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## *‘Thinking Stakeholders’ Series*

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### Edition 1: Understanding NGOs can help build Business Solutions

In today’s world business managers are increasingly recognizing stakeholders as critical to business performance<sup>1</sup>. As a result more and more managers are dealing directly with stakeholders and encountering the many complex issues associated with the establishment and maintenance of stakeholder relations.

This document offers practical insight into the characteristics of one of the most important set of stakeholders for business, non-governmental organizations or NGOs. The analysis below offers an overview of the behavior and characteristics of NGOs and clarifies some common myths and misconceptions. The information provided will serve as a valuable resource for business managers to assist them to better understand one of their key stakeholder groups.

#### *Characteristics of NGOs*

NGOs of the 21<sup>st</sup> century are highly complex, diversified and sophisticated. They fulfill a multitude of different functions and provide a range of differing services, and as a result many have become highly specialized. There is no one model or blueprint of an NGO that adequately describes the varied organizations that exist in today’s world. Each has a strong and separate identity, history, structure and operating ethos which influence how, why and when it will decide to work on a particular issue and whether it will be prepared to engage with business as part of that effort.

Business would be wise to recognize these different drivers and understand how they effect the decisions that NGOs make: what issues they work on, what they seek to achieve, why they are involved, and what is their ‘modus operandi’. Furthermore these drivers will dictate how business should seek to establish relations with a particular NGO, and set parameters on what is realistically achievable in each case.

Consider the following characteristics and their consequences for business:

#### i) *Function*

Understanding the function or purpose of an NGO is key to unlocking the drivers and motivation of the institution and those who work within it. NGOs are mission based

organizations, and will often respond to issues which cross their desk in terms of whether they help or hinder the NGO to achieve its mission. A few of the major categories of NGOs operating in 2005 include: grant givers, service providers, research institutes, campaigning organizations, communities associations, church groups, labor unions, and social movements.

For business managers who wish to engage with an NGO an important first step is to assess how their business activities could possibly dovetail with the NGO's mission. This will encourage the NGO to view the business partner in a more positive light and most probably lead to a more constructive relationship in the long-term. Inaccurate or incomplete analysis of the core mission of the NGO could have potentially damaging impacts on the future stakeholder relationship.

For example some business people could regard an organization such as Oxfam International as 'anti-business' as a result of its campaigns on business issues; Oxfam in contrast would regard their core mission as combating poverty. If business is able to successfully demonstrate the important and valuable contribution that it can make to poverty reduction then it is more likely to be successful in establishing a constructive stakeholder relationship with such an organization and reduce the likelihood of becoming a target for campaigns. If however business initiates the relationship on the assumption that such an NGO is de-facto anti-business then this could lead to an inappropriate engagement strategy being pursued.

#### ii) *Structure*

NGO structures vary considerably and are dependent on function, history, organizational ethos and funding sources among other factors, giving rise to a large number of varied structures. Understanding the structure of an NGO as well as identifying hierarchies, reporting lines, responsibilities, departments and key individuals is an important first step which will allow business to avoid mistakes when they initially seek to engage an NGO. NGO departmental responsibilities and reporting lines can sometimes be poorly defined, complex or convoluted giving rise to duplication of decision making processes; the consequence of which is often articulated as power struggles between departments or between centre and regions. This on occasion results in some departments have much greater influence over decision making than would seem apparent on paper. Identifying such anomalies and recognizing the informal as well as formal information channels in the organization are vital steps in understanding an NGO and how it functions.

Given the sprawling nature of some NGOs it is possible for a single organization to work on several issues at the same time and respond to them in apparently different and even, contradictory ways. This may be a consequence of the key drivers, as identified by the NGO, being radically different, even for apparently similar issues, or it may be a result of internal contradictions (see below). In either case the 'how, why and when' of engagement on one issue may be unique, making the reality of working with one NGO on two issues or in two settings very different.

For business, understanding the drivers behind NGO action on a specific issue, and how they differ from business drivers, is fundamental. Furthermore recognizing the specifics of each issue, such as the different cultural, political and social outlook of African descended and European descended population in Latin America, is vital to successful engagement because such understanding helps to explain why NGOs react to business

in certain ways, and allows companies to more successfully predict NGO behavior in the future.

Many NGOs appear to have a centralized structure when in reality they do not. Some, including some of the most famous names, such as Amnesty International or Pax Christi International, are in fact a loose alliance or coordination of national groups all bearing the same or similar name, where each national director has a significant amount of autonomy. Although national sections often act in unison, giving the impression of a well oiled machine, there are times when this set up produces contradictory decisions by different national sections and leads to apparent schizophrenia on part of the NGO. Once again it is vital for business to understand these dynamics and their consequences before attempting to engage with NGOs, and even more importantly, to be able to correctly identify which national section or sections within the structure are leading on an issue, and which may have divergent views.

Many NGOs have a membership base or work with affiliated grassroots groups. This often gives them the ability to raise an issue at international, national, regional and local levels simultaneously. For many their membership base is their most important asset, providing them with significant impact for relatively small outlay. New technologies mean that now even very small organizations, and sometimes a committee of only two or three people, can reach a wide audience across the globe in a very short period of time. Understanding how - and how fast - these new structures work is vital to any successful attempt to engage with NGOs.

### iii) *Operating Environment*

NGOs just like business are extremely concerned about their reputation and branding and how these impact their ability to operate in the marketplace. Although few use such language in their internal deliberations or public discourse virtually all place a great deal of weight on these issues. Many NGOs closely monitor how they are portrayed in the media or perceived by the public and carefully record any reference made about them by senior political or business figures. Larger NGOs in the 21<sup>st</sup> century have shown themselves prepared to spend significant sums on branding exercises, ensuring uniformity across their different national sections or service delivery and trading arms.

This reality provides a fascinating area of common experience between NGOs and business, and could lead to interesting opportunities for partnership. Moreover it highlights an important issue that no one institution has a monopoly on the truth; all institutions are concerned about how they are perceived by others and how that impacts their ability to operate. Both business and NGOs can make mistakes, and each can see their reputations impacted as a result.

In most countries there is a regulatory system that defines whether an organization can officially call itself 'non-profit' or not. Although different countries have varying definitions for the term, for example '501c3' in the United States or 'charitable status' in the United Kingdom, the underlying concept remains the same. Typically the system is designed to allow national or federal authorities to verify that an NGO meets a set of basic 'criteria'; in return the NGO is awarded a series of benefits, mostly related to paying reduced taxes. While the rules for incorporating as an NGO vary from country to country regulation acts an important way to measure the legitimacy and veracity of an NGO and its work.

As such, incorporation acts as a key benchmark which other NGOs, governments and businesses often use to assess the standard of work of a particular NGO. Moreover incorporation places a series of obligations on the NGO, mostly typically setting parameters on how it should operate and to what aim. There are some organizations that are called, or call themselves, NGOs that are not incorporated, and therefore are not obliged to follow such rules; the veracity of their work may be questioned as a result of their lack of official status. Establishing who is officially incorporated and who is not, and what benefits and obligations that status provides is an important mechanism by which business can enhance their understanding how NGOs operate and the level of legitimacy that is accrued to them. Companies should follow developments in such 'incorporation laws' in various countries as they will help inform business knowledge of NGOs and their license to operate.

iv) *Collaboration and Competition:*

The NGO world, like any other, is full of divergent opinions, making it possible for businesses to solicit a wide range of views and reactions around one particular issue. This trend has been exaggerated by the ease with which small, sometimes one-person organizations can be established, resulting in a 'splintering' of opinion amongst a large number of NGOs; often very small gradients of belief separate the views of one NGO from the next. The important issue for business is to understand how these subtle differences of opinion impact their possibilities of engagement with different NGOs and what opportunities and challenges they bring.

It is true that large institutional NGOs with budgets in the \$100 millions tend to imitate political parties, government institutions or businesses with strict controls on policy positions, media statements and public comments but regardless of this, the existence of a large number of small NGOs has created a wide divergence of opinion on almost any topic. To date over 167,000 NGOs were officially incorporated in the United Kingdom as charities under UK law<sup>ii</sup>. Nearly 145,000 however an annual income of less than £100,000(\$180,000) and over 95,000 had an annual income of less than £10,000(\$18,000).

Given the large number of small NGOs in operation in the 21st century, many seek to gain recognition on a specific issue by banding together in loose working units or 'coordinations'. These generally have some minimal level of self regulation or entry rules, often reflecting the core principals on which NGOs have agreed to work. In this way they act as funneling mechanism pushing the various organizations towards a minimal common position, but do not, however, eliminate all differences of opinion (as noted above). In essence they act as focal point around which NGOs cluster on a particular issue. Indeed some NGOs who are not formally part of the 'coordination' will also identify with the minimal common position and therefore to all intents and purposes form part of the cluster. There may be two, three or even more different clusters representing the broad strands of diverse opinion around one particular issue.

It is vital for business to recognize these clusters, understand what each of them fundamentally represents, how they operate, and who are the opinion leaders and opinion formers within each cluster, before attempting to engage in any serious way with these groups. Furthermore it highlights the need to design separate, but coordinated,

strategies to specifically engage with each 'cluster' and helps in identifying priorities for who to engage with amongst a broad set of individual actors.

Between NGOs working on a particular issue, or in a particular setting, there is a process of 'mutual assessment' or benchmarking that is occasionally explicit or public, such as those who comply with the Sphere standards<sup>iii</sup> and those who do not, but more often it is implicit. Membership or affiliation to a certain 'coordination' or grouping is often, but not always, dependent on the result of a benchmarking exercise. Such benchmarking activities act as a test of the 'legitimacy to operate' in a particular setting for many NGOs. Those who do not reach the standard are, privately at least, deemed not appropriate operators on a particular issue; as a result such benchmarks represent a 'litmus test' on fundamental issues.

For business it is extremely important to recognize that this self regulatory system exists, that there are 'internal' standards by which NGO activity is measured, and that benchmarking between organizations is an on-going activity. Identifying the benchmarks and who reaches the standard is an important way to understand the motivations of a particular NGO or grouping of NGOs, and greatly assists in how to decide with whom to engage and on what issues.

#### *Next steps*

The above analysis is designed to help business managers strengthen their understanding of the characteristics of NGOs. Such understanding is a fundamental first step in building effective stakeholder relations with this key sector. Equally important are the selection of appropriate engagement strategies, the ability to effectively map stakeholder interests and the nature of the face to face engagement process. Understanding the specific context and how it impacts all of these processes is also of great relevance. Accompanying papers in this series will examine each of these questions in detail.

If you would like to discuss the issues raised in this paper please feel free to contact Engaging Solutions.

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<sup>i</sup> Grayson D. and Hodges A. (2004) Corporate Social Opportunity! Greenleaf Publishing, Sheffield, United Kingdom

<sup>ii</sup> <http://www.charity-commission.gov.uk/registeredcharities/factfigures.asp>

<sup>iii</sup> The Sphere Project, launched in 1997, establishes minimum good practice for humanitarian aid delivery and disaster response. For further information see <http://www.sphereproject.org/>