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The Porter Five-forces Industry Analysis Framework
For Religious Nonprofits: A conceptual analysis

By

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ABSTRACT

Goold (1997) has argued that the Porter (1980) five-forces framework for industry analysis is not applicable to nonprofits. In light of recent essays (e.g. Miller, 2002) as well as literature from the world of religious nonprofit organizations and organization theory, the Porter framework is analyzed through a review of representative literature. The religious nonprofit arena was chosen for this conceptual analysis based on an assumed key difference between religious nonprofits and for-profit firms: the stronger influence that mission has in strategy formulation compared with the influence of the external environment. Implications for further research are suggested.

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INTRODUCTION

Acceptance of the Porter (1980) five-forces analytic framework is prevalent in the world of for-profit organizations. The framework's value is rooted in the forces of industry competition bathed in the traditional dynamics of economics. It is the structural frame of competitive forces that collectively determines the profitability and hence the attractiveness of an industry. In terms of this framework the key to strategy is defending against the five forces. Porter says, "An effective competitive strategy takes offensive or defensive action in order to create a defensible position against the five competitive forces."

With reservation on the applicability of private sector concepts to nonprofit organizations, Goold (1997) has evaluated its relevance and potential usefulness of the framework in the nonprofit arena. He concludes that the "meaning and relevance of the concept is therefore dubious. . . the industry attractiveness concept seems not to transfer well into the not-for-profit environment." In possible support to Goold's view is that of Stone, Bigelow and Crittenden (1999) who argue that nonprofit goals and outcomes have a "noneconomic and nonmarket quality." From their review of the empirical research in nonprofit strategy between

1979 and 1999 they conclude that “some assumptions underlying formal planning do not match characteristics of many nonprofits and their environments.” In apparent implicit opposition to Goold’s view is that of Miller (2002). Miller blends sociology of religion with economic theories of competition when studying church organizations. He views rivalry among religious organizations as sometimes intense. Using the resource-based view of the organization, religious organizations are seen as competing for scarce resources. One of the weaknesses of the research in sociology and economics of religion has been that this research does not “acknowledge the industry analytical frameworks and theories of competitive interaction from strategic management and industrial organization economics.”

The purpose of this paper is to review the five-forces framework analyzing its relevance for one sub-sector of the nonprofit domain – religious nonprofits. Porter’s framework is built upon an assumption that the external environment is a significant influence in strategy development. However, the external environment for the religious nonprofit organization may be wholly different in structure and characteristics than the environment of for-profit firms. The religious nonprofit arena was chosen for this conceptual analysis based on an assumed key difference between religious nonprofits and for-profit firms: the stronger influence that mission has in strategy formulation compared with the influence of the external environment (See Figure 1.1). The author believes that in terms of mission dominance and environment dominance religious nonprofits are at the opposite extreme compared with for-profit firms. Both for-profits and nonprofits have missions and perceptions of their environment that influence strategy. Comparatively, strategy in nonprofits tends to be more mission-dominant (Unterman and Davis, 1984; Drucker, 1992) and, by implication, comparatively less environment-dominant while the

strategy of for-profit firms tends to be more environment-dominant (cf. Aguilar, 1967; Andrews, 1971; Ansoff, 1985; Schendel and Hofer, 1979; Bourgeois, 1985).

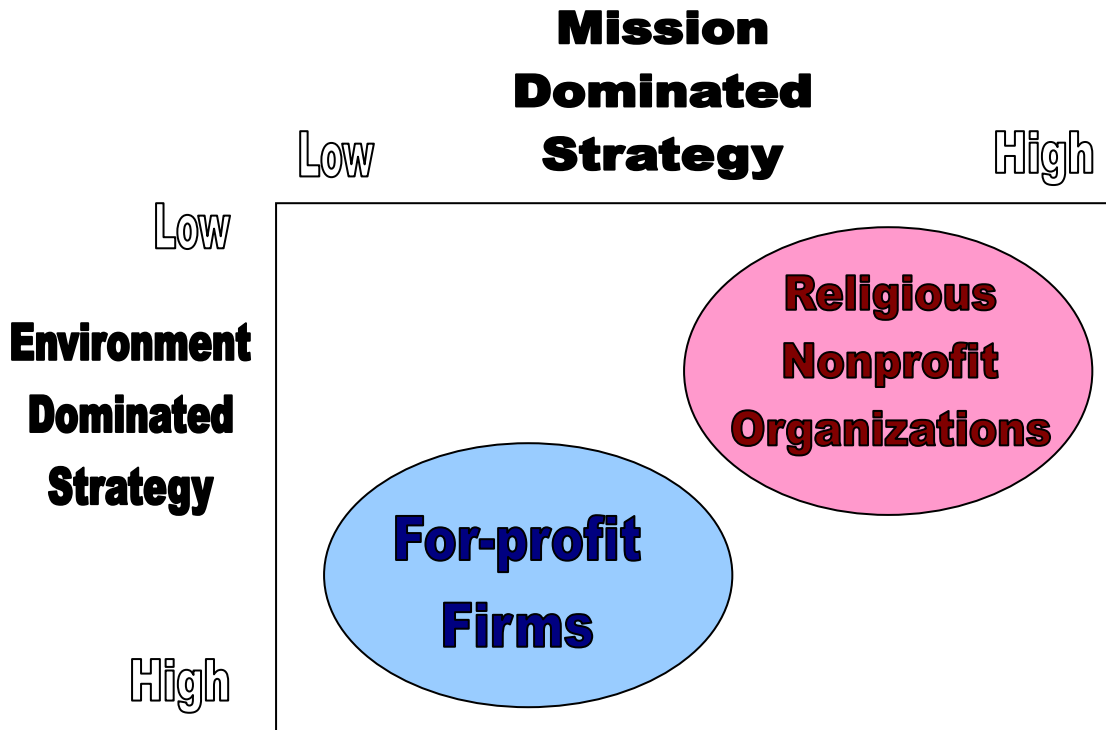


Figure 1.1

Porter's model was designed to assist in analyzing the forces of the task environment that drive competition in an industry and in so doing understand the attractiveness of entering the industry as well as the weak points that need defending/attack. Porter contends that "all five competitive forces jointly determine the intensity of industry competition and profitability, and the strongest forces or forces are governing and become crucial from the point of view of strategy formulation." But is Porter's model relevant to religious nonprofit organizations such as churches and synagogues?

Economics has been used to evaluate religious nonprofit organizations. For example, Berger (1963) depends upon rational microeconomic theory in examining the parallel phenomena of the ecumenicity and denominationalism among American churches. In his view a

paradoxical dual process is at work of coming together but remaining separate through differentiation. Finke and Stark (1988) extend the discussion in terms of Berger's market model by developing the notion of "religious economy." Iannaccone (1998) uses economic theory to study why strict churches grow. His primary argument concerns "how strictness increases commitment, raises levels of participation, and enables a group to offer more benefits to current and potential members." People in a religion produce this commodity collectively. Iannaccone states that creating an objective measure of strictness is difficult. He also believes that there are limits to the utility of strictness in terms of church growth. In spite of the attempts by these and others (Hull and Bold, 1989; Zaleski and Zech, 1995; Miler, 2002) to analyze the market experiences of religious nonprofit organizations in terms of economics, to date no published work has appeared reviewing the implications of Porter's five-forces framework in this context.

Three important characteristics of an industry are considered in the Porter framework and should be considered as a conceptual analysis is launched. First, industry profitability is not a concept that easily transfers from the for-profit sector to the nonprofit sector. But we should not assume, because of this, that individuals who aspire to form new religious organizations do not analyze the environment in ways that are analogous to the approach recommended in Porter's framework. In deed, as will be reviewed below, there is evidence from the prescriptive literature on planning new Protestant congregations that leaders are encouraged to analyze an environment in roughly analogous ways Jones (1976). In addition, there is some organization theory literature that might be used in support of broadening the concept of attractiveness in terms of resources (cf. Aldrich, 1979). And we should not assume that the competitive environment of religion is free of competitive forces that are similar to or analogous to those described by Porter. Second, intensity of competition as shown by the typical competitive tactics employed among rivals in

the for-profit world may not be present in the same manifestations or to the same degree of intensity in the world of nonprofits. However, there are times when a religious organization chooses to engage in paid advertising to counteract the affects of another religious organization. And, if one is willing to expand the concept of “price” to include intangible values that are given (or given up), there may be “price wars” of a different nature between religious nonprofit organizations. Third, the structure of the religious nonprofit sector may be different from what has been observed in the for-profit context. In pursuing the conceptual analysis the framework will guide us to think about the presence of bargaining power of suppliers and bargaining power of consumers, and the threat of substitutes. Yet, we may find that how these are defined and structured may be different for religious nonprofits.

Therefore, on what basis can a conceptual analysis of the Porter framework be accomplished? The answer to this question must be developed in light of three issues. First, in order for the framework to “fit” in the religious nonprofit market it must do so in terms that satisfy the intent of the framework and its elements while not necessarily demonstrating the specific for-profit manifestations envisioned in the framework. Second, we should not assume that what works in the world of for-profits also works the same way in religious nonprofits. Third, the dominant forces that shape the religious nonprofit industry might be different than the dominant forces that shape the industries of for-profit firms.

To date, no writer has attempted to conceptually analyze the Porter (1980) industry structure model to the specific setting of religious nonprofit organizations. Already mentioned at the beginning of this paper, Goold (1997), after evaluating Porter’s five forces approach to industry analysis, concludes that Porter’s “framework is hard to apply and not very useful in the not-for-profit organizations.” Further, it is his contention that Porter’s concept of competitive

advantage has “no direct analogue in not-for-profit organizations” since the two fundamental assumptions upon which it is based do not hold true. In its place Goold offers for consideration the concept of “institutional advantage.” He acknowledges that his concept is tentative and imprecise. However, the concept’s perspective includes an awareness of both internal tasks in terms of its capabilities as well as a comparison with other organizations that perform similar tasks.

Institutional advantage is the relative effectiveness of an organization in performing its tasks in comparison with other organizations that perform similar tasks. Goold also suggests that effectiveness can be measured against a benchmark that takes into consideration operations of private sector suppliers “who perform some of the same tasks.” Goold states that the institutional advantage concept “recognizes that not-for-profit bodies typically lack real, direct competitors.” Even so, managers of nonprofits look externally to find “comparators” both in the private sector and in the nonprofit sector when they devise their strategies. Here the focus seems to be on operational effectiveness rather than on competitive dynamics in the industry.

THE PORTER FRAMEWORK AND ITS ELEMENTS

The analysis of Porter’s framework as applied to the religious nonprofit industry is depicted in Figure 1.3. From the framework’s perspective industry attractiveness is seen in terms of the five forces. Overall attractiveness falls to the bottom line of profit. But attractiveness also can be seen in terms of the relative pressure from each of the five forces relative to the firm’s mission and core competencies. This paper contends that it is not merely the cumulative effects of the five forces on profitability that is important in the nonprofit arena

but also the degree to which any given force affects an organization's ability to succeed in the market.

By definition the framework's focus is primarily on the external environment though the implications for the firm's internal environment are not wholly lost from view. However, it should not be assumed that the framework's value will automatically diminish when applying it to organization types that are less dependent on the perceptions of the external environment during strategy formulation. This is so because of the nature of organizational boundaries for nonprofits. In reality the boundaries between the external environment and internal environment are less distinct in the case of nonprofit organizations and in particular the religious nonprofit. As will be demonstrated below what typically would be assumed to be part of the external environment in the for-profit sector, i.e., customers, is also part of the internal environment in the religious nonprofit.

The benefit of the framework is in its utility in terms of strategic analysis and influence on strategic thinking. The framework provides, at best, a snapshot judgment of the competitive structure of an industry at a point in time. The framework's value can never be truly obtained by using it in isolation from other tools for strategic thinking such as trend analysis and event analysis.

THREAT OF NEW ENTRANTS

Porter argues that new entrants "bring new capacity" and "often substantial resources." Key to entry are the barriers that are present and the reaction of existing competitors. Porter outlines six major sources of entry barrier: Economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of

scale, government policy. Entry barriers function as a competition-limiting force in an industry placing relatively protective boundaries around the industry. Threats of new entrants have some cyclic effects from the economic outcomes of industry activity. As the industry profitability increases, the threat of new entrants increases until saturation (with respect to demand) results in a decline in industry profits which in turn result in a decline in the number of firms.

Entry barriers in the religious nonprofit sector may be different from those found in the for-profit industries though we should not be quick to throw out all the sources of barriers envisioned by Porter. These sources of barriers have not been tested empirically in the context of religious organizations. However, product differentiation, switching costs, capital requirements, distribution channels and other cost disadvantages may be significant. At the heart of the threat of new entrants into the religious marketplace is product differentiation based on legitimacy, distinctiveness, strictness of lifestyle requirements and engagement with the larger culture. Switching costs will be higher when cultural or ethnic constraints make it psychologically or socially difficult to change from one faith tradition to a new one that emerges. As opposed to the for-profit firm where switching costs are typically one-time costs, the cost of switching from one denomination to a newly emerging faith tradition may pose a chronic social, cultural and psychological cost on members. The ability of the newly entering belief system to offer value in exchange for these costs would be vital to their ability to retain new members. Capital requirements may act in a similar way as with for-profit firms. However, this source of barrier may be quite low as facilities may be leased as funds are available. Add to the tangible capital asset requirement the availability of the intangible asset of charismatic leadership. In this case charismatic leadership is both an entry barrier as well as a competitive resource for established organizations. Harris (1995) has argued that the special authority of clergy is “totally

different in quality and derivation from the authority implied in a secular organizational role.” Such special authority may be inseparable from the ability of a group of members to separate from the denomination and form a sect. Finally, access to distribution channels may be vital to a newly emerging organization. A central issue in distribution is creating access to the product and the flow of information and influence among channel members. Access to appropriate facilities for members collectively to express their spiritual experiences may be both a distribution channel barrier as well as a cost disadvantage in some locations.

An important threat source for religious nonprofit organizations, ironically, is from within. “Breakaway” groups (cf. Dyck and Starke, 1999) or sects place an immediate competitive pressure on an existing organization. The breakaway organization will compete in terms of legitimation, ideology, charismatic leadership, assets and other resources. Retaliation toward a newly emerging or breakaway sect can be expected from the denomination or congregation that spawned the new group. We are likely to see the established organization fight to maintain control of resources while attempting to position the breakaway group as illegitimate and ideologically faulty. Charismatic leadership will be employed to discourage switching. Disciplinary proceedings may further dissuade potential members of the sect from breaking away. The emergence of a new sect from within one denomination will likely be viewed by leaders of other denominations as purely an internal problem requiring no retaliatory action. In deed, retaliation may be seen as inappropriately meddling in the affairs of the other organization. An organization’s history of retaliation, the strictness with which it holds to organizational policy, the strength of administrative authority will all be signals of the likelihood that the organization will retaliate.

For religious nonprofit organizations the discussion of the emergence of new sects and the transition of sects to denominations illustrates how the threat of new entrants is played out among religious nonprofit organizations. Hall and Tolbert (2005) review the environmental conditions necessary for new organizations to form. Demerath and Hammond (1969) and others have discussed the social phenomenon of the sect-to-denomination process. As denominations mature and depart from some of the distinctive behaviors and guiding principles that characterized its early days, the context is established for the perceived need for reform. Sects emerge to fill this reform need and either die out if unsuccessful in establishing legitimacy, or they succeed and become established competitive offerings in the religious market. Miller (2002) has discussed the opportunities for new belief systems to be established. Key to the successful introduction of a new belief system is the ability to be distinctive, legitimate and the ability to minimize the imitability of the new organization.

Threat of new entrants can be seen from a community perspective. This is particularly important for relatively homogenous communities as well as for more complex communities where religious organizations are located in close proximity to a newly emerging religious group. If an organization attempts to plant a new congregation in an area that competes with existing congregations, retaliation may come in the form of members and leaders of the existing congregations giving warnings through word of mouth and from the pulpit regarding the threat of the newly emerging organization. Public advertising may be increased to reinforce the views of existing congregations. Collaboration or fellowship among religious leaders i.e., the ministerial society, may not be extended to the new clergy who is attempting to establish a congregation if the new professional is perceived as representing an aggressively proselytizing type of

organization. Because of community pressure, owners of facilities suitable for congregational meetings may deny requests from the new group for lease arrangements.

With respect to consumer demand one could argue that religious organizations in the United States have relatively saturated the market. Demand, in terms of church attendance, has remained relatively flat over the last fifty years growing primarily as a function of overall population growth. Demand has been shifting from certain types of religious organizations to others (cf. Regele and Schultz, 1995). From ancient times the emergence of religious sects and cult groups holding heterodox views has been a relatively constant perceived threat. We could argue that the presence of seminaries and graduate schools of religion along with their faculty cooperate with denominational leaders to minimize the threat of entrance of competing sects from within by influencing the legitimizing forces at work in the denomination. Likewise local congregational leaders engage in defensive postures with respect to legitimacy of theological formulations as well as by encouraging reform within the normal political structures.

Denominational affiliation offers legitimacy as long as subgroups continue to support the central theological positions generally accepted in the denomination. Sects that emerge are not afforded the privileges within the denomination in terms of access to resources and legally protected brand assets thus limiting the sects ability to imitate the denomination.

In terms of the Porter framework, it seems there is support for considering the force of new entrant threats as relatively constant among Christian denominations in the USA. However, even though the popularity of Eastern religions has grown, the threat of new entrants in the religious nonprofit industry is mainly a threat from within. Thus defensive maneuvering will likely be focused internally to minimize this threat. Leaders and academics alike monitor on an informal basis for the presence of charismatic leaders who have the potential for organizing a

threat into a competing organization. Denominational leaders and theologians have the responsibility of protecting the purity of the legitimacy, the distinctiveness and reducing the imitability of the faith. As charismatic leaders emerge the religious community is careful to influence these in such a way that the denomination's legitimacy is enhanced and not undermined. When legitimacy is undermined the charismatic leader may be censured or ultimately cast out in an attempt to protect the denomination.

INTENSITY OF RIVALRY

Rivalry occurs because one or more competitors either feels the pressure or sees the opportunity to improve its position. The actions of one firm are felt by others who then retaliate. Retaliation can take the form of price competition, advertising competition, changes to the distribution or other means.

A few business scholars have commented on the competition among religious organizations. Warner (1993) analyzes religious organizations as operating in an open market system. Warner evaluates the changing environment for religious organizations in the United States. He comments on the influence of pluralism and religious individualism, among others, that indicate religion is operating in an open market system. Spiegler (1996) demonstrates how churches use demographic information to find prospective members. Stein Wellner (2001) reports on the activities of religious organizations as they compete in attracting young adults. Wrenn (1993) evaluates the role of marketing in religious organizations in light of the changes taking place in the religious environment. Among the several forces of change Wrenn points out that competition among churches is intensifying. He sees competition among various churches but also between churches and secular alternatives of "human potential offerings." Johnson and

Chalfant (1993) discuss the competitive strategies of religious organizations in the context of contingency theory. They depend on the work of Demerath and Hammond (1969) in the accommodation-withdrawal dilemma that clergy face. One approach to cultural accommodation is an attempt to “mirror the surrounding culture” in the rituals and activities. The other approach is “to become relevant by becoming involved in various types of social change.” Johnson and Chalfant also describe another strategic choice made by churches in terms of “high inducements/high contributions” and “low inducements/low contributions.” One strategy may work in one situation while the opposite strategy may work in another.

Busenitz, McDaniel and Lau (1991) investigate two generic marketing strategies that new congregations in Texas used. They use a measure of the competitive environment that they define as “the saturation level of churches in their community.” The competitive environment was seen as a moderating variable. In a high saturation market, the general strategy contributed most to Sunday School growth where the niche strategy had a significantly negative effect. “There is an apparent advantage for organizations in religious settings to be able to appeal to the broader sector, or at least not appear to be very different from competing organizations.” In addition, the researchers conclude that when the saturation level is high, successful new organizations must be both general and focused in the sense that focus must be placed on areas of weakness to improve the organization and generate personal growth.

Rivalry among existing faith traditions may be a function of several factors: the personalities of the local religious leaders, the distinctiveness of the belief systems present in the market, the strictness of the lifestyle requirements and the propensity to engage the local culture as opposed to become isolated. Miller (2002) supports this in his discussion of competitiveness. But competition among religious organizations is not limited to just these concepts. Cantrell, et

al. (1983) argue that autonomous congregations are likely to form ties with other local religious organizations for purposes of collaboration to reduce costs or fulfill their respective organizational missions. Autonomous congregations in a federative structured organization are less likely to form linkages with secular organizations.

Berger (1963) discovers through conceptual analysis a paradox of ecumenicity and denominationalism. In the midst of this paradox competitive forces are at work. He sees that “intense product standardization” has occurred among American Protestant denominations. “The fact remains that considerable ideological acrobatics are needed today to convince a potential religious consumer in suburbia that he would get a substantially different product” in one church compared with another. Marginal differentiation in Berger’s view can take on a variety of forms that he terms “functionally irrelevant embellishments and packaging.” More relevant is the maintenance of denominational image. Protestant churches attempt to remain competitive in spite of product standardization.

Not all writers consider competitive forces among religious organizations to be harmful. Warner (1993) reviews the debate over the effects of pluralism on religion. He cites Finke and Stark in support for the belief that pluralism increases “religious mobilization.”

PRESSURE FROM SUBSTITUTES

According to Porter, “all firms in an industry are competing, in a broad sense, with industries and consumers producing substitute products.” He argues that, “identifying substitute products is a matter of searching for other products that can perform the same function as the product of the industry.” He warns that doing so can sometimes lead the analyst into businesses seemingly far removed from the industry. Substitute products that deserve the most attention are

those that “(1) are subject to trends improving their price-performance tradeoff,” or “(2) are produced by industries earning high profits.”

The concept of substitute in terms relevant to religious nonprofit organizations can be understood only if the function of religious organizations is understood. Theological opinions about the function of the Christian church, too numerous to cite here, have been traditionally expressed among church leaders of most faith traditions. And while these opinions have value from the faith tradition perspectives represented some non-theological opinions have been put forward the last third of the century among business scholars. According to Kotler and Levy (1969), churches “at one time tended to define their product narrowly as that of producing religious services for members. Recently, most churchman have decided that their basic product is human fellowship.” Webb (1974) categorizes religious organizations as “voluntary organizations” since “individuals choose whether to participate or not.” The product of the church in his mind is that it is a value-creating, value-carrying, and value-legitimizing force in society. Shawchuck et al. (1992) argue that religious organizations “are unique in society in that they are the only social institutions formally set up to provide spiritual and moral nourishment and guidance to the citizens. . . . it is the unique mission of religious organizations to raise our sights above the mundane tasks of ‘getting and spending’ to address the larger questions of personal purpose, service to others, what it means to be a fulfilled human being, and the mysteries of the cosmos.” They align religious organizational offerings more closely with services. They characterize religious offerings as “social behavior products,” i.e., “ways of thinking, feeling and behaving.” If what they say is valid, one might argue that both the general environment and the task environment are equally important for strategy formulation. Spirituality and moral guidance might be considered fundamental elements that pervade the

entire environment both general and task. No one has argued that spirituality and moral guidance operates at only the general level or only the task environment though each is possible. But perceptions of these dynamics have never been tested empirically. Kotler and Andreasen (1996) recognize churches and synagogues enter into exchanges in order to promulgate “religious values.”

Miller’s (2002) attempts to build on the resource-based view of the firm “in conjunction with institutional theory.” In economic terms churches are producers, resolvers of collective action problems and competitors. Taking the economic view of religious organizations Hull and Bold (1989) argue that the “essential and unintended function of churches and religion” is “the reduction of transaction costs” within the larger economy. Churches provide a particular set of products such as entertainment and “other forms of temporal bliss, facing competition from private markets.” Hull and Bold see the church as “facing competition from private markets.”

If these opinions are accepted, the function of religious organizations is associated with promoting values, the larger questions of personal purpose, service to others, spiritual and moral nourishment and guidance, particular ways of thinking, feeling and behaving, fellowship and the mysteries of the cosmos. Substitutes may be found for most if not all these in the context of consumer experiences with other nonprofit organizations as well as in their experience with for-profit organizations or with informal social groups. Many nonprofits promote spiritual values, offer opportunities to explore personal purpose and service. Many nonprofits promote particular ways of thinking, feeling and behaving that are culturally central. Many organizations offer opportunities for fellowship. Add to this the potential that individual consumers, having had some background in either religious nonprofit organizational values or values promoted by other organizations, set out through leisure activities to explore personal purpose, the mysteries of the

cosmos. Such leisure activities include reading, attending entertainment and sporting events, pursuit of hobbies that provide the individual opportunities for fellowship as well as personal exploration of meaning in life. While leaders of religious organizations might easily scoff at the nature of the spirituality pursued through such substitutes, consumers may perceive these pursuits as legitimate avenues of fulfillment.

Substitutes for the function performed by religious nonprofit organizations can be seen as either sacred or secular. The fact that just half of the American public is in attendance at weekly religious worship services lends support to the argument that substitutes for the benefits of religious worship exist. Saturday and Sunday morning routines of American leisure lifestyle may be competing with religious organizations (Wrenn, 1993). Wrenn believes that as faith is privatized, people no longer believe that church or synagogue attendance is “important to their faith.”

If you want to see evidence of secular and sacred substitutes we may have to look no farther than some progressive churches. Miller (1999) considers some of the alternatives that have developed for worshipers. Culturally hip churches appropriate contemporary cultural forms and create new genre of worship music. Many of these churches are independent or if connected to a denomination have successfully isolated themselves from the constraints of the denominational bureaucracy. Some, however, offer too simplistic a view of faith leaving some worshipers looking for options that offer more depth and complexity. In Miller’s mind there is plenty of room for niche churches. Such alternatives developed by local church leaders may have been in an attempt to incorporate secular substitutes into the context of traditional church programming (Spiegler, 1996; Stein-Wellner, 2001).

Barrow (2003) claims that in Great Britain churches have largely ignored the evidence that the influence of the Church as a force on society is all but nonexistent. He claims that since the 1950s or 1960s Christian faith has eroded under the forces of secularized modernization. The psyche of the British people has changed from that of a sense of obligation to participate in religion to one of consumers with choices including secular spiritual substitutes. Many of these substitutes are “dislocated from traditional ideas about God and religion.” Barrow contends that generations of young people are emerging that are so isolated or alien to Christianity that they have no “folk memory of Christian concepts.” Barrow sees some implications for the British church if it is to become relevant again in British society. These implications are applicable to this study. The Church, in order to be successful, will need to make “huge shifts” in theological understandings (of at least the church’s mission if not more), attitude toward those it serves, in allocation of resources and in relationships.

For the last forty years several writers have discussed the significance of secularism in terms of the Christian church. The following are examples: Cox (1965), Mascall (1965), Newbigin (1966), Macquarrie (1967), Bloesch (1968), Demerath (1969), Schaeffer (1970), Horne (1975), Hunter (1976), Geering (1978), Hunter (1979), Miller (1979), Faber (1980), Posterski (1989), Wuthnow (1989), Senn (1992), Barr (1992), Stutzman (1992), Strobel (1993), Bandy (1997), Graham (1997), Keyt (2001). Secularism is a rival force competing for attention in the religious nonprofit environment. Also, it is considered a pervasive influence affecting all of society including religious organizations. In this way secularism might be both a substitute for as well as a constraining influence on religious organizations.

For many other church growth advocates secularization is the single most-important force affecting the church’s ability to communicate its message. Chaves (1993) discusses secularism

that he defines as the declining scope of authority in religious organizations. In his view denominational authority over resources has declined. Secularization is believed by some to be the decline of the church's control or heavy influence in whole areas of life. Hunter (1979) warns against considering the church's environment being monolithic. For church growth advocates ministry must be indigenous to the culture in which it is performed. The nature of the environment conditions church growth. Thus church growth advocates explore ways in which the church can be relevant to an indigenous secularized western society.

BARGAINING POWER OF BUYERS

At its root bargaining power is about the ability of one party to influence the behavior of the other party. But this influence is not in isolation from the other forces in the market place. In terms of organizational strategy, this influence is focused on changing the marketplace behaviors of another party. In the for-profit arena consumers attempt to influence the behaviors of firms by exercising choice to switch firms to achieve a lower price and higher value, banding together for higher volume purchasing, and bringing legal action to hold firms accountable to the social contract as well as the specific promises made in agreements and transactions.

Bargaining power of buyers in the for-profit arena increases when they have low switching costs, when the organization's profits are directly affected by buyer behaviors, buyers pose a threat of backward integration, the relative importance of the product is low compared with other products, products are relatively undifferentiated and the buyer has full information about demand, prices, and costs. A for-profit firm can alter buyer power by attempting to lock buyers into an agreement, differentiating the product, and buyer selection. Do these dynamics have analogous dynamics in the religious nonprofit sector?

Of all the circumstances that can increase buyer power the following seem to be most relevant for the church: the church's products are perceived as being standard or undifferentiated, switching costs are low, and buyers pose a credible threat of backward integration or for creating their own substitutes for the values offered by religious organizations. In addition to these forces, other influences from consumers might be at work in the world of religious organizations include: Opportunity costs for buyers in giving up one faith tradition to become involved in another, ethnic group expectations, family expectations, and the relative mobility in terms of spiritual alternatives available. Establishing a relationship with one local congregation can result in sunk investments of participation (cf. Miller, 2002). As religious organizations become more astute in targeting consumers with whom they have the most long-term success we see evidence of buyer selection. Religious organizations now understand the power of commitment and agreement and incorporate these principles in new member orientation programs in terms of written covenants between pastoral leaders and members, training programs for and volunteer recruitment to service. These agreements do not carry the same force as do legal purchase agreements but they enhance the sense of obligation to continue supporting the community of believers. Commitments are sealed with authoritative rituals and ceremonies to impress on the new member the solemn significance of the agreements. Just as important charismatic leadership is employed to reinforce long-term commitments. Behaviors related to the commitments of new members are monitored and designated leaders are assigned the task of maintaining contact with these individuals to encourage them until the commitment behaviors become habitual.

Finke and Stark are proponents of the concept that religious pluralism increases religious mobilization. Warner (1993) states that the competitive religious market does not mean that religious organizations "pander to a lowest common denominator of spiritual commitment." Nor

does it mean that “religious consumers constantly compare competing suppliers’ responses to their fixed demands.” He concludes that denominational growth and decline patterns are largely explained by “patterns of new church plantings.” Warner also sees that the three demographic factors, region, social class and urbanism serve to differentiate some denominations. The social factors of class, race ethnicity and language are the factors of social space for cultural pluralism that affect religious organizations. In this article I contend that these social factors act as constraints on religious mobilization.

Consumers may have had little bargaining power when churches were doing well financially. Bargaining power of buyers can be exercised as organization members “vote with their wallets” and other resources by redirecting them under conditions of dissatisfaction.

BARGAINING POWER OF SUPPLIERS

As with bargaining power of buyers, the key issue is still the ability to influence action. The conditions making suppliers powerful “tend to mirror those making buyers powerful.” Suppliers exert bargaining power by threatening to raise prices or reduce quality.

In the religious nonprofit sector a central question here is who are the suppliers? Religious organizations purchase goods and services in the course of carrying out the organizational mission. Ceremonial garments, minor equipment, publications are three examples of operating suppliers that can influence religious organizations. To these should be added the suppliers of capital goods and services related to establishing or improving property, plant and equipment. While these suppliers are influential, they may not have the bargaining power for the strategically relevant activities that is as significant as other suppliers.

If the supplier has more influence than the firm, we will see the firm attempt to minimize this or if this is not possible, to collaborate with it (if you can't beat them, join them). Here we see clear application in the religious marketplace. Influence in the religious nonprofit arena comes from several sources including charismatic celebrity visionaries, religiously affiliated institutions of higher education, professional associations, denominational leaders, congregational members, organizational founders and, even secular influentials in the wider culture.

Charismatic celebrity visionaries include authors of influential books and articles, charismatic leaders of large congregations or denominations, evangelists such as Billy Graham and religious media personalities. These supply local organizational leaders with new ways of thinking about organizational problems. They provide new ideas for ministry and service as well as models and frameworks that can be brought into religious teaching and preaching. They also give encouragement to remain focused on the mission of the organization in the face of difficulties faced in the changing environment. This charismatic leadership provides credibility and legitimacy vital to the success of religious organizations (Miller, 2002).

Institutions of higher education affiliated with religious organizations supply professionally trained leaders and resources for continuing education. Traditionally the most prominent among these has been the seminary in Christianity, the rabbinic school in Judaism and the imam school in Islam. Theologians are forces for rational/philosophical legitimacy of the faith tradition. Religious historians preserve and keep alive the significance of the organization and its mission in society. Theologians also enhance credibility of local congregations by attempting to answer difficult questions raised by skeptics. Language and scriptural text scholars provide access to knowledge of spiritual dynamics from ancient times. Together, these highly

trained professionals are vital to defend the organization against attacks on credibility and legitimacy. Extending the work of DiMaggio and Powell (1983) and Stone (1989) we might say that professionally trained leaders bring a normative influence for change to the organizations that hire them. If Miller's (1999) observations can be extrapolated into the future, the influence of seminaries may decline proportionately as more laypersons take on the role of ministry planning and implementation.

Colleagues in professional associations related to religious leadership and service influence each other by exposing each other to new methods for strategic planning (Stone, 1989). Cantrell, Krile and Donohue (1983) argue that a denomination acts as a supplier to the local congregation. The denomination provides credentials of leaders through ordination process. It grants denominational affiliation an asset of legitimacy and corporate reputation that can be used to attract new members. In addition to the resources that Cantrell et al. have identified there are other things the denomination supplies. The denomination shares with the congregation a defined systematic set of beliefs that add to the legitimacy of the appointed leaders, grants the opportunity to use the denomination's protected intellectual property such as trademarks, name, and provides access to ministry resources. But with this access to resources can also come pressure to conform to denominational expectations. Benson and Dorsett (1971) and Crittenden and Crittenden (2000) refer to this pressure from denominational leaders. Exposure to this pressure is a sign of dependence. Denominational leaders acting in their official capacity are providers of financial resources, knowledge, credibility, career support. This is consistent with Powell and DiMaggio institutional isomorphism where coercive processes of the dominant organization result in local congregations adopting organizational structures, forms, processes, and procedures that conform to the expectations of the dominant organization. According to

Chaves (1993) denominational authority is decreasing (“internal secularization”) but not gone among American denominations. The dual authority still prevalent in religious organizations includes religious authority and agency authority. Chaves discusses the two roles of the congregation related to these two authority structures: (1) the congregation as an object of control by the denomination as well as (2) a resource base needed by the denomination. Harris (1998) argues that clergy play a unique role of facing both inward toward the members and outward toward the denominational leaders. Ministers see themselves “to a much greater degree than even senior lay volunteers, as closely linked into a wider denominational world of which the congregation is just a part.” She also comments on the dual authority system in congregations: traditional charismatic authority and the rational-legal authority. Harris (1995) discusses organizational change of churches. She considers the trade-offs inherent in the need for independence and flexibility but the values that come from connection with a wider denominational structure.

In an unusual twist on the Porter framework, members of religious congregations are in the unique position of being both consumers and suppliers. As Miller (2002) has argued religion is the result of collective action. Members of the religious organization provide legitimacy and credibility to new members and potential members. Members’ behaviors provide the atmosphere of programs and service in the organization. Crittenden and Crittenden (1997) observe a trend among members of nonprofit organizations is an increased desire that the organizations they volunteer for are “responsive to environmental conditions.” This may likely be true for religious organizations that work from a strategy of engagement with the larger society. Members use their influence at both the local and denominational level to encourage change and reform.

Founders of a religious organization, though many have long been deceased, still continue to influence the expectations regarding organizational mission. In deed, it can be said that the organizational mission, as voiced by the organization's founders, plays one of the most significant roles in the religious nonprofit. Thus, founders become a subtle type of supplier in that they and their historical experience provide an important tradition, credibility, legitimacy. (cf. Miller, 2002) Likewise, professional leaders who have been allowed the privilege of carrying on the vision of the founders, through the validation process of ordination or licensure, extend the influence of the founders to succeeding generations as they interpret the mission.

Somewhat ironically, individuals who are professional culture watchers and culture commentators become a form of referent supplier when they are referred by religious leaders as these leaders comment on society or attempt to relate the mission of the organization to changes in society.

Churches that operate within the constraints of a denomination are an important customer of the supplier. This might reduce the supplier's (denomination's) power. However, because of the other dynamics in the relationship the denomination can have significant power over the collection of congregations under its authority. The resources offered by the denomination are important to the church's operating. Switching costs might vary depending on the ease of finding replacement organizations for the crucial resources. Denominational authority carries with it the financial and political influence to establish a competing congregation in the marketplace of a congregation that fails to observe key denominational expectations.

Based on this conceptual analysis one might make the case that suppliers have significantly more power than do the buyers in the religious organization marketplace.

FOR FURTHER RESEARCH

Literature in support of the dynamics represented by the intent of the Porter framework has been reviewed suggesting that we should not be quick to dismiss the framework's relevance to religious nonprofit organizations. Though this was not intended to be a comprehensive review of the literature, its representative nature should give encouragement to strategy researchers to continue pursuing the study of religious nonprofit organizations in terms of frameworks such as that provided by Porter and others.

While this conceptual analysis has been representative of the dynamics present among religious nonprofit organizations, it has not been comprehensive. Additional points of view may be brought for further refinement of this analysis. In addition, opportunities exist for further research regarding strategy in religious nonprofits in general and the Porter framework specifically. An important area for research is identifying the component parts of the environment in which religious nonprofit organizations operate. This will aid students of strategy in understanding the structure of an industry that operates in terms that are different from the for-profit world.

The assumption regarding the applicability of business theories, frameworks and conceptual models should be tested in the context of religious nonprofit organizations. This is foundational for further progress in strategy research in religious nonprofits.

In the religious market it is not the combined forces that affect industry profitability that is most significant. Rather it is the relative strength of the force that each exerts as well as the impact of the force on the strategic operation of the organization. Research can be focused on the relative strength or weakness of the various forces affecting religious nonprofit organizations.

Porter contends that “the strongest force or forces are governing and become crucial from the point of view of strategy formulation.” Yet to what degree these, or other elements, influence strategy in religious nonprofits is not known.

Breakaway groups among religious nonprofit organizations may use an implicit form of Porter’s five forces framework when evaluating their options or while preparing their break away tactics. To date this has not been researched empirically.

Porter contends that the profitability (and correspondingly attractiveness) of an industry is a function of the cumulative effect of the five forces. Profitability of the religious “industry” is not meaningful if discussed in terms of marginal costs versus marginal revenues. What is needed is a better description of the outcome of the five forces in the religious industry. Share of world-view and mind-set advantages versus the tradeoffs for the consumer may offer descriptions of outcomes more relevant than profit though exceedingly difficult to measure. Here Aldrich’s (1979) concept of environmental capacity, richness and leanness may be helpful in understanding the environment in which religious nonprofit organizations operate.

The conceptual analysis of Porter’s framework naturally raises questions about the applicability of other strategic models and concepts. Kohl (1984) applied the Miles and Snow strategy model to the religious congregation. Busenitz, McDaniel and Lau (1991) investigated newly formed Baptist churches in Texas in terms of the use of focused versus generalist strategic decisions. In addition, Vokurka and McDaniel (2004) have examined the strategy of religious organizations. Does the Porter (1985) generic model of competitive advantage apply to religious nonprofit organizations? If so, under what contingencies?

Finally, it may be in the context of religious nonprofit organizations that two normally divergent views of strategy (Porter’s competitive position model; resource-based view) must be

held together yet in tension. The two views may not become totally synthesized, yet must be kept together in order to explain the phenomena observed among religious nonprofits. This has implications for organization theorists who desire to include nonprofit organizations under a larger framework.

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Figure 1.3

