COMPETITION OF THIRD SECTOR ORGANIZATIONS IN THE PURSUIT OF SUSTAINABILITY WITHIN THE TURKISH CONTEXT

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ABSTRACT

Third sector organizations - not-for-profits, civil society, charity, foundations, associations, trusts, cooperatives, social enterprises and unions - are now considered among few of the dynamics that can bring social transformation required. The role they play in the economics, politics and social manners attract interests of academicians, bureaucrats and commercially active stakeholders. In that manner sustainability and scalability of those organizations becomes crucially important, that raises the question of competition and competitive advantage issues of strategic management. In this paper, Turkish context of third sector organizations is discussed according to the Porter’s Five Force Analysis in an aim to picture the situation and stress the importance of niche/differentiation strategies in a collaboratively competitive manner.

Keywords: Competition, Competitive Advantage, Third Sector, Not-for-Profit, Organization
1. Introduction

In the business life and in the academic world, competition unintentionally and naturally seems to be held in reserve for the for-profit organizations. Competitive advantage through cost leadership, differentiation and/or niche feed the assumption about inseparable connection between competition and profit maximization motive. On the other hand, the rise of third sector and their problems in terms of sustainability and scalability raise the inevitable questions regarding competition and competitive advantage.

At a first glance, third sector organizations as defined by Oxford Dictionary “The part of an economy or society comprising non-governmental and non-profit-making organizations or associations, including charities, voluntary and community groups, cooperatives, social enterprises etc.” (http://www.oxforddictionaries.com/definition/english/third-sector) seem to operate in an independent state with a blessed motive of contributing to society in an altruistic way. Not until recently, “nonprofit” adjective for “not-for-profit organizations” has been changed which was perceived to imply the profit is something to be avoided for those types of organizations. Therefore, the reason for the understated role of competition for third sector becomes explicable.

However, the major complaint of NGOs, social enterprises and other third sector organizations pinpoint the scalability and sustainability issues specifically in regard to financial and human resources. Profit generating dimension and competencies of the human resources, therefore, become crucial for the socially transforming visionary organizations that bring out the role of competitive advantage and performance issues.

In this paper, the viability and necessity of competition –through competitive advantage creation- for third sector organizations are discussed with Porter’s five force analyses to portray a holistic picture. It aims to contribute a current portrait and future implications for social purpose driven strategies. In the first part, third sector organizations’ features are discussed. In the second part, Porter’s five force analyses and its implications are presented. In the next part, the proposition for the third sector five analyses is provided followed by the concluding remarks.

2. Third Sector Organizations

Third sector organizations are among the dynamics of social capital created by the nations. In its purest sense, third sector organizations can be considered as a panacea for the problems and/or issues of the society where public offerings fail to respond.

Formation of the groups can be as old as humanity, yet the terminology itself and acceptance of those structures date back to 1945 United Nations establishment and declaration with further efforts of 19th century activist against slavery, war criminals and women rights. As Fyfe (2005) notes “… the restructuring of a Fordist welfare state into a post-Fordist workfare state has involved the localization of responsibility for welfare and an increasingly important role for voluntary, non-profit organizations”(p:537) Therefore it can be argued that, not-for-profit (to lessen the capitalistic effect) and also not public (to increase the efficiency and benchmark the private one) associations “located between market and state to economic development and social cohesion” (Jessop, 2002, p.463) were emerged out of the need ‘‘a place where politics can be democratized, active citizenship strengthened, the public sphere reinvigorated and welfare programs suited to pluralist needs designed and delivered” (Brown et al 2000:57).
Third sector organizations are uncomplicated formations that base on social driven purpose and not-for-individual profit approach, mostly volunteer in nature, with common shared values and a formal representation (company, association, foundation, social enterprise, tax-exempt firms, charities, unions and cooperatives) on the grounds of permanent and significant structures. Grønbjerg (2001) in the literature survey of third sector identifies distinctive principles such as being a socially driven, sensitive and close to stakeholders, private patronage and independence, and volunteerism.

Third sector - also called voluntary sector, social economy, not-for-profit private sector-is named after the basic distinction of private sector and public sector in two and because it represents similar and divergent features of both sectors, it is referred as an alternative form of “Third” one (Lohmann, 1992).

In terms of their “raison d’être”, social concerns supreme in third sector organizations as it is for public sector. Differently, third sector organizations are not constrained with social missions, they also include economic concerns. Beneficiary of public sector - civilians at large- is framed in third sector to the clusters of the funders and members of the organization. It can be said that, beneficiary of private sector that recognize consumer power shifts to internal customer in third sector. (Brandsen and Pestoff, 2006)

In his work “Hybrid Organizations and the Third Sector” Billis (2010) defines the Weberian ideal type of third sector as “ideal type of the third sector is best typified by the association. In this model people establish a formal organization in order to resolve their own or other people’s problems. These members, through a process of private elections, elect committees and officers to guide the work of the organization. The organization may need additional volunteer labor to forward its policies. Other resources may also be sought and these are typically membership dues, donations and legacies. Work is driven neither by the need to make a profit nor by public policies but primarily by the association’s own agenda” (p: 54).

Billis (2010) also proposes the table below to depict principles of private, public and third sector according to the core elements and features of ownership, governance, operational priorities and resources (human and other distinctive resources):

<table>
<thead>
<tr>
<th>CORE ELEMENTS</th>
<th>PRIVATE SECTOR</th>
<th>PUBLIC SECTOR</th>
<th>THIRD SECTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>Shareholders</td>
<td>Citizens</td>
<td>Members</td>
</tr>
<tr>
<td>Governance</td>
<td>Share ownership</td>
<td>Public elections</td>
<td>Private elections</td>
</tr>
<tr>
<td>Operational</td>
<td>Market forces and</td>
<td>Public service and</td>
<td>Commitment</td>
</tr>
<tr>
<td>Priorities</td>
<td>individual choices</td>
<td>collective choice</td>
<td>about distinctive</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Paid employees in</td>
<td>Paid public</td>
<td>Members and</td>
</tr>
<tr>
<td></td>
<td>manager controlled FIRM</td>
<td>servants in legally</td>
<td>volunteers in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>backed BUREAU</td>
<td>ASSOCIATION</td>
</tr>
<tr>
<td>Other Resources</td>
<td>Sales, Fees</td>
<td>Taxes</td>
<td>Dues, donations, legacies</td>
</tr>
</tbody>
</table>

Source: Billis D. (2010), “Hybrid Organizations and the Third Sector” (pp 55-56)
The umbrella of third sector covers many different forms of organization such as charities, foundations, associations, social enterprises, and cooperatives. In the report of “Mapping the Third Sector: A context for social leadership” Hopkins (2010) groups third sector organizations into eight clusters according to their legal and functional structures: (1) Charitable foundations, (2) Civil society, (3) Community Organizations, (4) Co-operatives, (5) General charity, (6) Non-governmental Organizations, (7) Not for Profit Organizations, (8) Social Enterprises.

In addition, most common reference groups within the literature can be summarized in Figure 2 that shows an alternative clustering for third sector organizations.

**Figure 2: Organizations under the Third Sector Umbrella**

3. Competitiveness Perception in Third Sector Organizations

Competitiveness is the infrastructure that portrays an industry which led opportunities for competitive advantage and strategic forces to organizations. Competitive advantage represents a positive gap in relation to competitors within a competitive arena.

According to Porter (1985) “Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation” (p.3). Barney (2002) further argues that “a firm experiences competitive advantages when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions” (p.9).
Competitive advantage is the cornerstone of the economic return and value creation at the organizational level that aims to obtain full market potential, scalable and sustainable performance as well as customer value. Specifically in the case of scalability and sustainability, Porter (1990) stresses the importance of hierarchy of sources – how to rank resources with a clear perception of scarcity for most durable and least imitable output- as well as constant improvement and scaling in an innovative manner to gain first mover advantage.

Within the strategy related literature, competitive advantage and competitiveness seem to be devoted mainly to the underlining motive of economic value creation and profit maximization. For for-profit organizations (mostly private sector and partially public sector) competition is considered to be necessary and beneficiary for all parties in the economy as it yields customer gain (by lowering price and increasing quality), organizational efficiency (by restricting resources in a most efficient and effective way) and ultimately welfare of the countries’ economies. Third sector organizations – due to not-for-profit emphasis- are neglected in that sense for a quite a long time, but just recently they start to question strategically.

In their work for Stanford Social Innovation Review - Defining Your Competitive Advantage- West and Posner (2013) state the fact of understated perception of competitive advantage within third sector organizations. According to authors “It’s unfortunate that social change organizations tend not to think about competitive advantage as it relates to social impact and growth; far too many nonprofit organizations view competition as something reserved for the for-profit world. Many think their competitive advantage is simply a rephrasing of their mission statement (i.e. our advantage is that we serve those in need). But the fact is that all organizations are competing for something—whether it’s market share or more attention from clients or donors” (West and Postner, 2013)

The competitiveness issue becomes more and more important within the problematic context of third sector organizations. In the report of “Mapping the Third Sector: A context for social leadership” Hopkins (2010) depicts the source of problems that third sector organizations face and claims that the major trouble is deficit and insecurity of funding. Stagnant economies, increase in number of similar organizations, lack of having a social impact measures to judge the effectiveness of social works are among the reasons that corporations’ and citizens’ donations don’t adequate anymore funding needs of third sector organization.

On the other hand, third sector organizations – aware of financial constraints- try to be less dependent on external funding (grants and donations) and more prone to produce with their inner forces with commercial activities (fees and contracts) (Dees, 1989). As Salamon et al. (2004) demonstrates third sector organizations are shifting to rely on fees rather than grants and donations:

**Figure 3: Sources of Revenue of Third Sector Organizations**

<table>
<thead>
<tr>
<th>Country</th>
<th>% Fees</th>
<th>% Government</th>
<th>% Philanthropy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>85%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>62%</td>
<td>29%</td>
<td>9%</td>
</tr>
<tr>
<td>U.S.</td>
<td>57%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Japan</td>
<td>52%</td>
<td>45%</td>
<td>3%</td>
</tr>
<tr>
<td>France</td>
<td>35%</td>
<td>58%</td>
<td>8%</td>
</tr>
<tr>
<td>U.K.</td>
<td>45%</td>
<td>47%</td>
<td>9%</td>
</tr>
<tr>
<td>South Africa</td>
<td>32%</td>
<td>44%</td>
<td>24%</td>
</tr>
<tr>
<td>34-Country Average</td>
<td>53%</td>
<td>34%</td>
<td>12%</td>
</tr>
<tr>
<td>34-Country Standard Deviation</td>
<td>18%</td>
<td>20%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Salamon et al. (2004) p:549
In that context, social enterprises for instance gains significance and intents to set aside an example for other third sector organizations. According to Short et al (2009) “Conceptual development in social entrepreneurship may provide a unique context for integrating strategy and entrepreneurship research by enhancing understanding of how organizations simultaneously create social value and achieve competitive advantages” (p.172)

Although, competition of third sector organizations are theoretically favored and supported, immature application of the concept in practical world receives some pessimistic thoughts. For instance, Mair et al (2006) argues that for activist-based social enterprises, it is inevitable to choose among stressing more on price and quality over social welfare or take sides of activist world with less commercial propositions based on the assumption of competition as of "knocking out the other" rather than “co-creating and collaboration within competition” (Szentes T., 2005). At that point larger framework of competitiveness can be used at industry level with Porter’s Five Force Analysis.

4. Porter’s Five Force Analysis and Third Sector

Harvard Professor Michael Porter, in 1980, has suggested to investigate industry related elements that shape the competition and since then it becomes one of the most know strategic tool of assessment called “Five Force Analysis”. According to Porter, competitive advantage can be the eventual outcome of positioning in the industry. Porter (1985) asserts that "the ultimate aim of competitive strategy is to cope with and, ideally, to change those rules in the firm's behavior and competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness." (p. 4).

As it names implies, there are five industry elements to seize up namely,

1. Intensity of Rivalry,
2. Threat of New Entrants
3. Bargaining Power of Suppliers
4. Bargaining Power of Buyers and
5. Threat of Substitutes as shown in Figure 4.
Source: Porter, 1985, p.6

**Intensity of Rivalry** covers the magnitude and degree of being fierce among the existing competitors in respect to market size and potential of growth, product and related features, differentiation, cost structure, informational complexity.

**Threat of New Entrants** refers to the potentiality and easiness of new competitors in respect to government policy, economies of scale, and capital requisites for investment, product/service features and brand identity. **Threat of Substitutes** is majorly determined through the existence of different product/service satisfying the same need as the industry offers and relative price/performance perception of users.

**Bargaining Power of Suppliers** and **Bargaining Power of Customers** are the flipside of the same coin indicating the relative determinants of price/cost issues in favor of one another. Factors shifting the bargaining margin include, but not limited to, abundance of service/product provider, differentiation and
lock-in of customer, cost relative to total budget (for organization in case of suppliers and for customers in case of buyer), supplier concentration, buyer volume, switching cost and options of forward integration for suppliers and backward integration for buyers.

In accordance to the paper’s aim, third sector organizations can also be assessed by using the Porter’s five force tool with reference to Turkish context the author is familiar with.

5. Third Sector Five Force Analysis in the context of Turkey

In Turkey, According to the data provided by TUSEV (2013) (Turkish Third Sector Foundation), “the number of active associations in 2011 was 89,495, while this number has reached 92,670 as of October 2012. Parallel to the increase in the number of associations, the number of association members has also increased. While the number of associations in 2011 had reached 89,495, the number of members rose to 8,852,907 in 2012. Considering the fact that Turkey’s 2011 population was 73 million, it is possible to claim that approximately 12% of the population is members of an association.” (p.10)

On the other hand, Charities Aid Foundation 2013 report on “world giving index” stress that Turkey ranks 128th out of 146 countries with total average score of 17 (where US rank 1 with score of 61). Respectively, 34% of Turkish population participates in helping a stranger, 13% of Turkish population participates in monetary donations but only 5% participates in volunteering (time donations). As shown in Figure 5:

![Figure 5: Turkey, World Giving Index 2013](image)

Source: CAF 2013 p: 30

In the light of brief frame of Turkish Third Sector, five force analyses can be presented as follow:

Intensity of Rivalry

The number of third sector organizations in Turkey -92,670 – according to TUSEV (2013) gives signal of non-concentrated and not crowded industrial set-up. Specific to the associations, Turkish Ministry of Internal Affairs, Department of Associations (2013) illustrates organizations by subject domain as in Figure 6:
The majority of organizations are in the domain of sport, religion, help-groups, and developmental issues in regard to co-operatives which can support the proposition of Bilodeau and Slivinski (1998) about third sector organizations ability to produce bundles of public goods as well as commercial ones when there is a specialization in subject domain. Therefore, in regard to magnitude of competition, Turkish third sector organizations are not fierce in respect to market size but when it comes to production and commercial outcomes the potential growth and market size alone can be considered significant. For instance according to Deloitte (2013) two major sport clubs related associations produce 44% of its total revenues from merchandise sales and sponsorship with an amount of €55.7million and €69.7million respectively. The competition through commercial activities is less common in religious, help groups and developmental organizations which are mostly dependent on public fees and donations that is in line with Salamon et al.’ findings about 23 countries. In their book “Global Civil Society; Dimensions of the Nonprofit Sector” as an outcome of their project of comparative nonprofit sector analysis of Johns Hopkins University, Salomon et al (1999) portray the country based situations of third sector data with respect to 23 countries in Europe and America. Europe revenue streams of third sector organizations’ average constitute 54.8% from public sources, whereas this figure drops in other developed countries (Japan, Australia and US) to 49.6%. Yet, from an industrial perspective, competition for public funds and public contracts with such a dependent concentration of revenue source calls for a fierce competition as well.

**Threat of New Entrants**

Threat of New Entrants for the third sector organizations in Turkey can be analyzed specifically in respect to governmental policies and capital and procedural requirements for the foundation. As Turkish Internal Affairs (2013) mentions it requires minimum of 7 real or legal entities with documentations of forms showing personal data, residency data, and signature of authorization will be sufficient for procedures. It requires to show headquarter / location with a consent letter taken from property owners. No specific capital requirement is demanded nor do procedural difficulties arise that lowers the entry barriers. On the other hand, survival rates and vital activity functions of associations function as a deterrent factor which can explain slowly increasing rate of number of associations in Turkey as shown in Figure 7:
Figure 7: Turkey, Number of Associations by Years (2002-2012)


From the perspective of foundations and social enterprises, entry barriers are quite higher than those of associations since for the foundations, according to Turkish Prime Ministry Directorate general of Foundations (2014) it requires a transfer of an asset as well as registry approved by official authorities with specific capital requirements. For social enterprises, as there is no specific and legal definition associated, nor there is a tax exempt that makes the establishment and survival as a financial liability. Figure 8 shows the number of foundations for 2009-2013 with a constant of slow increase tendency in Turkish context:

Figure 8: Turkey, Number of Foundations by Years (2002-2012)


Threat of Substitutes

Threat of Substitutes for third sector organizations can be discussed in respect to service and products offered by the state and public sectors. In the book “Beyond the Magic Bullet: NGO Performance and
Accountability in the Post-Cold War World” Michael Edwards and David Hume discuss that NGOs are in fact surfaced as a panacea for social problems where economic development failed in deliberate substitution for the services expected from public authorities. (Edwards and Hume, 1996) Therefore threat of substitute is quite low considering the limited source and capacity of governmental agencies in Turkish context. On the other hand, the substitutes of the “products offered as a fund-raising source of third sector organizations” are the products directly from private sector and for-profit organizations’ products or services that constitute a major threat in case of social enterprises. The same treat does not apply to foundations and association in Turkey since the product/service differentiation come from the purpose of the organization and causes they support by buying them rather than functionality and/or price advantage of the good.

Bargaining Power of Suppliers and Bargaining Power of Customers

Bargaining Power of Suppliers and Bargaining Power of Customers can be handled from the perspective of funds and grants provided for and from third sector organizations as well as unique selling proposition of these organizations to their public/private as well as consumer/corporate customers. For the grants or project funds, Turkish third sector organizations mostly rely on EU Funds, UN Grants, World-Bank Grants and Local Development Agencies. Competition at that level is not as fierce because of the magnitude of the grant which is of €55.521 billion for 2007-2013 solely from European Union 7th framework grant program.

From the perspective of suppliers, as the Chartered Institute of Purchasing and Supply (2008), in their report “Engaging with the third sector” claim “...matter that weighs against the third sector is the drive to standardize, simplify and reduce the supplier base in the interests of contract aggregation or procurement economies of scale.” (p.9) Supplier base that expands worldwide, therefore, lowers the bargaining power of suppliers in case of fee-based contracts but increases in case of fund-providers and sponsorship agreements.

On the other hand, from the perspective of customer grants and fund-raising activities the competition is severe due to the nature of the customer mix as depicted in Figure 9:

<table>
<thead>
<tr>
<th>Private</th>
<th>Consumer</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandising,</td>
<td>Merchandising,</td>
<td>Contracting</td>
</tr>
<tr>
<td>Personal Donations</td>
<td>Corporate Social Responsibility</td>
<td>Public-NGO relations</td>
</tr>
<tr>
<td>Volunteering</td>
<td>Sponsorship</td>
<td>Ex: Turkish Education Volunteers</td>
</tr>
<tr>
<td>Ex: Turkish Education Volunteers</td>
<td>Foundation (TEGV) collecting sponsorship from Company X in support of student scholarship.</td>
<td></td>
</tr>
<tr>
<td>Foundation (TEGV) selling post-cards</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public</th>
<th>Merchandising,</th>
<th>Contracting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Donations</td>
<td>Corporate Social Responsibility</td>
<td>Ex: Turkish Education Volunteers</td>
</tr>
<tr>
<td>Know-how</td>
<td>Sponsorship</td>
<td>Foundation (TEGV) obtaining grant for education awareness project to be conducted.</td>
</tr>
<tr>
<td>Ex: Turkish Education Volunteers</td>
<td>Foundation (TEGV) collecting sponsorship from Company X in support of student scholarship.</td>
<td></td>
</tr>
<tr>
<td>Foundation (TEGV) collecting donations from civil working in public.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own Draft
Due to the complex and fragile nature of customer relations and value-driven marketing efforts of third sector organizations, customers are in abundance of alternatives of the same value proposition (i.e. to provide fund to low-educated area of Turkey for girls education through sponsorship) As Rowat and Seabright (2006) claim, in case of donations, the cost relative to total budget of either consumer or corporate is deemed to be diversified from the equilibrium due to the excessive rivalry among NGOs in their reach to customers (donors).

6. Conclusion

In this paper, the snapshot of Turkish third sector competitive five force analysis is taken. Respectively, it can be argued that rivalry among existing organizations is quite intense, specifically in the case of fund raising activities of associations and grant programs for the foundations. Entry barrier for associations and social enterprises are not as high as it is for foundations considering the relative ease of formation both legally and financially. Yet, survival rates and sustainability issues arouse a glassed ceiling-barrier that can explain the slow increase in numbers of the organization through last decade in Turkey. Bargaining power of suppliers and customers are quite significant due to the scarcity of resources (financial and human resources in specifically) and abundance of substitutes. From the perspective of customers, substitutes in third sector can be regarded as a choice between the organizations or disintermediation of them. For instance, a volunteer who wants to work for the young girls’ education can choose among the related associations or can provide training sessions for those girls on her own. Similarly, customers who buy toys from a cancer support association can donate money to the hospital funds of oncology. In that manner, switching cost is also minimal for customers that can further increase their bargaining power in their favor against third sector organizations. Therefore, in total, the industrial competition structure of third sector organizations – with reference to Turkish context- requires modest-intense rivalry strategies.

Third sector organizations – associations, foundations, charities, social enterprises etc- are collaborative in nature due to their mission driven for the society at large. Pooling the resources and helping each other are mostly expected and seen pattern among those types of organizations. However, collaborative relations go competitive when resources (funds, qualified human resources/volunteers/customers...) scarce. In scarcity, for all sectors – public-private and third- survival and sustainability become the main consideration. In line to that, fund-raising issues of those organizations are now considered main challenge and commercial support functions are gaining more and more importance (Srinivas, 2006).

Within the literature, there is a high support for third sector organizations to build their competitive strategy based on niche or differentiation. (Bilodeau and Slivinski, 1998; Hakkarainen et al., 2002; Micklewright and Wright, 2003; Pepall et al., 2006) As Thornton (2006) states “product differentiation in the nonprofit context can be driven by several factors. Ideology, methodology, or targeted beneficiaries can differentiate an organization’s product or service.” (Cited by Aldashev et al., 2010 p. 51) In the same context, innovation is also proposed for the differentiation strategy to obtain competitive advantage within the third sector. (Powell, 2001) Furthermore, collaborative nature of third sector organizations and requirements of having competitiveness in their survival strategy for the sake of sustainability and/or scalability may call new strategies including co-creation and competition of collaboration.
References