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Introductory Chapter: Selected Aspects of Non-Profit Organisations

Tatjana Horvat

1. Introduction

The term non-profit organisation represents two types of organisations. One is public non-profit organisations founded by public institutions. Their mission is to implement the public interest. On the other hand, we have private non-profit organisations founded by private natural and/or legal persons whose mission is pursuing a common and/or public interest. Both public and common interest represent the legitimate operationalisation of the general social interest ([1], p. 324).

According to Salamon [2], over the past 25 years, we have witnessed a great expansion of philanthropy, volunteerism and civil society organisations around the world. Consequently, interest in academic research in the field has increased. Most academic and research work in the field is, of course, in the field of sociological sciences [3].

In economics, we can approach topics through interest theory. Tavčar ([4], p. 259) mentions that the dual aspect is characteristic of any organisation. The organisation as an instrument for achieving the set goals of individuals and the organisation as a community of interests characterised by complexity where the success of the organisation is the consistency of action for the purpose of establishment, taking into account the interests of external and internal stakeholders. The character of an organisation is therefore a reflection of the attitude of important stakeholders. The areas covering stakeholders' interest, their accountability and how they influence the development of non-governmental organisation, are less extensively explored in the scientific literature. As Candler and Dumont [5] have pointed out, there is no shortage of research on the non-profit sector; what is there is a modesty of literature that directly addresses the issue of the interests of internal and external stakeholders on non-profit organisation performance.

When we discuss development, we inadvertently touch the area of success. The importance of performance measurement in non-profit organisations has already been described by Kaplan [6] who has transferred the model of balanced indicators to the level of non-profit organisations. This model shows how organisations are aware of the link between the non-financial and intangible dimensions of performance measurement and the implications for cash flow [7]. Many others also place considerable weight on the performance measurement in non-profit organisations [8–13]. Performance measurement in for-profit organisations is primarily about creating financial value for its owners [14], while measuring performance in non-profits has two goals in particular: demonstrating its value to stakeholders and improving organisational performance by learning and evaluating its programmes or services, and comparing with others through internal reporting [15]. Therefore,

it can be said that the success of non-profit organisations is not essential, but it is important for their operation and survival.

Rakar et al. ([16], p. 14) describe private non-profit organisations as part of a civil society, defined as a space outside the family, state and market created by individual and group actions, organisations and institutions, with the aim of pursuing common interests. They represent an important instrument of democratisation and pluralisation of relations, expansion of individual possibilities and free choice of individuals, and increase of active participation in modern society ([17], p. 153).

Costa et al. ([18], p. 473) consider that non-profit organisations have emerged as an important factor in promoting social values and integration, in creating global civil society that can often influence practices, and in national and international policies.

Vrečko ([19], p. 20) attributes a special role to the importance of non-profit organisations. According to him, non-governmental organisations are one of the three main pillars of modern society, with completely their own identity and social function, independent of the state and economic sectors.

Non-profit organisations also represent a particular type of cultural and institutional base. Because their commitment is a particular social mission, their members are primarily interested in the organisational mission and desire to contribute to making the world even better. Non-profit organisations are also less hierarchical than other institutions [20, 21].

Kolarič ([22], p. 29) emphasises that non-governmental organisations are among non-profit organisations, which are mostly not established for profit, but to assist in the continuous provision of services and goods for the successful functioning of society. It follows that the reason for the existence of non-profit organisations is to act in the general social interest, that is, to act for generally socially beneficial purposes. Nevertheless, Salamon and Anheier ([23], p. 2) argue that non-profit organisations remain a 'lost continent' on the map of modern societies, invisible to most political and economic actors, media and even many individuals who work in it.

Financing commercialisation requires that employees of non-profit organisations also have similar skills in the field of business-organisational sciences as their counterparts in the private sector. Without these, they would have been in the process of acquiring alternative financial resources quite unsuccessful. The necessary knowledge may be obtained in part from members of the supervisory boards in private sector, from students of business-organisational sciences and volunteers from successful for-profit business.

Non-profit organisations can also form networks and alliances with the for-profit sector through which they seek to gain the missing complementary knowledge and experience. However, there is a general belief that greater commercialisation cannot be based solely on the advice and assistance of external surveillance of Supervisory Board members, consultants and partners.

It is necessary to recruit their own (internal) professional staff. This, in turn, entails some human resource management problems. By recruiting qualified professionals coming from the economy, conflicts arise in corporate culture and rewarding of managers. Senior non-profit managers need to anticipate potential conflicts and find ways to turn them into creatively healthy tension. One option is to separate the profit-oriented activities of non-profit organisations that require more business-organisational skills from other non-profit activities. Such reorganisation can bear fruit only if the activities can be separated in such a way that their daily interaction is unnecessary. However, even in this case, employees of non-profit philanthropic activities may follow the activities of their more market-oriented colleagues with envy and hatred. It is difficult to establish different levels of pay for

employees with the same education and work experience. Such a payment system can also entail a significant increase in costs. On the other hand, the absence of such a payment scheme hinders the acquisition of qualified staff, which can greatly increase non-profit organisations' revenue and reduce costs.

Due to the emphasis on commercialisation, the government requires that the companies it finances at all levels (local, regional, national) respect the principles of efficiency, economy and competitiveness as applied to private commercial enterprises. As a result, major non-profit voluntary organisations in the US have recruited one-third of senior managers from the for-profit sector [24].

People with business skills are replacing past employees who have acted on a more amateur and less professional basis. Some non-profit organisations think this is right and others that it is difficult to involve users and people from the local environment in the implementation of the activities due to new trends. Increasing professional skills of employees also require an increasingly risky environment. The demands for innovation, flexibility and diversification are increasing. As a result, the old bureaucratic habits of work and leadership need to be abandoned. This is particularly conditioned by the shift from stable state funding to the search for private sources.

In order to ensure the effective use of non-profit organisations' funds, effective internal and external control is crucial. This is not possible without setting appropriate accounting standards that may again be specific to specific types of non-profit organisations by organisational form (societies, institutes, etc.) and by activity (health, education, etc.). Thus, for example, the American National Association of College and University Business Officers reached an agreement with the state financial administration on accounting principles and reporting. Since that association issued the first guide to recommended accounting practices and subsequently updated it regularly and if necessary, they argue, these accounting principles have become widely accepted standards, also recognized by the national body of colleges and universities (Audits of Colleges and Universities) and taught at US universities through specialized accounting programs for university institutions [25].

On the basis of comparable financial statements, it is also possible to make a comparative assessment of the funds used. It is possible to set appropriate and acceptable standards for financing the activities of non-profit organisations. The comparative assessment of the use of funds is based on statistical analyses of the institutions, which are grouped by activity type, size, geographical location and scope of the programme. Normally, groups with similar characteristics are analysed to find out how much they are worth, for example, the average cost per student of a higher education organisation. In smaller countries, the problem may be that there are fewer non-profit organisations of the same type. Therefore, it is necessary to compare different organisations (e.g., different faculties of social sciences, rather than, say, several faculties of economics, since they simply do not exist). The estimate of the required financial resources will—of course—be based on the average, but will have to take into account the objectively conditioned specificities of each individual institution.

Contemporary international guidelines for the development of non-profit organisations show that they are of importance and that the role of non-profit organisations has been recognised by virtually all developed countries. Therefore, in the last two decades of the twentieth century, one could notice a real boom in non-profit organisations, most notably in a form of accelerated partnerships between them and the government. This is reflected in the involvement of non-profit organisations in decision-making processes as well as in their wider process of inclusion into the network of service providers of public interest (public networks).

In the Member States of the European Union, non-profit organisations are heavily involved in the functioning of the government, especially in the fields of education (Belgium, Ireland), healthcare (Netherlands), social welfare (Austria, France, Germany, Spain) and culture and sports (Czech Republic, Hungary, Slovakia). As a result, they employ on average 5.42% of the active population. Their close cooperation with the government is also reflected in the share of revenues from public sources, since this in the Member States of the European Union accounts for an average of 58% of all non-profit organisations' revenues and their state revenues. Publicly funded programs spend an average of 2.20% of national GDP ([26], p. 2). In the field of volunteering, a direction of development is evident regarding corporate social responsibility, the development of corporate volunteering and other innovative forms of volunteering that follow rapid changes in society.

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