

THE NONPROFIT ORGANIZATIONS' CHARACTERISTICS AND THEIR INFLUENCE ON THE DEPARTMENTS WITHIN THEM

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Abstract

The present paper deals with the characteristics of nonprofit organizations. It has been written in the literature about how they are defined by various typical aspects. But this paper aims to test the following hypothesis: the characteristics of the nonprofits have a significant impact on their departments and influence the entity to the microeconomic level and its relationships with the social and economic environment.

Keywords: *nonprofit organizations, characteristics, similarities and differences, departments, organizing system.*

1. Introduction

The present paperwork focuses on the nonprofit organizations field. As many authors reckon, these are forming the third economical sector, by being themselves distinctive society bodies.

The research importance is sustained by the current economic conditions, which favorite founding and developing the nonprofit organizations. Political leaders have started to look for alternative ways to combine the market facilities with the social protection advantages. This process is obvious by the attention given from Mr. Tony Blair on “the third way” in Great Britain or from Mr. Gerhard Schröder on “the new middle way” in Germany. It can also be seen throughout the concise declaration of the French prime-minister Lionel Jospin: “YES to the market economy, NO to the market society!”¹ It cannot be involved just one player on the issues management, because the today world is in full process of globalization, with countries which have insufficient national budgets, but great expectations and demands from the citizens’ part. Therefore many of these issues find their resolution through founding nonprofit organizations. The good function of this process requests first of all, an improving knowledge of their working properties and principles.

As objectives, we intend to approach two connected subjects. The first one is represented by the defining characteristics of nonprofit organizations. The second one has to deal with the way that these typical aspects affect the entity organization (at a microeconomic level) and their relationships with the society and the environment (at a macroeconomic level).

In order to reach the purpose in accordance with the pointed objectives, we will perform a literature review compared with the empirical practice of the field. The empirical study is based on observing and analyzing the nonprofit entities organization and functioning at an internal level, as well as external.

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¹ M., L., Salamon, H., K, Anheier, and associates, *Globalizarea sectorului nonprofit: o teorie revizuită*. (Baltimore, 1998) 6, accessed January, 2014. <http://www.fdsc.ro/documente/19.pdf>.

For a long time, the nonprofit sector has not been uniformly defined due to the various opinion regarding their characteristics, roles and functions. Many authors have done plenty of efforts to support the particularity of the sector by presenting these entities as distinctive bodies compared to the ones from the public or private sector. The most relevant authors of the field are M. L. Salamon; H. K. Anheier; P. Hall. There are also some important researches and publications performed by Romanian authors like M. Vlăsceanu; D. Săulean; C. Epure; M. Lambriu; A. Vameșu. The last ones present the Romanian civil society properties and dimensions as well as its legality.

2. Civil society – defining aspects

From the perspective of The World Bank² the civil society is build up from a large number of nonprofit and nongovernmental organizations, which are present in public life. These express the interests and the values of their members and other groups as well, based on some ethical, political, cultural, scientific, and religious, philanthropic considerate. Thus, The World Bank sees the nongovernmental organizations as being those entities which aim to activate in order to reduce the hardship, to promote the interests of the poors, to protect the environment and to provide basic social services. Therefore these entities are a real support to the community development.³

The concept of “nonprofit organizations” originates from English and reflects those organizations which are using their gained surplus to reach the settled goals. They cannot use the surplus as profit or dividends for the persons involved in the governance of the entity, namely: founders, members, directors and managers. All these entities are led by their mission and not by the will of being profitable.

The “United Nations” defines the nonprofit organizations as being the entities which operate outside the public sector or the governmental mechanism. They do not distribute the profit to their leaders or owners and significantly use the volunteers’ activity (e.g. involving the volunteers as members of the administration boards). This definition refers to both informal and formal organizations as well as the volunteers’ activity which is the same with the formal paid employees’ activity.⁴

By a juridical point of view, in Romania the nonprofit organizations are the legal persons which represent the interest of the society in general or the interest of a specific group. They do not have a patrimonial purpose and take the form of associations and foundations defined by the Law no. 246/2005 to approve the G.O. no. 26/2000 regarding the associations and foundations, as seen below, in the Table no. 1.

Table no. 1

Definitions of types of nonprofit organizations in Romania

| The nonprofit organization types: | | |
|---|------------------------------------|-------------|
| ASSOCIATION | FOUNDATION | FEDERATION |
| is the legal entity formed by three or more | is the legal entity established by | is the body |

² “World Bank”, accessed January, 2014,

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/CSO/0,,contentMDK:20101499~menuPK:244752~pagePK:220503~piPK:220476~theSitePK:228717,00.html>.

³ M., Lektorwe, D., Mpabanga, “Managing Non-Governmental Organization in Botswana”, *The Innovation Journal: The Public Sector Innovation Journal* 12 (2007): Article 10.

⁴ M., L., Salamon, H., K., Anheier and associates, *Globalizarea sectorului nonprofit: o teorie revizuită* (Baltimore, 1998), accessed January, 2014. <http://www.fdsc.ro/documente/19.pdf>

| | | |
|---|--|--|
| persons who, according to an agreement, are pooling and are not subject to refund material contribution, knowledge or contribution in labor with the purpose of carrying out activities in the general interest of some communities or, where appropriate, in their private prerogatives. | one or more persons on the basis of a legal act between the living or upon death and constitutes a patrimony permanently and irrevocably affected to achieve a goal of general interest or, as the case of some communities. | established by the association of two or more associations / foundations for specific purposes |
|---|--|--|

Source: author's construction based on law⁵

The noted definitions are between the most important ones, being stated repeatedly in the specific literature, even though some of them were issued by various bodies. If we could analyze the defining characteristics of the nonprofit organizations throughout all the definitions we could conclude that no matter their form and name, the nonprofit entities are universally defined by a couple of common features, such as:

- Their purpose is not to obtain profit, but is of a general interest, non-patrimonial;
- The gained benefits are not distributed as profit or dividends, but are used in order to achieve the entity objectives;
- These entities are not founded by the state or any other public organism, but they are private legal persons with a private capital;
- They are following the citizens interest in general, but also the interest of a particular group of individuals;
- Each of them is part of the civil society.

In Romania, the nonprofit organizations can develop three types of activities, namely: no patrimonial activity (nonprofit activity), economic activity (developed in order to reach the financial resources necessary for the nonprofit activity) and special activity.

Due to what they represent, the nonprofit organizations allow the citizens to express their support for certain causes or certain social projects, to be solidary, to get organized regarding their common interests and concerns. Also the citizens can found such entities in order to interaction with other structures of society, for instance the government or the business sector.

3. The impact of nonprofit organizations features at microeconomic level

The civil society bodies have borrowed from the other two sectors features. The nonprofit organizations are public due to their purpose, but are private as property, as seen from the definitions above.

The profit oriented entities are working upon just one organizing system which is to produce goods and services and to distribute their profit gained from sales to their shareholders and to reinvest it in the production (e.g. acquisitions of fixed assets and raw materials, salary payment so on). On the other side, the nonprofit organizations are using two different organizing systems in order to achieve their purpose:

1. Resources development system: requests → donors → contributions and
2. Goods and services distribution system: goods/services → the target beneficiary group → gratitude.

We will present you, in the table below, other similarities and differences between nonprofit organizations and the other two sectors.

⁵ Law no. 246 approving *Government Ordinance no. 26/2000 on associations and foundations*, published in (2005) Official Monitor of Romania no. 656, Art. 4 and 15.

Similarities and differences between the three sectors bodies

| Subject | Public institutions | Nonprofit organizations | Profit maker entities |
|-------------------------------|--|---|-----------------------------------|
| Philosophy | Equity | Clarity | Profit |
| Representation | Majority | Groups | Owners and managers |
| Legal base for their activity | Social rights | Gratuity | Paying the price |
| Main source of funds | Tax | Donations, subventions /grants, contributions, | Sale revenues |
| Defining the mission | Prescribed by law | Selected by founders | Chosen by owners |
| Decisional authority | Government | Articles of organizations and Corporate charter | Owners or administrative board |
| Accountability to | The citizens voters through government | The public, through the decisional board | The owners through the management |
| Field of interest | Large | Limited to groups | Limited to customers |

Source: I. Străinescu, B. Ardelean, Managementul ONG, p.17

The table above emphasizes the differences between those three sectors. The similarities appear regarding their philosophy: both the public institutions and nonprofit organizations pursuing the public good; regarding their mission, which is defined by the founders for companies, but also for nonprofit organizations; and regarding the field of interest which refers to the groups of beneficiaries of services and goods offered both for-profit organizations and for companies.

Other characteristics of this civil society as against the other two sectors relates to:

- Performance cannot be precisely measured as in the case of profit maker entities;
- Effectiveness is determined according to the value and quality of services;
- The main tool for staff motivation is volunteering;
- The existence of a dual organizing system regarding the own resources and the supply of goods and services;
- The satisfaction of the internal user is a priority due to the fact that they are also donors;
- The nonprofit activity (which is the main activity) is not taxed;
- The contact with beneficiaries reveals new needs that are arising within the society.

We will highlight further on the concrete specificities of nonprofit organizations that exist within their departments.

The management of nonprofit organizations is legally regulated in Romania by the Government Ordinance no 26/2000. Associations are led by the general meeting of associates and board of directors (its members are some of the associates) which ensure the enforcement of decisions of the general meeting. Regarding the foundations, we cannot speak about a general meeting of associates, but they are led by the board of directors which has the task also to manage and run the entity. The associates and the board members must know and take into account all of the nonprofit organizations features, for a better understanding of their mechanism of operation.

The control within the nonprofit organizations in Romania is different from one organization to another according to the specific features of the organization within is

exercised. Censorial control is practiced in those entities which have not acquired the status of “public utility” and / or which manage public funds at less than 50% of their total financial resources. Censorial control exercised by a censor or, in the case of organizations with over 100 members by a committee made up of an odd number of censors. The censor must be certified public accountant, and in the case of the committee, at least one person within it must be of a certified public accountant. The nonprofit organizations which have a legal “public utility” status and / or which manage public funds in a proportion bigger than 50% of their total financial resources are required to audit their financial statements. Censorial control and financial audit should take into consideration the characteristics of each department controlled or audited.

Within the financial-accounting department must be at least one person in charge with the activity of fund-raising, finding sponsors and donors to fund the nonprofit organizations activities. Working based on a budget requires the existence of staff who deals with drawing up the budget, budget amendment and verification of budget execution. Regarding the accounting, this is strongly influenced by the specific features of nonprofit organizations. The accounting is organized distinctly for those three types of activities that the nonprofits can develop, namely: non-profit activity, economic activity and specific activity. Within a nonprofit, there are specific patrimonial elements, such as income from donations, contributions and sponsorships, special funds. The outcome tax regime is different from the one of the companies. The financial statements have a form adapted to the specific features of the nonprofit organizations, so that they can illustrate a true and fair view of the entities activity.

In the human resources department could be two different staff categories: employees and volunteers, due to the legal possibility of the nonprofit to work with volunteers. As a consequence, many nonprofit organizations have an employee who has the position of coordinator or trainer of the volunteers involved. Employees and volunteers should be motivated primarily by the mission of the organization, given that the resources are limited, so there is no possibility to reward the employees, and remunerate the volunteers.

Legal department must consider the specific legal framework governing the nonprofit organizations existence and activity. It is also concern by the specific laws to the field in which the organizations are conducting their activity, especially when these are carrying out a certain activity or managing public funds.

IT department handles local computer system. Through this system the data within each department are collected and processed in order to generate various information needed to the management for the decision process. Among the most important data and information included are: financial accounting data, data related to the projects undertaken, databases with statistics about donors, beneficiaries, employees, volunteers and other data and information’s specific to each entity. This information acts as elements of adjustment of the organizational system that ensures the optimization of the decision-making process within the entity.⁶ The computer system must be designed according to information flows which are in the organization. The flows can be: permanent, periodic, occasional, upward, downward and horizontal. Out of these types, should be identified those that exist within the entity.

The activity of a nonprofit organization is based, in most of the cases, on projects. Due to this fact, within these nonprofits is organized a special department which deals with developing and implementing the projects. To the level of this department is working especially with project beneficiaries, but also with the other departments.

Depending on their mission, the nonprofit organizations can establish specific departments within them in order to support the well running of their activity. Some examples

⁶ Ioan, Străinescu, Ben-Oni, Ardelean, *Managementul ONG* (București: Didactică și pedagogică, 2007), 195.

of such departments can be: public relations department, social department, health department, partnerships department, environmental department and so on.

4. Relationships between society and nonprofit organizations

These relationships have been established by the moment when the organizations have been founded. The European state crises, from the last two decades, put under question its effects over the people, and so it generated doubt in citizens' minds. Mainly they started to wonder about such issues like:

- The traditional politics of social protection from many developed Northern countries;
- The poor development process run by the government in the Southern developing countries;
- The crash of socialism trial from Central and Eastern Europe;
- The ongoing issues regarding the environmental damage continues as a widely threat for the people health and security.

The organizations of civic society have the duty to offer an answer for the individuals' necessity to get associated as self-employers and under their own autonomy, and not under public authority. In this way there is a chance for the citizens and groups to be noticed by/stand up for the society and to take part on the public decisions. More precisely the nonprofit organizations offer opportunities to achieve proper purposes of the territorial and professional communities, and they multiply the chances of a better and flexible distribution of main public services, which are not provided by the governmental agencies. Therefore, they are public organisms/entities due to the programs and the services they provide for the public and not for other reasons.

Being compared with the public institutions, which provide same type of services, it is accepted that civic society organisms differently answer to the same set of values, rules, or „organizational imperatives”, mainly because all these entities engaged in public services, need to follow such objectives like: equity, sensibility, responsibility, efficiency, and fiscal integrity.

Thus, social services provided by the nongovernmental organizations have the following features⁷:

- High service quality: due to their nonprofit character, nongovernmental organizations can assure more time and persons to solve any possible issues; their flexibility allow them to react faster and different regarding the needs; also they can offer complementary and support services for their beneficiary (i.e. social-medical services);
- Equity: voluntarily and philanthropic support and the lack of bureaucracy, make possible for these organizations to help every person in need;
- Reduced costs: being voluntarily and philanthropic institutions, the nongovernmental entities can assure services at a lower cost compared to other providers;
- Innovation: flexible and receptive, the nonprofit organizations are pioneers in some new fields, identifying new needs, working on new approaches, more complex and other alternative solutions.

Taking into consideration the Kaldor-Hicks efficiency, at a macroeconomic level, the development could be seen as making better-off some groups by making worse-off others. Thus, the level of making better-off exceeds the level of making worse-off. If we add to this equation the founding activities of nonprofit organizations, we could say that these bring up a

⁷ Oana, Țigănescu, “Organizațiile nonguvernamentale – furnizori de servicii sociale: sursă inițială sau soluție?” *Revista de Asistența Socială* 1 (2004): 44.

balance in which regards the surplus distribution from those who are making better-off toward those social categories assisted by the nonprofit entities, those who are making worse-off.

At their bases, the nonprofit organizations have the purpose to contribute to the development and well state of the society, role that is achieved throughout some particular functions of these entities. On the related field literature, are mentioned different sets of functions of the nonprofit organizations, which can directly affect: the social groups, the authorities, the economy's sector and their present values system. Among these, we'll mention below the most important functions and their affected areas - view Table No. 3:

Table No. 3

The functions of the civil society and their affected areas

| NO. | FUNCTION | SOCIAL GROUPS | AUTHORITIES | ECONOMY | VALUES |
|-----|---|---------------|-------------|---------|--------|
| 1. | Develops the social classes where it activates; | YES | | | |
| 2. | Provides goods and services toward targeted community; | YES | | | |
| 3. | Intermediates citizens and authorities relationships; | | YES | | |
| 4. | Represents the interests of some particular groups from the society itself and activates for these; | YES | | | YES |
| 5. | Prevents and corrects certain negative phenomena which are currently happening or which can rise in the society | YES | | | YES |
| 6. | Offers support to the economic system of the society (i.e. providing continuum training services for adults; | | | YES | |
| 7. | Assures the recreational and stress less condition of the individuals; | YES | | | |
| 8. | Facilitates the social and political inclusion of the citizens (i.e. these entities represents a frame of civic participation); | YES | | | |
| 9. | Constitutes an essential latent source to achieve some purposes of public interest; | YES | | | |
| 10. | Offers to society a great variety of social innovations, partially tested, out of which the government, the business organizations and other institutions can choose the brightest ones and put them in practice; | | YES | | |
| 11. | Offers a forum to put in balance the reality and morality conceptions - ideologies, perspectives and world perceptions (i.e. mainly playing the role of questioning the dominant suppositions related to what is there; what is it right and what should be done in the society); | YES | YES | | YES |
| 12. | Activates with the goal to maintain and/or represent the various traditional ideas, and the sense of sacred mystery; | YES | | | YES |
| 13. | Frees the individuals and allow them to express their personal capacities and potential within a social ground, which is usually constraining; | YES | | YES | |
| 14. | Takes over the negative feedback between community and government. | YES | YES | | |

Source: personal projection based on the field literature review

As we can notice, a great majority of the presented functions affect not only the individual groups but also the governmental authorities, the set of values and moreover the national economy. There is of course an indirect effect over other sectors as well, but this presentation has the purpose to underline the primary role and effect of nonprofit organizations, and more precisely the role of pursuing the interests of a group of persons in their relationships with society, and so improving the existent society.

5. Conclusions

As shown by large number of studies in the field literature, the nonprofit organizations all together represent the “civil society”, a distinct sector that is different by the public and the economic ones, through its own characteristics. The latter affects nonprofit entities both at micro and macroeconomic level.

Nonprofit sector has at its disposal the context and opportunity of a long expansion, mainly because it responds to a distinct set of various functions and social needs. By their particular role and importance, the nonprofit organizations demand not only to identify some manners to improve their own activities but also to engage in a new distinctive management. At the bottom line, these entities are looking to use a particular way to generate the financial-accounting information, so that this could be effective both for its own development and for user’ needs satisfaction.

The characteristics of nonprofit sector require a suitably qualified staff especially in management and financial-accounting. Due to the complex functions of nonprofit organizations in the society, the need for specialists in this area becomes urgent. Once manifested their functions, the nonprofit organizations bear a responsibility proportionate to the functions they perform. In practice, managers and economists from the nonprofit entities have problems in their work if they are not familiar with the features of this sector. These problems can affect the function that the entity should perform. Thus, nonprofit organizations must be treated as a separate sector of the economy, not just the same as the companies or the public institutions, although, as we have seen, these three sectors have a number of common features. We can state, therefore, that the success of a nonprofit organization depends on the understanding of its mission by all those involved in their activity, whereas is rooted even the motivation of human resources. Also the proper functioning of the nonprofit organization depends on the adaptation of the staff to the specific features of each department.

As future research directions we can approach the specific aspects of each department for an in-depth study in order to create the context of an appropriate qualified to nonprofit field, for the persons interested to engage in a civil society organization.

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