

Executive summary

The not-for-profit sector is now worth over \$1 trillion a year globally.⁰¹ As a result, it attracts growing attention, not all of it comfortable. For example, McKinsey & Company – the management consultancy – say that the US nonprofit sector alone could free up at least \$100 billion in additional value by changing its notions of stewardship and its operating practices.⁰² Non-governmental organizations (NGOs) that once largely opposed – and operated outside – the system are becoming integral to the system (Panel 0.1). So expect growing interest in NGO priorities, strategies, accountability and business models.

Backdrop: the shifting landscape

The 21st Century NGO project is our seventh survey of the NGO landscape, but is the first supported by such a wide consortium of NGOs and public and private sector partners. The project has detected early tremors which we believe represent warning signs of seismic shifts in the landscape across which NGOs operate. Our assessment of the implications is reflected in Panels 0.1 and 0.2.

Beyond these cross-cutting themes, we identified several key issues which will have a profound influence on the role, relationships and responsibilities of 21st century NGOs. These include:

From market intelligence to intelligent markets: Currently, few NGOs spend much time thinking about business, let alone markets. Even so, they have had a profound influence on both. The evidence, however, suggests a need to engage and shape markets more directly. The key question is: how can we civilize capitalism through markets? Panel 5.1 (page 27) sketches four main areas of response: anti-business campaigns; market intelligence; market engagement; intelligent markets; and market tectonics.

Panel 0.1 'Old' and 'new' NGOs			
Issue	20th Century	21st Century	Comment
Status	Outsiders	Insiders	20C NGOs spent the second half of the century as outsiders, challenging the system. 21C NGOs will increasingly be part of it.
Focus	Problems	Solutions	20C NGOs spotlighted problems, seen as symptoms of market failure. 21C NGOs will focus on solutions, delivered through (and often disrupting) markets.
Structure	Institutions	Networks	Many 20C NGOs started small, then grew into major institutions. Growth will continue, but 21C NGOs will invest heavily in networks.
Funding	Guilt	Investment	Much 20C NGO funding was fuelled by public anger or guilt. 21C NGOs will aim to persuade supporters that they are good investments.
Worldview	1-D	3-D	20C NGOs communicated in sound-bites, with single-issue campaigns. The 21C agenda will be multi-dimensional, ditto most successful NGOs.
Accountability	Ad hoc	Strategic	Most 20C NGOs followed charity sector rules. 21C NGOs adopt best practice in transparency, accountability and governance.

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Globalization: Few interviewees think globalization has ended: most indicators suggest the process continues.⁰³ Paradoxically, perhaps, many NGOs now argue for more globalization, not less. But they stress that it needs to be refocused on 'globalizing human rights, justice and accountability for those that abuse those rights'. A growing number of NGOs are actively working to understand how the processes of globalization can be guided to create and distribute greater social and environmental benefits.

Civil society boom: On current evidence, NGO and civil society organization (CSO) numbers, scale, reach and influence are all likely to grow. These people, whoever and wherever they may be, are driven by values that are typically different from those prioritized in major economic and political institutions. And it's an extraordinary fact that the global nonprofit sector, with its \$1 trillion-plus turnover, could now rank as the world's eighth-largest economy.⁰⁴

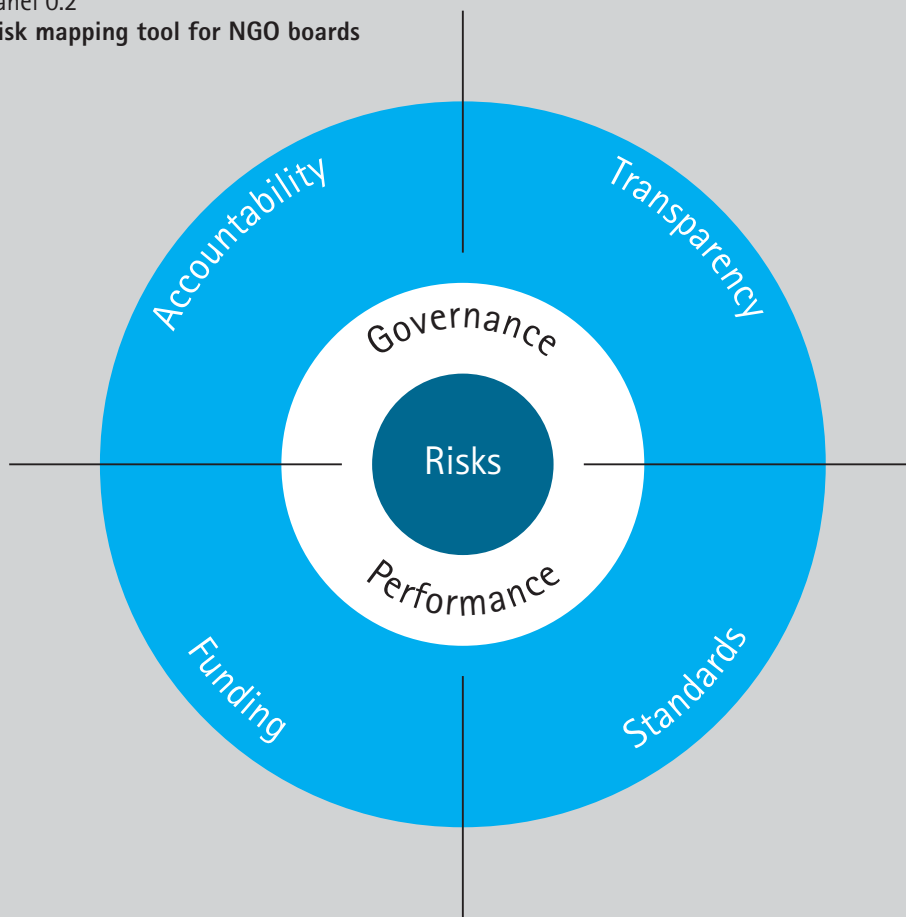
NGO governance: The heat is on, with NGO trustees and directors facing tough new challenges. Today, nonprofit boards are expected to:

- govern to determine the direction of the organization and to make plans and policies;
- employ, support, and evaluate chief executives;
- approve budgets and monitor expenses;
- raise funds; and
- promote the organization's cause.

Tomorrow, in addition, they must manage four areas of risk and opportunity as shown in Panel 0.2. We apply a SWOT framework to the NGO sector in Chapter 6 (pages 36–45), assessing their capacity to manage a fifth tension: engagement with businesses and markets.

Panel 0.2

Risk mapping tool for NGO boards



Accountability

- Stakeholder issues
- Constituency issues
- ‘Responsible’ (TBL) campaigning
- Competitive positioning
- Brand exploitation
- Corporate co-option

Transparency

- Financial & ethical disclosures
- Director & staff compensation
- Promotion policies & practices
- TBL reporting
- TBL assurance mechanisms

Funding

- Adequate for current needs
- Adequate for future needs
- Sources of funding
- Fundraising methods
- % allocation to ‘cause’

Standards

- Professional standards & targets
- Position on CSR frameworks
e.g. GRI, AA1000
- Stakeholder benchmarks
- Stakeholder satisfaction
- TBL standards required of suppliers & partners

TBL: Triple Bottom Line

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Conclusions

Our headline conclusions are that:

- 1 Although by no means universally popular, NGOs, NGO-like organizations and CSOs play an increasingly vital role in democratic and democratizing societies.
- 2 The challenges they address are growing – and will continue to do so.
- 3 Governments and business may resist their advocacy, but there is now real interest in the potential roles NGOs can play in developing and deploying solutions.
- 4 As a result, a new market-focused opportunity space is opening up, but this often requires solutions that are not simply based on single-issue responses.
- 5 This represents a challenge even for most mainstream NGOs, so public and private sector partnerships are increasingly essential in leveraging change.

- 6 In the process, new forms of competition are evolving in the ‘NGO market’, with new entrants like companies, business networks, NGO networks and social entrepreneurs blurring traditional boundaries.
- 7 Both national and international NGOs, as a result, are having to pay more attention to the whole area of branding and competitive positioning.
- 8 In parallel, the mainstreaming trend is exposing established NGOs to new accountability demands.
- 9 But, problematically, all of this is happening at a time when traditional sources of NGO funding are increasingly squeezed.
- 10 Finally, we sense an urgent need to review – and further evolve – NGO ‘business models’.

Recommendations

So what should NGOs do?

The first thing is to recognize that markets are central to their future. Markets are becoming legitimate channels for social change – and are also likely to be, on balance, more efficient and effective than many traditional approaches. But the rules of the game, clearly, will be very different.

Second, NGOs need to: establish where they are and need to be against the five-stage model (page 27); and explore aspects of the internal agenda, including strengths and weaknesses spotlighted by the risk mapping tool (above) and the SWOT framework (page 27). Recommendations for NGO funders are offered on page 49, with guidance for businesses interested in working with NGOs on pages 26–35.