

# DETERMINANTS OF THE STRATEGY FORMATION IN NON-PROFIT SPORT ORGANIZATIONS

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## **Abstract**

The area of non-profit sport organisations' strategy is insufficiently described in the existing literature and general rules or findings for the whole non-profit sector with necessary modifications can be therefore applied to these specific entities. The paper contains a review of studies on the strategy formation of the 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. The central focus is on identifying determinants and subjects that influence the strategy formation in non-profit sport organizations. These determinants are divided into four groups according to the research on strategic management of non-profit organisations (Stone, Bigelow, & Crittenden, 1999): 1) organisation size, 2) characteristics of board and management, 3) prior agreement on organisation goals, and 4) funder requirements to fund. Furthermore, the paper discusses implications for future research in this area.

**Keywords:** non-profit sport clubs, strategy, sport, strategic planning process

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## **Introduction**

Non-profit sport clubs play an important role as sport providers for the population in many countries. These clubs form the organisational base of third-sector systems in many national sport systems. Next to the provisions of their sport programmes they fulfil also other functions as getting youth off the street and integrating immigrants (Wicker & Breuer, 2011). They also create positive externalities, mostly the proliferation of sport values among youth, which is one of the keys to the development of a healthy and prosperous society (Ivašković & Čater, 2018). In addition, they accomplish tasks such as integration, promotion of democracy, sport supply, and health supply for the population that would otherwise be performed by the state. Because sport clubs contribute to these social purposes, they are eligible to receive public subsidies. (Wicker & Breuer, 2011).

Nowadays, non-profit sport clubs face challenges such as decreasing public subsidies, increasing energy costs, and demographic change (Wicker & Breuer, 2011). The identified challenges can influence on the structure and behaviour of sport clubs because clubs must meet the to survive (Wicker, Longley & Breuer, 2013). The challenges are also related to the clubs' resources. Sport clubs face problems with human resources - recruitment and retention of volunteers as the biggest ones. Financial resources are considered a midsize problem. Infrastructure resources problem is more significant than the financial – it concerns the condition of sport facilities (public sport facilities) (Wicker & Breuer, 2011).

The development of a workable strategy is one of the most important influences on organisation success. Success can be achieved in a situation when there is a suitable fit between the environment and the chosen strategy. Managers must understand the situation in which sport organizations 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 & Hinigins, 1994). No single 'blueprint' strategy can be productively adopted by all organisations, even if they operate in the same sector. (Berrett & Slack, 2001). Clubs with strategy policy have fewer organizational problems (Wicker & Breuer, 2012).

This article reviews the literature and reveals the main determinants influencing the strategy of non-profit sport clubs. These determinants were divided into main areas according to the study of Stone et al. (1999) and described in detail.

## **1 Determinants influencing strategy formation of non-profit sport organisations**

Stone et al. (1999) in their study of strategic management in non-profit organisations reveal the fact that many non-profit organisations have not adopted formal strategic planning and 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. But for those organisations that do adopt formal strategic planning, main determinants are 1) *organisation size*, 2) *characteristics of board and of management*, 3) *prior agreement on organisation goals*, and 4) *funder requirements to fund*.

## **1.1 Organisation size**

According to Stone et al. (1999) the larger non-profit organisations are more likely to plan than smaller ones, no matter the age of the organisation. The reasons for this are increased coordination needs, availability of more resources and staff time to devote to planning, more managerially sophisticated executive directors, and the requirements of specific funders. This finding is valid in a range of non-profit fields, such as social and human services, affiliates of national health and social welfare associations, performing arts groups, and churches. The field of sport is not named in this list and is not even specifically mentioned in the existing literature related non-profit sport organisation.

The size of an organisation could be expressed by its staff/volunteers, that are crucial for these types of organisation. The non-profit sport organizations often face problems with financial viability. Therefore, they are mostly not able to hire paid staff. This results in volunteer work at any level that characterizes the non-profit sport sector. However, human resources (volunteers) are the resource that is one of the scarcest for non-sport clubs and even financial resource problems may be less pressing than the need for volunteers. Financial resources and human resources (volunteers) represent the basic resources of non-profit organisations. Financial resources can be substituted by human resources only in a situation when a club have enough (qualified) volunteers available (and vice versa). This opportunity of substitution can be limited in some clubs (Coates et al., 2014). Clubs that believe it should only be run by volunteers report fewer problems with attracting and retaining volunteers. Recruitment and retention of volunteers are one of the most pressing problems for sport clubs across countries (Wicker & Breuer, 2011).

Clubs applying for public subsidies can experience problems deriving from the fact that this activity is overreaching volunteers' capabilities – it is too complex and time-consuming (Sharpe, 2006). This impacts the clubs in difficulty in recruiting and retaining volunteers.

## **1.2 Characteristics of boards and management**

Stone et al. (1999) claims that there are characteristics of boards and managers related to the use of formal planning, according to their focus and managerial skills. Boards focused on policy decisions and not daily administrative matters tend to use formal planning. The greater use of formal planning processes is associated with managerially sophisticated non-profit managers, but more or less surprisingly not associated with boards including business people.

Megheirkouni (2017) in his study explains the roles of leaders and managers in non-profit sport organisations. The difference between leaders and managers is their focus. Leaders

focus on the strategic big picture, while managers focus on details and procedures. Creative managers are able to modify or change the strategies effectively, such as internal and external competitions, funding, plans, etc., to serve general needs. An essential need for sport leaders in non-profit organisations is change. They must be capable to assist others to understand the importance of change and how it can be achieved with minimal disruption and maximum outcomes. Adopting change competency enables to meet the internal and external needs of a non-profit sector sport, that has become more competitive, and the desire of non-profit organisations to adopt the same strategies as the for-profit sector.

Managers and administrators of any organisation must be able to recognise the constraints, limitations, and opportunities present in the environment in which it operates. But in the long term, managers can influence their environments through strategic activities. It is therefore important that managers of these organisations consider the development and implementation of longer-term plans to enhance the favourable characteristics of their environment. (Berrett & Slack, 2001).

A more attacking and proactive leadership aims to improve and enlarge the scope of the organisation's operations, whereas those with a lower degree of proactivity try to prevent any changes and do not engage in new projects. Conservative leadership is characterized with cost reduction decision, but the top sport ambitious individuals incline more to growth strategies (Ivašković & Čater, 2018).

### **1.3 Prior agreement on organisation goals**

Stone et al. (1999) in his paper claims that prior internal agreement on goals and mission was necessary for formal planning. Non-profit organisations are often characterized by multiple and conflicting goals and may need to establish a base level of goal consensus before strategic planning can take place.

Non-profit clubs have different goals and the importance of external funding may differ among goals. There are three central goals for sport clubs referred to as competitive sport, mass sport, and sociability. Competitive sport usually requires higher financial expenses and is more dependent on external funding sources like government subsidies, sponsorship income, and other market income. Within the clubs competitive sport is already cross-subsidized in the sense that the revenues generated through (older) adults paying higher membership fees are partially transferred to competitive sport which is mainly practiced by youths and younger adults, but these older adults demand mass sport programs and not competitive sport (Coates et al., 2014).

#### **1.4 Funder requirements to fund**

The most critical external factor affecting the use of formal planning is a funding source requirement to submit a plan of action. This could be concluded in a fact that nonprofits plan when they have to plan. Specific and direct requirements from funders to plan, are greater stimuli than general characteristics of environments (Stone et al., 1999).

In non-profit sport organisations it is possible to distinguish between external funding and internal revenues. Generally, revenue volatility hinders the planning within non-profit organizations. For all non-profit organizations, financial viability is critical for success and is an important prerequisite if the organization is to fulfil its broader mission. An organisation's revenues must meet or exceed its expenses to survive in the long run. Otherwise the organisations are at risk of insolvency (Wicker et al., 2013).

##### **External funding**

External revenues are harder to project than internal revenues. They are all-or-nothing. It means the club can be successful to receive a public subsidy or sponsorship money or nothing at all. 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. The other problem of external funding is potentially losing autonomy. 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 ones.

On the other hand, external funding brings also significant positive effects. Organizations may be highly accepted in their community when they are able to attract external money from recognized institutions. Such organizations can be perceived by other funding bodies as fundable, which means that these organisations are then able to attract also other institutions. The benefits of these external revenues are improving social acceptance in the community and, as mentioned, crowd in more revenues, which leads also to a better financial situation. On the other hand, public funding can crowd out private contributions to non-profit organisations (Coates et al., 2014).

##### **Subsidies**

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. Nevertheless, the overall institutional pressure on sport clubs and expectations associated with public funding was found to be relatively low (Vos et al., 2011). The

government funding can also impact development plans of sport clubs. Clubs are required to submit their strategic plans when applying for subsidies, because the subsidies are increasingly linked to conditions on their use (Coates et al., 2014). Completing this kind of application might be beyond the ability of volunteers. Volunteers may be forced to implement policies or have specific qualifications, and from this perspective, it can be suggested that clubs may be better off endeavouring internal revenues than external revenues. On the other hand, when there are no changes in government and funding decisions, government subsidies are regarded as relatively stable income sources. 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 et al., 2013).

### **Sponsorship**

Organisations that heavily rely on sponsorship money must become more responsive to the needs of the corporations. These needs need to be coordinated with the desires of members, client groups, and government. Staff members and volunteers will not only have to develop their own strategies in this area, but they will also need to gain a greater understanding of the reasons why corporations become involved in sponsorship (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).

According to Berrett and Slack (2001), the ability to attract sponsors is affected by distinct environments of non-profit sport organisations. These environmental variables could intuitively include the media exposure of the sport, public profile of the sport domestically, the international popularity of the sport, a country's level of international success, and participation levels. Two factors were identified that influence the most organisations' sponsorship revenues. The first is the amount of television coverage of events controlled by the organisation. The amount of television exposure of organisations' teams or events generate high sponsorship revenues. The second factor is the number of participants within the sport, who came into contact with events or programs run under the auspices of the organisation. Sponsors perceive direct access to participants as very important. In the short term, it is difficult for the organisations to affect the participation level (or the number of members). They are limited by the availability of facilities, participation costs (membership fees), availability of coaches and officials on the grassroots level, lack of history and tradition and limited opportunities for competition.

Sport clubs 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).

### **Internal revenues**

Typical parts of internal revenues are membership fees and incomes from own activities.

#### **Membership fees**

Membership fees are more projectable by clubs for two reasons. First, membership fees are paid on a regular basis, usually once per year. As a result, the club can plan with these revenues at a certain time. Second, the revenues from membership fees are split into small pieces with each member paying a small proportion. Therefore, clubs have some idea of the overall amount of money generated through membership fees (Coates et al., 2014). Membership fees are also the resource that can decrease the club's revenues volatility thanks to a stable character (Wicker et al., 2013).

#### **Commercial income**

Several non-profit sport clubs have a strong service orientation and provide services for which they charge fees and, thus generate commercial income. They consider themselves more as a service provider and less as a club that serves the interest of its members. These clubs have less severe financial problems than clubs with less emphasis on service. Their service orientation focus is different from the original club character where the main idea is that members pool their resources to produce programs of interest to them all. Nevertheless, the service fees are an important income source and in contrast with subsidies, these fees do not increase volunteer problems (Coates et al., 2014).

### **Conclusion**

Non-profit sport organisations are important sport providers and play also other important roles in society. They form organisation base in plenty of national sport systems. As for every organisation, even for them is important to develop a workable strategy that will fit to the organisation's environment and reflect its situation. No single ideal strategy is suitable for all organisations.

Non-profit sport organisations need or are pressed to adapt their strategy according to different factors. The factors that most influence strategy of these organisations can be divided

into four groups: 1) organisation size, 2) characteristics of board and of management, 3) prior agreement on organisation goals, and 4) funder requirements to fund.

Large non-profit organisations tend to plan more than smaller ones, because of the greater need of coordination and resource availability. Non-profit sport organisations mostly cannot allow hiring paid staff. Therefore, volunteers are very important to them. Human resources can be subsidized with financial resources and vice versa when having enough volunteers. As volunteers are usually very scarce resources, the organisations need to adapt their strategy to recruit and retain them.

The focus on policy decisions and managerial skills of the boards and of managers in non-profit organisations impacts the strategic planning. Non-profit sport organisations follow the direction set by their leaders and management. Organisations' strategy relies on their creativity, proactivity, attitude to change and adaptation to the environment.

Non-profit organisations mostly follow the requirements of a funding source and therefore they can be required to submit a plan of action. Funding of non-profit sport organisations can be divided into external and internal revenues. The lack of funds mostly determines the organisations basic strategy – to survive. External funding as public subsidies and sponsorship can result in losing autonomy of an organisation, adjusting strategy to the corporate or subsidy conditions and short-term orientation. These funds are not very stable resources. Therefore, it is difficult for organisations to develop long-term plans. In contrast with external funding are internal revenues. Internal revenues consist mostly of membership fees and incomes from own activities. Membership fees are stable and regular income and therefore clubs can aim to broaden the number of members. This results in better organisation planning. Several organisations turned their strategy to service providing to be their main focus, which means significant income for them.

Prior internal agreement on goals and mission is necessary for formal planning in nonprofits. Non-profit sport organisations have different goals and may need to establish a base level of goal consensus. To reach the goals, these entities could adjust their strategy e.g. to disburse enough money for the competitive sport through subsidies or membership or to broaden membership base size to collect more membership fees.

Even if several factors that influence strategy are revealed and described, their intensity or sorting by importance has not been uncovered. This could be incentive for future research.



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