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Understanding the Competitive Environment of Nonprofit Organizations: A Resource-Advantage Theory Approach

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**ABSTRACT**

Competition in the nonprofit sector has dramatically intensified in the past two decades as a result of the increased number of nonprofit organizations (NPOs), decreased and diffused governmental support, and entry of for-profit companies into markets that are traditionally the domain of nonprofits. In an attempt to enhance the understanding of the nonprofit competition, the authors adapt a general theory of competition to commercial nonprofits, those that generate external benefits by commercial activities. Applying resource-advantage (R-A) theory, a dynamic theory of competition adapted from the business literature, we discuss how these entities can leverage their various resources in order to successfully compete and achieve superior financial performance. This financial performance enables the nonprofit to better serve its mission as well as maintain its operations. In brief, there are three reasons why considering the primary objective of NPOs as attaining superior financial performance is required to understand nonprofit market: (1) Achieving superior financial performance enables firms (for-profit or nonprofit) to pursue other objectives, such as contributing to social causes. (2) Sustainability of the social value in the long run depends on attaining superior financial performance. In other words, prolonged inferior financial performance jeopardizes organization’s survival in the long run. (3) In a dynamic competitive environment, the players need benchmarks to evaluate and improve their performance. Social value is too subjective to compare the performance of various organizations. Superior financial performance enables a NPO to assess its performance relative to other organizations. Contributing to the understanding of the mission/money balance, this paper provides a foundation for future research in the area and helps to guide NPO managers as they maneuver in this increasingly competitive environment.

**ABOUT THE AUTHORS**

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