

## **A NON-PROFIT ORGANIZATION: ESSENCE, TYPES AND BASIC BUSINESS PROCESSES**

**Alla Hliebova\*, PhD (Economics), Associate Professor.  
Olena Olkhovyk, Master student  
National University «Yuri Kondratyuk Poltava Polytechnic»**

\* *ORCID 0000-0002-7030-948X*

---

© *Hliebova A., 2020.*

© *Olkhovyk O., 2020.*

*Стаття отримана редакцією 20.05.2020 р.*

*The article was received by editorial board on 20.05.2020*

**Introduction.** The development of civil society leads to increase of the number of non-profit organizations. Nowadays, non-profit organizations are influential part of a society. Due to its important social role, the activities of the so-called "third sector" are subject of scientific and social discussions and research.

Non-profit enterprises, institutions and organizations are enterprises, institutions and organizations, the main purpose of which is not to make a profit, but to conduct charitable activities and patronage, as well as other activities provided by law (item 14.1.121, item 14.1 of article 14 of the Tax Code).

That is, these activities are aimed at providing charitable assistance, educational, cultural, scientific and other similar services for public needs, creating a system of social self-sufficiency of citizens and other purposes provided by the statutory documents of specific non-profit organizations [7]. The issue of non-profit organization administration isn't an exception. Non-profit organizations have their own specifics and it requires additional attention to investigate the peculiarities of their operation in order to effectively administer them.

**Overview of recent researches and publications.** O. Andrieieva, O. Vinnyk, N. Hura, O. Hetmanets, T. Deshko, O. Klymenko, Yu. Skorobohata, S. Melnyk, M. Ilina, V. Tyshchenko, A. Khaletska, L. Chupryna, O. Yarmolytska and others discovered the non-profit organizations' activities. The practice of their formation and management is new and needs to be investigated. These organizations allow society to solve strategic social and economic problems of vital activity of a modern society in the conditions of structural changes.

**The purpose of the paper.** The purpose of the article is exploring essence and role of non-profit organizations in modern conditions and identifying areas of its development based on world experience.

**The main body and results of the research.** The market economy involves the active development of non-profit organizations that arise and operate in various sectors of the economy (education, culture, art, services, etc.). Why is their role growing? What are the functions of non-profit organizations? What are the goals of their creation?

The role of the so-called "third sector" is important for civil society development, so we see the intensification of non-profit organizations around the world. These organizations play important role in achieving sustainable development goals, providing charitable assistance, protecting human rights and freedoms, organizing leisure time, creating opportunities for human development, helping to solve many social issues and challenges, providing cultural, educational and other services.

The definition of "non-profit organization" is used mainly in American law, while in international practice the definition of "non-governmental organization" is often used. This emphasizes that the organization focuses on solving social problems, has a humanitarian purpose and is independent from the government. The definition of "non-profit organization" provides a special approach to the functioning of the organization and its taxation. The purpose of the organization is not to make a profit, but to ensure organizational development.

Regarding the regulation of non-profit organizations. Non-profit organizations have a positive social and economic impact due to provision of a number of services. According to a fairly common concept, these organizations can receive additional government incentives, with transparency and control of the state and society, as these organizations can assume certain functions of the state.

State laws should protect the openness and independence of non-profit organizations and increase their capacity for self-government. It is very important that non-profit organizations can have a satisfactory amount

of funds from the organizations that create them, so that their activities can be carried out freely, be independent from the government, transparent and accountable to society. Often non-profit organizations are involved in the redistribution of national income, so the factor described above is an important component for them.

Regarding the implementation of business activities by the non-profit organization. Different countries may be examples of different experiences. For example, in some countries (particularly in Poland) organization may combine business and non-business activities, while in others (for example, the United Kingdom) only a non-profit subsidiary may do business.

However, in any case, these organizations do not pay income tax. In France, the issue of taxation of non-profit organizations doesn't arise, because these organizations can't be engaged in conducting business activities.

**Table 1**

**World experience of doing business by non-profit organizations [created by author]**

Country	Can a non-profit organization do business?	Does the organization pay income tax?
Poland	Yes	No
Great Britain	Only a subsidiary of a non-profit organization allowed	No
France	No	No
Ukraine	Yes	No
USA	Yes	No (however, if the resources received from additional activities are used to support purposes other than those for which it was created, income tax must be paid)
Armenia	Yes	Yes
Georgia	Yes (only in relation to the main direction of the organization)	Yes
Spain	Yes	No, but if the amount of annual profit is more than 150,000 euros or the direction of profit does not coincide with the main activity of the organization - must pay
Italy	Yes	Yes
Egypt	No	No

Analyzing the world experience, we can say that in each country there is regulatory legislation that regulates the possibility and conditions of doing business by non-profit organizations. So there are countries that can do it and at the same time don't pay income tax for it. There are places where such activities are allowed, but income tax must be paid. There are some countries where such activities are not allowed at all. Conditions that in most countries allow non-profit organizations to engage in entrepreneurial activities are next: the organization's profits are not distributed and should be directed to the main activity. Non-profit organizations operate to achieve non-profit goals. The basic criterion of which it is determined whether a non-profit organization can carry out business activities is called the criterion of "main goal". According to this criterion, a non-profit organization may lose its status and benefits if more than 50% of the activities of this organization are entrepreneurial.

The analysis of scientific works of modern researchers and world experience of their functioning has helped to establish that non-profit organizations allow to achieve various goals. In particular, in order to implement the social program of the state to reach relevant goals (Fig. 1).

So, non-profit organizations' activity allows to solve social problems of a modern society. This is possible through realization of functions (Fig. 2), which need to be implemented simultaneously.

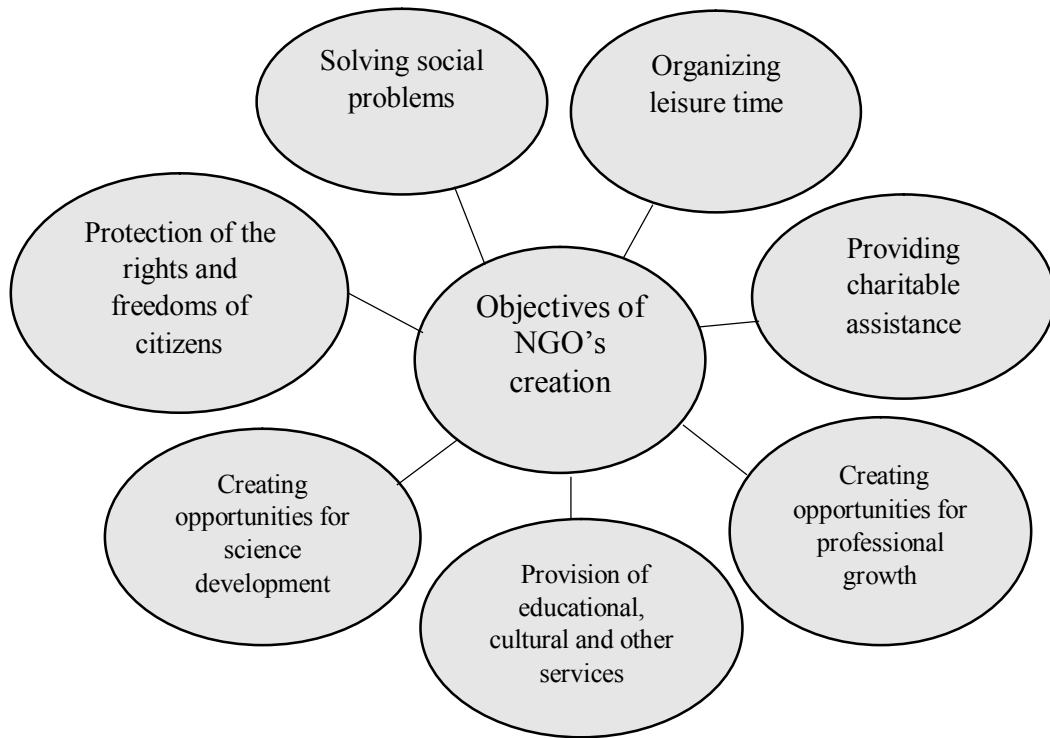


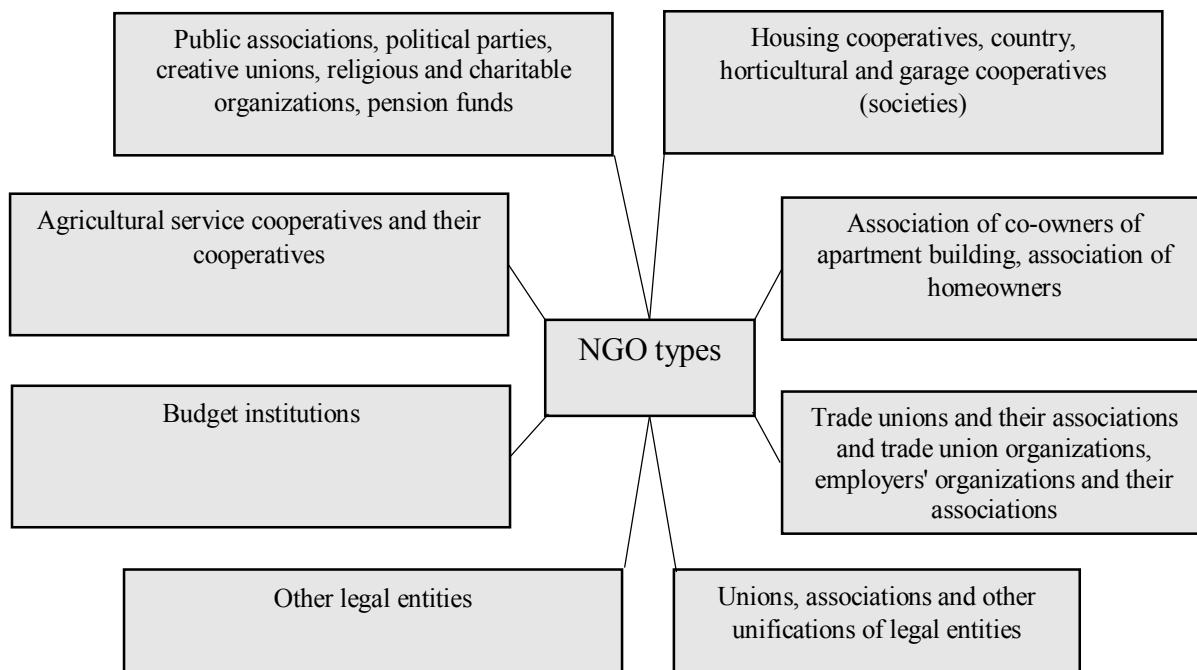
Fig.1. Objectives of NGO's creation (summarized by authors)



Fig. 2. Functions of NGO (summarized by authors based on [5])

Through the involvement of non-profit organizations and their functions, business and government have the opportunity to implement public partnership programs both in education and business. Imperfect legislation, structural changes in the economy, increasing competition in the world market, the lack of institutions of public control and experience in their implementation highlight the role and importance of non-profit organizations. This allows to balance public administration and implementation of social functions in society.

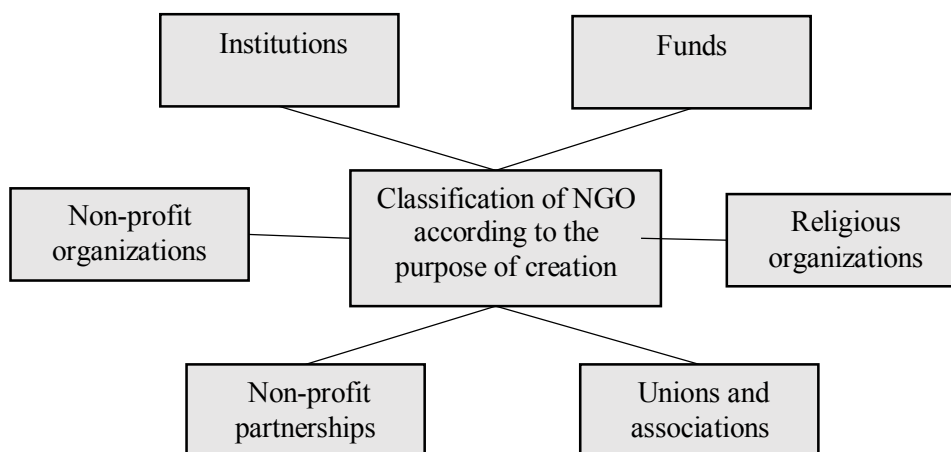
Therefore, it is advisable to consider the types of non-profit organizations based on analysis of current legislation. According to the Tax Code of Ukraine, the following types of non-profit organizations have become widespread in practice of our country (Fig. 3).



**Fig.3. Types of public organizations in Ukraine (summarized by authors on the basis of [1])**

Religious organizations can also set up NGO to meet spiritual and intangible needs; non-profit organizations are created to provide services in certain spheres; non-profit partnerships can be established to achieve social and other goals; unions and associations can be created for protecting common property interests and coordinating business activities [4], [28].

The most common NGO according to the purpose of creation is shown on the picture (Fig. 4).



**Fig.4. Classification of NGO according to the purpose of creation (summarized by authors on basis of [3], [8])**

NGOs can be also classified according to the territory of their action. Their action can be aimed at solving social issues of a particular area, region, country or even the world (Fig. 5).

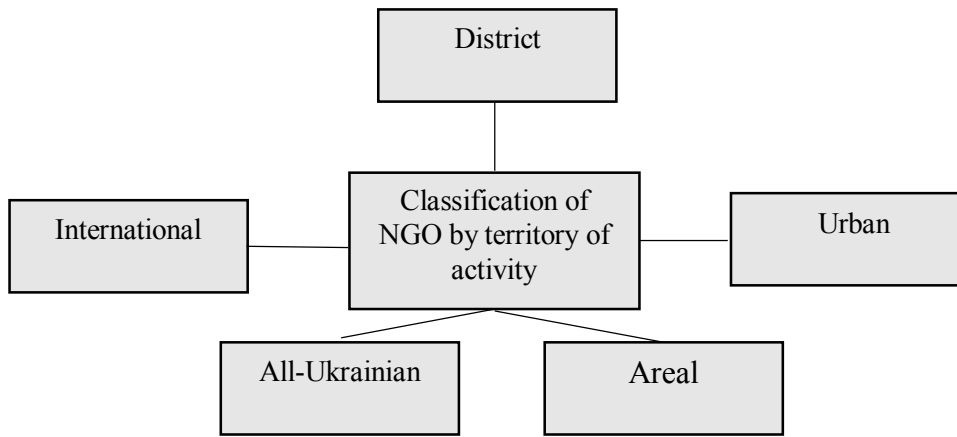


Fig.5. Classification of NGO by territory of activity (summarized by authors on basis of [8])

The following figure shows directions of NGO’s activity (Fig. 6).

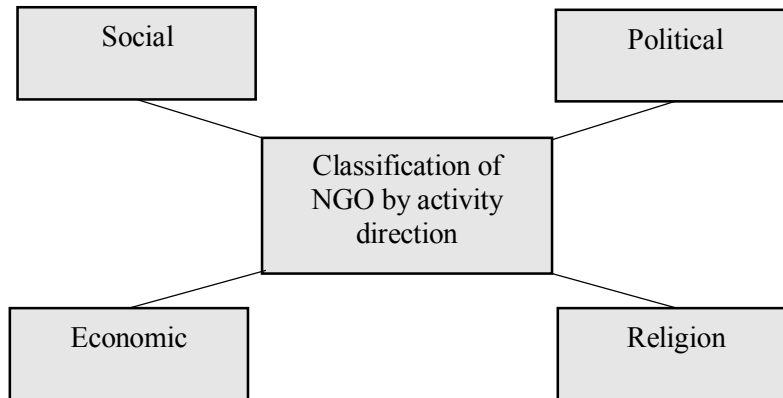


Fig.6. Classification of NGO by activity direction (summarized by authors based on [8])

The basis for determining if an organization non-profit, is presence of the basic features of NGO. Let us discover them.

1. Non-profit. Commercial activity can’t be the goal of NGO’s functioning. It doesn’t mean that organization can’t engage commercial component that generates income, but it means that such activities can’t be the main. For example, charitable foundations can invest money in projects or securities, but this is done for one purpose only - to raise money for funding charities or NGO that exist to resolve issues and tasks that are relevant to the activities of the charity.

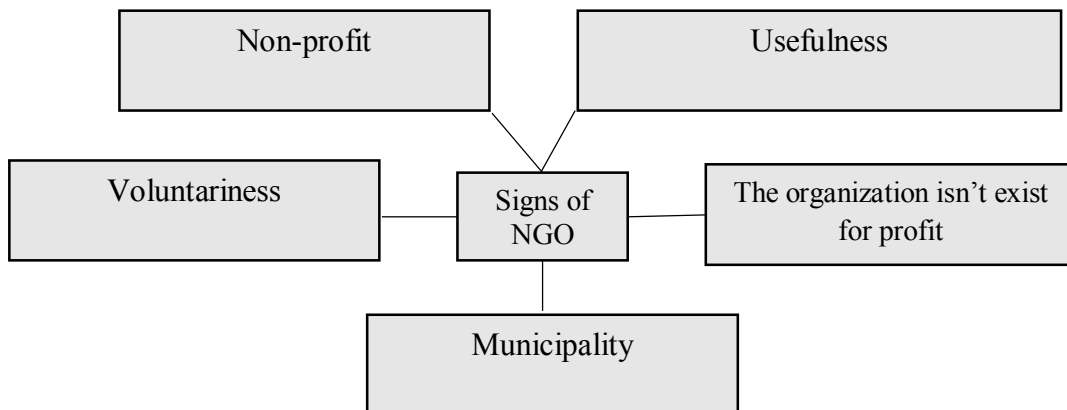


Fig.4. Signs of NGO (summarized by authors based on [2])

2. These organizations are not created by the state or the government. That is, the founder of a non-profit organization shouldn't be public authorities and local governments based on the law or public act of the relevant authority. Also, public authorities may not control or manage activities of non-profit organization. However, in certain circumstances, such as social privatization of social institutions (while maintaining their functions), they can be transformed into a non-profit organization – an institution. In particular, it can be clinics, libraries, kindergartens, etc. Then certain bodies of local self-government and state authorities may be its co-founders or founders, but this organization will be a legal entity of private law.

3. The organization must be useful. According to this feature, there are the following organizations:

mutually beneficial or privately useful organizations: organizations established for the purpose of acting for the interests of the organization's members. For example, a club for young mothers, a fishermen's club, a motorcycle club;

public benefit organizations: they deal with issues that are relevant to society by promoting philanthropy, progress of culture, science, education, environment, provision of social services and so on.

4. Voluntariness. A non-profit organization is created at the request of a person or several people who become its founder(s). A person shouldn't be imposed to become a part of the organization and should have the full right to leave the organization.

5. Self-government. A non-profit organization is administered in accordance with its founding documents and is carried out by members of its organization. The rules of law are such that governing the establishment and operation of non-profit organizations lay down minimum requirements in forming founding documents and rules of self-government. The Supervisory Board may be the highest governing body of institutions or foundations. It is formed first by the founders, and later according to the constituent act. Meeting of members may be the highest governing body of the organizations.

6. An organization doesn't exist for profit. A non-profit organization should not be created for the purpose of making profit for further distribution between the founders, members of the organization or other people associated with them [2]. The profit received by the organization is used for realization of the statutory purposes. Property or money after the organization is liquidated, can't be transferred to members of the organization or its founders, but must be used to meet statutory objectives. They can be transferred to another non-profit organization, whose activities coincide in accordance with the purpose of the non-profit organization being liquidated [2].

The main processes that must be ensured for the effective functioning of NGO in modern conditions are: strategic planning, management, dispatching, monitoring and evaluation, SMM, financial management, HR, team building, fundraising, PR, reporting (external and internal), grant writing, marketing, cooperation with stakeholders, administration [9], [5], [6].

On the basis of summarized information we will form basic processes necessary for effective administration of management process of a non-profit organization (fig. 5).

Strategic planning involves planning activity of organization in the long term period perspective.

Dispatching allows organization to be mobile and quickly adapt to the challenges of today's world.

Monitoring and evaluation include analysis of current organization activity, analysis of activity over a period of time to sum up the current and reporting results, identify growth points for organization, discover what is successful and what can be improved.

Administration is a set of methods used in governance for organizing effective organization work.

SMM is a very important part in organization's work, because its well-organized work can show usefulness of organization to the modern world and connect organization with stakeholders.

Financial management is also an important process in functioning non-profit organization, because the proper management of financial resources can open new opportunities for organization.

HR is an important part in success of organization, because through the right selection of staff organization can be enriched with needed and professional staff, potential of which can serve to strengthen organization.

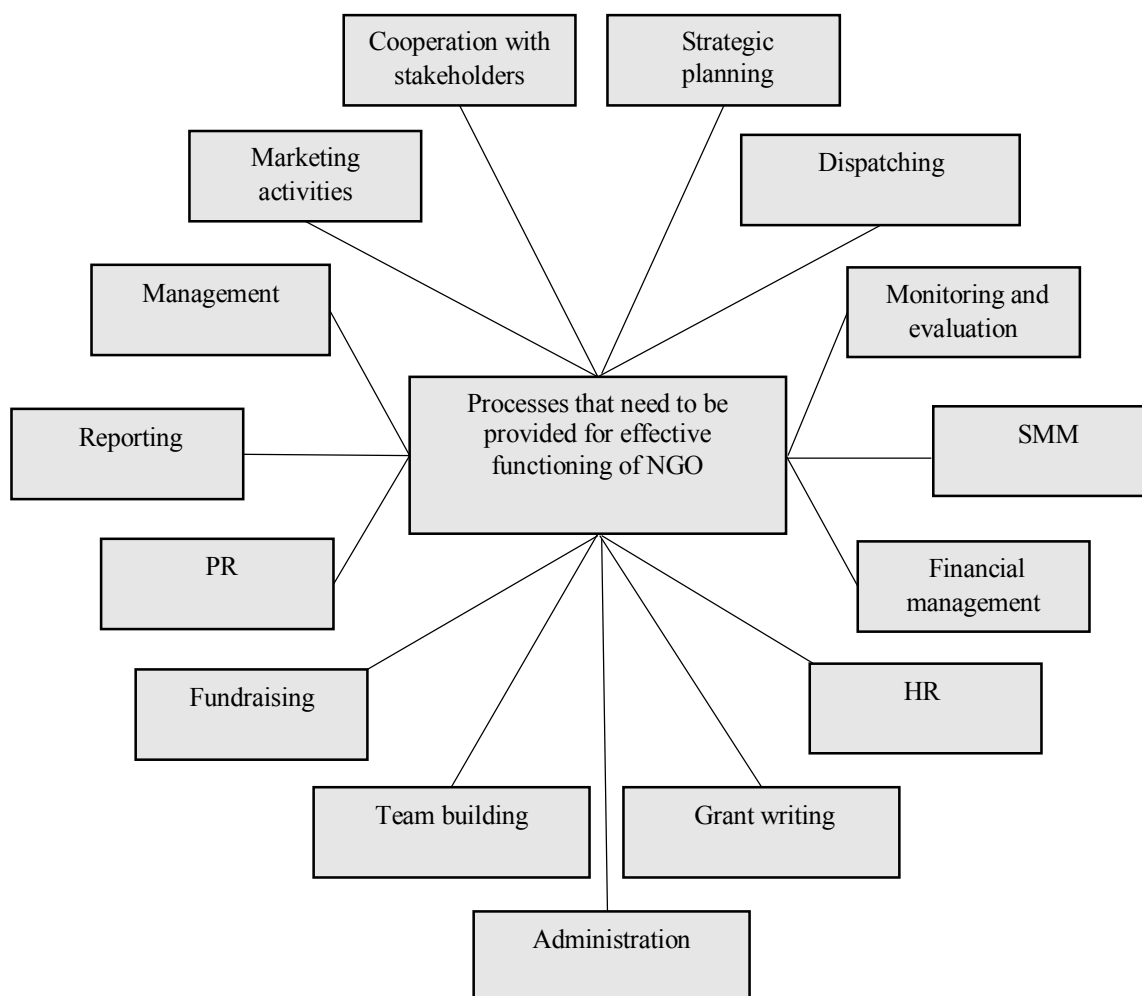
Team building is a significant part of organization's success, as a favorable work climate will help organization to flourish and unleash the potential of each team member for the benefit of the organization.

Fundraising helps to attract resources for the organization, so a well-established fundraising is a good advantage.

The proper functioning of PR processes will help to establish communication with a big number of stakeholders, so it is important to analyze how to organize functioning of PR in the best way.

Reporting (external and internal) can be a very beneficial element in building trust to the organization. External reporting helps to show stakeholders activities and achievements of organization, share more about

what specific steps it takes for the benefit of society and show directions of its further activities. Internal reporting helps to keep organization in working order, understand organizational advantages and disadvantages and form necessary algorithm of actions.



**Fig.5. Processes that need to be provided for the effective functioning of NGO (compiled by authors on the basis of [5], [6], [9])**

Grant writing helps organization in finding and obtaining new opportunities and resources for development and activity.

Marketing activities use modern tools for formation positive image of organization to make it recognizable, to show its strengths and advantages, establish communication with stakeholders.

Cooperation with stakeholders opens new opportunities for organization, but this activity needs to be conducted in the right way.

Management helps to provide achievement of organization's goals through efficient organizing of its activity.

It should be noted that each of these processes can be directly interconnected with others, so it is important for administration of management process of organization to be comprehensive, with development and implementation maximum potential of each process. Thus, the administration of organization is a process without which the effective functioning of the organization is impossible, so to ensure it is very important that managers are competent, constantly develop their skills and build reliable, trusting relationships and effective communication with their teams.

**Conclusions.** The non-profit enterprises, institutions and organizations are enterprises, institutions and organizations main purpose of which is not to make a profit, but to conduct charitable activities and patronage, as well as other activities provided by law. These activities are aimed at providing charitable assistance, educational, cultural, scientific, educational and other similar services for public needs.

This is achieved through the implementation of key business processes: strategic planning, management, monitoring and evaluation, SMM, dispatching, financial management, HR, team building, fundraising, PR, reporting (external and internal), grant writing, cooperation with stakeholders, marketing, administration.

**REFERENCES:**

1. Tax Code of Ukraine (March 18, 2020) Vidomosti Verkhovnoi Rady Ukrainy. Kyiv: Parlam. vyd-vo [in Ukrainian].
2. Tkachuk A. (2005) Desktop book for non-profit organizations. Kyiv, ICC "Lesta".
3. Khaletska A. Non-profit organizations and their importance in the implementation of social policy of the state. Electronic scientific journal «Derzhavne upravlinnia: udoskonalennia ta rozvytok», 3, 2010. Retrieved from: <http://www.dy.nayka.com.ua/?op=1&z=114> [in Ukrainian]
4. Biletskyi V. "The third sector as the basis of civil society" Retrieved from: <https://www.vesna.org.ua/tx>
5. Deshko T. Administration of a non-profit organization [Electronic resource]. Retrieved from: <http://aph.org.ua/wp-content/uploads/2016/08/mg82.pdf>
6. Official publication of the State Fiscal Service of Ukraine. [Electronic resource]. Retrieved from: <http://www.visnuk.com.ua/ua/pubs/id/7089>
7. Human Rights in Ukraine website. Information portal of the Kharkiv human rights group. Non-governmental organizations in Ukraine and their relations with the authorities [Electronic resource]. Retrieved from: <http://khpg.org/index.php?id=1084631241>
8. Site Articlekz. Non-governmental organizations: main types, functions and place in the political system. [Electronic resource]. Retrieved from: <https://articlekz.com/article/5319>
9. Tyshchenko V., Yarmolitska O. Non-profit organizations in Ukraine: legal regulation and features of accounting and taxation. Proceedings of the works of DUIT. Series "Economics and Management", 2019. Issue 43-44. pp. 131-143.
10. Foundation, Management and Administration of Grassroots and NGOs // CLEEN Civil society Local Energy Efficiency Network. 2016. [Electronic resource]. Retrieved from: <http://cleenet.org/index.php/en/online-courses/modul-1/87-administration-of-ngo>

UDC 347.471.8

JEL D73, L21, L84, M1

**Глебова Алла Олександрівна**, кандидат економічних наук, доцент. **Ольховик Олена Володимирівна**, магістрантка. Національний університет «Полтавська політехніка імені Юрія Кондратюка». **Неприбуткова організація: сутність, види та основні бізнес-процеси**. Досліджено сутність, види, ознаки й функції некомерційних організацій. Визначено процеси, необхідні для ефективного функціонування некомерційної організації. Проаналізовано світовий досвід щодо можливості некомерційних організацій вести підприємницьку діяльність у практиці різних країн. Ринкова економіка передбачає активний розвиток некомерційних організацій, які виникають і діють у різних секторах економіки (освіта, культура, мистецтво, послуги тощо. Роль так званого «третього сектора» важлива для розвитку громадянського суспільства, тому ми бачимо активізацію некомерційних організацій по всьому світу. Ці організації відіграють важливу роль у досягненні цілей сталого розвитку, надаючи благодійну допомогу, захищаючи права та свободи людини, організовуючи вільний час, створюючи можливості для людського розвитку, допомагаючи розв'язувати багато соціальних проблем і завдань, надаючи культурні, освітні та інші послуги. Визначення «некомерційна організація» використовується в основному в американському законодавстві, у той час як у міжнародній практиці часто застосовують поняття «неурядова організація». Останнє наголошує на тому, що організація орієнтована на розв'язання соціальних проблем, має гуманітарну мету і незалежна від держави. Термін «некомерційна організація» передбачає особливий підхід до функціонування організації та її оподаткування. Мета організації не отримання прибутку, а забезпечення організаційного розвитку. Некомерційні підприємства, установи й організації це підприємства, установи та організації, основною метою яких є не отримання прибутку, а здійснення благодійної діяльності й заступництва, а також іншої діяльності, передбаченої законом. Ці заходи спрямовані на надання благодійної допомоги, освітніх, культурних, наукових та інших подібних послуг для суспільних потреб.

**Ключові слова:** адміністрування, бізнес-процеси, управління, неприбуткова організація, функція.



UDC 347.471.8

JEL D73, L21, L84, M1

**Hliebova Alla**, PhD (Economics), Associate Professor. **Oikhovyk Olena**, Master student. National University «Yuri Kondratyuk Poltava Polytechnic». **A non-profit organization: essence, types and basic business processes.** The essence, types, signs and functions of non-profit organizations are investigated. The processes needed to be provided for effective functioning of a non-profit organization are identified. World experience of non-profit organizations' possibility to carry out business activities in the practice of different countries is analyzed.

The market economy involves the active development of non-profit organizations that arise and operate in various sectors of the economy (education, culture, art, services, etc.).

The role of the so-called "third sector" is important for civil society development, so we see the intensification of non-profit organizations around the world. These organizations play important role in achieving sustainable development goals, providing charitable assistance, protecting human rights and freedoms, organizing leisure time, creating opportunities for human development, helping to solve many social issues and challenges, providing cultural, educational and other services.

The definition of "non-profit organization" is used mainly in American law, while in international practice the definition of "non-governmental organization" is often used. This emphasizes that the organization focuses on solving social problems, has a humanitarian purpose and is independent from the government. The definition of "non-profit organization" provides a special approach to the functioning of the organization and its taxation. The purpose of the organization is not to make a profit, but to ensure organizational development. Non-profit enterprises, institutions and organizations are enterprises, institutions and organizations main purpose of which is not to make a profit, but to conduct charitable activities and patronage, as well as other activities provided by law. These activities are aimed at providing charitable assistance, educational, cultural, scientific, educational and other similar services for public needs.

**Key words:** administration, business processes, management, non-profit organization, function.