

Zoltán HORVÁTH

### 3.5.NATURE OF NONPROFIT ORGANIZATIONS' MANAGEMENT

#### Summary

Since the early 1990s non-profit 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: non-profit 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 organization's 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:** non-profit, management, strategy, planning, environmental analysis

#### 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, and 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 non-profit 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 an organizational feature, 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, and 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](http://birosag.hu), and based on this data; I have 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.

### **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 have 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.

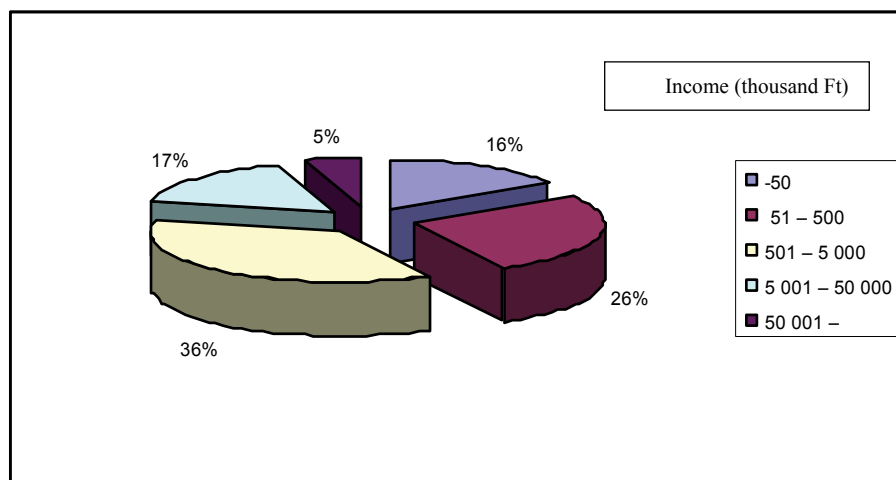
In 2013, revenue amounted to HUF 1,241,595 million, 3% reduction in real terms compared to 2012. 35% of these revenues came from state and municipal budgets, which meant a 5 percent drop compared to the previous year. At the same time the proportion of the own revenues increased from 40% to 44%.

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

Organizational form	The number of non-profit organizations, according to their operating characteristics				
	<i>Have revenues, expenditures</i>	<i>no expenditures</i>	<i>Have only expenditures</i>	<i>Operating without money</i>	<i>Total</i>
Foundation	19 332	273	912	657	21 174
Public Foundation	1 253	13	47	13	1 326
Association	31 908	745	737	2 006	35 396
Public body	260	1	0	1	262
Union	854	17	5	46	922
Professional employer organization	2 151	32	63	136	2 382
Non-profit business association	2 787	3	144	69	3 003
Merger	69	0	4	4	77
<b>Total</b>	<b>58614</b>	<b>1084</b>	<b>1912</b>	<b>2932</b>	<b>64542</b>

Organizational form	Total income for the non-profit sector		
	<i>HUF million</i>	<i>Distribution, %</i>	<i>Revenue per organization, HUF thousand</i>
Foundation	224 969,60	18,1	10 624
Public Foundation	27 409,70	2,2	20 670
Association	300 225,80	24,2	8 481
Public body	54 467,40	4,4	207 890
Union	11 996,00	1	13 010
Professional employer organization	63 438,70	5,1	26 632
Non-profit business association	554 086,50	44,6	184 510
Merger	5 001,30	0,4	64 952
<b>Total</b>	<b>1241595</b>	<b>100</b>	<b>19237</b>

Source: CSO

**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.

### Some features of the management of non-profit organizations

#### *Income*

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 revenue of the foundations almost three times more than the associations' (HUF 21048 thousand – HUF 7311 thousand).

**Table 2: The number of analysed organizations by size of income**

	Foundation (pcs)	Association (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
<b>Total</b>	<b>100</b>	<b>100</b>

Source: own survey

Only two association 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.

### *Expenditures*

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 the activation of human resources.

*Table 3: Expenditures of the examined organizations*

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

Source: own survey

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.

### ***Balance sheet data***

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, do not participate in lending.

***Table 4: Balance sheet data of the examined organizations***

	<b>Foundation</b>		<b>Association</b>	
	Quantity (pcs)	Average value (thousand Ft)	Quantity (pcs)	Average value (thousand Ft)
<b>Fixed Assets</b>	<b>78</b>	<b>32134</b>	<b>32</b>	<b>7 913</b>
Intangible Assets	2	289	0	0
Tangible Assets	77	34984	32	7 913
Fixed Financial Assets	2	1530		0
<b>Current Assets</b>	<b>100</b>	<b>5079</b>	<b>100</b>	<b>1 343</b>
Stocks	9	979	4	323
Receivables	12	4357	0	0
Marketable Securities	3	4070	0	0
Cash	100	3641	100	1 343
<b>Assets</b>	<b>100</b>	<b>26004</b>	<b>100</b>	<b>2 928</b>
<b>Equity</b>	<b>100</b>	<b>2564</b>	<b>100</b>	<b>893</b>
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
<b>Liabilities</b>	<b>100</b>	<b>26004</b>	<b>100</b>	<b>2 928</b>

Source: own survey

### ***Corporate plans***

It showed to be typical for the interviewed organizations to prepare written plans, but only 33 organization had long term (3-5 years) strategic plans. Most of them (168) are making annual program plan, and nearly the same number (172) also have an annual budget. Making a project plan was also common, which applies to a particular program, but these programs usually occur within the given year. 74 organization had business plans with more in-depth analyzes, 57 had monthly operational plans and 29 had investment calculation.

Strategic plans are primarily designed for the local government and to a smaller extent for the management and the members. Among the answers appeared in much less proportion that the strategic plans are made for the public, sponsors, investors, customers and banks. It would be fortunate if strategic planning were more frequent, and it would be created not by external pressure, but for the efficient operation of the organization. This long time plan can form the basis for other corporate projects, such as annual plan, project plan, operational plan or investment calculation.

There were many organizations, who did not have a strategic plan, the most common reason for this is that there is no time or expert to do that. Many people do not see the point in it, because it is hard and difficult to plan forward a year, and unnecessary for several years, and they don't need to plan but need to adapt. The need of adaptation can be maximally understood, but most of the organizations deprive themselves of the possibility of further development in the absence of strategy, and this is often associated with defeatism and narrow-mindedness. It was a common response that the management has the strategy in mind, but they do not put it down in writing. Indeed, many people think so, but often they are just trying to cover their deficiency, and avoiding the analytical work. There can be several problems with strategy existing only in mind. First, not measurable and verifiable, does not contain detailed analyzes, and perhaps the biggest problem is that it is prepared by only one man. In the case of non-profit organizations even more true that the process of strategic planning is more important than the written plan itself. Many leaders are not even aware of the opportunities and dangers of the environment, and what are the strengths and weaknesses of their organization. Involving the members into the planning process is essential. The success of this strategy often depends on a good idea or insight, and it can come from those who are doing the actual work. It is the leader's interest and duty to listen to the members' opinion on future goals, opportunities and threats.

### ***Application of analytical methods***

I examined on the basis of Attila Chikan and his associates (2004), what analytical methods are used by non-profit organizations during their activities. According to the experienced results, using the analytical methods is less common than at the for-profit companies. Even those organizations are not using these methods deliberately and repeatedly, which are preparing strategic or business plans. The most common application is the SWOT analysis, and many of them consider the phase of analysis done with it. A better established and more successful plan could be carried out, if



SWOT did not appear as self-analysis, but it would sum up detailed macro-and micro-environmental forecasts, and the main results of corporate diagnostics, and thus become the basis for generating strategic actions. For non-profit organizations it is relatively more frequent, to examine the functioning of the organization (resource and value chain analysis), but they do not pay enough attention to the environmental projections.

#### ***Environmental analysis***

Organizations do not operate in a shell, but as part of larger, comprehensive systems, connected to a defined section, operate within given social and legal conditions, and are influenced by the macroeconomic conditions. The main problem is the uncertainty and complexity of the environmental changes. Since non-profit organizations obtain their resources mainly from allowance, their exposure to the macro-environment is greater, than in case of for-profit organizations. The social environment strongly affect the organizations' goals, results. These organizations detect the arising problems quicker, and have more direct responses to the solutions, to meet the varying needs. Although, most of the organizations do not make PEST or STEEP analysis, they are aware of the significance of the macro-environmental factors, but many of the organizations stop at recording the data of past and present, and do not perform forecasts. Another major mistake is, both at business plan, and at strategic plan, that they are working with the most easily accessible macro-environmental data, rather than seeking out the truly relevant information. The organizations do not have impact on the macro-environmental factors, but the level of exposure can be reduced by logical conclusions, and in some cases proactive attitude can be achieved instead of adaptation. Proactivity primarily can mean a strong advantage in competition, but can be beneficial for non-profit organizations as well, as long as they maintain the flexibility and adaptability of the organization.

By profit-oriented enterprises the most commonly used industry analysis is the Porter's five-factor model. This can be useful for non-profit organizations as well; however, because of the nature of the activity, stakeholder analysis can provide more, important information. The expression „stakeholder” is known by almost all of the respondents, however its exact meaning was not clear for everyone. Stakeholders have interest in the operation of the organization, and thus have a certain level of influence power, affect the life of the organization through positive or negative intentions. The background and the motivation of the influence have to be studied first, how the organization can rely on, work with the stakeholders, and how necessary it is for the organization to consider and to avoid their criticism and repugnance.

#### ***Corporate culture***

For non-profit organizations it is beneficial to pay special attention to corporate culture, which is often forgotten, because there is not enough time and money for its development, and its positive effect can only be felt on the long run and indirectly. According to the survey, the corporate culture of the NGOs can be best characterized

by group and human orientation, stability and caring about the details. Innovation and the spirit of competition are felt to be the least important, which can be a big mistake, because to increase the efficiency, to perform higher-level tasks these two factors are much needed as well.

### ***Portfolio analysis***

Portfolio analysis is a widespread analytical method among for-profit companies. The best known type is the BCG matrix, but GE-McKinsey matrix, life-cycle portfolio and even the technology portfolio are often used as well. From the NGOs point of view, it is important, that it helps the appropriate allocation of the resources, setting priorities, and propose the development of certain areas of activity. Branches of a specific company are usually studied in two dimension during the analysis. Useful dimensions for for-profit companies (e.g., industrial growth / market share), are less useful for NGOs, so it is rewarding to convert them according to their nature of operation. Based on Lawry (2001), the two dimensions of portfolio analysis of the NGOs can be the following:

1. How they contribute to the fundamental objectives of the organization?
2. How much financial and human input they work with?

Based on these, the following programs can be in the range of BCG matrix:

*Stars*: strong services, programs, contribute significantly to the mission, dynamic, popular, creative, require continuous development.

*Question mark*: Recent programs, they have the potential to become stars, still a lot of investment required.

*Cash cow*: reliable, routines, useful, their operation is risk-free

*Dogs*: They are operating with slight results, but with a lot of financial and human inputs.

According to the survey, organizations primarily are seeking safety, because 82% of them had programs in the „cash cow” category, while only 24% rated one of their programs to the innovation requiring „question marks” category. 67% of the organizations rated programs, services in to the range of „Stars”, while 45% to the „Dogs”.

### ***SWOT Analysis***

The most important possibilities and dangers can be easily identified, if the organization went through a detailed environmental analysis. These are the factors that cannot be, or cannot be greatly influenced by the organizations. To define the strengths and weaknesses – which the organization can alter independently – corporate diagnostics help. After the above steps, a mature, specific, based on reasoned information SWOT matrix can be made. In many cases the exploratory analyzes are left out, and the elements of several range of the SWOT are based on the leader’s personal insights. However, this will be complete by no means: key information left out, containing very subjective statements.

The SWOT table always includes factors specific to the organization. Universal elements should not be listed, but still I consider interesting to present which are the most common strengths and weaknesses, based on the organizations' responds. (See Table 5)

*Table 5: The most common strengths and weaknesses of organizations*

STRENGTHS	WEAKNESSES
Good opinion of the partners Good management Outstanding expertise Good financial resources Wide range of professional contacts Using economic size Possess competitive advantages High technical standards Market dominance Advanced technology	Poor infrastructure Lack of capital No strategy Underdeveloped organizational structure Lack of technical skills Lack of management skills Outdated technology Rivalry between the managers Bad image

Source: own edit

## Conclusions

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. Strategic approach and creating written plans can not considered general in the civil sphere, however more and more organization recognize its significance. There are organizations that act to set an example and show in practice how much the organization can develop as a result of a well-thought-out strategic and business plan. In the rapidly changing environment, the course of design will provoke thinking-together, and allows faster adaption, while significant learning process takes place through a better understanding of the environment. Thereby the risks and

exposure of the organization are greatly reduced. It harmonizes the individual motivations, directs all efforts in one direction, and provides direction for the short-term decisions. By letting the members know the distant goals of the organization, planning reduces the uncertainty, potential conflicts, and plays a role in encouraging contributors.

## References

1. Bíró, E (2002): Nonprofit Szektor Analízis. Civil szervezetek jogi környezete Magyarországon. Emla Egyesület, Budapest
2. Bullain, N. (2005): A nonprofit szervezet, mint működő intézmény. Alapfokú kézikönyv civil szervezetek részére. NIOK-Soros, Budapest.
3. Chikán, A., Czakó E., Zoltayné Paprika Z. (2004): Fókuszban a verseny. Gyorsjelentés. BCE Versenyképesség Kutató Központ, Budapest.
4. Farkas (1994): A nonprofit szervezetek menedzsmentjéről. Vezetéstudomány. 5. 5-12.pp
5. Lawry, A. (2001): The Complete Guide to Business and Strategic Planning for Voluntary Organisations. Directory of Social Change, London. 2001.
6. Putnam, R.D. (2000): Bowling Alone. The Collapse and Revival of American Community. Simon and Schuster, New York
7. A nonprofit szektor legfontosabb jellemzői (2013): Statisztikai tükör, 2014/142