Nonprofit Organizations: Selected Issues.
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Acknowledgement
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INTRODUCTION

Nonprofit organizations play an important and irreplaceable role in building of a civil society. They are one of the main pillars of democracy and bearers of its principles, which can be used to argue both merits of their own existence and an intensive research of the given area on theoretical and practical level. This is closely related to the necessity of studying the issue.

The present study text introduces selected actual problem areas in the nonprofit sector and reflects on the current state of knowledge in the field. It is a work of the Masaryk University in Brno (CZ.1.07/2.3.00/30.0009) “Employment of Newly Graduated Doctors of Science for Scientific Excellence” and it will serve as a recommended reading in the framework of the course guaranteed by the Department of Public Economics of ESF MU, namely the Economy and Management of Nonprofit Organisations, Selected Issues of the Public Sector, Transformation of the Public Sector, Public Economics, Public Finance, Public Administration and Public Policies, as well as other study courses focused on partial problem areas addressed within the given study text.

The text itself is divided into three chapters, namely the nonprofit sector, social entrepreneurship and case studies. This concerns selected issues, which are logically connected and allow us to explain the researched issues in the wider context of interdisciplinary overlaps with other scientific fields. To understand the principles, on which nonprofit organisations work, and why they exist, it is important to define their position held within the national economy. That is, to define the limits within which those organizations carry out their activities and fulfil their mission. This is the focus of the first chapter of the study text. It is followed by the subchapter dedicated to funding of nonprofit organisations. Examination of funding of nonprofit organisations is an important issue both for nonprofit organizations and for the whole society. Nonprofit organizations are operating in a market economy and their activities require material, technical and financial security, which cannot be based merely on the basis of volunteering. A sustainable development of these organizations is impeded by financial problems, which are specific for them, and their character results from their core mission. This is addressed by the chapter, which deals with social entrepreneurship. The primary intention of social enterprises is usually not related to profit. They are characterized by performing public benefit activities and their contribution is seen in the pursuit of inclusion of people, who are in some way disadvantaged in the labour market. These are so-called hybrid organizations, which are currently a subject of both professional and intense political
debate at the international level.
Besides the theoretical background, individual chapters contain relevant empirical data from the author's own research, which vividly illustrate the issues and help to make the text clear, readable and practically usable also outside of the university gates.
1. NONPROFIT SECTOR

Recent years have witnessed a considerable surge of interest throughout the world in the broad range of organizations that operate outside the market and the state. Known variously as the “nonprofit,” “non-governmental,” “voluntary,” “civil society,” “third,” or “independent” sector, this set of institutions includes various types of entities - hospitals, universities, social clubs, professional organizations, day care centres, environmental groups, sports clubs, job training centres, human rights organizations, and many more (Salamon, Sokolowski & Anheier, 2000). The first chapter of the present study text provides a brief insight into these entities in order to clarify some major issues concerning the nonprofit sector.

1.1 The third sector in the welfare triangle

According to some authors, the third sector is by nature unsuited to singular definitions (Osborne 2008). Pestoff (1992; 1998) modified this perspective by demarking the third sector at the centre of the welfare triangle (Figure 1), clearly separated from the state, market and family by major social cleavages, i.e., public/private, for-profit/nonprofit and formal/informal.

Figure 1 Welfare triangle

Source: Pestoff, 1992
The welfare triangle helps to define major governance institutions in society, as well as to depict the change in the welfare mix in post-industrial societies. Along with the market, state and family, we find a third sector made up of non-governmental and nonprofit organizations. In Europe we often refer to it as the “social economy” or l’économie sociale (see Chapter 2). It is comprised of voluntary organizations, ideal associations, sports clubs, various societies, mutual societies, social enterprises, popular movements, etc. (Pestoff, 1992)

The advantage of this classification is among other that from the triangle image there can be read the basic characteristics of organizations, which operate in individual sectors. Although the diagram looks complicated, its understanding greatly contributes to the understanding of the non-profit sector position. The entire triangle represents national economy. It is divided by three “sections”. Sections divide the triangle according to the following perspectives:

- Formal/informal sector – the perspective is, if there is legal entity or not. Legal entities are regulated by acts from the formal perspective;

- Public/private organizations – who founded, owns, operates the organization. Sometimes it is a problematic perspective, especially due to unclear legal regulation;

- Profit/non-profit organizations – the purpose, for which the organization was founded, is decisive. It is indicated by legal regulation and the Income Tax Act.

Where are nonprofits located? They are placed in the middle of the triangle, from which it indicates that they are:

- Private – founded by private entities, not by government. They may be even individual citizens or legal entities;

- Non-profit – not founded for the purpose of generating profit;

- Formal – their image and position is adjusted by relevant acts.

In the image there can also be seen the boundary organizations, which represent the transition type, at the boundary of one type of perspective (section). E.g. private middle school, which function is
involved in public sector, has private character and partially it is financed from public sources. Special case of boundary organization is state enterprise, which was established for the purpose of business by some public sector institution and attends to the state property. The private nonprofit sector is involved in the household sector that for their activities and missions are created groups (cannot use the term organization or institution), which are of informal character, i.e. they were not established based on government legislation. Usually they are associations of charity character or focusing on youth and children free time. They may be informal associations, which defend rights of certain groups or communities of citizens outside legislation. In the western literature they are described as neighbourhood or family associations. In the profit, market sector is involved the nonprofit sector by realizing its non-profit activities using available legal forms, e.g. based on the Commercial Code. This way there can be established stock companies, limited companies and cooperatives to realize the charity, education, sport and other missions (Rektořík, 2001). These boundary organizations are a place, where the nonprofit mission may deviate to favour commercial activities, often pointing out the necessity to secure means for organization operation. In the final phase there may occur partial or complete deviation from the mission or clients, for which the nonprofit organization was founded.

Further there may be hybrid organizations; it may be a situation, when the government transfers part of the responsibility, e.g. for providing certain services to nonprofit organizations. As a good example there is a social enterprise (see Chapter 2).

Another interesting aspect is the relative size (strength) of individual participants. Based on the Czech historical development the role of the government is significantly strengthened, similarly to countries of northern Europe. Opposite situation may be the liberalized model in USA. If the government role is significantly small, the vacant space would be filled by companies and households. However, households are not able to secure some services alone, either from financial or organizational perspective. This is a place for nonprofits, which often provide such services, which the government does not secure and the households are not able/willing to buy from companies. On the other hand, even if the government role is significant, it would not mean that the nonprofit organizations could not exist. In this situation they once again react to needs, however, in this situation it may be to engage in other themes, e.g. free time. Therefore in Czech Republic there
are e.g. numerous sport clubs (Pavlík, 2013).

In order to describe the organizations operating within the third sector, nonprofit scholars use the term “private non-profit organizations” as the most accurate to express the fact that it results from the three-sectoral economy. There is also another proper term, that is commonly used, namely non-government organizations (hereinafter referred to as NGOs).

Scope of NGOs is so diverse that it is impossible to find a single term to define these organizations. Therefore many authors (e.g. Anheier & Salamon, 1999; Pestoff, 2006; Rektůřík, 2001, Rose-Ackerman, 1996; Toepler, 2003, Weisbrod, 1988, Bolečková, 2010; Rosputinský, 2011; Bolečková, 2012; Svidroňová, 2013, etc.) in a number of publications prefer a broader description of the characteristics of nonprofit organizations.

**Figure 2 Segmentation of organizations**

![Segmentation of organizations diagram](source:Svidroňová & Vaceková, 2012)

The structural/operational definition by Anheier and Salamon (1999) can be used. According to this definition an NGO should meet five characteristics:

- Organized, i.e. institutionalised to some degree in terms of their organisational form or system of operation;
- Private, i.e. institutionally separate from government;
- Nonprofit-distributing, i.e. not returning any profits generated to their owners or directors but
ploughing them back into the basic mission of the agency;

- Self-governing, i.e. equipped with their own internal apparatus for governance; and

- Voluntary i.e. involving some meaningful degree of voluntary participation, either in the operation

The structural/operational definition emphasizes not the purposes of the organizations or their sources of income but their basic structure and operation.

When defining NGOs in the Czech Republic, we can base on relevant statistical data. Table 1 shows the development of the Czech nonprofit sector from 2008 to 2011, with the changes in important absolute and relative characteristics of the nonprofit sector.

### Table 1 Development of the nonprofit sector in the Czech Republic from 2008 to 2011

<table>
<thead>
<tr>
<th></th>
<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>NPO 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**

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

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

**Source:** Vaceková & Prouzová, 2014
In general, the number of nonprofit organizations (NPOs) in the Czech Republic is increasing. The highest inter-annual growth (by 23.6%) was in 2009, when the number of NPOs 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 NPOs 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 can be perceived as an indicator of the impact of the financial crisis on donorship, i.e. the donations of time.

1.2 Funding of nonprofit organizations

The second part of Table 1 presents global data on the funding of the Czech nonprofit sector, where the revenues are presented 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 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 NPOs. 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 shows 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 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.

The existence of nonprofit organisations is endangered by running out or deficit of present financial sources. That is why the nonprofit organisations begin to care for modern techniques and methods of financial funds acquisition. The traditional main financial goal of a company is to maximize its profit. As NGOs are not founded primarily for the purpose of making a profit, their primary goal is achieving of a general benefit. This fundamentally changes their financial policy, which usually gives priority to the pursuit of liquidity (Littich 2007).

Besides incomes from own activity and donations from entrepreneurial sphere or individual donors, their activity is supported particularly from state grants and community budgets (Pavlík & Špaček, 2015). However, the public funds for financing of nonprofit organisations are not sufficient and it is inevitable so these organisations do not rely only on donation aid of state, and they search the alternative ways of financing their activities and try to diversify the structure of their financial sources. By it the independence from one source, short-term and long-term financial balance, and finally also their permanent sustainability can be ensured.

Table 2 Funding sources of nonprofit organizations

<table>
<thead>
<tr>
<th>Funding sources</th>
<th>Forms of funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding from public sources</td>
<td>State and/or public contracts and subsidies</td>
</tr>
<tr>
<td></td>
<td>Concluding contracts and agreements</td>
</tr>
<tr>
<td>Funding from private and individual sources</td>
<td>Foundation resources</td>
</tr>
<tr>
<td></td>
<td>Donations from a business sector</td>
</tr>
<tr>
<td></td>
<td>Donations from individual donors</td>
</tr>
<tr>
<td>Self-financing</td>
<td>Membership fees</td>
</tr>
<tr>
<td></td>
<td>Sale of services</td>
</tr>
<tr>
<td></td>
<td>Sale of products</td>
</tr>
<tr>
<td></td>
<td>Use or renting of intangible assets</td>
</tr>
<tr>
<td></td>
<td>Use or renting of tangible assets</td>
</tr>
<tr>
<td></td>
<td>Appreciation of investments</td>
</tr>
<tr>
<td>Funding from foreign sources</td>
<td>European Union funds</td>
</tr>
<tr>
<td></td>
<td>Direct subsidies</td>
</tr>
</tbody>
</table>

*Source: Svidroňová & Vaceková, 2012*

The basic task of financing NGOs in order to fulfil their mission it is necessary to continuously provide the liquidity. What financial sources and in what amounts shall be used to meet this task
vary and it is upon NGO’s strategic management decisions. One of the curiosities of NGOs is that they usually have a wider range of financing options compared with profit-oriented companies.

**Figure 3 Nonprofit incomes vs. commercial incomes**

The main division of sources follows the microeconomic division on equity and borrowed capital. The concept of equity is problematic in many NGOs as they do not have any equity in the business or economic meaning. Generally there is a lack of investors who would provide a capital in

*Source: elaborated by the author according to Schober et. al, 2010*
anticipation of earnings. Classic features of equity are often undertaken by donors, providers of subsidies or members of the organization. To take into account this aspect we use the term "quasi-equity" (Schober et al., 2010).

The "quasi-equity" can be divided into typical non-profit incomes and standard commercial incomes. Under typical non-profit incomes we understand incomes primarily related to the main core work and mission of an NGO; these incomes may come from a variety of funders. Commercial incomes are contrary incomes from activities non-related to the mission of an NGO. In particular it is an income from investment activity or yield of capital (e.g. income from renting its assets). Commercial incomes also apply to restructuring of assets and include sale of assets and the associated effects of financing, such as sale of buildings and real estates. Other commercial income is a residual category that includes all the commercial activities carried out by NGOs that are not related to their mission and at the same time cannot be assigned to any of the other commercial income categories.

One of conditions for a successful working of every organization is finance provision. The financial question of existence of nonprofit organizations is connected with particularities which are derived from their service and non-commercial status in the society. Nowadays the nonprofit organizations face harder forms of competition than ever before which inevitably implies a successful management of a difficult task of mastering and applying modern methods of gaining new financial sources so that they are able to ensure the offer of public service in a range that corresponds with the society needs.

1.3 Major theoretical approaches

Several theories have been advances so far to explain the economic role of nonprofit organizations. Table 3 introduces the major theoretical approaches, while clearly describing theory’s summary, key terms, key strengths and key weaknesses.
Table 3 Theories of the third sector

<table>
<thead>
<tr>
<th>THEORY</th>
<th>SUMMARY</th>
<th>KEY TERMS</th>
<th>KEY STRENGTH</th>
<th>KEY WEAKNESS</th>
</tr>
</thead>
</table>
| Heterogeneity Theory  
A.k.a:  
Public Goods or governmental failure theory | Unsatisfied demand for public and quasi-public goods in situations of demand heterogeneity leads to emergence of nonprofit providers | Demand heterogeneity; median voter; government; quasi-public goods | Explains part of government-private institutional choice dynamics in liberal democracies in the context of public fund shortages; why nonprofits become ‘gap-fillers.’ | Assumes inherent conflict between government and private nonprofit provision |
| Supply Side Theory  
A.k.a:  
Enterpreneurship theory | Nonprofit organisations are a reflection of demand heterogeneity served and created by entrepreneurs seeking to maximise non-monetary returns | Social entrepreneurship; non-monetary returns; product bundling; demand heterogeneity | Explains close link between value base of many nonprofits and choice of service field such as health and education (to maximize value impact and formation) | Assumes neutral state; equates religious and secular value-based behaviour; what about non-value based nonprofits? |
| Stakeholder Theory | Given information asymmetries between provider and consumer, stakeholders decide to exercise control over delivery of service | Nonrival goods; information asymmetry; trust; Principal-agent problems | Introduces tripartite relation as basic theoretical problem and goes beyond simple principal-agent issues: Stakeholder – provider – recipient | Scope of theory limited to experience of informational problems faced by deeply concerned stakeholders—what about more conventional nonprofits |
| Trust Theory  
a.k.a.: | Non-distribution constraint makes nonprofits more | Non-distribution constraint; Trustworthiness; | Explains part of nonprofit – for-profit institutional | Other institutional responses possible (government |
Serious work on the economic theories of nonprofits began only in the early 1970s. All of the theories can conveniently, “if somewhat artificially” (Hansmann, 1987), be divided into theories of the (economic) role of NGOs - failure theories; and of their behaviour - behavioural theories. These theories can be seen both as competing and complementary.

First reconciling the persistence of nonprofit organizations with classical economic theory was offered by Burton Weisbrod (1977). His theory of government failure parallels the more well-

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### Table: Economic Theories of Nonprofits

<table>
<thead>
<tr>
<th>Theory</th>
<th>Description</th>
<th>Context</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract or market failure theory</strong></td>
<td>Trustworthy under conditions of information asymmetry which makes monitoring expensive and profiteering likely.</td>
<td>Choice from supply-side perspective, with focus on inherent problems in ‘nature’ of good or service</td>
</tr>
<tr>
<td><strong>Interdependence Theory</strong> a.k.a: voluntary failure theory or third party government theory</td>
<td>Because of (initially) lower transaction costs, nonprofit organisations precede government in providing public benefit goods, but due to “voluntary failures” develop synergistic relations with the public sector over time.</td>
<td>Moves away from zero-sum, competitive relation between voluntary sector and government; explains frequent pattern of public-private partnerships</td>
</tr>
<tr>
<td><strong>Social Origins</strong></td>
<td>The size and structure of the nonprofit sector are a reflection of its ‘embeddedness’ in a complex set of relationships, classes, and regime type.</td>
<td>Move away from emphasis on micro-economic models and puts interdependence theory in context</td>
</tr>
</tbody>
</table>

**Source:** Anheier, 2013
established theory of market failure (Grand, 1991). The failure based theories of nonprofits explain their ability to overcome two types of failures (Valentinov, 2009) - those involving public goods, and information asymmetries. The basic assumption for this government failure/market failure theory is the limitation in the ability of market to provide “public goods” in sufficient amount. Classic economics argues that this shortcoming of market would serve as a justification for the state and government. But the government will tend to reflect the preferences of median voter, which causes the persistence of unsatisfied demand for public goods. This “government failure” makes people turn to nonprofit organizations “to supply the public goods they cannot secure through either the market or the state” (Salamon & Anheier, 1998).

Another theoretical approach treats the unsatisfied demand for public goods caused by failures of the state and the market as a necessary but not a sufficient condition to explain the existence and importance of nonprofits in socio-economic context. This, so called, supply-side theory argues that another condition is needed, namely “the presence of people with an incentive to create NGOs to meet such demand” (James, 1987).

The interaction mechanism between NGOs and government can be understood also via the resource dependence theory. “In terms of the interdependence between an NGO and the state, the level of NGO resource dependence on the government is systematically higher than the other way round, in other words, the interdependence of NGOs and the state is always an asymmetric one” (NGO has to endure the government control, Yaguai, 2012). The unbalanced and bidirectional relationship (NGOs depend highly on government) should be thus turned from zero-sum into win-win strategy.

Trust theories base on the non-distribution constraint, which is a key structural feature of NGOs. The prohibition of profit distribution to owners is an issue of trustworthiness, since “those involved in nonprofit organizations are less likely to be in the field solely for the money” (Hansmann, 1980; ibid, 1987). Nonprofits can be perceived as a solution for another form of market failure arising from information asymmetries (consumers lacking the information they need to judge the quality of goods and services they purchase, mainly when the purchaser is not the same person as the consumer).

The welfare state theory as well as both failure theories (underlying the heterogeneity) and supply-side theories “take as given that the relationship between the nonprofit sector and the state is fundamentally one of conflict and competition” (Salamon & Anheier, 1998). Nevertheless, also
Close cooperative relationships can occur between nonprofits and government. Acknowledgement of the possibility of cooperative relationship is the subject of interdependence theory. Its specific version was proposed by Salamon and Anheier (1998) and called “social origins theory”. Both theories have the most currency for nonprofit scholars and their research.
2. SOCIAL ENTREPRENEURSHIP

Social entrepreneurship, which the second chapter of the study text is dedicated to, falls under the area of social economy, the characteristic of which is perceived differently by different authors. Equally different is the definition of a social enterprise, as outlined in the next section. Regarding social entrepreneurship, a description of difference between social enterprises and social integration enterprises is especially important. The summary of terms and definitions is processed according to an extensive review of Czech and foreign literature. Subjects and key stakeholders involved in the social economy, which are indispensable for its existence, are defined within this chapter.

The key period, which is associated with the first mentions of the social economy, is the turn of the 21st century, when new problems began to appear, for which European countries must seek innovative solutions. This essentially concerns a growth in the number of disadvantaged people, which is connected with the difficulties of their integration into society. Many of the problems are related to the demographic changes, which include aging of population and the impossibility of securing the necessary care by family members. Likewise, it is necessary to pay attention to the quality of life of the entire population by means of a careful and renewable use of available resources. The economic globalization has important implications as well. The area of social economy plays an important role in all those discussed factors, because their solution requires specific innovations (Jurčík, 2009).

2.1 Definition of the social economy in the Czech Republic

The social economy is considered a certain alternative of the public sector and the market. Its development is related to solving of problems of the welfare state, while it is necessary to share responsibility for the quality and range of services. This responsibility should be shared both within the public sector, companies and non-governmental nonprofit sector.

"The concept of social economy is based on the premise that the state and municipalities can no longer fully meet the diverse and growing needs of the population, nor to fund them, however, that a purely commercial approach does not meet the demands of a democratic society either" (Jurčík & Mravcová, 2009, p. 56). The added value of social economy is strengthening and the use of the so-called social capital. This term includes interpersonal relationships, trust, understanding and helping others (ibid). An important period in the development of the social economy in the Czech Republic
was its entry into the European Union (Hunčová, 2007). Whereas the development of the social economy was primarily caused by inadequate funding and meeting of growing needs of the population (Jurčík, 2009).

A key objective of the social economy is the inclusion of disadvantaged people into the labour market, but also reduction of the dependence of people on the state aid. The state acts as the initial support in social enterprises and it facilitates the conditions, which could lead to the development of this type of business (Hunčová, 2007). Social economy includes activities carried out by cooperatives, associations, mutually beneficial organizations, the purpose of which is to provide services to clients, but not to make a profit (Dohmalová & Průša, 2011). In cooperation of PS Definition with other working groups and stakeholders, a definition was established, which is borrowed from the European context, but it is fully adapted to the current condition of the Czech environment and social economy. The definition was approved by the annual membership meeting of TESSEA and revised in 2011. "The concept of social economy is perceived as a summary of activities undertaken by subjects of social economy aiming to increase employment in local conditions or to satisfy other needs and goals of the community in the area of economic, social, cultural and environmental development" (Francová, 2011, p. 14). The concept of social economy is currently innovatively applied mainly on the self-governed, private, nonprofit entities, whose decision-making processes include elements of democracy. It is an association of persons seeking primarily to achieve publicly beneficial purpose objectives by means of economic activities in the market. All activities of these associations have positive social impacts on the surrounding areas (Hunčová, 2007).

2.2 The European approach to the social economy

In the European context, the social economy deals with the European Commission, the European Economic and Social Committee and the OECD. The social economy is a European concept promoted as a tool to integrate the company into its perception, for the purpose of economic development and boosting of employment in all areas. Despite the integration of countries into the European Union there is no common definition on the EU level. Each state defined it according to their cultural and economic traditions (Jurčík & Mravcová, 2009).

Jacques Defourny founded a centre for the social economy in 1990 and a European network EMES
in 1996, which was legally adjusted in 2002. The aim of this organization is to build a European database of theoretical and empirical knowledge from university research centres. The organization was founded at the Belgian University of Liége, which is also the seat of the International Centre for Research and Information on Collective Economy CIRIEC. Both institutions cooperate with other countries, carry out research and studies and issue publications including the theory to describe social enterprises from various countries, and also for the social economy (Dohnalová, Průša, 2011, p. 31).

As a cooperating workplace, the Faculty of Humanitarian Studies at Charles University in Prague became involved in the project related to models of social enterprises and their process of institutionalization in 2013 (Department of Studies of the Civil Society, online). The aim of the international research organization CIRIEC, which was established in 1947, is collecting information, conducting research and publishing works focused on public benefit services. A key concern is primarily the social economy, which is monitored throughout the world (CIRIEC, online).

CIRIEC defines the concept of social economy as a "set of private, formally established companies with autonomous decision-making and freedom of membership, which were created to meet the needs of their members through the market and production of goods and services, insurance and financial services, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees paid by individual members, who each have one vote. Social Economy also includes private and formally constituted organizations with autonomous decision-making and freedom of membership, which provide non-market services for households and whose potential surpluses cannot be allocated to economic agents, which create, control or finance them" (Dohnalová & Průša, 2011, p. 36).

The social economy has specific activities, which are defined by the European Economic Social Committee and which include emphasising of social objectives, accent on social elements without any priority purpose of maximum turnover and profit. Requiring preferences for values such as solidarity, social responsibility, social cohesion, democratic governance, civic participation, autonomy and combinations of considerations and commitments related to the public interest (Truhlářová, 2008). Experience from the European Union shows that social economy and social entrepreneurship can unite seemingly contradictory motives, which are economic rationality, social
objectives, providing opportunities for inclusion of socially disadvantaged citizens, respect for the local environment and respect for different traditions, in order to meet the new challenges (Jurčík & Mravcová, 2009, p. 56).

2.3 Social enterprise

Business is listed as a "continuous activity carried out independently under entrepreneur's own name and on their own responsibility for profit" in the Commercial Code (Act No.513/1991 Coll.). However, social entrepreneurship reinforces the importance of self-management with the purpose of creating resources, which will be subsequently used for the implementation of the given mission. This is a company, which operates on the border between profit-making and nonprofit entities (Boukal, 2013).

Table 4 Differentiation of the logics of profit-making and nonprofit subjects

<table>
<thead>
<tr>
<th>Thinking of charity organisations</th>
<th>Business thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximising profits to meet social needs.</td>
<td>Maximising profits to meet needs of an owner or investor.</td>
</tr>
<tr>
<td>Providers obtain income by persuading donors to help achieve their mission.</td>
<td>Providers obtain income according to competition based on price and quality.</td>
</tr>
<tr>
<td>Success is based on achieving organizational objectives. The main goal is public interest.</td>
<td>Success is based on abilities to maximise the difference between revenues and costs and the achieved profit.</td>
</tr>
</tbody>
</table>

Source: elaborated by the author according to the Gildron B. & Hasenfeld Y., 2012

In cooperation with other working groups, PS Definition has proposed a more specific modification of the definition of social entrepreneurship: "business activities beneficial for the society and the environment. Social entrepreneurship plays an important role in local development and often creates job opportunities for people with disabilities, or with social or cultural disadvantages. Profit is mostly used for further development of the social enterprise. Increasing benefits for the public is as important as achieving profit." (Francová, 2011, p. 14)

Professor Muhammad Yunus, who supports the area of social economy and is also a Nobel laureate, defined conditions of social entrepreneurship as follows (Strzelcová, 2012):

- The goal of business is solving problems, which threaten the society, and eradication of
poverty;
- Business must be sustainable both economically and financially;
- Profit is not distributed among the owners or stakeholders but reinvested in development of the human capital and society;
- Employees of a social enterprise work in favourable conditions for a market wage;
- At least 40% of the workers must be socially vulnerable.

2.3.1 The concept of a social enterprise in the Czech Republic

In the Czech environment, there are lots of definitions, which characterize the social enterprise. Each definition, however, includes very similar elements. "In terms of the Schumpeter's enterprise\(^1\), a social enterprise is a socially oriented enterprise, implemented through an innovative intent, achieved through economic activity under the presence of real economic risks." This definition is based on the European concept, such as understood by the European Commission and the OECD, and the social enterprise is primarily considered to be a small business (Hunčová, 2007). Social enterprise generally provides specific services beneficial to the society as a whole and it is principally engaged in increasing employment, but also in protecting against risks to members and local communities (ibid). Dohnalová and Průša also attributed to social enterprises the obligation to meet the characteristics of the European context. "Social enterprises represent a subset of social economic entities, which meets definition elements (economic and social characteristics) compiled on the basis of surveys of the European research company EMES" (Dohnalová & Průša, 2011).

According to Boukal, the term of social enterprise is replaced with the concept of a social company, which is characterized by several common features. "Social companies deal with the so-called social entrepreneurship. They are business subjects, which operate on the market and offer job possibilities for the underprivileged." (Boukal, 2013, p. 161) The defined disadvantaged people should be provided with adequate working and psychosocial support at work (Equal online, 2008). Founders of social companies may be nonprofit organisations, which constitute a separate legal entity, which operates as a social company. There is no legislative definition for social companies so far, it shall be governed by the standards, which the bearers of the idea of social companies set

\(^1\) According to J. Schumpeter, innovation is a key element of business, his definition of innovation was only the first launch of a new technological process, product, raw material. (cf. www.businessinfo.cz, 2011)
Significant developments in the field of social economy and social enterprise were collected and completed in 2008 by the initiative EQUAL\(^2\). Research information is used in public administration; helping emerging businesses and all those who are interested in the social economy (Social companies online, 2007). At the same time, the social enterprise was defined as a "subject of social entrepreneurship, i.e. a legal or natural person or a portion thereof with the appropriate trade license. A social enterprise is an enterprise with prevailing social objectives, whose economic surpluses are reinvested, in order to achieve these goals within a company or community, and which is not governed by the need to maximize earnings of shareholders and owners" (ibid). The definition of a general company is organized into the environment of social enterprises. This definition is common for all business entities, but in the case of fulfilling objectives of a social enterprise, it is not enrichment of a business entity, but it is used in the company to meet the set objectives, which include in particular the integration of socially or physically disadvantaged people into the business venture (Boukal, 2013).

2.3.2 The European concept of a social enterprise

Although Social entrepreneurship is a relatively new subject of study, in the European context there is a considerable amount of literature on this topic. Social entrepreneurship is an activity aimed at solving social objectives related to market transactions, which correspond to operations of private organizations (Gidron & Hasenfeld, 2012).

According to J. Defourny and C. Borzag, "a social enterprise is mainly a small and medium company, including cooperatives. Innovativeness can be seen in the diversity of goals in multisource financing, in a different approach to job creation and also in a new type of entrepreneurship, which is a way of bearing risks on the principle of stakeholders and supporters, including partnerships with the public sector" (Borzaga & Defourny, 2001, p.12). In social enterprises, people are rewarded for their work, but there are also some people, who carry out their work as volunteers. With this voluntary assistance, which strengthens the confidence of businesses, they gain better positions in the market (Defourny, 2014).

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\(^2\) Initiative Equal was created within the programming period 2000 - 2006, its goal was to develop and promote tools supporting disadvantaged groups. (cf. www.equal.cz, 2006)
Stability of social enterprises is required in two dimensions, namely whether a business is able to survive in the long term and whether it will maintain the intended balance of social contribution and success in the market over time. Survival and growth are the key motivators for any organization, whether profit-making or nonprofit one. Orientation and character of the social enterprise is continuously influenced by financial possibilities and environmental pressure. Social enterprises are organizations, which are driven by social tasks and apply marketing strategies to achieve social or environmental purposes (Gidron & Hasenfeld, 2012).

What is required from social enterprises is to achieve business success on one hand, and to fulfil social objectives with democratic participation on the other hand, while it is necessary to maintain their stability over time and observe boundaries, when the company is a social enterprise and is able to remain on the market at the same time (ibid). Social enterprises are just a different kind of company and another kind of charity organisation. Perhaps business companies need to be more dedicated to social welfare. Perhaps charities need to be more enterprising and self-reliant. It is desirable to be a socially responsible company, even if it brings somewhat lower profits (Billis, 2010).

2.3.3 Integration of social enterprise

Social integration enterprises WISE3 are different from general social enterprises, which are described above and which are primarily focused on employing socially or physically disadvantaged people in the labour market. Many European countries have already developed specific programs to support this type of business, because it is necessary to tackle long-term unemployment. Often, only social integration enterprises are perceived as social enterprises (Defourny & Nyssens, 2010).

According to Hunčová, a social integration enterprise is characterized in the following way: "WISE is a social enterprise for integration of socially excluded individuals. It is a participatory, democratic, nonprofit and not-for-profit economy, enabling the employment of handicapped persons or providing social services, especially of a personal character, including the type of retraining, job mediation, support of entrepreneurial initiatives and the like. A specific social company providing employment in the affected region may be a self-employed person" (Hunčová, 2010).

3 WISE (Work Integration Social Enterprise) – abbreviation used abroad for social integration enterprises.
The thematic network TESSEA bringing together entrepreneurs, nonprofit organisations and other institutions regards a social integration enterprise as "a subject of social entrepreneurship", i.e. a legal entity established under private law, or a natural person, who complies with the principles of a social integration enterprise. A social integration enterprise pursues the public benefit goal of employment and social inclusion of disadvantaged people in the labour market, and this goal is formulated in the founding documents. It is created and developed on the basis of the concept of the so-called threefold benefit: economic, social and environmental (TESSEA online, 2011, p.15).

Based on a research, the EMES research team specified 160 social enterprises in 10 countries of the EU classification of social integration enterprises according to their activity (online EMES, 2004).

• WISE oriented on employment of significantly disadvantaged groups, whose employment opportunities are almost unlikely. The aim is to create long-term jobs supported by public funds.
• WISE creating long-term self-financed jobs, which are financed from public funds in the initial phase. The medium term goal is to achieve self-financing capacity and to reduce support of employees in order to enhance their skills and competencies.
• Transition WISE are a type of short-term projects, under which a job or training is provided to disadvantaged people, in order for them to increase their skills and subsequently find a job in the open labour market.
• WISE aimed at re-socialization, which is adapted to the mentally ill and people with severe disabilities, while the goal of these companies is their involvement in structured activities and helping to establish social contacts.

2.4 Stakeholders in the field of social entrepreneurship

Stakeholders in the field of social entrepreneurship means anyone, who is in some way involved in activities related to social economy. Key factors are determined according to their nationwide, urban or regional scale. Both the parliament, which approves measures according to a selected program, as well as municipalities and regions, which are social actors at municipal units of the state, are operating on these levels. Action of all stakeholders in this area is strongly influenced by the state. Its activity is not clearly defined, nor is the extent of intervening in a certain sphere. The task of the state in the field of social entrepreneurship is primarily to create and provide a space, in
which there are mechanisms for strengthening social cohesion. A state aid to social enterprises is therefore provided primarily by means of changing attitudes of the government in the area of provision of public services (Kolibová, Václavíková & Bělová, 2010).

Activities of social economy are fulfilled by private entities, which are founders, providers and decision-makers in the position of private persons. Founders of these public benefit enterprises are referred to as social entrepreneurs. Founders may also include voluntarily formed associations of citizens, which are independent of the government and which have different legal forms (ibid).

Stakeholders, who include ministries, government agencies, offices, community leaders and government organizations supporting local development, community groups, and other social enterprises/cooperatives, business ties, organizations supporting small and medium-sized businesses, banks and financial institutions, philanthropic organizations, religious organizations, the private sector, educational institutions, providers of EU subsidies and other providers of subsidies, local clubs and organizations, socially responsible entrepreneurs, are essential for a social entrepreneur in terms of support and financing of their activities (SČMVD, 2010).

Identification of the above-mentioned institutions and groups is also essential to establish working relationships. Stakeholders, who should social enterprises focus on most throughout its activities are their own employees and users of services or products offered by them (ibid).

The main criterion, according to which the entrepreneur can be considered a social entrepreneur, is employment of disadvantaged persons or persons at risk of social exclusion or already socially excluded people, including (Boukal, 2013, p.162):

- Persons with disabilities - people who are disadvantaged against other members of society because of a health disability (Act No.108/2006 Coll.);
- Children, youth and young adults - people endangered by social pathologies leaving institutions at the age of 15 to 26 years;
- Ethnic and national minorities, people from a different socio-cultural environment;
  • Foreigners - persons legally residing in the Czech Republic for at least one year;
  • The homeless - persons having no accommodation, living in an emergency housing, leaving facilities designed for institutional or protective care and persons, who have ended the term of imprisonment;
- Victims of crime, victims of domestic violence, victims of trafficking, commercially abused
persons (Kolibová, Václavíková & Bělová, 2010).
- Caregivers of a close person, who is at risk of social exclusion;
- People, who have been diagnosed with substance abuse;
- Persons registered for more than one year in the register of job seekers of the Employment Office of the Czech Republic;
- Other unspecified persons socially excluded or endangered more than three months before entering into the employment relationship (MPSV online).

Social economy was also specified by European organizations EMES and CIRIEC based on conducted international surveys. Both organizations define social economy on the basis of its subjects according to the normative and institutional approach. Entities are characterised with distinguished private character, autonomous decision-making, economic activity (production of goods or services to people). "The main purpose of social economic entities are services provided to people, the community or society, the possibility of partial redistribution of income and the democratic principle, where decisions are based on the principle of "one man, one vote" (EVERS, 2004, p.11). Organizations of the civil sector and social economy are characterized by common features of their subjects, which include voluntariness, self-governance, they are formally organized and private (ibid). Among these subjects, there are also different characteristics; the following table provides a preview.

### Table 5 Subjects of social economy

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Subject of the current civil sector</th>
<th>Subjects of SE according to CIRIEC and EMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing an objective</td>
<td>It does not define objectives.</td>
<td>The main aim is to serve members, a certain community or society.</td>
</tr>
<tr>
<td>Use of profits</td>
<td>A re-distribution of profit is not allowed.</td>
<td>A limited re-distribution of profits is allowed.</td>
</tr>
</tbody>
</table>

*Source: elaborated by the author according to the Defourny, 2001*

The first mention of social economy appeared in the 19th century, but its origin and development in differ individual regions. The following chapter will deal with the development of descriptions of social entrepreneurship. Since the first mention of social economy and its specification in France, its
development was first described in the European context, and then it describes the incorporation of social entrepreneurship into the Czech environment. Developmental stages of a social business are processed according to the synthesis of Czech and foreign sources.

2.5 History of social entrepreneurship in the European context

First mentions about the issues of social economy began to appear already in the early nineteenth century (EMES online, 2010). The main reason for the creation of contemporary social business sector was therefore the economic downturn in the Western Europe in 1970. Rising unemployment caused a great pressure on the social security system. The society tried to cope with social problems by introducing innovative programs. In 1980, the National Council for Relations between mutual societies, associations and cooperatives drew up the Social Economy Charter in France. In 1981, France incorporated the concept of social economy into its legislation as a group of organizations, which operate on democratic principles, which do not belong to the public sector and which redistribute profits for their own purposes and further development especially in the area of improving services for its members and for the whole society. Social entrepreneurship became a recognized form of business in France and gradually began to spread to other countries (Dohnalová, 2006).

In 1989, discussions about the concept of social economy began in other states of the European Union as well. A number of countries were beginning to focus on the promotion of social economy and its development through building of supporting institutions. In the same year, scientific institutions were developed, and EMES or specialized network dealing with the development of social entrepreneurship in Europe was created in 1996 (online EMES, 2015). From that moment on, first WISE businesses started to appear, whose aim was to adapt the unemployed for the regular labour market and to support their job search. In some areas, the social business sector was strongly supported by governments, which have contributed to accelerate its growth. Governments considered social enterprises their partners, through which socio-economic problems could be addressed. Effective problem solving was achieved through a direct state support, but also by creating a favourable institutional environment. Greece became the first to establish social cooperatives with limited liability in 1990s, Italy followed in 1991 and social solidarity cooperatives began to emerge also in Portugal in 1998.
Spain joined this trend with their cooperatives of social initiatives in 1999. The social sector in Western Europe is largely influenced by legal structures created by the state and it is characterized by social purposes, creating jobs and reducing the profit distribution (Defourny & Nyssens, 2010). In Eastern Europe, the social business sector was formed as a result of the fall of communism, when similar conditions were reached as in the Western Europe. As a result of the economic recession in 1970 with the transition to the market economy, massive displacements occurred in the economy and high unemployment rate, while the state's role in addressing socio-economic issues was reduced. Later, many states attempted to get into the European Union, where the conditions of entry are solutions to various socio-economic problems and at the same time preparation of the country for accession to the European Union. The social enterprise sector in Eastern Europe is relatively underdeveloped in terms of legal and institutional definition (Poon, 2011). Important developments in social enterprises have occurred in the last decade, particularly since the economic crisis of 2008, when an increased interest in various forms of social enterprises began to emerge and spread (Gidron & Hasenfeld, 2012).

The following tables provide a brief overview of the institutions and bodies, which have been an impetus for the definition of the social economy in the nonprofit sector and the private sector in Europe. The last table of this section provides an overview of the key events, which adequately contributed to the development of the social economy.

**Table 6 Precursors of social entrepreneurship in the nonprofit sector**

<table>
<thead>
<tr>
<th>Precursors of social entrepreneurship in the nonprofit sector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1890: Carnegie model</td>
<td>Developing of universities freely available libraries, hospitals, parks, concert halls, swimming pools, churches. Their expenses are considered good deeds.</td>
</tr>
<tr>
<td>1910 – 1920: Rosenwald model</td>
<td>Investing in organizations that are related to the farming community. Their expenditures are considered as sunk costs.</td>
</tr>
<tr>
<td>1960 – 1980: Norris Model</td>
<td>The development of educational programs based on work with computers, revitalizing urban neighbourhoods and rural communities, creation of businesses and educational opportunities in prisons, first corporate windmills, mobile medical vehicles. Their expenses are considered investments.</td>
</tr>
<tr>
<td>1970</td>
<td>Centres for adult day care, early childhood education centres, housing for low-income families, training, hospice care, rehabilitation services, computer training programs for self-employed persons. Tutoring centres, prisons, universities, windmills, rehabilitation centres for mentally disturbed persons and substance</td>
</tr>
</tbody>
</table>
abuse, home care for the elderly.

Source: elaborated by the author according to the Institute for Social Entrepreneurs, 2008

### Table 7 Precursors of social entrepreneurship in the private sector

<table>
<thead>
<tr>
<th>Precursors of social entrepreneurship in the private sector</th>
<th>1844: Rochdale, England</th>
<th>Billing outrageous prices by owners of factories and traders, when 28 workers gathered 28 pounds and opened their own shop.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1884: Chicago, Jane Addams</td>
<td>Night school for adults, nursery schools, clubs for older children, public kitchens, cafes, galleries, girls’ clubs, gyms, swimming pools, music schools, drama groups, libraries</td>
<td></td>
</tr>
<tr>
<td>1895: Boston, Rev. Edgar J. Helms</td>
<td>The beginnings of efficient business. Employment of immigrants for repair and reconstruction of useless household goods for resale. Income from the sale were sued to pay workers’ wages.</td>
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<tr>
<td>1938: Washington, DC</td>
<td>Wagner – O’Day. Legislative measures, which provide jobs for people with severe disabilities.</td>
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Source: elaborated by the author according to the Institute for Social Entrepreneurs, 2008

### 2.6 Key events in the development of social entrepreneurship

The events in a brief overview in the following table contributed to development of social entrepreneurship both globally and later in the Czech Republic. The information in the table, covering the period from 1980 – 2008, are processed according to the analysis of The Institute for Social Entrepreneurs (2008). As social entrepreneurship began to develop in the Czech Republic in 2008, the table also includes data from the Czech environment.

### Table 8 Key events in the field of social entrepreneurship

<table>
<thead>
<tr>
<th>Key events in the field of social entrepreneurship</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980 First international conference about earning money in a social enterprise. Definition of social entrepreneurship by Ashoka emphasized that the purpose of the establishment of a social enterprise is not necessarily a profitable activity, but such an activity is not excluded. Establishment of the first nonprofit consulting firm in the field of social enterprises. The first international conference on making money in a social enterprise.</td>
</tr>
<tr>
<td>1982 The first national survey of nonprofit social enterprises (questionnaires).</td>
</tr>
<tr>
<td>1984 The National Centre for Social Entrepreneurs &quot;Alpha Centre of public and private initiatives.</td>
</tr>
<tr>
<td>1993 The first official academic program in the field of &quot;social entrepreneurship&quot; at Harvard University (Dees)</td>
</tr>
<tr>
<td>1997 The first consulting firm focused on social enterprises in Central Europe and South America. (Lee Davis, Nicole Etchart)</td>
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<tr>
<td>Year</td>
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<td>1998</td>
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<td>2013</td>
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<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
</tbody>
</table>

Source: elaborated by the author according to the Institute for Social Entrepreneurs, 2008, Dotacni.info online, České sociální podnikání online

2.7 The current state of social enterprises in the Czech Republic

The Czech Republic has not yet put into effect any legislative definition of social entrepreneurship, and as it is not possible to strictly define criteria, which the social enterprise should meet, one cannot even find a registry, which would register all social enterprises in the Czech Republic. The company P3 - People, Planet, Profit, o.p.s, however, deals with mapping of the current situation of social enterprises and their directory was published on its website the Czech Social Entrepreneurship. The directory was founded in the fall of 2012, the basis for contacting of enterprises was the list of social enterprises, which was created under an earlier project of TESSEA.
and lists of supported enterprises from the two challenges of the social economy were also used. The directory was last updated via telephone interviews in the last quarter of 2013. 211 social enterprises were registered in the directory on March 2015. For greater clarity, social enterprises are categorized according to the field of activity, place of business, social benefit and the target group on which the company focuses. The directory is very beneficial in the area of social enterprising, as it provides a realistic picture of the operation of social enterprises in the Czech Republic. However, not all social enterprises are registered in it, because the company, which is considered to be a social enterprise, completes a simple questionnaire and it is added to the registry after receiving approval.

Subsequently, the findings obtained by the analysis from the directory of social enterprises (Czech Social Business online) will be evaluated. The directory provides an overview of social enterprises, which will be divided by region, business area, and the place of performance, social responsibility and target groups. However, their analysis was performed according to the directory to create an overview of the development of social enterprises according to the year of founding and legal status. The purpose of this analysis is to confirm or refute allegations, which occurred at work according to a research of the Czech literature.

Chart 1 Development of social enterprises

![Chart 1 Development of social enterprises](chart.png)

Source: Modified by the author according to the Directory of Social Enterprises, 2015

The claim that **the number of social enterprises has increased exponentially in the last decade** can be confirmed by an analysis of their development. First social enterprises started to be
established as early as 1992, when four of them were created. Subsequently, in their development until 2007 there were no seismic changes. In 2007 and 2008, nine of them were established and after a period of economic crisis (2008-2009), the number of social enterprises started to increase. From 2009 until the first quarter of 2014, it was also possible to draw subsidies from the ESF and ERDF, and therefore the number of social enterprises increased rapidly, with the record number of established social enterprises achieved in 2012 with the number 45. With the end of the entitlement to the subsidy, the number of start-ups was limited as well, and so only 10 were created in 2014.

The total number of registered social enterprises is currently 211.

**Chart 1 Social enterprises according to their legal form**

![Chart showing the distribution of legal forms for social enterprises]

*Source: elaborated by the author according to the Directory of Social Companies, 2015*

The claim that **most social enterprises have a legal form Ltd. has been confirmed**. Until the end of 2014, Ltd. was the largest group of 94 social enterprises. The second largest group included 56 public benefit organizations. However, this legal form was abolished, so its change into a different legal form should be expected. 23 social enterprises have the legal form civic association, 14 self-employed and 12 cooperatives. Five social enterprises reported that their legal form is "another". Two of these companies have the legal form of "social cooperative", which is not specified in the directory, or they stated “another”, but they fall under one of the specified forms.
If we focus on the number of social enterprises in individual regions, it can be concluded based on the number of registered businesses in the directory that most social enterprises reside in Prague, the total number is 46. The South Moravia is in the second place with the number of 23 social enterprises and the Ústí Region is close behind them for now, on whose territory only three companies less have been founded. The number of social enterprises is almost identical in Central Bohemia, Moravia, Zlín and Hradec Králové region. The smallest scope of social enterprises was recorded in the Karlovy Vary region, where only two social enterprises have been founded so far. Likewise, social enterprising is not very developed in the Liberec region and currently there are four businesses, which are considered social enterprises.

Social enterprises operate in different areas, while often several areas are reported as an object of activity of social enterprises in some cases, cited several areas. According to social enterprises registered in the directory, the most companies, namely 47, are active in the area of horticultural services, greenery, property maintenance and cleaning work. The second most frequently chosen areas was the category "another", while a more detailed examination showed that companies chose at least one of the specified areas, and apart from that they also indicate the category of "another". For example one of the companies, who said that it was dealing with sale and leasing of ships, stated "Transport, transport equipment and spare parts" as its scope of business and, on top of that, the category "another". The business scope, which falls under this category, thus cannot be strictly
defined; enterprises prefer to indicate this form, if they think that the limited areas will not cover their total scope of business. The least represented area of business is the category "audiovisual - technology and services" and "electronics - production and sale."

**Chart 4 Social enterprises according to their social beneficial effects**

![Chart showing social enterprises' beneficial effects](chart.png)

*Source: elaborated by the author according to the Directory of Social Companies, 2015*

Social enterprises most often state that their **social contribution** is the area of equal opportunities (employment of socially or physically disadvantaged people) in combination with a focus on the environment and ecology, development of local communities, social or cultural. A social contribution, however, is reported by the total of 192 enterprises. 120 businesses are involved in the development of the local community, while the total of 128 social enterprises deals with the provision of social counselling and social assistance. Indicators of social enterprises include the following areas outside the cultural sphere. Thus, business social enterprises do not have to be directly focused on this area, but most of these activities are associated with the development of the local community. The total of 46 companies mentioned the cultural area as their public contribution. To comply with the social integration of the company, it is necessary, among other things, to employ a fixed proportion of socially or physically disadvantaged persons of the total number of employees. However, this figure cannot be identified in the directory of social enterprises, and therefore we can only infer that companies are more inclined towards forming WISE businesses. The case study presented in the next chapter shall describe how activities of these socially-
international companies can be justified in practice.

The largest target group specified according to the area of equal employment opportunities includes persons with disabilities. 143 enterprises are targeting this group. The second largest group are the unemployed. 68 companies are focused on the employment of these socially disadvantaged persons. Social enterprises are still the least focused on the integration of people with addictions to the regular labour market.
3. CASE STUDIES

Following case studies support the presented theoretical approach with empirical data. The data were gained by the author’s research and allow a better understanding of the studied issues.

3.1 Self-financing of NGOs – the case of the Czech Republic, Slovakia and Austria

This case study bases on the author’s research paper published in E+M Ekonomie a Management (Vaceková & Svidroňová, 2014). The impulse for processing the paper was a scientific research of John Hopkins University in Baltimore (USA) from which the results are studies which compare the inter country nonprofit sector, describing the size and power of diverse indicators. The research was carried out in 1995, twenty-two countries participated, among them the Czech Republic, Slovakia and Austria.

These countries were part of the Austro-Hungarian Empire between the years 1867-1918. Even during this period there was a nonprofit sector, represented by charities and various voluntary associations and self-help groups or institutions providing social and health services for the poor. After the collapse of the monarchy, the nonprofit sector was developed in the successor countries of Austria and Czechoslovakia and later on in countries of Czech Republic and Slovak Republic after they split in 1993. Different political regimes have affected the nonprofit sector and its formation in these countries (Svidroňová & Vaceková, 2013).

Scope of non-government organizations (NGOs) is so diverse that it is impossible to find a single term to define these organizations. The concepts of nonprofit and non-government organizations have many names and likewise there are also a number of names for self-financing (Svidroňová & Vaceková, 2012): gainful occupation, economic activity, enterprise of NGOs, nonprofit business, income from NGO’s own activities, community business.

NGOs have not yet reached such a level of economic and managerial professionalism to be able to exist solely on sources from self-financing activities (membership fees, sale of services and products, the use of intangible and tangible assets, and the use of investment appreciation). It is not their goal – it would be in contradiction to several principles of their financing (multi-sourcing, non-distribution constraint). In the case study we want to prove that self-financing may be in compliance
with the non-distribution constraint of NGOs (Valentinov, 2008), e.g. it is a suitable method of fundraising for NGOs, with respect to the benefits and risks that self-financing entails. We explore whether and to what extent the self-financing has an effect on the non-distribution constraint of NGOs.

3.1.1 Research methodology

The case study provides a new insight into the studied phenomenon while generating an empirical basis for further scientific study and research work in this field. The goal of the case study is to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria.

Primary data was obtained by the sociological method of a structured questionnaire. The data gained in the Czech Republic in 2013 are a part of the findings of the Masaryk University project „CZ.1.07/2.3.00/30.0009 Employment of Newly Graduated Doctors of Science for Scientific Excellence“. For Slovakia the data are the findings of primary research conducted in 2012 within the dissertation "Self-financing and sustainability strategy of nonprofit organization" (Svidroňová, 2012). Source data for Austria are the findings of the project "Different sources of funding of nonprofit organizations" (Schober, 2010) conducted in 2010 by the Competence Centre for Nonprofit Organizations and Social Entrepreneurship, WU Wien.

In order to achieve comparable findings the same research steps in the countries were chosen (Benčo & Vaceková, 2012):

- Selection of relevant NGOs in the database or on the Internet.
- Establishing personal contact with selected NGOs at management level.
- Sending an e-mail with a link to an online-questionnaire to contacts that have been identified in the previous step.
- Sending a reminder after two weeks from the start of questioning.

Based on a research sample in the Czech Republic (CZ), Slovakia (SVK) and Austria (AT) we can focus on the self-financing of NGOs in the context of its benefits and risks. For further information about self-financing and sustainability strategy also the best practices of selected Czech and Slovak NGOs can be taken into a consideration (cf. Svidroňová, 2013).
Nonprofit organizations can be classified in terms of the founder or proprietor to the government (nonprofit state) and non-government (nonprofit private) organizations, i.e. NGOs. We focus on NGOs that are represented in the Czech Republic as follows:

- Civic associations (46% of respondents);
- Foundations (6% of respondents);
- Foundation funds (2% of respondents);
- Public benefit organizations (21% of respondents);
- Church or religious associations (25% of respondents).

Due to the fact that in the Czech Republic we started the survey in 2013 and we have just pasted the phase of a pre-research (including the pilot testing) we have answers from 67 respondents (of the surveyed 250 NGOs).

In Slovakia the four main types of organizational-legal form are very similar:

- Civic associations;
- Foundations;
- Non-investment funds;
- Organizations providing public benefit services.

Of the 670 surveyed NGOs we obtained data from 182 respondents, the sample structure is shown in Table 1. It is a final number of respondents, Chi-square test proved the representativeness of our sample at the significance level alpha of 0.05 (p-value of 0.129 > alpha):

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Absolute</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civic association</td>
<td>152</td>
<td>83.52 %</td>
</tr>
<tr>
<td>Foundations</td>
<td>6</td>
<td>3.30 %</td>
</tr>
<tr>
<td>Non-investment fund</td>
<td>3</td>
<td>1.65 %</td>
</tr>
<tr>
<td>Organizations providing public benefit</td>
<td>17</td>
<td>9.34 %</td>
</tr>
<tr>
<td>Others (Church associations, Red Cross, etc.)</td>
<td>4</td>
<td>2.20 %</td>
</tr>
<tr>
<td>Total</td>
<td>182</td>
<td>100.00 %</td>
</tr>
</tbody>
</table>


In Austria (266 respondents) there are the following legal forms of NGOs:

- "Verein" (association);
- "Stiftung" (foundation);
- "gemeinnützige Kapitalgesellschaft" (public benefit organization);
- "Genossenschaft" (cooperative).

Likewise, in the Czech Republic and Slovakia the strongest represented and therefore the dominant legal form is the association.

The presented results are very detailed in Slovakia, in the case of the Czech Republic and Austria the results are not so complete and detailed. It is due to a different scope of the surveys and different sample sizes in the selected countries. The surveys themselves were conducted under each country specific circumstances, so the NGOs samples are not comparable in terms of time and size; it was not the aim of our survey. We do not want to make any compliance tests among the countries; we analyse and interpret obtained primary data in order to acquire an empirical knowledge which allows us to formulate several solutions and recommendations for theory and practice in the field of self-financing of NGOs. We have data from two completed surveys (AT and SVK) and one preliminary survey in Czech Republic. Therefore we do not provide the analysis to the same depths in all three selected countries and do not try to interpret the causalities and results of statistical test, which would compare the three different research samples. It is not the scientific goal of the case study, and it would be irrelevant to the surveyed topic.

3.1.2 Results and discussion

The output of the case study is defining benefits and risks of self-financing of NGOs with focus on an empirical approach. We point out the difference between self-financing and commercial/business activity of NGOs, and on the basis of relevant outcomes of primary (pre-) research in CZ, SVK and AT we prove that self-financing is not only a business activity in the common market conception.

We also want to show that self-financing may not be inconsistent with the non-distribution constraint of NGOs.

3.1.2.1 Sources of funding NGOs

The following table represents the main sources used in NGO funding, the outcome is from primary research in the Slovak Republic (182 respondents) and in Austria (266 respondents) and from pre-research in the Czech republic (67 respondents).
### Table 10 Sources of funding of NGOs in the Czech Republic, Slovakia and Austria

<table>
<thead>
<tr>
<th>Type of funding</th>
<th>Source of funding</th>
<th>CZ</th>
<th>SVK</th>
<th>AT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quasi-equity: nonprofit income</strong></td>
<td>State, state subsidies, municipal budgets</td>
<td>67%</td>
<td>42%</td>
<td>91%</td>
</tr>
<tr>
<td></td>
<td>State/public contracts</td>
<td>*</td>
<td>4%</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Individual donors/companies</td>
<td>66%</td>
<td>60%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Grants (private foundations)</td>
<td>48%</td>
<td>45%</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>Assignations of 2% of tax income</td>
<td>n/a</td>
<td>92%</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>Memberships fees</td>
<td>24%</td>
<td>62%</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Sale of own products and services</td>
<td>69%</td>
<td>58%</td>
<td>63%</td>
</tr>
<tr>
<td></td>
<td>Sponsorship</td>
<td>1%</td>
<td>n/a</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Foreign sources, including EU grant and subsidies</td>
<td>22%</td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Quasi-equity: commercial income</strong></td>
<td>Assets rental</td>
<td>28%</td>
<td>15%</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>Investment appreciation</td>
<td>3%</td>
<td>8%</td>
<td>21%</td>
</tr>
<tr>
<td></td>
<td>Clearing of reserves</td>
<td>0%</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Borrowed capital</strong></td>
<td>Bank loans</td>
<td>*</td>
<td>0%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>Pre-financing agreements</td>
<td>0%</td>
<td>0%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>Other sources</td>
<td>1%</td>
<td>8%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

*Source: Vaceková & Svidroňová, 2012*

*Due to the fact in CZ it was a pre-research we do not have completed data for Czech Republic.*

In the Czech Republic public funding is widely-spread, closely followed by funding from individual donors and companies. However, of the highest significance is funding from the sale of their own products and services. As other sources, one respondent stated a collection (fund-raising campaign) which could be appointed to a special way of raising funds from individuals and companies for specific purpose.

In Slovakia other sources of funding were not further specified, therefore we cannot assign this point to nonprofit or commercial income. The structure of funding is dominated by private and individual sources; also of significance is self-financing and public funding. Foreign sources are represented by foreign foundations that support Slovak NGOs and as such they can be assigned to nonprofit income. None of the respondents stated bank loans or foreign capital which supports the fact that in Slovakia loans for NGOs have yet not been established as a common source.
The funding sources in the Austrian NGOs correspond to the presumed model, i.e. public finance is clearly the most used source. Other frequently used sources are fees for services and products, donations from individuals, sponsorship and membership fees.

In all three countries nonprofit income as a part of quasi equity prevails. For the purpose of achieving the goal of the case study the quasi-equity is essential for us. As the table shows, the nonprofit income can be generated from self-financing activities that are not necessarily of a commercial character, e.g. sale of own products and services that are in compliance with core work.

We will try to point out the differences resulting from the breakdown of incomes for nonprofit and commercial, especially in the context of maintaining the non-distribution constraint principle of NGOs in the implementation of self-financing activities.

### 3.1.2.2 Self-financing of NGOs

As already mentioned, self-financing of NGOs is not a clearly defined term. In a broader meaning it is defined as any diversification of the funding sources of NGOs. From the narrower point of view self-financing can be understood as a business or any other economic activities of the NGOs that generate their own income, i.e. self-financing as a method of obtaining internal sources.

Self-financing activities bring financial income and potential profit but the principle of non-distribution constraint still applies and compared to any commercial company it is given in advance how NGOs use this profit. Profitable activities of NGOs (e.g. revenue from sale or rent of assets, revenue from advertising) are subject to income tax. When taxing this type of income it is necessary to take into consideration several conditions that differ from country to country. Usually the main activity, the so-called core work of the NGO, is either not subject to taxation at all (SVK), or, up to a given amount of profit from the core work it is exempt from tax and above this amount the profit is subject to taxation (CZ). In Austria the law is even more complicated and the conditions for tax exemption vary from region to region. Generally we can say that tax exemption is a sort of compensation for non-distribution constraint. Weisbrod pointed out that when NGOs cannot decide about the use of their profit, they have tax exemption instead (Valentinov, 2008).

If the activity is not a core work activity or it complies with the definition of business as stated by EU regulation, then we are talking about another form of self-financing called a commercial activity. To distinct: the term self-financing activities is considered to be those that are associated
with the entry of NGOs on the market and that require thinking of the business sector, but these are not business/economic activities in the true sense of the word (Svidroňová & Vaceková, 2013).

3.1.2.3 Identification of benefits and risks of self-financing

It is strategically advantageous for NGOs to focus on self-financing activities in accordance with the core work of NGOs and their missions. Therefore, we can say that from the narrower point of view, self-financing is raising funds from sources which we defined in the "quasi-equity" as nonprofit income. The benefits and risks of self-financing in this concept can be described as follows (Table 11):

Table 11 Benefits and risks of self-financing

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of income (self-financing as a an additional source of funding)</td>
<td>Divergence of organizational sources</td>
</tr>
<tr>
<td>Increase in diversification of funding</td>
<td>Risk of focusing on business and not on the mission of NGO</td>
</tr>
<tr>
<td>Increase in flexibility (income raised by self-financing is not limited by donors’ conditions)</td>
<td>Reinvestment of profit into profitable activity, not into core work</td>
</tr>
<tr>
<td>Improvement of strategic and long-term planning</td>
<td>Risk of loss or debt</td>
</tr>
<tr>
<td>Improvement of financial management and discipline</td>
<td>Loss or damage of NGO’s reputation</td>
</tr>
<tr>
<td>Positive impression on donors (NGO is able to co-finance a project with its own funds)</td>
<td>Changes in motivations of employees and in demands on staff</td>
</tr>
<tr>
<td>Empowerment of board of advisors by using their business and managerial skills for self-financing</td>
<td>Competitive environment of the commercial sector (with self-financing NGO enters the commercial market)</td>
</tr>
<tr>
<td>Broadening a portfolio of products and/or services and thus broadening the client base</td>
<td>Distribution of products and services (SNO have limited capacity for servicing the market)</td>
</tr>
<tr>
<td>Increase of NGO’s self-confidence in case of successful use of self-financing activities</td>
<td>Problem with servicing large target group (in case of growth)</td>
</tr>
</tbody>
</table>

Source: Svidroňová & Vaceková, 2013.

The goal of the case study is to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria. We conclude
that despite the comparable size of the countries, as well as their shared past in the Austro-Hungarian monarchy, the influence of economic and non-economic factors leads to different development of NGOs and their funding, including the self-financing (Vaceková & Svidroňová, 2104).

3.1.2.1 The case of the Czech Republic

The data mapping the self-financing activities in the conditions of the Czech Republic were obtained in some pre-research conducted during the spring of 2013. It generally shows that self-financing is not only a trend of recent years. The most respondents (75 – 90% in the dependence of the age of the organization) chose some forms of self-financing in the early years of their existence. In general we can conclude that 79% of NGOs that took part in our pre-research raise funds through self-financing.

We asked the respondents to identify the problems (risks) connected to the self-financing of NGOs. They named e.g. business risk; risk of conflict with the organization's mission; the risk of organizational and professional unpreparedness of the NGO for self-financing and the risk of excessive dependence on only one financial source.

Furthermore, we were interested in the views of respondents on the issue of self-financing as a commercial activity. In general, most of the NGOs (ca. 75%) expressed their opinion in the sense that it is not an activity distracting from the main mission - this confirms our assumption expressed in the part devoted to the definition of “quasi-equity” (i.e. nonprofit incomes vs. commercial incomes).

To confirm the importance and benefits of self-financing of NGOs we proved the tendency of respondents to use self-financing in the future (98% of respondents answered in a positive way). The results of the pre-research confirmed that even if the total volume of other financial sources is in the majority of NGOs greater - especially public and private sources - the self-financing activities are for the majority of NGOs an absolutely essential part of fundraising.
3.1.2.2 The case of Slovakia

The results were obtained in the research about the funding of NGOs in SVK (Svidroňová & Vaceková, 2012). The self-financing is used by 87.4% of NGOs in Slovakia. If we look at the distribution of sources within one organization then the least used sources are state/public contracts (only 2.20%). This suggests that in SVK suitable conditions to provide public services by NGOs are still missing. They have to search for other sources and therefore private funding represented by grants is at a higher rate, as well as membership fees. On the other hand, self-financing within one organization is represented by 25.4% which is higher than the estimation reported in "ideal" diversification of funding sources (Kuvíková & Vaceková, 2009). Although the level of this type of financing is a quarter of the total sources of an NGO, the value of 25.4% is still lower than the European average of 36.9% (Vaceková & Svidroňová, 2014).

For the Slovak case we bring the evidence that even young NGOs use self-financing (table 12):

Table 12 Use of self-financing by the age of NGOs in Slovakia

<table>
<thead>
<tr>
<th>Length of existence</th>
<th>up to 5 years</th>
<th>5 - 10 years</th>
<th>10 - 20 years</th>
<th>more than 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>we do not use self-financing</td>
<td>7</td>
<td>2</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>1 year</td>
<td>13</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2 - 5 years</td>
<td>32</td>
<td>11</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>more than 5 years</td>
<td>-</td>
<td>26</td>
<td>37</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Svidroňová & Vaceková, 2012

As table 12 shows also organizations less than 5 years old use self-financing. For example, 13 organizations younger than 5 years use the self-financing for one year and 32 such organizations apply self-financing activities for 2 - 5 years. We can therefore conclude that also young organizations recognize the need to diversify sources and they try to apply self-financing in order to gain financial stability.

Due to the evaluation of the impact of self-financing on the non-distribution constraint of NGOs we explored whether respondents considered self-financing activities for commercial deflect attention from the mission and core work of the organization. 68% of NGOs reported no, self-financing is not such an activity. More than 21% of them said no, but had some objections to self-financing (e.g.
NGOs should not develop business activities) or the respondents were not able to decide because they said it depends on other factors e.g. the legal form of an NGO. Less than 11% of organizations believe that self-financing is a commercial activity that distracts from the mission and core work of NGOs. We conclude that NGOs must be able to distinguish between what is a commercial activity and what is an activity that requires a business way of thinking and focus on self-financing in compliance with the mission and core work.

3.1.2.3 The case of Austria

Austrian NGOs have very strong state support and the use of public funding is very significant. The most used source of funding in Austrian NGOs is public sources, used by 91% of respondents participating in the research (Schober et. al., 2010). This involves long-term contractual relationships which greatly influence the acquisition of new sources of funding. The question how much effort NGOs have to put in to keep these sources whilst obtaining new financial sources and fulfilling their missions comes to the fore. The need to fulfil the mission and keep the non-distribution constraint must be a priority when doing any activity bringing money in for running NGOs.

A partial aspect of this issue also includes a fixed purpose of sources and the accountability of the source provider. Compared with other sources of funding it can be stated that the highest effort must be made by NGOs when applying for EU funds, state funds and contributions and donations from companies and individuals. This explains the research results which showed a clear desire of NGOs to gain a larger part of the funds through their own activities. It also confirms the importance of self-financing as it can offer the highest level of independence and freedom in the decision-making process.

We can support the importance and benefits of self-financing with the findings of the part of the Austrian research on funding of NGOs that is focused on the freedom of use of financial sources. This shows that the highest purpose-fixed sources provide the lowest freedom to decide about the use of these sources in fulfilling the mission. The highest influence of source provider was observed in contractual support from the state and the EU (the source provider strictly controls the use of provided money). The lowest influence and control was in the case of income from financial investments and renting assets which are self-financing activities. We can conclude that self-
financing has a positive effect on achieving generally beneficial purposes for which NGOs were founded and can be in compliance with non-distribution constraint.

3.1.2.4 Discussion

The experience of NGOs in all three countries clearly indicates the need to use forms of self-financing in the interest of their stability, although in no case this shall be the only way or sole source of income. When raising funds by the shown forms of self-financing, NGOs must reckon with certain risks. These are more numerous, larger and more challenging than those to which profitable companies are exposed (see Table 13).

For each form of self-financing there is a rule that the more the organization diverges from its mission, the greater risk it takes in the case of unsuccessful realization of a business plan.

The entry of NGOs on the standard market (with profitable businesses) brings some problems that are shown together with the calculation of statistical variables reflecting their importance in Tab. 5 below (scalability assessment: 1 = very serious problem, 2 = serious problem, 3 = minor problem, 4 = slight problem, 5 = I cannot judge), and symbols a) to e) referring to problems. The description of the problems is in the text below the table 13:

Table 13 Problems connected with funding the NGOs by self-financing

<table>
<thead>
<tr>
<th>Indicator / Problem</th>
<th>a)</th>
<th>b)</th>
<th>c)</th>
<th>d)</th>
<th>e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1.81</td>
<td>2.11</td>
<td>2.34</td>
<td>2.44</td>
<td>0.21</td>
</tr>
<tr>
<td>Median</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>1.143</td>
<td>1.229</td>
<td>1.187</td>
<td>1.168</td>
<td>0.577</td>
</tr>
<tr>
<td>Minimum</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Maximum</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Vaceková, 2009

a) "vulnerability” of the NGOs, if the organization relies on one-sided funding depending on the success of its market activities or other forms of self-financing (average importance 1.81 ± 1.143),

b) the potential risk that the organization "forgets" its mission and that making a profit becomes a priority (average importance 2.11 ± 1.229),

c) strong competition from the private sector (average importance 2.34 ± 1.187),
d) the organization may overestimate their ability and capacity to implement and develop self-financing activities (average importance 2.44 ± 1.168),
e) among other issues the respondents named limited legal options for self-financing; high risk of abusing the self-financing possibilities; legislative barriers that do not allow any (or very few) business activities to certain types of nonprofit organizations (e.g. foundations), unclear explanation of the rules on the funding of NGOs, lack of capital and knowledge, lack of "a culture of support for the third sector" in the form of purchasing its products and services." [16].

We tested these problems (especially the problem in point b) distracting from the mission), which occurred in 2009 in the Slovak NGOs, on the case of the Czech NGOs in 2013 and the Slovak NGOs in 2012. Although we cannot provide the same statistical calculation as in Tab. 5 due to a change in response scale (in 2009 a scale 1 - 5 was used, in later survey respondents answered yes/no/other option), we can conclude that while the problem of the potential risk that the organization "forgets" its mission and that making a profit takes first place was considered serious (importance 2.11) in research in 2009 it has now has lost importance. The vast majority of respondents now think that self-financing does not distract from the core work and mission fulfillment: in Slovakia it was 86 % of respondents that thinks self-financing does not distract from the mission and core work, only 11 % of NGOs thinks it does, 3 % of respondents (4 NGOs) stated that it depends on other factors, e.g. a legal type of a NGO using the self-financing. In the Czech Republic the pre-research showed similar results. 81 % of respondents claimed that self-financing does not distract from the mission and core work; on the contrary, the mission and core work of NPOs were supported by self-financing. Only 13 % of NGOs thought that self-financing was a pure commercial activity and 6 % of respondents could not decide. These results were gained in a pre-research; they will be proved in an upcoming primary research that will be conducted in 2014.

Despite the problems associated with self-financing, this method of funding is currently viewed as one of the possible ways to the financial stability and independence of NGOs. Concerning independence, it is understood not only from the point of view of its financial aspects. It is also independence from the environment where the NGO is and when the organization needs to decide the direction of its activities. This independence is directly connected with financial independence.
3.1.3 Conclusion

By exploring the self-financing activities of NGOs in three different countries we tried to bring some empirical evidence showing that the commercial activities of nonprofit organizations must be understood in a broader context than a "business" and that the commercialization of non-government organizations can be in compliance with the non-distribution constraint.

Therefore the goal of the case study was to identify particular benefits and risks of self-financing of NGOs based on relevant empirical findings from the Czech Republic, Slovakia and Austria. We fulfilled this goal by presenting the partial results of primary research and furthermore we managed to confirm that self-financing is a suitable method used for raising funds and also one of the possible ways to gain financial stability, independence and, in the end, also the long-term sustainability of NGOs.

In the submitted case study we have shown that self-financing of NGOs can be connected to their core work and does not have to be in conflict with the non-distribution constraint. The fulfillment of the mission of NGOs supported by commercial activities in accordance with established core work can be considered as an appropriate way which should be undertaken by NGOs in order to achieve their financial independence and stability. We can conclude that the benefits of self-financing prevail over its risks. The scope of the survey, which we introduced in the presented case study, could be a suitable basis and a starting point for further scientific activities in the field of the commercialization of NGOs.

3.2 Financial controlling in nonprofit organizations - the case of Slovakia

This case study bases on the author’s research paper published in Risk Governance and Control: Financial Markets & Institutions (Vaceková, 2013).

When defining the term controlling, authors often differ. Over time, not only the number of views has been rising, but they have also crystallized (Refäuter, 1990; Freiberg, 1996; Foltínová – Kalafutová, 1998; Foltínová – Kalafutová, 1998; Eschenbach, 2000; Sládek – Valentová, 2006; Foltinová, 2007).

In terms of temporal dimension we can distinguish the controlling focused on long-term management i.e. strategic controlling and the short-term management, i.e. operational controlling.
The aim of financial controlling is to secure liquidity and financial stability of an organization. Under the term financial controlling we mostly understand the cash flow management outside of an organization. It points out the problems, sends warning signals and gives managers advice, which helps them to make the right decisions. There are some important advantages and contributions of financial controlling such as rising of financial sources, their proper allocation and administration.

### 3.2.1 Research methodology

The aim of this case study is to assess the current state of implementation of financial controlling and its tools in conditions of nonprofit sector organizations in Slovakia. We assume that it is necessary to apply the chosen controlling tools that are commonly used in the profit sector, on conditions of nonprofit sector (Vaceková, 2011). In the interest of a long-term sustainability the nonprofit organizations have to pass on to modern management methods and in the current difficult economic conditions we consider the utilization of controlling as an essential condition for success of any organization (Kuvíková – Vaceková, 2010).

The data used in the case study were obtained in a pilot primary research (pre-research) by the sociological method of a structured questionnaire. We decided to create two types of questionnaires – one for the governmental (state) nonprofit organizations and one for the non-governmental nonprofit organizations. Sequentially, we classified the organizations according to the chosen criteria such as the area of their activities, their legal form, the age of the organization, the number of its employees and the seat of the organization.
We built the questions following the same structure for the both types of questionnaires. The pre-research part of the questionnaires was divided into two topics. In the first one we wanted to find out whether the nonprofit organizations have already implemented the financial controlling. Sequentially, we asked the organizations, which have not implemented the financial controlling yet, if they were interested in its implementation in the future and what could be the reason for its utilization. Then we asked the nonprofit organizations, which have already implemented the financial controlling, about the reasons for its implementation and the advantages of its utilization. We were also interested in who was responsible for the financial controlling in the organization. In the second part of the questionnaire we focused on the utilization of selected tools of financial controlling and on activities which were performed while implementing these tools by the nonprofit organizations.

We sent the questionnaires to 260 respondents from the non-governmental and to 300 respondents from the governmental nonprofit organizations by a chosen method of electronic distribution. For the research purpose we could use 53 completed questionnaires from the non-governmental and 65 from the governmental nonprofit organizations. The number of respondents, who took part in the pre-research, was verified in several ways. According to Blišt'an (1999, p. 118) the minimum range of the sample can be determined by the following formula:

\[
n_{\min} = \frac{g_2(u) - 1}{4\delta(s)^2} + 1
\]  

(1)

When considering the relative error of standard deviation \( \delta(s) = 0.1 \) and normal distribution with \( g_2 = 3 \), the recommended minimum number of respondents is 51. Both our sample files meet this condition. Furthermore, the sample of respondents in the gained structure reflects the current state of the structure of NGOs in Slovakia. The appropriate structure and scope of the sample were confirmed by statistical significance of the results of tests carried out by selected methods of analysis of qualitative data.

We placed the questionnaires on the internet using the Google domain’s function. Respondents were directed to the questionnaire by a hypertext link in an e-mail. In the direct electronic data collection the primary data were saved in MySQL database from where they were exported to the
Microsoft Excel program. For a following-up statistics evaluation these primary empirical data had to be transformed into a symbolical code’s language. It means it was necessary to develop a system of categorization of examined empirical phenomena and a coding key (Kuvíková & Vaceková, 2009). During the data processing we applied some relevant mathematical-statistical methods using the SPSS program.

3.2.2. Results and discussion

At the beginning of our pre-research we investigated the state of controlling use in the non-governmental and in the governmental nonprofit organizations. More than a half of the non-governmental organizations involved in the pre-research (58.49%) have not implemented the financial controlling yet. Only 41.51% of non-governmental nonprofit organizations have already applied the financial controlling. The situation in the governmental organizations is opposite. There, the respondents who have had established the system of financial controlling predominate, representing more than 60% (chart 5).

![Chart 5 State of utilization of financial controlling in nonprofit sector organizations](image)

**Source:** Vaceková, 2013

We tested the non-governmental and the governmental organizations by chosen statistical methods of data dependence analysis. The aim was to find out whether there was some dependence between the utilization of financial controlling and some pre-established criteria which are:

- legal form,
- average evidentiary number of employees,
- year of organization’s constitution,
- seat of organization.

Table 14 Analysis of dependence of financial controlling utilization on chosen identifying criteria

<table>
<thead>
<tr>
<th>Dependence of utilization of the financial controlling on the legal form</th>
<th>Dependence test</th>
<th>Dependence rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fisher's Exact Test/Sig</td>
<td>Cramer's V</td>
</tr>
<tr>
<td>utilization of the financial controlling on the legal form</td>
<td>0,004&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,353</td>
</tr>
<tr>
<td>utilization of the financial controlling on the number of employees</td>
<td>0,010&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,331</td>
</tr>
<tr>
<td>utilization of the financial controlling on the age of organization</td>
<td>0,160&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,207</td>
</tr>
<tr>
<td>utilization of the financial controlling on the seat of organization</td>
<td>0,892&lt;sup&gt;b&lt;/sup&gt;</td>
<td>0,162</td>
</tr>
</tbody>
</table>

Source: Vaceková, 2013

We examined whether there was dependence between the utilization of financial controlling and the legal form of nonprofit organization.

For testing the dependence of two variables we used the Fisher´s Exact Test. The test tells us if there is a dependence between the studied characteristics on the level of significance \( \alpha = 0,1 \). To verify the dependence it is necessary to sum up the partial probabilities. If the sum of the probabilities was smaller than the level of significance \( p \leq \alpha \), the significance of the relation between the studied characteristics and the existence of some dependence would be proved. We calculated the strength of this dependence by Cramer’s V coefficient (it takes values from 0 to 1), where the correlation 0,1 – 0,3 means a weak dependence, 0,3 to 0,5 a medium-strength dependence, 0,5 to 0,8 a strong dependence and the correlation higher than 0,8 means that there is a very strong dependence between the studied characteristics.

Based on the Fisher’s Exact Test (Table 14) we can say that between the legal form and the utilization of financial controlling there does exist a dependence because the value of Fisher’s test is 0,004, which is lower than 0,1. According to Cramer’s V coefficient (0,353) there is a medium-strength dependence between the utilization of financial controlling and the legal form of nonprofit sector organizations. Thus there is an implemented system of financial controlling mostly in the
organizations with the following legal form: nonprofit organizations offering public services and foundations. Civic associations, which took part in our pre-research, have not implemented the system of financial controlling yet. In the examined budgetary and contributionary organizations the financial controlling is used by more than a half of asked respondents.

We also examined if there was dependence between the financial controlling utilization and other identifying criteria such as number of employees, age of organization and its seat. The dependence was confirmed only in the case of tested criterion - number of employees and the size of organization. Based on the Fisher’s Exact Test (0,010) and chosen degree of dependence (Cramer’s V) we can say that there exists a medium-strength dependence between these two indicators. It means (according to the results of the pre-research) that there is a difference in financial controlling utilization in voluntary, small and big organizations. Organizations operating solely on the principle of voluntarism have not implemented the financial controlling yet. The situation in the organizations that have 1 to 5 employees is balanced and in the organizations with 6 and more employees the financial controlling is commonly used.

3.2.2.1 Reasons for implementation of financial controlling in nonprofit sector organizations

There can be various reasons for implementation of financial controlling. We examined the reasons for implementing the financial controlling separately in non-governmental and separately in governmental nonprofit organizations. The reasons are shown in Chart 6.

**Chart 6 Reasons for the implementation of financial controlling**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Non-governmental Organizations</th>
<th>Governmental Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure the financial balance</td>
<td>72.73%</td>
<td>68.29%</td>
</tr>
<tr>
<td>Improve the fund management</td>
<td>72.73%</td>
<td>65.85%</td>
</tr>
<tr>
<td>Pressure of the surroundings</td>
<td>9.76%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Experience of others</td>
<td>18.18%</td>
<td>4.88%</td>
</tr>
<tr>
<td>Other</td>
<td>4.50%</td>
<td>2.44%</td>
</tr>
</tbody>
</table>

*Source: Vaceková, 2013*
The most common reason for the implementation of financial controlling in non-governmental organizations, which took part in our pre-research, was to ensure the financial balance and to improve the fund management (both 72.73%), followed by experience of other organisations (18.18%) and other reasons (4.50%), e.g. overview of finances. None of the NGOs considered the pressure of the surroundings as one of the reasons for the implementation of financial controlling.

In governmental nonprofit organisations the most common reason for implementation of financial controlling is the financial stability (68.29%) followed by improvement of the fund management (65.85%), pressure of the surroundings (9.76%) and experience of other organizations (4.88%). Other reason that was stated by 2.44% of government organizations is e.g. imposition of the obligation of the founder.

Based on the pre-research results we can conclude that the biggest difference that exists in governmental and non-governmental nonprofit organisations is in the pressure of the surroundings. We think that this is caused by the fact that the governmental organizations are under a greater compulsion on implementation of controlling to make the use of their resources more economically. The governmental nonprofit organisations are linked to the budget of their founder and they are financed mostly from public resources.

### 3.2.2.2 Information obtained from the financial controlling

In addition to examination, what has led the organizations to implementation of the financial controlling, we were interested whether the implemented system of financial controlling could help by managing the organization. All the organizations with implemented system of financial controlling answered this question in a positive way. More than 66% of respondents consider that financial controlling would help absolutely, other 33.87% of respondents think that it would help only partly.

It is also important to know how the organization capitalizes the information which was obtained from the financial controlling. Therefore, in our pre-research, we focused on how the controlling information system could help in specific situations (Table 15).
Table 15 Significance of information obtained from financial controlling

<table>
<thead>
<tr>
<th></th>
<th>Information obtained from financial controlling</th>
<th>It is important for management activities</th>
<th>Ensure the financial stability</th>
<th>Send warning signals</th>
<th>Help to manage funds</th>
<th>Give advice</th>
<th>Help in monitoring financial plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NGOs</strong></td>
<td>Average</td>
<td>0,636</td>
<td>0,773</td>
<td>0,455</td>
<td>0,591</td>
<td>0,318</td>
<td>0,455</td>
</tr>
<tr>
<td></td>
<td>Standard error of the mean</td>
<td>0,105</td>
<td>0,091</td>
<td>0,109</td>
<td>0,107</td>
<td>0,102</td>
<td>0,109</td>
</tr>
<tr>
<td><strong>Governmental NPOs</strong></td>
<td>Average</td>
<td>0,585</td>
<td>0,683</td>
<td>0,195</td>
<td>0,575</td>
<td>0,073</td>
<td>0,333</td>
</tr>
<tr>
<td></td>
<td>Standard error of the mean</td>
<td>0,078</td>
<td>0,074</td>
<td>0,63</td>
<td>0,079</td>
<td>0,041</td>
<td>0,076</td>
</tr>
</tbody>
</table>

*Source: Vaceková, 2013*

Based on the primary data we can conclude that, in most NGOs, the information obtained from the financial controlling serves to ensure the financial equilibrium (0,773 ± 0,091). This information is also important for management activities (0,636 ± 0,105), it helps to manage funds (0,591 ± 0,107), it shows warning signs and helps in monitoring financial plans (0,455 ± 0,109). The least amount of respondents agree that information obtained from financial controlling helps and coordinates recommendations for the future of the organization. In nonprofit governmental organizations the information is more useful to control the financial plans (0,333 ± 0,076) than to show the warning signs (0,195 ± 0,063).

3.2.2.3 Person responsible for the financial controlling

We focused also on the person responsible for utilization of various financial controlling tools. We wanted to find out whether there was a dependence between the person responsible for using some selected tools and the legal form of the organization.

Based on the dependence test (Table 16), we can confirm a medium-strong dependence between the financial manager and the economist as a person responsible for the financial controlling on the legal form of the organization. It means that it depends on the legal form of the organization whether the financial manager or economist is responsible for financial controlling in the
organization or not. Economist is the most preferred responsible person in budgetary and
contributionary organizations.

Table 16 Dependence of a person responsible for carrying out the financial controlling on
selected identification criteria

<table>
<thead>
<tr>
<th>Dependence</th>
<th>Test of dependence</th>
<th>Degree of dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controller vs. legal form</td>
<td>0.629b</td>
<td></td>
</tr>
<tr>
<td>Financial manager vs. legal form</td>
<td>0.018b</td>
<td>0.438</td>
</tr>
<tr>
<td>Economist vs. legal form</td>
<td>0.05b</td>
<td>0.480</td>
</tr>
<tr>
<td>Chairman, director vs. legal form</td>
<td>0.156b</td>
<td></td>
</tr>
<tr>
<td>Other responsible person vs. legal form</td>
<td>0.860b</td>
<td></td>
</tr>
<tr>
<td>Economist vs. number of employees (size of org.)</td>
<td>0.000b</td>
<td>0.641</td>
</tr>
<tr>
<td>Economist vs. age of organization</td>
<td>0.024</td>
<td>0.384</td>
</tr>
</tbody>
</table>

Source: Vaceková, 2013

We examined also the dependence of person responsible for utilization of financial tools on the size
of the organization (number of employees) and on the age of the organization. We found out that
there was a strong dependence between the size of the organization (number of employees) and the
person responsible for the financial controlling and a medium-strong dependence between the
economist as a person responsible for the financial controlling and the age of the organization. That
means that it depends on the size of the organization and on the age of the organization whether the
economist is responsible for financial controlling in the organization or not.
Based on the pre-research outputs we can conclude that in the organizations established before the
year 2000 there is the economist responsible for utilization of financial tools. In the organizations that were established after the year 2000 there is some other person responsible for
financial controlling, for example director, controller or financial manager of the organization.
In the non-governmental organizations there is mostly a director or a chairman responsible
(59.09%), then a financial manager and an economist (27.27%) and finally a controller by 13.64%.
Existence of another person responsible for financial controlling was stated by 13.64% of
respondents: e.g. volunteers who understand the issue a project manager or an inspector.
In governmental nonprofit organizations there is an economist responsible for financial controlling
in 75.61%, in 31.71% a director or a chairman of the organization, in 14.63% a controller and in
9.76% it is a manager of the organization or another responsible person. As another person they meant e.g. financial manager or some other competent employees.

**Chart 7 Person responsible for utilization of financial controlling and its tools**

<table>
<thead>
<tr>
<th>Role</th>
<th>Non-governmental Organization</th>
<th>Governmental Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controller</td>
<td>13.64%</td>
<td>4.36%</td>
</tr>
<tr>
<td>Financial manager</td>
<td>27.27%</td>
<td>9.76%</td>
</tr>
<tr>
<td>Economist</td>
<td>27.27%</td>
<td>75.61%</td>
</tr>
<tr>
<td>Chairman, Director</td>
<td>59.09%</td>
<td>31.71%</td>
</tr>
<tr>
<td>Other person</td>
<td>13.64%</td>
<td>9.76%</td>
</tr>
</tbody>
</table>

*Source: Vaceková, 2013*

Based on the pre-research results we can conclude that in non-governmental and also in governmental nonprofit organizations there are various people responsible for utilization of financial controlling and its tools.

### 3.2.2.4 Financial controlling tools

In the next part of our pre-research, we focused on the utilization of some financial controlling tools – debt controlling, inventory controlling – controlling of working capital, ongoing liquidity controlling and controlling of short-term liquidity surpluses and deficits. The Chart 8 gives an overview of the use of these tools in nonprofit organizations that participated in our pre-research.

Debt controlling and controlling of ongoing liquidity is applied equally by 86.36% of non-governmental organizations, where the financial controlling has been implemented in. Controlling of short-term liquidity surpluses and deficits as a part of the financial controlling is used in 68.18% of organizations. The least used financial controlling tool is the inventory controlling, which is used only by 36.36% of asked non-governmental organizations.
Keeping in view all the above facts we conclude that the most used tool of financial controlling is debt controlling and ongoing liquidity controlling. The financial controlling tool, which is used the least, is the inventory controlling.

Overview of the utilization of financial controlling tools in governmental nonprofit organizations is shown in Chart 9.

Chart 8 The utilization of financial controlling tools in NOGs

Source: Vaceková, 2013

Chart 9 The utilization of financial controlling tools in governmental nonprofit organizations

Source: Vaceková, 2013
Ongoing liquidity controlling is applied by 90,24% of governmental nonprofit organizations that use financial controlling, followed by debt controlling (85,37%). Controlling of short-term liquidity surpluses and deficits is used in 56,10% of organizations and the least used is the inventory controlling applied by 43,90% of governmental organizations.

According to the facts discussed in Chart 9 we can conclude that the inventory controlling is the least used financial controlling tool in the governmental nonprofit organizations and the debt ongoing liquidity controlling is the financial controlling tool used the most. Non-governmental and governmental nonprofit organizations that have implemented the system of financial controlling do not have to use all its tools.

3.2.2.5 Barriers to implementation of financial controlling

The financial controlling system has not been implemented yet by 58,49% of non-governmental and 36,92% governmental nonprofit organizations that participated on our pre-research. We were interested whether the organizations, which do not use the financial controlling system, think upon its implementation in the future and which barriers they might face in this process.

Chart 10 Interest of nonprofit organizations in implementation of financial controlling

Source: Vaceková, 2013

The results of the pre-research depicted that only 35,38% of asked non-governmental organizations that did not applied the financial controlling system in the past were interested in implementation of financial controlling.
the financial controlling system. Among the governmental nonprofit organization, the interest in implementation of financial controlling system in future was even lower — only 12.50%. This could be caused by the fact that governmental nonprofit organizations are connected to the budget of their founder, who adjudicates about the implementation and the use of financial controlling system.

More than a half (58.49%) of non-governmental organizations, that have participated in our pre-research, have not implemented the financial controlling system at all. Therefore we tried to find out what were the barriers and their significance to its implementation.

For verification we applied the Friedman test, which uses the assessment for the correspondence of medians for k variables (k>2) based on the average and total orders for each variable separately. The basic idea is that if there is no difference between the selections yields there is no difference between the average orders (Řezánková, 2010). Table 17 presents the results of the Friedman test.

<table>
<thead>
<tr>
<th>Barriers to implementation of financial controlling</th>
<th>Average rating</th>
<th>Absolute frequency</th>
<th>31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of financial resources</td>
<td>4.61</td>
<td>Chi-square</td>
<td>53,261</td>
</tr>
<tr>
<td>Lack of human resources</td>
<td>4.03</td>
<td>df</td>
<td>5</td>
</tr>
<tr>
<td>Lack of material resources</td>
<td>2.87</td>
<td>Asymp. Sig.</td>
<td>.000</td>
</tr>
<tr>
<td>Insufficient information system</td>
<td>2.87</td>
<td>Monte Carlo Sig.</td>
<td>.000</td>
</tr>
<tr>
<td>Lack of information about financial controlling</td>
<td>4.03</td>
<td>99% Confidence Interval</td>
<td>Lower Bound</td>
</tr>
<tr>
<td>Other</td>
<td>2.58</td>
<td>Upper Bound</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: Vaceková, 2013

According to the results of Friedman test we can conclude that there is a significant difference between the barriers. The most organizations (74.19%) considered the lack of financial and human resources (equally 54.84%) and the lack of information about financial controlling as well as the lack of material resources (both equally 16.13%) as the barriers to implementation of financial controlling. Non-governmental organizations identified also some other reasons, e.g. lack of interest in implementation of financial controlling or inefficiency of implementation of financial controlling caused by a low number of employees.
3.2.3 Conclusion

The contribution of this case study is primary information about the current state of implementing the financial controlling in nonprofit organizations in Slovakia. We strived to show the application possibilities of financial controlling tools commonly used in the profit sector in the conditions of nonprofit sector organizations.

The pre-research was performed as a pilot research by sociological method of a structured questionnaire. As the object of our pre-research, we examined the non-governmental and the governmental nonprofit organizations in the Slovak republic. We focused on identification of current state of utilization of financial controlling as well as on the reasons to apply the financial controlling and its contribution to the nonprofit organizations. We were also interested in the state of utilization of selected tools of financial controlling and in the activities, which these tools contain. In the last part of the primary pre-research we focused on barriers, which interfered the implementation of financial controlling system by nonprofit organizations.

We think that implementing the financial controlling in the conditions of nonprofit sector organizations brings to these organizations some significant benefits connected to the functions of financial controlling. These predicate in obtaining resources, its management and the use and that is why we believe that nonprofit organizations should take advantage of possibility of implementing the financial controlling within their organization. Nowadays, nonprofit organizations cannot carry out their activities without sufficient financial background. Therefore they should think upon application of new management methods, the appropriate way of financial security and more efficient use of funds. Another factor is the growth of competition in searching for donations, grants and subsidies that simultaneously force the organizations to more efficient use of their sources. And that is the answer to the need of implementation of selected financial controlling tools in the conditions of governmental and non-governmental nonprofit organizations.
SUMMARY

A nonprofit organization is a legal entity, which was not explicitly established to make profits. This does not mean that it cannot achieve a profit. It can, nay - it must, if it wants to be sustainable and competitive on the market. However, profitability is not its primary goal, and if the nonprofit organization achieves profit, it can be used exclusively for its further activities.

Understanding of this simple algorithm is the principal object of the present publication, which seeks to explain to students in a comprehensible manner that procuring of funding, is one of the preconditions of the operation and long-term survival of any organization. The financial aspect of existence of nonprofit organizations is connected with their specifics, which in many respects result from their service and non-commercial position on the market. Therefore, the study text refers to the need to address the question of financial stability and sustainability of nonprofit organizations.

Moreover, it points out that the nonprofit sector in (post-)transition economies underwent an interesting evolution and dynamic changes after 1989, which have affected even areas of its funding. Nevertheless, it should be taken into account that nonprofit organisations are usually established for the primary purpose of performing community services, either for their members or for individuals (society) outside the organization. The author emphasises that hybrid organizations, including social enterprises, are currently the main players in this context.

The presented text therefore concentrates on three main problem areas: nonprofit sector, funding of nonprofit organisations and social entrepreneurship. Besides the theoretical and practical problems, which the individual chapters open and attempt to explain, this publication gives a feedback and space for a debate in areas, which exceed the limits of the addressed issues. Such a feedback can serve as an inspiration, both for learning and as an incentive for topics of seminar works or theses, or it can potentially serve as a suggestion for further professional focus of students.

The author believes that this study text will contribute to increasing of students’ interest in research on nonprofit organisations and improvement of knowledge in this field.
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