

If not for profit,
for what and how?

S O C I A L
E N T E R P R I S E

Competition and Strategy of Non-Governmental Organizations

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EMES-SOCENT Conference Selected Papers, no. LG13-45

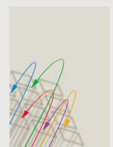
4th EMES International Research Conference on Social Enterprise - Liege, 2013

Interuniversity Attraction Pole (IAP)
on Social Enterprise (SOCENT) 2012-2017

and



 **EMES network**



Abstract

Traditional strategic management approaches are criticized for being inaccurate to suit the needs of NGOs. While economization tendencies seem to continually move on within the NGO sector, this paper aims to investigate empirically competition in general within this sector, and to find out about strategic reactions of NGOs on a broad scale. In the present paper, Porter's Five Forces (1980) are used as a theoretical framework to understand and quantify competition in the NGO sector, as well as to explore differences in terms of NGOs' budget sizes.

For this study, over 1.200 NGOs associated with the United Nations participated in our survey. Different mean values were found in the NGOs' assessment of various dimensions of competition and among NGOs of various budget sizes. This led to the findings that NGOs of different budget sizes perceive competition differently and show differences in their strategic reactions.

Finally, we discuss that in order to enhance their competitive position, smaller NGOs should invest in their potential in concentrating on their specific skills and on fundraising. We also argue that large NGOs might need to intensify co-operations among NGOs and private partners.

I. INTRODUCTION AND THEORETICAL FRAMEWORK

The present paper focuses on the sector of worldwide non-government organizations (NGOs) in general (Salm, 1999; Teegen, 2004 et al.; Lambell et al., 2007). Our study is an attempt to fill a research gap in this sector, by analyzing competition and understanding NGOs' strategic reactions to cope with competition challenges such as co-operations, fundraising and specialization in their skills. Our findings stem from data collected from a broad-based survey of 1.200 NGOs associated with the United Nations.

Competition in the NGO Sector

NGOs are organizations that belong neither to the public (government) sector nor to the private (for-profit) sector. They aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals from the local to the global level. Being non-state and non-market, NGOs constitute the "third sector" representing the civil society (Teegen et al., 2004, 464; Lambell et al., 2007, 75). NGOs are nowadays commonly operating in an environment that is characterized by growing competition (Dees, 1999, 135; Kong, 2007, 282; Lindenberg/Dobel, 1999, 9). This is due to a profound shift in the roles of the public, private and NGO sectors since the 1970s (Lindenberg/Dobel, 1999, 4), lower private and government funding sources (Henry 1999, 114; Dees, 1999, 137; UN-OCHA, 2008; Hanfstengl, 2010; Schwenger, 2013, 107), growing competition for contracts with the public and for-profit sectors (Kong, 2007, 282), declining volunteer support (Putnam, 1995, 65), losing commitment from non-profit employees (Eisenberg, 2000, 329) or proliferation of NGOs into new fields (Henry, 1999, 115). The management of NGOs has to ensure "multiple bottom lines" (Anheier, 1999, 42) and has become much more complex (Helmig et al., 2006, 358; Goerke 2003, 322). Many NGOs that are seeking independence and the ability to pursue their missions are under competitive pressure (Goerke, 2003, 317; Lindenberg/Dobel, 1999, 22). The competitive environment is thus forcing NGOs to adapt for-profit strategy concepts (Dees 1999, 137; Goerke, 2003, 317).

Management approaches for NGOs

Traditional strategic management concepts are often criticized for being inappropriate for NGOs (Kong, 2008, 282). The main argument is that NGOs pursue their mission and principles of investing in human and social aspects rather than in profit maximization (Herman/Renz, 2008, 408; Sawhill/Williamson, 2001, 371). Therefore, NGOs have not been able to use strategy concepts to increase their effectiveness in serving their stakeholders. Although some literature has been pointing to the problems that NGOs are facing over the past years (e.g. Ritchie/Kolodinsky, 2003, 367), relatively little has been written on what adjusted strategic management methods are most appropriate for the pursuit of their activities. In this respect, the need for useful competent leadership and strategic management concepts that fit into the context of NGOs has become widely acknowledged (Stone et al., 1999, 379).

Empirical research in the NGO sector

Leaders of NGOs gave us the impression that current competition forces lead to rapid changes in the sector. To know which management concepts would be effective, it has become crucial to assess and empirically quantify competition within this sector on a broad level. Some empiric assessments have been undertaken. However, they cover a small range of specific NGOs in form of case studies (i.e. Billis/MacKeith, 1993), or these assessments only cover a specific fraction of competition such as the impact of the financial crisis (i.e. Hanfstengl, 2010). A broader analysis covering the whole NGO sector through a multiple set of competition factors is still missing.

Industrial-Organization School for the NGO sector

To achieve its missions an organization has to adopt a strategy that balances its internal capabilities with the external environment (Andrews, 1971). A path to analyze the environment to better understand the competition, as well as the deriving organizational strategy, is generally discussed within the school of Industrial-Organization economics. In this perspective, the state of competition within an industry is determined by the structure of an industry sector (structure-conduct-performance paradigm). The competition within that sector is described through five structural forces that further determine companies' strategy (Collins/Montgomery, 1995, 121). Being the standard model to determine systematically competition within an industry, this "market-based view" has thus remained confined to the for-profit sector.

NGOs in international business research

NGOs have long been unexplored in organization and management studies. However, their rising importance on the global political agenda and their impact on multinational enterprises (Spar/La Mure, 2003, 78) was primarily integrated in the area of stakeholder management and Corporate Social Responsibility (i.e. Freeman, 1984; Elkington et al., 2000). Successively, tendencies of an "economization" of NGOs (Jäger/Beyes, 2010, 85) have been realized, where many NGOs seem to have become "businesses as well" (Bas, 2002, 31). NGOs are therefore increasingly seen as worthy candidates for business research (Buckley, 2002, 369) since they seem to resemble their for-profit counterparts in many ways (Lambell et al. 2008, 75). On this confluence of for- and non-profit perspectives, we therefore feel encouraged to view competition within the NGO sector through the perspective of the Industrial Organization economics.

Five Forces Framework

In order to better understand the nature of competition among NGOs, as well as the strategic reactions within the sector, the present paper adopts the industrial organization school assumptions of strategy and relies on the Five Forces Framework of Michael Porter (1980). Porter's Five Forces framework is commonly used in the business literature to investigate the competitive environment of a sector in a broad sense that is referred as "industry". Hereby, five competitive forces jointly manifest the intensity of the competition within a sector and build the starting point of a strategy formulation (Porter, 1980, 6). The dimensions include customers forcing down prices and bargaining for higher quality or more services (bargaining power of buyers), suppliers exerting bargaining power by raising prices or reduce the quality of offered resources (bargaining power of suppliers), new entrants bringing new capacity 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 therefore can be defined as an "extended rivalry" (Porter, 1980, 6). The competitive forces are illustrated in Figure 1.

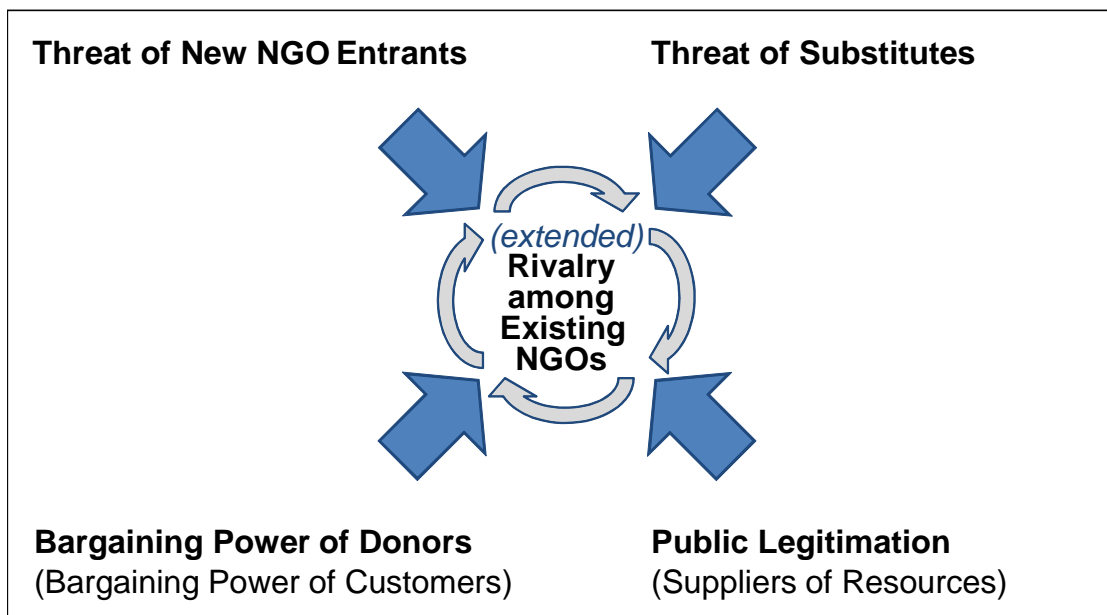


Figure 1: Competitive forces within the NGO-Sector
Own illustration according to Porter, 1980, p. 4

Size and competition

Economies of scale and the level of differentiation influence key dimensions of competition: Scale economies create a “barrier of entry” through 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, 8). Many barriers of entry are related to size. Therefore, larger organizations can build up a stronger protection against competition forces than smaller ones (Porter, 1980, 145). Empirical evidence suggests that large NGOs seem to be threatened less by competition in comparison to smaller NGOs. They can exercise cost advantages through economies of scale and differentiate themselves more efficiently through a brand image. Following on Porter’s logic, there is reason to assume that NGOs are influenced unequally by competition and that NGOs can compete in different strategic groups (Porter, 1980, 129) because of their sizes. Due to the differences in intensity of competition in relation to size we therefore additionally study NGOs according to their financial budget. Dividing NGOs into groups according to their budget size can therefore contribute to better understand the competition in the sector.

NGOs’ strategic reactions to competitive challenges

In a sector that is increasingly characterized by competition, NGOs need to work hard to find the right approaches and reactions to challenges of competition that stay consistent with their moral ideals and the competitive realities (Lindenberg/Dobel, 1999, 22). The structure-conduct-performance paradigm explains how the structure of an industry determines the competition and influences the behaviors and strategies of organizations (Collins/Montgomery, 1996, 121). According to the current NGO literature, these strategies can include investing in their core capabilities and specific knowledge that is hard to imitate (Kong, 2008, 285), alliances with other NGOs (Lindenberg/Dobel, 1999, 20), sharing of resources (Lindenberg 1999, 162), facilitate co-operations and co-creations with private organizations (Heap, 2000, 555; Brugmann/Prahalad, 2010, 80) and an increased fundraising (Billis/MacKeith, 1993, 30).

Research objectives

The objectives of this paper are (1) to understand and quantify competition in the NGO sector, (2) to explore how NGOs react strategically to the challenges of competition and (3) to explore differences in groups in relation to their budget size. Therefore, the Five Forces are used as a framework to describe competition forces. NGOs' reactions to competitive challenges, as well as relevant budget sizes, have been developed through literature research and through explorative interviews with NGO representatives. In this way our findings shall provide a realistic and broad based view of competition challenges and can thus contribute to the creation of more adequate NGO strategies in future.

II. MODEL DEVELOPMENT

In order to understand competition in the NGO sector, we apply the Industrial Organization school and the Five Forces framework to the NGO sector. In what follows, each of the five dimensions are presented according to the relevant criteria of Porter (1980). In order to illustrate and exemplify key drivers and current tendencies in NGO competition, examples from the current NGO literature are presented.

Bargaining power of donors

Donors, who represent "buyers" of the NGO services, hold a bargaining power with their funding decisions. They can demand cheap prices or service improvements. This movement has especially accelerated ever since the financial and economic crisis led to the reduced government budgets for official development aid (Henry, 1999, 114). Additionally, reduced private donations and declining corporate funding affect the sector (UN-OCHA 2008; Nährlich, 2009, 571; Hanfstengl, 2010). In this regard, newly emerged big funding institutions such as the "Gates Foundation" or "The Global Fund" are becoming more important, which intensifies the concentration of donors and thus their bargaining power towards NGOs. As "mega-spenders" these institutions are pushing NGOs to take on business' approaches in solving social problems (Alberg-Seberich, 2009, 681). Likewise, innovative "philantro entrepreneurs" use principles of venture capital to fund economic and social innovations that are represented in the idea of a "Social Return on Investment" (Bishop/Green, 2008; Hailey, 2010, 4).

Bargaining power of suppliers of resources

Suppliers represent actors that offer tangible as well as intangible inputs. In this regard public trust and social legitimacy can be translated as intangible resources (Pfeffer/Salancik, 1978, 43). Private companies seek trust of the public and their stakeholders to maintain their entrepreneurial ability and "license to operate". (Porter/Kramer, 2006; Luo, 2001, 406; Pelozo/Falkenberg, 2009, 102). For NGOs it is even more crucial to maintain trust and social legitimacy: Only through their high moral credibility are they able to gain public identification for their causes and to attract financial resources from private and institutional donors. (Yanacopulos, 2005, 97; Simsa 2007, 131; Gibelman/Gelman, 2001, 60; Eisenberg, 1997, 336.) Following on Porter's model, the power of suppliers of the resource "legitimation" is increasing, especially since NGOs are not novel anymore, and the media, the general public and the donors themselves have become highly critical about NGOs' activities (Lewis, 2009; Szporluk, 2009) as well as about failure in leadership of NGOs (Eisenberg, 1997). 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 (Teegen et al., 2004; Fowler, 1997; Koch, 2008).

Threat of substitutes

Substitutes are services or products that are outside the common sector and create an opportunity for customers to switch to alternatives in seeking a better price-performance ratio. Substitutes are hard to define because of their indirect nature and because they derive from another sector (Porter, 1980, 23). In the case of NGOs, corporate social responsibility (CSR) activities of for-profit companies can be a threat to substitute corporate donations. Moreover, social entrepreneurs and micro-loan-providers offer new services that might replace the traditional services from NGOs (Bornstein, 2007; Murdock, 2009, 1412; Nicholls 2006). Also, socially-oriented businesses such as "The Body Shop", or "Max Havelaar" are acting as agents of social change (Porter/Kramer, 2006, 78; Porter/Kramer 2011, 62) and therefore challenge the identity of traditional NGOs.

Threat of new entrants

New entrants can be a threat for traditional NGOs that are already present in the sector and outcompete them in terms of efficiency and cost. In this context, the United Nations' universally established "Millennium Development Goals" (United Nations General Assembly, 2000) standardize global development objectives for all participating NGOs (Agg, 2006, 8). This results in a lower differentiation of NGOs' services, where a result-based and measurable implementation can take place and barriers for the entry of new NGOs are lowered. In this regard one-time costs of switching from one NGO's services to another's become relevant since donors' personal trust in the successful completion of a past project can pose a high barrier of entry for new NGOs. Publicly tendered NGO contracts, standardized rules for measuring administration costs, accreditations and performance evaluations through independent institutions and charity navigators have newly emerged to improve the standards in the sector (Edwards/Hulme, 2006; KPMG, 2006; Koch, 2008). In sum, these measures lower the switching costs for donors and the barriers of entry for new NGOs. In this way the potential backward integration of private funding institutions (Insourcing) or governments (i. e. potential development activities of the US-Army) pose an additional threat of entry. Furthermore the rising importance of new ways of funding via social media represents also an existing threat to traditional NGOs and lowers the entry barriers for potential new entrants and "Dot-Causes"¹ (Themundo, 2009, 616).

Rivalry among existing NGOs

Rivalry occurs when competitors take an opportunity to improve their own position, especially in a phase of slow growth of a sector, high strategic stakes and high exit barriers because of economic, strategic or emotional factors (Porter, 1980, 17). The fact that NGOs are mainly service providers leads to the assumption that exit barriers are relatively low. According to the *Johns Hopkins Nonprofit Economic Data Project (2011)*, growing employment in the NGO sector was observed in recent years regardless of the economic downturn. This leads to the assumption that on the one hand rivalry might be low. On the other hand, as the sector is growing in comparison to other sectors, the attractiveness of the sector might be growing as well, which attracts new potential players. (Union of International Associations, 2010).²

¹ "Dot Causes" are cross-border internet campaigns, that are mostly launched by a number of NGOs towards a specific action. Through internet and social media networks these campaigns can gain the attention of thousands of individual supporters. (Themundo 2009, 616)

² Since 1909 overall statistics of the "Union of International Associations" show a growing number of "international Nongovernmental Organizations", with an especially growing trend since the end of the 1980ies and the 1990ies. (Union of International Associations, 2010)

III. EMPIRICAL STUDY

Research Design and Sample

The objective of our research is to quantify competition in the NGO sector and to explore how NGOs react strategically to the challenges of competition in relation to their budget sizes. In order to achieve this objective, we collected data through a global survey from a broad range of NGOs that are in consultative status or working associations with the United Nations.³ The key informants (Campbell, 1955, 339) were leaders and executive managers of NGOs. Key informant competence was tested according to position, tenure and comprehensibility of the survey. The self-typing approach where informants classify organizations is not without shortcomings (Hurrell/Kieser, 2005, 584; Ernst, 2003, 1.249). Managers may be reluctant to categorize their own organizations. However, participation in the survey was optional and a non-response bias between first and last participants could not be detected. 69 % of the key informants were directors, presidents and chairmen with high tenure of more than five years. Overall, the respondents confirmed the high comprehensibility of the survey. Their NGOs were engaged in all fields of work defined by the UN Department of Economic and Social Affairs (DESA, 2003), which covered organizations working in operational services and program support as well as advocacy and campaigning as predominant activities. The respondent's field of work varied from the areas of international advocacy and development (38%), education and research (14%), community and neighborhood (8%), health (8%), environment (8%), social services (7%), civil liberty (6%), labor (6%), culture (3%), philanthropy (2%) and religion (1%). In summary, these statistics suggest that the respondents represent a broad range of NGOs with a broad spectrum of activities.

An online link to the survey was sent through an open link invitation to all members of the online network "CSO-Net" and through a direct invitation to the Economic and Social Council (ECOSOC) accredited NGOs. Due to the novelty of the project, an open invitation was also put on the websites of two NGO liaison departments of the United Nations. After two preceding pretests an online survey was conducted from November 2010 till May 2011. 11.011 NGOs were invited to the survey through emails. 1.211 organizations (10,5%) contributed to the survey and answered at least one question. 1.604 responses had to be refused for the analysis due to no or incomplete data (14,5%). Due to the open invitation arrangements with the United Nations departments, an exact response rate to this study cannot be calculated.

Measurements

The survey's questionnaire required respondents to categorize basic data about their organization, including activity and budget of the organization and indicate the extent of agreement on ten opinion statements on a five-point Likert scale from 1 = (do not agree) to 5 = (do strongly agree). Respondents were asked to answer a set of five tendency statements covering aspects of competition and rivalry in the NGO sector. The presented statements derived from interviews with NGO representatives and included current trends in the sector around a) *big foundations*, b) *the rising demand for accountability and performance measurement*; c) *the idea of social entrepreneurship*; d) *lower income and budget cuts*, and e) *the rising competition in the NGO sector*. Statements were chosen to exemplify one dimension of the Five Forces framework empirically. These competition factors were (A) the bargaining power of donors, (B) the suppliers of resources, (C) the threat of substitutes, (D) the threat of new entrants, (E) the competitive rivalry of existing NGOs in the sector. The factors and the corresponding statements are presented in Table 1:

³ With members from 193 states and by covering all current global issues, the United Nations reaches a large part of relevant NGOs working a global level.

Factor	Statement
a) Bargaining power of donors	A) „Big foundations (i.e. The Gates Foundation, The Global Fund) change the NGO sector“
b) Suppliers of resources	B) „The increasing demand for accountability and performance measurement changes the NGO sector“
c) Threat of substitutes	C) „The idea of social entrepreneurship changes the NGO sector“
d) Threat of new entrants	D) „Lower income has forced us to cut our organization's budget“
e) Rivalry among existing NGOs	E) „Competition in the NGO sector has risen“

Table 1: Competition factors and corresponding statements

Through another set of questions, NGOs' reaction to competitive challenges was assessed. Hereby the presented statements derived from explorative interviews with NGO representatives and NGO current literature (i.e. Hailey 2010) that covered recent approaches to trends in the NGO sector. Specifically these included co-operations, specialized knowledge and PR and fundraising. The assessed statements are presented in **Table 2**.

Strategic reaction	Full statement
Co-operations and sharing facilities	„Long-term co-operations of more than 3 years with other NGOs have become increasingly important“
	„Co-operations with private sector companies have become increasingly important“
	„Pooling resources and sharing facilities with other NGOs have become increasingly important“
Specialized knowledge	„An NGO has to have specialized knowledge to maintain its uniqueness within the sector“
PR and fundraising	„PR and fundraising have become a necessity for an NGO“

Table 2: Strategic reactions of NGOs to challenges in the NGO sector

Likert scales should only be treated as an equidistant scale if all responses were presented and visualized symmetrically. This survey followed this common questionnaire. Test practice, interval scale, and mean values were calculated. Therefore, the value of 3,0 could be interpreted as the neutral point between the extreme positions. The questions were analyzed using SPSS 20. To check the quality and internal consistency of the scales the reliability for all measures was checked using Cronbach's Coefficient Alpha. According to Nunnally (1978), Alpha values greater than 0,7 are considered to show sufficient reliability. The test generated a Cronbach Alpha of 0,803 and indicated strong reliability.

Budget classes

Participating NGOs were also asked to classify their organization according to the size of their annual budget. Because of the sensitive matter of budgets, we proposed the following budget classes in US-Dollars: (i) under 10.000; (ii) 10.000 to 50.000; (iii) 50.000 to 250.000, (iv) 250.000 to 1 million and (v) over one million. Descriptive results show that each class represents in between 20 and 25 percent of the survey's participants. The range of 50,000 to 250,000 USD can therefore be identified as the median class.

IV. FINDINGS

We were searching for a theoretical framework to better understand competition for NGOs. We therefore used the five forces model to explore single dimensions and strategic reactions related to budget sizes. An internet survey was done association with the United Nations. In the following, the findings are presented according to the competition factors and NGO's strategic reactions.

Competition factors

All statements achieved mean values higher than 3,0 which can be interpreted as an agreement to all statements. Respondents valued the statement "Lower income has forced us to cut our organization's budget" as least important (3,48), following „Big foundations (i.e. 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 risen" (4,15). The statement "The rising demand for accountability and performance measurement changes the NGO sector" proved to be the most important (4,24). In a next step, budget classes were considered and specific mean values per class were calculated.

Competitive rivalry

The overall mean (3,48) of the statement „Lower income has forced us to cut our organization's budget" indicates a neutral position. However, specific mean values for different budget classes differed widely. Significant and higher agreement values were found in all NGOs with budgets lower than 250.000 USD. NGOs with a budget higher than 1 million USD showed lowest values.

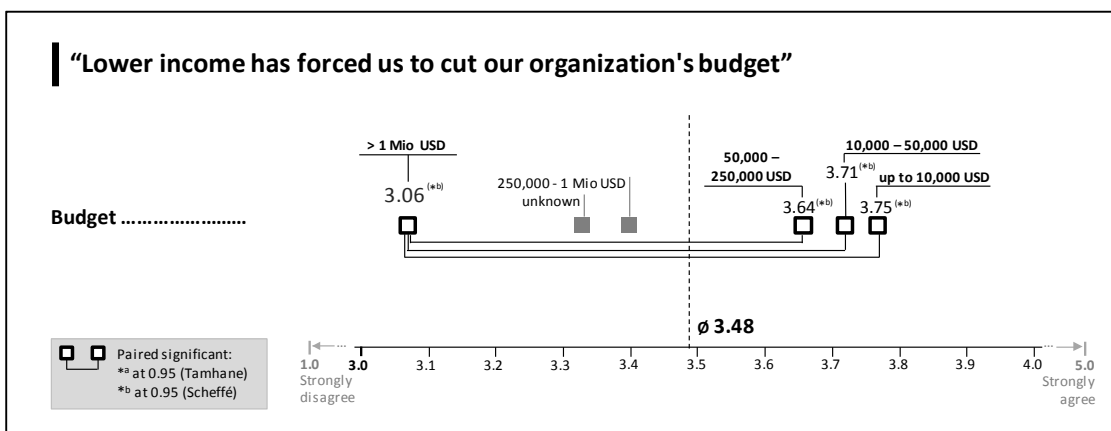


Figure 2: Lower income for NGOs

Source: own data (N = 1.209).

Bargaining power of donors

The mean for the statement „Big foundations (i.e. The Gates Foundation, The Global Fund) change the NGO sector" shows an overall agreement. But mean values of different budget classes vary only slightly and show no specific significance. However, organizations with budgets smaller than 50.000 USD show higher agreement values.

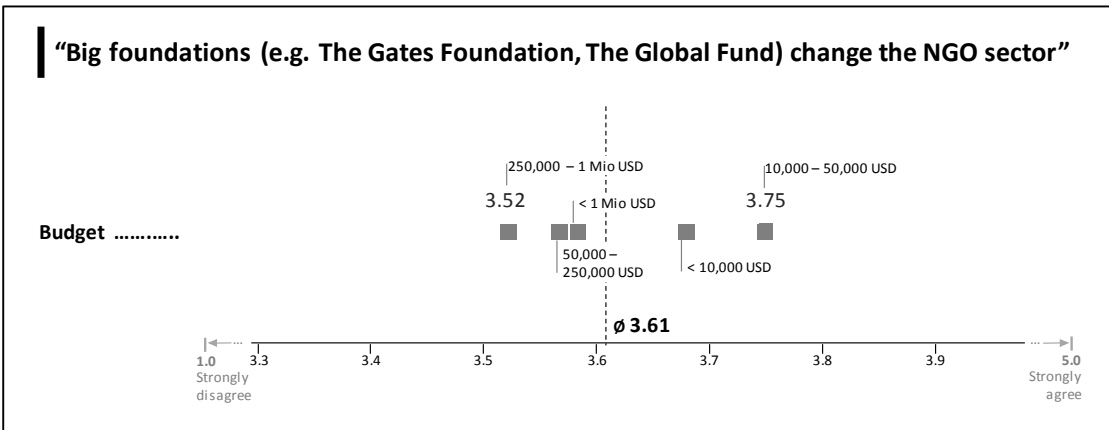


Figure 3: Role of Foundations in the NGO sector
Source: own data (N = 1.060).

Threat of Substitutes

The statement „The idea of social entrepreneurship changes the NGO sector“ achieves an overall agreement and variations of specific means by budget size. Smallest NGOs with budgets under 50.000 USD show higher approval ratings than NGOs with bigger budgets of 250.000 USD and higher.

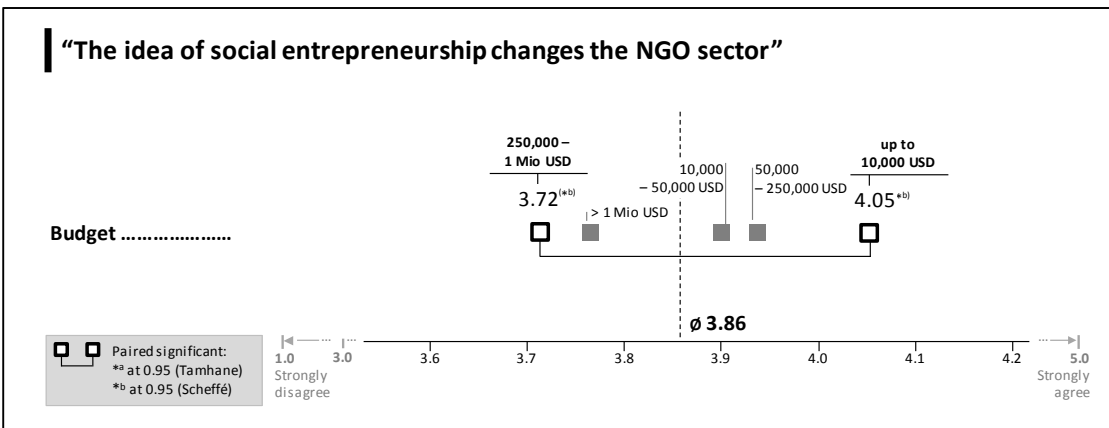


Figure 4:

Role of social entrepreneurship for the NGO-Sector
Source: own data (N = 1.157).

New Entrants

The statement „Competition in the NGO sector has risen“ receives an overall agreement but no significant variances among the different mean values of the budget classes. Highest mean values were received by NGOs with budgets over 1 Million USD whereas lower budgets received lower means.

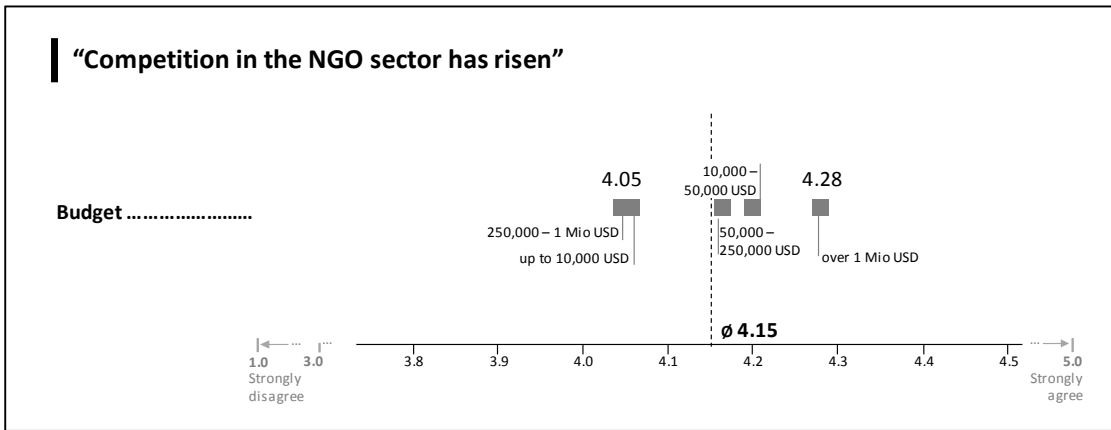


Figure 5:

Competition among NGOs
Source: own data (N = 1.193).

Suppliers of resources

The statement „The rising demand for accountability and performance measurement changes the NGO sector“ achieved highest mean values and significant variances among highest and lowest budget classes. NGOs with budgets over 1 million USD ranked accountability and performance measurements significantly higher than NGOs with smallest budgets of 10.000 USD and less.

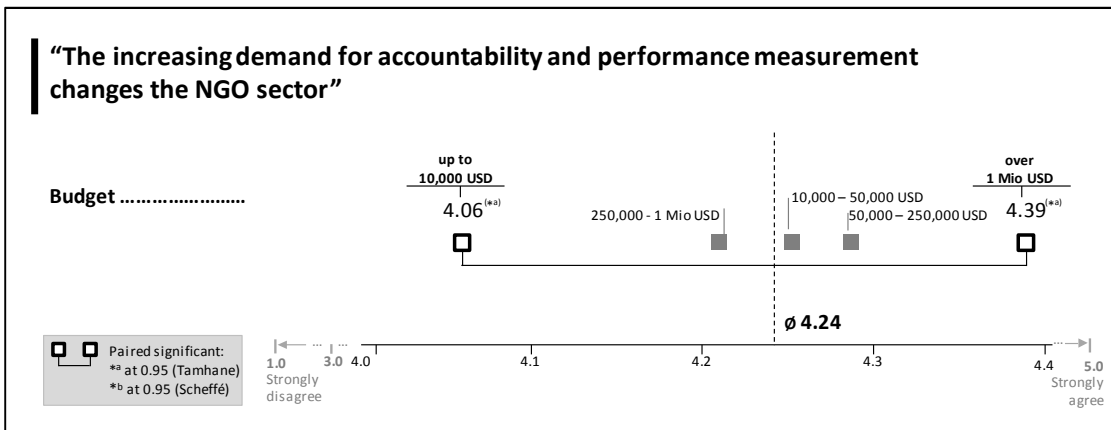


Figure 6: Rising demand for accountability in the NGO-Sector
Source: own data (N = 1.163).

Strategic reactions

All statements to strategic responses achieved mean values of 3,0 and higher. It can thus be interpreted that all statements were agreed upon and valued as important. Respondents valued co-operations with private companies as least important (3,79), followed by co-operations with NGOs (4,01), sharing resources with NGOs (4,08) and building up of specific knowledge (4,39). PR and Fundraising achieved the highest overall means (4,47). Also for the strategic aspects, budget classes were considered and specific mean values were calculated.

Co-operations with private companies

The statement “Co-operations with private sector companies have become increasingly important” received lowest mean values and no significant variance. However, all NGOs with a budget smaller than 250.000 USD showed higher means than NGOs with budgets above this budget class.

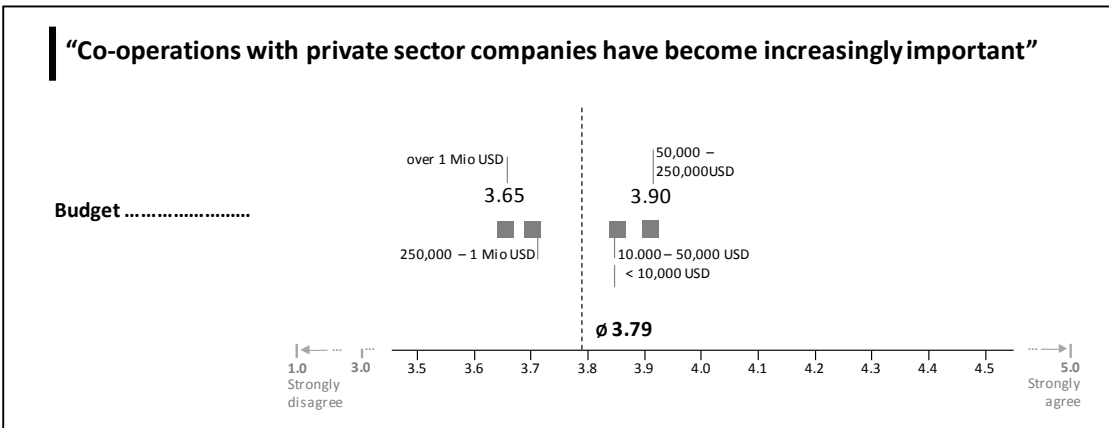


Figure 7: Co-operations with the private sector
Source: own data (N = 1.180).

Co-operations among NGOs

The statement "Long-term co-operations of more than 3 years with other NGOs have become increasingly important" was clearly agreed upon according to the overall mean value. Specifically, means of different budget classes showed significant differences. Smaller NGOs with budgets lower than 250.000 USD valued co-operations with NGOs significantly higher than NGOs with budgets over 1 million USD.

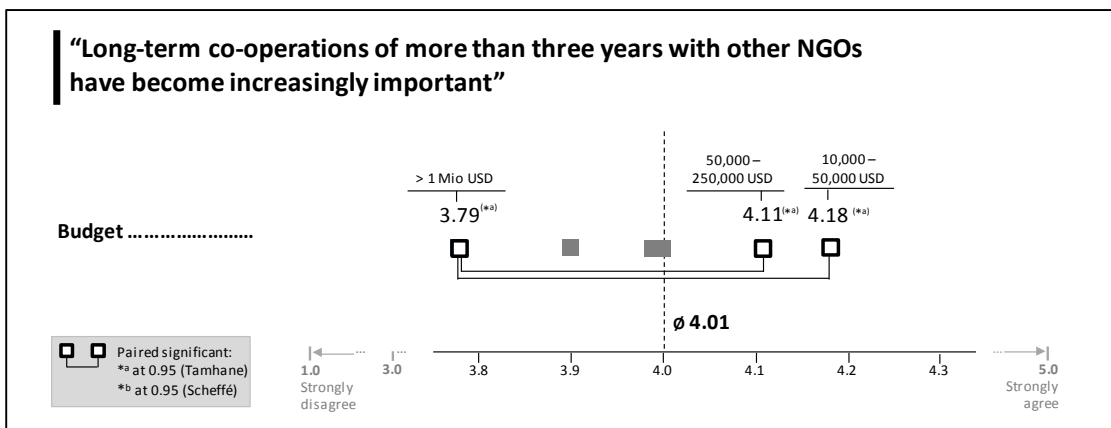


Figure 8:

Importance of long-term co-operations
Source: own data (N = 1.163).

Sharing resources

A similar observation occurred with the statement "Pooling resources and sharing facilities with other NGOs have become increasingly important". Whereas the overall mean suggests a general agreement, specific means of NGOs with budgets under 250.000 USD showed higher means of approval than organizations with budgets higher than 1 million USD.

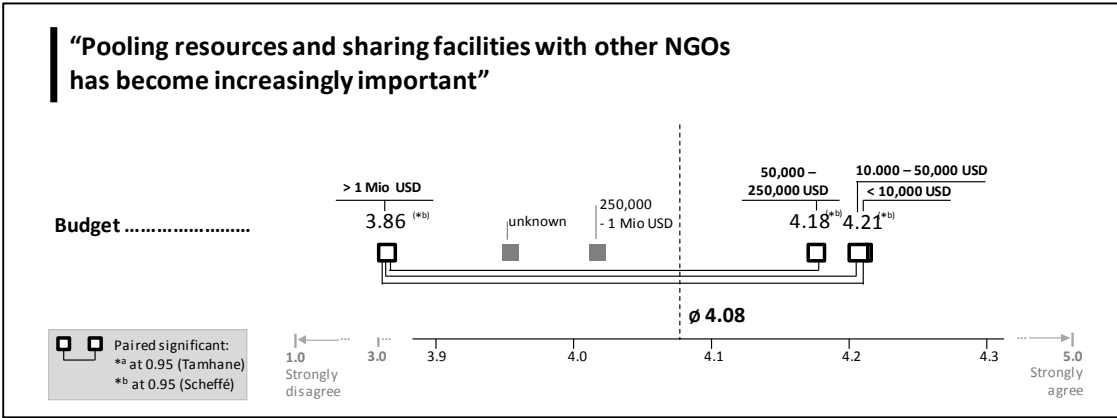


Figure 9: Importance of sharing (pooling) resources
Source: own data (N = 1.198).

Specialized knowledge

The statement „An NGO has to have thorough knowledge to maintain its uniqueness within the sector“ achieved clear approval by the responding NGOs. Specific means of NGOs with budgets lower than 10.000 USD show a significantly lower mean than NGOs with highest budgets of 1 million USD and more.

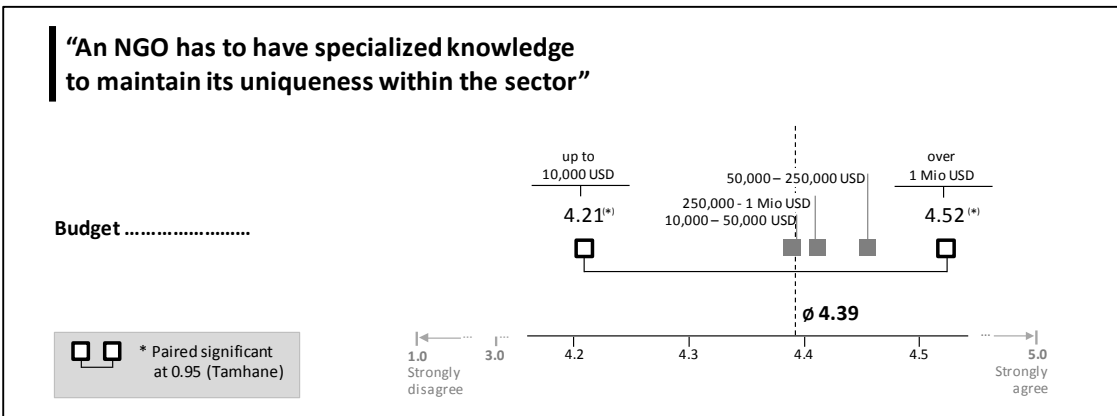


Figure 10: Importance of specialized knowledge
Source: own data (N = 1.197).

PR and Fundraising

The statement „PR and fundraising have become a necessity for an NGO“ showed the highest overall mean value and shows significant differences in the means values of specific budget classes. Repeatedly, NGOs with budgets lower than 10.000 USD show a significantly lower mean value than NGOs with highest budgets of 1 million USD and more.

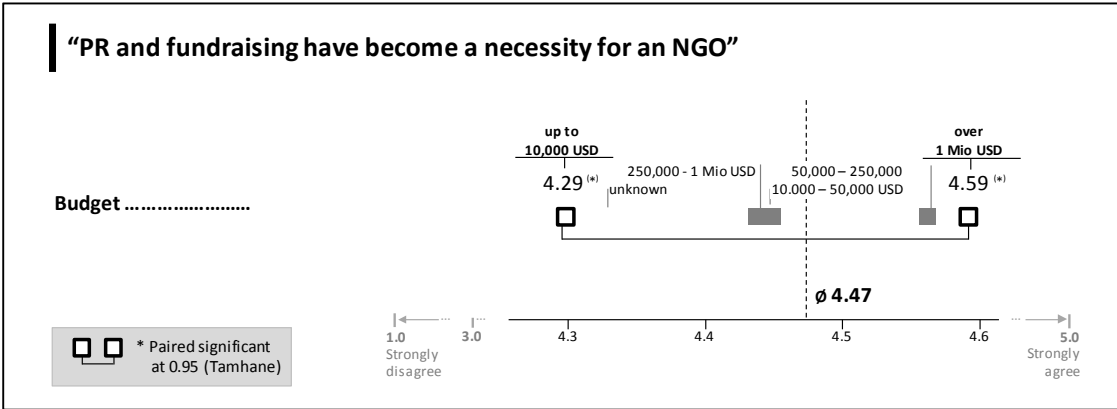


Figure 11: Importance of fundraising
Source: own data (N = 1.205).

V. DISCUSSION

The objective of this paper was (1) to understand and quantify competition in the NGO sector, (2) to explore how NGOs react strategically to the challenges of competition and (3) to explore differences in groups in relation to budget size. The results lead to the following discussions.

Competition and affected segments

The findings suggest that there is a rising competitive environment within the NGO sector. Specific statements to competition that were based on the Five Forces typology of Porter (1980) were empirically tested and generally agreed upon by participating NGOs. The mean values among various budget classes seem to show different priorities and perceptions in the lower and upper budget classes. Regarding competition factors, the contrast of the means of the lowest and highest budget classes are illustrated in figure 12. It can therefore be summarized:

- In regard to competition factors, small NGOs (with budgets under 250.000 USD and especially under 10.000 USD) find themselves strongly influenced by the general economic development and resulting income reductions, through the increased bargaining power of donors and large foundations, as well as through social entrepreneurship.
- Large NGOs (with budgets higher than 250.000 USD and especially over 1 million USD) perceive an increased competition in the NGO sector and pressure for accountability.

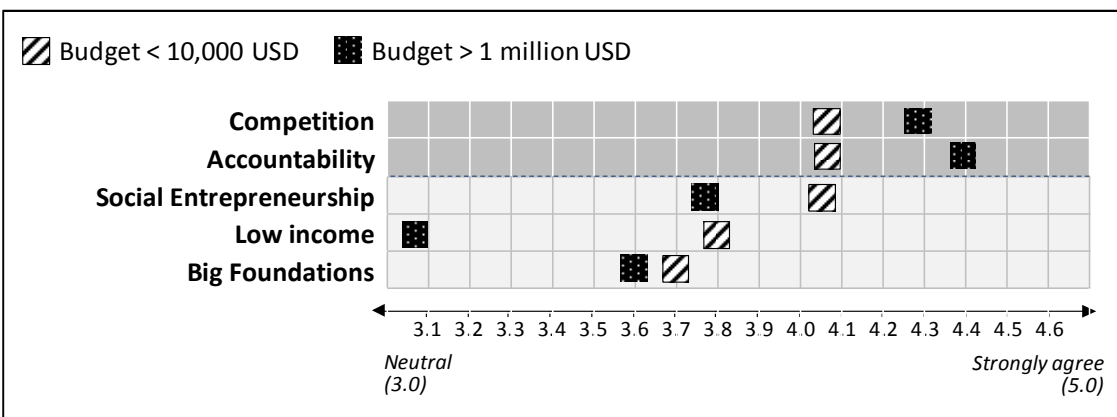


Figure 12: Competitive trends by smallest and biggest NGOs
Source: own data (N = 1.160-1.211).

Strategic reactions

In regard to strategic approaches NGOs agreed upon the proposed examples in general. Strategies, such as the development of a specialized knowledge and of fundraising get the highest ratings in this cluster. Again, different priorities are shown in the lower and upper budget classes through specific mean values. Regarding strategic reactions, the mean values in the lowest and upper budget classes are illustrated in figure 13. It can be summarized:

- Small NGOs (with a budget under 250.000 USD and especially under 10.000 USD) prioritized measures of co-operation between NGOs and companies, as well as the sharing of resources.
- Large NGOs (with budgets higher over 250.000 USD and especially over 1 million USD) first put specializing their skills and by securing new sources of funding.

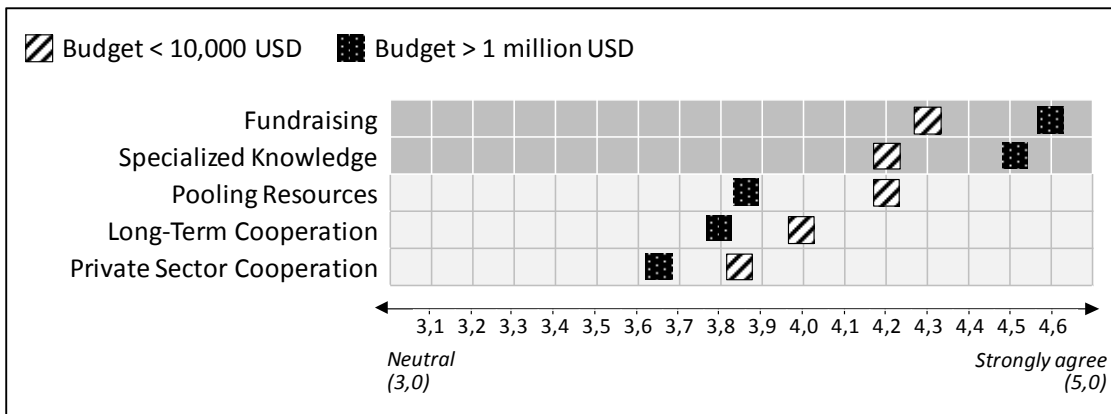


Figure 13: Strategic reactions by smallest and biggest NGOs

Source: own data (N = 1.160-1.211).

Strategic implications to NGOs

The presented findings (Figure 13) should help NGOs to better adapt their strategy in a context of increasing competition. Large NGOs seem to prioritize fundraising measures and their positioning (uniqueness). In comparison to small NGOs seem to see higher importance in sharing resources, co-operations with other NGOs and co-operations with the sector. According to the size of the NGOs the following strategic implications could be identified:

- To enhance their competitive position, small NGOs are advised to enhance their potential in concentrating on their specific skills to create knowledge that is hard to imitate and to improve their fundraising measures.
- Large NGOs would find strategic potentials in the pooling of resources and through collaboration with other NGOs and private organizations.

VI. FUTURE RESEARCH

The objective of this paper is a first step to set an empirical foundation to understand the competitive situation in the NGO sector. We used the Industrial-School and Market Based view (MBV) as a theoretical model to understand competition. This approach can also be used to describe the profitability and attractiveness of a sector. We are aware, that the mission of NGOs is "non-profit". The mission can therefore depend on further factors. Nevertheless, we consider the MBV and Porter's model as highly useful to cover factors of competition in the NGO sector.

Porter's five competition factors might not fully represent the competition in the NGO sector. Therefore other factors may still be found and developed. The surveyed statements might not fully correspond to the competition factors. They might also be too specific or too general to fully represent a dimension of competition. Additional statements might be developed to better assess competition in the NGO sector in general. The division of NGOs into groups, according to their budget size, represents only one of many possibilities to better understand competition and strategic reactions within the sector. Strategic groups could also be built around the general activity (advocacy or operational NGOs), the specific field of work, the main sources of funding the operating region or the origin of the NGOs (Schwenger, 2013).

This study is also a call to encourage further empirical research in the NGO sector. NGOs with associations to the United Nations can serve as a valuable sample because they differ from a wide range of sizes, origins and fields of work. It seems equally plausible to narrow down the sample and choose NGOs that contain more equal characteristics. Several member associations could offer a suitable sample for a more specific research, such as the "International Council of Voluntary Agencies (ICVA)" or "Interaction".

It is planned to repeat the survey with the objective to measure further dimensions of competition and to find out if competition tendencies have grown in general. The survey is planned to be held as a closed survey with accredited NGOs at the United Nations in November 2013.

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