

SUSTAINABLE FINANCING OF NON-GOVERNMENTAL NON-PROFIT ORGANIZATIONS

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Abstract.

Article presents results of qualitative research in the area of economic management of non-governmental non-profit organizations. Identification, analysis and evaluation of economic management specifics of non-governmental non-profit organizations were performed in the context of specific functions and mission of a non-governmental non-profit organization in terms of globalized economy. The multiple-source character of a non-governmental non-profit organization financing demands strategic planning, optimal combination of available public and non-public financial sources and a thorough linking of the economic management with the main activity and the mission of a non-governmental non-profit organization. Sustainable financing of non-governmental non-profit organization requires application of specific approaches, methods and tools and their integration into the system of economic management of non-governmental non-profit organization. The research topic is current and discussed especially in profession auditing chambers, accounting chambers and institutions. Authors of the paper intend to contribute with their research to development of financial and economic management of non-governmental non-profit organization.

Keywords: economic management, multiple-source financing, non-governmental non-profit organization (NNO), financial management

JEL Classification: L31, L32

1 Introduction

Non-profit organizations play in modern democratic society irreplaceable role, or more precisely roles (Rakušanová, 2007). The first of them is **participative role**. Citizens try to express their shared interests and demands through uniting in non-profit organizations; they unite to solve their common problems. Such cooperation between the non-profit sector and government or local administration is bilaterally beneficial as the non-profit organizations are often much closer to reality and therefore they can help the decision-making body to define the problems to be solved.

Another significant role of the non-profit sector is **service role**. Non-profit organizations provide services especially for such groups of people that cannot meet their needs elsewhere. Non-profit organizations in fact fill in the gap in the service offers provided by the state or municipality. The services offered by the non-profit sector are usually very effective and cheaper because non-profit organizations are not forced to achieve profit from their activities that would later be reallocated – the acquired funds therefore cover the costs and any surplus is invested in further improvement of provided services. These services are usually more precisely targeted because they mostly come from the clients' real needs.

Various marginalized social groups can also express their interests and needs by associating in non-profit organizations. Diverse nature of non-profit organizations helps to create opinion plurality and offers alternative solutions to various issues. In this way the non-profit organizations aggregate, select and satisfy the citizens' interests in a lot of social interest areas. This process of interests' mediation often includes also meeting individual and group needs and interests which are currently primarily defined as governmental functions. According to Weisbrod (1975) the non-profit organizations in this way saturate the state functions and offer an alternative to the private sector (for more details see Dvořáková & Macková, 2016).

Financial management process plays an important role in the system of economic management of non-governmental non-profit organization (NNO), as the mission and goals achievement of non-governmental non-profit organization is conditioned by successful acquisition of public and non-public financing sources. Important articles regarding development of non-profit sector management are in global context presented in publications of authors such as Aldashev et al. (2015), Verbruggen & Christiaens (2012), Polonsky et al. (2016), Ivu et al. (2015) and Sun & Fuschi (2015).

2 Problem formulation and methodology

The aim of the paper is to perform analysis and comparison of financial management of both business entities and non-profit organizations; to identify fundamental strategic functions of financial management, key problem areas of financial management and structure of financial management as a system and also meaning of financial management in non-profit sector. Primary goal and outcome of researched topics are identification and analysis of specific aspects of non-profit organization financial management process.

The results presented in the paper are based on qualitative research of literary and electronically processed sources of authors coming from the academic sphere as well as the practice. Namely they are primarily monographic publications, research reports, professional studies, papers and review articles in professional journals published in relation to the topic of financial and economic management of non-profit sector.

3 Problem solution

Financial management and non-governmental non-profit organization funding

Non-governmental non-profit organization funding and financial management objectives

Fulfillment of organization's mission requires financial sources (Dvořáková & Macková, 2014). Since it is a key question, non-profit organizations have to formulate strategy leading to long-term (in optimal case

permanent) access to financial sources. Formulation of strategy means, that non-profit organization programmatically approaches subjects which intend to participate more or less on organization's mission; despite the fact the subjects are usually not recipients of services provided by the non-profit organization. For non-profit organization is important that sympathizing subjects understand organization's mission and goals properly. Significance of understanding increases with respect to growth of "competitiveness" in environment, where non-profit organizations operate. The multiple-source financing character is essential for non-profit organizations; and on the rise is also importance of coalitions which non-profit organizations form in order to stabilize their sources of income (Boukal & Vávrová, 2007; Krechovská, 2013; Krechovská 2015).

Sources and types of non-profit organization funding

It is worthwhile to emphasize the multiple-source income character of NNO funding, which usually leads to combination of financing from both public and non-public sources. Each non-profit organization has to strive for optimal combination of achievable financial sources.

Public financing is ensured by institutions of governmental administration (ministries) and local administration. We are speaking of financing from public budgets within the governmental subsidy policy. The character of the governmental subsidy policy is fundamental information for non-profit organizations in the terms of optimization of their achievable financial sources. Non-profit organizations do not focus only on subsidies; possibilities of public-source utilization are much wider and they include:

- sources related to public procurements;
- sources resulting from service providing contracts;
- sources provided under the law (this includes church organizations, public and private schools and political parties);
- other resources (usually exceptional, e.g. endowment investment fund).

Finances from non-public sources are provided by:

- individual donors (local and foreign);
- corporate donors;
- local and foreign foundations.

Further resources of non-profit organization financing are:

- membership fees;
- incomes from games and lotteries;
- tax and fee reliefs;
- incomes from own activities.

Thanks to annually published "Analysis of NNO financing from chosen public budgets" is data about NNO funding from public sources available for several years. The data capture what NNO types (with respect to legal form or activity) were allocated finances from what concrete parts of state budgeted and what purpose were public resources assigned to (Pelikánová, 2016).

Self-financing in non-governmental non-profit organization

Self-financing is one of possible financial sources for NNO, where own activity of NNO (or more precisely own business) is assumed (Boukal & Vávrová, 2007; Svindronova & Vacekova, 2012). NNO which employs self-financing does not "only" focus on realization of its mission and goals, but also obtains own

resources for realization of the mission through additional (often business) activities. Self-financing is tightly connected to business, which follows NNO's mission. This leads to question, how does a business subject differ from NNO? The key differences are summarized in table 1:

Table 1: Comparison between business subject and NNO

Item	Business subject	NNO
Priorities	1. Profit, positive cash flow. 2. Mission, values.	1. Mission, values. 2. Loss minimization, profit, balanced budget.
Use of profits and cash flow	Reallocation among owners or shareholders, partly reinvestments, sometimes charity.	Reinvestment into activities which fulfil NNO mission.
Management responsibilities	Primarily owners and shareholders.	NNO members including the general public.

Source: Boukal&Vávrová(2007)

In the case of business subject is self-financing basic method of functioning. In terms of NNO, self-financing is one of fundraising options, which NNO has to thoroughly consider before implementation. Table 2 demonstrates prerequisites and requirements for realization of non-governmental non-profit organization self-financing.

Table 2: Prerequisites and requirements for realization of NNO self-financing

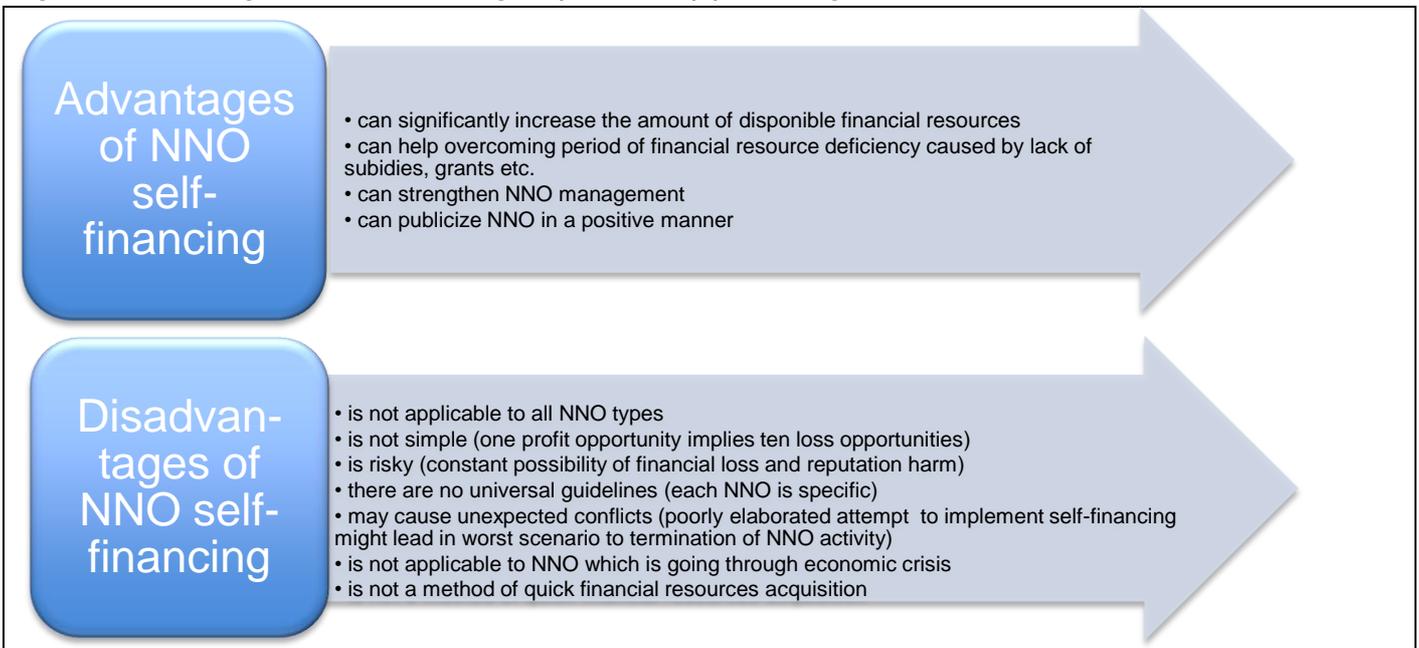
Prerequisites and requirements	NNO has a well-defined mission.
	The mission is internally accepted by all NNO members, reaching from management to occasional volunteers.
	Has a well-defined realistic strategic plan which leads to realization of specified mission.
	NNO's strategic plan is on high expert level and elaborated into system of effective programmes.
	Is capable of flexible adaptation on varying environmental conditions and does not insist on previously developed procedures.
	Has educated members, who gained enough experience (they aren't absolute beginners and amateurs).
	Has strong and solid management that does not allow NNO to become mere permanent discussion club.
	Is capable of measuring results of own activities.
	Has transparent and honest accounting.
	Operates in stable political and legal environment which rather cooperates than undermines the effort.
	Has a good relationship with government and business sector.
	Has sufficient amount of other financial sources for its activity (self-financing cannot be the single financial source, but rather an additional source of NNO's income).

Source: own processing, 2017, based on Boukal&Vávrová (2007)

If NNO specifies a strategic goal stating that self-financing will be realized, the NNO management has in the first place to verify that requirements listed in table 2 are met. If and only if most of the conditions are satisfied, NNO can develop and implement self-financing procedures.

Self-financing as a specific access of NNO to financial resources has its advantages and shortcomings, which are charted in figure 1.

Figure 1: Advantages and disadvantages of NNO self-financing



Source: own processing, 2017, based on Boukal & Vávrová, (2007)

Fundraising

Fundraising is an activity performed by NNO in order to obtain external resources. NNO contacts possible donors and forms relationships – ideally long term relationships. Resources do not necessarily need to be of financial nature, but they can have form of material help, know-how, information, experience sharing etc. Pelikánová (2016) emphasizes, that sources can take both tangible and intangible form.

The term “fundraising” originated from synthesis of two words: fund = stock, reserve, capital and raise = lift up, establish, provide. Fundraising is usually not translated to Czech, but loose translation would be, that objective of fundraising is to obtain finances and further resources which are necessary for organization’s operation. The term is often associated with non-profit sector (Dvořáková & Macková, 2014).

Fundraising is not only process of obtaining financial resources which are necessary for the organization to survive, but its main function is in gaining of trust and thus stability and sustainability of non-profit organization. Important role plays the ability to address and bring in new members, sympathizers and friends. The ability together with public relations, marketing and lobbying participates on the quality of internal and external relationships. It directly affects the brand, reputation and organization’s image.

Fundraising is related not only to financial aspect of project support, it also provides the donor with sense of belonging, participation and it should especially give him a good feeling, which relates to a historical basis of fundraising. The basis is closely connected to philanthropy which is itself a set of activities leading to support of others; in order to improve life quality of both individuals and society. Today is, and in the past was a question of prestige, when wealthy people practised philanthropy e.g. by giving alms or donating various organizations as orphanages or educational institutes. Thus, tradition of philanthropy has in Czech Republic deep roots and fundraising can nowadays be considered its successor, sums up Pelikánová (2016).

Financial management and budget in non-governmental non-profit organization

As soon as the organization's goals are defined, organization proceeds to formulation of methods, which state how should be these goals achieved. Organization defines a policy (strategic plan) which determines, what management should and should not do while aiming for the goals, says Pelikánová (2016). Strategic plan strengthens the awareness of value system, which NNO believes in, i.e. its mission.

Financial plan is an integral part of NNO overall strategic plan. It links all activities to quantified financial goal, expresses activity plan in monetary units and indicates, in which manner will be ensured all activities and individual actions leading to completion of the objectives. It follows already achieved results and reflects actual financial situation. The plan is created for each of individual projects as well as for NNO as a whole.

Detailed financial plan captures budget of organization, which is again made for single individual projects as well as for NNO as a whole. Short-term planning in NNO focuses on mainly drawing up the budget; working with the budget during the year and in the end on its evaluation.

According to Pelikánová (2016), financial management process in NNO consists of several phases:

1. First phase of financial management in organization involves financial planning, including the financial plan creation process. The plan describes planned actions and activities in monetary units for certain time span.
2. Second phase focuses on financial resource obtaining – in the form of state subsidies, fundraising etc.
3. Third phase is managing the financial resources, i.e. performing concrete planned actions and activities which lead to achievement of goals and organization's mission. Important role in the third phase plays short-term planning, so that organization always has sufficient amount of financial resources which are necessary for its operations. We are speaking of so called operative financial management.
4. Fourth and last phase covers evaluation of management for the whole time period, making of accounting and financial reports and also inevitable audit.

Fundamental financial planning activities include:

- Financial planning, i.e. prediction of various required information, financial resource consumption, sources of financial income and their acquisition;
- bookkeeping, analysis of costs and profits, incomes and expenses, actives and passives;
- care of financial resources;
- budgeting of costs and profits in individual NNO activities, budgeting of property and sources;
- maintaining good relationships (particularly with the bank, but also with suppliers, tax office etc.).

Cash-flow management in non-governmental non-profit organization

In non-profit organization is necessary to precisely separate categories of economic result (financial profit or loss) and of real cash-flow. While from accounting point of view may non-profit organization experience financial loss (expenses might exceed profits, e.g. because of tax depreciations), cash-flow always has to be balanced. If non-profit organization lacks real financial resources, the planned activities cannot be performed (Boukal, 2007) and main mission and goals of organization cannot be realized.

Non-profitability

All incomes must be transparent and they have to be used strictly to cover expenses, which arise from activities related to achievement of NNO goals (Pelikánová, 2016). Incomes can by no means be used to enrich owners or member base. Income from supplementary activities or business must be used for main non-profitable activity.

The transparency is ensured by e.g. annual report publishing, press releases etc. Non-profit organizations are often afraid of transparency, because they mistake it with government supervision and with the duty to submit various statements and reports. However, this is a crucial misunderstanding, as transparency should be in the first place a tool employed in communication with involved groups and the general public as well as a medium of gaining trust, members, co-workers, sympathizers and donors.

Every NNO has whole range of responsibilities: responsibility towards its mission, its owners, members, clients, donors, supporters and the general public. Decision-making about NNO transparency makes other questions arise: what purpose should active open communication serve; and thus what should be actively announced to the general public? In compliance with answers to these questions NNO selects the most effective way of presentation and suitable communication channels.

Tax reliefs

The issue is about tax reliefs for non-profit organizations and their donors (Pelikánová, 2016). There are following basic tax modes for financial resource flows:

- exemption of NNO financial flows from tax – e.g. exemption of certain incomes, property tax exemption, exempted incomes with respect to VAT;
- relief on NNO taxes – on the basis of calculated VAT is possible to set up a claim to reduce tax liability;
- tax reliefs for donors – contributors have opportunity to apply the donation as non-taxable part of taxable income or non-taxable item;
- tax assignment – is specific tax mode, where a tax payer may designate part of submitted tax to particular NNO.

Controlling in non-governmental non-profit organization

Financial management nowadays cannot get by without controlling. Whereas in private sector has controlling become a set standard procedures, in non-profit sector were operational-economic management tools overlooked even long time after their invention (Horváth & Partners, 2004). Fact, that non-profit organizations receive from the public less financial resources leads to situation, in which are organizations increasingly forced to justify their existence to the public and this consequently causes opening of non-profit sector to ideas of controlling.

In research study analyzed Weber & Hamprecht (1995) the current state and possible future development of controlling in non-profit sector. In terms of current knowledge of roles and controlling possibilities has been shown, that the state in non-profit sector is comparable to industry. Table 3 summarizes significant results of the study.

Table 3: Understanding of controlling in non-profit sector

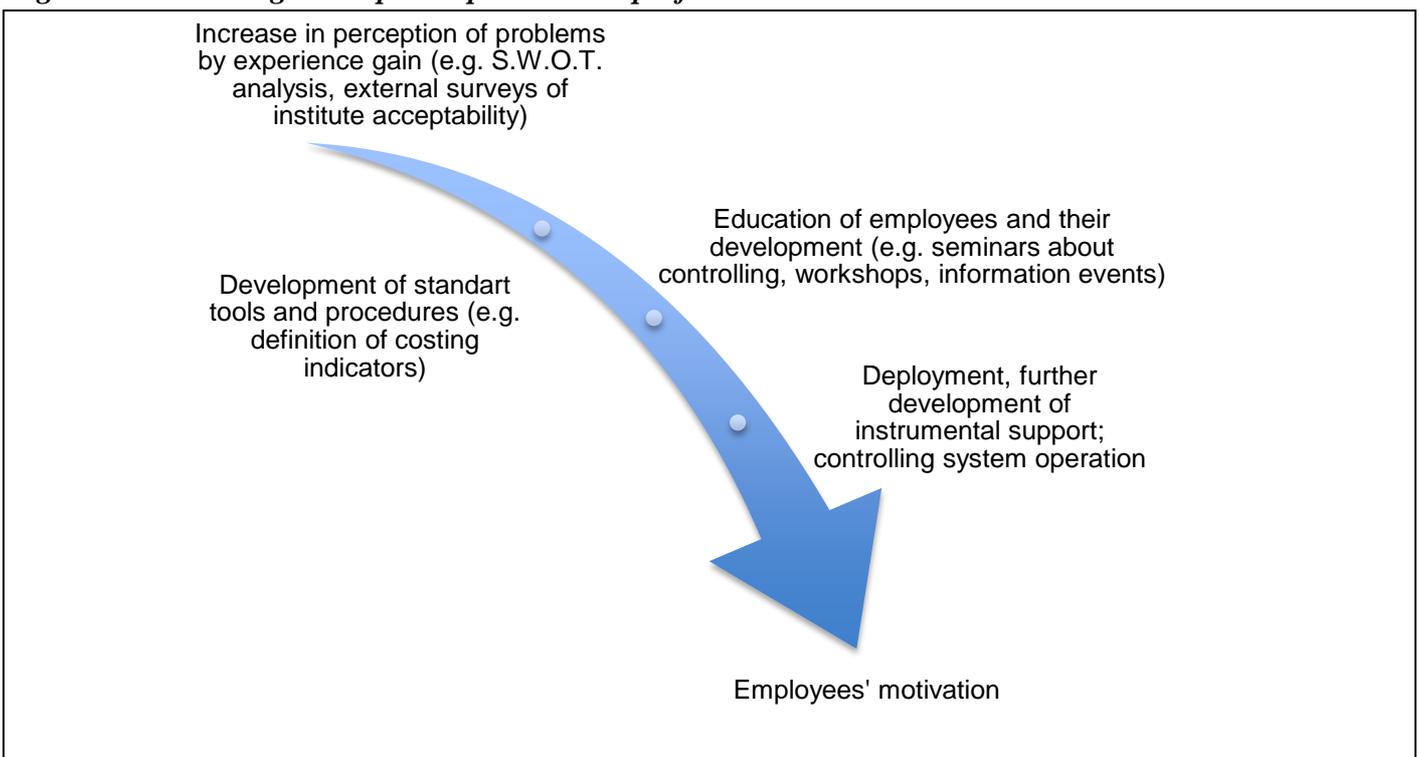
Strong agreement	Weak agreement
<ul style="list-style-type: none"> • Controlling is supported by management. • Controlling has to take into account organization and management of employees. • Controlling emphasizes control and plans' objectives. • Controlling is cooperation between controller and leaders of the line. • Controller guarantees consistent result-oriented planning. 	<ul style="list-style-type: none"> • Controlling is just a new name for something we have done for a long time in our institution. • Controlling can be seen as extended bookkeeping. • Controlling is whata controller does. • Controlling has a difficult role, because due to many legal regulations we have little space to do business. • Implementation of controlling means to bid farewell to numerous regulations and rules. • I really don't know what controlling stands for. • Controlling does not fit to our institution, because we are not aiming for any profits.

Source: Weber&Hamprecht (1995)

The study also disclosed what results can be expected from implementation of controlling in non-profit sector. Most frequently were mentioned increase of transparency inwardly, then guarantee of professional economic leadership, cost reduction achieved by effective control and ensuring survival in case of contributions decrease.

According to presented results is the greatest opportunity of controlling seen in anchoring operational-economic know-how in non-profit sector and in bringing these organizations out of current crisis of incomes and expenses, or in critical assessment of certain services and their withdrawal from offer. The biggest obstacle for controlling in non-profit sector is deficit of personal and intellectual resources. Figure 2 demonstrates possible path of controlling development in non-profit sector.

Figure 2: Controlling development path in non-profit sector



Source: own processing, 2017, based on Weber&Hamprecht,(1995)

Also Kleinebeckel (1993) mentions significance of controlling utilization in the area of economical planning, liquidity management and cash-flow.

4 Conclusion

Analysis and evaluation of non-governmental non-profit organization financial management specifics has proven necessity of strategic planning and financial management integration into economic management process in the context of specific functions and mission of non-governmental non-profit organization.

Multiple-source public and non-public financing of non-governmental non-profit organization currently requires deployment of controlling methods and tools which aim for effective providing for mission and development of non-governmental non-profit organization in long-term horizon, i.e. achieving sustainable financing.

Results of qualitative research and generalization of authors' practical experience in segment of non-governmental non-profit organizations confirmed hypothesis, that sustainable NNO financing can be realized by strict and effective integration of mission, strategy and NNO objectives with specific financial and economic management tools and methods.

The aim of the paper was to perform analysis and comparison of non-profit organizations' financial management. We have analyzed roles of non-governmental non-profit organizations, non-governmental non-profit organization financing, financial management goals, sources and types of financing, self-financing, fundraising, financial management and budget, cash-flow management, non-profitability, tax reliefs and controlling in non-governmental non-profit organization.

The authors of this paper will focus on the area of controlling methods and tools use and development in a non-governmental non-profit organization in the following period. They will proceed from the assumption that controlling approaches introduction into the NNO economic management will contribute to strengthening of stability, transparency, economy and efficiency of used resources including the NNO strategic management development.

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