

Non-governmental organizations: strategic management for a competitive world

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Non-governmental organizations (NGOs) are corporations that do not belong to the public (government) or the private (for-profit) sector. They aim to serve particular societal interests on a local or global level. Consequently, they advocate and/or focus their operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights. Being non-state and non-market actors, NGOs constitute the “third sector”, representing the civil society and operate in an increasingly competitive environment today. This is due to a profound shift in the roles of public, private and NGO sectors since the 1970s, fewer private and government funding sources, growing competition for contracts within the public and for-profit sectors, declining volunteer support, loss of commitment from non-profit employees and the proliferation of NGOs in new fields. NGO management has to ensure multiple bottom lines and has become more complex. Many NGOs wish to pursue their goals independently, but the competitive environment forces them to adapt for-profit strategy concepts.

NGOs in business strategy research

NGOs remained unexplored in strategy and management studies for a long time (Kong, 2008), but owing to their rising importance for the global political agenda and their impact on multinational enterprises, they have since been integrated into primarily stakeholder management and corporate social responsibility (CSR) research. NGOs have systematically been “economized”, and many seem to have become “businesses as well” (Jäger and Beyes, 2010, p. 85). They are increasingly considered worthy candidates for business research, as they seem to resemble their for-profit counterparts in many ways (Lambell *et al.*, 2008). Owing to this confluence of for- and non-profit perspectives, we investigate competition within the NGO sector from an industrial organization economics perspective.

Five forces framework

To better understand the nature of competition among NGOs, as well as their strategic reactions within the sector, this study adopts the industrial organization theory and, thus, relies on Michael Porter’s five forces framework (1980), commonly used in the business literature to investigate sectors’ competitive environment, referred to as the industry. Five competitive forces jointly manifest the intensity of the competition within a sector and form the starting point of a strategy formulation. The dimensions include:

- customers forcing prices down and bargaining for higher quality or more services (bargaining power of buyers);
- suppliers exerting bargaining power by raising prices or reducing the quality of the offered resources (bargaining power of suppliers);

- new entrants introducing new capacities and bidding down existing prices (threat of new entrants);
- alternative products or services that can perform the same function as the offered products or services in the sector (threat of substitutes); and
- price competition and advertising battles among existing competitors (rivalry among existing firms).

In this framework, customers, suppliers, substitutes and potential entrants are all competitors and might be more or less dominant depending on the particular circumstances within the sector. Competition can, therefore, be defined as an extended rivalry (Porter, 1980, p. 6). The competitive forces are illustrated in Figure 1.

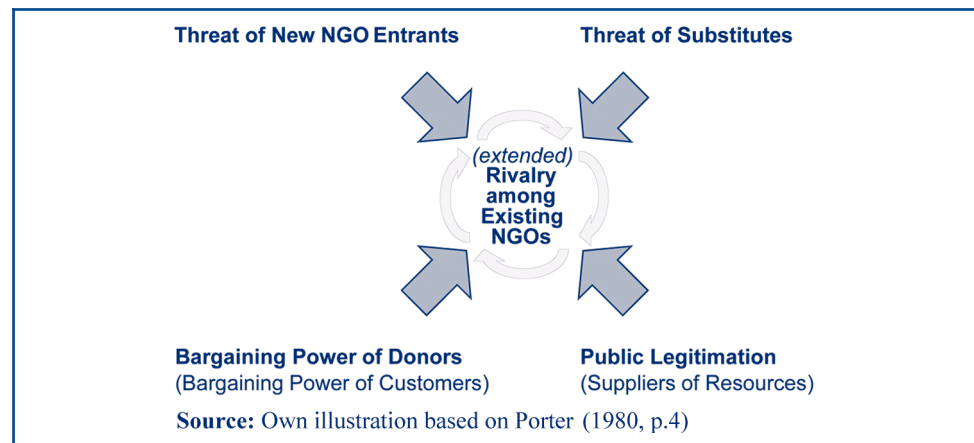
Size and competition

Economies of scale and the level of differentiation influence key aspects of competition: economies of scale create a “barrier to entry” by offering the lowest costs for products and services. Differentiation efforts lead to the establishment of a brand identity and customer loyalty that new entrants have to overcome (Porter, 1980, p. 8). Many barriers to entry are related to firm size. Therefore, larger organizations are better able to resist competition than smaller ones (Porter, 1980, p. 145). Empirical evidence suggests that large NGOs are less threatened by competition than smaller ones. They can exercise cost advantages through economies of scale and differentiate themselves more efficiently through a brand image. Building on Porter’s logic, we can assume that competition disproportionately influences NGOs and that, due to their varied sizes, NGOs can compete in different strategic groups (Porter, 1980, p. 129). Because competition’s intensity varies in relation to organizations’ size, we also investigate NGOs’ budget. Categorizing NGOs according to their budget size can contribute to a better understanding of competition in the sector.

NGOs’ strategic reactions to competitive challenges

In a sector that is facing increasing competition, NGOs need to focus on finding approaches to overcoming the challenges of competition that are consistent with their moral ideals and competitive realities. The structure–conduct–performance paradigm explains how an industry’s structure determines the competition and influences organizations’ behaviors and strategies. These strategies can include investing in their core capabilities and specific knowledge that is hard to imitate, forming alliances with other NGOs, sharing resources, facilitating cooperation and co-creations with private

Figure 1 Competitive forces within the NGO sector



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organizations and increasing fundraising activities (Kong, 2008; Brugmann and Prahalad, 2007).

Research objectives

The following three are the objectives of this study:

1. understand and quantify competition in the NGO sector;
2. explore NGOs' strategic reactions to the challenges of competition; and
3. explore the differences between NGOs with different sized budgets.

To achieve these objectives, we describe competition forces using Porter's five forces (1980) as a framework. We conducted a literature review and explorative interviews with NGO representatives to determine NGOs' reactions to competitive challenges, as well as their relevant budget sizes. Our findings present a realistic and comprehensive view of competition challenges and can thus contribute to the development of more adequate NGO strategies.

Research model development

We apply the industrial organization theory and the five forces framework to understand competition in the NGO sector. Each of the five dimensions is subsequently presented according to Porter's (1980) relevant criteria. We present examples from the current NGO literature to illustrate the key drivers and current trends in NGO competition.

Donors' bargaining power

Donors, who represent buyers of the NGO services, have a bargaining power with regard to their funding decisions. They can demand lower prices or service improvements. This movement has become prevalent, especially since the financial and economic crises, which has led to reduced government budgets for official development aid. Reduced private donations and declining corporate funding also affect the sector (Hanfstaengl, 2010). Consequently, recently established big funding institutions, such as the Gates Foundation or The Global Fund, are becoming more important, which increases the amount of donors and thus their bargaining power with regard to NGOs. As mega-spenders, these institutions are pushing NGOs to adopt business approaches that will help them resolve social problems (Alberg-Seberich, 2009, p. 681).

Resource suppliers' bargaining power

Suppliers represent actors that offer tangible as well as intangible inputs. In this regard, public trust and social legitimacy can be regarded as intangible resources. Private companies seek the public's and their stakeholders' trust to maintain their entrepreneurial ability and "license to operate" (Porter and Kramer, 2006). It is even more crucial for NGOs to maintain trust and social legitimacy: only through their high moral credibility are they able to establish public interest in their causes and to attract financial resources from private and institutional donors. Building on Porter's model, resource "legitimation" suppliers' power is increasing, especially since NGOs are no longer novel, and the media, the general

public, and donors themselves have become highly critical of NGOs' activities and leadership failures (Szporluk, 2009). In addition, independent agencies and observers from international organizations track NGOs' activities and expect the same accountability and transparency standards from NGOs as the public does from governments and companies (Koch, 2008).

Threat of substitutes

Substitutes are services or products offered outside the common sector. They create an opportunity for customers seeking a better price-performance ratio to switch to different options. Substitutes are hard to define because of their indirect nature and because they stem from another sector (Porter, 1980, p. 23). In the case of NGOs, for-profit companies' CSR activities can threaten the solicitation of corporate donations. Moreover, social entrepreneurs and micro-loan providers offer new services that might replace NGOs' traditional services (Bornstein, 2007). Socially oriented businesses, such as The Body Shop or Max Havelaar, act as agents of social change (Porter and Kramer, 2006, p. 78) and therefore challenge the identity of traditional NGOs.

Threat of new entrants

New entrants can be a threat to traditional NGOs in the sector and may outperform them in terms of efficiency and cost. In this context, the United Nations (UN)' universally established Millennium Development Goals (since 2000) standardize global development objectives for all participating NGOs. This results in a lower differentiation between NGOs' services, allowing for their result-based and measurable implementation and minimizing barriers to the entry of new NGOs.

Rivalry among existing NGOs

Rivalry occurs when competitors attempt to improve their own position, especially if the sector is in a slow growth phase or strategic stakes and exit barriers are high due to economic, strategic or emotional factors (Porter, 1980, p. 17). Because NGOs are mainly service providers, we can assume that they face relatively few exit barriers. According to the Johns Hopkins Nonprofit Economic Data Project (2011), employment growth has been observed in the NGO sector over the past few years, despite the economic downturn. This leads to the assumption that, while rivalry might be low, the sector is growing faster than other sectors; the attractiveness of the sector might be growing as well, which attracts new potential players (Union of International Associations, 2010)[1].

Study sample and data collection

We conducted an online global survey between November 2010 and May 2011. Data were collected from 1,211 NGOs that either function as consultants or work in association with the UN[2]. The key informants were leaders and executive managers of NGOs. The respondents' fields of work varied from international advocacy and development (38 per cent), education and research (14 per cent), community and neighborhood (8 per cent), health (8 per cent), environment (8 per cent) and social services (7 per cent) to civil liberty (6 per cent), labor (6 per cent), culture (3 per cent), philanthropy (2 per cent) and religion (1 per cent).

“NGOs need to focus on finding approaches to overcoming the challenges of competition that are consistent with their moral ideals and competitive realities.”

The survey questionnaire required respondents to categorize basic data about their organization, including its activities and budget, and indicate their level of agreement with ten opinion statements on a 5-point Likert scale ranging from 1 = (strongly disagree) to 5 = (strongly agree). Respondents were required to answer a set of five statements, covering aspects of competition and rivalry in the NGO sector. We derived the presented statements from interviews with NGO representatives and included current trends in the sector, including: big foundations, the rising demand for accountability and performance measurement, the idea of social entrepreneurship, lower income and budget cuts and the rising competition in the NGO sector. We chose statements that empirically exemplify one dimension of the five forces framework. These competition factors were the bargaining power of donors, the suppliers of resources, the threat of substitutes, the threat of new entrants and the competitive rivalry of NGOs already present in the sector. The factors and corresponding statements are presented in [Table I](#).

We asked another set of questions to assess NGOs' reactions to competitive challenges. We derived the statements, which are presented in [Table II](#), from explorative interviews with NGO representatives and the current literature ([Hailey, 2010](#)) on recent trends in the NGO sector. Specifically, these included cooperation, specialized knowledge, as well as PR and fundraising.

Budget classes

Participating NGOs were also asked to classify their organization according to the size of their annual budget. Because budgets are a sensitive matter, we proposed the following budget classes in US dollars: under 10,000; 10,000-50,000; 50,000-250,000; 250,000-1 million; and >1 million. Descriptive results show that each class represents approximately 20 per cent of the surveyed participants. The range from USD50,000 to 250,000 can thus be identified as the median class and serves as a distinction between "small" and "large" organizations.

Table I Competition factors and corresponding statements

<i>Factor</i>	<i>Statement</i>
Bargaining power of donors	"Big foundations (e.g., The Gates Foundation, The Global Fund) change the NGO sector"
Suppliers of resources	"The increasing demand for accountability and performance measurement changes the NGO sector"
Threat of substitutes	"The idea of social entrepreneurship changes the NGO sector"
Threat of new entrants	"Lower income has forced us to cut our organization's budget"
Rivalry among existing NGOs	"Competition in the NGO sector has increased"

Table II Strategic reactions of NGOs to challenges in the NGO sector

<i>Strategic reaction</i>	<i>Statement</i>
Cooperation and sharing facilities	"Long-term cooperation of more than three years with other NGOs has become increasingly important" "Cooperation with private sector companies has become increasingly important" "Pooling resources and sharing facilities with other NGOs have become increasingly important"
Specialized knowledge	"An NGO has to have specialized knowledge of its field to maintain its uniqueness within the sector"
PR and fundraising	"PR and fundraising have become a necessity for NGOs"

Findings

Competition in the NGO sector

All statements achieved mean values of >3.0, which can be interpreted as agreement with all statements. Respondents valued the statement “lower income has forced us to cut our organization’s budget” as the least important (3.48), followed by “big foundations (e.g. The Gates Foundation, The Global Fund) change the NGO sector” (3.61), “the idea of social entrepreneurship changes the NGO sector” (3.86) and “competition in the NGO sector has increased” (4.15). The statement “the rising demand for accountability and performance measurement changes the NGO sector” proved to be the most important (4.24).

Donors' bargaining power. The statement “big foundations (e.g. The Gates Foundation, The Global Fund) change the NGO sector” showed overall agreement (3.61). Different budget classes' levels of agreement varied only slightly. This is due to the concentration of a few large foundations that exert a high bargaining power on all NGOs, independently of their budget size. Because they are more widespread, smaller in size and are more dispersed in the (NGO) sector, NGOs with annual budgets <USD50,000 have the least bargaining power over donors (Figure 2).

Threat of substitutes. There was an overall agreement (3.86) on the statement “the idea of social entrepreneurship changes the NGO sector”. However, the smallest NGOs with budgets <USD50,000 showed higher approval ratings than NGOs with budgets of USD250,000 and higher. This is because social entrepreneurship is a relatively new phenomenon. Consequently, most social entrepreneurs run organizations that are still relatively small and have a limited geographical scope. They thus act locally, similar to the small NGOs. Local social entrepreneurs represent a higher threat to small local NGOs than to larger, more distributed and more diversified NGOs (Figure 3).

New entrants. The statement “competition in the NGO sector has increased” received overall agreement, but there was no significant variance between the budget classes. NGOs with budgets of >USD1 million received the highest level of agreement (4.28), whereas those with lower budgets received lower levels (down to 4.05). This is due to larger NGOs' wider geographical presence and their consequent perception that all local entrants (in the different locations where they operate) are threatening competitors. Smaller NGOs, on the other hand, act only locally and, therefore, consider only local entrants a threat (Figure 4).

Suppliers of resources. The statement “the increasing demand for accountability and performance measurement changes the NGO sector” achieved the highest overall agreement (4.24) and significant variance among the highest and lowest budget classes. Because they cover a larger geographical area, large NGOs receive more funding (from donors) than small NGOs. Their larger geographical scope increases the need for

Figure 2 The role of foundations in the NGO sector

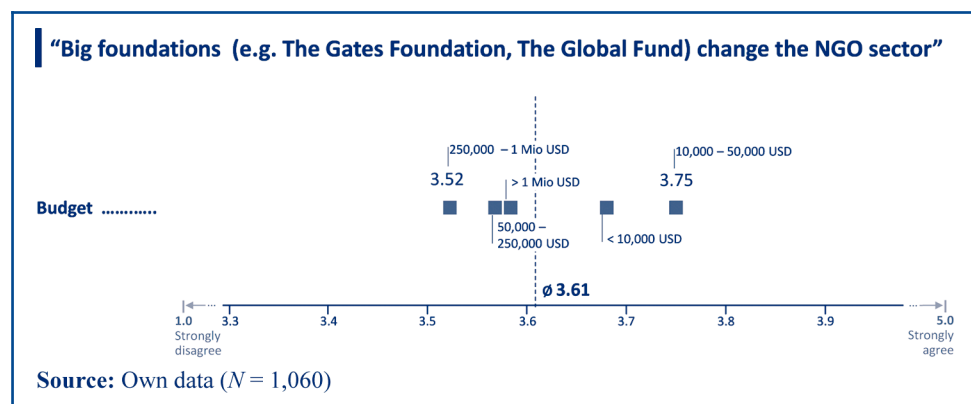


Figure 3 The role of social entrepreneurship in the NGO sector

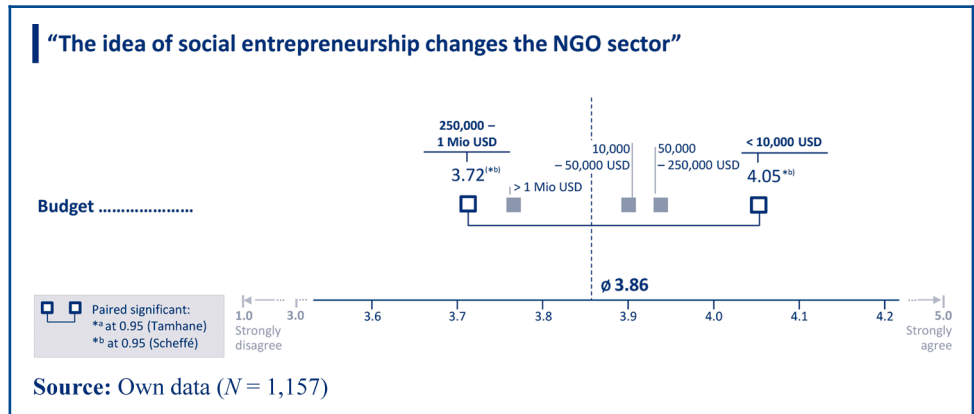
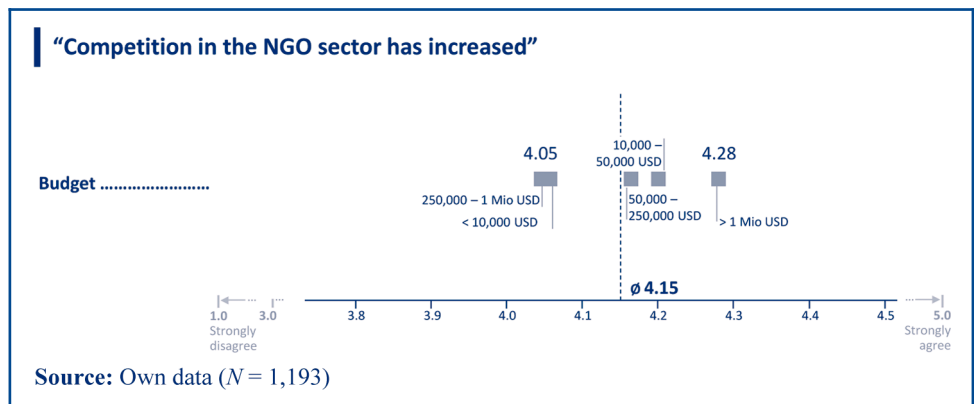


Figure 4 Competition among NGOs



transparency regarding their expenditures. Moreover, large NGOs require much stricter governance and control mechanisms than small NGOs. These mechanisms are intended to increase society’s trust in them (public trust), as well as their social legitimacy: two resources that are crucial to NGOs’ operations (Figure 5).

Competitive rivalry. The budget classes’ agreement with the statement “lower income has forced us to cut our organization’s budget” differed considerably. NGOs with budgets <USD250,000 showed significant and higher agreement values (up to 3.75). This indicates

Figure 5 Increasing demand for accountability in the NGO sector

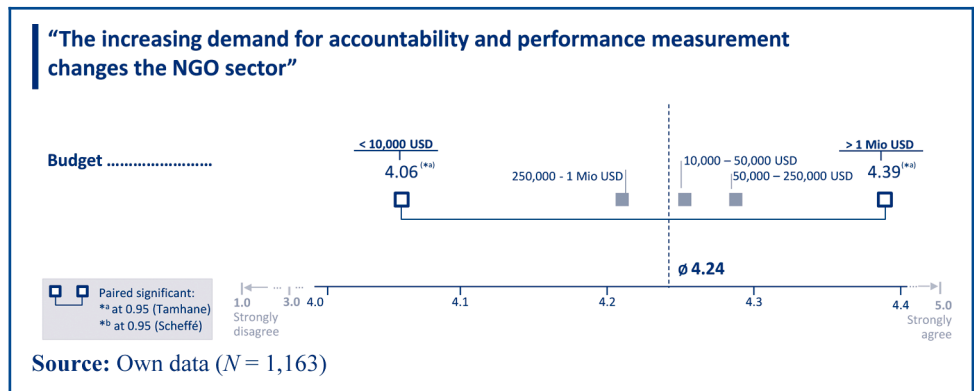
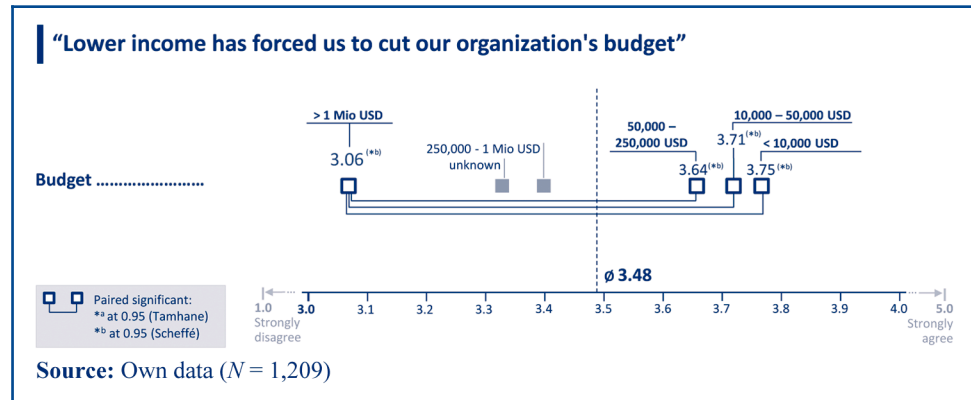


Figure 6 Lower income for NGOs



that there is higher competition between smaller NGOs for funding. These smaller NGOs are hit harder by the global economic downturn and receive less institutional and public funding. NGOs with a budget >USD1 million showed the lowest level of agreement with the statement (3.06). The larger NGOs did not report major funding cuts. They benefit (more than smaller NGOs) from CSR, institutional corporate donors and philanthropic organizations. Such organizations tend to collaborate with well-known large NGOs (more often than with small local NGOs), leading to a win-win situation: NGOs benefit from donors' financial support and can, therefore, maintain their budget at a constant level. Social donors, on the other hand, benefit from the brand awareness of these well-established NGOs, which increases their legitimacy and visibility as philanthropic donors (Figure 6).

NGOs' strategic reactions and practical implications

All statements regarding strategic responses received an overall agreement of 3.0 or higher. Respondents valued "cooperation with private sector companies has become increasingly important" as the least important (3.79) factor, followed by "long-term cooperation of more than three years with other NGOs has become increasingly important" (4.01), "pooling resources and sharing facilities with other NGOs have become increasingly important" (4.08) and acquiring "an NGO has to have specialized knowledge of its field to maintain its uniqueness within the sector" (4.39). "PR and fundraising have become a necessity for NGOs" achieved the highest overall means (4.47).

These findings can help NGO leaders adapt their strategy to new challenges facing the NGO sector.

Large NGOs attach importance to fundraising and specialized knowledge. In this respect, setting up cooperation and strategic alliances with other NGOs and private partners would be a suitable strategic move that would provide substantial opportunities to increase fundraising (by private donors) and gain wider access to specialized and complementary knowledge (through other NGOs).

Smaller NGOs, on the other hand, attach higher importance to the pooling of resources between multiple NGOs to exploit resources more efficiently. This can be explained by the lack of economies of scale in this particular segment of NGOs. We subsequently question whether there is potential for optimizing the use of common resources. We suggest, for instance, that smaller NGOs could cooperate with direct competitors. "Competition" among NGOs is still uncommon, but has enormous potential for future efficiency.

Smaller NGOs are also hit harder by the global economic downturn and declining funding, which leads to lower income for them. Cross-financing mechanisms stemming from profit-generating activities related to their mission are possible means for smaller NGOs to acquire additional resources. However, this might require additional management capacities.

Keywords:

United Nations,
NGOs,
Non-profit organizations,
NGO competition,
NGO sector,
NGO strategy,
Porter's five forces

Finally, small NGOs share resources and closely cooperate with other NGOs and private sector organizations. However, small NGOs are less focused on fundraising activities than large NGOs, and have less specialized knowledge. Therefore, they should focus on their fundraising activities and make use of their specific skills as a “unique selling proposition” toward their local stakeholders. Thus, building fundraising capacities on their own or in cooperation with other NGOs should be at the top of their to-do list in future.

Notes

1. Since 1909, the overall statistics of the Union of International Associations have shown a growing number of international non-governmental organizations, with significant growth since the late 1980s/early 1990s (Union of International Associations, 2010).
2. Having members from 193 states and covering all current global issues, the UN works in conjunction with many relevant international NGOs.

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