**Strategy identification with a NPO as micro-economic process**

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**Abstract**

The definitions of NPOs are in the theory multilayered. The suitable representation of the definition will be determined in this work. NPO are non-profit organizations, not related to gain profit in their major view.


Different organization forms and structures recognize the necessity for a strategic planning. Disagreement realizes the viewer in the perception and representational form. Obviously no agreement exists in the result satisfaction.

In the alignment to the company behavior codex we are on a higher concretizing degree, which is still justifiable taking into account the probability of the future. Fixed times are of substantial relevance for the strategy control and if necessary to adjust it to new conditions.

The strategy is carried by a smaller circle of persons than the company behavior codex, which should be made accessible to as many as possible employees. In agreement discussions with superiors, organizational subordinated employees should be guaranteed, that their activities are conformal with the highest strategic defaults.

**Key Words**

NPO; strategy; macro economy; portfolio analysis; modeling

**Introduction**

**Definition of NPO**

The definitions of NPOs are in the theory multilayered. The suitable representation of the definition will be determined in this work.

*NPO in a negative demarcation*

All NPOs appear to have a basic negative intention in common. They act in their business fields without the intention of a profit realization [Mroß, M.D. (2005): Verfügbarkeit und Wirksamkeit von Personalvermögen in Nonprofit-Organisationen. Zeitgemäßes Personalmanagement, Erfolgreiche Bereitstellung und Nutzung von Personalvermögen, p. 35 - 53].

**Profit orientation**

The profit oriented organizations belong to structures, which want to gain substantial surplus from their activities in a respective annual period. This surplus remains as free liquid cash in the organization or is paid to organ components to some extend or completely,
The work is oriented to organizations, which do not follow a profit aim in the majority.

Major commercial activities

This work concentrates on NPO, which is not active in their focus on commercial ranges. 
Taken the legal view of the NPO organization frequently there is a span between association, federation, cooperative or donation
Furthermore an additional definition could be found by a tax exemption advantage. This can be observed in many parts of the Federal Republic Germany.
NPO lead a shade existence in certain structures, not purpose adapted led, gaining illegal advantages from a tax exemption.

This work concentrates on legal forms of the NPO. Thus above mentioned illegal constructions are not followed in the work.

Employees
Normally, NPOs consist to some extend by employees without salary. Frequently it is a pleasure for these employees to work for the organization instead sticking on money. For example, the many aids in the “Rote Kreuz” organization should be mentioned. However, we feel a tendency for remuneration within NPOs. The not monetary rewarding of work is declining [Alatista, J. / Arrowsmith, J. (2004): Managing employee commitment in the non-for-profit sector. Personnel Review, 33(5), p. 536 - 548]. Free coworkers are generally needed nevertheless with certain NPOs [Tidwell, M.V. (2005): A social identity model of prosocial behaviors within nonprofit organization. Nonprofit management & Leadership, 15(4), p. 449 – 467].

This work is based on NPOs, that pay for their employees. Therby however not market conform salaries are not taken into account.

Insurance and service organizations
Within a further grey range are unions, which follow commercial targets besides non-profit purposes. Organizations like Lion or Rotary club are worth mentioning. Frequently they take the organization for networking and to gain profit oriented commercial deals.
An insurance firm could be organized as NPO. Obviously, this is sometimes the case within the health insurance company area, thereby a tendency to profit intentions could be subordinated.
In this work this gray area is not reflected. Organizations with profit orientation are not part of the view that will be considered.

In this work the definition of NPO is understood as an organization, that does act either without state power or commercial interests. The author prefers a structure-independence (i.e. privately or publicly) as well as an impossible correlation to a certain organization form or degrees.

Methodology
This paper sticks on personal experience of the authors. Mr. Henke is CEO of a NPO and Mr. Oestringer has done sophisticated consulting projects in this area.
Moreover, an intensive literature studies was the basis for this paper.
The description of modeling solutions should show the viewer a functional option to come up with a good solution, useful in the present and prepared for the uncertain future. The target was not to describe these steps deeply, because the restriction of pages in such publications are there and valid.

The targets are to come up with a strategy for NPO. There are shown some options on how to do it (e.g., modeling). It should enable the reader to have some tools and methods to do the own company strategy more precisely.

**The strategy – theoretical basis**


Different organization forms and structures recognize the necessity for a strategic planning. Disagreement realizes the viewer in the perception and representational form. Obviously no agreement exists in the result satisfaction.


“*The strategy must set a goal, which corresponds to the purpose of the same for the whole martial act, i.e. it sketches the war plan. It must pull also in the field to arrange over the particular on the spot and to meet for the whole the modifications* “.

In the sixteens of the 20. century, the relation between the former martial strategic measures and the managerial policy becomes evident. With the invention of the SWOT analysis a method was created, which possibly exhibits today a more extensive meaning than at the origin time.

The term of the Strategic management attained in the second half of the 20. century an increasing higher attention.

In the first stage of this work the strategy term of Hill & Jones is preferred, which contains a modern view [Hill, C.W., Jones, G.R. (2004): Strategic Management: an integrated approach, (6th Edition), Boston: Houghton Mifflin., p. 17]:

“*[…] a strategy that answers the questions, What business(es) should we be in to maximize the long-run profitability of the organization, and how should we enter and increase our presence in these businesses to gain a competitive advantage?*”

In a deeper representation of the second stage, it is preferred by Johnson, which reflects our modern form [Johnson, G., Scholes, K., Whittington, R. (2004): Exploring Corporate Strategy (7th Edition). Harlow: Pearson, p. 9]:

“*Strategy is the direction and scope of an organization over the long term, which achieves advantages in a changing and competences with the aim of fulfilling stakeholder expectations* “.

**Models for the NPO competition-conformal strategy finding**

As a circumstance that a competition-conformal strategy could be created, market and resources have to be under special considerations. Market-relevant factors are represented in the majority by customers, products and competitors. These factors could be considered in the spectrum only that the own resources permit. This view does not take place in the literature uniformly:
We recognize one capability based view. This covers the view of organization special abilities and process knowledge.

The second modern and significant theory is based on the knowledge based view. We recognize the focus on the verification and use of the enterprise knowledge.

The market can be regarded however as its own resources dedicated by the organization.

**Strategy in a classical view**

In the English literature the strategy production is characterized by linear models. The NPO strategy process consists of the following elements:

- **Definition of mission and vision**
  Concerning the definition of a mission, the question where the organization would like to move is important. In addition the organizational focus have to be clarified. The major tasks are just as discussion worthy as special characteristics.

- **Status quo analysis**
  The status quo analysis reflects the internal and external situation. In addition current information are verified as a basis.

- **Target agreement**
  On the basis of the current situation and the one which can be expected in the future targets have to be formulated.

- **Strategy creating**
  In this phase the NPO provides its strategic basic formulation.

- **Implementation of the strategy**
  The strategy is converted into tangible planning units. Frequently, this takes place in budget plans.

- **Examination of the results**
  The fixed activity plan for the result examinations makes a comparison between the desired outcome and the reality possible. Thus the NPO receives the option of an appropriate reaction and adjustment on time.


- **Portfolio analysis**
  Regarding the portfolio analysis the BCG approach is fundamental. This growth share matrix was launched in 1968 created by the product side originally. On basis of the latter the strategy is implemented. There is an alignment of the relevance and product potential and/or the business field.

  The matrix shows the relative market share on a x axis in relation to the largest competitor. The y axis offers the market growth in the appropriate market. The size of the circle defines the revenues of a product or
the business field. As attractive are considered the „star“ (high market share, high growth) and the „cash cows“ (high market share with small market growth). This approach contains a basis of further models with differently-stored focuses. The conscious generation of a selection between several strategic possibilities is common to all. Unfortunately it must be referred to the substantial weak point of a one-sided view covering few components. A strategy is multilayered. Doubtfully thereby is an exclusive consideration of the identification and creating few elements only, based on individual models like the BCG [Tomczak, T. (1989): Situative Marketingstrategien: Grundsatzstrategien für„Dogs“. Berlin, New York: de Gruyter, p. 61].

A special use disadvantage of the NPO is considered in the strong matrix commercial adjustment. Normally, NPOs concentrate themselves on other focuses. Thus only a conditioned use for our purposes is recommended.

Balanced Scorecard approach
Considering the discussed unilateral nature and disadvantages of the portfolio analysis, in the year 1992 Kaplan and Norten implemented the Balanced Scorecard to avoid the disadvantages of the latter approach. It consists of four substantial core areas [Kaplan, R. S., Norton, D. P. (1996): The Balanced Scorecard: Translating Strategy into Action, p. 76]:
- Customers
- Employees
- Finance
- Internal processes

The individual elements are subjected to a permanent danger to deviate by timing, more or less strongly from the reality. They are again caught by measures of adaption. The characteristic numbers-oriented policy could be a disadvantage, if employees do not have or want to learn the knowledge of the fundamental understanding basis. The Balanced Scorecard has practically delivered the evidence as a suitable strategy instrument in identification and definition, especially used in NPOs. The latter is explainable, because economical basic forms and assumptions are not in the major view [Niven, P. R. (2003): Balanced scorecard step-by-step for government and not-for-profit agencies. Hoboken: Wiley, J. & Sons, Inc.; Scherer, A. G., Alt, J. M. (2002): Balanced Scorecard in Verwaltung und Non-Profit-Organisationen. Stuttgart: Schäffer-Poeschl].

Integrated approaches
The starting point is the assumption of disadvantages in all concepts, apart from advantages in the strategy creation. Preferable is a combination of models in a way that avoids substantial disadvantages as far as possible and involve the advantages as much as possible. In the following two models are discussed:

Strategic planning process model
Thus approach concentrates itself on the following elements:
- Vision
- Strategy
- Conversion activities

A more challenging addition of this basis is an extension to control and iteration.

Hill & Jones model
A frequently used approach is the strategic planning process of Hill & Jones [Hill, C.W., Jones, G.R. (2004): Strategic Management: an integrated approach,(6th Edition), Boston: Houghton Mifflin, p. 13 - 17]. The generation of the strategy is combined on different enterprise levels with the implementation and success measurement. As a basis the SWOT analysis is used.
Results – Development of the NPO strategy

Taking into account the described strategy identification we want to dedicate ourselves to three major issues mentioned below:

Who are we?
What do we want to reach?
Which solutions are there for our strategy?

During our strategy identification it is worth to mention that we cannot fix these uniquely only, moreover we have to adapt it to changed and dynamic environmental situations.

Markets and customers
Possibly, the viewer of this work asks himself the question, why in a NPO markets and customers are of importance. The terms are involved more with profit-orientating societies. NPO usually pursue no commercial target areas. The author is of the opinion, however, that it is both, necessarily and meaningfully, to consider both types. A customer satisfaction is as important in NPO as in commercial enterprises. Otherwise the NPO loses its meaning and right of existence. Without a market a non-commercial society appears as senseless.

Creating a NPO strategy
The strategy is based in our example on the codex of behavior within the enterprise. Therefore a time horizon of at least five to fifteen years is recommendable. The defined strategy should, on the second level, covers between three and seven years. This one is in a shorter distance to the operational business and must steer this more than the codex of behavior. A more and more dynamic environment requires regular strategy controls and justifies the shorter time period in relation to the codex of behavior. Objectives are determined on this level quantitatively and qualitatively and supported at the latest on the next level with concrete scheduler or organizational tasks.

The third level defines planning issues. As a time goal there should be a range between one and two years. Concrete discussions on the organizational level are taking place. We recognize a substantial operational character. This is the most important issue on this level. Conversion strategies are described as well as necessary resources.

Behavior codex
In the behavior codex the core of the organization is defined. It provides external viewers a good option to recognize the society fundamental basic rules. It is indispensable for new employees to take care on these conditions and decide whether they are align with the own value conceptions and imaginations. Common values, agreements and assumptions are the heart of each society [Schein, E. H. (2003): Organisationskultur, Bergisch-Gladbach, p. 33 - 36]. Necessary seems the organizational subjective consciousness investigation [Heinen, E.(1997): Unternehmenskultur als Gegenstand der Betriebswirtschaftslehre, in Matthias Frank: Unternehmenskultur/Perspektiven für Wissenschaft und Praxis, München, p. 18 - 19].

Content of the company behavior codex
Based on our example we are on the first or highest level of our strategy definition. The objective within the organization is, to generate a good overview of the function mode, however not to come up with concrete activities to reach these goals. Remarkable is always the large time horizon. Thus under uncertain created prognosis may not be too rigidly implemented as fixed company conditions. We should not introduce ourselves as human beings knowing exactly the future, which turns out as intolerable finally. Concrete definitions are essential on the second level consisting of a shorter time horizon.
Strategy
The essence of the strategy definition lies particularly in their detail degree. A very high specifying of uncertain future elements lead to the danger potential of a too short term necessary adjustment to new environmental conditions.
In the alignment to the company behavior codex we are on a higher concretizing degree, which is still justifiable taking into account the probability of the future. Fixed times are of substantial relevance for the strategy control and if necessary to adjust it to new conditions.
The strategy is carried by a smaller circle of persons than the company behavior codex, which should be made accessible to as many as possible employees. In agreement discussions with superiors, organizational subordinated employees should be guaranteed, that their activities are conformal with the highest strategic defaults.
Strategy formulations require a very good comprehensibility for all persons in the involved groups.
Strategic formulations do not consist alone of a lining up of goal definitions, furthermore they consist of their justification. Concretely it must be comprehensible why certain goals are set up.

Realization planning
In the realization phase is the attention core the agreement of concrete measures. It must be arranged in a form, reflecting the operational part of daily working as perfectly as possible. There are two levels for differentiation:
A permanent and period-related planning

Relatively rigid planning issues
The second level refers to planning units, which are not adapted annually, however they are integrated in the operational range.
A budget-related planning on yearly level is recommendable. This supports the necessary annual declaration duties of the enterprises. Likewise measures are judged automatically also by the costs and thus unprofitable activities will be cancelled.
A planning must on firmly defined times examined and if necessary adapted. This should cover all substantial activities. Within the planning certain goals and measured variables should be determined, which make a discrepancy statement possible.

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