

NATURE OF NONPROFIT ORGANIZATIONS' MANAGEMENT

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Summary: Since the early 1990s nonprofit organizations have emerged and have been growing in many sectors. As a result a variety of civil society has been formed. This process has continued ever since: nonprofit organizations are essential elements of current societies. These organizations are characterized by greater vulnerability to the prevailing environmental factors. More and more of these organizations use typical profit-oriented enterprise management methods to succeed. Based on accounting indexes and personal observations, this study shows the most important characteristics of these organizations' management, factoring the organizations by their forms. The survey includes information from the annual accounts of 100 foundations and 100 associations completed by in-depth interviews and the author's personal experiences.

Keywords: characteristics of organization's management, organization forms, non-profit organizations

1. Introduction

There are several areas in a society where formal, for-profit organizations are less effective reaching their objectives (e.g. sport, traditions, public safety, culture). In these cases, Non-Governmental Organizations (NGO) can be solutions. They perform tasks what for-profit companies do not assume, and often satisfy higher needs, which promotes the establishment and operation of these projects. Depending on the development and structure of a particular society, the local community's demands, opportunities and traditions, there are plenty of tasks, that are resolved by NGOs, since the state and local government agencies and economic actors do not want to, or are not able to perform them. Important role of the NGOs that they could be a sort of indicators by their flexibility and quick adaptation, indicating if something is not well regulated or conflict of interests take place. The financial management of nonprofit organizations exhibits many traits similar to those of for-profit companies, but at least this much different characteristics appear. The effectiveness of civil society organizations is largely determined by the market environment, they get their sources similar as businesses. They have resources of which effective utilization and development greatly affects the success of managing their basic tasks. Of course, the fundamental goal is not to maximize profit but to perform the tasks taken as perfectly as possible. To do so, they provide resources mainly not from selling their products and services, but in the form of aids and donations. Non-profit organization's identity, strategy, human factors, mode of operation and organizational management solutions are different. (Bullain, 1995)

Some non-governmental organizations do not have a written organizational frame, however plenty of formal organization have been established as yet. Due to the importance of the NGOs' large number, there is a growing demand for processing their management and organizational features, like it is with the economic organizations. As long as more people work on a given task, regardless of the organizational framework, almost self-evident that management issues raise. There are organizations which ignore these issues, nevertheless it definitely helps to achieve the goals, if the leaders possess management skills and use the

essentials of organizing, leadership, management, monitoring and planning. The majority of non-profit organizations evolve through self-organization, the organizational structure is informal, the powers and responsibilities are not exactly clarified, therefore the leading and monitoring is more difficult as well. Another problem is that the leaders and members do not work full time, and do not get salary, so their tasks may be carried out incidentally, even the function of the whole organization may be wavering. For certain times, NGOs can even suspend their activities. For non-profit organizations, using the management and organizational theories and processes in the same way as it was proven good at for-profit companies is not necessarily rewarding, but their knowledge and conscious adaptation is a must. For the registered organizations the legislation, the application, credit system also requires the use of management techniques.

The basic objective of the study is, to draw attention to the particularities of the NGO management, and to track down the conditions for the more effective operation. The NGO literature is very wide, but they are largely sociological aspects and do not examine the management area. (Farkas, 1994) The study included 200 NGOs, half of them operate as associations, the other half as foundation. Because of the large number of organizations, and to improve the comparability, I have introduced some restrictions. Only organizations were included in the sample, which had at least 2 million HUF income for two years (2012-2013), and perform duties related to education in whole or in part. Territorial restrictions are not applied. The annual reports are collected from the list of non-governmental organizations on the website birosag.hu, and based on this data, I've contacted 2-2 association and foundation leaders personally. All this is complemented by personal experience, as I am leading an association for 15 years, and I am a member of the Board of Trustees of two foundations. My basic aim is to form findings and conclusions, which can help the operation and management of the NGOs be more effective. The survey data is not necessarily characterize the whole sector, because the sample is not representative, however the size of the sample gives opportunity to make significant and real conclusions.

2. The role, importance and economic weight of non-profit organizations

After the regime change, the domestic society used the possibility of self-organization, and non-governmental organizations were set up widely and in large numbers. It also can be said, that based on the number of organizations, much more social activity could be assumed, despite the fact that many initiatives will only work informally. Many registered organizations show only minimal activity, revenues are minimal, their activities are periodical, and sometimes it may be suspended. All of this is related to the lack of resources, the eventualities of tasks and other activities of the leader. The formalization of the organizations is on low-level, applying management methods are incomplete. Their activities often bring conflicts if they are confronted with certain economic interests, or power status quo. Their role, however, is huge, as they carry out specific tasks and in addition characterize the state of society as a whole as well. Civil society organizations accurately indicate the existing trust, willingness to cooperate and activity of a given society, play an intermediary role between citizens and public authorities, market and government sector. (Putnam, 2000; Bíró, 2002) They take over welfare tasks from state and local government agencies in order to provide them more effectively. This trend is growing in Hungary. The condition of charitable status, is to pinpoint the welfare tasks that had been provided by the state. However, the government must continue taking part in financing these tasks.

Operation and management of civil society organizations largely determined by the new regulations came into effect from 2012 (CLXXV. Act 2011, CLXXXI. Act 2011, 350/2011. Government regulation). Among the regulations of the management, the most important ones

are that the annual budget should be prepared, the annual report must be deposited in the National Judicial Office, the public must be kept informed, the public benefit is being overridden, and the laws for-profit businesses termination also applies to NGOs.

According to the CSO in 2013, there were 64,542 registered non-profit organizations, however, the courts registered 20 thousand more, the Civil Information Portal currently has data of 118,462 organizations. Thus, the CSO is not complete, but I use it because it provides sufficient information for the analysis.

In 2013 seven hundred less non-profit non-governmental organization were working in Hungary than in the previous year, 22.5 thousand in the form of foundation and 42 thousand as non-profit social organization.. 62% of the foundations are related to three areas of activity, education (32%), social services (16%) and culture (14%). In the corporate profit organizations, the proportion of the recreation (25%) sport clubs (16%) and cultural associations (13%) were the highest. Organizations with public beneficial status has the ratio of 55%. 91% of the organizations conducted a full cash flow in the given year, while 4% of the organizations did not engage any financial activities.

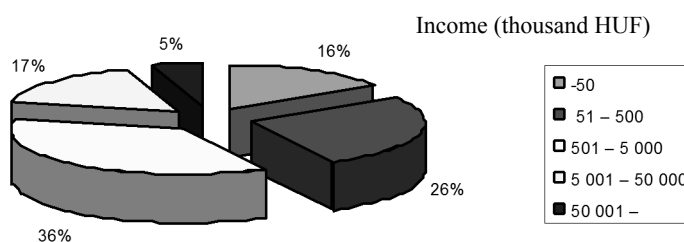
Table 1: The number of non-profit organizations, according to their operating characteristic (2013)

Organizational form	The number of non-profit organizations, according to their operating characteristic.					Total income for the non-profit sector		
	Have revenues, expenditures	No expenditures	Have only expenditures	Operating without money	Total	HUF million	Distribution, %	Revenue per organization, HUF thousand
Foundation	19 332	273	912	657	21 174	224 969,60	18,1	10 624
Public Foundation	1 253	13	47	13	1 326	27 409,70	2,2	20 670
Association	31 908	745	737	2 006	35 396	300 225,80	24,2	8 481
Public body	260	1	0	1	262	54 467,40	4,4	207 890
Union	854	17	5	46	922	11 996,00	1	13 010
Professional employer organization	2 151	32	63	136	2 382	63 438,70	5,1	26 632
Non-profit business association	2 787	3	144	69	3 003	554 086,50	44,6	184 510
Merger	69	0	4	4	77	5 001,30	0,4	64 952
Total	58614	1084	1912	2932	64542	1241595	100	19237

Source: CSO

In 2013 revenue amounted to HUF 1,241,595 million, 3% reduction in real terms compared to 2012. 35% of these revenues came from state and municipal budgets, which meant a 5 percent drop compared to the previous year. At the same time the proportion of the own revenues increased from 40% to 44%.

Figure 1. Ratio of non-profit organizations according to sales volume (2013)



Source: CSO

Between 2012 and 2013, the number of employees in the non-profit sector decreased by 10%, the total number in 2013 exceeded 130 thousand. This value made up more than 3% of the employments in the national economy. Within this, the number of full-time workers was 83.5 thousand, 46.9 thousand workers beside them worked in part-time. In 2013 the estimated number of volunteers in the sector was 490 thousand. They have passed 51 million working hours, which is more than the working hours of 24.5 thousand full-time employees. The estimated value of their work is HUF 55 billion. The average of the employment and the income can be considered as the weight of the sector in the national economy, which exceeded 4% between 2010 and 2012, but fell slightly in 2013.

3. Some features of the management of non-profit organizations

The average income of the investigated organizations was HUF 15929 thousand in 2013, which is almost a 12% decrease over the previous year. The average revenues of the foundations almost three times more than the associations' (HUF 21048 thousand – HUF 7311 thousand).

Table 2: The number of investigated organizations by size of income

Size of income	Foundation	Association
HUF	pcs	pcs
2-4 million	38	51
4-8 million	14	29
8-12 million	15	17
12-20 million	24	2
20 million and more	9	1
Total	100	100

Source: own survey

Only two associations had income from Entrepreneurial activity, but the core business income is very lower than other revenues (support, membership fees, donations). 46% of the foundations gained revenues from core activities, its average values is HUF 3259 thousand, 39% of the associations had of such income with an average of HUF 3millions. Both for foundations and for associations the income from financial operations is negligible. 94% of the foundations had income from support, the average value of these is HUF 22567 thousand. Support from the central budget could be found at 62% of the foundations, average value HUF 27168 thousand, 51% of these organizations received local governmental funding with an average value of HUF 1410 thousand. The shortfall is quite serious in obtaining EU funds, since only 5% of the foundations had such an income with a total revenue of HUF 32 millions. Almost every foundation use the option of the 1% personal tax income offerings, since 96% percentage of them indicated such benefits, However, their average value is not so significant (HUF 191,000). 95% of the associations had revenue from grants with an average value HUF 4,076 thousand. 48 associations had an average income of HUF 4,850 thousand

from central budget, and 58 organizations received grants from local government with an average value of 3,478 thousand forints. Only 2 associations had EU support, while 86 organizations received 1% of the personal income tax offerings with an average value of HUF 183 thousand.

Table 3: Expenditures of the examined organizations

	Foundation		Association	
	Quantity (pcs)	Average value (thousand Ft)	Quantity (pcs)	Average value (thousand Ft)
Material Expenses	100	4629	100	3040
Personnel Expenses	66	4117	76	1904
Depreciation	59	1592	32	724
Other Expenses	72	24271	88	3158
Expenses of Financial Operation	14	198	4	22
Total Expenses	100	22717	100	7136

Source: own survey

As regards expenses, the largest amount accounted is among the other expenses, every organization had material expenses. Personnel expenses are accounted by 66% of foundations and 76% of associations with the value of almost 4 million and 2 million forints per organization. It suggests up-to 2 and 1 full-time employee, but in most cases there is absolutely no full-time employee. Personnel expenses made up of simplified employment and agency contracts. The role of volunteers is particularly important in this sector, so one of the most important tasks for management is activation of human resources.

More than half of the organizations had a negative result for the year. In this respect, the associations' situation was better, they had an average value of HUF 128 thousand, and 32% of organizations had negative results. For Foundations 48% had a negative result for the year, as a result of this, the average loss is greater than one and a half million forints. This is also dangerous, because the condition of charitable status is the positive result for the year. 46% of the foundations and 34% of the associations were public beneficial.

Table 4. Balance sheet data of the examined organizations

	Foundation		Association	
	Quantity (pcs)	Average value (thousand HUF)	Quantity (pcs)	Average value (thousand HUF)
Fixed Assets	78	32134	32	7 913
Intangible Assets	2	289	0	0
Tangible Assets	77	34984	32	7 913
Fixed Financial Assets	2	1530		0
Current Assets	100	5079	100	1 343
Stocks	9	979	4	323
Receivables	12	4357	0	0
Marketable Securities	3	4070	0	0
Cash	100	3641	100	1 343
Assets	100	26004	100	2 928
Equity	100	2564	100	893
Share Capital	96	256	18	15
Retained Earnings	98	3660	75	622
Long-term Liability	6	4425	0	0
Short-term Liability	65	3467	14	973
Liabilities	100	26004	100	2 928

Source: own survey

The examined organizations' key balance sheet data are shown in Table 4. Foundations have a much higher proportion of fixed assets, however it is almost exclusively tangible assets. The associations have much less assets, their tangible assets is less than a quarter of the foundations'. The organizations have almost no long-term obligation, they do not participate in lending.

4. Summary

Non-profit organizations are only able to perform effectively their self-imposed tasks taken over from the state, if they are successfully managed, which is also extorted by the legislation. This requires choosing the right organizational framework which will ultimately be determined by type and extent of the commitments taken. This will also define the time, energy and human resources available for each task. In general, one can identify obtaining the required funds as one of the most important tasks of the leader. In addition they need to organize everyday activities and to meet state regulations and especially important their continuous social networking. The importance of social networking is further increased by the available company tax-based subsidy for the sport and cultural organizations. Economic indicators also confirm that these organizations exist under difficult financial circumstances, depending mostly on subsidies, which means great risks and exposure. In Europe the significance of the non-governmental organizations has been recognized, making resources available for them, but Hungarian NGOs do not use these sources. This can mostly be explained by the lack of knowledge and experience. Typically the public benefit organizations' incomes are higher because numerous tenders can only be submitted by them. Another relevant experience is that executive officers do not pay enough attention to the paper-work of the management, resulting insufficient obligatory records and data.

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