Nonprofit Commercial Revenues.

Evidence from the Czech Republic.

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Abstract

The commercialization of nonprofit institutions (NPIs) is a prominent theme in modern multidisciplinary studies. The trend towards nonprofit commercialization has increased significantly in recent years as more and more NPIs explore revenue generating opportunities. To examine nonprofit commercial revenues is thus of both theoretical relevance and practical importance around the world, including post-transitional countries. The aim of the paper is to determine the share and scope of nonprofit commercial revenues in the Czech Republic and to discuss their limitations. We try to show the true character of NPI funding sources based on the motives behind NPI entrepreneurial activities. The NPI funding sources are examined from a business perspective while emphasizing their “quasi” modalities. The paper concludes with suggestions for further research into the commercialization of NPIs in post-transitional countries.

Key words:

Nonprofit institutions; Funding sources; Nonprofit commercial revenues; For-profits-in-disguise; System of National Accounting
1. Introduction

Over the last few decades, the increase in external environmental challenges faced by NPIs has attracted the attention of researchers, and the commercialization of NPIs became a prominent issue in modern multidisciplinary studies. Researchers dealing with the topic of NPI commercialization have argued that NPIs must assume entrepreneurial postures in their operations (Sharir & Lerner 2006; Weerawardena, McDonald & Mort 2010), adopt innovative practices (Jaskyte 2004; McDonald 2007; Weerawardena & Sullivan Mort 2006), focus on outcomes targeted by government policy, and pursue innovative means of delivering superior value to the target market in order to capture a competitive advantage (Weerawardena, McDonald & Mort 2010).

Some researchers have claimed that NPIs should become more market oriented (Nicholls & Cho 2006) in order to manage the increased competition. Although the application of market principles to NPIs is hardly new, the concept has been expressed in diverse terminology (LeRoux 2005). Salamon (1993) called it the “marketization of welfare”; Weisbrod (1988) termed the increasing tendency of nonprofits to develop new enterprises, charge fees, and produce goods for sale as the “commercialization” of the sector.

The term marketization is used to refer to nonprofits becoming “more market driven, client driven, self-sufficient, commercial, or businesslike” (McKay et al. 2011). Marketization has thus a broader meaning than nonprofit commercialization, which is described as “a process in which NPIs are geared toward sales revenues rather than donations or government grants” (Weisbrod 2004). There are two paths to commercialization (Enjolras 2002): it may occur as the result of the development of commercial activities to finance the production of mission-related output or as the result of a transformation of the relationship between the organization and its members from participation to consumption. The narrow definition is that commercialization of nonprofits occurs when these organizations “decide to produce goods and services with the explicit intent of earning a profit” (Tuckmann 2000).

The economic determinants and effects of nonprofit commercialization have been the subject of wide-ranging theorizing and research, a significant portion of which raises critical concerns about the effects of commercialization on the ability of nonprofits to
achieve their missions. According to some authors, commercialization converts nonprofits into “for-profits-in-disguise” (Weisbrod, 2004), puts civil society at risk (Eikenberry & Kluver 2004), results in mission deflection (Minkoff & Powell 2006), and brings about mission-market tensions (Young 2003).

Opponents of NPI commercialization (Weisbrod 2004; Eikenberry & Kluver 2004; Minkoff & Powell 2006; Young 2002) generally agree that while it is often driven by good social and financial intentions (Guo 2006), it can involve tremendous complicity and controversy due to the contradiction between the moral adherence to social goals and the increasing engagement in profit seeking (Weisbrod 2004; Phillips & Chang 2005).

In contrast, supporters of commercialization (Brinckerhoff 2000; Salamon 2002; Valentino 2008) suggest that it is a promising way for NPIs to achieve self-sufficiency. Moeller and Valentinov (2012) state that “many NPIs are located in hostile environments and face highly insecure prospects for survival”. Thus, “commercial activities provide a self-regulatory mechanism that enables, rather than hinders, NPIs to perform their missions in environments where the supply of critical resources is insecure” (Moeller & Valentinov 2012).

Both sides have undoubtedly recognized the growing significance of the entrepreneurial activities of NPIs; however, it is still unknown whether these activities are rooted in different sets of motivations and how they affect NPI missions, funding streams, and service delivery.

Generally, even if the relevance of the issue remains high on international research agendas (Weisbrod 2000; ibid 2004; Salamon & Anheier 1992; Guo 2006; Enjorlas 2002), empirical research in the area remains scarce because of the lack of relevant data (Guo 2006). Salamon examined the extent to which the nonprofit social service sector was commercialized, estimating that the income that NPIs received from entrepreneurial activities increased by more than 600% between 1977 and 1996 (Salamon 2002). However, there have been few or no detailed empirical analyses on the motivations or particular effects of NPI commercialization. There have been attempts to provide empirical findings to illuminate the issue. One attempt was made in 2000, when the Pew Charitable Trusts commissioned two authors to survey the landscape of enterprise in the nonprofit sector (Massarsky & Beinhacker 2002).Respondents were asked to comment
on whether they viewed their organizations as entrepreneurial, and if so, what entrepreneurial strategies they were using. They were also asked about their reasons for initiating business ventures. The research outcomes showed that financial return is not the only entrepreneurial motivation for NPIs. Of the respondents operating business ventures, 39% said that their entrepreneurial activities also served their constituents by providing employment, training, and therapeutic opportunities; 34% claimed that the ventures generated positive community relations; and 23% said the ventures helped to revitalize the neighbourhood and community (Massarsky & Beinhacker 2002). However, no rigorous empirical analysis on the relation between the commercial activities and other attributes of NPIs was provided.

The relevance of the issue has been recognized in (post-)transitional countries, where NPI resources have become a noticeable concern (Pospíšil et al. 2012; Svidroňová & Vaceková 2012; ibid 2013; Vaceková 2014; Císař & Navrátil 2014). Preliminary empirical data mapping the self-financing and commercial activities of NPIs were collected in the Czech Republic and Slovakia (Vaceková 2014). The data generally reveal that nonprofit commercialization is not a recent trend. Over 75% of Czech and 87% of Slovak NPIs used some form of self-financing activities, including commercial ones. Even in the early years of their existence, confirming the importance and benefits of the entrepreneurial activities of NPIs. Over 75% of Czech and 89% of Slovak NPI representatives expressed the opinion that self-financing is not an activity that distracts from the main mission. This confirms the assumption expressed in a study (Schober et al., 2010) devoted to the definition of “quasi-equity” (i.e. nonprofit incomes vs. commercial incomes, see 3.1.2.)

The findings acquired through the empirical inquiry and the literature review strongly indicate the need for deeper insight into the examined issue. The paper is thus structured as follows. The methodological part of the paper is devoted to definition of the scientific goal, description of data and specification of methodology used for solving the issue being examined. The results part of the paper is logically divided into theoretical and empirical approach to nonprofit commercial revenues while examining the non-distribution constraint and entrepreneurial motivations of NPIs in order to prove the real essence of NPI funding sources in the Czech Republic. The paper concludes by discussing limitations of results and suggesting implications for further research.
2. Goal, data and methodology

An extensive review of the nonprofit literature revealed that commercialization of NPIs in the Czech Republic has not yet been sufficiently explored and thus represents an opportunity for new research. The aim of the paper is to determine the share and scope of nonprofit commercial revenues in the Czech Republic and to discuss their limitations. We examine NPI funding sources from a business perspective while emphasizing their “quasi” modalities (“quasi nonprofit incomes” and “quasi commercial incomes”). We also investigate “for-profits-in-disguise” and “false commercialization” in the Czech Republic and examine the true character of NPI funding sources based on the motives behind NPI entrepreneurial activities. Finally, we suggest implications for further research into the commercialization of NPIs in the conditions of post-transitional countries.

While mapping nonprofit commercial revenues in the Czech Republic, we use the definition of NPIs according to the standards of the European accounting system, where nonprofit institutions are defined as “a legal or social entity created for the purpose of production of goods or services whose status does not permit them to be a source of income, profit or other financial gains for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units” (Eurostat 1995: 96).

In the Czech Republic there is no publicly available database with individual data about NPIs and their resources that would enable a detailed analysis of the economic (market) behaviour of NPIs to be worked out with representative outcomes. We can get a basic idea of the development of individual types of revenues in the Czech Republic, including nonprofit commercial revenues, from the internationally comparable and publicly available data from Czech Statistical Office (CSO) issued by the Satellite Account of NPIs (SANI) for NPIs in all institutional sectors of the national economy (CSO 2013a) for the period from 2005 to 2011. The Czech Republic is one of the few countries that also draws up a satellite account for NPIs as a part of their national accounting. We will use the data to create a more complete picture of the state and development of NPIs and their resources in the Czech Republic. The data are too global
and vague to obtain an idea of the commercialization trends in the Czech Republic, as shown in Table II.

The internationally comparable and publicly available data from the Annual National Accounts (ANA) for NPIs serving households (CSO 2013b) for 1995 to 2012 is also a potential source of information. In addition to the 17-year time series, the ANA monitors and presents NPIs serving households separately from the households themselves, which is a practice that not many European countries yet follow; however, this source is not suitable for our purposes because the national economy is classified according to institutional sectors. The institutional sector of NPIs serving households contains data only on the NPIs that are non-market producers, i.e. they cover less than 50% of their operational costs (production and services) from their own revenues. The entities that cover more than 50% of their operational costs from their own revenues may be followed in SANI only under the institutional sectors of non-financial businesses and financial institutions. It is not even possible to provide a qualified opinion on the commercialization of NPIs serving households as a part of the nonprofit sector because of 50% criterion. If any entity exceeded the 50% criterion in the course of time, it would be included in another institutional sector without the ANA time series user obtaining any information on the reclassification of the entity itself or the scope of the impact on the structure and size of the NPI funding sources. Hence, it would be improper in terms of methodology to come to any conclusions on the commercialization of NPIs on the basis of data from ANA.

In the paper, we work especially with data from CSO that are collected as a part of an annual statistical survey of NPIs carried out by means of the NI 1-01 (a) questionnaire for the purpose of developing SANI and ANA. The data have not been presented publicly anywhere and they are available in their aggregate form only by specific request, a request which we made for the purposes of this paper.

We work with three selected typical groups of NPIs, regardless of the institutional sector to which they belong:

1/ foundation entities represented by organizations with the legal form of a foundation or an endowment fund in the Czech Republic;
2/ civic associations represented by organizations with the legal form of an association and its organizational unit;

3/ nonprofit providers of public services represented by organizations with the legal form of a general beneficial company in the Czech Republic.

These are three major groups of NPIs in the Czech Republic that vary in terms of their resources. We divide each of the studied groups into large entities and small entities according to the methodology used for the data collection by means of the NI 1-01 (a) questionnaire in the Czech Republic. Large NPIs are NPIs employing more than nine natural persons. These entities are annually surveyed in the form of census by means of the NI 1-01 (a) questionnaire.

As stated, SANI provides data for all NPIs in a time series since 2005, when NPIs employing more than nineteen natural persons were considered to be large NPIs. A change was introduced in the methodology of data collection in 2008, whereby NPIs employing more than nine natural persons were considered to be large. For this reason, we will use only the data for the time series from 2008 to 2012, for which we have representative data for large NPIs in a five-year time series that are exact, comparable in time, and complete.

To provide a more complete overall picture of the utilization of nonprofit commercial revenues at foundation entities, civic associations, and nonprofit providers of public services, we also present the data for small NPIs. Small NPIs are NPIs employing nine or fewer natural persons or even having no paid employees. Small NPIs are surveyed in the form of census or a very extensive selective survey carried out by means of the NI 1-01 (a) questionnaire once every five years when a certain legal form of units is selected for such a survey in the given year. For example, in 2008, generally beneficial company were surveyed in the form of census; in 2009, foundations and endowment funds; in 2010, professional organizations/chambers, other chambers, associations of legal persons, and hunting community; in 2011, church organisation, political party, political movement; and in 2012, associations and their organizational component were surveyed in the form of a very extensive selection procedure. For this reason, we can neither work with a time series nor contribute to the discussion on the development of
nonprofit commercial revenues at small NPIs before the five-year cycle repeats. As regards small NPIs, we will present only the situation in selected years for which we can obtain accurate and complete data. The numbers of the studied small and large NPIs and their development over time are shown in Table I.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation entities – large</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>(census)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation entities – small</td>
<td>:</td>
<td>1,174</td>
<td>:</td>
<td>:</td>
<td>:</td>
</tr>
<tr>
<td>(census)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonprofit providers of public</td>
<td>228</td>
<td>260</td>
<td>291</td>
<td>314</td>
<td>334</td>
</tr>
<tr>
<td>services – large (census)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonprofit providers of public</td>
<td>798</td>
<td>:</td>
<td>:</td>
<td>:</td>
<td>:</td>
</tr>
<tr>
<td>services – small (census)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civic associations – large</td>
<td>569</td>
<td>627</td>
<td>682</td>
<td>710</td>
<td>710</td>
</tr>
<tr>
<td>(census)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Civic associations – small</td>
<td>:</td>
<td>:</td>
<td>:</td>
<td>:</td>
<td>2,817</td>
</tr>
<tr>
<td>(extensive selective survey)</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Authors, based on specific request on CSO data from the annual statistical survey of nonprofit institutions by means of the NI 1-01 (a) questionnaire.

In order to explore the paper topic while keeping in mind the specificity of various issue areas we have opted for a standard methodological approach. When reviewing the literature, we applied the content-causal method, as it enables the analysis of a topic from the point of view of cause and effect, as well as the historical-logical method. When elaborating the introduction part of the paper, we applied the comparative method (comparing the opinions of more authors) and the method of scientific abstraction (we left out the opinions of lesser-known authors and other irrelevant data). We apply synthesis, induction, and deduction, as well as generalization, in a logical evaluation of the outcomes in the context of fulfilling the objectives and in the summary of outcomes of the submitted paper.
3. Results and discussion

We combine a theoretical and empirical approach to the examined issue. The theoretical approach includes an extensive number of research papers and studies concerning the different aspects of NPI commercialization, especially as regards special features and their expressions in the Czech Republic. The empirical approach, in the form of an analysis and evaluation of data that have not yet been published, logically follows from the theoretical background of the studied issue. The chapter dealing with the results is concluded with a discussion that provides a comparison of the achieved results with previously published papers, authors’ opinion of established differences, and our attitude to the results with suggestions for further research. The reason for choosing this approach to the examined issue is that despite the topicality of nonprofit commercial revenues in the Czech Republic, the theoretical background has not yet been sufficiently strengthened by relevant empirical findings (and vice versa) so there is no study dealing with this complex issue. The ambition of the submitted paper is to at least partially fill this gap.

3.1. Theoretical approach

Following a theory and research review indicating particular issue areas in relation to NPI commercialization, we intend to focus on the non-distribution constraint and entrepreneurial motivations of NPIs. We investigate “for-profits-in-disguise” and “false commercialization” in the Czech Republic. Based on the motives behind the entrepreneurial activities, we try to prove the real essence of NPI funding sources. The NPI funding sources are examined from a business perspective while pointing out their “quasi” modalities.

3.1.1. Non-distribution constraint and entrepreneurial motivation

The entrepreneurial motivation of NPIs is characterized by specific features derived from the non-commercial status of these organizations in society. Historically, the bottom-line focus on the mission rather than on entrepreneurial activities has been the defining feature of NPIs (LeRoux 2005). The literature review revealed the lack of a
well-developed discussion of entrepreneurial motivations and the effects of the non-distribution constraint principle on those motivations.

Knowledge about how entrepreneurial motivations could affect NPIs and how the non-distribution constraint affects these motivations are equally important in theory and practice. According to Salamon and Anheier (1992), the non-distribution constraint is a key feature of NPIs. The trustworthiness theory argues that the non-distribution constraint weakens the incentives of nonprofit entrepreneurs to maximize profits at the consumer’s expense. In fact, the non-distribution constraint has “only a weak effect on entrepreneurial choice” (Brhlikova & Ortmann 2006) as shown by the model of entrepreneurial choice proposed by Glaeser and Shleifer (2001). Revisiting specific economic theories of NPIs (the public goods theory, the consumer control theory, the trustworthiness theory, and the supply side theory) is helpful for understanding why “individuals prefer to satisfy some of their consumption preferences through involvement in NPIs” (Valentinov 2008) rather than through regular exchange transactions in the marketplace.

A lack of strong empirical support has led some economists to contest these theories. Although case studies of nonprofit entrepreneurship abound (Young 1985), there are fewer quantitative studies that examine the circumstances behind the entrepreneurial motivations of NPIs. The existing evidence seems to suggest that NPIs do not have a priori motivations for entrepreneurship, but rather adopt these activities as “a coping strategy when financial circumstances threaten to limit the scope of their service provision” (LeRoux 2005).

According to the resource dependency theory, nonprofits use commercial income as a replacement for lost government grants and private revenue (Crimmins & Keil 1983; Eikenberry & Kluver 2004; Young 2003; McKay et al. 2011). Drawing on this theory, Eikenberry and Kluver (2004) maintain that when public and private supporters falter, one of the strategies NPIs pursue is the use of market approaches to generate revenue. However, nonprofit scholars have provided little empirical evidence for or against this thesis. Kerlin & Pollak (2011), favouring institutional theory, showed that there is little evidence that the increase in commercial revenues (1982–2002) was associated with declines in government grants and private contributions. Other nonprofit literature has
also favoured the institutional theory (Meyer & Rowan 1977; Scott 1995). This perspective suggests that the survival of an NPI requires confirming to the institutional environment in which it exists (Kerlin & Pollak 2011).

This increase in commercial activities in the nonprofit sector raises the question of whether NPIs are merely “for-profits-in-disguise” (Weisbrod, 1988; Weisbrod, 2000; Weisbrod, 2004). These “false” nonprofits may maximize profits that they then “distribute in disguised form (as higher wages and perks), or they may maximize revenues that lead to power and prestige for their managers. They are lured into the nonprofit sector by the tax and subsidy advantages that they gain therefrom” (James, 2000). Another interesting phenomenon here is what we call the “false commercialization” which occurs when NPIs carry out commercial activities with the sole and explicit aim of covering the costs of providing the nonprofit mission for which they were founded. In the empirical part of the paper, using the example of the Czech Republic, we draw attention to both phenomena of commercialization as limitations of the presented data.

3.1.2. “Quasi-equity” approach to funding resources

The financial aspect of NPIs is connected with certain particularities deriving from their non-distribution constraint and non-commercial status in society. Contemporary NPIs face stronger competition than ever before, inevitably requiring the successful acquisition of new funding resources in order to ensure the offer of public services in a range that corresponds with what the society needs.

The traditional main financial goal of a profit-oriented company is to maximize their profits. As NPIs are not founded primarily for the purpose of making a profit, they pursue the achievement of a general benefit as their primary goal. This fundamentally changes their financial policy, usually giving priority to the pursuit of liquidity (Svidroňová & Vaceková 2013). The financial sources that should be used and the amounts needed to achieve this goal vary and are determined by the NPIs’ strategic management decisions.
To explain the economic background of nonprofit commercial revenues, we will base the main division of sources that follows on the microeconomic divisions of “equity” and “borrowed capital” (Schober et al. 2010). The concept of equity is problematic in many NPIs, as they do not have any equity in the business or economic meaning of the term. Generally, in NPIs there is a lack of “investors” who would provide capital in anticipation of earnings. Classic features of equity are often undertaken by donors, providers of subsidies, and members of the organization. We use the term “quasi-equity” to convey this variation on traditional equity (Schober et al. 2010).

“Quasi-equity” can be divided into typical nonprofit incomes and standard commercial incomes. We understand incomes primarily related to the main core work and mission of an NPI as typical nonprofit income; such income may come from a variety of funders.

In contrast, commercial incomes are from activities unrelated to the mission of an NPI. In particular, commercial income comes from investment activity or capital gains (e.g. income from renting its assets). Commercial income also includes restructuring assets, selling assets, and the associated effects of financing, such as the sale of buildings and real estate. Other commercial income is a residual category that includes all the commercial activities carried out by NPIs that are not related to their mission and at the same time cannot be assigned to any of the other commercial income categories.

Fig. 1 Nonprofit incomes vs. commercial incomes
We compare the above-specified division of funding resources with the conditions of funding of NPIs in the Czech Republic to the extent to which the presented "quasi equity" reflect the experience in the area of NPI funding in Austria, with the possibility of applying the results to developed countries. As a part of this approach, it is necessary to take into account the specific nature of the Czech Republic as a (post-)transitional economy and to adjust the nonprofit incomes and commercial incomes to the conditions under which NPIs exist and operate in the Czech Republic.

Source: Schober et. al 2010, own elaboration
Despite expectations, not all entities were privatized under the process of transformation of the Czech economy in the 1990s; public providers of public services still hold the dominant position in the Czech Republic. Contrary to the practice that is in place in many areas in developed countries, public services in the Czech Republic are still purchased through subsidies and not contracts, which leads to a “real economic exchange relationship” (not to “no real economic relationship” as is stated in Fig. 1).

Subsidies in the Czech Republic cover about 70% of the costs of the production of a public service, and contracts also generate reasonable profit for NPIs. In the Fig. 1 showing “quasi equity”, contracts are included in nonprofit incomes, which do not correspond to the Czech reality. In the Czech Republic, public contracts are accounted for as commercial income. We differentiate between two types of contracts when a small part of income is generated by contracts to provide public services with the aim of fulfilling the mission of an organization; however, in the second case, NPIs are also able to win public contracts that will ensure them profit, enabling them to fulfil their mission. NPIs compete for such public contracts for commercial reasons.

Another important difference is that there are no private and corporate foundations in the Czech Republic; we understand these funding resources as a transfer from other NPIs.

Membership fees are interesting from the point of view of commercial vs. nonprofit incomes. In the Czech Republic, membership fees are considered to be a nonprofit income, however, they often represent a commercial income that would be considered remuneration (revenues from own products, services and merchandise) from a business perspective. This gives us an opportunity to point out the phenomenon defined as the “for-profits-in-disguise” in the Czech Republic.

The opposite phenomenon, which we term “false commercialization”, can be illustrated with the sponsorship that is included among the funding resources for NPIs creating a nonprofit income in Fig. 1. In the Czech Republic, sponsorship is considered to be a commercial income (advertising sales) from a business perspective; however, it is often closer to donorship, and the real motivation of the sponsor as well as of the sponsored is to fulfil the mission (which leads to the “false commercialization”). However, NPIs
also enable sponsorship solely for commercialization purposes, for prices equal to or higher than those that would be offered by profit entities (advertising purchases).

A substantial legislative change directly influencing the commercialization of Czech NPIs is the new Civil Code, valid since January 1\textsuperscript{st} 2014. Before the new Code, only the rental, sponsorship, or sale of services for the purposes of commercial revenues and incomes from financial markets could be considered to be commercial incomes. In the Czech Republic, since the new Code, the possibilities of NPI entrepreneurial activities have been extended, especially in the form of interests and dividends.

Fig. 2 Nonprofit incomes vs. commercial incomes in the Czech Republic

Source: Authors, own elaboration based on Schober et. al 2010
In the empirical part of the paper, we strive to identify and discuss the above-described specific issues and their limitations. We investigate “for-profits-in-disguise” and “false commercialization” in the Czech Republic. Based on the motives behind the entrepreneurial activities, we try to prove the real essence of NPI funding sources. The NPI funding sources are examined from a business perspective while pointing out their “quasi” modalities.

3.2. Empirical approach

Generally, even if the relevance of the issue remains high on international research agendas (Weisbrod 2000; ibid 2004; Salamon & Anheier 1992; Guo 2006; Enjorlas 2002), empirical research in the area remains scarce because of the lack of relevant data (Guo 2006). Motivated by evidence indicating that the share of nonprofit revenues from the entrepreneurial activities of NPIs is rising (Young 2003, Young & Salamon 2002), we try to quantify the scope of nonprofit commercial revenues in the Czech Republic. Furthermore, we strive to identify questionable issues of nonprofit commercial revenues described in the theoretical part of the paper.

3.2.1. The Czech nonprofit sector, its development and funding from 2008 to 2011

To fulfil the scientific objective of the submitted paper, it is necessary, apart from the expression of the share and the scope of nonprofit commercial revenues, to characterize the size of the Czech nonprofit sector and its development in the analysed years. In 2011, NPIs in the Czech Republic generated production in the amount of 100 billion CZK (5 billion USD) and created 98.5 thousand full-time jobs. Their share in the GDP is 1.6% and 1.9% in the employment rate. The Czech Republic thus, absolutely and relatively, ranks among the countries with the least economically strong nonprofit sectors as compared to the other countries creating SANI (Salamon et al 2012).

Table II shows the development from 2008 to 2011 with the changes in important absolute and relative characteristics of the nonprofit sector.
Table II Development of the nonprofit sector in the Czech Republic from 2008 to 2011

<table>
<thead>
<tr>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units</td>
<td>84,034</td>
<td>10,386</td>
<td>109,209</td>
<td>114,185</td>
</tr>
<tr>
<td>Production (in million CZK*)</td>
<td>92,162</td>
<td>93,447</td>
<td>97,553</td>
<td>100,168</td>
</tr>
<tr>
<td>Gross added value (in million CZK*)</td>
<td>55,765</td>
<td>57,097</td>
<td>59,873</td>
<td>62,324</td>
</tr>
<tr>
<td>NPI share in GDP (in %)</td>
<td>1.45</td>
<td>1.52</td>
<td>1.58</td>
<td>1.63</td>
</tr>
<tr>
<td>Number of FTE employees</td>
<td>88,248</td>
<td>95,186</td>
<td>97,068</td>
<td>98,53</td>
</tr>
<tr>
<td>Number of FTE volunteers</td>
<td>27,256</td>
<td>27,145</td>
<td>25,04</td>
<td>25,984</td>
</tr>
<tr>
<td>Share in the employment rate (in %)</td>
<td>1.71</td>
<td>1.89</td>
<td>1.93</td>
<td>1.96</td>
</tr>
</tbody>
</table>

Revenues

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for market output (in million CZK*)</td>
<td>16,238</td>
<td>17,185</td>
<td>18,109</td>
<td>18,853</td>
</tr>
<tr>
<td>Payments for non-market output (in million CZK*)</td>
<td>17,513</td>
<td>16,611</td>
<td>18,818</td>
<td>18,658</td>
</tr>
<tr>
<td>Property income (in million CZK*)</td>
<td>2,318</td>
<td>1,491</td>
<td>15,69</td>
<td>1,096</td>
</tr>
<tr>
<td>Other current transfers (in million CZK*)</td>
<td>57,494</td>
<td>59,632</td>
<td>59,848</td>
<td>60,929</td>
</tr>
<tr>
<td>Voluntary work (in million CZK*)</td>
<td>6,296</td>
<td>6,704</td>
<td>6,087</td>
<td>6,510</td>
</tr>
</tbody>
</table>

* 1 USD = 20 CZK, exchange rate on May 14th 2014

Source: Authors, own elaboration based on SANI data (CSO, 2013), data in million CZK

In general, the number of NPIs in the Czech Republic is increasing. The highest interannual growth (by 23.6%) was in 2009, when the number of NPIs exceeded 100,000. However, this number is not determinant. It is the number of registered entities and civic associations in the Czech Republic are not forced by legislation to be dissolved if they terminate their activities. For this reason, we do not know how many registered organizations are actually inactive. The production and the gross added value increased slightly in absolute figures over the whole studied period; however, in light of the potential inactive organizations, it is not possible to determine the conversion per unit. The share of NPIs in the GDP in the Czech Republic grew, increasing from 1.45% in
2008 to 1.63% in 2011, as did the share in the employment rate, showing a slight increase (from 1.71% to 1.96%) in the given period. Interestingly, the number of volunteers (FTE) decreased over the whole studied period, which we perceive as an indicator of the impact of the financial crisis on donorship, i.e. the donations of time.

The second part of Table II presents global data on the funding of the Czech nonprofit sector, where we study revenues in the following structure: payments for market output (i.e. for market prices), payments for non-market output (i.e. for prices that are economically insignificant, i.e. mostly equal to or lower than the operating costs), property income (i.e. appreciation and sale of any assets), other common transfers without volunteer work, and volunteer work.

The other common transfers, i.e. subsidies, donations, and membership fees, constitute the most significant funding resource of NPIs. In absolute figures, they show a steady growth, but a slight decrease in relative figures. In 2011, they were 56.4% of the total revenues. Property income show an absolute and a relative decrease for the whole studied period, specifically from 2.3% to 1% of the total revenues. Based on SANI global data it is not possible to find out whether it was caused by property incomes from financial, tangible or intangible assets. The financial accounts of the National Accounting System for the Czech SANI compiled only since 2010. The financial accounts of the National Accounting System for the Czech SANI have been compiled only since 2010.

Over the studied period, the payments for market output show a continuous slight growth (by 2.6 billion CZK, i.e. 0.13 billion UDS) in absolute figures as well as relative figures (by 1.2 percentage points); in 2011, it was 17.5% of the total revenues. The system of the national accounting and SANI separately monitor non-market output that shows a similar development and achieves similar values, oscillating around the level of 17.3% of the total revenues at the end of the given period.

Taking into account the considerable heterogeneity of the nonprofit sector, it is advisable to concentrate on homogenous groups inside the nonprofit. However, neither the National Accounting nor SANI are able to present these groups in this manner. Therefore, in the following subchapters, we present a detailed analysis of the structure of revenues for three major groups of NPIs that can be found nearly everywhere in the
world: foundation entities, providers of public services, and civil associations. Thanks to the resource data described in the methodological part, we manage to evaluate not only the structure of revenues as a whole, but also their development per unit, thus contributing to the fulfilment of the scientific objective of the submitted paper.

3.2.2. Revenues structure in the Czech Republic - Civic Associations

Associations and their units typically take the form of societies, clubs, unions (including trade unions), leagues, guilds, and federations. They are established and operate on a membership basis to pursue the interests of their members. They are by far the most numerous and hence the most important legal form of NPIs in the Czech Republic. Associating for business, political, military, or religious activities takes other legal forms and is covered by other special laws (Pospišil & Hyánek 2009).

The structure of resources of large civic associations converted per unit for the period from 2008 to 2012 is shown in Fig. 3. We comment on small civic associations in relation to large civic associations pointing out the considerable differences in their funding structure.

Fig. 3 The structure of resources of large civic associations from 2008 to 2012 per unit

Source: Authors, own elaboration based on specific request on CSO data from the annual statistical survey of NPIs by means of the NI 1-01 (a) questionnaire
The total amount of revenues achieved by civic associations increased until 2010 (from 22.1 mil. CZK, i.e. 1.105 mil. USD to 25.9 mil. CZK, i.e. 1.295 mil. USD); in 2011, we identify a sharp inter-annual drop by 36.6% with a tendency to descend until 2012 when they reached 17.7 mil. CZK (0.885 mil. USD) per unit.

The major source of revenues for civic associations from 2008 to 2010 was property incomes and other revenues, accounting for nearly half of all the revenues in that period. In 2011, a sharp inter-annual drop by 68.8% began and continued until 2012 when property incomes decreased by nearly 10 mil. CZK (0.5 mil. USD) per unit as compared to 2010.

Non-commercial revenues from own products, services and merchandise show a positive development. When converted per unit (Fig. 3), they grew continuously over the whole studied period. The development of commercial revenues is not as straightforward. After the jump growth of 1 million CZK (50,000 USD) per unit from 2008 to 2009, the amount of commercial revenue per unit decreased again to 1.8 million CZK (90,000 USD) per unit in 2011. The share of commercial and non-commercial revenues from own products, services and merchandise in the total revenues grew over the whole period, achieving the amount of 35.8% in 2012.

Membership fees grew in absolute figures per unit until 2009, when they increased by up to 100% inter-annually. After 2010, they started to decrease continuously and at the end of the studied period they were at the level of 0.8 mil. CZK (40,000 USD) per unit, which represents a 4.7% share of the total revenues.

Membership fees are interesting from the point of view of commercial vs. nonprofit incomes. In the Czech Republic, membership fees are considered to be a nonprofit income; however, empirical evidence shows that they may hide a commercial income, which brings up the phenomenon known as “for-profits-in-disguise”. For example, in the Czech Republic there is an internet provider that ensures services to its members. Because the provider’s legal form is association its main funding resource is membership fees (hidden commercial income of a “for-profit-in-disguise” with a motivation of tax benefit).
The category of pure nonprofit incomes may include contributions and gifts as well as operating subsidies. In the studied period, gifts oscillate around 4.2% to 7.3% of total revenues, which is contrast to the development in foundation entities (see 3.2.4). Operating subsidies grew continuously in absolute as well as relative figures; their value amounted to 35.6% of the total revenues in 2012.

Revenues from subsidies are a significant funding resource. The reason is that for civic associations operating subsidies are paid out not only to support their activities but also to purchase public services.

The development of total revenues for small civic associations (employing nine and fewer natural persons) could not be studied due to the methodology of data collection. In 2012, they amounted to 0.2 mil. CZK (10,000 USD) per unit. In contrast to large civic associations, the most important income resources are received operational subsidies (600,000 CZK (30,000 USD) per unit), accounting for 32% of the total revenues. Revenues from own products, services and merchandise achieve the same level, of which more than half are revenues from non-commercial revenues from own products, services and merchandise.

3.2.3. Revenues structure in the Czech Republic - Nonprofit providers of public services

Nonprofit providers of public services are represented by public benefit companies. They are service-providing, non-membership, not-for-profit organizations, asset-holding or not, such as theaters, schools, hospitals, socials care institutions, etc. (Pospíšil & Hyánek 2009).

Fig. 4 The structure of resources of large nonprofit providers of public services from 2008 to 2012 per unit
As in the case of the global figures from SANI, the total amount of revenues per unit for nonprofit providers of public services increased during the whole studied period in the absolute and relative figures (from 17 mil. CZK, i.e. 0.85 mil. USD per unit in 2008 to 18.6 mil. CZK, i.e. 0.93 mil. USD in 2012).

In contrast to the other studied types of NPIs, the most important resource for nonprofit providers of public services are commercial and non-commercial revenues from own products, services and merchandise, accounting for about 44% of the total revenues in the whole studied period. Their development shows a tendency to grow; the only inter-annual decrease was recorded in 2010. In this group the commercial revenues are the most significant funding source as they account for nearly 7% of total revenues. Because these NPIs provide public services, payments from clients are also important. Non-commercial revenues from own products, services and merchandise are over 37% of total revenues in the whole studied period.

Operating subsidies, falling into the category of nonprofit incomes, contribute to the total revenues in a similar scope (about 40%), showing a constant development (in the amount of about 7 mil. CZK, i.e. 0.35 mil. USD when converted per unit). As compared to civic associations, operating subsidies are used at these NPIs nearly entirely to finance public services.
In contrast to the other types of NPIs, for nonprofit providers of public services the share of property incomes and other revenues in the total revenues ranges only from 11.2% in 2008 to 13.5% in 2012, with a tendency to grow.

Contributions and gifts also increased over the whole studied period, accounting for 4% to 4.9% of the total revenues.

The development of total revenues for small nonprofit providers of public services could not be studied due to the methodology of data collection. In 2008, they amounted to 1.5 mil. CZK (75,000 USD) per unit. As with large nonprofit providers of public services, the most important funding resource (accounting for more than 40% of the total revenues) are commercial and non-commercial revenues from own products, services and merchandise, of which 80% are non-commercial ones. Another important funding resource are operating subsidies.

As regards the specific features of the nonprofit commercial revenues we studied, we can draw attention to a Czech environmental NPI. This NPI started with commercial activities while drawing up plans of mobility for market prices as they are one of the few organizations offering these services. Therefore, it is commercial revenue; however, the objective is to fulfil their mission (the impact is in accordance with the mission of the publicly beneficial corporation). Thus, they meet the specific characteristics of the phenomenon that we describe as “false commercialization”.

### 3.2.4. Revenues structure in the Czech Republic – Foundation entities

Foundations and funds are defined as asset-based, non-membership, grant-making organizations. The difference between the two is that a foundation must have an endowment whose value may not become less than 500,000 CZK (25,000 USD) and which must be able to generate sufficient income for its grant-making operation, while a fund is not required to possess any endowment and may use all of its property to carry out its mission (Pospíšil & Hyánek 2009).

Before the new Civil Code was adopted in the Czech Republic (valid since January 1st 2014), the specific feature of foundation entities was that they were only financial
intermediaries. They could produce goods and services only for the purpose of fundraising.

Fig. 5 shows the structure of resources of foundation entities converted per unit for the period of 2008 to 2012.

As compared to the global data from SANI showing the absolute growth of revenues, the total amount of revenues for foundation entities per unit was decreasing until 2011 (from 37.1 mil. CZK, i.e. 1.855 mil. USD to 30.4 mil. CZK, i.e. 1.52 mil. USD); in 2012, the total revenues per unit grew by 16.8% inter-annually but did not achieve the level from 2008.

The most significant resource of foundation entities in the whole studied period were property incomes and other revenues. In 2012, they accounted for up to 78.9% of the total revenues. We would like to draw attention to the specific situation of the transformation process in the Czech Republic, when 1% of the revenues from privatization were redistributed by the Foundation Investment Fund to 73 foundation entities to support the foundation sector and philanthropy in the Czech Republic. This support was put directly towards the endowment, making the property incomes a very significant funding resource. The analysis of the foundations (GCNGO 2013) showed
that foundations and their boards of directors had started to take a keen interest in diversifying invested funds and assets as such in response to the economic crisis and its impacts. In the long-term perspective, foundations are especially interested in land and immovable properties.

When converted per unit, the commercial and non-commercial revenues from own products, services and merchandise of foundation entities (Fig. 5) decreased, and their share in the total revenues dropped by nearly half (from 24.4% in 2008 to 12.7% in 2012). More than 90% are non-commercial revenues from own products, services and merchandise (this information is discoverable only for 2008 and 2009; since 2010 the annual statistical survey of NPI statement NI 1-01 (a) has not monitored commercial and non-commercial revenues in foundation entities separately). These revenues included especially services performed in order to achieve incomes from fundraising, including revenues from cultural and sports events organized to raise funds for the activities performed by foundation entities. A decrease in commercial and non-commercial revenues from own products, services and merchandise therefore indicates the inhibition of fundraising activities or the reduction of incomes from such activities.

It is possible to determine what is indicated by examining the impact of the financial crisis on donors in the Czech Republic. Fig. 5 shows an apparent decrease in terms of contributions and gifts and a slump to 3% of the total revenues at the time of the financial crisis.

As regards small foundation entities, the development of revenues cannot be studied in light of the methodology of data collection. In 2009, they amounted to 1.9 mil. CZK (95,000 USD) per unit. The most significant revenue resource continues to be property incomes and other revenues; their share in the revenues for 2009 was 56.3%, while the assets of small foundation entities are up to 1.07 mil. CZK (53,500 USD) per unit due to the high number of the foundation entities that received contributions from the Foundation Investment Fund falling under this category. Small foundation entities studied in 2009 show a 10.5% share of the revenues that are almost completely non-commercial revenues from own products, services and merchandise, corresponding to the findings on large foundation entities. We have found a considerable difference in contributions and gifts, where this funding resource amounts to a 31.6% share in the
We would like to raise the interesting point of sponsorship with respect to foundation revenues. In the Czech Republic, we consider sponsorship to be a commercial income (advertising sales) from a business perspective; however, it is often closer to donorship and the real motivation of the sponsor and the sponsored is to fulfil the mission (which leads to “false commercialization”). We can prove this empirically with the example of the sponsoring of a Czech environmental foundation by the Skanska company since 2004 under the Tree of Life project. Skanska secured its own promotion and improved image through this activity, making a commercial income for the foundation; however, the foundation did not agree to Skanska’s sponsorship until Skanska integrated ecological thinking into its company philosophy, thus the foundation met their mission at the same time.

Another potential example of the “false commercialization” phenomenon is the possibility of creating affiliated funds for foundation entities. This possibility arises from the new Civil Code, which generally leads to support and expansion of donorship in the Czech Republic. This possibility to administer assets of other people’s property and redistribute it in the form of donations creates the possibility of commercial income from the owner of the property. However, the activity itself is performed to allocate other people’s assets to target groups of foundation entities, i.e. foundation subjects fulfil their mission.

3.3. Discussion

In addition to the theoretical and practical contributions of this paper, we suggest topics and create a space for discussion in areas beyond the range of the paper’s specific topic. These suggestions may be an inspiration not only for theory and practice but also for further scientific activities.

We investigated “for-profits-in-disguise” and “false commercialization” in the Czech Republic and examined the true character of NPI funding resources based on the motives behind NPI entrepreneurial activities. We aimed to identify these phenomena.
for all three of the studied organizational and legal forms of NPIs, using specific examples from the Czech Republic. The question arises of whether it is at all possible to unequivocally determine, on the basis of accounting data, that an organization really falls into the category of “for-profit-in-disguise” within the meaning of their definition. The same applies to the opposite phenomenon of “false commercialization”. Such unequivocal determination would require aggregate or panel accounting data to be interconnected with an analysis of an organization’s mission and the knowledge of specific activities carried out by the organization. NPI funding resources were examined from a business perspective while emphasizing their “quasi” modalities. A critical evaluation of the classification of resources, adjusted to the Czech conditions, is provided in the results part of the paper. We do not discuss individual parts of the “quasi equity” and their economic exchange relationship. Instead, we concentrate on the potential applications in (post-) transitional economies, because in the Czech Republic, as in the other countries, the classification significantly depends on the legislation currently in force and its amendments. The implications of our outcomes are applicable only when specific features of the legislative definitions of NPIs in other (post-) transitional economies are taken into account. We consider the scheme we propose to be a new and innovative approach as a case of the Czech Republic. The basic idea, i.e. equity seen from a business perspective, is sure to remain a positive contribution, although it is still relatedly possible to discuss the differences between our innovative approach and the standard conventional classification of NPI funding resources.

When discussing the limitations, it is necessary to include the data described in the methodological chapter and analysed in the chapter presenting the study outcomes. In our paper, we use yet-unpublished data that we consider to be representative for NPIs in the Czech Republic, taking into account the data collection methodology. These data clearly show the heterogeneity of the nonprofit sector in the Czech Republic as well as the limitations of macroeconomic data in the National Accounting System. Nevertheless, they are still aggregate data. We are aware that averaged data have limitations and that median data would be more suitable, but better data describing the Czech nonprofit sector are not available. Accounting data about all NPIs are not publicly available in the Czech Republic. Although the NPI categories of foundation subjects and publicly beneficial corporations, as defined in the paper, are legally obliged
to publish annual reports and present their accounting data therein, not all of them currently comply with this obligation in the Czech Republic, and the percentage of those that do so is very low. The other NPIs do not even have such an obligation. It is not possible to obtain panel data either, as there is no analogue to the US Internal Revenue Service’s Statistics of Income database (Kerlin & Pollak 2011) in the Czech Republic. Let us hope that in the future the CSO will make the data collected by means of the NI 1-01 (a) questionnaire available in the form of an anonymized database of individual cases thus collected. For the time being, CSO provides anonymized panel data only for households as part of the EU SILC survey of living conditions.

Another issue to be discussed with respect to the data used in this paper is that volunteer work is not included in the data from the basic surveys carried out by means of the NI 1-01 (a) questionnaire. Volunteer work is a significant resource, especially for small NPIs and all civic associations, and its omission draws attention to the fact that indirect resources of NPI funding are not reflected despite their importance.

Despite that, the paper makes a positive contribution to the theory and practice of NPIs in the Czech Republic and should motivate further research in the area of their funding and commercialization. Following a theory and research review and the presented data analysis that indicated particular issue areas in relation to NPI commercialization, we suggest focusing on three main research areas in the Czech Republic.

First, subsequent research should investigate the motives behind the entrepreneurial activities of NPIs. There are several theories and some partial empirical findings dealing with the commercialization of NPIs; however, a relatively small amount of research has been devoted to exploring the actual motives of NPIs for their increased reliance on profit-based resources. Following Kerlin and Pollak (2011), we suggest examining whether there has been an increase in nonprofit commercial revenues, and if so whether declines in government grants and private contributions are behind the increase. Moreover, we would like to discover the entrepreneurial motivation among Czech nonprofits when confronted with the non-distribution constraint. We suggest exploring how “false commercialization” or “for-profits-in-disguise” could be conceptualized and empirically identified.
Second, potential research should explore the overall effect of the process of commercialization on NPI goals and their fulfilment. It has been argued that the process of commercialization leads to the significant emancipation of NPIs, both in terms of financial independence and in the ability to focus on their goals without needing to fulfil the agendas of donors (public agencies, companies, etc.) Advocates of the opposite perspective have argued that commercialization in itself constrains NPIs and forces them to focus on sub-fields or on areas that may be attractive to potential customers rather than relating to the NPI’s main mission. Most studies thus far have been descriptive, providing some insights into understanding this phenomenon but not offering a comprehensive explanation that takes all of the possible factors into account. To explore the overall perceived impact of NPI commercialization would be of great importance in the Czech Republic.

Third, potential research should seek to assess the impact of NPI commercialization on their goals/mission scale. To bring theoretical innovation to the research area, we link the issue of nonprofit commercialization with the concept of “social dilemma” (Pies 2009; Pies 2012; Suchanek 2007), which is prominent in constitutional economics and economic ethics. The shorthand definition of social dilemmas is “situations in which collective interests are at odds with private interests” (Kerr 1983). The focus of this suggested future research is related to social dilemmas: does commercialization lead NPIs to focus on a smaller audience and on the advancement of narrow interests in order to increase the resources from particular profit activities? Or does this process rather compensate for some type of (lacking) resources while keeping NPIs on track in providing public services, defending broad public interests, and responding to the needs of society at large? The social dilemma approach to NPI commercialization has not yet been pursued.

4. Conclusion

Generally, the trend to NPI commercialization has increased significantly in recent years as more and more NPIs explore revenue generating opportunities. Thus the aim of the paper was to determine the share and scope of nonprofit commercial revenues in the Czech Republic and to discuss their limitations. Czech NPIs have not yet reached a
level of economic and managerial professionalism enabling them to exist solely on funding from commercial activities. It is not their goal – it would contradict several principles of their foundation (multi-sourcing, non-distribution constraint).

In the Czech NPIs the presented results indicate the nonprofit commercial revenues are not an important funding source, even not during the financial crisis. A legislative change directly influencing the commercialization of Czech NPIs is the new Civil Code, valid since January 1st 2014. It enables to develop entrepreneurial activities and may produce a considerable change in the structure of revenues. Thus we could expect the growth in nonprofit commercial revenues in the Czech nonprofit sector.

To point out the true character of NPI funding sources based on the motives behind NPI entrepreneurial activities we investigated “for-profits-in-disguise” and “false commercialization” in the Czech Republic. The NPI funding sources were examined from a business perspective while emphasizing their “quasi” modalities.

In addition to fulfilling the given scientific aim of the paper, we suggest further topics and create a space for discussion in areas beyond the range of the specific issue covered in the paper. We combine the results with theoretical and empirical findings of other authors, thereby integrating the outcomes into a wider scientific environment with implications for the conditions of (post-) transitional economies.

5. References


