for a specific group. This enables this organization to stick to the mission statement and positive impact without sacrificing its financial capacity in the short run. However, the implementation revealed quite convoluted fairness and transparency issues. Occasionally, the clients' family requests the

transparency of what sort of services they received for the amount of rupiahs they paid, causing the management confusion to clarify it. Instead of it, substituting the payment with working for some periods will be the next choice.

- b) Labor in lieu of payment: This alternative strategy is conducted through requiring clients to work for the same period they were on treatment to substitute for the cost they are unable to pay. Some works encompass supporting counselors and social workers in running treatments and doing housekeeping jobs. Though the type of job has no goals to generate money, the impact on the treatment process appears to ease the operating and technical affairs.

Although these strategies are carefully designed, their implementation entails significant challenges. Conflicts frequently emerge between social workers, who emphasize the organization's mission, and financial officers, who prioritize fiscal sustainability. Such tensions can compromise organizational stability and long-term effectiveness. Furthermore, the reliance on former clients for operational support, as encouraged by the latter strategy, raises concerns about professional standards and governance practices. To mitigate these issues, the director often intervenes to ensure program alignment with the organization's core mission.

Conclusion

The analysis concludes that this organization appears to be solvent and liquid, with total assets 5.6 times higher than liabilities and a significant liquidity position without having any short-term obligations. Yet, the limitation of financial flexibility, with cash reserves covering 15.8% of annual expenses, depicts the difficulty in sustaining the financial capacity in case of unexpected shocks. The financial management reflects the model of hybrid organizations, structured by revenue from dominant fee-for-service, while expenditure management utilizes on priority-based spending and cost-efficiency measures. This causes ethical and managerial challenges that may affect the idealism and professionalism. Therefore, strengthening reserves, diversifying income streams, and enhancing governance are critical to ensuring long-term financial resilience without compromising the organization's social mission.

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