

THE INFLUENCE OF THE MAIN FINANCIAL RESOURCES OF NON-PROFIT SPORT ORGANISATIONS ON THEIR STRATEGY

<https://doi.org/10.5817/CZ.MUNI.P210-9631-2020-32>

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ABSTRACT

Non-profit organisations play a critical role in many societies because they fulfill the needs in areas that are not covered by the public or private sector. The primary purpose of all non-profit organisations is not generating income and, in most cases, the income from their own activities is not enough to survive. Therefore, they are forced to look for additional ways of funding and are dependent on them. These types of financial resources can be divided into two main groups – internal and external resources. Income from own activities and membership fees can be an example of internal resources. Subsidies from the state or municipalities, sponsorship money, and donations are part of organisations' external resources. The main aim of this paper is to reveal the influence of different types of financial resources of non-profit sport organisations on their strategy. The article applies general findings for non-profit organisations from the paper of Stone, Bigelov, and Crittenden (1999) on "*Research on strategic management in non-profit organisations*" on the organisations from the sport area. Funding and financial resources may influence the components of a strategic process: formulation, content, and implementation. This paper focuses on the extent in which funding and financial resources affect the organisation's strategic management and describes the influence of different types of financial resources on non-profit sport organisations' strategy by reviewing a range of studies on the strategic process and funding of non-profit organizations that are applicable in sports. The article summarizes different findings and issues that have been described and published in the pre-reviewed academic journals with no restriction on the date of the issue.

Keywords: non-profit sport organisations; strategic management; funding

Introduction

According to Maier, Meyer & Steinbereithner (2016), non-profit organisations have experienced notable changes from the 1980s onwards, rendering them more similar to profit-making firms. But still, there are typical features related to non-profit sport clubs, e.g. voluntariness of membership, democracy, autonomy, volunteer work, the common interest of their members, identity of member roles, non-profit orientation, autonomous revenues, and the principle of solidarity (Horch, 1994). Maximizing profit is not the primary goal of these organisations, even though they can make profit, but in accordance with the non-distribution constraint, they are not allowed to distribute the profit

among the members. Members of non-profit sport organisations need to perform many potentially conflicting roles. They are decision-makers, producers, consumers, and at the same time, financiers of the organisation's sport supply.

Nowadays, there are several challenges that non-profit sport clubs have to face and meet in order to survive, such as decreasing subsidies, increasing energy costs, and demographic change (Wicker & Breuer, 2011). These challenges may affect the structure and the behaviour of the sport clubs.

Non-profit sport clubs are an essential part of sport environment and accomplish tasks that would be otherwise performed by the state. They provide sport opportunities for the population, form the base of the voluntary sports systems, have an integrative function, spread democracy, and have a significant health function. These organisations contribute to social purposes and therefore, they are eligible to be supported by the state through public subsidies. These public subsidies are an important external financial source for non-profit organisations. Next to the public subsidies also sponsorship money is common external source of income for non-profit sector. There are also internal sources of funding, such as membership fees and commercial income from organisation's own activities. According to Wicker & Breuer (2011), members with their membership and admission fees are the main source for these organisations. Financial resources are essential for organisations to survive and are the second scarcest resource for non-profit sport organisations, following human resource shortage being the most significant problem.

Non-profit organisations can face their problems through developing a workable strategy that is indispensable for organisation's success. The strategy must fit the organisation's environment. It is usually the task for managers of an organisation who need to understand the situation in which sport organisation operate before undertaking the process of strategy formulation (Thibault, Slack & Hinings, 1993). No universal set of strategic choices exists that is optimal for all organisations (Slack & Hinings, 1994). And no single 'blueprint' strategy can be productively adopted by all organisations, even if they operate in the same sector. (Berrett & Slack, 2001). Therefore a process of continuous planning, monitoring, analysis, and assessment is necessary for an organization to meet its goals and objectives – all that called strategic management – to be a successful organisation. According to the review of Stone et al. (1999), strategic management has three main components: strategy formulation, content, and implementation. In the process of strategy formulation, the organization's mission, philosophy, and goals are assessed or reassessed, and the organisation's goals and objectives consistent with its mission and philosophy are developed (Shortell, Morrison & Robbins, 1985). Strategy implementation can be described as the realization of the selected strategy and what the firm does (Håkonsson, Burton, Obel, & Lauridsen, 2012).

The aim of this article is to reveal the influence of different types of financial resources of non-profit sport organisations on their strategy. The article applies general findings for non-profit organisations from the paper of Stone, Bigelov and Crittenden (1999) on "*Research on strategic management in non-profit organisations*" on the organisations from sport area. Funding and financial resources may influence the stages of a strategic process: formulation, content, and implementation. Financial resources can be determinants influencing these three stages, and they can affect the organisation's outcomes and performance.

Methods

This article is based on the findings of Stone et al. (1999) and their paper *Research on strategic management in non-profit organisations*". The results from the area of non-profit sector were applied to a specific sector - non-profit sport sector - and supported by the findings of another studies. The studies are mostly from pre-reviewed articles with no limitation on the date of issue.

Results

Stone et al. (1999), in their paper, described three components of strategic management and developed a framework to organize the discussion of the findings. The framework includes three broad dimensions: determinants, outcomes, and performance. Determinants of strategy consist of organisational and environmental factors. Outcomes include both internal changes and external relationships. The third dimension – performance – is a critical variable within the field of strategic management and was also added because nonprofits are facing increasing pressures to specify performance indicators.

Funding influences strategic management in the components of strategy formulation and strategy content, and acts as a determinant or affects the organisation's outcomes. The authors do not mention any influence of funding in the implementation stage and effects on performance.

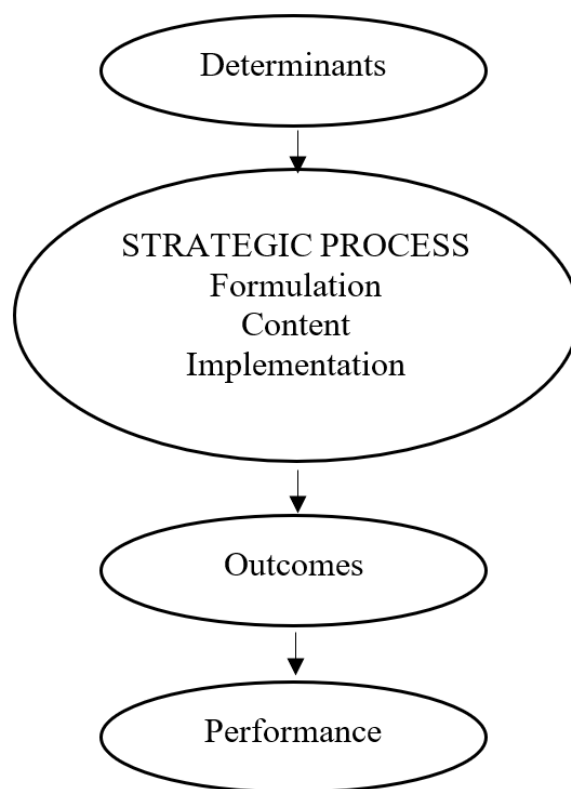


Figure 1 Organizing framework (Stone et al., 1999)

Strategy formulation

External funding is one of the determinants affecting strategy formulation and also can influence organisation's outcomes.

Many non-profit organisations do not use strategic planning at all (Crittenden, Crittenden & Hung, 1988). They are more likely to rely on a variety of planning methods, such as operational planning, the use of some elements of long-range planning, and informal planning. For those organisations that do adopt a strategic planning, there are certain determinants affecting the planning process. From the area of organisation's funding, the determinant is a funding source's requirements. Funding source requirements to submit a plan of action is the most critical external factor influencing the use of formal planning. This fact can result in the conclusion that non-profit organisations plan when

they have to plan. The specific and direct demands from funders to plan are even more important stimuli than a general characteristic of environments (Stone et al., 1999). What also makes non-profit organisations plan is the funding source diversity. Non-profit organisations with more diversified funding streams are more likely to plan (Hwang & Bromley, 2015).

According to Vos et al. (2011), sport clubs with a high share of revenues from government subsidies are more likely to adopt subsidy conditions regarding the staff qualification, including volunteers. Clubs also incline to submit their strategic plans when applying for subsidies, because the subsidies are linked to conditions of their use (Coates et al., 2014). The process of creating a public subsidy application may overreach the capabilities, qualifications, and time possibilities of volunteers. Nevertheless, the overall institutional pressure on sport clubs and expectations associated with public funding was found to be relatively low (Vos et al., 2011). In addition to this, the advantage of public subsidies is their stability, when there is no change in government and funding decisions. Also, this kind of funding is less volatile than other external revenue sources like donations (Gronbjerg, 1991). In addition to this, subsidies increase total revenues and help clubs to provide and maintain services and perhaps survive (Wicker, Longley & Breuer, 2013).

Funders influence also outcomes of the non-profit organisations. Managers of these organisations perceive an obligation of planning (or at least present a written document) to be taken seriously by most funders (Crittenden et al., 1988). These funder requirements can interfere with organisation's autonomy and result in diversion from their original mission and goals in a way that the plans reflect current or perceived funder priorities (Stone, 1989).

The dependence on external resource provider can exert their power over the non-profit organisations (Coates et al., 2014). According to Berrett and Slack (2001), part of each sport's agenda should be to reduce the dependence on government funding and to broaden the resource base – it means to diversify the resources and find the new creative.

On the other hand, external funding is for a lot of non-profit sport organisations significant money source. Moreover, the organisations receiving public subsidies can be highly accepted in their community, because they are able to attract external money from recognized institutions. Next to the community acceptance, another benefit lies in the reality that “money attracts money” in the meaning that also other bodies can perceive such organisations as fundable. Contrary, public funding may crowd out private contributions to non-profit organisations (Coates et al., 2014)

Strategy content

The structure of funding sources provides a critical context within which non-profit organisations' decision-making takes place (Gronbjerg, 1991). It means, for example, marketing-oriented strategies differ based on the type of funder – strategies used for generating individual donor revenues differentiate substantially from strategies used to manage the complexities of government funding. The uncertainty of funding flows also influences the strategy of non-profit organisations. Organisations having significant income from their own activities tend to be less successful in reducing uncertainty than those being funded from external sources (both private and public).

Relying strongly on external revenues increases the probability of financial problems because the changes in external revenues are less foreseeable than internal revenues and out of the clubs' control. They are all-or-nothing. It means the club can be successful in receiving a public subsidy or sponsorship money or nothing at all (Coates et al., 2001). Non-profit sport organisations that try to attract sponsors must become more responsive to the needs of the corporations and need to gain a greater understanding of the reasons why corporations become involved in sponsorship (Berrett & Slack, 2001). What attracts sponsors the most, is the media exposure of the organisation's teams (or events) or the number of participants within the sport, who come into contact with events or programs run under the auspices of the organisation. Sponsors perceive direct access to participants as very important. (Berrett & Slack, 2001).

In addition to this, it has been proved that sponsorship money leads to both greater financial problems and greater volunteer problems. Sponsorship money is more sensitive to changes in the economy than are subsidies (Coates et al., 2014). The sport organisations with the predominant percentage of private funding emphasise achieving top sport results more than the development of the local environment and other local community aims. They also prefer cost reduction to the growth aims, focus on fast results, and are ready to take a higher degree of risk (Ivašković & Čater, 2018).

General turbulence in resource environments and the structure of the funding environments lead to both competitive and cooperative strategies, which can be both used by organisations. These two strategies are not mutually exclusive. Competitive strategies are used in the situations of the organisation's aim to gain new revenue streams through the use of commercial income or fees. These strategies are more likely to raise concerns regarding mission or goal displacement and are associated with serving fewer poor clients and drop-in employee morale. In cooperative strategies, central organisations are linked to others to seek common funding flows or client referrals, and are more linked to increasing power or centrality in resource or client flow networks, coalition formation, and financial stability. This type of strategy includes mergers that are associated with problems between organisations with different cultures (Stone et al., 1999). Also, the structure of specific funding environments leads to both cooperative and competitive strategies (Gronbjerg, 1991).

Conclusion

According to Stone et al. (1999), there are three components in the strategic management process: strategy formulation, strategy content, and strategy implementation. The authors use determinants, outcomes, and performance to create a framework for discussion. The authors describe all three components, and by using the framework, explain the findings.

The aim of this article is to reveal the influence of different types of financial resources of non-profit sport organisations on their strategy by using the framework of Stone et al. (1999). It was found that issues related to funding affect non-profit organisation's strategy formulation and strategy content. There are a lot of organisations that do not use strategic planning at all. Those, who adopt strategic planning, usually plan when they have to plan. They are often required by funders to submit a plan as a part of the subsidy application process. Although completing the application can overreach the capacity of volunteers, public subsidies are an important source of funding that is relatively stable. Non-profit sport organisations trying to attract sponsorship money must understand the drivers of sponsors to be active in sponsorship and must be responsive to their needs. The threat of external funding is the possibility of losing autonomy because external bodies can exert their power into non-profit sport organisations. The uncertainty of funding flows, and the type of funder also affects organisation's strategy. General turbulence in resource environments and the structure of the funding environments lead to both competitive and cooperative strategies, which can be both used in the organisations.

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