

Annette Zimmer
Eckhard Priller (Eds.)

Future of Civil Society

Making Central European
Nonprofit-Organizations Work



SPRINGER FACHMEDIEN WIESBADEN GMBH

focs



ROBERT BOSCH STIFTUNG

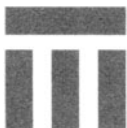
Annette Zimmer · Eckhard Priller (Eds.)

Future of Civil Society

Annette Zimmer · Eckhard Priller (Eds.)
with the assistance of Matthias Freise

Future of Civil Society

Making Central European
Nonprofit-Organizations Work



SPRINGER FACHMEDIEN WIESBADEN GMBH



VS Verlag für Sozialwissenschaften

Entstanden mit Beginn des Jahres 2004 aus den beiden Häusern

Leske+Budrich und Westdeutscher Verlag.

Die breite Basis für sozialwissenschaftliches Publizieren

Bibliografische Information Der Deutschen Bibliothek

Die Deutsche Bibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <<http://dnb.ddb.de>> abrufbar.

Funded by the Robert Bosch Foundation

Additional material to this book can be downloaded from <http://extras.springer.com>

1. Auflage März 2004

Alle Rechte vorbehalten

© Springer Fachmedien Wiesbaden 2004

Ursprünglich erschienen bei VS Verlag für Sozialwissenschaften/GWV Fachverlage GmbH, Wiesbaden 2004

Lektorat: Edmund Budrich

www.vs-verlag.de



Das Werk einschließlich aller seiner Teile ist urheberrechtlich geschützt. Jede Verwertung außerhalb der engen Grenzen des Urheberrechtsgesetzes ist ohne Zustimmung des Verlags unzulässig und strafbar. Das gilt insbesondere für Vervielfältigungen, Übersetzungen, Mikroverfilmungen und die Einspeicherung und Verarbeitung in elektronischen Systemen.

Die Wiedergabe von Gebrauchsnamen, Handelsnamen, Warenbezeichnungen usw. in diesem Werk berechtigt auch ohne besondere Kennzeichnung nicht zu der Annahme, dass solche Namen im Sinne der Warenzeichen- und Markenschutz-Gesetzgebung als frei zu betrachten wären und daher von jedermann benutzt werden dürften.

Umschlaggestaltung: KünkelLopka Medienentwicklung, Heidelberg

Gedruckt auf säurefreiem und chlorfrei gebleichtem Papier

ISBN 978-3-8100-4088-6

ISBN 978-3-322-80980-3 (eBook)

DOI 10.1007/978-3-322-80980-3

Contents

<i>L. Salamon</i> Foreword	9
<i>A. Zimmer</i> Civil Society Organizations in Central and Eastern European Countries: Introduction and Terminology	11
 Part I: Traditions and Perspectives of Civil Society in Central Europe	
<i>M. Freise</i> Introduction	31
<i>S. Reichardt</i> Civil Society – A Concept for Comparative Historical Research	35
<i>E. Pankoke</i> Voluntary Associations and Civic Engagement: European Traditions, Discourses and Perspectives for Voluntary and Intermediary Networks	57
<i>M. Szabó</i> Civic Engagement in East-Central Europe	77
<i>Z. Mansfeldová, S. Nałecz, E. Priller and A. Zimmer</i> Civil Society in Transition: Civic Engagement and Nonprofit Organizations in Central and Eastern Europe after 1989	99

Part II: Regulatory Environment

<i>A. Zimmer</i>	
Introduction	123
<i>M. Freise and P. Pajas</i>	
Organisational and Legal Forms of Nonprofit Organizations in Central Europe	129
<i>K. Simon</i>	
Tax Laws and Tax Preferences	147
<i>M. Rymśa and A. Zimmer</i>	
Embeddedness of Nonprofit Organizations: Government - Nonprofit Relationships	169
<i>K. Gabriel and H.-J. Große Kracht</i>	
The Catholic Church and its Third Sector Organizations	199
<i>P. Frič</i>	
Political Developments after 1989 and their Impact on the Nonprofit Sector	217

Part III: Central Topics of Nonprofit Management

<i>D. v. Eckardstein and R. Simsa</i>	
Introduction	245
Aspects of General Management	
<i>S. Toepler and H.K. Anheier</i>	
Organizational Theory and Nonprofit Management: An Overview	253
<i>P. Siebart and Ch. Reichard</i>	
Corporate Governance of Nonprofit Organizations	271

Core Management Functions*D. v. Eckardstein and J. Brandl*

Human Resource Management in Nonprofit Organizations 297

O. Sozanská, J. Tošner and P. Frič

Management of Volunteers in Nonprofit Organizations 315

P. Pajas and M. Vilain

Finance of Nonprofit Organizations 341

M. Haibach and T. Kreuzer

Fundraising 367

R. Nagy and J. Sacco

Accounting and Management Control in Nonprofit Organizations 381

D. v. Eckardstein and R. Simsa

Strategic Management: A Stakeholder-Based Approach 407

J. Nagyová

Marketing in Nonprofit Organizations 425

D. Greiling

Quality Management 457

R. Simsa

Conflict Management 479

D. Hullová

Project Management 493

E. Rusteberg, A. Appel and J. Dąbrowska

Evaluation in Nonprofit Civil Society Organizations 525

Part IV: Country Profiles

<i>E. Priller</i> Introduction	551
<i>A. Juros, E. Leś, S. Nałęcz, I. Rybka, M. Rymśa and J. J. Wygnański</i> From <i>Solidarity</i> to Subsidiarity: The Nonprofit Sector in Poland	557
<i>P. Frič, R. Goulli and O. Vyskočilová</i> Small Development within the Bureaucracy Interests: The Nonprofit Sector in the Czech Republic	601
<i>H. Kuviková and D. Hullová</i> Watchdog of Political and Economic Power: The Nonprofit Sector in the Slovak Republic	635
<i>É. Kuti and I. Sebestény</i> Boom and Consolidation: The Nonprofit Sector in Hungary	655
<i>A. Zimmer, J. Gärtner, E. Priller, P. Rawert, Ch. Sachße, R. Graf Strachwitz and R. Walz</i> The Legacy of Subsidiarity: The Nonprofit Sector in Germany	681
<i>K. Heitzmann and R. Simsa</i> From Corporatist Security to Civil Society Creativity: The Nonprofit Sector in Austria	713

Appendix

About the Authors	733
The Robert Bosch Foundation	737

Lester M. Salamon

Foreword

Few developments in the recent history of Central Europe have been more momentous than the emergence, or more precisely the re-emergence, of civil society, of organized citizen activity outside the boundaries of the state and the market. Indeed, the re-emergence of civil society was the key to all the other momentous developments that have characterized the extraordinary past two decades of Central European history – the fall of the Berlin Wall, the disintegration of the Soviet empire, the re-emergence of the market, the appearance of democratic government, and now the re-integration of Europe. More than that, the re-emergence of civil society in Central Europe has revolutionized the position of civil society on the world stage more generally, boosting its visibility, enhancing its credibility, and transforming its reputation from that of ineffectual supplicant to powerful instrument of social, economic, and political change.

Despite its achievements, however, the Central European civil society sector remains, at least in its Visegrád segments, a fragile organism, under-capitalized, under-staffed, and still not fully integrated into the prevailing political and economic order. It is as if these countries have not yet decided how to reconcile their new civil society institutions with their recent history of extensive state provision of social welfare services, not to mention their earlier rich histories of civil society organization and voluntary action. Indeed, this earlier history has been largely lost from view.

Fortunately, however, there are models within the region that might point the way to how these traditions can be merged. Both Germany and Austria have found in the Catholic tradition of “subsidiarity” a formula for combining the strengths of the state with those of the civil society sector to produce a humanized social welfare system in a modern market democracy, though in both countries the models that have been created are themselves in need of reinvigoration.

It is in this context that this volume has such an important role to play. For the first time it presents the Central European civil society story in a Central European “voice”. More than that, it puts recent Central European civil society developments into historical context, re-capturing the long tradition of civil society activity in this region and thereby legitimizing the contribution these organizations can make even in a region that has grown accustomed to an active role for the state. Finally, the volume offers practical

advice to civil society leaders about how to operate a modern civil society sector. This is fundamental, if civil society organizations are to take their rightful place as active partners of government and market institutions in coping with the serious social and economic problems that still bedevil this region.

The Central European civil society sector has already made historic contributions both to the Central European region and to the civil society sector at the global level. In a real sense, however, its most important contributions still lie ahead. At issue is whether this set of institutions can be integrated more fully into the prevailing social, political, and economic operations of their countries. For this to be possible, it will be necessary for them to meet the challenges of legitimacy, sustainability, effectiveness, and partnership that still elude them to a significant degree. Fortunately, the Central European “third sector” has attracted an unusually talented and dedicated group of activists. Thanks to this book, they will now have the conceptual insights, practical advice, and materials they need to train others and to equip their institutions to make the full contributions of which they are capable.

January 20, 2004

Annapolis, Maryland, USA

Civil Society Organizations in Central and Eastern European Countries: Introduction and Terminology

1. Introduction

2004 has been a decisive year for Europe. With the expansion of the European Union to incorporate the Central and Eastern European countries, the Union has taken on a new dimension that opens major opportunities. For too long, the so-called Iron Curtain cut off the Central and Eastern European countries from the dynamics and the societal developments in the West. At the same time, Central and Eastern Europe was robbed of its cultural cohesion. All this has come to an end. What always belonged together has been brought together again. The successful future of Central and Eastern Europe's communities is based on a dynamic civil society from which emanates a decisive impulse for empowerment, democracy, cultural exchange, and mutual understanding.

The broad organizational spectrum of civil society is the focus of this handbook, whose objective is to provide practical know-how for lecturers, students, staff, and volunteers of civil society organizations. Against this background, the handbook distinguishes between the normative and the down-to-earth understanding of the term civil society. As a term of political theory and political philosophy (Klein, 2001), civil society stands for a political program, indeed a political utopia toward which democracies are struggling to develop. In its down-to-earth understanding, the term civil society is closely linked with the broad spectrum of organizations that – belonging to neither the market nor the state – constitute the infrastructure and organizational bedrock of democratic societies (Kocka, 2002; Salamon et al., 1999).

The practical and down-to-earth use of the term civil society is most prominent in the publications of the European Commission, which defines this broad organizational spectrum of democratic societies as “organized civil society”. According to the Commission's White Paper “European Governance” (2001), organized civil society is of utmost importance for the further development of democracy and the well-being of citizens because it gives voice to the citizenry while at the same time providing goods and services particularly for those members of society who do not belong to the

well-to-do. There are several reasons why the European Commission put a high emphasis on the strengthening and further development of organized civil society in the Central and Eastern European countries as the enlargement of the European Union was approaching. First and foremost, organized civil society offers avenues for civic engagement and active citizenship, thus facilitating integration and participation for the individual citizen, both of which are necessary prerequisites for the deepening and strengthening of democracy. Moreover, organized civil society is in the position to satisfy those needs and demands of citizens that neither the market nor the state is able or willing to serve. And finally organized civil society is able to buffer those societal shocks and upheavals that always accompany processes of political, economic and societal transition and modernization (Economic and Social Committee, 1999).

And indeed, the countries and societies in Central and Eastern Europe are still passing through a period of rapid political and economic change and societal transformation. Civil society organizations are active actors in this transformation process and important partners of the state and the market. However, societal and political modernization is not restricted to the countries of the former Eastern bloc. The same holds true for Western European communities, particularly for those countries like Austria and Germany that, before the crumbling of the Berlin Wall, were characterized as “young democracies” since they had gained a foothold in the Western democratic world only after the Second World War. Germany’s and Austria’s organized civil societies have many features in common. Both share the tradition of subsidiarity as a metaphor for the close cooperation between civil society organizations and government entities. In both countries civil society organizations are primarily funded by government. Currently, against the background of decreasing public support, Germany’s and Austria’s civil society organizations are struggling for alternative funding and increased civic support (see the country profiles).

Although there are still significant differences between Western and Eastern Europe, the Central European organized civil societies have many features in common because they share a heritage of societal organization and civic engagement. This is particularly true for Austria, Germany and the four Visegrád countries, Hungary, Poland, the Czech Republic and Slovakia, which in the Middle Ages were all part of the Holy Roman Empire. With respect to legal traditions, civic attitudes and societal engagement, there is no doubt that in the Visegrád countries the legacy of the former Austrian Empire is still in place. To a certain extent traditions and attitudes towards civic engagement rooted in former Prussia and the German Empire are also still noticeable in the countries that are covered in this handbook. The organized civil societies of the countries under study - Austria, the Czech Republic, Germany, Hungary, Poland and Slovakia, respectively - also share some of

the very negative features of Central European history. There is no doubt that fascism in its most nasty expression as National Socialism was most strongly in place in Germany. However, at the beginning of the last century, fascist ideology had many supporters in Austria and the later Visegrád countries. Indeed in the 1930s, with the exception of the Czech Republic, the countries covered in this handbook were all ruled by either fascist or authoritarian regimes (see the chapter by Szabó in this volume). Democracy is indeed a very recent development in Central and Eastern Europe. Furthermore, it should not be forgotten while studying the organized civil societies of these countries that in addition to Hungary, Poland, the Czech Republic and Slovakia, also a large part of Germany belonged up until about two decades ago to the so-called Eastern bloc. In other words, the Central and Eastern European countries share a heritage that does not work unambiguously in favor of a strengthening and deepening of civil society and a strong democracy. However, at the same time, strong civil societies and active citizenship constitute the prerequisites for a European Union, which, with respect to citizen participation and civic engagement, tries to become a role model for other countries and communities around the world.

Strong and societally embedded, organized civil societies represent an important element of the further integration of the European Community. There is no doubt that civil society in its practical, down-to-earth meaning provides an important feature for a bottom-up approach toward democracy, mutual understanding, and societal integration. Since Almond and Verba's seminal study "Civic Culture" (1963), it is known that civil society organizations are an essential basis for the education, deepening, and further development of democracy as well as of cultural unity. It is not a coincidence that these organizations are dubbed the "social glue" that holds society together. According to Almond/Verba and other social scientists working in the tradition of political sociology and political culture research, these organizations are responsible for both types of societal integration. They provide avenues for the individual integration of each citizen into society as such; at the same time they are responsible for systemic integration, which translates into the integration of the various societal communities into the political and cultural system of a respective country, a region or most prominently the European Union. Civil society organizations are able to fulfill these tasks because they are primarily ruled by norms and values. In modern societies they constitute the necessary counterbalance to tendencies of individualization and increasing hedonism, as they are organizations without the aim to gain power or to make profits.

Besides being a transmission belt for civic and societal integration, civil society organizations fulfill an additional function as providers of social services. According to Amitai Etzioni (1973), these organizations are of special interest for political scientists as well as for public administrators due

to the fact that they are able to combine the positive sides of the market and the state because, as private entities, they are working as efficiently as business enterprises. However, they are not serving the needs of their owners or shareholders but those of the community and the needy. Furthermore, civil society organizations are able to compensate failures either of the market or the state or of both sectors. Thus, the work of these organizations can always be recognized in areas where neither the market nor the state is able or wants to act in the public interest and for the public welfare, and therefore does not provide certain goods and services.

Despite their outstanding importance for societal integration, deepening and strengthening of democracy, and – last but not least – for the provision of social services, up until now there is very little knowledge available about these organizations, their specific problems and potentials, as well as their internal management procedures and functioning. The reason for this striking lack of expertise is twofold: First, up until recently social sciences, while searching for applicable approaches to address the problems of our time, have focused exclusively either on the state or on the market as the avenues for societal and economic improvement. However, both the state and the market have not been able to live up to their promises. Only recently researchers and political experts have started to discover and acknowledge organized civil society as an important problem solver. Second, due to the fact that neither politicians nor social scientists took an interest in civil society organizations, they constitute a significantly underdeveloped area of research. At the same time, civil society organizations are very difficult subjects to investigate because they are deeply embedded in the specific historical, legal, and societal traditions of the various societies. They do not constitute “an island of meaning,” but, on the contrary, each society or community while referring to civil society organizations uses a different terminology with which very different cognitive maps and metaphors of civic activity are linked. Therefore, in the following section the terminology that is used in this handbook will be explained in more detail. Since the terminology of the handbook is closely linked to the achievements of the Johns Hopkins Comparative Nonprofit Sector Project, the set-up of the project and its main results will also briefly be summarized. Finally, the audience to which the handbook is addressed will be specified and the organization of the volume outlined.

2. Terminology

Structuring the universe of civil society organizations is not an easy task. There are numerous typologies (Schuppert, 1991; see for an overview Salamon/Anheier, 1992a; 1992b), which attempt to put in order the broad

spectrum of civil society organizations. Drawing on the seminal work of Charles Handy (1988), Christoph Sachße worked out a typology that, based on a functional approach, takes specifically into account how the organizations are achieving their aims and goals (See Sachße, 2004). As a member of the German team of the focs project, Christoph Sachße illustrates the typology by referring to German civil society organizations.¹

According to his line of argumentation, there must be differentiation between the terms “civil society” and “nonprofit sector.” As already outlined, civil society is related to a normative concept, i.e., to “a society shaped by a new civic culture of citizen’s self-responsibility, voluntary engagement, and political participation” (Sachße, 2004). The term nonprofit refers to the so-called non-distribution constraint, which means that those organizations that constitute the “nonprofit sector” are not allowed to distribute their profits among members, owners or stakeholders; to the contrary, any monetary gain has to be reinvested in order to support the mission and particular purpose of the respective nonprofit organization. According to Sachße and other scholars (Kocka, 2002; Anheier et al., 2001), the nonprofit sector is closely related to the organizational underpinning of civil societies. In the words of Christoph Sachße (2004): “The ‘nonprofit sector’ plays a key role within that concept of civil society with nonprofit organizations providing the social infrastructure for the realization of citizen participation and voluntary engagement”. Accordingly, the nonprofit sector consists of “a wide variety of organizations largely differing in form, function, and purpose” (Sachße, 2004). Focusing on how nonprofit organizations are achieving their aims, Sachße’s typology differentiates the nonprofit universe in *membership organizations*, *interest organizations*, *service organizations*, and *support organizations*. Referring to the day-to-day routines of nonprofits, he further distinguishes these four organizational types:

Membership organizations are shaped by the voluntary activities of their members. Reciprocal activities of the members themselves are the key element of that particular type of organization. Examples are hiking, sports, or bowling clubs, which – among many other kinds of clubs – are very popular worldwide (for Germany, see Zimmer, 1998). They practice socially useful virtues and attitudes just through the particular organizational form of their activities independent of the specific aims and purposes they pursue. They provide important mechanisms for the creation of what Robert Putnam has named “social capital”: “In the first place, networks of civic engagement foster sturdy norms of generalized reciprocity and encourage the emergence of social trust. Such networks facilitate coordination and communication, amplify reputations, and thus allow dilemmas of collective action to be

1 The typology was originally developed in an expertise for the Bertelsmann Foundation (Sachße, 2001). A slightly modified English version is to be found in: focs-CD (Sachße, 2004).

resolved” (Putnam, 1993: 67; see also Putnam, 1995; Offe, 1999; Heinze/Olk, 1999). Membership organizations, thus, can be understood as “schools of democracy” (Cohen/Rogers, 1994: 152). Their social usefulness is a result not so much of what they are doing but rather of *how* they do it. Interest, service, or support organizations may also have members. But membership is not at the center of the organization’s activities. By contrast, those types of organizations typically act – at least in part – through professional personnel. They are characterized by the nature of the particular purpose they pursue, rather than simply the form of their activity.²

“*Interest organizations* represent and promote interests and values of either particular groups or society as whole, such as minority groups, environmental groups or human rights organizations. They protect nature and environment; they promote health, culture, and religion, or science and education through articulation and lobbying activities – sometimes more spectacular, sometimes less.³ Amnesty International and Greenpeace are textbook examples for the type of organization addressed here.

Service organizations provide services either for their members or for a broader spectrum of clients. They run kindergartens for pre-school children, homes for the elderly, hospitals and shelters. They rescue people in peril in the mountains or at sea. The German welfare associations (see German country profile), which account for the majority of social services in Germany as well as the broad spectrum of relief organizations - national and international - may serve as an example here.

Support organizations provide the financial, human, or technical resources to assist the needy or to enable certain activities or projects. They finance research. They financially support the poor. They promote education and culture by contributing to schools, universities, opera houses, and symphony orchestras. The big philanthropic, scientific, and cultural foundations provide good examples for that type of nonprofit organization” (Sachße, 2004).

There is no doubt that many handbooks of nonprofit organizations focus exclusively on service organizations. There are good reasons for not taking the whole spectrum of civil society organizations into account, since from an economic point of view, service organizations constitute the most significant force of the nonprofit sector. However, the team of the focs project consciously decided against this restrictive approach. It should not be forgotten that, in the Visegrád countries, particularly interest and membership organizations acted as key players in the transition process from authoritarian rule to democracy. Furthermore, as the work of Almond/Verba and others

2 Membership organizations on the one side can thus be opposed to interest organizations on the other.

3 Albert Hirschman (1970) has coined the term “voice” to characterize that particular type of activity.

clearly shows, democracy has to be built up from below, and, without any doubt, providing avenues for societal participation and integration constitutes a major task of interest and membership organizations and not primarily of service organizations. Accordingly the focs team decided to broaden the focus of analysis, thus considering interest and membership organizations just as service organizations.

The typology developed by Christoph Sachße is particularly helpful when specific management problems of nonprofits have to be tackled. Compared to membership organizations, highly professionalized service organizations require a different management approach when it comes to the recruitment of personnel or board members. The same holds true for financing. In accordance with the “core functions” of the respective organization, the strategy for safeguarding its financial well-being differs significantly among the aforementioned organizational types. While membership organizations are primarily financed by membership dues, interest organizations have to put a high emphasis on fundraising, and service organizations are either increasingly turning to the market in order to sell their service for profit or they are competing for government grants.

Nevertheless, this typology has also shortcomings, which are very much linked to the very special character or specificity of nonprofit or civil society organizations. In a nutshell, there are only very few nonprofit organizations that limit their range of activities to just one “core function” such as providing services or giving special interests a voice. In his further argumentation, Christoph Sachße clearly outlined, “The distinction of different types of nonprofit organizations provides an analytical differentiation, not an empirical description of the nonprofit sector” (Sachße, 2004). More specifically, Sachße explained that “‘pure-type organizations’ are exceptions. Nonprofit organizations typically are ‘mixed-type’ organizations. Membership organizations provide services for their members or even larger strata of the population. Service organizations promote membership interests and values. Interest organizations organize membership activities” (Sachße, 2004). In other words, a typology based on “core activities” and functions of nonprofit organizations is not applicable as a point of reference for an international comparative project such as the focs project, which covers quite a number of countries and therefore very distinct nonprofit sectors.

Against the background that members of the focs team were already familiar with the terminology developed within the framework of the Johns Hopkins Comparative Nonprofit Sector Project (Salamon/Anheier, 1992a; 1992b; 1994), and due to the fact that the Johns Hopkins terminology has become the most frequently used approach for describing and categorizing civil society organizations and nonprofit sectors worldwide, the members of the team unanimously decided to use this terminology, including the definition of a nonprofit organization. According to the terminology

developed within the framework of the Johns Hopkins Comparative Nonprofit Sector Project, nonprofit organizations are:

- Organizations, i.e., they have an institutional presence and structure;
- Private, i.e., they are institutionally separate from the state;
- Not profit-distributing, i.e., they do not return profits to their managers or to a set of “owners”,
- Self-governing, i.e., they are fundamentally in control of their own affairs; and
- Voluntary, i.e., membership in them is not legally required and they attract some level of voluntary contribution of time or money (Salamon et al., 1999: 3).

Drawing on the terminology of national statistics, nonprofit organizations of a community, a country, or a region constitute in their entirety a sector. Due to reasons of international comparability, the contributions of this volume cover neither cooperatives, nor political parties or religious congregations. In the case of cooperatives the authors decided that from a comparative point of view, it is rather difficult to distinguish between those generally small and community-based cooperatives that are definitely sharing a civil society/nonprofit spirit and those large organizations, such as mutual insurance companies or banks, which with respect to management procedures and organizational culture even perceive themselves as being members of the business community. Thus, cooperatives are not covered by this volume, albeit there are many good reasons for taking a broader approach while analyzing nonprofit organizations.⁴ Political parties are excluded because of their major function, i.e., recruitment of political personnel. Due to a similar reason religious congregations are also excluded, since these organizations are primarily involved in worship activities.

Those organizations that fulfill the above listed criteria belong to the nonprofit sector since they are distinct from the entities of the competing sectors, i.e., the market and the state. Therefore, the entirety of nonprofit organizations form a *third sector* that is set apart from the other two sectors. Within the field of policy analysis, Amitai Etzioni was the first scholar to draw attention to nonprofit organizations that are forming “a third alternative, indeed sector ... between the state and the market” (1973: 314). In his article “Organizations for the Future”, which has gained momentum within the nonprofit research community, Etzioni was looking for administrative structures that could make it possible to combine “the best of two worlds –

4 As important actors of the social economy currently, cooperatives and mutuals are increasingly gaining importance. According to the social economy approach which is primarily supported by French, Spanish and Italian economists, cooperatives and mutuals are institutional expressions of economic activities that are situated between a socialist and a full-fledged capitalist approach (for more information see Borzaga/Defourny, 2001).

efficiency and expertise from the business world with public interest, accountability and broader planning from government” (1973: 315). Against this background, Etzioni characterized nonprofit organizations as an institutional alternative besides government bureaucracies and commercial enterprises. Searching for the best way to serve the common weal, he strongly came out in favor of an intermediary function of the nonprofit sector matching and balancing the specific functions of the other two sectors. However, the position of nonprofit or third sector organizations in between the market and the state illustrates just one facet of these organizations. Besides the non-distribution constraint, which exclusively allows re-investment of profits but not their distribution among the members of the organization, the public-private character of nonprofit organizations constitutes a further very specific characteristic of this particular type of organization. Although nonprofits are private entities, they operate within the public sphere. Like public organizations, nonprofits serve the common weal without, however, being formally part of government. Moreover, in many cases, which holds particularly true for interest organizations, nonprofits are very critical towards government policies, thus giving oppositional forces that provide new ideas and initiatives a “voice” and, as in the case of the Visegrád countries, opportunities and avenues to usher in a new decade of political and societal reforms. Particularly the term *civil society organization* refers to this very important quality and ability of nonprofits: first, to express and mirror societal and political deficiencies, and second, to lobby for a better world by promoting new ideas and initiatives of tolerance, democracy and mutual understanding.

Finally, there is a further quality due to which there is a clear distinction between nonprofit organizations and communitarian entities, such as families or clans. While people are born into communitarian communities, affiliation with a nonprofit organization is based on individual decision. No one can be forced to join, to participate or to work in a nonprofit organization. Thus, being affiliated with a nonprofit organization is always based on a voluntary individual decision. The same of course holds true for the support of nonprofit organizations. Nobody can be forced to contribute time and money to a nonprofit organization. Therefore, in some countries, most prominently in Great Britain, the term voluntary sector is used to describe the entirety of nonprofit organizations. For the same reason, *voluntary organization* is more frequently used than nonprofit, third sector or civil society organization in Great Britain to refer to those organizations that are located in a societal sphere between the market and the state, and that fulfill a broad spectrum of societal and also political tasks, among those lobbying and interest representation as well as service provision.

Since very recently the term civil society or more specifically “organized civil society” is increasingly used to refer to this broad spectrum of

organizations, which constitutes a very specific segment of modern democratic societies with market economies. As already outlined, the change in terminology was primarily initiated by the activities of the European Commission, which in its publications pays more and more attention to the aforementioned set of organizations (Civil Society Contact Group, 2002; European Commission, 1999). The reasons the Commission has taken a considerable interest in nonprofit organizations are manifold.

However, there is one reason that is of particular importance and which is closely related to the multi-tasking and multi-functional character of nonprofit or civil society organizations: These organizations are able to be active on both sides of the polity. While as lobbyists and interest organizations they are supporting as well as criticizing government and thus acting at the input side of the polity, as service providers, however, they are busy at the output side of the polity. In many cases, nonprofit organizations as service providers are working either on behalf of or in close cooperation with government. And very many organizations, particularly the large and old ones, are engaged in both activities. They give voice to the poor and undeserved, thus acting as lobbyists, and at the same time they are heavily engaged in the social service market, running hospitals or kindergartens, and providing care for the elderly. Moreover, despite this double function, many of the organizations are also membership organizations and as such are simultaneously deeply embedded in social milieus, thus providing avenues for participation and societal integration and therefore constituting the so-called "social glue" that keeps modern societies together.

In many ways, this specific multi-tasking and multi-functional character of nonprofit organizations makes them interesting partners for EU policy planning. Due to their societal embeddedness, they are able to work in the direction of the development of a European identity by providing opportunities for membership activities and social integration. At the same time, as interest organizations and lobbyists, these organizations offer alternative ways for democratic political participation. In other words due to their specific political functions, they may contribute to the reduction of the so-called democratic deficit of the European Union. Finally, as service providers they are partners for the European Commission in its efforts to improve social policy-making at the European level, thus safeguarding the European model of the welfare state.

However, as clearly documented in the chapters of this volume, nonprofit/civil society organizations do not always fulfill these functions and tasks simultaneously and with the same intensity. While many organizations are simply membership organizations providing opportunities for sports or leisure activities, some specifically focus on lobbying in order to raise public awareness for particular topics and issues such as ecological or social problems, and some of them for sure have developed into pure service

organizations, which are acting instead of either public institutions or business enterprises. Nevertheless, the entirety of nonprofit/civil society organizations, the nonprofit or third sector in each community or country covers the entire spectrum of the aforementioned functions and tasks. This, however, makes the sector very interesting from a scientific point of view, albeit at the same time a very difficult topic to investigate.

In today's societies, there is an immense diversity of nonprofit/civil society organizations. They are active in the arts and culture, in social services, in advocacy and community-related issues. Hospitals are organized as nonprofit organizations, as are symphony orchestras and sports clubs. Although all of these organizations are working in different fields, fulfilling a variety of societal tasks, the sector approach underlines the fact that these organizations have specific features in common. They are public regarding their organizational goals and intentions, but they are private with respect to their administrative structures and working procedures.

3. Building on the Johns Hopkins Comparative Nonprofit Sector Project

Thanks to the Johns Hopkins Comparative Nonprofit Sector Project, which was initiated by Lester Salamon and Helmut Anheier more than a decade ago, data and information on the nonprofit sector of more than thirty countries worldwide are now available. According to Lester Salamon (1999: 5), the sector is a "lost continent" because there is still a considerable lack of information concerning size, composition and funding of the sector in numerous countries despite the efforts of the Hopkins research initiative. Nevertheless, considerable improvement has been achieved during the last decades. The results of the Johns Hopkins Comparative Nonprofit Sector Project are documented in the publications of the Johns Hopkins Center for Civil Society Studies (Salamon/Anheier, 1984; 1998; Salamon et al., 1999) as well as in a Manchester University Press series.⁵ These publications cover a broad spectrum of countries and nonprofit research topics, and they are a magnificent source of information.⁶

There is no doubt that the focs project heavily builds on the pioneering work of Lester M. Salamon and Helmut K. Anheier. Focs may be characterized as a follow-up of the Johns Hopkins Comparative Nonprofit

5 For further information, see the Johns Hopkins Nonprofit Sector Series, edited by Lester M. Salamon and Helmut K. Anheier and published by Manchester University Press.

6 For further information see www.jhu.edu/-cnp.

Sector Project, albeit with another focus and a limited coverage of countries. The purpose of the focus project is to provide down-to-earth knowledge that serves the needs of practitioners or board members of nonprofit organizations. Therefore, as clearly outlined below, the volume devotes a major part of the book to management issues, problems and challenges. Nevertheless, the handbook has more to offer than just providing guidelines for effective management. In accordance with the spirit of the Johns Hopkins Comparative Nonprofit Sector Project, this volume tries to tell a story. It is the story of civil society and its organizations in Central and Eastern Europe, thus focusing on a selected number of countries, in particular on the sector of Austria, the Czech Republic, Germany, Hungary, Poland, and Slovakia.

4. Target Audience and Organization of the Volume

The volume addresses a broad audience of undergraduate and graduate students in social sciences, economics, and law, as well as in the growing field of civil society/nonprofit studies in Europe and the USA. It provides useful knowledge serving the needs of employees and volunteers as well as of the members of the boards of civil society/nonprofit organizations in Germany, Austria, and the four Visegrád countries, as well as in the Anglo-American countries, and it is also of great interest for journalists, public administrators, and staff of intermediary organizations such as foundations or other funding entities. It has to be kept in mind that many thousands of nonprofit organizations have been established in the Visegrád countries since the political change of 1989/90. However, also in Germany and Austria civil society/nonprofit organizations are booming, even though there are increasing problems when it comes to the issues of financing and funding. Against the background of administrative reforms going along with the restructuring of the welfare state, the handbook is also useful for educational programs relating to public administration, NPO management, sociology, political science, and education.

The volume is structured into four major parts, each of them consisting of various chapters. Apart from the chapter focusing on terminology, each part of the volume highlights specific aspects of civil society organizations in Central and Eastern Europe. The major parts of the volume address the following issues:

- Traditions and Perspectives
- Regulatory Environment
- Central Topics of NPO Management
- Country Profiles

Part I *Traditions and Perspectives* draws attention to the fact that civil society/nonprofit organizations are deeply embedded in the political and social traditions of the countries under study. In order to pave the way for further analysis, Traditions and Perspectives starts with a chapter outlining the importance of civil society as a normative concept that is increasingly used for comparative historical research. The chapter by Sven Reichhardt provides a fine overview of the development and the changing perception of the conceptual approach of civil society over time. A further facet of civil society traditions is highlighted by the contribution of Eckart Pankoke who, exploring the nexus between civil society and social movements, specifically refers to the development of social movements and their voluntary organizations during the 19th century in Germany and Austria. Complementing the landscape of civic engagement in Central Europe, Máté Szabó draws attention particularly to the Visegrád countries while describing the ups and downs of civic activity. His contribution provides an historical overview that looks back upon decisive periods of civil society development in Hungary, Poland and the Czech Republic.

The introductory part of the volume is rounded up by the contribution of Zdenka Mansfeldová, Sławomir Nałęcz, Eckhard Priller and Annette Zimmer, which takes a closer look at civic engagement and nonprofit activity from a political culture and democratic theory perspective. There is no doubt that civic activity as well as the size of the nonprofit sector in the Visegrád countries does not yet meet Western European standards. Compared to citizens of West European countries, even more than a decade after the velvet revolutions East European citizens are less likely to volunteer, to make donations, or to serve on boards of nonprofit organizations. Therefore, the nonprofit sector in the Visegrád countries is still comparatively small compared to West European standards. Against the background that a societally embedded nonprofit sector, in which citizens invest a considerable amount of time and money, constitutes an important prerequisite of democracy, there is no doubt that civil society in the Visegrád countries is still in a stage of transition.

Part II of the handbook *Regulatory Environment* also focuses on the embeddedness of civil society organizations. However, the chapters of this part of the volume highlight the institutional embeddedness of civil society organizations, thus focusing on those regulatory environments that are guaranteed by law, institutionalized by public policy conventions, or constitute the outcome of very recent political developments. While the contribution of Petr Pajas and Matthias Freise provides a broad overview of the organizational and legal forms most frequently used in the countries under study in order to organize civic engagement and nonprofit activity, the chapter by Karla Simon addresses the important issue of tax law, thus giving us a decisive idea about the specific tax regulations and tax incentives in the

countries covered by this volume. Another facet of the regulatory environment of civil society organizations is analyzed in the contribution by Marek Rymysa and Annette Zimmer who, drawing on the current literature on government-nonprofit relationships, investigate the importance and the changing role of nonprofit/civil society organizations as partners of the welfare state in public service provision. How nonprofit organizations affiliated with the Catholic Church adapt to modern times and particularly the re-structuring of the welfare states in Central and Eastern Europe is analyzed by Karl Gabriel and Herman Josef Große-Kracht in their contribution, while the concluding chapter of Part II of the volume by Pavol Frič looks upon the decisive changes of the political environment of civil society organizations focusing on the Visegrád countries, and specifically on the Czech Republic, after 1989. That the future of civil society and its organizations in the Visegrád countries is not yet safeguarded but still in a state of flux and uncertainty clearly comes to the fore in this chapter.

Thus Part III of the volume *Central Topics of NPO Management* provides practical knowledge on core management topics in order to empower civil society organizations in the countries under study to meet the current challenges related to the fiscal crisis and to the re-structuring of the welfare state as well as to the decentralization policies that all over the world are inaugurated in accordance with the new public management approach. Particularly this part of the volume addresses those everyday problems of nonprofit/civil society organizations with which nonprofit employees, volunteers or members of the board have to struggle. After an introductory note by Dudo von Eckardstein and Ruth Simsa, which locates the following chapters within a certain tradition of the nonprofit and business administration literature, specific aspects of general management are highlighted. While the contribution by Stefan Toepler and Helmut Anheier draws our attention to the nexus between organizational theory and nonprofit management, the chapter by Patricia Siebart and Christoph Reichard highlights the important topic of governance of nonprofit organizations. In the following chapters core management functions are introduced. The chapters cover a broad spectrum of management functions which include management of personnel, specifically employees (Dudo von Eckardstein/Julia Brandl) and volunteers (Olga Sozanská/Jiří Tošner/Pavol Frič); financial management (Petr Pajas/Michael Vilain) including fundraising (Marita Haibach/Thomas Kreuzer); as well as strategic (Dudo von Eckardstein/Ruth Simsa), quality (Dorothea Greiling), conflict (Ruth Simsa), and project (Danica Hullová) management. In order to make civil society organizations fit for the future, Part III of the volume includes a chapter focusing on marketing (Jana Nagyová) as well as a chapter dealing with the tricky topic of accounting and management control (Roland Nagy/John Sacco) and a chapter introducing nonprofit personnel to the topic of evaluation (Elke Rusteberg/Anja Appel/Justyna Dąbrowska),

which due to increased competition among NPOs for funds and government contracts has become an import issue of nonprofit management. The chapters of Part III are written in a student-friendly manner, offering an overview of the current state of research and recommendations for further readings.

Part IV of the volume constitutes a specific highlight. After an introductory note by Eckhard Priller, six *Country Profiles* provide portraits of the organized civil societies of the countries under study, thus emphasizing country-specific characteristics and challenges of civil society organizations in Austria, the Czech Republic, Germany, Hungary, Poland and Slovakia. The country profiles, written by distinguished nonprofit scholars and practitioners of the countries under study, offer deep insights into the dynamics and current constraints of civil society development in Central Europe. Among the authors are Pavol Frič (Czech Republic), Eva Kutí and Istvan Sebesteny (Hungary), Jan Jakub Wygnanski, Ewa Leś, and Sławomir Nałęcz (Poland), Annette Zimmer and Eckhard Priller (Germany), who were local research associates for the Johns Hopkins Comparative Nonprofit Sector Project in selected countries covered by this volume. Each of the country profiles, whose programmatic titles give a first idea of the current situation of civil society in the countries under study, also draws attention to the fact that there is still a long way to go until the organized civil societies of Central and Eastern Europe will have developed into a coherent societal force based on common norms and values.

As a concluding remark, the editors of the volume *Future of Civil Society in Central Europe* would like to thank the Bosch Foundation located in Stuttgart, Germany, for its generous support, which has made this handbook possible. Furthermore, the editors and authors would also like to express their gratitude to Lester Salamon, who as the initiator of the Johns Hopkins Project started an initiative that provided the foundation on which the participants of the focs project were able to build and to further investigate the civil society/nonprofit sector in their home countries in Central Europe. Last but not least, the editors would like to say a big thank-you to all the authors of the volume and to those whose work has turned such an ambitious project like focs into a successful endeavor. A very special thank you goes to Regina List who, backed by her scientific experience originating in the Johns Hopkins Project, was much more than a language assistant. Markus Behr and Oliver Lich did a wonderful job designing and managing the focs web page. Kristina Armonaite and Sebastian Büttner supported the project by helping to organize the project meetings in Berlin and Prague. Christina Tillmann was responsible for the layout. Ursula Gerlach, Dana Schulze and Thorsten Matolat gave the manuscript the final touch by reading and reviewing every single page of it. We hope that the readers of the volume will benefit from our work and will enjoy reading every single word.

References

- Almond, G.A./Verba, S. (1963): *The Civic Culture. Political Attitudes and Democracy in Five Nations*. Princeton
- Anheier, H.K./Priller, E./Zimmer, A. (2000): Zur zivilgesellschaftlichen Dimension des Dritten Sektors. In: Klingemann, H.-D./Neidhardt, F. (eds.): *Die Zukunft der Demokratie*. WZB-Jahrbuch 2000. Berlin, pp. 71-98
- Borzaga, C./Defourny, J. (eds.) (2001): *The Emergence of Social Enterprise*. London
- Civil Society Contact Group (2002): *The Future of Europe is in Your Hands*. Convention on the Future of Europe. Tool-Kit for NGOs. www.eurostep.org
- Civil Society Contact Group: www.eurostep.org
- Cohen, J./Rogers, J. (1994): Solidarity, Democracy, Association. In: Streeck, W. (ed.): *Staat und Verbände*. Opladen, pp. 136-159
- Etzioni, A. (1973): The Third Sector and Domestic Missions. In: *Public Administration Review* 33, pp. 314-323
- Economic and Social Committee of the European Communities (1999): Opinion of the Economic and Social Committee on 'The Role and Contribution of Civil Society Organisations in the Building of Europe'. In: *Official Journal of the European Communities*, C 329/31: 11/17/1999
- European Commission (2001): *White Book on European Governance*. COM (2001), 428. Brussels
- European Commission (1999): *The Commission and Non-Governmental Organizations Building a Stronger Partnership (Discussion Paper)*. Brussels
- Graf Strachwitz, R. (ed.): *Dritter Sektor – Dritte Kraft*. Düsseldorf
- Handy, Ch. (1988): *Understanding Voluntary Organizations*. London
- Heinze, R.G./Olk, T. (1999): Vom Ehrenamt zum bürgerschaftlichen Engagement. In: Kistler, E./Noll, H.-H./Priller, E. (eds.): *Perspektiven gesellschaftlichen Zusammenhalts*. Berlin, pp. 77-100
- Hirschman, A.O. (1970): *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations and States*. Cambridge, Mass.
- Klein, A. (2001): *Der Diskurs der Zivilgesellschaft. Politische Hintergründe und demokratietheoretische Folgerungen*. Opladen
- Kocka, J. (2002): Das Bürgertum als Träger von Zivilgesellschaft – Traditionslinien, Entwicklungen, Perspektiven. In: Enquete-Kommission „Zukunft des Bürgerschaftlichen Engagements“ (ed.): *Bürgerschaftliches Engagement und Zivilgesellschaft*. Opladen, pp. 15-22
- Offe, C. (1999): Sozialkapital. In: Kistler, E./Noll, H.-H./Priller, E. (eds.): *Perspektiven gesellschaftlichen Zusammenhalts*. Berlin, pp. 113-120
- Putnam, R. (1995): Bowling Alone: America's Declining Social Capital. In: *Journal of Democracy* 6, pp. 65-78
- Putnam, R. (1993): *Making Democracy Work*. Princeton
- Sachße, Ch. (2004): Nonprofit Organizations in Germany: Organizational Types and Forms. In: *focs-CD*
- Sachße, Ch. (2001): *Stufen der Gemeinwohlförderlichkeit: Bürgerschaftliche Organisationen und Steuerprivileg*. Gütersloh
- Salamon, L.M. et al. (eds.) (1999): *Global Civil Society. Dimensions of the Nonprofit Sector*. Baltimore

- Salamon, L.M./Anheier, H.K. (1998): The Emerging Sector Revisited. A Summary. Baltimore
- Salamon, L.M./Anheier, H.K. (1994a): The Emerging Sector Revisited. A Summary. Baltimore
- Salamon, L.M./Anheier, H.K. (1994b): The Emerging Sector. An Overview. Baltimore
- Salamon, L.M./Anheier, H.K. (1992a): In Search of the Nonprofit Sector. I: The Question of Definitions', In: *Voluntas*, 3:2, pp. 125-51
- Salamon, L.M./Anheier, H.K. (1992b): In Search of the Nonprofit Sector. II: The Question of Definitions. In: *Voluntas*, 3:3, pp. 267-309
- Schuppert, G.F. (1995): Zur Anatomie und Analyse des Dritten Sektors. In: *Die Verwaltung*, 28, pp. 137-200
- Schuppert, G.F. (1991): State; Market, Third Sector: Problems of Organizational Choice in the Delivery of Public Services. In: *Nonprofit and Voluntary Sector Quarterly*, 20: pp. 123-136
- Zimmer, A. (1998): Der Verein in Gesellschaft und Politik. In: Graf Strachwitz, R. (ed.): *Dritter Sektor – Dritte Kraft*. Düsseldorf, pp. 93-125

Part I:

Traditions and Perspectives of Civil Society in Central Europe

Introduction

Textbooks aimed at students and management in the nonprofit sector often failed to cover the historical development of civil society and deal instead with the hot issues of nonprofit management. In doing so, they fail to recognize that very different forms of tradition of civil society involvement can be determined, which directly leave their mark on the civil society sector today, and make a simple transfer of management segments to another national context impossible. In other words, the historical development of civil society has resulted in the specific distinctness of the national nonprofit sector of the present day, and in many ways it is also responsible for the current problems of civil society organizations. The aim of the focus project was therefore to characterize the historical features of the civil society sector in Central and Eastern Europe in order to be able to identify the specific challenges of the countries investigated. While the national profiles in part IV of the textbook deal with features specific to the various countries and with current problems, this first part of the volume offers perspectives on the historical development of civil society in Central Europe by concept. As already described in the introduction by Annette Zimmer, along with the four Visegrád states, Austria and Germany have also been taken into consideration in the focus project because these six states share common historical roots. In spite of the long separation due to fascism and communism in the 20th century, these countries can be regarded in terms of civil society as a single cultural region, which is characterized by similar forms of cooperation between state and civil society organizations.

The following papers by Sven Reichard, Máté Szabó and Eckart Pankoke echo the mutual tradition of civil society in Central and Eastern Europe. Sven Reichard provides a view of the development of various civil society concepts within Central Europe. This is followed by a contribution by Eckart Pankoke, which focuses on the development of social movements in the 19th century, depicting the birth of voluntary work in Europe in its present sense. Finally, Máté Szabó's chapter portrays the development of civil society involvement in the Visegrád states through changing times and delves into the role of significant personalities in this process.

All three chapters divide the development of civil society in Central Europe into historical periods. They refer to the paper by Meinolf Arens and Daniel Bein, which is on the bonus CD, and confirm that the roots of the

present civil society in this region can, in particular, be found in the work of church organizations in the Middle Ages (especially religious foundations). It was not until the 18th century, in the course of the Enlightenment, that ideological thinking brought about a division between the state and the spheres of civil society. The following chapters show that those who joined voluntary self-organized groups were not initially from the broader masses. On the contrary, the separation of state and civil society was brought about by a small elite, who in the West was mainly recruited from the middle classes and in the East from the lower nobility.

The 19th century saw a rapid boom in voluntary work provided by a broader social spectrum, which resulted, above all, in the advent of social movements. During this period, associations and cooperatives¹ also came into being, many of which are still active today or were revived after the Velvet Revolution. The following chapters go on to show that the civil societies in Central and Eastern Europe were initially characterized by considerable ethnic, social and religious differences, which were marked by an extreme inability to make compromises. Thus, in many countries in Central Europe, the organizations of civil society, combined with radical thought, encouraged political fascism, which, as soon as it was in power, flowed into authoritarian structures and totally prevented any form of social self-organization.

After the Second World War, the socialist systems resumed this control over civil society to various degrees and in different ways from country to country, while in West Germany and Austria, however, a close form of cooperation developed between state and voluntary organizations, which is referred to as the policy of subsidiarity.²

It was not until the collapse of the socialist systems that the Visegrád states and East Germany experienced a new blossoming of civil society, which today in many places builds upon pre-war structures, but which also has to deal with the legacy of authoritarian systems. After the initial euphoria,

-
- 1 During the time when cooperatives were formed, they were clearly connected to the civil society sector. Today, due to their profit-based activities, they are more likely to be assigned to the market sector, although many of them still show civil society characteristics. However, in the focus project they were generally ignored for reasons of comparability. The same applies to organizations that are on the borderline between state and civil society and perform several state functions, thereby making it difficult to be categorized as civil society organizations. A detailed account of cooperatives in Central and Eastern Europe is provided by Eisen/Hagedorn (1997).
 - 2 The principle of subsidiarity is taken from Catholic social theory and represents a basic principle of state action in Germany and Austria. It refers to the fact that the state should have a subsidiary function, in other words, that individuals or the smallest units in the state are responsible for themselves, and that the larger units should only intervene when the smaller units are not able to deal with their tasks on their own. This has led, particularly in the social sector, but also in other areas of the nonprofit sector to the delegation of tasks and financing to civil society organizations by the state. See Sachße (1994) and Country Chapter Germany.

participation in voluntary associations of every kind is now on the retreat. Membership in clubs, religious organizations, environmental groups, the civil movement, parties, and trade unions is falling or has plateaued at a low level, which by regional comparison is clearly below those of the old West European democracies, but also below those of the post-authoritarian democracies of southern Europe, Latin America and South-East Asia. The paper by Zdenka Mansfeldová, Sławomir Nałecz, Eckhard Priller, and Annette Zimmer supports this with data from various social science investigations. Clearly the willingness to donate, to do voluntary work and other forms of civil society participation is much less in the post-socialist states, investigated in the focs project, than in Germany or Austria.

This chapter, however, also shows that civil societies in the West (Austria and Germany) are in no way as strong as it is generally assumed. Voluntary organizations in the West have the support of a much better infrastructure, but it is one that has led to very archaic structures in civil society, is closely linked with the state, and in many areas completely financed from state coffers (see Country Profiles Germany and Austria). It thereby forfeits, to a great extent, its control and self-organizational function. Particularly with the backdrop of the European Union, which after the East European countries have joined, will more than ever be dependent on the participation of its citizens in civil society, this is a disturbing omen.

References

- Eisen, A./Hagedorn, K. (eds.) (1997): *Genossenschaften in Mittel- und Osteuropa. Selbsthilfe im Strukturwandel*. Berlin
- Sachße, Ch. (1994): Subsidiarität. Zur Karriere eines soziopolitischen Ordnungsbegriffes. In: *Zeitschrift für Sozialreform*, Jg. 40, H. 1, pp. 717-731

Sven Reichardt

Civil Society

A Concept for Comparative Historical Research

If one wants to write the history of the concept “civil society” during the last two hundred years, one has to take into account the historical differences of the societies in which the term appeared and on which their conceptual and linguistic resources to some extent depend. As Krishan Kumar has stated it:

“If we wish to continue to use the concept of civil society, we must situate it in some definite tradition of use that gives it a place and a meaning” (Kumar, 1993: 390)

This overview seeks to historicize and contextualize the different conceptualizations of “civil society” and compose four major historical periods of its development. After the historical overview the article presents a broad definition of the term “civil society,” which could be useful for analysis of modern civil societies in Eastern and Central Europe.

1. The History of a Concept: How the Concept Has Changed Over the Last Two Hundred Years

The history of the term “civil society” is older than the history of the modern world. Aristotle’s definition of the πολιτική κοινωνία (*koinonia politiké*) is one of the most often quoted protagonists of an ancient conception of civil society. But this older use means political community by *societas civilis* and does not divide civil and political society – it combines public constitution and *res publica* (Aristotle, 1965; Cf. Riedel, 1979). During early modern history the term “civil society,” as Dominique Colas has shown, was closely connected to religious denomination and Protestant Reformation. For Jean Calvin, Martin Luther and Philipp Melanchton, “civil society” expressed civility, critical faculty and the art of differentiation – it was something like the counter principle to fanaticism and barbarism (Colas, 1997). According to John Pocock, during the Italian Renaissance some used the term civil society to express a republican understanding of positive freedom. Guicciardini, for example, talked about the *animale politicum*, which realized its nature through a *vita activa* and a *vivere civile* (Pocock, 1981). Civil society, as Shlomo Avineri has shown, was the creation of the communal movement of the Italian burghers of the late Middle Ages with its urban corporations and

communes (Avineri, 1968: 155-6).

The Modern Roots of the Concept: The 18th century

The modern conceptualization began with the thinkers of the Scottish Enlightenment, especially Adam Ferguson and Adam Smith. During the 18th century the term civil society was very closely connected to the expressions “civil” and “civilizing” on the one hand, and to free, independent and self-reliant individuals on the other. The critical tradition of the term “civil society” is a heritage of this time, because it was often used against a system of government that ruled by despotic decree rather than by laws. Civil society was understood as a social order of citizenship that tended to be against the existing state. The separation between state and civil society was already formulated during this time, especially by Thomas Paine, but it was stronger on the European continent – thanks to the power of the absolutist state. The conditions in France, for example, with its tradition of centralizing monarchs and a powerful state, stimulated notions of community and intermediate organizations. Baron de Montesquieu argued in this direction (Baron de Montesquieu, 1989: 1779, 7275; Ehrenberg, 1999: 145-149).

For John Locke civil society was defined by a social contract beyond the “state of nature”: “Those who are united into one Body,” he wrote in 1690,

“and have a common establish’d Law and Judicature to appeal to, with Authority to decide Controversies between them, and punish Offenders *are in Civil Society* one with another.” (Locke, 1960: 324; Cf. Dunn, 2001)

Civil society was a term accorded to a legitimate political order. For David Hume and especially for Adam Smith, civil society and commerce were closely connected. Smith understood civil society as a market-organized network of mutual dependence and reciprocal interactions. His essential claim was that people get assistance from others on the basis of mutual self-interest:

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith, 1993: 22)

Smith’s “invisible hand” linked private advantage to public welfare; for him economic liberty and markets summarized private vices as public virtues. For Adam Ferguson, by contrast, civil society was a moralist rebellion against the logic of individual interest, accumulation of property, corruption and venality (Ferguson, 1995; Smith, 1993).¹ The conceptualization of civil

1 For Locke, Smith and Ferguson see Ehrenberg (1999: 84-108).

society as “civilization” with a progressive development of human capacities and “manners” emerged during the 18th century. And for many of the Scottish and French enlightened thinkers commercial society was the realm of private friendship and free interpersonal connections, of morals, affections, and sentiments (Rothschild, 2001; Hirschman, 1977).

German thinkers reconceptualized civil society in light of the French Revolution. For Immanuel Kant “civil” meant a political project of emancipation against the absolutist state, that is, the education of disciplined, cultivated and moral human beings – not mere conditioning or mechanical training, but true education towards free and enlightened thought. Also for Moses Mendelssohn civilizing was primarily connected with the idea of *Bildung* (education). The public sphere – organized around the universal and public use of reason – lies at the heart of Kant’s civil society (Kant, 1904. 99-222).²

During the second half of the 18th century and the beginning of the 19th century “civil society” was a concept critical of the state, with an anti-absolutist thrust that was an important promise during the Enlightenment. It was closely connected to a realm of freedom, an expression of the self-confidence of a well-educated and relatively small elite. The freemasons are a good example of this time: socially the members – noblemen, bourgeois and professors, army officers and civil servants – represented only a small elite, and they shut themselves away from the public. On the one hand only men with high economic, cultural and social capital were members in the exclusive and secret clubs. On the other the freemasons stood up for the values of the civil society, for a liberal and universal humanism, for the international community of cosmopolitans. They were the seed of a civil society in the time of absolutism (Hoffmann, 2000).

The Development of the Concept: The First Half of the 19th Century:

It was Hegel who defined the term early in the 19th century (1821) as distinct from the family and from the state as well. Hegel was also the first who defined civil society according to a logic of spheres. But he also combined this approach with a logic of action that was based on the educative force of the institutions of civil society: “The history of civil society is the history of the education of [...] private judgment.” For Hegel it was the sphere of civil society where the individual learns the value of group action, social solidarity and the dependence of his welfare on others. This educates him for citizenship and prepares him for participation in the political arena of the state. That is why Hegel saw the state as a true realm of reason and universality (Hegel, 1942: 353-4365; Cf. Honneth, 2001).

2 Cf. Kant (1927 and 1970); Mendelssohn (1974).

Alexis de Tocqueville was not so much interested in the distinction as in the connection between civil and political society. In his study on "Democracy in America" (1835-1840), associations were "great free schools to which all citizens come to be taught the general theory of association." The "art of association" meant that "civil associations pave the way for political associations." Civil associations like churches, literary and scientific societies, newspapers or organizations for leisure and recreation educated citizens for politics and were "nurseries of democracy" because the experience of equal, reciprocal relations within an association spills over into attitudes toward society at large; the experience tempers the individual's passions and balances private self-interest. It is highly debatable if there is a positive correlation between the density of associations, social trust, and democracy and if the self-governing world of associations generates civility (de Tocqueville, 1988: 244, 515, 517, 521-22).³

During the 19th century the circle of people who fight for freedom, education and self-organization is becoming wider, from political groupings and interest groups in the early 19th century to the numerous leisure clubs and lifestyle societies in the middle and late 19th century. A flourishing landscape of voluntary associations was born before political democracy was fully established. Between the 1820s and 1840s the association was seen as a place for convivial gatherings, serving the refinement of the self. Especially in the 1860s and 1870s contemporaries spoke of a mania for associations – which influenced the mutual aid and cooperative movements that made a mark almost everywhere on the European continent. At the end of the 19th century the spreading mobilization of the countryside began, and the Catholic Church played the catalyst's part during the entrance of peasants into public life. But nevertheless much of the European countryside still remained untouched by this development (Bermeo/Nord, 2000; Trentmann, 2001; Hoffmann, 2001).

Some differences between Eastern and Western Europe can be observed. In Western Europe the rise of civil society was linked to the middle classes, whereas in Eastern Europe the nobility was more important as an element in the social base of civil society – although it was not absent in Western Europe (e.g., English gentry or urban cultures in northern Italy). Ethnic differentiation and the churches had a much stronger influence in the structuring of civil society in Eastern and Southern Europe than in the western part of Europe. The associations in the multi-ethnic monarchy under Habsburg rule served as vehicles for the Czechs, Germans, Slovaks and Hungarians to affirm their national identity. As far as Russia is concerned the absence of a tradition of law (the first law was promulgated by Peter the Great), rational bureaucracy and private property are traditional distinctions from the West European civil societies. In the West, political society grew out of civil society and in the

3 For a critique see: Reichardt (2003) and Bunce (2000).

East, political society predated civil society.⁴

Especially in Poland the lower nobility (*szlachta*) – during the 19th century roughly eight percent of the Polish population – with its culture and democratic aspirations was the social stratum that supported Polish civil society. Jenő Szücs pointed out that in a land with underdeveloped middle classes and an illiterate peasantry “the Polish nobility [...] established a kind of noble *res publica* entirely unprecedented in Europe.” (Szücs, 1988: 323) As a result of the national division, the rich and developed associational life in Poland was aided by the churches and closely connected to the national movement. The importance of these structures was even noticeable during the second half of the 20th century, where the church was a shelter for the dissident movement and defended Christian values of freedom, social justice, and human dignity against the socialist state.

Although the density of clubs and societies declined from the West to the East, the similarities in the types of associations and the motives of its founders in the 1860s are surprising. In Bohemia, for example, economic life was supported by a dense network of self-help organizations that were institutionalized in savings banks and cooperatives. Numerous cultural organizations, professional associations and interest groups were founded in the late 19th century. This societal network was a counterbalance to the Czech political party system in the early 20th century, which was pillarized and divided along national, ethnic and religious lines. Maybe it was the bridging social capital of the associations that hampered the rise of fascist movements in the Czech Republic (Křen, 2000: 180-2, 184, 194-5).

Sometimes there is a temptation to draw the period of the early 19th century as a heroic picture of associations with its individualization, decorporation and emancipation. This progressive narrative becomes more problematic if one analyses the modes of inclusion and exclusion of these voluntary associations, for example, the distinction between an association's internal practices with crypto-democratic constitutions and its external relation to society with hero worship of militarists and violence. Or take the distinction between universalistic claims of some associations that are in reality socially exclusive - the bulk of the associations of the 19th century were open only to educated and propertied middle-class men.⁵

4 Cf. Hildermeier/Kocka/Conrad (2000); Kocka (2002); Banti (2000); Bunce (2000). Bunce defines five guiding principles for civil and political societies: nation-state, individual freedom, societal autonomy, regime accountability, and competition among interests. Political society “refers to the organized activity of citizens [...] and influencing the agenda and the decision of the rulers” (Bunce, 2000: 213-214).

5 For an optimistic view: Nipperdey (1976). For a more balanced view see Bermeo/Nord (2000); Trentmann (2001).

*The Concept in Crises: From the Second Half of the 19th Century
Until the Early 20th Century*

Tocqueville as well as Hegel gave special importance to autonomous economic entities within civil society. This view paved the way for seeing the term more critically (third period) in the second half of the 19th century, as was especially done by Hegel's follower Karl Marx.

In relation to industrialization, civil society was seen as connected with the sphere of needs and labor, including the economy and excluding the state. Civil society stopped being a central concept. The normative project of enlightenment was seen more critically because its talk of universal rights remained oblivious to inequalities in gender, race and class.⁶

Karl Marx and others criticized the *bürgerliche Gesellschaft* very sharply:

"Civil society (= *bürgerliche Gesellschaft*) as such only develops with the bourgeoisie; the social organization evolving directly out of production and commerce, which in all ages forms the basis of the state and of the rest of the idealistic superstructure, has, however, always been designated by the same name." (Marx, 1975: 89)

For Marx civil society was a sphere that was neither autonomous, nor independent nor a distinctive realm of the social. Civil society was constituted by production, class, and their attendant social and political relations. The state, too, could not be conceptualized apart from economic processes (Cf. Ehrenberg, 1999: 132-43).

In the second half of the 19th century and the first half of the 20th century the debate on the definition of "civil society" was relatively calm. Civil society was criticized as a utopian wish that blurred reality. The ambivalences of the project became central. During the late 19th century and the first half of the 20th century the extraordinarily vigorous associational life provided new channels for participation in public life, but it also threatened to break apart into isolated milieu. Associational activity occurred within rather than across group lines – be they ethnic, class, gender or political. Under these circumstances, associational life did not serve to integrate citizens into the political system.

On the one hand, the Italian as well as the German societies were highly active, mobilized publics and witnessed feverish associational activity at practically every level. On the other side, the making of different socio-moral milieu fragmented the highly organized interwar societies. Weimar's rich associational life provided, as Sheri Berman wrote, "a critical training ground for eventual Nazi cadres and a base from which the NSDAP could launch its *Machtergreifung* (seizure of power)." (Berman, 1997: 402) It was the cross-affiliations of the Nazi members in sports clubs, student associations, shooting clubs, paramilitary organizations, singing clubs, or agricultural

6 Cf. for the social history of Germany: Kocka (1997, esp. pp. 501-507).

organizations that formed the backbone of the Nazis' grassroots movement. The dense network of civic engagement provided the Nazis with cadres of activists. It was from the base of bourgeois civil society that the fascist movement launched its rise. This shows, as Berman has formulated, that associationism is "neither inherently good nor inherently bad, but rather dependent for its effects on the wider political context." (Berman, 1997: 427)⁷

During this time only few authors published on the topic civil society, and their publications were not "rediscovered" until the second half of the 20th century. Antonio Gramsci was one of them. For him civil society was the sphere of culture in the broadest sense "between the economic structure and the state." It was concerned with the manners and mores of society, with the way people live. For Gramsci civil society was a space that had to be colonized by social classes. The central role of civil society was in the manufacture and maintenance of cultural hegemony. Gramsci wrote this during the 1930s when he was arrested by the fascists. Amazing for him was the consensus that the fascist regime achieved in the so-called *anni del consenso* even though the economic circumstances for many proletarians were getting worse. That is why he was interested in how values and meanings were established and how language and language users constituted a society's control. The "so-called private institutions, like the Church, trade unions, the schools" were part of that which tended to produce a cultural consensus. Civil society was understood as a space for the struggle of cultural hegemony, which was, in contrast with Marx's view, relatively independent from the state and the economy. Civil society was ambivalent because it was a sphere of repression as well as a sphere of revolution and liberation (Gramsci, 1971: 208-9; Cf. Femia, 2001; Cohen/Arato, 1992: 142-59).

Michel Foucault continued this thought by describing civil society as a "technology of government." Civil society for him was a social government "which can elicit for itself, amid the contending forces of modernity, a vocation and functionality anchored in the troubled element of the social." (Gordon, 1991: 23)

The Revival of the Concept: Late 20th Century

The renaissance of the concept in the 20th century began in the 1970s and 1980s in Central and Eastern Europe and Latin America. Again, as in the 18th century, the concept it expressed was targeted against the state, expressing freedom and the wish for self-organization beyond the totalitarian or dictatorial state. Some of the central figures who defined the Central and Eastern European understanding of civil society were European dissidents like Václav Havel, György Konrád or Adam Michnik. For Havel, civil society

7 Cf. Reichardt (2003); Sabetti (1996); Reichardt (2002); Fritzsche (1990); Koshar (1986).

was a call for “living within the truth” with oneself and with tolerance towards others: a vision of society that was not just independent from the state but actually opposed to it. For Konrad “antipolitics” was the “ethos of civil society, and civil society is the antithesis of military society.” Civil society meant a self-defense and island of utopia against a greedy socialist state; it was a political and not a scientific concept. For Konrad it was a term that circumscribed a certain style of living and was deeply entangled in the everyday life of the Eastern European dissident. John Ehrenberg succinctly summarized the debate when he wrote: “A humanistic ‘antistatism’ remained central to much of Eastern Europe’s oppositional ‘civil society’.” Other common features were the strong emphasis of social-ethnic imperative of actions with its values of tolerance, pluralism, autonomy, dignity, subtle irony and self-development (Havel, 1985; Konrad, 1984; Ehrenberg, 1999: 194-5; Keane, 2000).

This was much more the case in Central and Eastern Europe, whereas it was weaker in Southeastern Europe, although on the other hand the debate in Central and Eastern Europe did not attribute as central a role to the market and economic affairs for civil society. Economic matters were mostly left aside. But even the development in Central and Eastern Europe was not consistent. Although the Polish experience was a model for the Hungarian dissidents, the historical parallels between both civil societies weakened in the 1950s. Hungarian economic development was much stronger; the protests diminished and were not comparably supported by the church. The Polish development, however, was characterized by permanent protest circles involving massive mobilizations and aided by the Catholic Church (Mansfeldová/Szabó, 2000; Ekiert/Kubik, 1999: 21-46).

Recently in the Western world, new social movements have adopted the term “civil society” in the field of practical politics, frequently employing it as an expression against an overbearing capitalism. The “anti-globalization movement” with organizations like “attac,” for example, demonstrates that the logic of the market with its orientation towards individual profit, competition and struggle is not completely compatible with the logic of civil society and its principles of cooperation and conflict, discourse and arguing. On the other hand banks and corporations try to revitalize community life, voluntary associations and civic education projects and in doing so they use the language of civil society. It is a highly debated question whether the overbearing logic of the commodity form threatens to fuse public and private and to destroy the moral basis of modern societies.

In Latin America too the term has been used since the early 1970s, linked with political struggle against military dictatorships. For the Brazilians, *sociedade civil* primarily conveyed the idea of a non-military world – in the words of Francisco Weffort: “We want a civil society, we need it to defend ourselves from the monstrous State in front of us.” (Weffort, 1989: 349) The

interpretation in Latin America was based mainly on Gramsci's model of civil society and combined with social movements aimed at transforming capitalist class conditions. The term is still, even today, connected with decoupling from the state and a critical view of state politics (Leiva/Pagden, 2001; Costa, 1997; Reiss, 1999; Stephan, 1985).

The concept experienced a revival during the 1980s and 1990s in the post-industrialized and democratic Western societies, with four different and sometimes interrelated variants becoming established.

The first variant is a *communitarian model* placing voluntary associations, with their function of socializing and building solidarity, at the heart of a civil society where the formal legal principles upon which these associations and communities rest are of less interest than the notions of the "good life" anchored in their lifeworlds. The wide-ranging polymorphic group of researchers supporting this view extends from Alasdair MacIntyre via Michael Walzer and Amitai Etzioni to Robert Putnam; however, nearly all of these communitarians can be understood as neo-Tocquevillians. All of them are interested in the socializing effects of associations and how social networks produce social capital and trust (Cf. Edwards/Foley/Diani, 2001; Wolin, 2001). In a programmatic essay on civil society, Michael Walzer calls for people to associate voluntarily, communicate with one another and, for the sake of sociability, form and re-form all sorts of groups. Human beings are social beings, he argues, and a "good life" involves creating a "setting of settings" that can make a creative and self-determined life possible (Walzer, 1991: 298; Cf. Reese-Schäfer, 1991; Honneth, 1993; Zahlmann, 1991).

There are obvious implications from this communitarian demand for teamwork and communication, for willingness to take on commitment and responsibility, in a modernity that is individualized and atomized by mobility. On the one hand, broad-based civic participation in politics prevents political decision-making from being restricted to a professional or semi-professional elite. It is a culture of personal responsibility for society, achieved by the largest possible degree of political participation and community formation. On the other hand, the communitarian appeal does not allow particular types of community formation to be either justifiably excluded or described as alien to civil society. As Michael Walzer put it:

"'Join the associations of your choice' is not a slogan to rally political militants. And yet that is what civil society requires: men and women actively engaged." (Walzer, 1991: 303)

But voluntary engagement alone can hardly be a guarantee of civilized behavior. A civil society constructed of networked associations, in Walzer's sense, is not automatically one where, as he puts it, "the stakes are lower, where, in principle at least, coercion is used only to keep the peace." (Walzer, 1991: 300). Voluntary associations are not necessarily "schools of democracy" or synonymous with civil integration and the capacity to

compromise and civil integration.⁸

The second, closely related version of civil society focuses on the differentiations in democratic theory associated with the notion of civil society. Civil society, in this view, is a concept that “generates reflection” for the liberal democracies (Schmalz-Bruns, 1994; 1995; Dubiel, 1994; Klein, 2001: 359-76). Civil society as a “*radical democratic concept*” (Rödel/Frankenberg/Dubiel, 1989) refers to the project of an autonomous society of citizens, organizing itself and constituting itself, with all its members participating equally in power. Benjamin Barber’s (1984) concept “strong democracy” creates a model for active participatory politics, in which the participation of “the Other” determines the identity of the democratic citizens. In contrast to the liberal conception of civil society, the accent here lies less on negative freedom – constitutionally fostered and protected opportunities for development – than on active participation by citizens through grassroots democracy. A crucial aspect is the critique of democratic deficits in the procedures of representative democracy. “Elitist democracy” has, claim the critics, become bloodless, implausible, and bureaucratically petrified, and the law is insufficiently mediated by the idea of democratic self-determination. In this perspective, more effective opportunities to participate can be expected from civil society’s “expansion of democratic participatory rights” and the “radicalization of participatory democracy.” Democracy thus requires different forums, ones that can take on the societal functions of signaling, problematizing and thematizing (Schmalz-Bruns, 1994: 26, 28). The problem here is how a democratically expanded model of civil society can achieve a balance between the normative orientations and the greatest possible degree of democratic participation.

At the heart of the third variant, the *liberal version*, of civil society, according to Ralf Dahrendorf, stands liberty and the “existence of autonomous, that is, not state or otherwise centrally-managed organizations,” (Dahrendorf, 1991: 262) which safeguard the diversity, autonomy, civil rights, and publicity of civil society. This version of coexistence in civil society, however, also accentuates individual citizens’ reason, their social and moral competence, which, above and beyond the state’s coercive integration, independently contributes – even if it is out of pure self-interest – to the underlying conditions for the existence of community (Dahrendorf, 1994; Münkler, 1993).⁹ Liberalism presents – similarly to Kant two hundred years before – the central elements of a civil society as upbringing and education,

8 Cf. Taylor (1991). Walzer himself elsewhere widened his perspective, integrating Ernest Gellner’s figure of the “modular man.” Gellner’s term refers to the flexible and tolerant modes of behavior shown by people who are capable of both joining and leaving a range of different associations, without binding themselves through and through. See: Gellner (1994); Walzer (1997); Walzer (1991). Cf. also Ahme (1998: 89-91).

9 Cf. also Hettling/Hoffmann (2000); Joas (1999); Hettling (2000); Hirschmann (1994).

together with the provision of public forums and arenas for the diversity of opinions and interests. However, a basically moral attitude, an appropriate sense of reality, the peaceable habitus and the citizen's civility are not free from social preconditions; they cannot be viewed in purely individual terms but always have a social trajectory. Civil society thus needs institutions that can provide socially marginalized groups with a minimum degree of economic and cultural integration. Furthermore, the limits to the call for tolerance are found at the point where the proponent of an opposing opinion is regarded as an enemy. The end of the line is reached where tolerance itself endangers tolerance: "Tolerance does not have to tolerate intolerance – in fact it must not do so." (Splett, 1990: 107) Here, the values of freedom furnish their own limitations, a process not free of contradiction. There are problems raised by a notion that people can be educated for peacefulness and civic courage (Nothelle-Wildfeuer, 1999; Münkler, 1993). For one thing, it is unclear what form such an education might take. The more the discourse of virtue takes flight into an imprecise formula of commitment to an unspecified "common good," the more inevitable will be the call for politics to intervene in individual life plans. And once that border is crossed, as Max Horkheimer showed as early as 1936, such appeals can tip over into the suppression of wishes for freedom and emancipatory needs (Horkheimer, 1968).

Finally, in Jürgen Habermas's *discourse-theory approach*, civil society is the social space in which communicative action takes its most distinct shape. Noncoercive discourse and open debate form the core of Habermas's notion of civil society. A key role is played by associations that arise relatively spontaneously and work within the institutional order of the public sphere. Communicative action and rational argument inside interlinked and competing public spheres generate civil society – a civil society here understood as a pluralist and free community of communication. The lifeworld not yet systemically integrated is structured as civil society, with the institutions of civil society indirectly contributing to the solution of problems of general interest in a way that is not "power-ridden" (*vermachtet*) but operates through observation and reflection. In Habermas's view, civil society does not coalesce into a central authority that controls and regulates all the social spheres. Instead, it is a deliberative, "bargaining" society, combining the liberal view of the legal protection of free citizens with the republican view of active participation in the mediated shaping of institutions and laws. The close ties between lifeworld and public sphere are central to this concept of civil society. The communicative network is intrinsic to a view of civil society as self-reflective and tied to communicative processes (Habermas, 1996: 366; Cf. Habermas, 1987).¹⁰ For Habermas, civil society's unity and cohesion is generated via controversy and understanding-oriented action.

10 Extensive description and classification: Cohen/Arato (1992: 201-55); Klein (2001: 315-339).

Civil society consists of spontaneously arising, intermediate, autonomous and voluntary associations that are allowed entry into the lifeworld, turning to the political public sphere in egalitarian and open organizational forms and amplifying its volume. In Habermas's opinion, it is only in a free political culture, an already rationalized lifeworld where civil society's actors struggle for influence but not for political control, that we can genuinely speak of civil society. This view prompts some questions: Does communicative action with its highly conditioned premises – the absence of power, domination, unreason and time pressure – constitute an analytically fruitful definition of the space of civil society? And since civil society is intimately connected to the mass-mediated public sphere, will this not, in fact, turn out to exert a stronger influence on the logic of civil society (Habermas, 1987: 369-452)?

Some Conclusions From the Historical Overview

The history of the concept "civil society" shows how this prismatic and polymorphic term reflects a wide variety of historical societies and how the term's meaning is embedded in historical developments. Instead of a static concept, "civil society" should be seen as a concept in flux with changing meanings, actors and adversaries. The empirical historical studies can serve as a determination of different types and degrees of civil societies. Six systematic conclusions can be drawn from a historical overview of the term civil society.

First: From the very start, civil society was a normative concept with universalistic claims and an exclusive reality (social, ethnic or gender). To understand the attractiveness of the concept it is crucial to know against whom or what it was vectored – whether against fanaticism and barbarism, a profit-oriented economy, a clientelistic private sphere, or a power-ridden state. Today the term is often connected with political programs: against individualization and atomization (communitarians), against an international turbo-capitalism (anti-globalization movement), against a too provident and strong welfare state (neo-liberals), against the petrification of parliamentary organizations (democrats), against a hypertrophy of the state and uncontrolled market competition (social democrats), against the totalitarian state (East European dissidents) or against corrupt states (parts of East Asia and Latin America). The historical overview reveals how the contra-terms against the civil society project have changed over time and space and how they are embedded in specific historical constellations.

Second: Civil societies must be able to pursue a variety of interests and, furthermore, there is no such thing as a civil society without some conflict and inequality. Here, the logic of consensus and unity is less important than the regulation of conflicts through an orientation to compromise and negotiation

on the part of civil society actors. The civil society approach is sensitive to questions of culture and can show – in the words of Randall Collins – how “stratification and organization are grounded in the interaction of everyday life.” Research on civil society implies a study of those rituals that explain stratification and conflict as well as cultural and social integration. Rituals of interaction and their allocation in time and space are of special importance for our knowledge about different kinds and qualities of civil societies.¹¹

Third: The question of the circumstances under which civil mobilization fosters a more or less democratic outcome is still unresolved. On the one hand a vital civil society is a precondition of effective democratic government, yet, on the other, a flourishing associational life does not necessarily provide support for democracy. Energies generated by civic activism do not of necessity feed into a politics of toleration and inclusion but may just as well be utilized for repressive ends. Civic mobilization is also capable of fragmenting societies into different pillars or milieus.

Fourth: Civil societies need a free, pluralistic and democratic press and a media system that is relatively independent from commercial interests and state censorship (Keane, 1998). One of the most important fields in historical research explores the communicative nature and the publicness of civil society, asking, for example: Is it a warning system for the democratic process? Is it characterized by discursive communication? How did the idea of “public reason” develop (Cf. Trentmann, 2001: 24-28)?

Fifth: Every civil society is grounded in a certain degree of self-government, discipline and communication. Instead of a naïve understanding of civil society as a highly normative utopia, it should be seen as a sphere or realm with power relations. Civil society links power, communication and governmental virtues in a certain way – it is the space where societal norms were formed, educated and cultivated. It is the space for the negotiation and struggle of societal consensus and the construction of responsible social beings. Civil society means governing by community, and this is not possible without permanent conditioning, power strategies and informal governance structures (Dean, 1991; Burchell/Gordon/Mitchell, 1991).

Sixth: Nearly all writers on this concept accentuate the opposition between state and civil society. The worldwide celebration of civil society today is a predictable by-product of the widespread disenchantment with the state in the West and the fight against corrupt and authoritarian states in East Asia and Latin America. Civil society is an expression of the liberal skepticism about an all-powerful and morally indifferent bureaucracy, which regulates societies along the line of self-oriented and autistic orderliness. Although totalitarian states destroy civil societies, civil societies nevertheless need formal and legal guarantees or at least state toleration. Civil societies

11 Collins (1990: 72); Collins (1975); Coser (1956); Coser/Larsen (1976); Oberschall (1973). Cf. also: Rössel (1999); Senghaas (1995); Kneer (1997: 248-249).

prosper best when they are connected with a protective, redistributive and conflict-mediating democratic state under the rule of law.

2. A preliminary circumscription of the concept “civil society”

The concept of civil society has been used to describe the relationship of individual autonomy with communal solidarity, with a view to the common good. Many scholars have characterized civil societies as free, autonomous citizens who are politically and socially engaged and come together voluntarily in associations located between the state, the market and the private sphere. From the perspective of civil society, a social space of agents with their own partial public spheres and types of community formation exists as an autonomous sphere of political and social action. The idea of civil society raises fundamental questions about social and political responsibility, legitimation and integration.

The notion of civil society often refers to a political pledge with normative ideas of freedom, civility, individual and collective commitment to the common good, tolerance and peacefulness. In many of its versions, the thrust of the concept fluctuates between political demand and societal analysis; as a 1995 dictionary of politics notes, it is “a variously defined term from political philosophy to describe both actual and desirable states of the order of political rule (Schmidt, 1995: 1096; Dubiel, 1994: 67).

Civil society can be conceptualized in two ways. The first – with reference to Hegel – focuses on its spatial representation: here civil society is an intermediate social space between the state, the economy and the private sphere. Linked to these three spheres by manifold relationships and interactions, it can still be distinguished as a relatively independent space (Kocka, 2000). Certainly, civil society’s space is not empty of relations of power and domination; it is confronted with processes of capitalization and commercialization, and is densely enmeshed with the private sphere (for example, through the family). Nevertheless, the space of civil society is characterized by a particularly high degree of self-organization that is not profit-oriented and addresses itself to the public sphere. The voluntary political engagement and self-government of civil society actors are of particular relevance here.

The second approach to the concept of civil society focuses on action, applying the term “civil society” to a pattern of collective action and behavior. This is the independent action of historical actors oriented towards the public sphere, reciprocal “recognition of the other” (Honneth, 1992) and a

willingness to take on broader responsibility over and above particularist interests. Central to this view is the “civility” of such action, understood as communicative orientation, nonviolence and tolerance and the “self-discipline” and “self-government” of the modern Self. In the course of history, a variety of adjectives, such as “courteous”, “decent” or “orderly,” were assigned to these dialogical virtues, naming both the value horizon of the historical actors and the necessary resources of their behavior. Examples of the latter might be relative freedom from social ties and societal constraints, or social discipline and self-management. This author calls this conceptualization of civil society “*Zivilgesellschaftlichkeit*,” which is characterized by a particular way of dealing with difference and distinction, where the identity of civil society’s actors lies along a sliding scale of inclusion and exclusion. *Zivilgesellschaftlichkeit* implies the experience of the other, an experience regarded as a challenge to learn. This embraces a way of dealing with conflicts that is reasonable and with willingness to compromise, but does not imply a blanket requirement of consensus that prevents affiliations of interest and readiness for conflict.

It has sometimes been suggested that the dimension based on the logic of action and that based on the logic of spheres should be interrelated, drawing out a tension between the norms of civil society and the history of the social space of “real civil societies” (Jeffrey Alexander). According to Alexander, the “relative autonomy that exists between civil society and other kinds of social spheres,” on the one hand, and the “historically distinctive sets of interpersonal practices like civility, equality, criticism, and respect” of civil society as a “solidary sphere,” on the other hand, must both be recognized. One way to connect both approaches is to analyze the “symbolic codes” of the historical actors of the civil society (Alexander, 1998: 7, 12). This kind of dual conception is also proposed by Helmut Dubiel, who undertakes to measure the distance between civil society’s repertoire of norms and the “institutional reality” of historical civil societies. The historian Frank Trentmann, in turn, suggests that the “procedural nature of civil society” throughout history should be studied.¹²

Several empirical studies have taken up this topic of ambivalence, and have related normative postulations to the formally defined social space of civil society.¹³ Here, the ways people behave towards each other raise questions of social space, of where such forms of behavior are located and to what they refer, i.e., which concrete social fields. Posing these questions entails defining and classifying civil societies according to their historical

12 Dubiel (1994: 94); Trentmann (2001: 8 (quotation) and 10). John Keane (1996: 14) – like Keith Tester (1992: 9-10, 74) – finds on the one hand that the “various negative tendencies of civil society” are crucial to analysis and, on the other, that the process of civilisation itself should be seen as an historical project incapable of completion.

13 For empirical studies see the articles in Trentmann (2001); Kohl (2002); Korgel (1999).

relationship with the practice of violence and the degree of their compliance with normative horizons. Civil society should be understood as the sphere where unequal historical actors negotiate and struggle about societal norms and hegemonic values, where they talk about conditions and limits of solidarity and identity.

Civil societies have to deal with a multiplicity of conflicts, opposing life plans, diverging interests, and contested viewpoints. Often, the thinking on civil society overemphasizes discursive and associative elements. Instead of unnecessarily stressing those forms of action that are understanding-oriented and cooperative, civil society should be understood rather as a conflictual arena for the self-organization and articulation of social groups. Following Lewis A. Coser, the integrative and stabilizing effects of social conflicts, as well as the opportunities available for a civilized handling of conflict, should be considered. Here, the logic of consensus and unity is less important than the regulation of conflicts through first, an orientation to compromise, second, negotiation on the part of civil society actors, and third – if the self-government of the modern and disciplined Self is not hermetically sealed – the connection with a protective (violence), redistributive (social inequality) and conflict-mediating democratic state under the rule of law.

Suggested Readings

- Bermeo, N.G./Nord, P. (eds.) (2000): *Civil Society Before Democracy: Lessons from Nineteenth-Century Europe*. Lanham, Boulder, New York and Oxford: Rowman Littlefield
- Cohen, J./Arato, A. (1992): *Civil Society and Political Theory*. Cambridge: MIT Press
- Ehrenberg, J. (1999): *Civil Society: The Critical History of an Idea*. New York and London: New York University Press
- Kaviraj, S./Khilnani, S. (eds.) (2001): *Civil Society: History and Possibilities*. Cambridge: Cambridge University Press

References

- Aristotle (1965): *The Politics*. Translated and edited by E. Barker. New York: Oxford University Press
- Ahrne, G. (1998): *Civil Society and Uncivil Organisations*. In: Alexander, J. (ed.): *Real Civil Societies: Dilemmas of Institutionalization*. London: Sage, pp. 84-95
- Alexander, J.C. (1998): Introduction. *Civil Society I, II, III: Constructing an Empirical Concept from Normative Controversies and Historical*

- Transformations. In: *ibid.* (ed.): *Real Civil Societies. The Dilemmas of Institutionalization*. London: Sage, pp. 1-19
- Avineri, S. (1968): *The Social and Political Thought of Karl Marx*. Cambridge: Cambridge University Press
- Banti, A.M. (2000): *Public Opinion and Associations in Nineteenth-Century Italy*. In: Bermeo, N. G./Nord, P. (eds.): *Civil Society Before Democracy: Lessons from Nineteenth-Century Europe*. Lanham, Boulder, New York and Oxford: Rowman Littlefield, pp. 43-59
- Barber, B. (1984): *Strong Democracy: Participatory Politics for a New Age*. Berkeley: University of California Press
- Baron de Montesquieu (1989) [1748]: *The Spirit of the Laws*. translated and edited by A.M. Cohler, B. C. Miller, and H. S. Stone. Cambridge: Cambridge University Press
- Berman, S. (1997): *Civil Society and the Collapse of the Weimar Republic*. In: *World Politics*. No. 3. pp. 401-29
- Bunce, V. (2000): *The Historical Origins of the East-West Divide: Civil Society, Political Society, and Democracy in Europe*. In: Bermeo, N. G./Nord, P. (eds.): *Civil Society Before Democracy: Lessons from Nineteenth-Century Europe*. Lanham, Boulder, New York and Oxford: Rowman Littlefield, pp. 209-36
- Cahoone, L.E. (2001): *Civil Society: The Conservative Meaning of Liberal Politics*. Malden, Mass.: Blackwell
- Colas, D. (1997): *Civil Society and Fanaticism: Conjoined Histories*. Stanford: Stanford University Press
- Collins, R. (1975): *Conflict Sociology: Towards an Explanatory Science*. New York: Academic Press
- Collins, R. (1990): *Conflict Theory and the Advance of Macro-Historical Sociology*. In: Ritzer, G. (ed.): *Frontiers of Social Theory: The New Syntheses*. New York: Columbia University Press, pp. 68-87
- Coser, L.A. (1956): *The Functions of Social Conflict*. Glencoe: Free Press
- Costa, S. (1997): *Dimensionen der Demokratisierung: Öffentlichkeit, Zivilgesellschaft und lokale Partizipation in Brasilien*. Frankfurt am Main: Vervuert Verlag
- Dahrendorf, R. (1991): *Die gefährdete Civil Society*. In: Michalski, K. (ed.): *Europa und die Civil Society: Castelgandolfo-Gespräche 1989*. Stuttgart: Klett-Cotta, pp. 247-63
- Dahrendorf, R. (1994): *Der moderne soziale Konflikt: Essay zur Politik der Freiheit*. München: DVA
- Dean, M. (1999): *Governmentality: Power and Rule in Modern Society*. London: Sage
- Dubiel, H. (1994): *Metamorphosen der Zivilgesellschaft I. Selbstbegrenzung und reflexive Modernisierung*. In: *ibid.* (ed.): *Ungewißheit und Politik*. Frankfurt: suhrkamp, pp. 67-105
- Dunn, J. (2001): *The contemporary political significance of John Locke's conception of civil society*. In: Kaviraj, S./Khilnani, S. (eds.): *Civil Society: History and Possibilities*. Cambridge: Cambridge University Press, pp. 39-57
- Edwards, B./Foley, M.W./Diani, M. (eds.): *Beyond Tocqueville: Civil Society and the Social Capital Debate in Comparative Perspective*. Hanover and London: University Press of New England

- Ekiert, G./Kubik, J. (1999): *Rebellious Civil Society: Popular Protest and Democratic Consolidation in Poland, 1989-1993*. Ann Arbor: University of Michigan Press
- Femia, J. (2001): *Civil society and the Marxist tradition* In: Kaviraj, S./Khilnani, S. (eds.): *Civil Society: History and Possibilities*. Cambridge: Cambridge University Press, pp. 131-146
- Ferguson, A. (1995) [1767]: *An Essay on the History of Civil Society*. Cambridge: Cambridge University Press
- Fritzsche, P. (1990): *Rehearsals for Fascism: Populism and Political Mobilization in Weimar Germany*. Oxford: Oxford University Press
- Gellner, E. (1994): *Conditions of Liberty: Civil Society and its Rivals*. London: Hamish Hamilton
- Gordon, C. (1991): *Governmental Rationality: An Introduction*. In: Burchell, G./Gordon, C./Miller, P. (eds.): *The Foucault Effect: Studies in Governmentality*. Chicago: University of Chicago Press, pp. 1-51
- Gramsci, A. (1971): *Selections from the Prison Notebooks of Antonio Gramsci*. edited and translated by Q. Hoare and G. Nowell Smith. London: Lawrence and Wishart
- Habermas, J. (1987): *Theorie des kommunikativen Handelns*. Vol. 2. 4th edition. Frankfurt am Main: suhrkamp
- Habermas, J. (1996): *Between Facts and Norms*. Translated by W. Rehg. Cambridge: Polity Press
- Havel, V. (1985): *The Power of the Powerless: Citizens against The State in Central-Eastern Europe*. Edited by J. Keane, introduction by S. Lukes. London: Hutchinson
- Hegel, G.F.W. (1942) [1821]: *Philosophy of Right*. Oxford: Clarendon Press
- Hettling, M. (2000): *Bürgerliche Kultur - Bürgerlichkeit als kulturelles System*. In: Lundgreen, P. (ed.): *Sozial- und Kulturgeschichte des Bürgertums*. Göttingen: Vandenhoeck & Ruprecht
- Hettling, M./Hoffmann, S.-L. (eds.) (2000): *Der bürgerliche Wertheimmel: Innenansichten des 19. Jahrhunderts*. Göttingen: Vandenhoeck & Ruprecht, pp. 293-304
- Hildermeier, M./Kocka, J./Conrad, Ch. (eds.) (2000): *Europäische Zivilgesellschaft in Ost und West: Begriff, Geschichte, Chancen*. Frankfurt am Main: Campus
- Hirschman, A. O. (1977): *The Passions and the Interests. Political Arguments for Capitalism Before its Triumph*. Princeton, NJ: Princeton University Press
- Hoffmann, S.-L. (2000): *Die Politik der Geselligkeit: Freimaurerlogen in der deutschen Bürgergesellschaft, 1840-1918*. Göttingen: Vandenhoeck & Ruprecht
- Hoffmann, S.-L. (2001): *Tocquevilles 'Demokratie in Amerika' und die gesellige Gesellschaft seiner Zeit*. In: Münkler, H./Blum, H. (eds.): *Gemeinwohl und Gemeininn: Historische Semantiken politischer Leitbegriffe*. Berlin: Akademie Verlag, pp. 303-25
- Honneth, A. (ed.) (1993): *Kommunitarismus: Eine Debatte über die moralischen Grundlagen moderner Gesellschaften*. Frankfurt and New York: Campus
- Honneth, A. (1992): *Kampf um Anerkennung: Zur moralischen Grammatik sozialer Konflikte*. Frankfurt: suhrkamp
- Honneth, A. (2001): *Leiden an Unbestimmtheit: Eine Reaktualisierung der Hegelschen Rechtsphilosophie*. Stuttgart: Reclam jun.

- Horkheimer, M. (1986) [1936]: Egoismus und Freiheitsbewegung. In: Schmidt, A. (ed.): Kritische Theorie. Frankfurt: suhrkamp
- Hirschman, A. O. (1994): Wieviel Gemeinsinn braucht eine liberale Gesellschaft? In: Leviathan No. 22, p. 293-304
- Joas, H. (1999): Die Entstehung der Werte. Frankfurt: suhrkamp
- Kant, I. (1904) [1803]: Lecture-Notes On Pedagogy. In: Buchner, E. F. (ed): The Educational Theory of Immanuel Kant. Philadelphia: J.B. Lippincott Company
- Kant, I. (1927) [1795]: Perpetual Peace. A Philosophical Proposal. London: Sweet & Maxwell
- Kant, I. (1970) [1798]: The Contest of Faculties. In: Reiss, H. (ed.): Kant's Political Writings. Cambridge: Cambridge University Press
- Keane, J. (1996): Reflections on Violence. London and New York: Verso
- Keane, J. (1998): The Media and Democracy. Cambridge: Polity Press (reprinted version)
- Keane, J. (2000): Vaclav Havel: A Political Tragedy in Six Acts. London: Bloomsbury
- Klein, A. (2001): Der Diskurs der Zivilgesellschaft: Politische Kontexte und demokratietheoretische Bezüge der neueren Begriffsverwendung. Opladen: Leske + Budrich
- Kneer, G. (1997): Zivilgesellschaft. In: *ibid.* (ed.): Soziologische Gesellschaftsbegriffe. Stuttgart: UTB, pp. 229-251
- Kocka, J. (1997): The difficult rise of a civil society: societal history of modern Germany. In: Fulbrook, M. (ed.): German History since 1800. London: Arnold, pp. 493-511
- Kocka, J. (2000): Zivilgesellschaft als historisches Problem und Versprechen. In: Hildermeier, M./Kocka, J./Conrad, Ch. (eds.): Europäische Zivilgesellschaft in Ost und West: Begriff, Geschichte, Chancen. Frankfurt and New York: Campus, pp. 13-39
- Kocka, J. (2002): Das Bürgertum als Träger von Zivilgesellschaft – Traditionslinien, Entwicklungen, Perspektiven. In: Deutscher Bundestag (ed): Enquete-Kommission „Zukunft des Bürgerschaftlichen Engagements. Bürgerschaftliches Engagement und Zivilgesellschaft. Opladen: Leske + Budrich, pp. 15-22
- Kohl, A. (2002): Organisierte Kriminalität als NGO? Die italienische Mafia. In: Frantz, Ch./Zimmer, A. (eds.): Zivilgesellschaft international: Alte und neue NGOs. Opladen: Leske + Budrich, pp. 329-46
- Konrad, G. (1984): Antipolitics. New York: Harcourt Brace Jovanovich
- Korgel, L. (1999): Zivilgesellschaft und Rechtsextremismus. MA thesis. Free University Berlin
- Koshar, R. (1986): Social Life, Local Politics, and Nazism, Marburg, 1880-1935. Chapel Hill: University of North Carolina Press
- Křen, J. (2000): Die Tradition der tschechischen Demokratie. In: Hildermeier, M./Kocka, J./Conrad, Ch. (eds.): Europäische Zivilgesellschaft in Ost und West: Begriff, Geschichte, Chancen. Frankfurt am Main: Campus
- Leiva, L.C./Pagden, A. (2001): Civil society and the fate of the modern republics of Latin America. In: Kaviraj, S./Khilnani, S. (eds.): Civil Society: History and Possibilities. Cambridge: Cambridge University Press, pp. 179-203

- Locke, J. (1960) [1690]: *Second Treatise on Government*. In: Locke, John: *Two Treatises on Government*. Edited by P. Laslett. New York: Cambridge University Press
- Mansfeldová Z./Szabó, M. (2000): *Zivilgesellschaft im Transformationsprozeß Ost-Mitteleuropas: Ungarn, Polen und die Tschechoslowakei*. In: Merkel, W. (ed.): *Systemwechsel 5. Zivilgesellschaft und Transformation*. Opladen: Leske + Budrich, pp. 89-114
- Marx, K. (1975) [1845]: *The German Ideology*. Volume 5 of *Collected Works*. New York: International
- Mendelssohn, M. (1974) [1784]: *Über die Frage: Was heißt aufklären?* In: Kant, et al (ed.): *Was ist Aufklärung? Thesen und Definitionen*. Stuttgart: Philipp Reclam jun.
- Münkler, H. (1993): *Zivilgesellschaft und Bürgertugend. Bedürfen demokratisch verfaßte Gemeinwesen einer sozio-moralischen Fundierung?* Antrittsvorlesung 10. Mai 1993. Humboldt-Universität zu Berlin. Öffentliche Vorlesungen. Heft 23
- Nipperdey, T. (1976): *Verein als soziale Struktur in Deutschland im späten 18. und frühen 19. Jahrhundert. Eine Fallstudie zur Modernisierung*. In: *ibid.* (ed.): *Gesellschaft, Kultur, Theorie: Gesammelte Aufsätze zur neueren Geschichte*. Göttingen: Vandenhoeck & Ruprecht, pp. 174-205
- Nothelle-Wildfeuer, U. (1999): *Soziale Gerechtigkeit und Zivilgesellschaft*. Paderborn: Schöningh.
- Oberschall, A. (1973): *Social Conflict and Social Movements*. Englewood Cliffs: Prentice-Hall
- Pocock, J. (1981): *Virtues, Rights, and Manners: A Model for Historians of Political Thought*. In: *Political Theory*. No. 3, pp. 353-368
- Reese-Schäfer, W. (1995): *Was ist Kommunitarismus?* Frankfurt and New York: Campus
- Reiss, St. (1999): *Zivilgesellschaft und Transformation in Mexiko*. St. Augustin: Gardez
- Reichardt, S. (2003): *Selbstorganisation und Zivilgesellschaft: Soziale Assoziationen und politische Mobilisierung in der deutschen und italienischen Zwischenkriegszeit*. In: Jessen, R./Reichardt, S./Klein, A. (eds): *Zivilgesellschaft als Geschichte. Studien zum 19. und 20. Jahrhundert*. Opladen: Leske + Buderich (in print)
- Reichardt, S. (2002): *Faschistische Kampfbünde: Gewalt und Gemeinschaft im italienischen Squadristismus und in der deutschen SA*. Cologne, Weimar and Vienna: Böhlau
- Riedel, M. (1979): *Bürgerliche Gesellschaft*. In: Brunner, O./Conze, W./Koselleck, R. (eds.): *Geschichtliche Grundbegriffe: Historisches Lexikon zur politisch-sozialen Sprache in Deutschland*. Stuttgart: Klett-Cotta, pp. 719-800
- Rössel, J. (1999): *Konflikttheorie und Interaktionsrituale*. Randall Collins' Mikrofundierung der Konflikttheorie. In: *Zeitschrift für Soziologie*. No. 28, pp. 23-43
- Rothschild, E. (2001): *Economic Sentiments. Adam Smith, Condorcet, and the Enlightenment*. Cambridge/Mass. and London: Harvard University Press
- Rödel, U./Frankenberg, G./Dubiel, H. (1989): *Die demokratische Frage*. Frankfurt: suhrkamp

- Sabetti, F. (1996): Path Dependency and Civic Culture: Some Lessons From Italy About Interpreting Social Experiments. In: *Politics & Society* 24. No.1, pp. 19-44
- Schmalz-Bruns, R. (1994). Zivile Gesellschaft und reflexive Demokratie. In: *Forschungsjournal Neue Soziale Bewegungen*. No. 1, pp. 18-33
- Schmalz-Bruns, R. (1995): *Reflexive Demokratie: Die demokratische Transformation moderner Politik*. Baden-Baden: Nomos
- Schmidt, M. G. (1995): *Wörterbuch zur Politik*. Stuttgart: Kröner
- Senghaas, D. (1995): Hexagon-Variationen. Zivilisierte Konfliktbearbeitung trotz Fundamentalpolitisierung. In: Goldschmidt, W./Mies, Th. (eds.): *Zivile Gesellschaft und zivilisatorischer Prozeß*. Hamburg: Meiner, pp. 113-28
- Smith, A. (1993) [1776]: *An Inquiry Into The Nature And Causes Of The Wealth Of Nations*. Oxford: Oxford University Press
- Splett, S. (1990): Der mündige Wähler. Christlich-philosophische Erwägungen. In: *Stimmen der Zeit*. No. 208, pp. 83-112
- Stephan, A. (1985): State Power and the Strength of Civil Society in the Southern Cone of Latin America. In: Evans, P. B. (ed.): *Bringing the State Back In*. Cambridge: Cambridge University Press, pp. 313-43
- Szücs, J. (1988): Three Historical Regions of Europe. In: Keane, J. (ed.): *Civil Society and the State: New European Perspective*. London/New York: Verso, pp. 291-332
- Taylor, Ch. (1991): Die Beschwörung der 'Civil-Society'. In: Michalski, K. (ed.): *Europa und die Civil Society: Castalgandolfo-Gespräche 1989*. Stuttgart: Klett-Cotta, pp. 52-81
- Tester, K. (1992): *Civil Society*. London and New York: Routledge
- Tocqueville, A. de (1988) [1835/40]: *Democracy in America*. Edited by J. P. Mayer, translated by G. Lawrence New York: Harper and Row
- Trentmann, F. (ed.) (2001): *Paradoxes of Civil Society: New Perspectives on Modern German and British History*. New York and Oxford: Berghahn
- Walzer, M. (1991): The Idea of Civil Society. In: *Dissent*. Spring 1991, pp. 293-304
- Walzer, M. (1992): *Zivile Gesellschaft und amerikanische Demokratie*. Berlin: Rotbuch
- Walzer, M. (1997): *On Toleration*. New Haven and London: Yale University Press
- Weffort, F. (1989): Why Democracy? In: Stepan, A. (ed.): *Democratizing Brazil: Problems of Transition and Consolidation*. New York and Oxford: Oxford University Press, pp. 327-50
- Wolin, S.S. (2001): *Tocqueville Between Two Worlds: The Making of a Political and a Theoretical Life*. Princeton and Oxford: Princeton University Press
- Zahlmann, Ch. (ed.) (1992): *Kommunitarismus in der Diskussion: Eine streitbare Einführung*. Berlin: Rotbuch

Eckart Pankoke

Voluntary Associations and Civic Engagement: European Traditions, Discourses and Perspectives for Voluntary and Intermediary Networks

1. Introduction

The history of civil society and civic engagement in any setting is closely linked with the process of democratization, the building of the nation-state, and the emergence of social movements. In the societies of Central Europe, this history exhibits many common features as well as differences that contribute to an understanding of the current state of civic engagement and the nonprofit sector. Civic engagement and civil society as key terms of current scientific and political discourse are deeply embedded in the history of modernization and political democratization of European societies. While highlighting specific features of this development the following article offers the reader an overview of Central European historical traditions which up until now have had a profound influence on civic engagement and the third sector in the countries under study. Thus, this article will focus on a presentation of the “Central European way” of modernization and democratization, which is very distinct from its Anglo Saxon counterpart.

The historical traditions that have been most influential include cultural emancipation and national liberation, social movements and workers’ solidarity. In medieval times, institutional autonomy was already evident in the ecclesiastical foundations and feudal corporations. The roots of modernity can be seen in the civic freedom and public spirit of the European townships, led by “free” citizens who organized themselves and formed cooperative alliances.

More modern ideas emerged with the Protestant Reformation. Martin Luther’s idea of the radical “freedom of Christians” was put into concrete form in the autonomy of local confessional communities. The other Protestant tradition, reconstructed in the famous essay of Max Weber on “The Protestant Ethic,” emphasized the autonomy of individual responsibility. New ideas of social and political freedom arose in the European Age of Enlightenment, especially in the English-Scottish tradition of moral philosophy, political economy and liberal theory of civil society. The first German translation of these treatises on modern civic culture (by Christian Garve, 1792) remarked

that many English terms used in modern political theory and practice such as “private interest” and “public spirit” could not be translated into the terms used in German pre-revolution state theory. The liberal practice “English Freedom” was incorporated into the institutional plans of the Prussian Reformers (1806-1813) to reorganize the ideas of self-government through voluntary public engagement.

In the European Revolutionary Era, the “Ideas of 1789” were translated into institutional practice: European modernity was realized as economic freedom, social equality and mutual association. This modern European political and social culture gave way to what is now called the “third sector” of self-organized solidarity, which has emerged “between market and state.” Sociological research examines the social conditions of self-organization with a focus on the evolution of corporate actors and intermediary networks. The sociological differentiation of individual and corporate “actors” distinguishes the actions of individual subjects from the organized activities of corporate structures and intermediary networks. Critics refer to the divisive effects of social differentiation and particularization. Inquiring into the forms of action and the principles of organization, the “third sector approach” directs attention to the special interrelations of subjective meaning and institutional form. These relations of self-organized engagement can be examined using the example of traditional foundations and guilds, corporations, associations and mutual cooperatives. Within these traditions new forms of public initiatives and social movements can be identified.

The traditions of old European communal culture and the contemporary modernity of an active society are very different. Structural breaks are evident, but cultural bridges of continuity can also be detected. The dynamics of the revolutionary era of “social movements” are leading to new configurations: political arenas, social alliances and future-oriented agendas. The relations between citizens and political systems are to take place in intermediate contexts of “public-private partnership.” Today the key term is not the obligation of “honor” but the “engagement” of active involvement. Whoever challenges the civic commitment of voluntary associations must provide support for improving the skills of the volunteers that are engaged in these associations. To encourage empowerment of the volunteers, it is necessary to support their motivations and qualifications. This narrative and a discussion of the third sector’s future prospects are organized in the following sections:

- European communal traditions and the corporative order: obligations of honor
- European Revolutionary Age (1789-1848): emancipation and association
- Institutionalization of the welfare state (1849-1932): solidarity and subsidiarity

- Authoritarian leadership and mass organizations (1933-1945): totalitarian mobilization
- Welfare democracies and corporate actors (1945-1989)
- State socialism and democratic transformations in Eastern Europe
- Future of civic engagement: political arenas, social alliances and future-oriented agendas.

2. European Communal Traditions and the Corporative Order: Obligations of Honor

The authority of feudal honors and obligations is the historical basis of the institutional autonomy of both traditional corporations and modern associations. The ethics of old European community life shaped the guiding principles of modern civic activities. Feudal liberties as well as corporative bonds are anchored in the corporative order's traditions of "honor" and "loyalty", "guild" and "foundation", "association" and "mutual cooperation", "common interest" and "public spirit."

The traditional obligations of "public spirit" are related to the institutional origins of public duties and honors. The German word for "honor," *Ehre*, has its etymological roots in the Indo-Germanic *ais*, which means "bright metal," reflecting the shine of constancy and eternity. Old European "honor" (*Ehre*) was based on feudal liberties (*Freiheiten*). The feudal nobility was "free from" dependent work and was "free for" cultural and civic involvement. Civic "freedom" enabled therefore both professional independence and public responsibility, which were brought to the honorary duties of local and corporative self-government.

The importance of the connection between "autonomy" and "free engagement" is demonstrated in modern day organizational activity. Active "engagement" requires a context that allows for conditions of "autonomy." This interrelation has been evident especially in the discourses of civic movements. Traditions of institutionalized autonomy are identifiable in the history of the church in Europe. In medieval times, for instance, the holy orders of monks, e.g., the Benedictines, the Cistercians, and the Franciscans, were early examples of movements, often with problematic relations to the established church. The reform movements led by Martin Luther in Germany and Johannes Hus in Bohemia were particularly influential forces in history. Moreover, in the era of national liberation movements, the synergy between oppressed nationalism and denominational identity was a moving force for political change. This was demonstrated clearly by the historical role of Catholicism in the fights against oppression throughout Polish history.

Public Honor and Voluntary Engagement: Enthusiasm and Dilettantism

Around 1800 citizens discussed volunteerism using the buzzwords “enthusiasm” and “dilettantism.” “Enthusiasm” originally meant, “inspiring divine spirit.” However, in the course of modernization, the disenchanted gradually distanced themselves from such “enthusiasm,” now criticized as “fanaticism” (*Schwärmerei*). Today the term dilettantism is also being used in a different way. Third sector organizations are now sometimes criticized as being expressions of “functional dilettantism” (see Seibel, 1992).¹

Nevertheless, *dilettanti* in Italian is still used to refer to “volunteers” (*diletto* means delight, happiness and pleasure). In that sense, it must be recognized that the commitment of volunteers seems to be independent of functional compulsions and interests, and therefore could represent an “extra-functional freedom” opposite the functional compulsions of the organization for which the individual volunteers. As noted above, the classical connection between “voluntary duties” and the “joy of free action” is discussed today more in terms of “engagement” and “autonomy.”

With the new reality of freedom and association in the early 19th century came the use of the prefix “self” with terms describing various social programs, including “self-support”, “self-administration”, “self-organization”, and “self-help”. These terms have regained importance in recent years. Today third sector theories examine the tensions between the individual “self” and institutional “systems,” and between the “intermediary systems” of organizational society and the ties of everyday private life and highly personalized relationships. Political theories call the third sector a “third force” of intermediary activation and independent potential (Strachwitz, 1998).

Feudal “Liberties” and Civic “Autonomy”

Max Weber’s sociological account of modernization focused on the historical roots of modern associations. In the traditional corporate system, Weber recognized a basic formation of modern autonomy. The legal construction of independent “corporate personality” as institutionalized in traditional foundations (*Stiftungen*) – independent of both the political interests of governmental domination and the private interests of their founders or

1 According to the interpretation of Wolfgang Seibel (1992), third sector organizations are successfully used by state authorities to cover up problems of legitimacy. In other words, whenever there is a significant problem which government is unable or not willing to solve, problem-solving is delegated to third sector organizations operating instead of government entities.

members – appeared to be a basic form of institutional autonomy. The opposition of independent feudal actors to political centralism prepared the way for the modern separation of “state” and “society.” The (ecclesiastical) foundations and communities took on a “holy” purpose, often personalized by naming one of the saints as a patron of the foundation. The modernization process replaced the authority of the “saint” with the secular autonomy of independent corporate actors and, later, civic autonomy. The “feudal liberties” of honor and obligation later become the engagement of citizens in voluntary associations “between market and state” and evidence of the evolution of nongovernmental/nonprofit organizations (NGOs/NPOs).

3. European Revolutionary Age (1789-1848): Emancipation and Association

The modern expression of civic engagement has its roots in the European Age of Revolutions (1789-1848), which included the political revolution in France, the industrial revolution in England, and the social and cultural movements in Germany. Other political traditions that laid the groundwork for today’s civic developments were the nation-building movements in Central Europe.

The French revolutionaries dissociated themselves from the traditional corporate models, as well as from the new associations of organized interests. Their concept of the relationship between the state and the citizen did not allow for any intermediate agents. Therefore, not only were the older corporations banned, but also the modern associations were considered to be incommensurate with revolutionary equality.

Amid the crises of the industrial revolution, the liberal-democratic balance between individual freedom and mutual association was disrupted. More radical strategies pursued by “social movements” used the principle of association against the prevailing systems of state and society.

In his *Philosophy of Right* (1921), the Prussian philosopher Hegel developed an institutional theory of modern civil society. Hegel reflected on the crisis that arose from the changed relations between citizen and state resulting from the dramatic dynamics of the industrial revolution. The liberal values and models of economic freedom and constitutional integration did not solve the systemic problems of proletarian work and alienation. Hence the industrial proletarians were driven into a social-revolutionary antagonism and radicalism. The new social forces emerging from the low-income class of modern society became effective in the social movements for freedom and democracy, in the associative freedom of the early civil associations, and in

the “organized charity” of welfare corporations.

The new catchphrase was “free association.” Unlike the apparatus of major organizations in business and public administration, self-organized solidarity was the guiding principle of free/voluntary associations, especially among the networks of workers’ solidarity. The new principle of the “free association” offered the intermediary framework for civil rights.

An early document supporting these developments was Franz v. Baader’s treatise. On the disparity of the bourgeois and proletarian social classes in subject matter of their properties to the capabilities in physical and in intellectual respect (Munich, 1835). Baader offered solidaristic networks as a practical answer to the revolutionary crisis of early industrial society. Baader also called on intermediary actors to hinder the dramatic trend toward social polarization. He especially recognized and appreciated the priests for their independence from governmental and market interests. As social advocates they could assume a social mandate for the proscribed and powerless “proletarians.”

The solidaristic networks often grew into social movements. In fact, during this period there arose a veritable “labyrinth of movements,” which was a driving force in the development of modern civil society (Stein, 1850).

The social movement concept took on a revolutionary radicalism in the movements of early French and English socialism. The new strategy of revolutionary mobilization through the transformation of subjective emotions into collective movements was disseminated throughout Europe. The synergy between the pressure of social needs, their communication and organization in social movements, and the historical dynamics of revolutionary change was identified by Charles Fourier. In his *Théorie des quatres mouvements et des destinées générales* (Paris, 1808), Fourier formulated the epochal self-conception of the “age of social movements”. Fourier attracts interest still today with his theory of social needs as a driving force of social movements, but also with his sociological criticism of the industrial division of work. His social-revolutionary program was the project of “mutual associations”. This was an alternative concept to the traditional “corporations.” It was also the antithesis to the industrial capitalist organization of work.

“Association” was the new organizational form, combining the modern principles of freedom and solidarity. The “Ideas of 1789” (liberty, equality and solidarity) were declared to be the basic values of “workers’ brotherhoods”. Marx and Engels radicalized these concepts. The universalistic motto attached to early programs of the labor movement, “All people are brothers”, was translated now into the class-struggle slogan of the *Communist Manifesto*: “Proletarians of all countries unite!” The traditional idea of human brotherhood was radicalized into proletarian “solidarity”. On the utopian horizon, the new communist society would appear as the “great association.”

Social movements were creations not only of the political left, but also of members of Christian churches. For example, the founder of the German Protestant Social *Diakonie* Johann Hinrich Wichern overcame the dominating polarization of social power with his “Christian association” project. He also eliminated the asymmetric bias of the helping relationship between providers and recipients of assistance and established a new type of charity characterized by a sense of solidaristic partnership. Some time later, a similar movement with similar objectives, Caritas, emerged out of the German Catholic Church under the leadership of Lorenz Werthmann.

In the “labyrinth of movements” there were also other social forces of engagement and “movement”, as demonstrated by the beginnings of a social and political feminist movement. In the alliance of the democracy and labor movements in 1848, the new social question of gender relations received a public forum in the *Frauen-Zeitung* (*Women's Newspaper*) (1849/50) edited by Louise Otto. Among the issues presented were women's emancipation and liberation, as well as the social situation of proletarian women. These questions were discussed as the crucial points of the feminist “social movement”. The series of articles, “*Die Demokratinnen*” (“Female Democrats”), gave a historical diagnosis of women involved in and engaged for political emancipation. This took a new “sociological” point of view. Topics included the erosion of the traditional lifestyle and changing social values – with a focus on gender relationships. Louise Otto reported and reflected the introspection, self-understanding and mutual agreement of the early “women's movement”.

Louise Otto characterized the emotional and political commitment of feminist movements as *Enthusiasmierte*. With this label, she stressed that such enthusiasm inspired transcendence of the barriers created by prejudices (*Frauen-Zeitung*, 26 January 1850). The modern feminist movement established by Louise Otto through the first German women's association combined the question of women and the social question of labor. Other issues focused on political emancipation and equal rights.

Today's feminist movement is committed to solving the problems of distressed women. The movement's forces also actively seek to improve human rights under the umbrella of worldwide women's solidarity. A more modern leadership considers the contemporary feminist movement as a “new social movement” working toward a new feminine identity.

In Western Europe these and other social movements arose and grew alongside the development of the nation-state and its transformation into the welfare state. In the early 19th century, particularly in the nations of Central Europe, the pressing problems were not only new industrial conflicts, but also national liberation and unification.

The formative influences of many political movements and associations in Central Europe can be identified from this period. The honorary and

voluntary duties of civic associations and local self-governments enabled citizens to engage in acts of public responsibility, based on the privileged freedom of “ownership and cultural education” (*Besitz und Bildung*).

Nevertheless the liberal orientation of reform movements soon was confronted with the coercive power of political restoration. The associations promoting nation-building and social liberation suffered under persecution and censorship. In Germany, for example, all associations were banned. Only later in 1848, the year of the European revolution, political alliances developed between the nation-building movements and the social liberals.

Especially in Eastern Europe, including the Austro-Hungarian Empire (from Poland to Italy), the activities of social movements had their roots in the nation-building movements. In the multinational, multicultural and multilingual constellation of the Danube Monarchy, a political culture of self-organized political and cultural particularity and plurality developed. This is reflected in the early sociological theories of social conflict and political integration, of social groups and political movements. An early example of this sociological interest in such particularities is the pioneering study by the Polish-Austrian sociologist Ludwig Gumplowicz, “The Clash of Races” (*Der Rassenkampf* 1883).

Social movements based on religious or ethnic differences were the backdrop of societal stratification. A textbook example all over Europe was the Jewish community. But other groups emerged as well. For instance, in Germany, in the process of labor immigration during the time of the Empire, new associations were established by the Polish, Hungarian and Italian immigrant communities.

4. Institutionalization of the Welfare State (1849-1932): Solidarity and Subsidiarity

Alongside the institutionalization of the modern welfare state, social movements and associations either assumed or were entrusted with various societal functions. One of these roles was as partner with public administration. In addition to his observation of the “labyrinth of movements,” Lorenz v. Stein examined the relationship between “movement” and “administration” and the new organizational forms of social autonomy. Lorenz von Stein examined the social and political meaning of self-administration and voluntary associations within the framework of his “Theory of Public Administration” (*Verwaltungslehre*, 1862). In an individual chapter of this book “The System of Associations” (*Das Vereinswesen*), Stein praised the associations as supporters of public tasks

and as organs of public life. They derive their legitimacy from the right to associate and the legal process of self-organization.

Interest representation was another role played by movements and associations that emerged with the establishment of the welfare state. A clear example during this historical period is the founding, led by Ferdinand Lassalle, of the *Allgemeiner Deutscher Arbeiterverein*, a social-revolutionary worker's movement and the predecessor of the German Social-Democratic Party. Lassalle's socio-political strategy was the integration of social movements into social and political institutions and thereby the representation of the interests of movement participants. More broadly, this meant the transformation of social movements into institutionalized political parties, trade unions and organized industrial relations. The organization of social interests was no longer aimed at radical class conflict but rather at a system that balanced interests.

Moreover a group of German social scientists used the association as a means not for representing their personal interests, but rather for providing a forum for the furtherance and discussion of scientific and public interests. The German Association for Social Policy (*Verein für Sozialpolitik*), founded in 1871, gave its members an opportunity to have greater impact on social policy – as individuals and as part of a respectable “scientific association”.

A different perspective on the societal role of movements and associations should also be mentioned. Hermann Schulze-Delitzsch and Friedrich-Wilhelm Raiffeisen propagated the concept of mutual economic associations as a means to survive the pressures of industrialization. These associations were to combine the principles of economic security, social freedom, and political participation. Out of their ideas emerged the cooperative movement.

Expanding State Activities and Intermediary Systems

These roles and functions emerged as the welfare state expanded. In the early years of the German Empire (*Kaiserreich*), the implementation of the welfare state overturned the separation of “state” and “society”. The crucial point of the socio-political discourse was the “Law of Increasing State Activity” (*Gesetz der wachsenden Staatstätigkeit*) developed by Adolph Wagner in 1879. This thesis referred not only to increasing governmental expenditures and expenses, but also to a new quality of public power and a new dependence on governmental interventions. Civic spirit was to focus its attentions now on the operations of the welfare state.

In the policy fields of culture and welfare a new state centralism was developing. Against it Wagner searched for alternative counteracting forces, in particular for strategies of decentralization. He argued for a change of

orientation from the state to smaller local organizations. He recommended

“self-government and voluntary systems in welfare associations etc. [...] as an active counterbalance to certain threats of centralism.” (Wagner, 1879: 312)

To counterbalance the expansion of state activities, Wagner called for the institutional strengthening of corporative solidarity and intermediary networks of social-political solidarity and subsidiarity. Wagner realized that “increasing state activity” would only be “counterbalanced” by networks of solidarity built on social proximity. Such networks would enable the development of a social culture of welfare, in which solidarity bonds are based on the principle of subsidiarity and the priority of social cohesion. This assessment of social proximity should take into account location (local community as a basis of social self-realization), cultural cohesion (religious support based on value orientation), and the competence of assistance-providing professionals in balancing between closeness and distance (professionalism).

Social proximity gained increasing importance. In modern societies, solidarity is ever more necessary because of the weakening of social cohesion. The “natural networks” of social proximity can no longer be assumed to exist. Instead they tend to be replaced by the artificiality of social networking. The recognition of a subsidiary solidarity as a “counterbalance” to “increasing state activity” meant a new perspective on the self-organization of independent commitment.

Intermediary organizations mediating between welfare policy implementation and the interests, needs and hopes of the workers’ society determined the social value of the associations. In this intermediary position, the associations had a twofold function. On the one hand they had to represent the concerns and needs of the individuals before the state systems. On the other hand they became responsible for the formation of social interests and for negotiating the alliances of collective actors.

Max Weber underlined this claim for more rationality – especially in the clarification of social problems. In contrast to the “historical-ethical school”, Weber recognized the task of modern *Sozialwissenschaft* not in the social-ethical search for cultural ideals, but in the explanation of the structural tensions between problematic situations, class interests and organizational systems.

The Sociology of Associations and Boundaries of Community

Alongside the formation of modern sociology, a new discipline and profession emerged with a focus on the evolution of modern associational structures. Therefore Max Weber proposed a “sociology of associations”. Weber underlined the importance of free associations as an “intermediating” social medium. In his view the modern association represented individual interests before the official systems of the state and the economy. In modern associations the individual actors became targets and prospective customers of social systems. So the associations supported the identity and solidarity of individual actors and the social, political and cultural integration of social systems. Weber made the scientific discovery of the modern “association systems” as an “intermediate” means to social integration.

In his inaugural address to the first congress of the German Sociological Association (1910, reprint 1999), Max Weber formulated his proposals for new social science topics:

“It is an elementary task for every society of sociologists to make those things the subject of sociological approach, which one designates conventionally as “social,” through everything that is “in the middle” between the politically organized or recognized powers - state, municipality and official church - on the one hand - and the nature of growing social communities (families and private spheres) on the other hand.”

As a central topic of modern sociology, Max Weber identified the social culture as influenced by the “association-man.” Membership in voluntary associations seemed typical for the social culture of modern societies. More important than the quantitative appraisal of association density seemed to be the “qualitative importance of the associational life. With that he set up the questions about the importance of associational life for social identity and social integration.”

Weber referred to America as the association country *par excellence*. He pointed out the connection between social modernization, mobilization, and associative activation. He further referred to America’s open immigration society in connection with the thesis of Alexis de Tocqueville, which illuminates the complex turbulence of a “melting pot” society. In America, where the question of social status was not yet regulated by traditions, the associations had a very important instrumental function. Membership in associations would clarify the “social place” in a normally open society and serve as a means for social integration.

Similar models can be observed in the German Ruhr District immigration process. In the historical era of industrial migration and colonization, the social landscape was shaped by a remarkable density and variety of associations. In such a society of immigrants, associative affiliation permits the expression of social identity and belonging. In the era of industrial colonization in the Ruhr District, for example, many workers were coming

from Eastern Germany and Poland. The Polish workers organized their cultural and confessional community in many local Polish associations, in Catholic parishes with Masses conducted in the Polish language, and even in separate Polish trade unions. (All this was forbidden by the Nazis after 1933)

Weber also incorporated the question of social contexts and skills in his theory of associations, especially in his sociology of social power. This led to a critical look at the apparent paradox that the freedom of association could only be implemented socially through an organization, which entails hierarchy and, therefore, power issues: "Every association (...) represents a system of social power and domination between people. [...] In reality the domination is always a minority domination, now and then a dictatorship."

The paradox that the evolution of associations claiming autonomy is turning into the pressure of functional authority was stressed by Robert Michels (1925), who was engaged in the socialist movement. Michels's discussion of the "iron law of oligarchy" laid out the paradox that organizational demands would necessarily come into conflict with claims to freedom and equality. Thus, Michels's analysis can be summarized in the thesis that whenever one refers to organizations one involuntarily and implicitly discusses the topics power relations and hierarchy, which are inherently interconnected.

5. Authoritarian Leadership and Mass Organizations (1933-1945): Totalitarian Mobilization

The sociological theses presented in the *Paradox of the System of Associations* (Weber, 1924), the *Iron Law of Oligarchy* (Michels, 1925) and *Boundaries of the Community* (Plessner, 1924) reflected a bitter reality, as idealistic movements became fundamentalist mobilizations. This could certainly be observed in the case of the conversion of communist labor movements into "dictatorships of the proletariat".

Even more dramatic were the controversial developments arising at the ultra-right wing of the political spectrum. Here traditional community ideals were perverted. The labor movement, the nation-building movement, and the youth movement all were converted into compulsory "communities."

"Führer, nation, movement": With this slogan one of the collaborating intellectuals of German fascism Carl Schmitt formulated the principles of the fascist "mobilization". Such fascist catchphrases as "seizure of power" and "enforced, unidirectional conformity" gained their dramatic sense when contrasted with the traditional forms of political self-administration and social self-organization. The traditional associations were smashed brutally or

subjected to “enforced conformity”, marching in step with the totalitarian fundamentalist terror. The German youth movement, for example, was transformed into the fascistic *Hitlerjugend*, in this case retaining old forms and symbols. The German Welfare Associations, by contrast, had to insert themselves in the “national socialist winter aid”. Their identity as “intermediary systems” between individual and society, society and state, was denied. Instead, they were forced to implement strategies to instill uniformity and therefore to quash any resistance to war preparation and ultimately had to cease operations altogether.

In terms of social policy, it was not a question of a generalization of social rights and claims for national-socialist “social care”, but rather increasing the power of the nationalist “folk-community” (*Volks-Gemeinschaft*). The propagandistic pressure of race questions overwhelmed any concern for social issues and social responsibilities. This translated into a shift from calls for equality to the hardening of new inequalities and to the outlawing of targeted individuals and their subjection under totalitarian authority. The “intermediary” position of the free associations now was controlled by an intervening enforcement of the Führer’s principle and the controlling apparatus.

5. Welfare Democracies and Corporate Actors (1945-1989)

After World War II in Western Europe, and especially in West Germany and Austria, the definition and means of addressing social problems were laid down in laws and regulations. Social security would be based on the individual contribution of one’s own work. The welfare state was stabilized by full employment and vice versa. “In the short dream of perpetual prosperity” (Lutz, 1989), the combination of job security and affluent society still seemed guaranteed. This was protected within the institutional balance of public and private welfare provision.

The associations of self-organized social solidarity became active in “intermediary systems”, interacting with the target groups in specific target areas of intervention, including childcare, rehabilitation, education, counseling, and consultation. Here the nonprofit organizations, which in Germany and Austria are affiliated under large umbrella organizations, provide interactive forms of intervention (see Country Profile on Germany in this book).

Over time, nonprofit organizations became highly integrated into the welfare economy. In the process, however, these associations assumed a more and more bureaucratized structure and suffered from a reduction of volunteering. For nonprofit organizations, a careful balance between

solidaristic networking and social service production is difficult to maintain.

In their interactions with the market and the state, for example, associations may transform by taking on governmental or market elements. Mutual associations may become capitalist enterprises, and welfare associations tend to converge towards governmental welfare authorities. Current trends point rather to transformation in the direction of commercial enterprises engaged in new social markets. The “operating medium of solidarity” (Kaufmann 2002), which is typical of the third sector, combines with entirely different operations by way of money and power. These conversions or transformations of the third-sector actors into commercially oriented agencies are often criticized.

A framework of sociological objectivity is found in the organization theory of James Coleman, particularly in his crucial analysis, *The Asymmetric Society* (1982). Coleman observes the recent trend in which the importance of personal actors is replaced by “corporate actors.” Not individuals, but rather positions and functions, organizations and relationships determine social reality. The subjects of social action are constructed as “fictitious persons” who do not act on the basis of their own sense and interest, but are programmed as officials and representatives of their organizations and institutions. Rather than lamenting the cultural impact of this phenomenon, activists and observers must deal with the practical question of how personal engagement and social competence can be reactivated as a means for organizing.

A value-rationalized structure is typically found in value-oriented, volunteer-based nonprofit associations. In this regard, sociologists speak of “mission-based organizations”. “Intermediary networks” act under complex relationships between basic democratic goals and solidaristic identification with the target beneficiary groups, between explicit values and their political and economic interests. Intermediary actors integrated in the modern welfare system thus face the challenge of balancing their value-based “mission” with the practical “goal” of solving the social problems of their clients and target groups. When participatory approaches are employed by associations in this type of situation, apparently passive clients can become active partners.

6. State Socialism and Democratic Transformations in Eastern Europe

In the decades of communist rule in Central and Eastern Europe, voluntary organizations and initiatives were essentially blocked. The authoritarian principle of total integration under the Communist Party’s control had

priority. By contrast, the officially accepted and integrated mass organizations – trade unions, youth political organizations, culture and sports organizations, and other officially named “voluntary social associations” – received generous subsidies from the state as a means of ensuring party loyalty. All these permitted socio-political activities were linked within national fronts, i.e., umbrella organizations. Participation was highly formalized and considered obligatory. Non-participation in the official organizations was a sign of opposition and resistance to the regime. Open resistance, however, was met with the threat of exclusion from any personal or professional advancement. Free social movements for peace, human rights, and ecological sustainability were active only underground. Still, there was a gray area of officially tolerated independent groups that existed as an informal arena for learning the skills and contexts of self-organization. These were the incubators for critical discussions and political opposition.

Opposition groups emerged later in the form of civic initiatives, but they were monitored and persecuted by the state. In the former Czechoslovakia, for example, such organizations fighting for civic freedom included Charter 77 and the Committee for the Defense of the Unjustly Persecuted, as well as other civil rights and environmental initiatives.

During the 1980s the tense relations between political authorities and social movements began to relax slightly. Many young people became involved in environmental movements, cultural initiatives and self-help cooperatives. The new, gradually “tolerated” civic associations developed outside of state control. Their initiators ignored state directives. These independent self-organization activities culminated after 1989 everywhere in the former centralist regimes of state socialism. As a result, the nonprofit and nongovernmental sector, which includes citizen’s associations, foundations, funds, public benefit corporations and churches, has been growing even in these transitional regions.

A very important medium of transfer and transformation has been scientific exchange, especially in the political and social sciences. Modern societies tend to reflect their identity in the language of social sciences. The very complex and turbulent dynamics of transition processes are analyzed in sociological research. In fact, sociology has been not only the pacemaker and trendsetter of Western modernization, but also a critical mirror of the problems and crises of turbulent modernization processes. This is documented in the handbook, *Economics, Political Science and Sociology in Middle and Eastern Europe (1989-2001)*, edited by Max Kaase and Vera Sparschuh, co-edited by Agnieszka Wenninger (2002). This survey of the intellectual and institutional development of the social sciences in Poland, Hungary, Romania, Czech Republic, Slovakia, Slovenia, Bulgaria, and the Baltic States asserts that the first decade of democratic transformation (1989-2001) provided everywhere a new opportunity for social science initiatives to

flourish. A focal issue has been the development of a new political culture of an active civil society and the individual and institutional actors involved. Transition studies must be focused – especially in post-communist countries in transition to democracy – on models of mediation of interests.

But the theories and practices of civil society were not only a copy of Western models. It was already the way of Central European societies as reflected in their national cultural traditions. The Hungarians, for example, have a longstanding tradition of anti-authoritarian *Staatswissenschaft* with liberal and national values in opposition to Habsburgian centralism. This tradition later gave orientation and connection to the opposition against fascism and Stalinism. In the Czech Republic, sociologists can point to traditional links between sociological skills and institutional engagement, represented by the national presidencies of sociologists Masaryk and Beneš. Between the World Wars (1919-1939), the Czech Republic was like a democratic island between the authoritarian and totalitarian regimes.

In the first decade of transformation in the 1990s everywhere in Eastern Europe the democratic and even scientific traditions were revived by political exiles returning home, by intellectual dissidents reappearing from the underground, and by the new young professional generation socialized by international discourses. “The suppressed ‘catacomb’-type civil societies were liberated during the transition, but new institutions and rules have developed that exert influence and constraint on them. Dissenters’ civil society utopias are confronted with the post-communist reality of apathy and alienation.” (Szabó, 2000)

The focus of research and discourses was the new political culture of transitional societies and their individual and organizational actors. In the search for “third ways” between Western market-rationalism and the communist state-centralism, intellectual and institutional interests were directed to a “third sector” of civic self-organization.

An impressive example of such self-organization is the renewal of social science initiatives and institutions. Of course, there have been significant efforts by state universities at the national level. However, on the local level and even on the international level, scientific associations and networks, research groups, professional periodicals, congresses and international meetings have emerged – funded through public-private partnership by sponsoring and often by international foundations promoting and supporting scientific networks. But international foundations need (inter)active partners of self-organization on the local level. This is but one of the challenges facing the nonprofit sector and civil society in the former communist countries of Central and Eastern Europe.

7. Future of Civic Engagement: Political Arenas, Social Alliances and Future-oriented Agendas

In both the former communist countries and the welfare democracies of Europe, the current shape of civil society continues to be influenced by, among other phenomena, the development and transformation of social movements. Today's "new" social movements are to be distinguished from the more traditional ones. The classical social movements of the industrial labor society were focused on the class relations of capital and work. They were based on the old politics of the physical interests of the industrial economy. Classical social policy dealt with the distribution struggles of labor society and the welfare state.

This focus on more material and quantifiable interests is being increasingly displaced by the new politics of the (post-materialistic) argument about the quality of life. New social movements communicate and organize the changing priorities of social needs, hopes as well as fears. "New politics" are mobilizing and politicizing the sub cultural and subversive political awareness of future-oriented fears and hopes (Luhmann, 2002). It is a question not only of concern for social crises and social problems, but also of cultural change. New social movements act for "sustainable development" and against the established systems, which can no longer justify or overlook their environmental problems. These new social movements include:

- Environmental movements committed to new technological developments in relation to their natural and social environments;
- Alternative movements in the socio-economic field committed to a re-evaluation of the relations between work and life;
- Self-help movements that promote a new "culture of helping" and healing;
- Feminist movements that demand a revaluation of gender relations;
- Peace movements committed to new international partnerships.

The old social movements were still fixated on the relationships of industrial production. By contrast, the new social movements have claimed their concern for a new culture of human and social reproduction. This requires a new culture of public communication: dialogue and discourse, communication and reflection. It also requires new practices of socio-cultural learning.

In the integration processes of the new Europe, third-sector organizations and relationships are challenged by modernization pressures. However, the modernization crisis also means an opportunity to go beyond established boundaries. Against the backdrop of a globalized world, a new centralistic *etatism* cannot develop. Therefore, the new problems require the mobilization

of the self-organized resources and potentials of the third sector.

The self-organized association already is becoming the basis of many European activities and alliances. This could create a counterbalance for the explosive dynamics of global markets. At the same time, the European unification process lays out guidelines for common social welfare policies and their corporate actors and intermediary systems. Their structures and cultures could overlay and penetrate national particularities. Social problems are to be considered in their uniquely European perspectives.

However, the programs and potential of the socio-political process for developing solutions to these problems must incorporate specific European features. In this case, the European traditions of local self-administration take on renewed relevance in the "third sector", i.e., the self-organization of civic engagement between market and state.

Still, the different national and regional political cultures have to be taken into consideration, comparing the various emphases of local and regional interests as well as the different relationships between state and church in confessional, ecumenical and secular cultures. Of particular interest will be how these elements can remain intact or change in the course of the transition processes of European integration.

The current transformations of the third sector go hand-in-hand with European modernization trends. Third-sector strategies in the European context are marked by specific features:

- As part of *economie sociale*, third sector organizations present themselves self-consciously to social or common economic structures as an alternative to market mechanisms.
- The programmatic tradition of the "free association" - often consciously in opposition to state and church - has led to a renewal of cooperative values and models. This can be observed currently in the southern European countries of Italy and Spain with the revival of mutual cooperative associations.
- In England local "compacts" are leading towards a "New Deal" of "public-private partnership" - only in the local context.
- In Germany socio-political discourses refer to political traditions combining the principles of solidarity and subsidiarity.

Considering this information, it has to be recognized that the national context often presents obstacles which have to be overcome by the third sector organizations.

- In France classical etatism is characterized by a distrust of voluntary and self-organized initiatives.
- In Germany the consciously well-kept value-based welfare associations may be a mental block for the activation of economy-

rational operations.

- In England a great tradition of “charity” based on private resources long barred claims to public subsidies.

Over a long period, the horizon of new social movements was gradually broadened into the dimensions of global society. With the globalization of mass communication a solidaristic co-involvement must be organized and activated worldwide. In addition, global movements formed in the third sector are mobilizing a worldwide commitment for peace, justice and ecological responsibility (for example, Greenpeace, World Wildlife Fund, Amnesty International). The European agreement alone offers focus and forum for the supranational coordination and representation of self-organized engagement. “Public spirit” is opening new horizons with the European transformation policy.

The social movements find practical relevance today in new institutional arrangements of arenas, alliances and agendas:

- *Arenas* are to be distinguished from the fiction of the often-harmonizing consensus of roundtables. Political arenas are open for public speech, for answers to questions politically in dispute, and for conflicts and controversies.
- *Alliances* connect the thematically or regionally isolated social associations and movements. Alliances also are realized in public-private partnerships. The established organizations are accepted as partners of corporatist collaboration. But the social movements are also included as a crucial potential in public discourses because of their special sensitivity, radicalism and problem consciousness.
- *Agendas* are organizing the future, pointing responsibly towards self-organized networks and learning processes. In this way “Agenda 21,” for example, aims toward securing practical commitments for the 21st century. Social movements activate only historical change. The third sector, therefore, is mobilizing future responsibility for ecological and anthropological balances now in worldwide cooperative alliances for peace, justice and sustainable development of social and natural life.

Suggested Readings

- Bermeo, N./Nord, P. (eds.) (2000): *Civil Society before Democracy*. London
- Hildermeier, M./Kocka, J./Conrad, C. (eds.): *Europäische Zivilgesellschaft in Ost und West. Begriff, Geschichte, Chancen*. Frankfurt/M
- Kaviraj, S./Baker, K. (eds.): *Civil Society. History and Possibilities*. Cambridge

References

- Baader, F. (1835): Über das dermalige Mißverhältnis der Vermögenslosen oder Proletaires zu den Vermögen besitzenden Klassen der Sozietät in Betreff ihres Auskommens, sowohl in materieller als auch intellektueller Hinsicht, aus dem Standpunkt des Rechts betrachtet. München
- Bauer, R. (1990): Voluntary Welfare Associations in Germany and the United States: theses on the historical development of intermediary systems. In: *Voluntas*, Vol. 1/1, pp. 97-111
- Coleman, J. (1982): *The Asymmetric Society*. Syracuse
- Fourier, C. (1808): *Théorie des quatres mouvements et des destinées générales*. Paris
- Grave, C. (1987) [1792]: *Über die Moden*. Frankfurt/M
- Gumplowicz, L. (1883): *Der Klassenkampf*. Innsbruck
- Hegel, G.W.F. (1991) [1821]: *Elements of the Philosophy of Right*. Cambridge
- Kaase, M./Sparschuh, V./Wenninger, A. (eds.): *Three Social Sciences in Central and Eastern Europe Budapest 2002*. Social Science Information Centre (IZ)/Collegium Budapest
- Kaufmann, FX. (2002): *Sozialpolitik und Sozialstaat. Soziologische Analysen*. Opladen
- Lutz, B. (1989): *Der kurze Traum immerwährender Prosperität*. Frankfurt/M
- Luhmann, N. (2002): *Theories of Distinction: Redescribing the Descriptions of Modernity*. Stanford
- Marx, K./Engels, F. (1998) [1848]: *The Communist Manifesto*. London
- Michels, R. (1925): *Zur Soziologie des Parteienwesens in der modernen Demokratie. Untersuchungen über die oligarchischen Tendenzen des Gruppenlebens*. Stuttgart
- Otto, L. [1849/50]: *Die Demokratinnen*. In: Pankoke, E. (ed.) (1991): *Gesellschaftslehre*. pp.530-553. (original: Artikelfolge in 'Frauen-Zeitung', ed. von Louise Otto 1849/50)
- Plessner, H. (2002) [1924]: *Grenzen der Gemeinschaft*. Frankfurt/M
- Seibel, W. (1992): *Funktionaler Dilettantismus*. Baden-Baden
- Stein, L. (1850): *Geschichte der sozialen Bewegung von 1789 bis auf unsere Tage*. Leipzig
- Stein, L. (1958) [1865]: *Verwaltungslehre und Verwaltungsrecht*. Frankfurt/M
- Strachwitz, R. (ed.) (1998): *Dritter Sektor - Dritte Kraft. Versuch einer Standortbestimmung*. Stuttgart
- Szabó, M. (2000): *Some Lessons of Collective Protests in Central European Post-communist Countries*. In: *East Central Europe -L'Europe du Centre-Est*, Vol. 27/1, pp.59-75
- Toqueville, A. (2000) [1835/40]: *Democracy in America*. Chicago
- Wagner, A.H.G. (1879): *Grundlagen der Volkswirtschaft*. Frankfurt/M
- Weber, M. (1954) [1924]: *On Law in Economy and Society*. Boston
- Weber, M. (1999) [1910]: *Essays in Economic Sociology*. Chicago
- Weber, M. (2001) [1902]: *The protestant ethic and the spirit of capitalism*. London

Civic Engagement in East-Central Europe

1. Introduction: Concepts of Civil Society

Civil society was at the forefront of the programs and discussions of those opposing communism and promoting democracy during the 1980s within the Eastern Bloc and has had a long-lasting influence also on Western social science discourses. Students of civil society should reflect on the issues and changing meanings of the concept during this development, beginning with communist dictatorship and leading up to the European Union accession of most former communist countries of Eastern and Central Europe. The analysis of Central and Eastern European states focuses on Poland, Hungary, and Czechoslovakia and has produced ambivalent attitudes towards civic engagement and civil society in postcommunist democracies. This chapter will refer mainly to examples from the Hungarian experience .

Concepts of civil society differ according to academic discipline, author, scholarly direction, age, country, and many other factors. One interpretation is as follows:

“A civil society is a community capable of rationally expressing and protecting its interest, which is capable of organizing itself distinctly separate of state hierarchy” (Miszlivetz, 1999: 58).

This definition integrates the main themes of the classical civil society theories:

- John Locke’s concept of a social sector independent of the state;
- Montesquieu’s vision of the balance of power;
- Tocqueville’s analysis of associational networks;
- Jürgen Habermas’s concept of the critical rationality of the general public.

Miszlivetz stresses that in Eastern Europe the suppressed civil society is the main arena of democratization toward the mixed up party-state hegemony of communism (1999: 57): “The state, intertwined with the party dictatorship was naturally stronger than the atomized civil society”. As an example, he offers the initiatives of civic groups from dissent toward opposition, and finally pro-democracy movements in Hungary and elsewhere, such as the

peace movement, the East-West dialogue networks, and the political parties coming from the opposition movements. According to Mislivetz, social movements and civil society – intertwined actors acting beyond the state and building up regional and international networks – are the avant-garde elite of the regime change toward democratization and the Europeanization of the region. Civil society and its initiatives are “escaping” prisoners of the nation-state in the age of globalization and Europeanization, suggests Mislivetz (1999: 67), and a hope against the destructive tendencies of today’s globalizing economy and capital:

“If the new East-Central European movements, seeing themselves as the manifestations or the builders of civil society, prove unable to create chains of interdependencies, and to evolve and spread a set of values adequate for mutual dependence, they will also become part of the process of de-civilization.”

The doubts about the potential for solidarity beyond the state in Eastern Europe proved to be well grounded, and the “energy of utopia” from the social movements after 1989 is vanishing in the face of the inevitable processes of the establishment of economic and political market mechanisms. The “dark sides of the civil societies” (Lauth-Merkel, 1997) were transparent in civic conflicts, especially in the civil wars of the Balkans, where the forces of civil society were temporarily defeated in their fight against the forces of de-civilization, the “uncivil society” using and accepting force as the mediator in conflicts among ethnic groups and denying the culture of consent and discourse.

The emancipation from Soviet influence and the dissolution of the Soviet empire opened political space for the reconstruction of national sovereignty and the development of civil society and democracy in formerly Soviet-dominated states. The liberation from Soviet rule and the institutionalization of new constitutional structures were “national” and “democratic” as well as “civic” issues. National unity, democracy and civic engagement of the civil society are reaffirmed and resurrected in postcommunist politics as previously neglected factors. In this “renaissance” in Eastern Europe, very different political traditions and tendencies are awakened and reconstructed. Their relationship to the values of civil society, pluralist democracy and human rights is sometimes overshadowed by anti-modernist and traditionalist orientations.

Parallel to the tendency of stressing sovereignty of the nation-state and nation as the ultimate values and actors of the political universe, the political elite of the new postcommunist democracies wish to join in Western European and North-Atlantic economic-political integration, belonging to the European Union (EU) and the North-Atlantic Treaty Organization (NATO), respectively. To achieve access, they must develop civil society and democracy. Paradoxically, the same political forces that preach national engagement and rebuilding of the nation-state plea for European integration

(or reintegration) as a precondition of stabilization of democracy and modernization of the economic system.

The new Eastern European nations all seek membership in the European Union. But this membership, which requires a high level of “civicness” and at the same time, involves limits of sovereignty of its member states, conflicts with the traditions of nation-states in Eastern Europe. The European Union is the symbol of modernity, democracy and civic culture for East Europeans; the European civil society is a challenge for all of them.

2. The Development of Civil Society and Civic Engagement in Eastern Europe: An Overview¹

Which features distinguish the development of civil society and civic engagement in Eastern Europe from that in Western Europe? Generally speaking, Western development was characterized by and large by unity of modernization, democratization, market economy and democracy, all of which favored civic development. In Eastern Europe, by contrast, continuous conflicts occurred between modernization and democratization, well being and constitutionalism. Authoritarian and totalitarian regimes developed in the wake of ethnic and national conflict. Civil society went underground staging opposition against powerful empires or emerging and aggressive nation-states, but was afflicted by ethnic and national conflict. Economic backwardness left the door open for state interventionism, and the modernizing elite came from the feudal aristocracy or from “alien” ethnic groups such as, for example, Jewish, Hungarian or German groups, to the formation of titular nation. Weak middle classes hindered the development and the dissemination of civicness. Authorities, hostile to civic initiatives, were characterized by a “top down” attitude in which the concept of partnership was alien. National development processes made small “civic islands” hostile to each other; rivalry and an orientation to their own government or nation were characteristic.

Internationalization and Europeanization were looked upon by the Eastern European elite as the ideas of “conspirators”, “traitors”, Jews, Communists, or Liberals. Alienation between the masses and elite groupings, as well as rivalry among elite groupings, hindered the formation of coalitions for civic development beyond state borders.

1 A fine overview of the origins and the development of civil society with special reference to the specific situation in Eastern Europe provides the article “The Origins of Civil Society Structures in Central and Eastern Europe through the 18th Century” by Meinulf Arens and Daniel Bein which is available in the bonus section of the CD-ROM.

Western Europe's post-World War II integration tendency was kept from the Eastern part by the communist regimes of the Warsaw Pact and its "socialist brotherhood" as facades of imperial Soviet rule. Under communist rule, Eastern Europe's civil society gained the experience of survival under pressure, but lacked the praxis of responsible participation and management of public processes and of business.

After 1989, the West stood there with well-being, resources, and the experience of participation within the process of European integration; the East with "heroic tradition" but without comparable public and private experience within the framework of the re-emerging nation-states and facing national and ethnic conflicts. A "catch-up revolution" was the challenge after the regime change, with Western aid and later within the Europeanization processes, also with more and more openness and support of national government policies toward the development of civil society.

2.1 The Age of Empires²

According to Gellner (1991), nation-building and civic development in Eastern Europe were challenged by the existence and predominance of religious and dynastic-based empires in the 18th and 19th centuries. East-Central Europe was overloaded with processes of modernization, democratization and state-building. The strong link between ethnic and social segregation in Eastern Europe gave to nationalism a social impetus that was directed towards both the elite and the still existing empires. Nations instead of civil societies were looked upon by the majority as the development forces of society, economy, and culture. In this region, the "bourgeoisie" was of German or Jewish ethnic origin and was excluded from the elite and "high society". This was in contrast to the Anglo-Saxon modernization model, where city, capitalism and state-society-nation building were connected. In Eastern and Central Europe, the former feudal aristocracy modernized the traditional societies with some support from the forming intelligentsia. These developments were unfavorable to developing and stabilizing civil societies.

However, during the Austro-Hungarian monarchy, a long and stable period allowed some civic development (Fejtő, 1998). In Hungary, for example, at the turn of the 18th and 19th centuries István Széchenyi, a Graf from a leading aristocratic family developed the club system along the British model, in which the upper classes could exchange views on the modernization and civilization of the country. He and his collaborators – influenced strongly

2 With special reference to Hungary Éva Kuti focuses in her article "18th and 19th Century Traditions of Voluntary Organizations in Central Europe – A Hungarian Perspective" on the so called golden age of civil society development in Central and Eastern Europe, see bonus section of the CD.

by the British compromise between urban and rural, capitalist and feudal – were very effective in developing transportation, finances and civic life for the coming Industrial Age. One of the main forms of organizing to achieve such developments, e.g., building a bridge over the Danube, regulating the country's rivers, and developing horse racing, was the association. Associations of the upper classes became popular also among the lower and middle classes to promote theater life, Hungarian literature and related economic enterprises such as printing, advertising, book distribution, and theater tickets.

In fact, the 19th century in Hungary, and more generally the duration of the Austro-Hungarian Empire, could be called the “century of associations”. Elements of freedom of association, of the right to assemble, and of a basis for philanthropy developed. The government tolerated civic activities insofar as they had some service function, but hindered watchdog or advocacy activities. The Austro-Hungarian monarchy had a strong secret political police or intelligence system, which infiltrated associational life. Beyond the possibilities of official control, the “ear of government” was present everywhere and connected the “arm of government” to the coercive apparatuses, which prohibited associations and imprisoned or fined leaders and members, if the interests of the regime seemed to be endangered. Danger, fear, and repression shaped the environment of the otherwise intensively developing associational life.

The repression became harsher when the “disease of association” reached the lower classes as well. Incipient workers’ movements in Hungary, Austria, the Czech lands, and elsewhere were oriented toward the German-based ideas of solidarity and association of Hermann Lassalle or towards cooperative ideas of Russian anarchism influenced by Kropotkin. The bourgeoisie was weak; at the forefront were ecclesiastical and secular intellectual associations. Socialism and the workers’ movement in some respect provided an avant-garde for civic activism in favor of freedom of association by developing advocacy and watchdog organizations that were met with a repressive tolerance by the authorities. Despite such repression, these modest developments have been seen until recently as a sort of golden age since various trends during the different authoritarian regimes that followed the dissolution of the empire further endangered and reduced the associational life and networking of the workers’ movement.

2.2 Interwar Period

The period prior to World War II was overshadowed by the military-political threat from fascist Germany and the communist Soviet Union. But not only foreign threats and military conflict contributed to the crisis of the deve-

lopment of civic engagement and societies in the region. Hugh Seton-Watson (1982) concluded in his analysis of interwar social-political conditions of this region that unresolved problems of modernization and democratization resulted in sharp national, social and political conflicts, led to crisis of democracy and civil society, and contributed to the establishment of authoritarian regimes. With the important exception of democratic Czechoslovakia before Nazi occupation, weak bourgeoisie, strong agrarian and feudal structures, and traditional military-bureaucratic elite produced unfavorable internal conditions for democratization and civic development. The mobilization of fascist and communist movements also threatened democracy and civility and escalated the various national and sociopolitical conflicts. Popular expectations about the establishment of nation-states with higher social and democratic standards in East-Central Europe on the ruins of the Austro-Hungarian monarchy were hardly the proper basis for development of civil societies, with the remarkable exception of Czechoslovakia where democracy could survive and secure a solid basis for civic development before Nazi occupation. However, conflicts among Czech, Slovaks and Germans resulted in the ethnic-based organization of civic organizations in the interwar Czechoslovakia, too. The bad shape of civic engagement and civil societies in the interwar East-Central Europe is a lasting legacy of the past.

In Hungary, the so-called Horthy regime expelled the left in order to repress the short-lived communist, Bolshevik-oriented military dictatorship of Béla Kun (1919). Liberal tendencies in public life were looked upon as "Jewish-based" by the "white" Horthy regime. Communists were politically persecuted during the whole of this period, and social democrats had to make severe concessions to be tolerated in a much more restrictive way than in the Western democracies. The legalized Social Democratic Party could count on the trade unions, but it was forbidden to recruit members and voters within the rural areas. Anti-Semitism was a quasi-official attitude of the regime; by contrast, Catholic associations and generally Christian church-based organizations were favored among the ecclesiastical associations.

These shortcomings became more severe through the spread of populist and fascist tendencies based on the Italian and German models. During the 1930s, these tendencies were espoused by Prime Minister Gyula Gömbös, and later the German-oriented and -supported Szálasi movement gained momentum with the intervention of the Nazis within the last months of the Second World War. Both Gömbös and Szálasi admired the fascio-corporatism in Italy and the German model of the "organized and totalitarian society" that restricted the freedom of association of civil society and within the workers' movement and supported de-liberalization and authoritarianism. Of course, such circumstances, including the Nazi occupation of Czechoslovakia and Poland, strongly hindered any development of civil society and annihilated its humble organizational and social structures. Civil society in

Eastern and Central Europe had to go underground already before the communist takeover.

As indicated here, there was up to the period of communist rule an ambivalent relationship between democratization-civilization and nation-building in Eastern and Central Europe. The national consciousness and the idea of a nation-state developed against supranational empires, and this united nationalists and democrats as well as civic movements in a common political camp against the “foreign” empires and their elite. There were “Slovaks”, “Hungarians”, “Germans”, and “Romanians” – communities constructed by late and aggressive nation-building processes, and in the arena of the conflict between nations there was almost no room left for civil society and its engagement within and beyond borders. Nation-building blocked modernization, democratization and civilization as well. After the dissolution of empires, the new nation-states were not able to establish stable democracies. Authoritarian regimes (Horthy, Pilsudski, Tiso, Szálasi), suppression of minorities, national conflicts, and involvement with the fascist-communist confrontation dominated the political scene in East-Central Europe until the end of the Second World War and stunted the development of civil society. Nationalism and civil society became enemies of each other within this development, with civil society’s suffering with the establishment of the concentration camps of fascism for racially or politically selected victims of state terrorism. In light of these developments, the traditions of the Austro-Hungarian Empire could be looked upon as a “golden age” for civil society and associationalism.

2.3. Communist Rule³

Between the end of World War II and communist takeover, coalition governments with the presence and sometimes a predominance of Soviet-backed communists ruled in East-Central Europe (Fejtő, 1974). During the interlude of the regimes of “people’s democracies”, communist parties played their political role as parts of a Soviet-directed network. They confronted their former allies, the national democratic-oriented liberals and rural peasants, and the social democratic parties, which defended national independence against Soviet dependency and tried to maintain Western connections. The formerly “people’s democratic” coalitions split and became communist-dominated. Communist politics in Eastern Europe was deeply involved in the Soviet imperial strategy set up by Stalin, and forces insisting on national and civic values were forced to go underground by the supporters

3 Pavol Frič highlights in his article “Impact of 20th Century Fascism and Communism: Proletarian Altruism” the phenomenon of civil societies being under the thumb of the state, thus having a so-called catacomb existence, see bonus section of the CD.

of the Stalinist-Soviet models.

The Hungarian “Stalin” was Mátyás Rákosi, reputed to be the “Stalin’s best pupil”. He and his collaborators declared war on civil society in every respect. All independent associations were dissolved; only communist-led and -promoted ones could survive. Even among them the “unity principle” was exercised, meaning the reverse of the subsidiarity principle, i.e., every function had to be centralized and put under the same homogenous rule. There was no acknowledgement of regional, social or cultural differences; instead, every citizen and group had to be a member of the same homogenous and centralized trade unions, peace movements, women’s movements and cooperatives, to mention only a few of the pseudo-autonomous civic organizations that were tolerated as “satellites” within the communist system. The utopia of Orwell’s 1984 was a reality during the first years of communist rule in Hungary and elsewhere in the Eastern Bloc. Only later when liberalization loosened some of the hard core restrictions, it became possible to discuss regional and other differences. However, the guiding idea of communism was to put all differences in the same box and thus make them disappear. As such, organizational centralization and homogenization was maintained until the very end of these regimes in 1989. Civil society and pluralism were underground phenomena during the communist time.

Of course, within the ideas of communism there were also alternative images introducing some aspects of civil society as elements of democratic pluralism within the collective system. In Hungary, such alternatives were raised by, for example, Imre Nagy (the leader of the 1956 Revolution), his collaborators, the Marxist philosopher Georg Lukács (also a member of Nagy’s government), his pupils, and members of the so-called “Budapest School,” including Ágnes Heller, Mihály Vajda, and János Kis, who developed Marxism toward Liberalism. Such “revisionisms” opening Marxism to civil society were present in other East-Central European countries, too. These included the Praxis group in Yugoslavia, thinkers and politicians of the Prague Spring 1968, the later Charter movement, and the changing oppositional milieu of Poland from liberal Catholics to the Solidarity movement of Lech Wałęsa. None of these thinkers and groups was able to exert lasting influences on the structure of the respective communist regime, but helped to destabilize them through discussion and conflict among the regime’s elite. These conflicts either opened the leadership up to Western influences, as in Hungary in the 1960s, or made them repressive against new trends of civil society as in Czechoslovakia’s “normalization” process after 1968.

Civil society had to go to underground in the communist system, facing the threat of the concentration camps reserved for the “enemies of socialism.” Civic autonomy was annihilated, every autonomous initiative suppressed. Legal forms such as the foundation and association were forgotten, or used to

hide quasi-autonomous communist-based satellite organizations. In fact, in all communist systems prior to 1989, autonomous social movements and other forces of civil society were suppressed, and so-called “pseudo-movements” – huge bureaucratic organizations declaring themselves to be social movements (official trade unions, peace associations, women’s movement) – dominated the political scene. In these authoritarian systems, all nonconformist socio-political protest was outlawed.

Furthermore, the communication of autonomous initiatives with the aid agencies of Western and other countries were hindered. Informal networks and collaborations among East-West and East-East movements were the ultimate targets of the regimes’ administrative control. Opposition efforts to mobilize resources internationally through joint protest actions and the exchange of ideas and experiences with movements of other Eastern or Western countries were also subject to obstacles placed by the communist systems. In fact, the regimes attempted to control the informal “foreign policy” of social movements and civic initiatives in order to combat global and regional cultural trends, value changes, and political orientations not fitting into the official line.

The suppression of all noncommunist political leaders produced a type of “negative coalition”. Partisans of the old, authoritarian-nationalist regimes were persecuted in the same manner as liberals, social democrats or reform communists. In the political emigration and in the underground opposition against Stalinism and communism, representatives of the different political tendencies built up political solidarity, which sometimes reached the level of joint political action. An “underground civil society” could not articulate the differentiation of civic forces; anti-communism united all of them as persecuted, underground groups. A good example of anti-Stalinist and anti-communist national upheaval and protest is the Hungarian Revolution of 1956 (Lomax, 1976). From the reform communists to the supporters of the Horthy regime and the Catholic Church, national mobilization occurred against the Stalinist, pro-Soviet regime. Of course, in the dynamic of the revolution and protest, splits and conflicts among the different political orientations and traditions appeared. But the “united” character of the civil society in 1956 was held up as a monument against the communist rule. In terms of social mobilization and assimilation, the Stalinist modernization policy with its forced urbanization-industrialization and extreme centralization was able to homogenize civil society even further, dissolving traditional rural communities and church-based identities. The communication and economic relations of these societies were highly inward oriented and were largely isolated from trends of the European and world economy, culture and society, a situation that favored some backward and parochial tendencies. Civil society networks under communist rule were separated from the globalization, modernization and postmodernization of civil society. Among the lasting

legacies of this period are the fear of civic activism, the lack of civil courage, the lack of a sense for pluralism and tolerance, and a lasting “privatization”, i.e., the fear of any collective action that can be manipulated by the system.

2.4 Liberalization and Crisis

Post-Stalinist communist systems tried to integrate elements of national and civic legitimacy and sought support from the nation and from civil society. In Hungary during the post-revolutionary “restoration” policy of János Kádár from 1957 on and after the first waves of counter-revolutionary violence and suppression, leading representatives of the “populist” intellectuals reconciled with the new regime, which was ready to support national culture and identity to a certain extent and give up Stalinist patterns of “internationalism”. The national autonomy and independence that created an opening for civil society within the policies of the individual communist countries were limited by Soviet intervention as in Czechoslovakia in 1968 or the Soviet-supported Polish military in Poland in 1981, and the forced institutions of the cooperation of the former socialist countries. There were more and more cooperative elements built into these integrative institutions during later development, but their compulsory character was sanctioned by Soviet military forces in crisis situations, such as occurred in Hungary in 1956 or Czechoslovakia in 1968.

Crises of the planned economy, centralized one-party rule, and international conflicts opened more possibilities for autonomous “national” policies within the Eastern bloc in the 1970s and 1980s. The general trend in East-Central Europe was the use of political space by the communist elite to gain support by formulating autonomous foreign and domestic policies. There were some experimental openings towards civil society in Hungary and Poland, but in post-1968 Czechoslovakia authoritarian patterns were reinforced, and civil society was sent underground again. The liberalization in Poland and Hungary had some impact also on the level of civil society and political opposition. Already at the end of the 1960s there were opposition groupings to be observed in Hungary within the “underground civil society” characterized by the national-populist and liberal-democratic tendencies (Tőkés, 1979: 142 ff.).

In the mid-1980s, George Soros, the rich U.S.-based investor with Hungarian-Jewish origins, later acknowledged as an international philanthropist of the communist bloc, began in Hungary – at the time the most open country of the region – his efforts to support open society development in the former communist countries. The Soros Foundation, one of the first to bring international aid from the material and spiritual resources of Anglo-Saxon type civil societies to the Eastern civic initiatives, became an important

regional player. Already before 1989, the Soros network had penetrated throughout the entire region and helped the development of civic engagement with material support, training in-country and abroad, and especially networking among Eastern activists. In Hungary the opposition networks of liberals and populists, in Poland the mass movement Solidarity and its successors, and in Czechoslovakia the small intellectual network Charter 77 articulated the demands of civil society and enjoyed the support of the networks of the Soros Foundation and its Open Society Institute.

The Soros institutions were themselves an expression of civic engagement, demonstrating the force of the foundation and international resource mobilization through pragmatic project support. These actions gave new impulse to the re-establishment of the third sector. However, at end of the 1980s, these regimes needed Western investment and loans, and the Soviets seemed to have finished their economic and political support for the “hardliners”. As a result, the reform-communist, “softliner” elite found a new ally within civil society, which in their view was to substitute for the failing state-based cultural, health and social policies. In the case of Hungary the 1987-1988 wave of refugees from neighboring Romania was met mainly by a “policy mix” of civic initiatives, self-government, self-help, and state support. The crisis of state socialism gave momentum to the ideas of third sector, civic autonomy, and civic engagement, first in their social-cultural sense and later – parallel to the democratization process – also in their political sense. First foundations, then associations, and finally parties as institutional forms were newly regulated and politically opened up by the softliners of the regime in Hungary. A massive wave of organizational activity occurred after the decades of forced unification and homogenization, the old communist satellite pseudo-civic organizations were dissolved or marginalized, and a profile of civil society began to be crystallized from 1988 on. In Poland and Czechoslovakia, these processes were politically hindered until a later date and then had a much more stormy character; meanwhile in Hungary, a gradual re-civilization appeared within the latter years of the communist regime.

3. Civic Issues in System Transformation

Protest movements and nationwide alternative civic organizations emerged as leading forces of the breakthrough. The resurrection of civil society development, self-organizing, “bottom up” approaches, new elite and its competition, and new organizational forms quickly gave shape to the civic sphere, where instead of the former underground networks, nationwide mass mobilizations took place and reshaped state and society. “Umbrella organizations”, all-embracing “national fronts”, agreements on Roundtable talks by

all political forces to constitute a new political community, “national institutions” and national leaders, as accepted symbolic and integrative forces of the new political field, claimed to represent the whole of the political community. The movement organizations and the political leadership of the first protest period could not sustain the restructuring of political conflicts. As long as the communist party maintained political-administrative control, the counter-movements were connected in a united front. After the dissolution of the monopoly of power and establishment of a new political opportunity structure, leadership and ideologies had to fit into a pluralistic political field. This was the path of Poland’s Solidarity, Citizen’s Against the Violence in Czechoslovakia, and the Hungarian Democratic Forum, whose preeminence was lost as a result of the respective country’s first set of elections, and a mosaic of successor organizations gained impetus on their ruins.

During the various phases of system transformation, the social-political subjects are changing. Social movements mobilized by crisis and protest establish transitory coalitions with temporary organizational impact. The emergence of party systems is an important step in the institutionalization. With free elections, the distribution of power and formulation of national policy conclude in the establishment of new institutional structures, which represent “national” interest within pluralistic, conflict-based modern societies. Civil society with its networks is built on the basis of a new economy, constitutionalism, the rule of law, and regional and global networking. Associations, foundations, and different types of NPO networks will be established first with civic activity, volunteerism, enthusiasm, and then maintained with foreign and government aid. Civic activism develops in the respective countries in a progressive way; it is not hindered by dramatic wars, civil wars, ethnic conflict or authoritarianism. The limits to development can be found within available resources and imagination, and of course within some of the legacy of the past that is not really conducive to civil society. The Europeanization process is also a supportive trend for the development of East and Central European civil society.

The processes of system transformation in East-Central Europe had a similar dynamic, but with considerable differences. Still there are some common elements based on common historical and cultural heritage and geographic, economic and social ties to Western Europe that distinguish the transformation process in this region with that in the Balkans and in the former Soviet Union. Some of the important distinctive features in East-Central Europe are the absence of violent ethnic and territorial conflicts, which followed the dissolution of multi-ethnic federal states, like Soviet Union and Yugoslavia. Despite the fact that territorial-based ethnic minorities do exist, they do not provoke violent mobilization of majorities, nor do they serve as starting points for such a kind of mobilization. Ethnic violence seems to be under control in this region, where new political institutions, the

constitutional framework and political parties are used as accepted channels for distribution of power.

Social solidarity, Catholic social and moral values, national traditions and democratic aspirations helped to establish a strong civil society as a mobilizing force in Poland through the 1980s. The Poles' organizational and symbolic unity in Solidarity and its leader Lew Walesa could not be maintained in the framework of pluralist democracy. Strong organizational unity even hindered the development and differentiation of a multi-party system. In contrast with Poland, however, there has been considerable political stability in Hungary since 1956. Kádárist policy opened up possibilities for entrepreneurship in the second economy, and the formation of civil society on the economic level (Frentzel-Zagorska, 1990). A much less politicized civil society emerged this way in Hungary. Fragmentation and differentiation of opposition intellectual groups and circles developed already before the system transformation, and their possibilities for political bargaining with reformers of the Hungarian Socialist Workers Party were much greater than was the case in Poland. Since 1956, the relations between state and society suffered no huge waves of repression such as the martial law instituted in Poland. Thus, no "umbrella organization" representing national solidarity could be established; only a temporary unity of opposition groups for the purpose of bargaining with communists existed.

By contrast, Czechoslovakia's historical background of regime change began with the "normalization" process introduced since 1968, with strong backing from the post-Stalinist Soviet leadership. All reform-communists were excluded from the Czech-Slovak Communist Party, and even the Soviet reforms of the 1980s were neglected by the communist elite, as they were in the former East Germany. Opposition groups developed in an intellectual subculture against the old system, and strict and rigid political-administrative control forced them to be united. Strong repression and rigidity of the communist rulers helped to get national and democratic issues together in the opposition discussions. Political solidarity on the part of diverse groups ranging from nonconventional artistic groups to former reform-communists emerged in the form of Charter 77.

The characteristics of the institutionalization and differentiation processes are connected in Czechoslovakia with the reemergence of the issues and cleavages of nation-building and state-building (Kusy, 1991). The difference of the political culture between the more Westernized and industrialized Czech parts and the less developed, and with socio-economic and ethnic problems overloaded, Slovak part and the institutionally resolved conflict among the groups of the new political elite produced separation and the dissolution of the federation in a peaceful way in 1992. The potential for nationalist mobilization is concentrated in Slovakia, whereas the political traditions and culture of the Czech parts have West European civic

orientations. Czech civil society was able to develop without lasting political interference. In Slovakia meanwhile, civic groups were united in a frontline against the authoritarian experiment of Prime Minister Vladimir Meciar who exploited the nationalist mobilization and anti-Western attitude of the Slovaks.

Summing up, there is a change among the actors of the postcommunist civil society; there is a shift from underground organizations to NPOs settled in a more or less stable and conducive social and political environment. The key trends are as follows:

1. From avant-garde towards professionalism: The risk entailed in civic activism was high under the communist system, and the space to launch professional activities was restricted. After 1989 the issue-oriented, efficacy-oriented activity became more and more dominant, and nongovernmental activity is no longer connected with much risk of repression on the part of the authorities. As a consequence, a new generation of activists with professional or semi-professional background emerged.
2. From protests to service activities: Although the different forms of civic protests do not lose their importance after 1989, and watchdog and advocacy NPOs still exist, protest become only one of the forms of civic activities once the administrative barriers towards articulation began to fall away. After 1989, public relations, fund-raising, national and international networking, education, and organizational development are having more importance among civic activists, and professionally trained volunteerism is required for producing efficient services.
3. From ideology to policy orientation: General discussions, symbolic issues, framing of problems, and their interconnectedness are still on the agenda, but nowadays initiatives are issue-oriented in policy frameworks. Meanwhile in the communist system the "System" as such has been criticized by every civic activist, and without free praxis, "ideologized", theoretically overloaded discourses emerged. After 1989, pragmatic and policy issue-oriented approaches are the dominant patterns.
4. From the local to the global: Although civic activism had connections from the beginning to similar activities and opposition groups in other countries, the communist system heavily controlled international travel and communication. After 1989, free international networking and communication and a general trend toward sinking costs as a result of new technologies have made internationalization and globalization possible and feasible. Regionally, both Western resources and know-how are badly needed in postcommunist civil societies, as are the joining of resources and the building up of common power structures in networking with other postcommunist countries' NPOs. If external help was in question for the

civic groups, then before 1989 the pure existence of the initiatives was supported against a suppressive or later neutral regime; after democratic transition the quality of the character of civic activism has been at the forefront of the external help (Leś, 1994; Kuti, 1998). Various “clandestine” ways of channeling Western aid were established (Ramet, 1991). In the time of crisis of communist systems, there was an extension of Western aid through various Western foundations and other international networks – for example, the Pew Charitable Trusts, Rockefeller Foundation, Andrew W. Mellon Foundation, and the Robert Bosch, Volkswagen and the Bertelsmann Foundations – in the form of fellowships for activists, donations of copier machines, etc. (Kuti, 1998; Siegel/Yancey, 1992). Western organizations ultimately were able to extend the political space available for their activities. The authorities no longer functioned by strictly rejecting and hindering Western aid to civic groups as they did before, and, in practice, they did not carry out the old rules and laws any more and tolerated external help for civic activism (Lévai, 1992).

The “established” civil society of formerly communist countries strives for resources and experiences of the Western democracies, and the old barriers and constraints are removed. However, Western support is limited by a scarcity of resources as well, a fact that was not realized in the time of communist constraints when receiving Western aid was a risky activity undertaken by only few groups and persons. With the risk essentially removed, a competitive relationship was established among civic groups and NPOs competing with each other on their national and regional “markets” for Western help (Leś, 1994; Kuti, 1998). Civil society activists have to prove their accountability, their organizational skills, and social and media impact to receive support from Western donors. A shift has taken place from informal social movements to differentiated types of NPOs as targets of Western aid, and the criteria upon which East European NPOs are selected will be clearly shaped by the preferences and rules of Western donors (Kuti, 1988).

Why do some analysts still insist that postcommunist civil society itself remained weak (Miszlivetz, 1999; Howard, 2002)? It can be assumed that civil society is indeed weak compared with the established Western democracies, or making measure the expectations of the actors of the regime change about an active participating new political culture. Some would explain the sinking rate of participation with the forced mobilizations of the communist era, others with the quick development of the transition movements to political parties.

4. Concepts of Civil Society Revisited

Civil society is understood here to mean the

“arena of the polity where self-organizing groups, movements, and individuals, relatively autonomous from the state, attempt to articulate values, create associations and solidarity, and advance their interests” (Linz/Stepan, 1996: 7).

Civil society may include social movements, civil associations or interest groups. In Hungary, the civil society was weak during the communist regime, and even during the 1980s when the economy was liberalized, it never reached the level of Poland’s strength with a big independent trade union for instance. At the end of the 1980s, the organizations that had emerged to fill the newly opened space quickly transformed themselves into political parties during the democratization process. This very fact left civil society relatively empty and dependent upon Western aid. Civil society is a concept with many faces and with different interpretations (Cohen/Arato, 1992; Bibic/Graziano, 1994; Lauth/Merkel, 1997). The concept is used in the following in the sense Linz and Stepan explain it in their manual for transition and consolidation studies (Linz/Stepan, 1996: 7), where civil society is treated as one of the important arenas that have to be differentiated in a consolidation process of new democracies. Linz and Stepan mention among the five important arenas, first, a “free and lively civil society”, then a “relatively autonomous and valued political society”, “a rule of law to ensure legal guarantees for citizen’s freedoms and independent associational life”, a “state bureaucracy that is usable by the new democratic government”, and an “institutionalized economic society”.

“By civil society we refer to that arena of the polity where self-organizing groups, movements, and individuals, relatively autonomous from the state, attempt to articulate values, create associations and solidarities, and advance their interests. Civil society can include manifold social movements (women’s groups, neighborhood associations, religious groupings, and intellectual organizations) and civic associations from all social strata (such as trade unions, entrepreneurial groups, journalists or lawyers). The idea of civil society, as a normative aspiration and a style of organization, had great capacity to mobilize the opposition to the military-led bureaucratic authoritarian regimes in South America, most notably in Brazil, and was crucial in Eastern Europe as a vehicle for asserting the autonomy of those who wanted to act as ‘if they were free’, especially in Poland. In addition to the whole range of organizations, such as illegal or alegal trade unions, religious communities, bar associations, associations of students and professors, which constitute the complex web of civil society, we should not forget another part of civil society: ordinary citizens who are not a part of any organization. Such citizens are often of critical importance in shifting the regime/opposition balance because they turn up in streets in protest marches, heckle the police and the authorities, express their opposition first to specific measures, support broader demands, and ultimately challenge the regime” (Linz/Stepan, 1996: 7-8).

The authors emphasize the difference, but at the same time, the complementarity of civil society and political society, the area or domain "in which the polity specifically arranges itself to contest the legitimate right to exercise control over public power and the state apparatus" (Linz/Stepan 1996: 8). The complementary relationship ensures that neither civil nor political society should be neglected in the analysis in favor of the other. Both are requirements of democratic consolidation, but the concepts of a self-governing civil society-utopia overlook the indispensability of political organizations and of state bureaucracies plus the rule of law. Civil society is important, but not the sole and the dominant factor of democratic consolidations, according to the reasoning of Linz and Stepan (Linz/Stepan, 1996: 9). Meanwhile the civil society concept supposed opposition to "them", the "state", the "government", the "party-state" as the authoritarian regime, and the enemies of the democratic forces, and it is a useful idea for the democratic transitions during the crisis of the old regime and its breakdown. However, after the regime change when the new polity emerges from the suppressed civil society, the differentiation process of the political and the civil society may result in a type of dis-equilibrium and mutual distrust on the part of the exponents and representatives of the two domains. The new political elite may regard demobilization of civil society as a requirement of political stability, and civil society's counter-elite may regard the polity and the governing elite as "traitors" to grassroots democracy, criticizes routinization and bureau-cratization, and rejects intermediation and compromise (Linz/Stepan, 1996: 9f.). The solution for a peaceful coexistence of the two domains in a consolidated democracy is preserving their autonomy but collaborating according to their own tasks and to establish a type of balanced relationship as "political society, informed, pressured, and periodically renewed by civil society" (Linz/Stepan, 1996: 10).

Reconsideration of civil society within the democratic transition literature tried to use the civil society concept in a broader framework of comparative analysis of democratic transitions in different areas of South America and Eastern Europe (Bibic/Graziano, 1994; Linz/Stepan, 1996; Lauth/Merkel, 1997). According to these analyses, the avant-garde function of civil society, its initiating role and "watchdog" function in a new democracy interacting with political society, bureaucracies and the rule of law are common features of democratic transitions. However, the internal composition of civil society and its role in the transformation processes in the different stages need further and detailed comparative analysis (Lauth/Merkel, 1997).

In the case of Eastern Europe, Poland's transition path is seen by Linz and Stepan as maximizing the role of an active and influential, ethical-political civil society; however, these roles may diminish the efficiency and slow down the dynamics of the differentiation of the political society, especially of the party system and parliamentarism during the consolidation

phase after democratic transition (Linz/Stepan, 1996: 255ff.). In Hungary, by contrast, the presence of social movements in the transition initiation phase is weaker than in Poland, but both movements and protests of civic groups exist (Linz/Stepan, 1996: 300 ff.). The less active role of civic groups, alongside the development of market mechanisms during the communist period, has given to the formation of the Hungarian civil society a "bourgeois" rather than "citoyen" character (Misztal, 1995; Frenzel-Zagórska; 1990; Molnár, 1990; Ekiert, 1996). Political participation, especially protest, was lower in Hungary in the 1980s than in Poland. However, after the democratic transition, there was a gradual development of the political society, rule of law and state bureaucracy in Hungary, which is not endangered, as in Poland, by the traditions of active and "ethical", strong civil society embodied in the Solidarity movement and the Catholic Church. Hungary "had no social movements remotely comparable to Solidarity in Poland or multitudes in the streets as in East Germany or even in Czechoslovakia" and there was no crucially relevant underground civil society activism rooted in the Catholic or other churches as in many countries of Eastern Europe and South America (Linz/Stepan, 1996: 300). "Alternative" religious groups exist in Hungary within and outside the established churches, but these do not play such a dominant role for the democratic transition as church-based groups in the Polish and East German transitions. But civil society was a non-negligible area of Hungarian transitions, according Linz and Stepan (1996: 300ff.), and its relatively passive, minimal, economic-cultural character helped lead to the quick consolidation of the party system and of the democratic regime, but not without the "voices", the organizational and processual presence of civic activism (Tismaneanu, 1990).

Civic associations that organize protests do not fit the Western concept of grassroots movements or voluntary groups. While the associations during the communist years were top-down associations (organized by the state) and they tend to be bottom-up in Western democracies (organized by citizens), the organizations in the new democracies are horizontal (organized by the NPO elite with European or Western help). They may not lack finance because of Western aid and recent state subsidies (in Hungary, according to recent regulations, one percent of annual income tax may be given by citizens to civic organizations of their choice, and one percent to a church), but they do lack membership and local networks. A general problem of the post-communist political system seems to be the institutionalization of political representation of civil societies and provision of political space for them within new democracies. The establishment of new constitutional structures has to meet demands for pluralization and democratization in a situation of economic-social crisis. However NGO networks were developing fast and effectively with ties to European and the global civil society. Regional networking also exists for example in the form of Euro-regions. Based on EU

policies, government strategies toward EU-accession have made civil society an important factor within the Europeanization process, where government and civil society partnership must occur.

5. Consolidation by Europeanization

Regional cooperation is seen recently in East-Central Europe as directly connected to the prospect of West European integration, or as formulated in the slogan: “Come back to Europe”, “Citizenship”, the “spirit of constitution”, and “the patriotism of the constitution” should be the integrative elements of new democracies on their way towards the EU. Regional civil society networking could help avoid the defunct patterns of 19th century nationalism and support the “come back” to Europe. Involvement in the European Union, an integration with supranational trends, and processes of democratization and modernization force the new governments and elite of East-Central Europe to keep up with the EU in their partnership with civil society. East-Central European societies are directly confronted with the challenges of modernization and integration in the form of the European Union. The socioeconomic bases of the EU parallel the main goals of East European transformations; functioning market economies, pluralist democracy, civil society, and civic culture. Therefore, to join the EU is an ultimate goal of all postcommunist democracies, and all relevant political groupings support this goal. The EU as the realm of modernity and democracy is an inevitable “reference group” for all political camps in the East-Central European countries. Of course, the EU could be only a “rival principle of association” to “national renaissance” in Eastern Europe, if there are plausible prospects for new democracies to reach the level of EU countries in modernization and democratization.

Suggested Readings

- Lewis, P.G. (eds.) (1992): *Democracy and Civil Society in Eastern Europe*. New York
 Quigley, K.F. (1997): *For Democracy's Sake. Foundations and Democratic Assistance in Central Europe*. Washington
 Ramet, S.P. (1991): *Social Currents in Eastern Europe*. Durham/London
 Tőkés, R.L. (ed.) (1979): *Opposition in Eastern Europe*. Oxford, pp.142-187
 Skilling, H.G. (1989): *Samizdat and Independent Society in Central and Eastern Europe*. Oxford

References

- Bibic, A./Graziano, G. (eds.) (1994): *Civil Society, Political Society and Democracy*. Ljubljana
 Ekiert, G. (1996): *The State Against Society*. Princeton
 Fejtő, F. (1974): *A History of the People's Democracies*. London
 Frentzel-Zagorska, J. (1990): *Civil Society in Poland and Hungary*. In: *Soviet Studies*, No. 4, pp. 759-778
 Gellner, E. (1991): *Nationalism and Politics in Eastern Europe*. In: *New Left Review*, No.189, pp. 127-137
 Haraszti, M. (1990): *The Beginning of Civil Society: The Independent Peace Movement and the Danube Movement in Hungary*. In: Tismaneanu, V. (ed.): *In Search of Civil Society*. New York/London
 Howard, M.M. (2002): *The Weakness of Postcommunist Civil Society*. In: *Journal of Democracy*, Vol. 13, No. 1, pp. 157-170
 Kusy, M. (1991): *Civil and National Content of the Czechoslovak „Gentle Revolution“*. In: Herzog, D. /Pradetto, A.-W. (eds.): *Revolution und Rekonstruktion: Der Aufbau freiheitlicher Demokratien in Ostmitteleuropa*. Berlin
 Kuti, É. (1998): *Hívjuk talán nonprofitnak*. Budapest
 Kuti, É. et al. (1998): *Nonprofit szervezetek Magyarországon*. In: Sándor-Sándor, K./László, P.-V. (eds.): *Magyarország évtizedkönyve*. Vol. 2, pp. 673-683
 Lauth, H.-J./Merkel, W. (eds.) (1997): *Zivilgesellschaft im Transformationsprozess*. Mainz
 Leś, E. (1994): *The Voluntary Sector in East Central Europe*. Washington
 Lévai, K./Széman, Z. (1992): *Társadalmi trigonometria*. Budapest
 Lewis, P.G. (ed.) (1992): *Democracy and Civil Society in Eastern Europe*. New York
 Linz, J./Stepan, A. (1996): *Problems of Democratic Consolidation*. Baltimore/London
 Lomax, B. (1976): *Hungary 1956*. London
 Mischlietz, F. (1999): *Illusions and Realities. The Metamorphosis of Civil Society in a New European Space*. Szombathely
 Mischlietz, F. (1989): *Emerging Grassroots Movements in Eastern Europe: Toward a Civil Society?* In: Gáthy, V. (ed.): *State and Civil Society*. Budapest, pp. 99-113
 Misztal, B./Jenkins, J.C. (1995): *The Politics of Protest and the Postcommunist Transitions in Poland and Hungary*. In: Jenkins, J.C. /Klandermans, B. (eds.): *The Politics of Social Protest*. Minneapolis, pp. 324-341
 Molnár, M. (1990): *La Démocratie se Lève à l'Est*. Paris

- Quigley, K.F. (1997): *For Democracy's Sake. Foundations and Democratic Assistance in Central Europe*. Washington
- Ramet, S.P. (1991): *Social Currents in Eastern Europe*. Durham/London
- Schöpflin, G. (1993): *Politics in Eastern Europe*. Oxford
- Schöpflin, G. (1979): *Critical Currents in Hungary, 1968-1978*. In: Tökés, R.L. (ed.): *Opposition in Eastern Europe*. Oxford, pp. 142-187
- Seton-Watson, H. (1982): *Eastern Europe Between the Wars*. Boulder
- Sitzler, K. (1990): *Regionale Kooperation und europäische Integration*. In: *Südost-europa*, No. 11-12, pp. 686-708
- Skilling, H.G. (1989): *Samizdat and Independent Society in Central and Eastern Europe*. Oxford
- Szücs, J. (1988): *Three Historical Regions of Europe*. In: Keane, J. (ed.): *Civil Society and the State*. London
- Szücs, J. (1991): *Die drei historischen Regionen Europas*. Frankfurt/M
- Tismaneanu, V. (ed.) (1990): *In Search of Civil Society*. New York/London
- Tökés, R.L. (1998): *Hungary's Negotiated Revolution*. Cambridge Mass.
- Tökés, R.L. (ed.) (1979): *Opposition in Eastern Europe*. London

*Zdenka Mansfeldová, Sławomir Nałęcz, Eckhard Priller and
Annette Zimmer*

Civil Society in Transition: Civic Engagement and Nonprofit Organizations in Central and Eastern Europe after 1989

1. Introduction

In recent years, the development of civic engagement and the nonprofit sector in the former Eastern bloc countries has attracted special attention from political scientists and policymakers alike. Have civil society and the nonprofit sector in this part of the world developed into the societal underpinning of democracy? Or, on the contrary, even more than a decade after the collapse of socialist rule, are nonprofit organizations still functioning as proxies of state institutions in Eastern European countries? To what extent are the new democracies in Eastern Europe supported by their citizens?

The reason these questions are still being widely discussed in the social sciences is closely linked to democratic theory and political sociology. According to the seminal work of political scientists Almond and Verba (1963), civic engagement ranks among the most important prerequisites of a societally embedded democracy. The nonprofit sector, with its broad spectrum of organizations that serve the common weal by providing social services as well as offering avenues for political participation and societal integration, constitutes the infrastructure of civil society.

There are several indicators to measure the embeddedness and organizational density of civil society. Among the most important are figures on membership in nonprofit organizations. Besides membership, the number of nonprofit organizations and its growth rate provide a further important indicator of the development and well-being of civil society. Finally, data on nonprofit employment as well as on financing of nonprofit organizations allow a look at another facet of civil society that is closely related to the welfare state and its social service provision. More precisely, the size and composition of the sector expressed in economic terms tell the story of whether, how and to what extent the sector is embedded in welfare state policies.

With special reference to the aforementioned indicators - number of

NPOs, membership, and “economic size” of the sector - this chapter takes a closer look at the development of civil society and its nonprofit organizations after the collapse of socialist rule in the Central and Eastern European countries under study. After a short introductory note describing the situation of nonprofit/civil society organizations under socialist rule, the chapter focuses on the foundation boom of nonprofit/civil society organizations in Hungary, Poland, the Czech Republic and Slovakia since 1990. Subsequently, data on membership development and civic engagement in the aforementioned countries will be presented. Against this background the economic size of the nonprofit sector in these countries will be portrayed by primarily referring to the results of the Johns Hopkins Comparative Nonprofit Sector Project.

2. Emerging Civil Society - Growing Nonprofit Sector

The systemic transformation in Central and East European countries was accompanied by a remarkable revival of civil society, which was significantly facilitated by the establishment of favorable political conditions for civic engagement and nonprofit organizations. In the Eastern European countries under study, after the breakdown of the socialist regimes, a foundation boom of nonprofit/civil society organizations took place, triggered by those societal interests, needs and desires going along with the process of political and social change from authoritarian to democratic rule.

However, civil society did not start from scratch in Eastern Europe in 1989. As outlined elsewhere in this volume (see contributions by Szabó and Frič), in the countries under study there already existed traditions of civic engagement and nonprofit activity that originally were affiliated with either social movements, the churches or the gentry. Moreover, during the time of authoritarian regimes and specifically during socialist rule, nonprofit organizations were trapped in a so-called catacomb existence. Although heavily regulated and controlled by government, they nevertheless were responsible for organizing civic activities and for providing services in a number of policy fields such as arts and culture, sports, and leisure activities.

As Kubik, an expert of societies under socialist rule, notes, “The organizational density of state socialist regimes was higher than in democratic countries. More people belonged to various formal organizations and movements (trade unions, youth and professional associations, etc.) than under any other type of political regime.¹ Moreover, these organizations and

1 For a fine analysis of civil society organizations acting under authoritarian regimes, see the contribution by Frič on CD.

movements provided their members with an entire range of benefits and services” (Kubik, 2000: 184-185). The organizations to which Kubik refers were “pseudo” nonprofit organizations (Mansfeldová/Szabó, 2000). Under socialist authoritarian rule, a nonprofit sector did not exist independently of the ruling state ideology. Even those “pseudo” nonprofit organizations had to be affiliated with so-called “mass social organizations,” which closely adhered to the ideology of the ruling party. Nevertheless, among those “pseudo” nonprofit organizations were many member-serving clubs that fulfilled functions similar to those of nonprofit organizations in market economies, particularly in the fields of welfare, social services, sports, culture, and recreation. These organizations provided goods and services for their members as well as for a limited public. The same holds true for quite a number of clubs funded and run by state-owned enterprises. Thus, there is no simple answer to the question whether the term nonprofit sector might also be used for referring to the organizational infrastructure of socialist regimes. At the same time, there is no doubt that this organizational infrastructure lacked important features of the nonprofit sector in liberal democracies; more specifically, the organizations were not granted by law free access to the public sphere (Kubik, 2000: 188).

Although there were significant differences among the Eastern European countries with respect to the leeway that those “pseudo” nonprofit organizations enjoyed, no civic activity beyond the control of the state was allowed. With special reference to Poland, Kubik (2000: 188) characterizes this situation in a nutshell as an “imperfect civil society under state socialism.” Despite the fact that under authoritarian rule there was no independent nonprofit sector, according to Kubik, even an “imperfect civil society” that lacked legal security helped to create networks of mutual relationships among those citizens who participated in those “pseudo” civil society organizations.

After the breakdown of the socialist regimes, the newly won freedom was used to transform the “imperfect civil society” of monopoly and mass organizations, in which membership was *de jure* voluntary but in fact compulsory, towards a civil society characterized by organizational pluralism. Referring to the specific development of societies in transition from socialist authoritarian rule to democracy, Kubik distinguishes three types of nonprofit organizations:

- reformed organizations inherited from the communist period;
- split-off organizations, especially those that broke away from their communist-era organizations; and
- newly formed organizations (Kubik, 2000: 195).

Reformed organizations are those nonprofits that enjoyed government recognition under authoritarian rule and managed to survive and to reorganize

themselves. Without any doubt the largest and most important organizations of this type are the trade unions. Split-off organizations are very often nonprofits that look back upon a long tradition of civic engagement, but were forced to affiliate with the state-controlled mass organizations under socialist rule. Cases in point are many sports clubs and initiatives in the fields of arts and culture, which sometimes trace their origins back to the early 19th century. Finally, the newly formed organizations are those that were started after the breakdown of socialist rule by local activists using their newly won freedom to launch initiatives and to set up organizations, particularly in those fields that had not previously been tolerated by state ideology. Textbook examples are activities associated with the new social movements such as environmental groups, pacifist groups, and solidarity groups. Despite their very different backgrounds, these organizations have in common that they provide avenues for participation and civic activity through membership affiliation. The following section provides an overview of the burgeoning of nonprofit/civil society organizations, which is reflected in the number of organizations registered since the early 1990s.

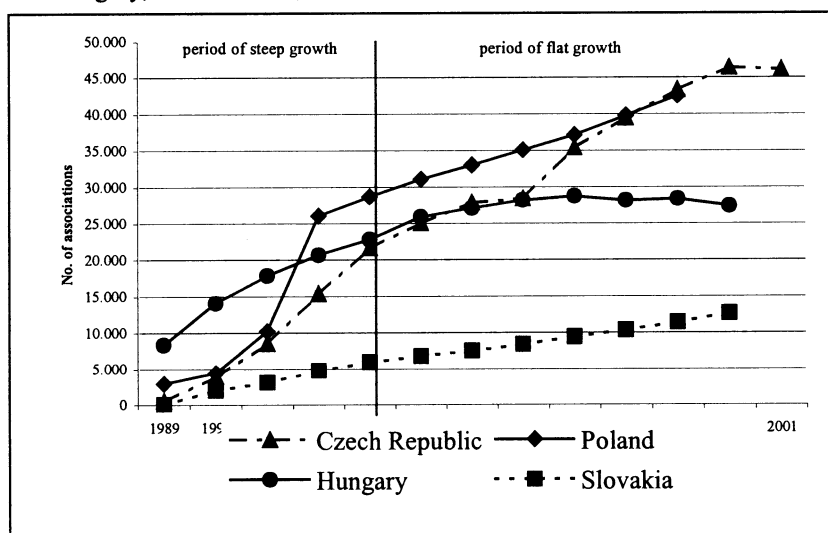
3. Burgeoning of Nonprofit Organizations

A period of renaissance of civil society and a veritable “association boom” characterized the first years after the breakdown of the socialist regimes in the countries of Central and Eastern Europe (Anheier/Seibel, 2001; Anheier/Priller/Zimmer, 2001; Anheier/Priller, 1991). Civic activity, which under socialist rule had been subordinated under those “mass organizations” that were very much in accordance with the ideology of the ruling party and thus integrated into the communist party-state apparatus, blossomed. With the breakdown of the former regimes, both the context and the basic conditions of civic activity changed radically. This was specifically the case for those aforementioned “pseudo” nonprofit organizations. Some were legally transformed into registered voluntary associations, while others reorganized or dissolved. Importantly, the transformation of and the split-off from the “old” state-controlled so-called mass organizations into “new” private legal forms coincided with the founding of many newly formed nonprofit organizations. In the countries under study the majority of nonprofit organizations were registered as associations or foundations. In the years to come these two developed into the legal forms most frequently used by nonprofit organizations in the countries under study. The process of massive registration was further facilitated by legal and political changes, which eliminated or reduced government control over registration and tight supervision of the organizations’ activities. Moreover, a big change of the

political climate motivated active citizens to organize their informal civic activities and to continue their civic engagement within legalized and formal organizational structures based on such values as self-organization, self-government, pluralism, and democracy.

Data from the Czech Republic, Poland, Hungary, and Slovakia show that the process of registration of new nonprofit and specifically membership organizations was especially rapid in the first three to four years after 1989 (Figure 1).

Figure 1. Foundation Boom of Associations in the Czech Republic, Poland, Hungary, and Slovakia; 1989-2001



Data sources:

Polish data: Ministry of Justice (quoted by Nałęcz, 2003)

Hungarian data: according to Bocz et al., 2000

Czech and Slovakian data: Albertina Firemni Monitor, 2001

Although the number of nonprofit organizations significantly increased in all countries in the region, it is interesting to note that the process of growth was slower in Hungary. In this country, thanks to a more liberal communist rule in comparison to Poland or Czechoslovakia, in the late 1980s relatively more “pseudo” nonprofit organizations were allowed to function quite independently from state control. According to Éva Kuti and István Sebestény, “By the time of the breakdown of the Soviet Bloc ... (in Hungary) civil society organizations were numerous, developed, and widespread enough to become important actors of the systemic change” (Kuti/Sebestény,

2002: 4). There is even a controversy whether in Hungary the organizations officially recognized by the communist state enjoyed enough autonomy to be classified as civil society organizations. But, as stated earlier, there were significant differences with respect to the leeway that nonprofit organizations enjoyed in the countries under socialist rule. Compared to Hungary, in Poland and in Czechoslovakia “pseudo” nonprofit organizations were much more subordinated to the state, whereas the “...relatively liberal Hungarian version of state socialism had let ‘politically innocent’ voluntary associations exist” (Kuti/Sebestény, 2002: 8). Against this background it becomes understandable why in Czechoslovakia and in Poland many more organizations were registered during the first years of democratic rule. These organizations had survived, thus having existed informally at the end of the 1980s (Frič, 2002: 4; Siellawa-Kolbowska, 2002). Presumably, at the end of communism in Czechoslovakia and Poland, societal potential for civic engagement, which was not organized in any institutional setting, was significantly larger than in Hungary. In the early 1990s, this civic potential was rapidly transformed into associations and foundations.

In the second part of the 1990s, the growth rate of associations slowed down significantly. Currently, there is a more stable development. However, there are indicators that the number of organizations may even decline. Due to registration procedures, it is difficult to say whether the number of organizations registered in a given year exceeds the number of those that suspended their activities. Some organizations stop their activities, but they do not de-register. Reports from Poland and the Czech Republic confirm that only about two-thirds of registered organizations remain active (2001 NGO Sustainability Index, 2002: 60, 121).

Altogether, however, the burgeoning of associations has been impressive in the countries under study in the aftermath of socialist rule. Between 1989 and 1999, the population of incorporated associations multiplied by a factor of 123 in Slovakia, and grew 81 times in the Czech Republic, 14 times in Poland, and three times in Hungary. The data suggest that the newly founded organizations incorporate civic and social potentials that might make these organizations into influential actors of democratic consolidation.

As already mentioned, democratic theory in particular highlights the different ways and approaches by which these organizations contribute to the construction and the strengthening of democracy. Among the most frequently mentioned functions of nonprofit organizations that work in favor of the strengthening of democracy and the deepening of civil society are first and foremost democratic socialization as well as societal integration and participation (Forbrig, 2001; Anheier et al., 2001). Whether and to what extent nonprofit organizations and particularly membership associations are indeed fulfilling these functions will be analyzed in the next section.

4. Democratic Consolidation Based on Civic Engagement?

According to democratic theory, civic activity, which most frequently is measured by membership affiliation, is a high potential indicator for democratic development in the sense that citizens are ready to take over responsibility and not look upon the state as the main problem solver. However, while studying membership affiliation and development, various factors have to be taken into consideration simultaneously. It was Hirschman who already in 1982 underlined the fact that over time there are parallels between the extent and intensity of civic engagement and economic trends. According to Hirschman (1982), civic activity is closely linked both to the individual life style and to the political and economic context. The interaction of these two factors translates into changing levels of social and political awareness as well as ups and downs in the level of civic engagement and political participation in a given country. Against this background, favorable political and economic constellations have a positive influence on civic engagement. If, however, due to a downswing of the economy, citizens have to work significantly harder to make a decent living, this situation might translate into a reduction of overall civic engagement in the respective country. But citizens might also keep away from civic activity if their hopes and desires are turned down, leaving them disappointed with the outcome of their involvement, which did not live up to their expectations.

That there is a subtle interaction of these factors influencing civic engagement is clearly seen in the countries of Central and Eastern Europe. Furthermore, while studying levels of civic engagement and citizen participation in this part of the world, it is necessary to keep in mind the legacy of the past communist or socialist rule. The lack of experience in self-organization and volunteering due to long years of dictatorship observed in the former German Democratic Republic (Anheier/Priller/Zimmer, 2001: 140) holds true also in the four countries under study. Thus, decisions to become a member or to refrain from civic engagement are highly influenced by citizens' experiences under the former socialist regime. Due to the legacy of the past where membership in those pseudo or mass voluntary organizations was compulsory and not based on individual decision, in Central and Eastern Europe citizens might decide against formal membership, thus becoming involved in a more informal and friendship or neighborhood type of civic activity.

In the following, drawing on the results of both the World Value Survey and the Study on Consolidation of Democracy in Central and Eastern Europe, membership distribution and membership development in the four Eastern European countries under study are the focus. Against the background of the information concerning membership affiliation and membership development

in the 1990s, the analysis returns to the question whether and to what extent citizens are willing to take responsibility and thus no longer seek the protective role of the state.

4.1 Density and Development of Membership

According to the results of the International Comparative World Values Survey (www.worldvaluessurvey.org; Inglehart, 1997) in 1995 less than one third of the population of the countries under study was affiliated with any voluntary organization, political parties included. Against the background that in Western European countries at least every second citizen is a member of a nonprofit/civil society organization (ibid.) the Eastern European countries have still a way to go in order to catch up with respect to membership development. However, concerning preferences of membership affiliation there are no striking differences between Western and Eastern Europe.

Almost around the world, citizens are less likely to be members of political parties or environmental groups, but prefer membership in leisure-related fields of activity such as sports or recreation. Again according to the data of the International Comparative World Values Survey (ibid.), sports and leisure clubs rank first in terms of members – both active and passive – in the countries under study. Membership in labor unions is still very important, although the level of affiliation has significantly decreased since the late 1980s. However, if we take a look at membership rates among those citizens who are in an economically active age, the figures for labor union affiliation are significantly higher in the countries under study than in Western European countries. This is a strong indicator that after a significant loss of prestige following the breakdown of socialist regimes, the attractiveness of labor unions is again on the increase in Central and Eastern Europe. Compared to the public image of trade unions in the early 1990s, there is a change towards increasing popularity and confidence (Rose/Haerpfer, 1996). Nevertheless, with respect to labor unions it has to be taken into consideration that due to the transformation of the economy, in particular, privatization, the boom of small enterprises, and the closure of entire industries resulting in high rates of unemployment, the potential for trade union affiliation has significantly decreased since the early 1990s.

Next to trade unions, churches and religious organizations are also very popular, ranking third in the list of the most prevalent areas of membership affiliation. According to the results of the International Comparative World Values Survey in 1995, membership affiliation of the population in religious groups amounted to 20 percent in Hungary, 17 percent in the Czech Republic, and 29 percent in Slovakia. Compared to Western European countries, this is still a relatively low level. In Germany, for instance, in the same year

membership in church or religious organizations amounted to about 80 percent of the population. What has changed in the years since the breakdown of socialist regimes? In order to get an idea of the levels of involvement in civil society organizations, we will take a look at the results of the "Consolidation of Democracy Survey," which records development in ten-year intervals. In table 1 based on data of the aforementioned fifteen-country study on the consolidation of democracy in Eastern Europe, we trace the development of membership per country. The following organizations, societal entities and social groups were included in the study: leisure time organizations, local organizations, political parties, social and political movements, ecological groups, sports clubs, trade unions, student organizations, and parishes as well as religious organizations.

Table 1. Membership in organizations in 1990 and 2000 (% within sample)

Country →	Czech Republic		Slovakia		Hungary		Poland	
Type of organization ↓	1990	2000	1990	2000	1990	2000	1990	2000
Leisure time organiz.	28,2	24,3	22,3	18,4	2,2	5,5	1,4	2,2
Local associations	8,7	14,3	14	12,3	2,4	3,5	1,7	3,7
Political parties	10,2	5,6	11,4	8,2	-	2	1,1	1
Social or political movements	13,5	2,3	10,4	2,6	1,5	1,3	1,1	0,6
Ecological groups	5,2	3,3	8,4	1,9	0,8	1,4	0,9	1
Professional organiz.	7,4	2,9	6	4,5	4	5,3	4,5	3,2
Sports club	23,2	21,5	20,6	18,5	4,7	6,4	2,3	2,1
Trade unions	43,6	14	37,5	19,9	36,3	11,7	21,8	7,1
Student organiz.	3,2	1,3	6,2	1,4	0,8	2	0,3	0,7
Parish, religious organiz.	4,1	3,9	14,9	10,2	7,2	3,7	2,9	9,5
Other organiz.	14,9	8,9	8,7	4,4	2,7	2,7	7,1	8,6

Data source: Consolidation of Democracy in Central and Eastern Europe 1998-2001: A Fifteen Country Study (Continuation of the 1990-92 Post-Communist Publics Study in Eleven Countries) coordinated by Edeltraud Roller, Dieter Fuchs, Hans-Dieter Klingemann, Bernhard Weßels (Social Science Research Center Berlin, WZB), and János Simon (Hungarian Academy of Sciences, Budapest).

Without any doubt, the losers of the period covered by the data are political parties, trade unions and, in the case of the Czech Republic in particular, social movements. Apart from these striking results, the overall structure of membership in organizations has not considerably changed in any of the four countries. The same holds true for the distinctive differences between individual countries with respect to the level of activity and type of organization.

In the Czech Republic and Slovakia, membership in leisure organizations and sports clubs ranks first. Remarkably, membership in social movements has decreased significantly in the Czech Republic and Slovakia, where there are reasons to assume that membership affiliation has shifted from social movements to political parties, or, to put it differently, that specific political movements have been transformed into political parties. A textbook example is the broad umbrella movement Civic Forum in the Czech Republic. Surprisingly, membership affiliation in professional associations has also decreased, even though the entrepreneurial sector feels a growing need to articulate and represent its interests. In Hungary and Poland, levels of membership affiliation have slightly increased over the ten-year period. However, the overall level of civic activity ranks quite low in these two countries. This is especially the case for religious associations.

Another indicator of citizen involvement is frequency of membership. While membership affiliation provides information concerning the number of individuals engaged, the frequency of membership gives the percentage of individuals who are members in a) no organization, b) one organization, or c) more than one organization, thus providing information whether there are a few highly involved citizens (i.e., a small percentage of individuals having many memberships) or whether citizen involvement is a much broader phenomenon (i.e., a large percentage having at least one membership).

Table 2 reveals a shocking result: The group of respondents that expanded the most over the ten-year period is the one whose members do not belong to any organization and are not engaged at all. Membership density is particularly low in Poland where, in 2000, 82% of the population was not engaged in any organization. Slovakia ranks “best” with “only” 42% of the population entirely unaffiliated. However, these results have to be put into perspective, and they become less shocking when they are compared to the situation in selected Western European countries. According to the results of the Welfare Survey (www.gesis.org/en/social_monitoring/Data/WS.htm), a survey that provides data on membership affiliation for Germany, a substantial number of German citizens (42%) were not affiliated with any nonprofit organization in 1998. Of all respondents, 39% were members in one organization, 14% in two organizations, and 6% in three or more organizations. A long-term analysis of Germany shows that membership affiliation has not changed significantly since the 1980s.

Table 2. Frequency of membership in civil society organizations 1990 and 2000 (in %)

No. of organizations the interviewee belongs to	Czech Republic		Slovakia		Hungary		Poland	
	1990	2000	1990	2000	1990	2000	1990	2000
Year								
None	24	48	23	42	51	66	65	82
1	31	25	33	31	38	24	28	13
2	20	13	24	17	9	6	6	3
3	16	9	11	6	2	2	1	1
4 & more	9	5	9	4	1	2	0	1

Data source: Consolidation of Democracy in Central and Eastern Europe 1998-2001: A Fifteen Country Study (Continuation of the 1990-92 Post-Communist Publics Study in Eleven Countries) coordinated by Edeltraud Roller, Dieter Fuchs, Hans-Dieter Klingemann, Bernhard Weßels (Social Science Research Center Berlin, WZB), and János Simon (Hungarian Academy of Sciences, Budapest).

Moreover, similar to the development in the Czech Republic, Slovakia, Poland, and Hungary, membership in East Germany has declined. In 1998 some 62% of the citizens did not belong to any organization at all. The rise of this number (from 53% in 1993) is due to a decline of membership in trade unions. In 1998, 29% of the East Germans were members in two organizations, whereas only one percent was a member in three or more organizations.

In the former Eastern bloc countries including East Germany, there are a number of indicators that citizens increasingly decide to go into private retreat, thus reducing the associational capacity of the societies under study. At the same time, however, citizens highly appreciate the opportunity to freely establish organizations in order to follow their interests. In Hungary, 71% of respondents consider this opportunity very important, but in Slovakia, only 33.8% do so. However, 96% of respondents in Hungary, 94.9% of respondents in Poland, 77.2% of respondents in the Czech Republic, and 75.4% of respondents in Slovakia consider it very important or rather important (Consolidation 1998-2001).

4.2 Civic Activity as an Expression of Societal Engagement

Involvement in organizational networks serves as an important indicator for the readiness of citizens to participate in activities, which are for the benefit

of certain societal groups that do not belong to the well to do. Thus, the value attributed to volunteering indicates whether citizens are ready to invest time and energy for community development. Networks of associations provide a bonding infrastructure of societal life that offers citizens opportunities for individual development as well as for interest representation and lobbying (Gabriel et al., 2002: 20). The opportunity to participate in decision making in the neighborhood, community and region enhances the quality of life (Možný, 2002: 119). Against the background that the change of the political and economic system of the countries under study was accompanied by many conflicts and disputes, volunteering might also serve as an indicator for grassroots development of democratic structures and activities.

By volunteering and civic engagement citizens express their sense of responsibility, and they indicate that they are eager to solve problems themselves instead of turning to government. As already outlined, this attitude is influenced by various factors which are related to the individual life style and economic affluence of citizens, as well as to their long-term experiences. According to Hirschmann (1982), among the numerous factors, which are influencing the decision to become active there, are the legacy of former experiences, particularly those dating back before 1990, new challenges and expectations, but also feelings of disappointment and rejection. Therefore, citizens are more likely to get engaged if their individual and societal background supports an active life style of civic engagement, and furthermore, if the desire to become active is very welcomed by the organizations. To put it differently, citizens' readiness for engagement must be accompanied by an enabling infrastructure. Therefore, nonprofit/civil society organizations should be able to stimulate citizens to become engaged and to integrate them in their daily routines and operations.

Thus, the decision to keep engaged in volunteering highly depends on an ideal combination of the aforementioned factors. However, in the last decade, those factors influencing volunteering and civic engagement have not always been very favorable in the countries under study. Therefore, findings of selected surveys do not strongly support the hypothesis that civic activity is an expression of societal engagement in the countries under study. For example, even after more than ten years of democratic development, citizens still prefer the protective role of the state; more specifically they do not trust thoroughly in their capabilities. According to the results of the Survey Consolidation of Democracy in Central and Eastern Europe⁴ only 35.1% of respondents in the Czech Republic, 19.6% in Hungary, 20.4% in Poland, 22% in Slovakia agreed with the statement: "Instead of depending too much on the government, people should learn to take care of themselves" (Consolidation 1998-2001). Finally, we have to be aware of the fact that with respect to membership affiliation and civic activity in a more general sense of being involved in activities that are of public benefit, there are differences

according to age and gender of the respondent and type of organization. Table 3 shows, using a weighted average mean, that despite differences among the countries, men and people in the 31-50 age group are more active in solving problems in the community than are women or the other age groups.

Table 3. "How often do you work with other people in this community to try to solve some local problem?" (weighted average mean) ~

Country	Total	Male	Female	Age group 18-30	31-50	51-
Czech Republic	0,69	0,76	0,63	0,50	0,74	0,77
Hungary	0,38	0,38	0,35	0,38	0,47	0,32
Poland	0,43	0,55	0,33	0,36	0,54	0,36
Slovakia	0,73	0,77	0,70	0,46	0,86	0,79

0 = Never, 1=Seldom, 2=Sometimes, 3=Often

Data source: Consolidation of Democracy in Central and Eastern Europe 1998-2001

It becomes evident that those having roots in local associations are more often ready to co-operate and join forces with other people in order to solve local problems. To put it differently, they are more inclined to manage problems themselves instead of turning to the state. In the next section, the question whether this attitude has an impact on the embeddedness of the sector – or, whether government is willing and inclined to work closely together with nonprofit/civil society organizations in order to attract additional resources for social service delivery – will be addressed by referring to the results of the Johns Hopkins Comparative Nonprofit Sector Project, which specifically analyzed the sector in economic terms.

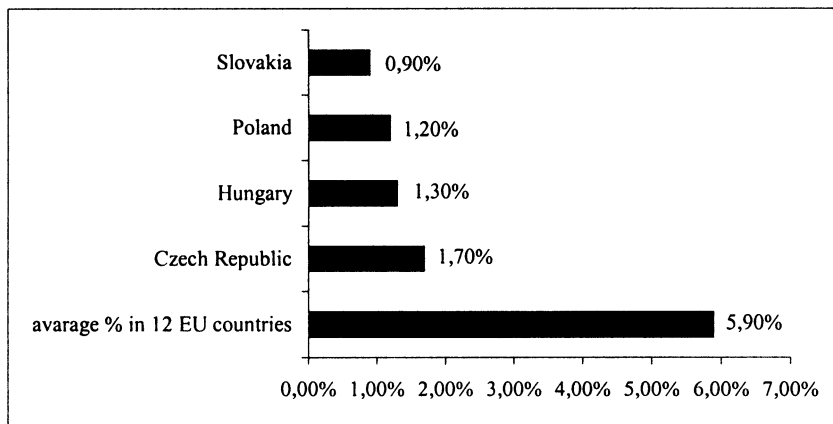
5. The Nonprofit Sector in Central and Eastern Europe

This section provides an overview of the size of the nonprofit sector in the Visegrád countries, primarily measured in terms of nonprofit employment. The chapter draws heavily on the results of the Johns Hopkins Comparative Nonprofit Sector Project (see Salamon et al., 1999). As can be clearly seen in figure 2, the nonprofit sector in the four Visegrád countries is significantly smaller than the average size of the sector in the twelve Western European countries² that took part in the Johns Hopkins study in 1995. Among the Central and Eastern European countries under study, the Czech Republic had

2 The Western European countries participating in the study were: Austria, Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, and the United Kingdom.

the largest nonprofit sector in the mid-1990s. However, with 1.7% of the country's total non-agricultural employment, the size of the sector in the Czech Republic was still about three times smaller than the average size of the sector of those twelve EU countries.

Figure 2. Nonprofit Sector Employment in the Visegrád Countries measured as Percentage of Total Employment, 1995

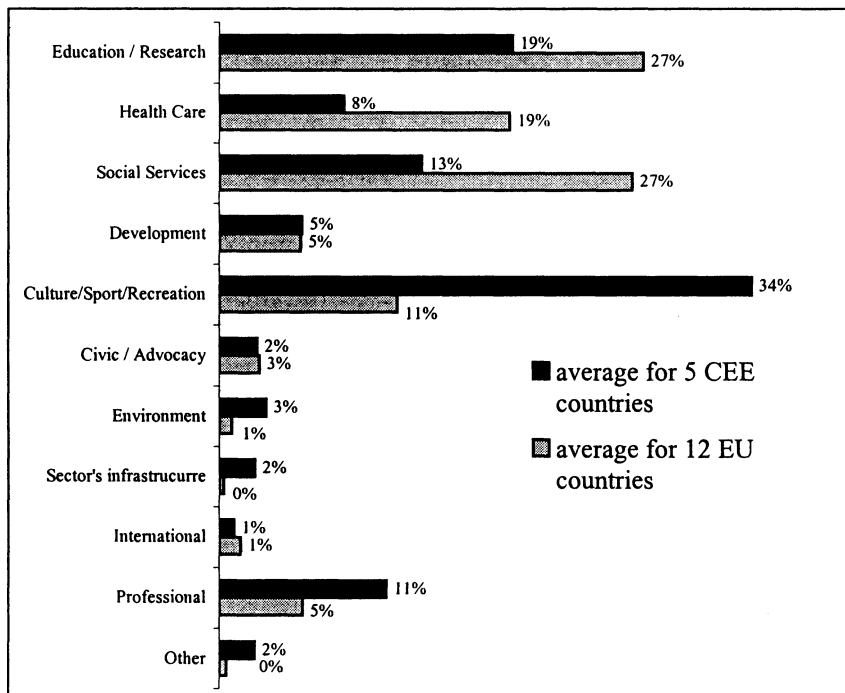


Source: Johns Hopkins Comparative Nonprofit Sector Project

In addition to its small size, the internal composition of the sector represents another striking difference between the nonprofit sector in Central and Eastern Europe and its counterpart in Western European countries. Figure 3 presents data for the four Visegrád countries and Romania and for the twelve Western European countries that took part in the Johns Hopkins study.

More than one-third of the sector's workforce in the Central and Eastern European countries is active in the field of recreation, leisure and sports. While in the Western European countries almost fifty percent of the sector's workforce is employed in the core welfare areas, i.e., health care (19%) and social services (27%), in the Central and Eastern European countries (including Romania) this figure amounts to only 21% of the workforce. As clearly indicated by the data, the areas of education, social services, health care and development, which are the strongholds of nonprofit employment in the Western European countries, are of minor importance in terms of nonprofit employment in the Central and Eastern European countries.

Figure 3. Nonprofit Employment According to Fields of Activity, 1995



Source: Johns Hopkins Comparative Nonprofit Sector Project

In the first part of the 1990s, organizations active in the core welfare fields that had cooperated with the communist state or were a part of the former political system lost the generous subsidies that they used to receive; in some cases these organizations even dissolved. Thus, due to the changed political and societal environment, these organizations had to reduce their activities and to downsize their personnel (Nałecz, 2003: 30). Nevertheless, as explained elsewhere in more detail (see Rymza/Zimmer in this volume), some nonprofit organizations dating back to the socialist period managed to keep their feet in the social service industry. In the meantime they are again enjoying a relatively strong economic position with respect to their scope of operation and personnel employed.

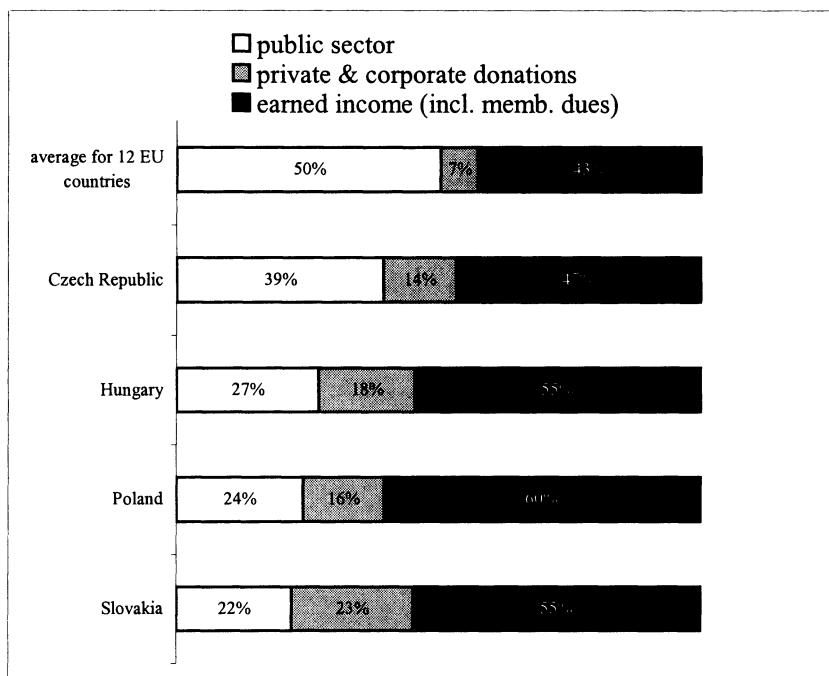
Against this background it has to be mentioned that, from an economic point of view, the great bulk of the newly registered membership organizations are of less importance. The main capital of these new entities is primarily people's enthusiasm (Nałecz, 2003: 30). These organizations also face significant difficulties obtaining government financial support. However,

they also try to keep a distance from the state because they do not want to get mixed up with the former “mass organizations”; moreover, from the point of view of the newly founded organizations, government still does not have a very good reputation in the countries under study. In order to indicate that they are different, the new citizen-based organizations are very careful about their identity, and tend to call themselves “nongovernmental organizations” as opposed to the old “social organizations” or “mass organizations.”

As outlined elsewhere in more detail (see Frič and Rymśza/Zimmer in this volume), in the early 1990s political authorities very much welcomed civic engagement, and there was a general acceptance of civic organizations as an indispensable part of the new democratic system. However, politicians and state officials had no clear vision of the sector, its organizations and its societal functions. Thus, in the first part of the 1990s, the political elite – pressed by problems of the political and economic transformation and preoccupied with neoliberal ideology – neither thought about supporting the recently founded NGOs nor treated these nonprofit organizations on par and as equal partners in the delivery of social services, such as health care, social assistance or education (Leś/Nałęcz, 2002: 31). In a nutshell, the nonprofit sector in the Visegrád countries does not yet play a major role in the provision of social services in the core welfare areas. Again, this is a striking difference to the embeddedness of the sector in Western European countries.

The – compared to Western European countries – very different societal position of the sector in the Visegrád countries is clearly reflected by the revenue structure of the sector (fig. 4). In sharp contrast to Western European countries, the public sector does not constitute the prime source of revenue for the nonprofit sector in the Visegrád countries. On the contrary, the sector relies heavily on earned income, which is made up mostly of membership dues and income from commercial activities, such as selling services, which has developed into the most important source of income in terms of financial value. Furthermore, it has to be mentioned that compared to its Western European counterpart, the nonprofit sector in the Visegrád countries also relies to a larger extent on private and corporate donations. Donations are very unequally distributed, with the vast majority of assets being earmarked for a small number of organizations, which are typically located in the capital and other big cities. In Hungary, “it is one-third (of nonprofit organizations) that earn 94% of the total revenue of the sector” (Kuti/Sebestény, 2000: 10f.). In Poland, “9% of the (nonprofit) organizations - those employing more than 5 persons - use nearly two-thirds of financial assets, while 75% of the organizations - those with no employee - have at their disposal only one-tenth of all financial means of the sector” (Nałęcz, 2003: 29).

Figure 4: Source of Nonprofit Sector Revenue, 1995



Source: Global Civil Society At-a-Glance. Major Findings of the Johns Hopkins Comparative Nonprofit Sector Project (2000: 9)

Against the background that the economy of the Visegrád countries underwent a thorough process of privatization, decentralization and privatization social services are still lagging behind. The market for core social services is still dominated by public providers, some of them still having a monopoly. Government policy continues to keep the sector and its organizations at the margins of service provision. This is particularly the case in Hungary (Bocz et al., 2002), whereas the situation in Poland is slightly different due to the fact that many church-based nonprofits are active in the provision of social services (Leś/Nalęcz, 2001: 20).

However, it is open to discussion whether the engagement of nonprofit organizations in core welfare state activities should constitute a prime goal for the further development of the sector in the Visegrád countries. Currently, although nonprofits play a marginal role in social service provision, they are very important because they fulfill an avant-garde function with respect to those societal needs and services that are not mainstream. There is a very visible faction of the NPO community that aims at responding to new social

problems by offering those services in demand and by being heavily engaged in advocacy. In Poland a textbook example is the campaign, "Giving birth in a human way," which had a great impact on humanizing birthing clinics and hospitals in the country. Moreover, nonprofits are also becoming engaged in new fields of service delivery by setting up mutual help organizations or by establishing new service initiatives, which are operating on a voluntary basis. Nevertheless, it is important to note that these nonprofits are mostly operating in certain niches or small spheres of social needs, which had not been addressed by public or commercial organizations. Examples of this type of activity are shelters for the homeless and hospices or group therapies for drug addicts or alcoholics. The approach of contracting out core social services and the concept of subsidiarity are not yet thoroughly shared by public opinion. As a consequence of keeping state dominance in the provision of the main welfare services, public sector employment is still disproportionately larger than nonprofit employment in Central and Eastern Europe (Salamon et al., 1999). Summarizing the results of the Johns Hopkins Comparative Nonprofit Sector Project for the Visegrád-countries it becomes quite obvious that there is a close nexus between the current economic situation in the countries under study and the well being of the sector. The same holds true for the level of civic activity and engagement of the citizenry in the Visegrád-countries.

6. Concluding Remarks

How does civil society look like more than a decade after the breakdown of the socialist regimes in the countries under study? Are the young democracies of the Visegrád countries societally embedded and supported by an active citizenry? Or, on the contrary are they still lacking the societal underpinning and organizational infrastructure of a lively and prosperous nonprofit sector? These questions were addressed by referring to the results of selected surveys and by drawing on the outcome of the Johns Hopkins Comparative Nonprofit Project.

There are no easy answers to the aforementioned questions. At the beginning of the transition period civic engagement was flourishing in the Eastern European countries under study. A veritable foundation boom of nonprofit organizations and civic initiatives took place right after the breakdown of the socialist regimes. As we already know from numerous studies (e.g., Plasser/Ulram/Waldrauch, 1997) the burgeoning of associational life is a very typical phenomenon for periods of societal and political transitions. The reasons why civic engagement is blossoming right after the breakdown of authoritarian regimes are manifold. Citizens are eager to use

their newly won freedom. Many organizations, which under socialist rule had survived in a so-called catacomb existence, were registered and thus legally acknowledged. Finally, both the *Zeitgeist* and the political context thoroughly supported civic engagement.

The period of intensive mobilization was followed by a slowdown of civic activity. While foundation rates of nonprofit/civil society organizations slightly decreased, membership affiliation went down significantly. Political parties were without any doubt the losers of the decline of membership affiliation. But, also trade unions and other nonprofits being primarily active in the political arena suffered from a decline in membership. Compared to West European countries, figures of membership affiliation, which are providing information concerning the number of citizens being members, are currently significantly lower in the Visegrád countries. However, concerning preferences of membership affiliation there are no striking differences between West and Eastern Europe. All over the world including the countries under study, citizens are most likely to be members of sports clubs or recreational associations instead of political parties or environmental groups. Unfortunately, with respect to membership affiliation and civic activity there are specific trends indicating that a civic culture has not yet fully developed in the countries under study. Firstly, between 1995 and 2000 even those nonprofit/civil society organizations which are active in the leisure oriented fields of activity suffered from a decline in membership. And secondly, even more than a decade after the breakdown of the socialist regime citizens still lack an entrepreneurial spirit with respect to civic engagement on behalf of community affairs.

Finally, compared to West European countries there is a striking difference with respect to the integration of the nonprofit sector in welfare state arrangements. Nonprofit organizations have not yet become an accepted and thoroughly acknowledged partner of social policy, and specifically social service delivery in the countries under study. Up until today social services are still first and foremost provided by government entities, while nonprofit organizations are more likely to be active in the areas of leisure and recreational activities. Thus, the sector in the countries under study is significantly smaller than its counterpart in West European countries. This is specifically the case with respect to nonprofit employment that compared to West European countries is far less pronounced in the Visegrád countries. For the deepening and strengthening of democracy it is probably not pivotal that the sector follows the West European model of a thorough integration into the specific welfare arrangement (see chapter by Rymysa/Zimmer). Nevertheless, low and decreasing membership figures as well as a low density of membership affiliation provide strong indicators for the fact that the countries under study are indeed "young democracies" whose civic cultures are still developing.

Suggested Readings

- Bashkirova, E. (2002): Political Participation in Central and Eastern Europe. Results of the 1999 European Values Survey. In: Fuchs, D./Roller, E./Weßels, B. (eds.): *Bürger und Demokratie in Ost und West*. Wiesbaden, pp. 319-332
- Inglehart, R. (1997): *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies*. Princeton
- Gabriel, O. et al. (2002): *Sozialkapital und Demokratie. Zivilgesellschaftliche Ressourcen im Vergleich*. Wien

References

- Anheier, H.K./Priller, E. (1991): The Non-Profit Sector in East-Germany: Before and after Unification. In: *Voluntas* (2), pp.78-94
- Anheier, H.K./Priller, E./Zimmer, A. (2001): Civil Society in Transition: The East German Third Sector Ten Years after Unification. In: *East European Politics and Societies (EEPS)*, Vol. 15, Nr. 1, pp.139-156
- Anheier, H.K./Seibel, W. (2001): *The Nonprofit Sector in Germany. Between State, Economy and Society*. Manchester/New York
- Almond, G.A./Verba, S. (1963): *The Civic Culture*. Boston
- Anheier, H.K./Priller, E./Zimmer, A. (2000): Zur zivilgesellschaftlichen Dimension des Dritten Sektors. In: Klingemann, H.-D./Neidhardt, F. (eds.): *Zur Zukunft der Demokratie, Herausforderungen im Zeitalter der Globalisierung*. WZB-Jahrbuch 2000, Berlin
- Bermeo, N. (2000): Civil Society after Democracy: Some Conclusions. In: Bermeo, N./Nord, P. (eds.): *Civil Society before Democracy. Lessons from Nineteenth-Century Europe*. New York, pp. 237-260
- Bocz, J./Cseh, J./Kuti, É./Mészáros, G./Sebestény, I. (2002): *Nonprofit szervezetek Magyarországon, 2000 (Nonprofit organizations in Hungary, 2000)*. Budapest
- Forbrig, J. (2001): *Civil Society, Democracy and Democratic Consolidation*. Second Chapter of unpublished Ph.D. dissertation, pp. 28-48
- Gabriel, O. et al. (2002): *Sozialkapital und Demokratie. Zivilgesellschaftliche Ressourcen im Vergleich*. Wien
- Hirschman, A. O. (1982): *Shifting Involvements. Private Interest and Public Action*. Princeton
- Inglehart, R. (1997): *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies*. Princeton
- Dąbrowska, J. et al. (2002): *Komunikat z badania „Kondycja sektora organizacji pozarządowych w Polsce 2002. Wstępne wyniki – wrzesień 2002*. Warsaw
- Kroupa, A./Mansfeldová, Z. (1997). *Občanská sdružení a profesní komory*. In: Brokl, L. (ed.): *Reprezentace zájmů v politickém systému ČR. Pluralitní demokracie nebo neokorporativismus?* Prague, pp. 151-186
- Kubik, J. (2000): Between the State and Networks of "Cousins": The Role of Civil Society and Noncivil Associations in the Democratization of Poland. In: Bermeo, N./Nord, P. (eds.): *Civil Society before Democracy. Lessons from Nineteenth-Century Europe*. New York, pp. 181-207

- Leś, E./Nałęcz, S. (2001) Międzynarodowe badania sektora non-profit w Polsce Raport zbiorczy. Warszawa: typescript, Komitet Badań Naukowych (grant nr. H02E 011 16)
- Leś, E./Nałęcz, S. (2002) Infrastruktura społeczeństwa obywatelskiego. Wybrane wyniki Międzynarodowych Badań Sektora Non-Profit w Polsce. In: Gliński, P. et al. (eds.): Samoorganizacja społeczeństwa polskiego: trzeci sector. Warsaw, pp.13-31
- Mansfeldová, Z./Szabó, M. (2000): Zivilgesellschaft im Transformationsprozeß Ost-Mitteleuropas: Ungarn, Polen und die Tschechoslowakei. In: Merkel, W. (ed.): Systemwechsel 5. Zivilgesellschaft und Transformation. Opladen, pp.89-114
- Možný, I. (2002): Česká společnost. Nejdůležitější fakta o kvalitě života. Prague
- Nałęcz, S. (2003): Organizacje społeczeństwa obywatelskiego w III RP. In: Jackiewicz, I. (ed.): W poszukiwaniu modelu. Zmiany instytucjonalne w latach 1989-2001. Warsaw
- Plasser, F./Ullrich, P./Waldrauch, H. (1997): Politischer Kulturwandel in Ost-Mitteleuropa. Theorie und Empirie demokratischer Konsolidierung. Opladen
- Rose, R./Haerpfer, Ch. (1996): New Democracies Barometer IV: A 10-Nation Survey, Studies in Public Policy, No. 262. Glasgow
- Siellawa-Kolbowska, K. (2002): Niezależne inicjatywy społeczne w Polsce końca lat osiemdziesiątych. In: Gliński, P. et al. (eds.) Samoorganizacja społeczeństwa polskiego: trzeci sector. Warsaw, pp.80-91
- Salamon, L. et al. (eds.) (1999): Global Civil Society: Dimensions of the Nonprofit Sector. Baltimore
- Salamon, L./Sokołowski, W. (2001): Volunteering in Cross-National Perspective: Evidence From 24 Countries. Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project, Nr. 40 Baltimore
- Welfare Survey: www.gesis.org/en/social_monitoring/Data/WS.htm
- World Value Survey: www.worldvaluessurvey.org

Part II:

Regulatory Environment

Introduction

The purpose of the following chapter is to draw attention to the embeddedness of the third sector in the countries under study. The term embeddedness introduced by Granovetter (1985) highlights interconnections and linkages between organizations and their environments. The concept is based on the idea that the environment is of pivotal importance for organizational survival and well-being. According to Granovetter the environment constitutes the independent variable while the organization, its struggle, failure, or success represents the dependent variable. When developing the concept of embeddedness, Granovetter was researching the well-being of companies. According to his interpretation there are more prerequisites for managing a company successfully than just investing manpower and resources. Management has to take into account the environment of the organization and more precisely its social relations and specific embeddedness. It makes a great difference whether there is close surveillance by government authorities prohibiting unfair competition, bribery and corruption, or whether management constantly has to monitor business partners as well as public officials in order to safeguard smooth operations. There is no doubt that a stable political environment able to guarantee legal security is as important for organizational success as highly motivated employees loving their jobs and identifying themselves with the company. What holds true for companies is even more important for nonprofit organizations, which by definition are “open organizations” and as such highly interconnected with their environments (see Anheier/Toepler in Part III).

The story told in this section is that managing a nonprofit organization constitutes a real challenge. In order to do the job well, one has to be familiar with the particular environment of the organization. The linkage between the organization and its specific environment is a central issue of organizational research (Galaskiewicz/Bielefeld, 1998). Providing resources and offering windows of opportunity, the environment of an organization is of particular importance for organizational well-being. Environments of organizations are shaped by, among others, the legal framework, the economic and political situation, and the tradition and culture of the particular country they are operating in. Furthermore, environments are not stable; on the contrary they are in a constant situation of flux and modification. Public authorities consider changes in tax laws and tax incentives, which have a great impact on

the environment of a particular organization. The ups and downs of the economy that translate into an abundance or scarcity of resources affect organizational well-being significantly. Without any doubt societal trends such as individualization or pluralization of social milieus that might result in an increase or decrease of specific social services like care for the elderly, provision of kindergartens, or sports facilities have a significant impact on the environment of organizations.

However, since any organization is shaped by its environment, why is it of particular importance to learn about the embeddedness of nonprofit organizations? The reason is twofold: First, in contrast to organizations of the competing sectors, i.e., the market and the state, nonprofits have to cope with very different environments at the same time because as part of civil society they are multi-tasking organizations (Gidron et al., 1992: 11). Unlike the organizations of the market and the state, i.e., corporations and government entities, nonprofits are not restricted to the fulfillment of just one task. On the contrary, by definition nonprofit organizations are always playing very different roles, and thus they are simultaneously cooperating with very different environments. Take the example of a sports club that offers a wide range of sport activities for its members. At the same time the club chairman is very active in the city council lobbying for the improvement of local sports facilities, playgrounds and the like. There is a good chance that his lobbying activities will be successful due to the fact that he represents the largest sports club in the community with more than 2.000 members affiliated. Moreover, this particular sports club collaborates with numerous local schools offering special programs for handicapped kids thus improving their integration into society. Finally, this club is a very good place to meet because the recently built clubhouse hosts an excellent restaurant and bar. In other words, nonprofit organizations are not exclusively providers of services, but at the same time they offer possibilities of social participation and integration as well as avenues for political engagement (Anheier et al., 2000). However, there is no doubt that an organization having to cope with different environments and having to fulfill very different tasks needs excellent management and a governing board that is aware of the challenges and opportunities provided by the specific embeddedness structure of NPOs.

Second, NPOs are highly integrated into structures of social relations. As clearly documented in the history section of this volume, Central European NPOs have by and large grown out of social movements (see the chapter by Pankoke in Part I). The great bulk of Central European nonprofits are membership organizations and as such part of civil society, which still today is struggling to find its societal position vis a vis government authorities. However, particularly governments are nowadays not providing a stable environment. Specifically in the countries under study, state authority has undergone tremendous changes during the last decades. At the beginning of

the political and social transformation in Eastern Europe, NPOs as part of civil society were forming an important societal force working against state authorities. In the meantime, however, similar to the situation of their West European counterparts, nonprofit organizations in the countries under study have become partners of government policy particularly in the fields of social services and health care provision (see country chapters).

Nevertheless, government-nonprofit relations are changing not only in Eastern Europe, but the same holds true for Germany and Austria. This is due to the fact that the concept of the modern welfare state being responsible for the growth of the economy and the well-being of its citizens is no longer strongly in place. On the contrary, according to political rhetoric, government has failed to live up to its promises worldwide. While the critique of the modern welfare state resulted at first in a call for marketization and, thus perceiving the market as the prime problem-solver, in the meantime civil society and most prominently nonprofit organizations have become the great hope for societal well-being. As a consequence, the relationship between nonprofits and the state has come to be an important issue of today's political discourse. This discourse, however, increasingly focuses on the service provision function of nonprofits, although, as pointed out earlier, civil society organizations offer more to their communities than just services.

Therefore, while dealing with government, managers of nonprofit organizations have to keep in mind that service provision is just one function of civil society organizations that at the same time are providing possibilities for societal and political participation and integration. In order to avoid the pitfall of being functionally downsized to service provision, managers of nonprofit organizations should carefully make themselves familiar with the specific environment of their nonprofit organizations. They have to study the "embeddedness" of the particular organization, which goes far beyond a clear-cut marketing approach and which, as defined by Granovetter, encompasses an in-depth study of the very different environments an organization is embedded in. There is the political environment involving politics and the way nonprofit organizations are treated and looked upon by politicians. There is the legal environment providing legal forms designed for organizing nonprofit activities and offering tax incentives for fostering private giving and volunteering. And finally there is the embeddedness of the organization as a part of the nonprofit sector as such, which translates into the position of the sector as an intermediary connecting the different worlds of the state, the market and the family. According to Granovetter's conceptual approach, how the sector is embedded, and in which ways its linkages to the state, the market and the family are arranged, are very much outcomes of historical developments. In other words, there are country-specific arrangements reflecting the historical, political and legal trajectories of the respective country.

However, it would go far beyond the possibilities of this section to lay

out in every detail how and why the nonprofit sector in the countries under study are embedded in the way they are. Instead the following chapters will focus on general rules and principles providing prerequisites for comparative analysis. With respect to the legal environment, the contribution of Pajas/Freise highlights the most important legal forms for organizing nonprofit activities in the countries under study. Although there are significant differences concerning legal and organizational forms in Central Europe, the authors particularly draw attention to legal commonalities. The same holds true for the contribution of Karla Simon, which gives an encompassing overview of tax laws, regulations and incentives in the countries under study. The contribution of Rymzsa/Zimmer discusses distinctive types of third-sector embeddedness. Referring to the work of Esping-Andersen and Salamon/Anheier, the Rymzsa/Zimmer contribution characterizes particular “regimes” or “institutional arrangements” in which the nonprofit sector links state, market and community/family in different, regime-specific ways by providing avenues for individual participation, social integration as well as service provision.

Whereas the aforementioned contributions provide a general frame of reference for looking at the embeddedness of the countries under study, the contribution by Pavol Frič exclusively focuses on the political environment of the Visegrad countries. The reason for this is twofold: First, just two decades ago, with the exception of Austria and Germany, the countries under study were still behind the “iron curtain” of former Soviet rule separating Hungary, Poland, the Czech Republic and Slovakia from democracy. The aforementioned countries are still in a situation of transformation toward well-established democracy. Thus, relations between civil society and government are not yet thoroughly settled. Second, after more than four decades of socialist rule within the former Soviet bloc an organized civil society whose organizations enjoy legal security, a stable input of volunteering, and private resources constitutes a recent phenomenon in the Eastern European countries under study. Civil society is not yet fully embedded in the minds and aspirations of the people. Therefore, the contribution of Pavol Frič also brings to the fore how difficult it is to build up a strong democracy and a stable civil society.

References

- Anheier, H.K./Priller, E./Zimmer, A. (2000): Zur zivilgesellschaftlichen Dimension des Dritten Sektors. In: Klingemann, H.-D./Neidhardt, F. (eds.): Die Zukunft der Demokratie. (WZB-Jahrbuch) Berlin, pp.71-98
- Galaskiewicz, J./Bielefeld, W. (1998): Nonprofit Organizations in an Age of Uncertainty. A study of Organizational Change. New York
- Gidron, B./Kramer, R.M./Salamon, L.M. (1992): Government and the Third Sector in Comparative Perspective: Allies or Adversaries? In: Gidron, B./Kramer, R.M./Salamon, L.M. (eds.): Government and the Third Sector. Emerging Relationships in Welfare States. San Francisco, pp. 1-30
- Granovetter, M. (1985): Economic Action and Social Structure: The Problem of Embeddedness. In: American Journal of Sociology, Vol. 91, Nr. 3, pp. 481-510

Organizational and Legal Forms of Nonprofit Organizations in Central Europe¹

1. Introduction

There is a bewildering variety of organizations, institutions and initiatives constituting the nonprofit or third sector: Besides kindergartens, environmental protection groups, sports clubs, and universities, there are hospitals, co-operatives, volunteer fire departments, and many other organizations being part of the nonprofit sector in a respective country. This enumeration clearly shows that in modern liberal societies the sector and its organizations fulfill a wide array of functions. Nonprofit/civil society organizations provide social services, offer legal assistance to disadvantaged groups or raise funds for charitable purposes. Citizens join nonprofit organizations to pursue their leisure activities, and they turn to the sector in order to organize protest campaigns or to lobby for the improvement of the environment. There is no doubt that nonprofit organizations fulfill these functions simultaneously, thus answering to a multiplicity of demands and needs. There are many examples where sports clubs are also working as travel agencies, and social service organizations are engaged in advocacy by lobbying on behalf of their constituencies.

Despite the many functions that nonprofits fulfill and despite the numerous tasks they carry out, from a legal point of view nonprofit organizations are based on a relatively small range of juristic and associational forms which are widely acknowledged in the countries under study and which look back upon a common legal-historical tradition. From a legal point of view the nonprofit universe predominately consists of a) voluntary associations, b) foundations, and c) co-operatives (see Salamon et al., 1999).

In the Eastern European countries there is a further legal form: the Public Benefit Organization - which is specifically tailored for those nonprofits which are first and foremost service providers. Without going into detail this new legal form is very distinct because in contrast to voluntary organizations,

1 The authors would like to thank Annette Zimmer for revising this article and her committed support.

co-operatives or foundations it is neither based on membership nor on capital.

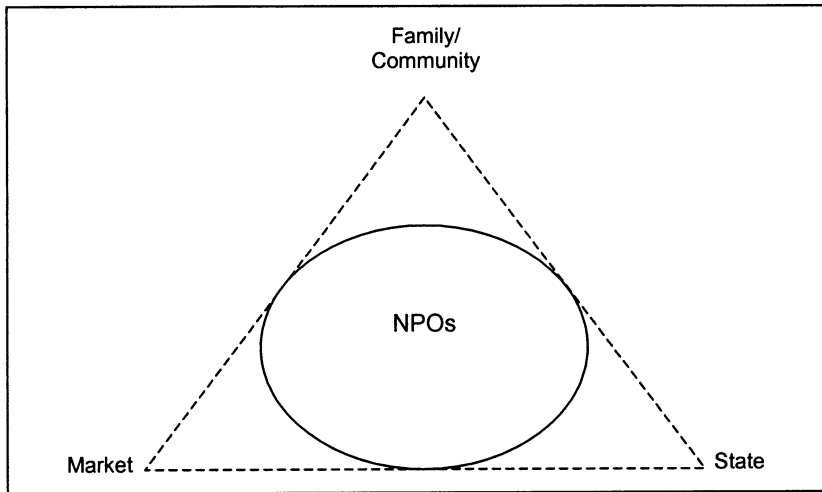
Thus, the purpose of the following chapter is to introduce students of the nonprofit sector to the aforementioned legal forms. However, the chapter will not provide a detailed analysis of legal stipulations and their historical traditions² but aims at enabling students of the sector to classify nonprofit organizations based on specific criteria. Therefore, the chapter starts with an overview of those criteria that are widely used to put in order the puzzling variety of the nonprofit universe. Against this background, the chapter will focus on the aforementioned essential legal forms which from a juristic point of view serve as the legal underpinning of the sector. Despite the fact that the six countries under study in this volume (i.e., Austria, Czech Republic, Germany, Hungary, Poland, and Slovakia) have formulated legal regulations that differ in detail, the legal stipulations being used in these countries nevertheless show many similarities, thus allowing a comparative analysis.

2. Criteria of Analysis

There are several approaches how to put in order the nonprofit universe whose organizations are fulfilling various functions and objectives. There is a very prominent approach, which dates back to the early days of nonprofit research, which categorize these organizations as being neither state entities nor commercial enterprises. In other words, the sector stands for a specific societal sphere, which is constituted by those organizations neither belonging to the market, nor to the state, nor to clan or family structures.

There are indeed many organizations which can easily be localized within the nonprofit sector triangle. Organizations serving local communities such as sports clubs providing services exclusively for their members or advocacy groups, which are predominately financed by private donations are very good examples. However, at the same time there are no rigid frontiers between those sectors and societal spheres. Due to the fact that nonprofit organizations are multifunctional, offering services and providing avenues for societal and political participation simultaneously, the boundaries of those aforementioned societal spheres are increasingly blurring (Kramer, 2000; Schuppert, 1990). Thus, it is sometimes rather difficult to decide whether a specific organization still belongs to the nonprofit sector, or whether it has already developed into an organization operating within the realm of the state or the market. This implies that there are certain organizations that cannot be clearly categorized.

2 Further information on the countries under study can be found in the country chapters of this volume.

Figure 1. The Nonprofit Sector Triangle

Source: Zimmer (2001: 9)

There are many Quangos (Quasi Nongovernmental Organizations) which are private organizations governed by the non-distribution constraint, nevertheless from a political perspective these organizations are more or less government entities working exclusively under the direction of the respective governmental department such as the foreign office in international activities. There are also many so-called Quapos (Quasi Profit Organizations) which are more or less market driven. Again, these organizations are working under the non-distribution constraint, nevertheless, they do not share the spirit and identity of the nonprofit sector. Some of the huge hospitals which nowadays are thoroughly integrated in the market of health care services might serve as a case in point. If we take a look at the legal and organizational forms of those organizations positioned at the margins of the nonprofit sector, we will not make out any difference compared to those nonprofits, which are clearly operating at the “heart of the sector”. Thus, there is no way to draw conclusions from the legal form of the respective organization to its societal function. Or to put it differently, there is no obvious nexus between the legal form and the specific function of the particular nonprofit organizations. However, the so-called blurring of boundaries is not restricted to the functional dimension of nonprofits, increasingly nonprofits tend to combine various legal forms. Today there are many so-called umbrella organizations, being engaged in their communities and lobbying on behalf of their members which are without any doubt nonprofits. However, underneath the umbrella there are affiliated organizations which are by no means nonprofits but are

thoroughly integrated into the competition driven economy. A textbook example of nonprofit umbrella organizations encompassing a variety of entities, both for-profits and nonprofits, are the German Welfare Associations (see country chapter) which are active in many fields, thus functioning as a "holding" to which market driven hospitals as well as community oriented self-help groups are affiliated. Presumably the differentiation and the blurring of boundaries will increase in the years to come, as the nonprofit sector is expected to grow dramatically in size worldwide. The sector will face a number of challenges, for example rising competition with private organizations and increasing demands on its social embeddedness. Most likely these challenges will be answered by a further blurring of boundaries between the sectors and societal spheres (Anheier, 2001a).

Under the framework of the focs-project (see Introduction) we use the so-called operational definition of nonprofit organizations, which was worked out by the Johns Hopkins Comparative Nonprofit Sector Project, and which is highly favored in international comparative research. This is a heuristic concept of a nonprofit organization which has been developed by Salamon and Anheier (1996) in order to visualize and organize the nonprofit sector. According to this approach, an entity may be included in the set of NPOs, if it is:

- Organized,
- Private,
- Not distributing profit among owners, members or administrators,
- Self-governing and
- Using a voluntary element

As mentioned earlier, the definition of the Johns Hopkins project is a heuristic, functional and down-to-earth approach for organizing the sector and for identifying nonprofit organizations. However, as already outlined this approach does not make any reference to the aims and goals and thus to the operational purpose of the respective organization, although there is no doubt that purpose and goal, which translates into the mission of the particular organization, are of pivotal importance for the well-being and the further development of the particular organization. Mission and goal of a nonprofit organization are overwhelmingly related to its field of activity and furthermore to the specific logic of the respective organization. If we take a functional approach for analyzing the nonprofit universe, the categorization of nonprofits developed by Christoph Sachße (2001) who distinguishes between four "ideal-types" of nonprofits is very helpful:

- Membership interest [oriented] entities, shaped by the voluntary activities of their members who are basically engaged in common activities or in collective actions reflecting facilitating or enabling

- particular personal interests hobbies or inclinations.
- Advocacy or common interest [oriented] entities, promoting the interests of certain groups in civil society as a whole such as protection of nature and the environment, promotion of spiritual values, religion, healthcare, science, education, etc., by means of articulation and lobbying.
- Service organizations, established and operating basically to provide services to clients or members, based on the work or participation of professionals.
- Support organizations, providing human, financial or specific technical resources with the purpose of assisting persons in need or enabling others to perform projects and activities for such a goal, or support organizations with the purpose of helping providers of services, advocacy or other engagement in common interests.

If one applies this concept to nonprofit organizations, it becomes apparent that especially large organizations fit into more than one, sometimes all of the categories. With respect to this functional categorization students of nonprofit organizations have to keep in mind that NPOs are multifunctional and multipurpose organizations, and that again there is no way to draw conclusion from the field of activity to the legal form of the respective organization.

Another way to categorize NPOs is to differentiate between organizations based on capital and those based on membership. This categorization is particularly helpful from an administrative point of view because organizations based on the membership principle and those that are characterized by the administration of capital are following very different governing logics and routines. Being based on the membership principle implies that members are essential to the existence and operation of the entity and that these members are free to enter membership in the entity after fulfilling certain criteria set in the statute or organizational code and, usually, may freely leave or be excluded from the membership without having the right to claim any fundamental property titles to the corporate property or powers of the entity. In contrast, organizations which are based on capital do not need a membership base in order to operate. Those organizations exist without permanent membership of any person. Of course there are governing boards or employees, but these may be replaced without any essential effect on the entity and have limited rights with respect to changing the purpose or operational mode of the organizations. Those organizations whose core is a capital stock are foundations. They usually have governing boards which are responsible for the administrative supervision of the foundation's assets, thus functioning as trustees of the foundation (Anheier, 2001b).

Although it is very hard to identify a nexus between function and purpose of the organization and its legal form, legal stipulations are of utmost importance when it comes to the mode of operation of the respective

organization. For example, the membership assembly is the most important governing body of the association. Membership assemblies are equivalents of parliaments in politics since the assembly elects and thus authorizes the members of the board of the particular associations. On the contrary, members of governing boards of foundations are not elected but nominated, thus lacking any democratic legitimacy. In other words, an association presupposes the strong involvement of members in decision-making. Thus, members are able to influence all decision-making processes. A foundation however is invariably linked to the creator's intent, which in turn affects the processes and structures of the foundation. To conclude, the legal form pertains to the governance structure within the nonprofit organization.³ Thus, whoever plans to set up a nonprofit organization should firstly think about the internal management and administrative set-up of the planned entity before deciding in favor or against a specific legal form. To a certain extent this is a very easy decision because, as already mentioned, there is only a very limited number of legal forms available.

3. Legal Forms in Central Europe

There are three classical legal forms in the Central and Eastern European countries under study that NPOs use and that can look back on a long legal-historical tradition (see several contributions in Salamon, 1997). Those legal forms are:

- Voluntary association,
- Foundation and
- Co-operative.

The voluntary association is the most frequently used and thus perhaps the most important legal form for organizing nonprofit activities in the six countries under study. As already outlined members are at the core of the voluntary association. Voluntary associations are based on the right of citizens to come together freely without interference from the state and thus to organize their affairs independently. The legal form of a voluntary association is a creation of the historic period of enlightenment. It came into being when the traditional feudal state in Central and Eastern Europe began to modernize, thus allowing its citizens from every strata of the society to come together in what at that time were titled salons, reading societies or just associations. Referring to the United States in the 19th century, Alexis de Tocqueville illustrated the importance of voluntary associations for the well-being of the

3 See also the chapter on Governance in NPOs by Reichard/Siebart in this volume.

citizens and the functioning of democracy. His seminal book “*De la Démocratie en Amérique*” still today provides insights why voluntary associations are the bedrock of democratic societies worldwide.

The foundation is without any doubt the oldest and currently the fastest growing segment of the nonprofit sectors in the countries under study. As outlined, foundations are based on capital or assets which might also consists of property including buildings. In former times foundations were exclusively working as operating foundations. In other words, hospitals, orphanages or poorhouses were foundations and either run by the church or the municipality. However, the concept to donate a respectable amount of money in order to start a foundation is a very modern idea dating back to the second half of the 19th century. At the heart of the modern 19th century foundation is the concept of capital creation. Thus, right in accordance with the capitalistic way of production the founder makes an investment for the common weal. His asset is invested in the capital market. The returns serve as the operating funds of the foundation. Foundations are also titled intermediaries because they are providing funds for other nonprofit organizations, thus making their life easier. Due to the long period of peace and affluence after the Second World War currently a foundation boom takes place in the West European countries. Starting in the early 1980s foundations have been of utmost importance for the transition period in Central and Eastern Europe. Without the support of international active foundations, such as the German Bosch Foundation or the Soros Foundation, the process of transition and democratization in the Central and Eastern European countries might have been very different.

Finally, there is the co-operative. Again, the co-operative looks back upon a long historic tradition going back to the co-operative movement of the 19th century (see the contribution by Pankoke). At the core of the co-operative is the concept of self-help. At the very beginning of the co-operative movement was the idea that economic problems are tackled most efficiently by joining forces. A very good example is the economic situation of peasants after the end of serfdom. Against the background that at that time there was no private bank willing to sign a credit agreement, and no company giving out seeds without payment, a bank or a seed shop organized as a co-operative paved the way to economic improvement for peasants after serfdom and for craftsmen who were no longer creditworthy. In a nutshell, a co-operative is based on the idea that members by signing interests or by making contributions are creating a stock, which is invested in order to get interests and out of which at the same time are paid out loans exclusively for the members of the co-operative. The very idea of the co-operative movement was expressed by the at that time well known slogan “One for all, and all for one” which means that a co-operative in its original form was strongly based on the concept of solidarity or more precisely encompassing risk-sharing

between its members. Those who were holding membership shares were taking the risk of loosing their deposit, if one of the members was unable to pay back his or her loan or if he or she were not playing according to the rules. In Central and Eastern Europe the co-operative movement has been strongly influenced by the ideas of Raiffeisen and Schulze-Delitsch, the founders of the co-operative movement in Germany. Although, in the 20th century the movement has continuously lost ground in such a way that the former co-operatives have step by step developed into business entities, thus giving up their nonprofit identity. Currently, there is a revival of the co-operative idea and movement due to new initiatives from Southern Europe and due to the fact that the European Commission highly appreciates the co-operative concepts within its strategies aiming at the reduction of unemployment (see Borzaga/Defourny, 2001). However, since co-operatives aim at enhancing the economic undertakings of their members, such as small business owners, craftspeople or farmers, it is disputed within the NPO research community whether they belong to the nonprofit sector or not. Without going further in detail of this controversy, let us take a closer look at the legal stipulations of the three important legal forms for organizing nonprofit activities in the following.

Voluntary Association

According to the definition of Klaus Neuhoﬀ “Voluntary Organizations are generally understood to be voluntary alliances of a number of individuals or juridical persons in order to accomplish jointly a certain goal for a longer period of time” (Neuhoﬀ, 1997: 118). The association may be formed for any legal purpose and as such is an appropriate vehicle for a nonprofit organization. A distinction has to be made between associations having official approval and those, which are not officially recognized as legal entities. Those associations with official approval are legally accepted actors and juridical personalities in the sense that they are able to act independently. In other words, they are allowed to acquire property, rent office space, sign contracts, open bank accounts or hire employees (Zimmer, 1996). Normally voluntary associations receive the status of a juridical person through registration.

Legally voluntary associations are represented by the board, which is also responsible for the association’s internal affairs. The board may consist of one or more citizens who are members of the association. As outlined earlier the membership assembly is the highest body of the association, which has comprehensive powers, thus appointing and removing the board. The membership assembly of the association is also empowered to reframe the organization’s goals and purposes by changing its bylaws.

Activities and internal structure of a voluntary association are regulated in its statutes and bylaws. As already mentioned, a constitutive element of an association is its voluntary membership which means that nobody can be forced to join the association in order to become a member, and no member can be forced to remain in the association if he or she wants to cease the membership.

Because associations are social groups that work towards the realization of collective goals, they require a certain degree of organization which can range from very informal to highly formal. Indeed, there is great leeway with respect to the internal organization of a voluntary association. Furthermore, internal relationships in an association are based neither on an exchange of work for money nor on formal work contracts. The members offer input, e.g. membership fees, support in administrative matters of the association, their free time, etc. for the realization of the common goal. Although there are minor differences with respect to the legal regulations concerning creation and operation of a voluntary association among the countries under study⁴, there is no doubt that voluntary associations in Central and Eastern Europe have a lot in common. In sum, “by virtue of its flexible internal organization, its relative ease of foundation and maintenance as well as the lack of legal minimum capital requirement, the association may be regarded as the basic legal form for civic engagement. It is a particularly appropriate legal form where the unremunerated (honorary) activity of people is more significant than the application of real resources” (see Rawert and Rybka on CD).

Foundation

There are two major types of foundations: While grant-making foundations are working on behalf of the common weal by providing support (grants) to individuals and/or organizations, operating foundations are not grant-making but pursue their public benefit purpose by running a hospital, a museum or any other institution which is working for the public benefit (Anheier, 2001b). Additionally, there are conglomerate or hybrid forms which provide grants, thus working as a grantmaking foundation, at the same time the particular foundation runs a specific program, works as a think tank or operates a museum or hospital. Although the operating foundation is very common particularly in Central and Eastern European countries, definitions of foundations almost exclusively relate to the grantmaking type of foundation.

Thus, according to the definition of Klaus Neuhoﬀ “foundations are

4 In order to start a voluntary association German law requires a minimum of seven members, while Austrian law requires a minimum of only four members. In the Czech Republic, an association has to have at least three members at the time of creation, whereas in Poland an association has to show proof of fifteen members.

instruments, to be used by private individuals or juridical persons, and to be endowed with private wealth. They can be defined as autonomous bodies of assets, which are permanently dedicated to a specific purpose or purposes” (Neuhoff, 1997). Helmut Anheier defines a foundation as the dedication of financial assets towards a particular cause or goal. This dedication is instituted by an intentional act of the founder (Anheier, 2001b).

Despite the differentiation between operating and grantmaking foundations this particular legal entity of the nonprofit universe is based on a bequest or donation provided for the pursuit of a specific purpose laid down in an act of constitution. Comparable to the statute of a voluntary organization the foundation charter or constitution is a very important document determining the purpose, the property endowment, the domicile, the internal bodies, and the name of the foundation.

Foundations are purely administrative organizations without owners or members. Foundations are run by boards whose members are not elected. Very often the board is nominated by the founder of the foundation, once established it perpetuates itself through co-option. In other words, foundation boards are subject to no further control, apart from purely legal regulation. According to the expert of foundation law Peter Rawert a foundation board is “solely responsible for running the foundation, although it is significantly bound by the wishes of the founder as laid down in the foundation constitution” (see Rawert on CD). It is very important to mention that the founder of a foundation enjoys considerable leeway with respect to the definition of the foundation's purpose. Once established a foundation is very hard to change since the will of the founder is protected by law and has to be respected. With respect to its internal administration the foundation is also a very flexible organizational form. Besides the board further administrative units, such as advisory boards, might be established in order to facilitate day-to-day operations.

Again, the foundation is a common legal form for nonprofit organizations in all countries under study, however, there are differences with respect to detailed legal stipulations, use of terminology and capital requirement to set-up a foundation among the countries under study. A case in point is the use of the term foundation. Whereas in Eastern Europe the use of foundation is restricted to the aforementioned legal entity, in Austria and Germany the denotation *Stiftung* is not protected. Therefore, in these countries the word *Stiftung* or *Stift* may be used in a name of an association, co-operative, or even company (Sontheimer, 2003). There are also significant differences with respect to the initial property endowed to the foundation by its founder. Whereas in Austria, Germany, and Poland a respectable endowment is necessary for setting up a foundation, in the Czech Republic and Slovakia a comparatively small fund is just required for registration. Furthermore, in the Czech Republic and in Slovakia foundations are exclusively grant making

entities. Finally, some countries have special regulations for specific types of foundations, such as community foundations, church foundations, and company and family foundations. In the case of family and company foundations it is widely discussed whether these two types of foundations are admissible (For further information of these specific types of foundations see Harauer, 2000 and Rawert on CD). According to the judgment of the foundation law expert Peter Rawert the foundation appears “to be the most suitable legal form for nonprofit organizations characterized by a particularly long-term purposes, which are able to pursue their purposes by means of the direct application of or the proceeds from a specified body of assets” (Rawert on CD).

Co-operatives

Co-operatives are associations in which the members pursue personal gains. Co-operatives differ from voluntary associations in their activities, and they differ from the private economy since they provide services exclusively to their members (Hartwig, 1997). Thus, a co-operative is an association of citizens united voluntarily to meet common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Co-operatives typically aim at enhancing the economic undertakings of their members such as small business owners, craftspeople, or farmers. Despite being engaged in business activities, historically, the legal system did grant co-operatives nonprofit status since co-operatives tended to lack a profit motive. Currently, however, it is disputed whether an organization whose prime goal is to pursue individual goals of its members should be treated on equal terms with a voluntary association or a foundation. Some legal experts argue that co-operatives primarily operate in the economic interests of their members by means of common commercial activity and these purposes disqualify them from recognition as nonprofit organizations (See Rawert on CD). However, as already outlined in some European countries, particularly in Italy, France and Spain co-operatives are unambiguously considered to be members of the nonprofit universe. Furthermore, particularly the European Union is taking a more liberal point of view towards co-operatives and assigns this type of organization to a specific segment of the economy which in the wording of the EU is characterized as “social economy”. This terminology underlines the fact that co-operatives or mutuals are not profit oriented but stand for a specific type of enterprise, the so-called social enterprise which operates simultaneously on behalf of its members and the common weal.

Public Benefit Organizations

Beside the two classical legal forms for nonprofit organizations - voluntary association and foundation - some other legal forms came into being in the four Visegrád States after the velvet revolution (see several contributions in Salamon, et al. 1999). Some of them are designed to regulate successor organizations of the socialist system, some like the public benefit corporations are to a certain extent an innovative legal form for specific nonprofit organizations.

In socialist times, the powerful state confiscated nearly all property of associations and foundations and developed new organizational forms for institutions of common use such as schools, universities, scientific institutes, hospitals, residential social care institutions, theaters, museums, galleries, castles, and swimming pools. All these institutions became property of the state managed by so-called budgetary or subsidiary organizations established for this purpose by the state or the municipalities. On the other hand, in nearly all the formerly socialist countries, membership-based organizations such as sports and social clubs, youth and women's organizations, trade unions and also political parties were either dissolved or transformed into parts of uniform nationwide umbrella or mass organizations (see the contribution by Mansfeldova et al.) subjected to the surveillance of the Communist Party or its local organizations and branches.

The budgetary organizations in many of the former socialist countries still exist. They represent a form of organized, public, to a certain degree self-governed legal entity, whose directors are appointed and recalled by the founder (state, province or municipality), and all incomes and expenditures are part of the budget of the founder. Subsidiary organizations differ only in the relation to the founder's budget: they are usually given a fixed and fully accountable contribution from the budget of the founder, but may generate separate income through their activities.

After 1989 foreign legal experts recommended to local governments and parliaments to change the legal form of the so-called budgetary or subsidiary organizations either into private, nonprofit organizations or to make them fully commercial through privatization. This resulted in the appearance of new types of legal forms: public benefit corporations (Czech Republic 1995), public benefit institutes (Hungary 1993), and not-for-profit organizations providing public benefit services (Slovakia 1997).

These legal forms are commonly conceived as non-membership, non-profit-distributing, not privately owned, publicly supervised providers of services in common interest. The idea behind their creation was to allow for transformation of originally subsidized organizations into new, half-private, half-public, but certainly not-for-profit oriented legal entities. Today, these organizations are independent in their economic activities, legally liable and

self-governed, but bound by incorporation articles and statutes to fulfill the role according to the will of the founder, the state or local government respectively. There is a very close nexus between government and these organizations because the founders - government and local communities - are appointing the members of the governing and statutory body – the board of directors. In other words, the public benefit corporation constitutes a specific form of a hybrid organization incorporating elements of a classical nonprofit organization as well as of a public entity.

Currently, public benefit organizations constitute a fast growing segment of the nonprofit sector in the countries of Central and Eastern Europe. For example, in the Czech Republic, the number of public benefit organizations is annually growing by hundreds. Nowadays, we find public benefit organizations in almost any field of nonprofit activity ranging from education, to art and culture and social services. Many theaters, which were originally founded by the community of Prague, were transformed into public benefit corporations. Currently it is widely discussed in the Eastern European countries under study whether this specific legal form stands for the future of many cultural, scientific, health, and social care institutions. However, at the same time it is not quite clear whether public benefit corporations are primarily used for politics of privatization and decentralization or, on the contrary, whether the popularity of this specific legal form will pave the way for a lively and embedded civil society.

4. NPOs and the Public Benefit Dimension

Despite the fact that there are specific legal forms, which are widely used for organizing nonprofit activities in the countries under study, legislation has not codified an organizational form, which is nonprofit as such. In other words, in the countries under study legislation does not provide any specific legal form for those activities that generally are connected with the notion of a third or nonprofit sector, namely operating as a nonprofit enterprise and providing services for the general public. Thus, the nonprofit universe is confusing due to the fact that many organizational forms, also those which originally were exclusively designed for for-profit activities, may serve as the legal framework for nonprofit endeavors. If those organizations are fulfilling special requirements laid out in the tax law of the respective country (see chapter by Simon) they are awarded public benefit status. Endowed with the public benefit status those organizations are qualified to belong to the nonprofit sector.

A correlation between working for a charitable purpose and tax privileges is observable in all countries under study. By law, organizations pursuing a

charitable purpose can choose an organizational form that guarantees tax privileges. In Germany, for example, the switch from a limited liability company to a public benefit limited liability company is a prerequisite for tax privileges. The switch in organizational form is only possible if the state authorities accept the charitable cause, i.e., the public benefit dimension, the organization works to promote.

Table 1: Fields of activity of NPOs that can be subject to tax privileges

(a)	Amateur sports
(b)	Arts
(c)	Assistance to, or protection of physically or mentally handicapped people
(d)	Assistance to refugees
(e)	Charity
(f)	Civil or human rights
(g)	Consumer protection
(h)	Culture
(i)	Democracy
(j)	Ecology or the protection of environment
(k)	Education, training, and enlightenment
(l)	Elimination of discrimination based on race, ethnicity, religion, or any other legally proscribed form of discrimination
(m)	Elimination of poverty
(n)	Health or physical well-being
(o)	Historical preservation
(p)	Humanitarian or disaster relief
(q)	Medical care
(r)	Protection of children, youth, and disadvantaged individuals
(s)	Protection or care of injured or vulnerable animals
(t)	Relieving the burdens of government
(u)	Religion
(v)	Science
(w)	Social cohesion
(x)	Social or economic development
(y)	Social welfare
(z)	Any other activity that is determined by appropriate national authority to support or promote public benefit

Source: Gajewski et al. (2002)

According to several studies, a survey conducted by the International Center for Not-for-Profit Law (ICNL) (Irish/Rutzen/Simon, 1996), and a comparative study of public benefit activities recognized in legal systems of several countries (Pajas, 1999), the understanding and definitions of public benefit activities and purposes differ substantially among the countries under study. Nevertheless, again there are a number of similarities. ICNL was able to determine that certain areas of activity are in almost all organizations in the Central and Eastern European countries linked to charitable purposes. Examples can be seen in Table 1 above, which makes clear that there are many goals, which qualify nonprofit organizations for preferential tax treatment. Against the background of blurring boundaries, it is not surprising that many organizations, particularly the large welfare organizations, increasingly tend to change their organizational form, thus opting in favor for a private and originally for-profit legal form which reflects the current zeitgeist of a primarily market driven economy.

5. Other Legal Forms for Specific NPOs

By comparing the legal forms available to NPOs in the countries under study, many similarities can be discerned, but at the same time there are a confusing number of different legal regulations. To complete the confusing picture, special regulations have been issued in these countries concerning organizations that fulfill an important political function or show proof that they are deeply rooted in history.

For example, the Catholic Church and several Protestant churches (both established and very new ones) have played and still play a very important role in the development of the third sector. But they have some features that make them unique: they are economically active, they have special relations with the state, in some countries they may still be a part of the political establishment, and their economic situation needs special treatment as well.

Similarly, the trade unions and employers' associations play a special role in the labor market, serving as tools for communication and display of power between the two sides of job creation: the job provider and the job holder. Their main purpose is to protect the interests of their members, one against the other and with respect to the state and its legislation.

Special treatment is also needed in the case of professional chambers. They exist in several forms, but have the same or similar features in all countries. Their membership is composed of persons with specific educational backgrounds. They protect the interests of those professionals capable of independent and individual practice of their professions and promote and oversee ethical behavior in the relevant profession. They also

serve as strong advocates for the interests of those professionals, many times providing services and support for them. More than that, in many cases membership in a professional chamber may be an obligatory condition for access to certain positions on the public or even on the private labor market. In such cases, the state usually extends several important monitoring, ethical and other regulatory measures that would otherwise be executed by state authorities to the chamber self-governing bodies.

Another special situation occurs when a membership-based organization has been established by law. A textbook example is the Red Cross, an organization that has evolved from a voluntary association to an international force. The need to participate in international exchange of assistance and experience in protecting human health prompted many countries to regulate this initiative through a special law that allows for a unique relationship between this organization and the state, including access to public resources and the use of certain public facilities.

Finally, all the countries under study have special regulations for political parties, which are located on the borderline between civil society and the state. On the one hand, they are an important part of civil society as they are membership-based organizations that support the articulation and aggregation of different interests. On the other hand, political parties are closely linked to the sphere of the state, for example, the members of parliament. In other words, political parties as a constituent part of the civil society require a special and detailed study, which would necessarily be combined with politics, defense, economy, media, public relation topics and other considerations.

6. Summary

The main objective of this chapter has been to provide an overview of the most important organizational and legal forms of nonprofit organizations. It became obvious that nonprofit organizations can be analyzed by using a number of different approaches. Categorizations of NPOs applying the various approaches lead to different pictures of the nonprofit sector. Although there is only a minor correlation between the legal forms of the NPOs and the analytical criteria used to structure the nonprofit sector, the legal form is of immense importance to the manner in which goals are realized within the organization.

The legal forms have developed out of a long-standing legal tradition. The three classical legal forms present in Central Europe – the voluntary association, the foundation, and the co-operative – differ in details and in country-specific regulations among the six countries that are the topic of this

volume. An additional legal form – the public benefit corporation – developed in the four Visegrád states after the introduction of liberal democratic structures. Finally, there is the option to take on a private organizational form, such as the limited liability company, and acquire a charitable status for the organization. The criteria by which state authorities decide whether to officially recognize something as a charitable cause are very similar in all countries under study.

The case studies concerning the nonprofit sector in this volume show that there has been an expansion of the nonprofit sector.

“A veritable associational revolution appears to be under way at the global level, as citizens and policy makers have begun looking to nonprofit organizations to resolve the multiple crisis of welfare state, development, socialism, and the environment (Salamon/Flaherty).

At the same time, the internal diversification of the sector has increased considerably. This development leads to new challenges in all the countries under study. In the first place, it must be evaluated whether and to what extent the traditional legal forms will prove to be valuable in the current development process, which is characterized by transformation tendencies prompted by an increase in the degree of professionalization, globalization, commercialization, and a debate on ethical standards. Furthermore, with regard to European unification, it must be taken into consideration whether the EU requires binding and standardized regulatory frameworks for NPOs or whether the high level of differentiation of the legal forms in fact functions to support the sector. Finally, significant experimentation is under way with the different organizational forms, resulting in the development of mixed legal forms. NPO leaders will need to keep an eye on current legal developments and their impact on their organizations' management.

Suggested Reading

- Irish, L./Rutzen, D./Simon, K. et al. (1997): Handbook on Good Practices for Laws Relating to Non-Governmental Organizations. Washington, D.C.
- Pajas, P. (1999): Recognition of Public Benefit in Legal Systems of Several Nations. In: The International Journal of Not-for-Profit Law, Vol. 2, Issue 1. Washington, D.C.: www.icnl.org
- Salamon, L.M. (1997): The International Guide to Nonprofit Law. New York

References

- Anheier, H.K. (2001a): Der Dritte Sektor in Europa: Wachstum und Strukturwandel. In: Priller, E./Zimmer, A. (eds.): Der Dritte Sektor international. Mehr Markt – weniger Staat? Berlin, pp. 57-76
- Anheier, H.K. (2001b): Foundations in Europe: A Comparative Perspective. In: Schlüter, A./Then, V./Walkenhorst, P. (eds.): Foundations in Europe. Society, Management and Law. Gütersloh, pp. 35-82
- Borzaga, C./Defourny, J. (eds.) (2001): The emergence of social enterprise. London
- Gajewski, P. et. al. (2002): Model Provisions for Laws Affecting Public Benefit Organizations. Washington, D.C.
- Harauer, R. (2000): Die Strukturschwäche der Zivilgesellschaft in Österreich. Ein Vergleich mit dem Stiftungswesen in Deutschland. In: SWS Rundschau. Issue 1/2000
- Hartwig, K.-H. (1997): Funktionen von Genossenschaften im Transformationsprozess der Länder Mittel- und Osteuropas. In: Eisen, A./Hagedorn, K. (eds.): Genossenschaften in Mittel- und Osteuropa. Selbsthilfe im Strukturwandel. Berlin, pp. 37-55
- Hood, Ch./Schuppert, G.F. (1990): Para-Government Organizations in the Provision of Public Services: Three Explanations. In: Anheier, H.K./Seibel, W. (eds.): The Third Sector. Berlin, New York, pp. 93-106
- Kramer, R. (2000): A Third Sector in the Third Millenium? *Voluntas*. Vol. 11, Issue 1, pp. 1-23
- Neuhoff, K. (1997): Germany. In: Salamon, L.M. (ed.): The International Guide to Nonprofit Law. New York, pp. 118-129
- Pajas, P. (2000): Do the Czechs need a new law on Associations? In: The International Journal of Not-for-Profit Law. Vol. 2, Issue 4. Washington, D.C.: www.icnl.org
- Sachße, Ch. (2001): Stufen der Gemeinwohlförderlichkeit. Bürgerschaftliche Organisationen und Steuerprivileg. Gütersloh
- Salamon, L.M. (1997) (ed.): The International Guide to Nonprofit Law. New York
- Salamon, L.M./Anheier, H.K. (1996): The Emerging Sector: An Overview. Manchester
- Salamon, L.M./Flaherty, S. (1996): Nonprofit Law: Ten Issues in Search of Resolution. Baltimore. Working Paper of the Johns Hopkins Comparative Nonprofit Sector Project
- Salamon, L.M. et al. (1999): Global Civil Society. Dimensions of the Nonprofit Sector. Baltimore
- Sonthheimer, J. (2003): Das neue Stiftungsrecht. Freiburg
- Zimmer, A. (2001): Der deutsche Nonprofit-Sektor. Ein empirischer Beitrag zur Bedeutung von Nonprofit-Organisationen in der Bundesrepublik Deutschland. In: Non Profit Law Yearbook 2001, pp. 7-26
- Zimmer, A. (1996): Vereine – Basiselement der Demokratie. Opladen

Tax Laws and Tax Preferences

1. Introduction

Taxes are important for NPOs because, on the one hand, any amount of tax paid obviously reduces the amount of money that an NPO can spend on its activities. On the other hand, tax incentives provided to donors can increase the revenues of the organization, without making the donation subject to tax. Thus, in most countries the issues of

- whether and to what extent NPOs are exempt from various taxes; and
- whether and to what extent donors to NPOs receive tax preferences

are absolutely crucial to the survival of NPOs individually and civil society in general. In this region the debates about the tax regime for NPOs have raged in every country in recent years, and change in this area is endemic.

Based on previous research (Salamon, 1997; Irish/Simon, 2004a; 2004b) this chapter discusses the tax regimes affecting NPOs in the six countries and analyzes the extent to which tax legislation tends to support and encourage or, alternatively, tends to discourage the not-for-profit sector. It looks both at tax exemption or tax preference regimes as well as at the support given to donors or for donations made by both individuals and companies to NPOs.

2. General Overview: Tax Exemptions, Tax Preferences for Donors, Procedures for Obtaining Tax Preferences

Tax Exemptions

It is clear that there are several different taxes from which NPOs may be exempt: income and profits taxes, property taxes, transfer taxes (on gift and death transfers), excise taxes, value added taxes (VAT), sales taxes, etc. NPOs are typically not exempt from employment taxes, but frequently are exempt from income, property, and wealth and other transfer taxes. Some countries may, for example, make certain transactions of NPOs exempt from VAT, while others will include NPOs in the VAT system but give them a low

or zero rating on their outputs.¹ Thus, to the extent that NPOs receive special treatment under VAT laws, it is more appropriate to categorize such benefits as preferences rather than exemptions.²

The tax laws also tend to state the extent to which NPOs are to be taxed on their income from economic activities. It is important to permit NPOs to conduct such activities for their support, particularly in countries where there is limited private wealth and no strong tradition of charitable giving. As will be seen in the discussion below, countries in the region differ on whether profits from activities not directly related to an organization's principal purpose should be taxed.

In general, income or profits taxes are not imposed on gifts, grants, and state subsidies nor on membership dues or investment income (such as dividends and interest received). However, as can be seen from the laws in various countries in the region, the tax laws or other legislation may contain restrictions on the manner in which funds of the NPOs may be invested (and this has a tendency to discourage the development of endowments and thus of the sector).

Tax Preferences for Donations

Countries in the region also generally allow tax preferences – a tax deduction, a tax credit,³ or a “tax designation scheme”⁴—with respect to contributions by individuals or commercial entities to a defined class of nongovernmental

-
- 1 Although tax benefits for donations are generally available only for contributions to “public benefit” or “public interest” NPOs (PBOs), that is not true of income or profits tax exemptions. The latter may be available to all NPOs, regardless of their purposes, or a limited tax exemption may be available for different kinds of income of the NPOs that are not PBOs (e.g., certain types of member benefit NPOs may be taxed on their investment income even if PBOs are not. It is generally the case that all NPOs are exempt from income or profits tax on membership dues.
 - 2 The VAT burden for NPOs may be significantly greater than the income or profits tax burden, because many NPOs simply do not have income or profits on which tax may be levied. VAT, however, applies to NPOs as final consumers. For a good discussion of the issues involved, see Paul Bater, *The Impact of VAT on Non-Profit Organizations in Europe*, 5 SEAL 62 (2002).
 - 3 A tax deduction reduces the tax base by the amount (or a percentage of the amount) of the contribution, while a credit reduces the tax due, generally by a percentage of the amount of the contribution. Where the income or profits tax system has a progressive rate structure, the value of a deduction rises as income and tax rates rise. Thus, in an income tax system with progressive rates, a deduction for contributions provides a greater incentive for wealthier taxpayers.
 - 4 Tax designation schemes began in Italy, when Italian taxpayers were permitted to designate that a percentage of their taxes be paid over to the Church (in lieu of “church taxes” being collected). Hungary took this idea and expanded it to include a designation of 1% of an individual's taxes to a qualified not-for-profit organization.

organizations. Individuals may be allowed similar deductions from or credits against wealth transfer (estate and gift) taxes for similar contributions. The class of NPOs to which such tax preferred gifts may be made is generally smaller than the class of tax exempt entities and generally includes only “public benefit” or “public utility” NPOs. There also may be numerical or percentage limits on deductible, creditable, or tax designation contributions.

In defining whether or not an organization is entitled to receive tax-preferred donations, most tax laws focus on the functions or purposes of the organization and its activities in pursuance of those purposes. For example, the tax laws of a particular country might extend the privilege of receiving tax deductible contributions only to organizations formed for the primary purpose of advancing religion, education, health, science, culture, or the relief of poverty. Some countries add other purposes to the list, such as the protection of the interests of minority groups or the environment. It is also common to find, tacked on to the end of such a list, a final, catch-all category such as “or any other organization formed primarily for public benefit”. In such a catch-all category the unifying principle emerges and, in a sense, informs the entire list. It is education, health, and scientific organizations *serving the public interest* that are entitled to the tax preference for donations.

Procedure for Obtaining Tax Preferences

In most instances acquiring the right to obtain tax benefits requires a special application to tax authorities. In some cases, however, where the law permits a legal form (e.g., foundations in Poland) to be used only for public benefit purposes, the authority that grants legal entity status may also allow the organization access to tax benefits.

3. Income or Profits Tax Exemptions in General

The definition of NPO used here assumes that an NPO is a formal legal entity and is regulated under a law that precludes the possibility of personal benefit to founders, donors, members, employees, etc., as well as the distribution of profits to such persons. Thus, there is a powerful argument that these organizations are not proper objects of an income tax in any system. Income taxes are imposed on the “profits” of legal entities because they are surrogates for the individuals who own them or who can receive a distribution of profits for them. However, NPOs, as defined here, stand on an entirely different footing from business corporations. They are not “owned” by anyone and cannot distribute profits as such. Whatever profits they may earn from their

economic and investment activities are reinvested or spent on appropriate purpose-related activities. NPOs are not surrogates for share-holders who own them, and thus it can be strongly argued that they should not be subject to income taxation at all.

Nevertheless, most countries around the world including those under study in the focs project, assume that NPOs are subjects of taxation, and that not applying tax to them is a matter of grace and exemption. Generally accepted tax theory defines income as any receipt during a period of time that is either expended or that increases net worth. Sources of revenue for NPOs include donations, grants, subsidies, membership dues, interest and dividends on investments, gains from investment assets as well as receipts from economic activities.

It is clear that dividends, interests, and gains (earned income from investments) are considered income for tax purposes. With respect to donations and membership dues there is almost general agreement that these should not be taxed to NPOs because in a sense they do not constitute income to the organization receiving them. On the other hand, receipts from active income-producing activities may or may not be treated as tax exempt, depending on the rules applied in a given country. Such income may come from the revenues earned from activities carrying out the organization's not-for-profit purposes or income from the active conduct of a trade or business engaged in solely to gain revenue for support of the NPO.

In general, NPOs are allowed to engage in income-producing activities as long as those activities are part of the purposes stated in their governing documents. More importantly, however, an NPO must ensure that its "principal" purpose or activity is not the conduct of economic activities unconnected with advancing its not-for-profit purposes. Stated positively, if a nonprofit organization is conducting income-producing or economic activities, those activities must be in furtherance of the not-for-profit purposes of the organization. Otherwise the problem of unfair competition can become a serious issue, particularly when the scale and number of economic activities by NPOs begin to pose a threat to private enterprise. Thus, a rule taxing "unrelated business income", and exempting the profits from "related" activities makes a great deal of sense. Unfortunately, it is extremely difficult to distinguish "related" economic activities from "unrelated" economic activities, and hence the related/unrelated rule is very difficult to administer in practice (see section V in the German country chapter).

In the following section organizational exemptions from direct taxes are surveyed by country.

Organizational Exemptions From Direct Taxes (Income and Profit Taxes) by Country

Austria

General: The Corporate Tax Law subjects all forms of NPOs to corporate tax unless they are engaged in public benefit, beneficial (welfare or assistance) or religious purposes.

Specific sources of income: Gifts, grants, state subsidies, and membership dues: Revenues derived from gifts, grants, state subsidies, and membership dues are not subject to tax.

Investments: Interest on bank deposits in Austrian banks is not subject to tax, nor are dividends on shares of domestic companies or capital gains on the sales of such shares. All other investment income is subject to tax at a 12.5% preferential rate.

Business (commercial) and other similar economic activities: Income tax is imposed even on the purpose-related business activities of NPOs.

Czech Republic

General: The Corporate Income Tax (CIT) law provides that all organizations established to carry out not-for-profit activities are either tax exempt or are entitled to a reduction in taxes owed. The law makes the preferences available to the following NPOs: associations of citizens, trade unions, political parties, political movements, registered churches and religious societies/congregations, foundations (endowed), funds (not endowed), public benefit corporations (PBCs), and registered associations of legal entities that serve particular interests. A reduction in taxes is available to NPOs provided the money not spent on tax payments is used to carry out the organization's statutory activities

Specific sources of Income: Gifts, grants, state subsidies, and membership dues: Revenues derived from gifts, grants, state subsidies, and membership dues are not subject to tax.

Investment: Passive investment income generated from the following sources is generally taxable: leases of real estate, interest on saving accounts and other term deposits, royalties, and other investment yields. The tax rate differs for certain kinds of investment income. Public benefit corporations and funds are not allowed to take part in any entrepreneurial activity of another legal person, and they are therefore prohibited from investing in stock or other securities of companies. Foundations with registered endowments may invest

up to one fifth of their assets in equities, net of the amount of the registered endowment. The registered endowment itself may only be invested in debt instruments and other financial assets. Foundation income from interest on saving accounts, rent from real estate, yields on financial assets, dividends on state bonds, patent royalties, as well as income from leasing pieces of art, is fully tax exempt only if the asset producing the yield is registered as a part of the endowment of the foundation.

Business (commercial) and other similar economic activities: Most NPOs are allowed to engage in profit-generating business or economic activities. Foundations and funds are, however, not permitted to do so, and political parties and movements are limited to carrying out only certain types of economic activities. PBCs may engage in economic activities only if those activities contribute to more efficient and better use of their property and other resources; such activities may not interfere with the organization's statutory activities. Business activity profits of up to CK 100,000 are exempt from CIT. NPOs may deduct 30% of their net income from business activities from the tax base (with a cap of CK 3 million), if the money saved on taxes is used to carry out the statutory activities of the organization.

Germany

General: In accordance with German tax legislation, only organizations/corporations that come under the Corporation Income Tax (CIT) law and are based within Germany are entitled to tax preferences. As a consequence, all entities that can be characterized as NPOs and that come under the CIT may qualify for preferences – associations (registered or not), companies with limited liability, public limited companies, foundations (registered or not), and cooperatives. The crucial factor in each instance is whether the entities pursue objectives that are of benefit to the community, or are charitable or church-related objectives, as defined by the Fiscal Code.

CIT is one of the forms of tax on gains, and it is levied on the profits of a corporation at a rate of 25%. Associations and foundations benefit from a tax-free amount of 3835 €. Profits in one business year may be set off against losses in the previous year or subsequent years.

Corporations that qualify for tax preferences are subject to the requirement of “disinterestedness”. This requires that they

- may not pursue as their principal objective the earning of profits;
- must use their resources only for their statutory objective;
- may not pay out any profits;
- may not pay disproportionately high salaries; and
- must make use of their resources for statutory purposes within the year following the inflow of the resources.

Nevertheless, the law permits NPOs to accumulate reserves within specified limits and for specific future objectives. This permits the formation of endowments.

Specific sources of Income: Gifts, grants, state subsidies, and membership dues: Revenues derived from gifts, grants, state subsidies, and membership dues are not subject to profits tax.

Investments: In the context of asset management, an NPO may receive interest and dividends, which are exempt from CIT, as well as profits on rented and leased property (immovable assets), which are also exempt. If an NPO receives income from the license of its name (royalties), these amounts are also exempt from tax.

Business (commercial) and other similar economic activities: Germany makes a distinction between related and unrelated business activities. The former are not taxed, while the latter are. If the income from taxable profit-making business operations does not exceed 30,678 €, no CIT is levied.

Hungary

General: The Corporate Income Tax (CIT) law applies to NPOs as well as to other types of legal persons, and is imposed at a rate of 18% on taxable income. All types of NPOs are entitled to tax benefits available under the law. PBOs are entitled to greater tax benefits than organizations that are not established to pursue public benefit activities. And “prominently” public benefit organizations are entitled to a higher level of benefits than ordinary PBOs. The “public benefit activity” of any foundation, public foundation, public chamber, or a regular NPO is not included in the definition of business activity, and is therefore not subject to tax under the CIT. This rule also applies to any state support, rate preferences, and fees received in connection with that activity as well as gains from the sale of assets or inventories related solely to public benefit activity. In order to receive the tax preferences granted by the CIT, PBOs must not have public debts.

Specific sources of income: Gifts, grants, state subsidies, and membership dues: Revenues derived from gifts, grants, state subsidies, and membership dues are not subject to tax. If a PBO has public debts at the close of the taxable year, the taxable income of the organization is increased by the amount of any gift or grant. If a PBO does not have public debts, but it does have income from business activities that exceeds the tax-exempt threshold (see below), the taxable income must be increased by that portion of the donation that is equivalent to the ratio of business income above the preferential limit to the total amount of business income.

Investment: Generally, investment income is taxable, as investment is viewed as a business activity. PBOs are exempt from tax on interest earned on time deposits or other financial assets acquired in connection with their public benefit activities. Regular NPOs and public benefit companies (PBCs) are exempt on a proportionate amount of their part of their interest income by taking a ratio of revenue from public benefit activities to total income. Foundations must have sufficient funds to carry out their objectives in order to register; economic activities may not jeopardize the realization of the foundation's purposes. Otherwise, foundations may manage their funds independently and without legal restrictions. This promotes the development of endowments.

Business (commercial) and other similar economic activities: NPOs are generally entitled to engage in business activities as long as: (1) the organization is not established for the primary purpose of pursuing business activity; (2) with respect to regular NPOs and foundations, they must only pursue business activity that serves to further their not-for-profit objectives; (3) in the case of foundations, the activity must not jeopardize their purposes; and (4) in the case of PBCs, they must not distribute profits to members.

Income from business activities that does not exceed a specified threshold amount is not subject to profits tax; different types of NPOs have different thresholds. Regular NPOs and PBCs are exempt from tax on business income that does not exceed 10% of total income or 10 million HUF. PBOs are exempt on business income that does not exceed 10% of total income or 20 million HUF; for "prominently" public benefit organizations, the tax threshold is 15% of total income. PBCs are taxed at a proportional rate on all income above the 10% threshold.

Gains from the sale of assets or inventories serving solely public benefit (for PBOs) statutory purposes (for regular NPOs) are not taxable as business income.

Poland

General: Under the Corporate Income Tax law (CIT) a legal entity with its seat or its principal management office in Poland is subject to taxation on all its taxable income at the 40% corporate tax rate. Because Poland uses source-based taxation as well, all taxable income generated in Poland is subject to corporate taxation. Dividends received by legal entities or other revenues received from profits earned by legal entities based in Poland are taxed at a preferential rate of 20%.

Taxpayers that engage in the following activities are exempt from CIT: science and technical scientific research; education; culture; sports and physical exercise; environmental care; support for infrastructure development in rural areas; charity; health care and social care; occupational and social

rehabilitation of the disabled; and religion. Tax exemption is available, if an organization includes these purposes in its organizational documents and declares that any income it has, is designated for one of the listed purposes. The exemption remains in effect as long as the organization does not use the exempt income for any non-exempt purposes.

Specific Sources of Income: Gifts, grants, state subsidies, and membership dues: Legal persons, including NPOs are subject to corporate income tax on gifts or inheritances received. But NPOs are exempt from tax on gifts and other similar transfers from individuals as long as the revenue is used for a specified public benefit purpose. Grants are also tax exempt, as long as they are used for a specified public benefit purpose. State subsidies are tax exempt, as they are normally given only to advance specified public benefit purposes. Membership dues are exempt as long as they are not used for business operations.

Investments: As with other passive sources of income, investment income is exempt to the extent it is used for specified public benefit purposes. Under the recent decision in the *Polish Foundation of Science* case, the Supreme Court clarified Polish law to ensure that investing in securities does not constitute an act of improper “spending” for non-public benefit purposes.⁵

Business (commercial) and other similar economic activities: NPOs may engage in business activities, but only foundations are permitted to do so directly; associations must use subsidiaries if they wish to conduct business activities. Any income from such activities is exempt as long as it is used for specified public benefit purposes. There is no time limit within which the money may be spent for such activities. The CIT exemption does not apply to income derived from the production of alcoholic beverages, tobacco, fuel, electronic devices, and the production and/or sale of precious metals or goods made from precious metals.

Slovakia

General: All types of NPOs, including associations, foundations, non-investment funds, and NPOs providing generally beneficial services are entitled to exemption from corporate income tax (CIT).

Specific Sources of Income: Gifts, grants, state subsidies, and membership dues: Gifts, grants, and state subsidies are not subject to taxation. Member-

5 A discussion of this case and its implications for Polish tax law affecting NPOs can be found in Janusz Fiszer and Michał Stołarek, Exempting the Income if a Foundation from Tax on the Portion Used to Purchase Securities: A Landmark Decision of the Supreme Court of Poland. In: Foundation for the Advancement of Polish Science and Arts, 1 Int'l J. Civil Soc. L. 14 (July 2003), available at www.law.cua.edu/students/orgs/ijcsl.

ship dues collected by associations of legal entities, professional chambers with voluntary membership, civic associations, political parties, and political movements are also exempt.

Investments: Interest on bank accounts and yields on other financial assets is taxed at 15%. Dividends are taxed at 29%. Taxing the investment yields of NPOs tends to discourage the formation and maintenance of endowments.

Business (commercial) and other similar economic activities: All NPOs, except for foundations and non-investment funds, are permitted to engage in business activities. The CIT distinguishes between related and unrelated business activities. A related business activity is one that is not defined in the organization's statutes as its primary purpose, but is necessary to ensure that the organization's statutory activities are carried out. Income from related business activities is exempt from tax, if: (a) the business activity is not conducted at a price advantage which would cause it to come into competition with for-profit entities, and (b) the income is proportionate to costs. The determination of proportionality is made by comparison to the income/cost ratios of "other persons". Income from related activities up to 300,000 SK is exempt.

4. Overview of VAT Preferences

Many activities of NPOs are given preferential treatment under a value added tax, although the precise activities differ from country to country. However, there is no doubt that design of VAT preferences is important for all NPOs. If an organization is excluded from a VAT system by not being defined as a "taxable person" or by being exempt, it pays VAT on goods and services it buys from others, for the tax is built into the price it must pay (input VAT). Furthermore, since it is not in the VAT system, it cannot apply for a rebate of the input VAT when it sells its goods or services, and it is treated as the final consumer. Although exclusion from the VAT system is thus not very desirable from a tax point of view, NPOs may rationally prefer it in order to be relieved of compliance burdens (which may be severe and costly). As the accession countries develop their plans for joining the EU, they may need to change their VAT rates so as to comply with the Sixth Directive on VAT harmonization. In the following section organizational exemptions from indirect taxes on business activities (VAT) are surveyed by country.

*Organizational Exemptions From Indirect Taxes on Business
Activities (VAT) by Country*

Austria

There are no special preferences for NPOs under the value added tax in Austria.

Czech Republic

The VAT system applies to a taxable person, if its monthly turnover exceeds CK 700,000 for three months; the VAT rate is 22%. The following typical NPO providers of goods and services are exempt from inclusion in the VAT system: (a) officially licensed and registered schools and other educational institutions (colleges, universities), to the extent of their educational activities; (b) legal persons licensed to provide health and social care under special regulations; and (c) other NPOs, to the extent of all activities related to their statutory activities. A preferential 5% rate applies to trading of most food and agricultural products, many health care and health protection goods, services and equipment (including equipment for the handicapped), and books, journals, newspapers.

Germany

The regular rate of VAT applicable to taxable persons is 16%. For some specific products (foodstuffs, books, etc.) and services (local transport services, theatre and concert functions, etc.) a lower tax rate of 7% applies. A whole range of services is exempt from VAT, including many services in fields in which NPOs are active (education, health, culture, etc.).

Seen from the point of view of VAT, a corporation is active in an entrepreneurial way in the context of licensing its name. In such a case, the reduced VAT rate of 7% will apply.

Membership dues may be subject to VAT where they are considered to be in payment for some membership benefits.

Hungary

The VAT system defines a taxable person as an entity with actual and expected annual turnover from economic activities of more than 2,000,000 HUF. The VAT rate is 25%, although there is a preferential rate of 12% for certain products and services. There are no exemptions of organizations based on the goods and services they provide, but sales of certain products and services are exempt from VAT, including health care, social care, organi-

zation of scientific events, education, hostels and dormitories, libraries, museums, and nonprofessional sports. Pharmaceuticals, books used in public education, and products for the blind, are zero-rated.

Poland

In Poland the basic VAT rate is 22% and there are lower rates of 7% and 0%. A taxable person is defined by the law as being included in the VAT system, if its annual turnover exceeds 120,000 PZL. There are no exemptions from VAT available to specific kinds of legal persons. Certain goods and services are exempt from VAT, including services in the fields of scientific, technical, and economic information, research and development, education, health protection and social welfare. Other goods and services are accorded a preferential 7% rate; these include hearing aids, pharmaceutical products, certain types of medical and sanitary articles, rehabilitation products, and Braille devices. The zero rate does not apply to any goods or services typically provided by NPOs.

Slovakia

Legal entities not established to conduct business do not register as taxable persons under the VAT system. Non-business entities that conduct economic activities may become liable to VAT, if they have business licenses and their turnover from business activities exceeds 750,000 SK; the VAT rates are 10% and 23%. Activities that are exempt from VAT include education, training, scientific, health care, and social care services. If goods are exempt from import duties, they are also exempt from the import VAT. Thus, the following goods received from abroad are exempt from taxation: goods to be used for education, scientific religious, and cultural purposes and goods designated for disabled persons.

5. Organizational Exemptions from Other Taxes

Typical exemptions for NPOs in this region involve taxes such as real and personal property taxes; municipal business taxes and other levies. The following describes some of the exemptions available in the region.

Property taxes. In the Czech Republic and Slovakia, for example, land and buildings used for ceremonies of registered churches and religious societies/congregations are exempt from land use tax and buildings tax. The

exemption also applies to land and buildings owned by citizens associations, foundations, funds, and public benefit corporations, or used by schools and educational establishments, museums, art galleries, libraries, and health or social care institutions. Exemption is also available from the tax on buildings for buildings owned by associations of handicapped citizens, or which represent a state registered architectural monument open to the public, or which are used exclusively for the improvement of the environment.

In Slovakia, in addition, exemptions from feu duties and construction and apartment taxes are available for property, which is devoted to various public purposes, such as culture, education and social services, as long as the property is not used for business activities. If the property is rented out, it is considered to be used for business purposes.

Similar exemptions exist throughout the region, with Hungarian NPOs that are not required to pay CIT being exempt from real estate taxes. In Poland, on the other hand, the exemption is available only to associations conducting certain activities (education, sports, recreation and science) for the benefit of youth and children, to the extent that the real estate is not used for business activities. Other organizations pay tax in accordance with the general rules applicable to real estate taxes, but the real estate tax is fairly low.

Commercial earnings taxes and other local and regional levies. In Germany NPOs are exempt from the commercial earnings tax, which is a municipal tax, and it may be levied on any profits of NPOs. The rate of tax varies between the various municipalities of the federal republic and it is levied at rates ranging between 0% and 20%. In respect of commercial earnings tax, associations benefit from a tax-free amount of 3835 €. If the income from taxable profit-making business operations does not exceed 30,678 €, no commercial earnings tax is levied.

In Hungary, NPOs are exempt from paying local communal tourism and business taxes as long as they do not pay CIT. They are also exempt from certain fees (which are the equivalent of taxes) for court and administrative proceedings, including registration, gift, and inheritances fees.

6. Overview of Income Tax Preferences for Donations

Within reasonable limits, individuals and business entities should be entitled to an income tax deduction or credit with respect to donations made to NPOs that qualify as public benefit organizations. Such tax preferences are an important and useful tool for encouraging NPO-business-government partnerships for social and economic development. These preferences are part of a normal tax regime that encourages the sustainability of NPOs in most

countries.

The two most common types of tax preferences for donations around the world are deductions and credits. Tax credits are applied against and reduce the amount of tax owed by a taxpayer, while deductions reduce the amount of income subject to tax. Other types of tax preferences include tax benefit reclaim schemes (generally limited to the UK) and tax designation schemes (in use in some European countries, including a few covered by the focus project). These involve a payment of the donor's actual tax liability to the designated organization.

"Tax designation" laws, which permit taxpayers to direct a small percentage of the taxes they owe in a given year to be paid to NPOs designated by them, are in use in Hungary, Poland, and Slovakia. By providing a simple mechanism for directing tax funds to NPOs, the so-called "percentage laws" can create a significant pool of resources to support socially beneficial activities (www.onepercent.hu). On the other hand, recent experience in both Poland and Slovakia indicates that legislators are uncomfortable with permitting tax designations at the same time as generous deduction rules. In both countries the passage of a designation law has led to a severe limitation on the deductibility of contributions to public benefit NPOs. It may well be that there will therefore be a decline in the amount which NPOs in those countries receive from socially concerned citizens.

In developing the tax preferences for donations that a country will use, it is important to decide on matters of tax equity and to design a system that will encourage contributions in a fair manner. The distinction between credits and deductions is of great importance in a tax system with a progressive rate structure. Where rates are progressive, deductions tend to favor higher income taxpayers, who are paying higher rates on tax on large amounts of income. A system that allows a tax credit for contributions gives each taxpayer a tax preference of identical value for a contribution of the same amount, and hence creates greater horizontal equity, as a matter of tax policy.

If the tax system permits tax deductions, it is important to set the limits, if any, on the amount of tax deductions allowable. Empirical studies show that few business entities contribute more than 1-2% of their income, so it is an essentially empty debate whether deduction limits should be higher than that for business. Individuals, however, do not have the same constraint to maximize value to shareholders that business entities have. Where there is no limit on allowable deductions to public benefit NPOs, wealthy individuals would be able to avoid paying any taxes at all by contributing to charity an amount equal to their taxable income each year. In a democracy it is appropriate that each citizen who is financially able to do so should bear a fair share of the costs of government, and it is therefore not generally thought appropriate to allow unlimited deductions. At the same time, if deductions are limited to contributions to NPOs that are public benefit organizations, i.e., orga-

nizations contributing to the public good and often relieving the burdens of government, generous deduction limits are appropriate. In the following section income tax preferences for donations are surveyed by country.

Austria

Donations by individuals and businesses: The tax preferences available for gifts to NPOs in Austria are the lowest in Europe (Hernegger, 2003). Individuals can deduct up to 73 € for gifts to churches. Individuals and other donors are permitted to deduct up to 10% of their taxable income for gifts to certain scientific institutions. This reflects a heavily statistic view of the sector in Austria, and it is much deplored by Austrian commentators (Hernegger, 2003).

Czech Republic

Donations by individuals: Cash donations made by individuals are deductible up to 10% of taxable income. There is a threshold amount of 2% of income, but not less than 1000 CK, which must be met in order for the individual to be able to qualify for the deduction. Deductible donations must be given to municipalities or NPOs headquartered in the Czech Republic, and they must be used to finance “science and learning, research and development, culture, schools, police, fire squads, support and protection of young people, protection of animals, social and health care, ecology, humanitarian and charity purposes, religious purposes for registered churches and religious communities and sports”. In addition, donations to natural persons living in the Czech Republic who use the donation to run “schools and health care establishments and care for abandoned animals or endangered species” are also deductible.

Donations by businesses: Under the CIT, corporations may not deduct more than 2% of their taxable income; there is a threshold of 2000 CK. In order to be deductible, donations must be given to organizations that qualify for deductibility of individual donations.

Germany

Donations by individuals and businesses: Donations reduce the taxable income of individuals or business entities only to a limited extent, and in accordance with the following rules.

- In the case of donations for church-related, religious, scientific, and charitable objectives and other objectives benefiting the community and “especially deserving of support”, up to 5% of the total amount of

taxable income, or 2% of the sum derived by adding together turnover and personnel costs, may be claimed as a deduction.

- In the case of donations for charitable and scientific objectives and cultural objectives that are “especially deserving of support,” this amount may be increased by another 5% of the total amount of taxable income.
- Individual donations of 25,565 € and over may be carried forward for a period of seven years.
- In the case of donations to special tax-privileged foundations, up to 20,450 € may be deducted from tax.
- In addition to the possibilities of deductions for annual donations to NPOs, in the case of donations that are paid in to form the initial endowment of a foundation, up to 307,000 € may be claimed as a tax deduction and the amount may be carried forward for ten years.

Hungary

Donations by individuals: An individual may claim a tax credit for 30% of a cash donation made to a PBO or for a public interest activity or purpose. The credit is capped at 50,000 HUF. In the case of donations to “prominently” public benefit organizations, the credit is capped at 100,000 HUF.

Donations by businesses: Corporations, unincorporated partnerships, and individual entrepreneurs may deduct donations up to 20% of pre-tax profits. In the case of donations to “prominent” public benefit organizations, the deduction is 150% of the donation up to 20% of pre-tax profits.

“1% Law”: Taxpayers may direct that 1% of their taxes be paid to designated public benefit organizations and an additional 1% to religious organizations. The process for doing this is fairly simple, and it involves a direct payment of the designated amount to the designated charity (Csoka, 1999).

Poland

Donations by individuals and businesses: Both individual and corporate donations are deductible, but recent changes in the law impose severe limits on the amount of tax preference available. According to a law passed in October 2003, for years beginning in January 2004, individuals may only deduct cash contributions up to 350 PZL. Deductible donations may be made to organizations engaged in various kinds of activities; these include charitable, public security, national defense, environmental protection, and fire protection activities as well as housing investment by local government. Donations by corporations to organizations whose activities include science, education, culture, sports and physical exercise, rehabilitation of the disabled, health care and social care and support for infrastructure investment in rural areas are also deductible up to 10% of the donor's taxable income (previously 15%). Donations to the following are not deductible: natural persons, entities engaged in the production of alcoholic beverages, fuels, tobacco, electronic devices and precious metals, and entities engaged in the trade of precious metals. Businesses may deduct both cash and in-kind donations, while individuals are limited to cash contributions. No carry-forward of unused deductions is permitted.

"1% Law": For years beginning 1 January 2004, the Polish parliament enacted a new law in May 2003 that has been referred to as a tax designation by some commentators. However, the implementing legislation for this new law treats the designation essentially as a tax credit. Thus, unlike the situation in Hungary and Slovakia, a taxpayer must make a cash payment to the public benefit NPO and then credit that amount (up to 1% of tax liability) against his or her taxes.

Slovakia

Donations by individuals: Until recently Slovak law permitted individuals to deduct contributions in excess of 2% of their tax liability or 1000 SK, with a limit of 10% of taxable income. Deductible contributions could be made to organizations whose activities promote science and education, culture, schools, fire protection, support for youth, protection of animals, social and health care, ecological and humanitarian concerns, charity, church and religious purposes, physical training, and sports. Under recent amendments to the Slovak tax code, these rules are repealed for years beginning in January 2004.

Donations by businesses: Under prior law businesses could deduct the value of gifts in excess of 500 SK up to 10% of taxable income and for purposes similar to those permitted for individual donations. Under recent amendments

to the Slovak tax code, these rules are repealed for years beginning in January 2004.

"1% Law": Taxpayers may designate 1% of their income taxes to be paid over to any appropriately designated NPO. In years beginning in January 2005, both individual and corporate taxpayers will be able to designate 2% (as opposed to the current 1%) of their income taxes to a qualifying NPO.

7. Wealth Transfer Tax Preferences for Donations

In some countries in the region, there are transfer taxes or duties on lifetime transfers, such as gifts, or transfers at death, such as bequests or devises (sometimes known as inheritance taxes). At times these take the form of local stamp taxes (which must be recorded with respect to any transfer of a deed to real property). At other times, they take the form of national wealth transfer taxes, which supplement the income or profits tax on individuals and businesses. Frequently the laws imposing these taxes permit tax preferences when there is a transfer to an NPO. These include exemptions (as in the case of stamp duties) or deductions from the amount of the tax owed for gifts made by a person during his or her lifetime or at death. In some cases, there are distinctions between cash transfers and property transfers, with the latter being more frequently deductible. In the region one finds a myriad of different rules, some of which are discussed here.

Wealth transfer tax deductions: Deductions from gift and estate transfer taxes are available for transfers of property to legal entities with their seats in the Czech Republic that are established to conduct activities in the fields of culture, education, science, learning, health and social care, fire protection, ecology, physical culture and sports, education and protection of children and young people, or to finance such activities. Also included on the list of qualified recipients of deductible gifts are registered churches and religious societies/congregations, public benefit corporations (if the property given will be used to further their principal public benefit activity), foundations, and funds, and entities which are recipients of grants provided by a foundation or a fund. Legal entities operating shelters for abandoned animals or endangered species are exempt from the gift tax.

Similar rules apply in Slovakia, where the tax for transfers of gifts and estates is provided in the Law on Inheritance Tax, Gift Tax, and the Tax on Conveyances and Transfers of Real Property. Gifts are deductible from the gift tax, if they are paid to appropriate NPOs being used to develop foundations, churches and religious communities, culture, schools, science, health care, school care, ecology, physical training and sports, as well as inland

communities, state archives, and humanitarian and charity unions. Bequests are deductible from the estate or inheritance taxes to the extent that they meet the same conditions as those set forth above for gifts.

In Austria, only donations of cash and movable property to public benefit, beneficial, and religious purpose foundations are deductible in full under the Gift and Inheritance Act. Other gifts (such as to associations) are taxable at a 12.5 % rate.

8. Procedural Issues

There are four separate approaches to the grant of tax preferences to or for the benefit of NPOs found in the region. These include (for the income or profits tax):

- advance approval based on legal form;
- advance approval based on an application procedure;
- retrospective approval of income tax exemption (with advance assurance of deductibility of gifts); and
- retrospective certification (applicable to NPOs qualifying for the 1% laws in Hungary, Slovakia and Poland).

By far the most common approach is found in Austria, Czech Republic, Hungary, and Slovakia, where there is an *advance approval procedure* established by the CIT. Once approval is granted the determination of whether the NPO continues to qualify for income or profits tax exemption is made on the basis of tax information returns filed annually and based on the organization's annual reports. The same type of procedure applies throughout the region with respect to all VAT exemptions and zero rating systems.

In Germany, on the other hand, the system of income tax exemption involves *retrospective approval of exemption (with advance assurance of deductibility of gifts)* by the responsible local tax office, which is in charge of permitting and controlling tax exemptions for NPOs. There is no separate procedure in German tax legislation for the establishment of a right to tax preferences in advance of operations by an NPO. The right to privileged treatment is established in the context of a regular tax assessment process: Instead of receiving an assessment, the NPO receives a "notification of exemption". If the corporation is liable for CIT and commercial earnings tax on its taxable business operations, it receives the usual tax assessment for those activities along with an addendum stating that in other respects it is exempt from these taxes.

Under this system, tax preferences have only retrospective application. For the first, and generally also for the year of operation, an NPO may receive

a “provisional certificate”. This establishes only that it is pursuing tax-privileged objectives in accordance with its articles of association, and that it is entitled to provide donation certificates to its supporters. Naturally, this makes the process somewhat more difficult for NPOs than the system used in other countries.

Poland is the only country in the region that *permits income tax exemption based solely on the legal form of the organization*. Because foundations must be established for public benefit and are thus automatically entitled to tax exempt status, granting such status is done not by the tax authorities but by the registry court. Associations, however, must apply for exemption from income taxes and even a foundation may request a ruling from the tax authorities, if it is in doubt regarding the availability of exemption from the CIT.

With respect to “1% Law” certifications, these are always made retrospectively, after the close of the taxable year for which the designation is made. The elaborate system for certification adopted in Hungary (Csoka, 1999), has been modified for application in Slovakia and Poland as well.

9. Conclusion

This chapter has provided an overview of the tax preferences in the countries under study. Selected with care and administered judiciously, tax preferences for NPOs can further important activities that the state wishes to support and encourage. As can be seen from the overview, however, the preference systems are not uniform, and each country must make its own decisions about which tax preferences are most suitable for it by taking into account the specific economic, social, and political realities it confronts. It is hoped that this chapter will assist students of nonprofit organizations as well as practitioners to have deeper insight into tax preferences schemes for NPOs. Furthermore, it is hoped that this chapter will also assist tax professionals and policy-makers in designing tax rules that will support, promote and encourage nonprofit organizations in their individual countries.

Suggested Readings

- Irish, L.E./Simon, K.W. (forthcoming 2004): Cases and Materials on Comparative Not-for-Profit Law
- Irish, L.E./Kushen, R./Simon, K.W. (forthcoming 2004): Guidelines for Laws Affecting Civic Organizations
- ICNL (current as of end 2003): Survey of Tax Laws Affecting NGOs in Central and Eastern Europe
- Hernegger, D. (2003): Austria's Legal & Fiscal Framework for Civil Society: The Worst in the European Union, 3 Int'l J. Civil Soc. L. 212 available at www.law.edu/students/orgs/ijcsl.
- Ernst-Pörksen, M. (2003): Basic Conditions of Corporate and Tax Legislation Affecting the Third Sector in Germany, 1 Int'l J. Civil Soc. L. 4 (October 2003), available at www.law.edu/students/orgs/ijcsl
- Csoka, I.: Hungarian Tax Rebate Provision: the One Percent Rule, available at: <http://www.icnl.org/library/cec/reports/hun1percent.html> (current as of 1999)

References

- Irish, L.E./Simon, K.W. (forthcoming 2004): Tax Preferences for Non-governmental Organizations. In: Bator, P./Hondius, F./Kessler Lieber, P. (eds.): The Tax Treatment of NGOs
- Irish, L.E./Simon, K.W. (forthcoming 2004): Cases and Materials on Comparative Not-for-Profit Law
- Salamon, L.M. (1997): The International Guide to Nonprofit Law. New York et al. NIOK (Hungary): – website on “percentage laws” at www.onepercent.hu.

Embeddedness of Nonprofit Organizations: Government - Nonprofit Relationships

1. Introduction

Similar to any other organizations, NPOs are embedded in environments. However, as already outlined in the introduction to Part II, compared to the two competing sectors, i.e., the market and the state, the study of the embeddedness of the nonprofit sector constitutes a rather difficult task. First, due to the fact that nonprofits are multi-functional organizations, they interact with very different environments simultaneously. Second, again due to the multi-functional character of nonprofit organizations, their managers and board members have to deal at the same time with a variety of stakeholders who represent the different environments in which the particular NPO is embedded and try to influence and even to put pressure on the respective NPO. Against this background, it becomes of utmost importance that students of nonprofit organizations become familiar with those approaches that analyze and discuss the embeddedness of nonprofit organizations (for an overview see Kramer, 2000). Within nonprofit research there are at least three distinctive perspectives from which to view the embeddedness of nonprofit organizations: a) the legal perspective, b) the advocacy perspective, and c) the public policy perspective.

The legal perspective (see Freise/Pajas and Simon in this volume) focuses on the legal and organizational framework put in place by government, including tax regulations for nonprofits and tax incentives for donors. From the legal perspective government exercises its legislative capacities to define the frameworks for operation of all the actors of the public sphere, nonprofit organizations included. In this scope, the legal regulations are of a constitutive character, with the state enjoying what is indubitably a privileged position laying down the rules that have to be followed by the nonprofits. The role of the state is a privileged one, yet it is limited. A *sine qua non* prerequisite for democracy is the self-limitation of the state. The democratic state acknowledges and respects human rights, including the right to associate and to found nonprofit organizations. Accordingly, government by law authorizes its citizens to convene associations, to found nonprofit organizations, and to pursue charitable

activities through donations or volunteering.

Whether, how and to what extent citizens make use of the public sphere by engaging in civic activities constitutes the focal point of interest of the advocacy perspective, which builds heavily on the work of political sociology (see the contribution by Mansfeldová et al. in this volume). From this point of view democratic states legally guarantee a public sphere populated by civil society organizations, which primarily engage in advocacy work, grassroots campaigning, and political action. Within this line of argumentation, democracy is embedded in an active citizenry. Accordingly the advocacy perspective looks at the sector and its organizations from below. Societal integration and political participation of the citizenry are the key features of analysis. Do nonprofits indeed give citizens a voice and open avenues for political participation? Are nonprofit or civil society organizations indeed working as political actors, particularly in the agenda-setting stage of the policy process? Thus, the advocacy perspective perceives the nonprofit sector and its organizations primarily as a vital part of civil society and as such as an opportunity structure for citizens to become engaged in politics by either criticizing or supporting government activities. In other words, the advocacy perspective focuses on the embeddedness of the sector exclusively from a political point of view, thus investigating whether and how civil society organizations give citizens a voice for political participation, provide avenues for societal integration, and work on behalf of the common weal by enhancing pressure group politics.

Finally, how nonprofits are embedded in welfare state arrangements and whether and to what extent governments and public administration at the federal, regional and local level cooperate with nonprofit organizations as producers of goods and services constitute the focal points of interest of the public policy perspective, which builds heavily on the results of welfare state research. This particular perspective will be highlighted in the following article because nonprofit organizations are significantly engaged worldwide in the production of core social services such as healthcare and care for the elderly. Furthermore, within the welfare state context, nonprofit organizations are of increasing importance due to the fact that the classical welfare state has not lived up to his promises. Ironically many hopes and expectations that decades ago were linked with the welfare state and its achievements are by now increasingly attributed to the nonprofit sector and to the capabilities of its organizations. According to this line of argumentation, nonprofit organizations are, compared to government entities, much better equipped to achieve both organizational efficiency and grassroots service delivery. Thus, there is a close nexus between welfare state research and the public policy strand of nonprofit research. Both share a public good orientation; they cling to a nation-state approach of comparative research and distinguish between different welfare state/nonprofit sector regimes by focusing on the structure of

interdependence between the state, the market, and the community (Esping-Andersen, 1990; Salamon et al., 1999; Salamon/Anheier, 1998).

Against this background the purpose of the following chapter is twofold: First, it aims at introducing students of nonprofit organizations to the various models and theoretical approaches investigating nonprofit-government relationships. It must be kept in mind that these models constitute analytical categories that are described in the social sciences as ideal types (Weber, 1973). They are theoretical constructs, providing points of reference to which the "real worlds" of nonprofit sector-government relationships in particular countries are compared. To put this in other words, none of these models will be found in its pure form, but it will be possible to identify government-nonprofit sector relations in one country that bear a certain affinity to either one or two of these models, thus constituting a new and country-specific relationship (Rymysza, 1998). Moreover, models of embeddedness as analytical categories do not focus on the legal environment of nonprofit organizations (see Simon in this volume); instead, their starting point is the democratic state acknowledging the right to associate and respecting the nonprofit sector as the organizational infrastructure of civil society.

Second, the chapter puts a special emphasis on the analysis of the embeddedness of nonprofit organizations in welfare state arrangements. This particular focus is of utmost importance for the Visegrád countries because nonprofit organizations play a key role within policies of decentralization as well as privatization in the six countries under study in this volume. In other words, core social services, which in the Czech Republic, Hungary, Poland, and Slovakia under socialist rule were delivered by state entities, are increasingly taken up by nonprofits. As outlined in a previous chapter (Freise/Pajas in this volume), in order to restructure and decentralize the former socialist welfare state, governments of the Visegrád countries have introduced a special legal form that enables former government entities to become nonprofit organizations without changing their administrative set-up and their pure service-delivery function.

But the topic of the changing role of nonprofits within welfare state arrangements also constitutes a key feature of political and public discourse in Austria and Germany, where for decades nonprofits as social service providers were protected against forprofit competitors thanks to the principle of subsidiarity. Currently, however, welfare state arrangements in Austria and Germany are undergoing a change of paradigm in the sense that neither public nor nonprofit organizations are supposed to be able to deliver social services with the efficiency and customer-orientation of commercial enterprises.

Against this background the focal point of interest relates to the division of labor between the market, the state and the nonprofit sector: How will social service delivery in the future welfare state look? Does it become a main arena for commercial enterprises, or will the nonprofit sector remain an

important actor in the social service industry? In other words: Is there movement towards just one welfare state arrangement with respect to the division of labor between the three sectors, or on the contrary will the diversity of nonprofit-government relationships within welfare state arrangements persist? These questions will be addressed in the following chapter by referring specifically to the situation in the Visegrád countries, but by also taking the German and Austrian welfare state arrangements into consideration.

Although the future of the welfare state is of utmost importance for nonprofit organizations, it must nevertheless be kept in mind that civil society organizations offer more to their communities than just service provision. Therefore, the following chapter first focuses on an approach that takes the complete spectrum of nonprofit-government relationships into account, thus analyzing modes of cooperation and confrontation with government as well as complementarity and co-optation of nonprofit organizations by government. Thereafter, the article discusses those theoretical approaches that are closely linked to welfare state research and that are primarily interested in investigating the role of nonprofit organizations as producers of public goods. Finally, the chapter takes a closer look at the current situation in the Visegrád countries by discussing the pivotal question: Which role will nonprofit organizations fulfill in future welfare state arrangements in the countries under study?

2. State of the Art: Models of Nonprofit-Government Relations

As previously outlined, it is not an easy task to categorize the variety of nonprofit-government relations by defining analytical model-type arrangements. In the following, four distinct analytical approaches are presented. The first, developed by Adil Najam (2000), proposes a so-called “Four-C” framework of nonprofit-government relationships, which is based on institutional interests and preferences for policy ends and means. The “Four-C” framework is exceptional because it covers also the advocacy and lobbying functions of nonprofit organizations. To a certain extent the same holds true for the approach worked out by Dennis Young (2000), who, referring specifically to economic theories of nonprofit organizations, identified a supplementary, a complementary and an adversarial role and function of nonprofits towards government. In contrast to Najam and Young who developed a heuristic framework to facilitate the categorization and analysis of current nonprofit-government relationships, the “social origins

model” by Salamon and Anheier (Salamon/Anheier, 2000) explains why the embeddedness of nonprofit organizations in welfare state arrangements differs from country to country by taking a neo-institutionalist approach and thus referring to the social and political history of the specific arrangement. This section concludes with a description of the approach based on the famous typology of welfare state regimes by Esping-Andersen (1990) that exclusively refers to those nonprofit organizations that are service providers and thus represent a nonprofit alternative for either state or market social service production.

2.1 The Four C's of Nonprofit Sector-Government Relations

Najam's analysis of nonprofit-government relationships is based on two hypotheses: first, nonprofit organizations constitute “a distinct institutional sector with particular motivations and structural preferences” (2000: 378), and second, nonprofits have an “abiding interest in public policy” (2000: 380). As such nonprofits are similar to government organizations; however, they are policy entrepreneurs acting outside the realm of government. Furthermore, as widely documented by the literature, nonprofit organizations are of increasing importance as policy actors since there is an increasing presence of nonprofits in various policy domains, which range from international activities to healthcare and education. Against this background and based on the current literature on nonprofit-government relationships, Najam developed a typology of interactions between nonprofits and government that takes both perspectives – those of government towards the sector and vice versa, the sector's position facing government – into account.

For analytical purposes, Najam distinguishes between ends and means, or to put it more specifically, between goals (ends) and strategies (means) that are pursued by government and/or by nonprofit organizations in the specific policy field. Therefore, his “Four-Cs Model boils down to a question of ends and means” (Najam, 2000: 385). Within a certain policy field, each institutional actor - governmental and nonprofit organizations - pursues certain ends (goals) and each has a preference for certain means (strategies). “As the organizations float within the policy stream, they bump into each other in one of four possible combinations: (1) seeking similar ends with similar means, (2) seeking dissimilar ends with dissimilar means, (3) seeking similar ends but preferring dissimilar means, or (4) preferring similar means but for dissimilar ends” (2000: 383).

Figure 1. The Four C's of Nonprofit-Government Relations

Goals (Ends)			
Preferred Strategies (Means)	Similar	Similar	Dissimilar
		Cooperation	Co-optation
	Dissimilar	Complementarity	Confrontation

Source: Najam (2000: 383)

According to his analysis, a cooperative relationship is based on a convergence of goals and strategies of government and nonprofit organizations. Cooperative relationships are quite often to be found in the policy arenas of human services and relief programs where government and nonprofits not only agree upon the same goals but also have a preference for the same strategies. Against this background Najam perceives the “growth of NGOs (NPOs) acting as public service subcontractors for government” as the most significant outcome of cooperative relationships, even if this cooperation is not based on power symmetry between nonprofits and government.

“A confrontational relationship is likely when governmental agencies and nongovernmental organizations (nonprofits) consider each other's goals and strategies to be antithetical to their own - essentially, total divergence of preferred ends as well as means” (Najam, 2000: 385). Political scientists investigating pressure group politics and social movements tend to focus on confrontational relationships between government and nonprofit organizations. There is no doubt that in many situations nonprofits “emerge precisely as forces of reaction or resistance to particular government policies” (Najam, 2000: 386). This has been particularly the case in the Visegrád countries where the transformation from authoritarian rule to democracy has not been achieved without confrontational pressure politics by nonprofit / civil society organizations.

“A complementary relationship is likely when government and nongovernmental (nonprofit) organizations share similar goals but prefer different strategies” (Najam, 2000: 387). According to his interpretation complementarity between government and nonprofits is based on a mutual agreement upon goals; both government and the nonprofit sector want to achieve the same purpose or mission. Thus, relationships based on complementarity are very common in the service provision arena where government provides funding while the nonprofit sector is responsible for the delivery of services.

“A co-optative relationship is likely when governmental and

nongovernmental (nonprofit) organizations share similar strategies but prefer different goals" (Najam, 2000: 388). According to Najam, examples of co-optative relationships abound in the literature of developing countries where co-optation is generally discussed as what governments try to do to nonprofit organizations. Although co-optation is perceived to be negative, Najam draws attention to the fact that co-optation does not work in only one direction, but that also nonprofits try to co-opt government by influencing the views of the bureaucracy.

Rounding up his analysis, Najam makes very clear that he perceives nonprofit-government relationships to be the outcome of "strategic institutional choice(s)," which have to be explained by analyzing those institutional interests that support a particular attitude of either government or the nonprofit sector with respect to the choice of specific means and ends. Najam's Four-C's Model covers a broad spectrum of nonprofit-government relationships; it is applicable around the world; and finally it is an analytical tool for analyzing nonprofit-government relationships in various policy fields. However, the approach also has shortcomings. First and foremost, the Four-C's Model constitutes a very theoretical approach without, however, being connected with any specific line of argumentation that has been developed within nonprofit research. Therefore, it will be difficult to further develop Najam's model and to bring it above the level of a systematic, albeit rather descriptive analysis. This is not the case with the approach developed by Dennis Young who specifically referred to the so-called economic theories (see Powell, 1987), which were worked out in order to explain why there exist nonprofit organizations in market economies, even though from an entrepreneurial point of view there is no incentive to start an organization that operates under the non-distribution constraint.

2.2 Alternative Models of Government-Nonprofit Sector Relations

Young's typology of government-nonprofit sector relations does not cover the complete spectrum of nonprofit organizations but focuses specifically on nonprofits as service providers. Moreover, in accordance with economic thinking, Young's typology is based on the underlying assumption that output improvement, particularly of social service delivery, constitutes the core rationale for government-nonprofit sector relations. Referring to different strands of economic theory (see Hansmann, 1987), Young identified three distinct models of government-nonprofit sector relations in which he characterized nonprofit service provision as being supplementary, complementary, or adversarial to government supply of public goods.

According to Young's typology, "in the supplementary model, nonprofits are seen as fulfilling the demand for public goods left unsatisfied by

government.... In the complementary view, nonprofits are seen as partners to government, helping to carry out the delivery of public goods largely financed by government.... In the adversarial view, nonprofits prod government to make changes in public policy and to maintain accountability to the public" (Young, 2000: 150f). Young also makes clear that there are inherent shortcomings in these models. First of all, he draws attention to the fact that these models are not mutually exclusive. With regard to a certain policy field, the nonprofit sector in a given place might be in a complementary relationship with government, while at the same time in a different policy field the sector might be adversarial to government. Furthermore, in some cases it might be very difficult to distinguish between government and the nonprofit sector due to long-standing relationships tailored in a complementary fashion, which translate into the emergence of "hybrid organizations" (Young, 2000: 151). Despite these caveats Young, nevertheless, stresses the fact that this typology might contribute to a further understanding of government-nonprofit sector relationships.

According to his line of argumentation there is one main reason why these models of government-nonprofit sector relations are worth further consideration, i.e., because they are backed by economic theory. More precisely, the rationale for nonprofits as supplements to government is closely linked to the work of Burton Weisbrod (1977) and particularly to his seminal work on government failure in which he outlined why nonprofit organizations provide collective goods on a voluntary basis. In a nutshell, Weisbrod showed that in democratic market economies with heterogeneous societies, government generally focuses on the needs of the median voter, thus leaving many citizens' preferences unsatisfied. Those citizens are likely to invest time and money in nonprofit organizations, which provide additional or supplementary levels of public goods or more precisely social services. In his work Weisbrod also highlighted that nonprofits are not the only solution in situations where citizens' preferences are heterogeneous and not met by government. Depending on the financial capacity of the citizen there is also the private market alternative, which translates into a situation where commercial companies provide those goods and services which government cannot or is not willing to produce. The supplementary model also draws attention to the fact that there are substantial variations in nonprofit-government relationships among fields of activity, and moreover, that there is an interesting dynamic when citizens' preferences change over time. In particular, the role of the nonprofit sector might be reduced when government decides to enlarge its engagement in certain policy fields; or on the contrary there might be more room for the nonprofit but also for the commercial sector in areas where government decides to reduce its engagement.

The model that sees nonprofits and government as complements is, according to Young, primarily backed by the work of Lester Salamon (1995)

who “has been the principal advocate for the view that nonprofits and government are engaged in a partnership or contractual relationship in which government finances public services and nonprofits deliver them” (Young, 2000: 153). Voluntary failure, the fact that nonprofit organizations are not able to ensure a widespread provision of services, and the free-rider phenomenon, which boils down to the situation that government but not nonprofits are able to force every citizen to contribute to the provision of public goods, constitute the economic rationale behind this model. Again, government is not necessarily forced to contract nonprofits for complementary service provision. However, economic theory comes up with two reasons why governments prefer nonprofits to commercial providers of social services. First, nonprofits that are embedded in their communities might know better than forprofits what kind of product serves their community best. Second, “nonprofit organizations deserve some preferences in bidding because they provide benefits to the government (reduced opportunistic behavior and reduced transaction costs of negotiating, monitoring and enforcing a contract) that cannot be enforceably written into a contract with forprofits” (Steinberg, 1997: 176, quoted by Young, 2000: 154). Against this background it also becomes clear why governments try to keep nonprofits under control in situations in which nonprofits act as complements or even as substitutes of government action.

In order to explain the model that sees nonprofits and government as adversaries, Young refers again to the work of Burton Weisbrod. According to Young, nonprofit advocacy and government pressure can be understood through the complementary lens of nonprofit-government relations because very often nonprofits and government are collaborators in passing legislation or changing public attitudes. There are also cases when government supports and stimulates nonprofits working in favor of specific social goals. Against this background, Weisbrod’s analysis of government failure is to a certain extent helpful for understanding how new public services come into being through advocacy. As Young outlines in detail, “in heterogeneous communities, where minority views are not well reflected in public policy” (Young, 2000: 155), nonprofits working as advocacy organizations press government to better serve the interests of their constituencies. “A minority of voters may promote the idea through advocacy and demonstrate its efficacy with voluntary contributions... Eventually the concept may be proven and receive the support of the majority, at which point government may undertake full-scale provision” (Young, 2000: 156).

From a historical point of view, by taking a power approach that focuses on societal forces pressing for change and government action, the development of the welfare state might be explained by referring to this particular model. Salamon and Anheier take up this line of argumentation in their Social Origins Model of nonprofit sector-government relations.

2.3 *The Social Origins Model by Salamon and Anheier*

An influential and innovative approach explaining differences in the embeddedness of nonprofit organizations has recently been worked out by Lester Salamon and Helmut Anheier (1998) whose Social Origins Theory is a classical outcome of comparative social science research trying to explain features of diversity. Besides the fact that the nonprofit sector represents a major economic force in every country under study, the results of the Johns Hopkins Comparative Nonprofit Sector Project brought to the fore that size-wise and with respect to its internal composition the nonprofit sector varies significantly from country to country (Salamon et al., 1999). How can these variations be explained? Why does the sector play a significant role in social service and healthcare provision in Germany, whereas this is not the case in Sweden? And why is the nonprofit sector of the United States significantly larger than the sector in Germany?

The answer that Salamon and Anheier gave to these questions is closely related to the concept of organizational embeddedness focusing explicitly on broader social and political relationships. According to their interpretation, differences in size as well as composition of the sector can be explained by referring to the social and political development of the sector over time. In other words, differences of size and composition are explained by different social origins of the sector. According to the interpretation of Salamon and Anheier, what is seen as today's embeddedness of the sector in a particular country is the outcome of social and political forces that link or embed the sector in between market, state and society. Drawing on the work of Barrington Moore (1967) and Gosta Esping-Andersen (1990), Salamon and Anheier identified four distinct "routes" of third-sector development, which they titled the liberal, the social democratic, the corporatist, and the statist route of third-sector development.

The embeddedness of the nonprofit sector, which is the result of these four identified routes, differs in terms of two key dimensions: a) the extent of government social welfare spending and b) the scale of the nonprofit sector.

Figure 2. Models of Third-Sector Regime

Government Social Welfare Spending	Nonprofit Scale	
	Low	High
Low	Statist	Liberal
High	Social Democratic	Corporatist

Source: Salamon/Anheier (1998: 228)

What Salamon and Anheier identified as the liberal model characterizes an embeddedness of the sector where low government social welfare spending is associated with a relatively large nonprofit sector. To put it differently, this type of embeddedness leaves plenty of room for nonprofit social service delivery. In contrast, the social democratic regime is the outcome of state-sponsored and state-delivered welfare services leaving relatively little room for nonprofit service-providing activity. A sizable nonprofit sector going along with extensive government welfare spending characterizes the corporatist regime. In the statist model government maintains the tradition of having a say in social welfare issues, albeit not heavily investing in this particular field, and therefore leaving very little room for the nonprofit sector. By using data of the Johns Hopkins Comparative Nonprofit Sector Project, Salamon and Anheier proved that those identified regimes exist in the real world.

Figure 3. Test of Social Origins Model of Nonprofit Sector

Government Social Welfare Spending	Nonprofit Scale	
	Low	High
Low	Statist Japan	Liberal United States
High	Social Democratic Sweden	Corporatist Germany

Source: Salamon/Anheier (1998: 240)

Whereas the nonprofit sector of the United States is of respectable size even though government social welfare spending is comparatively low, the Swedish government invests heavily in social welfare, thus leaving little room for a flourishing service-providing third sector. Whereas Germany's nonprofit sector enjoys a respectable size despite the fact that government social welfare spending is relatively high, Japan's nonprofit sector is of limited scale and government is not very actively engaged in social welfare spending. The question that immediately arises is why does high government social spending go along with a sizeable nonprofit sector in Germany, but in Sweden the service-providing part of the sector is crowded out by government? And why does low government spending in the United States give way to a flourishing nonprofit sector of respectable size, while this is not the case in Japan?

The answer the two authors gave to this problem comes down to the point that history has to be factored in. They perceive today's embeddedness of the

sector as the outcome of societal struggles between the modernizing state and the traditional elite, such as the Church and the Crown, as well as between different social classes, which are primarily represented by their political outposts, namely the parties. To put it differently, Salamon and Anheier see the embeddedness of the nonprofit sector as the outcome of rather complex interrelationships among social classes and social institutions. This particular approach, which is called neo-institutionalism in social science research, constitutes the linkage between the Social Origins Theory of third sector research and the work of Barrington Moore and Gøsta Esping-Andersen.

These latter two are interested in the institutional outcome of power relationships between state and society as well as between social classes. According to Barrington Moore, societal and political modernization took very different routes around the world. Depending on the specific compromise between state and society and among the various classes, modernization resulted either in democracy or in fascism or communism. According to his interpretation, the institutional outcome of democracy is primarily based on a strong urban middle class that became the leading force of economic modernization and political democratization. While a "weak state" with almost no say in political and societal development was the bedrock of the route to democracy, the route both to fascism as well as to communism was paved by a strong state that was not restricted by urban and powerful entrepreneurs. Gøsta Esping-Andersen (1990) also used a neo-institutional approach in order to identify different welfare state regimes, which he characterized as variations of "welfare capitalism." Again Esping-Andersen perceived the development of a welfare regime as being the outcome of the balance of power or, to put it differently, as the institutionalized result of state-society relations and particularly class struggle. Similar to Barrington Moore, Esping-Andersen analyzed the power play between the new class of the entrepreneurial elite and the landed interest of the traditional elite, and the developing power of the working class movement.

Building on the results of the work of Esping-Andersen and Moore, Salamon and Anheier define the liberal model of third-sector embeddedness as being the result of a strong entrepreneurial middle class, which did not face opposition from traditional landed elite or from a forceful working class movement, and which fostered an anti-etatist mood. This situation has been strongly in place in the United States, where a successful middle class set the tone of politics, keeping the costs of welfare spending low, while simultaneously upholding a spirit of altruism that is very much in line with Protestantism.

The underpinning of the social democratic model consists, according to Salamon and Anheier, of a strong working class being able to exert effective political power, albeit in alliance with other social classes. While social

welfare delivery falls under the realm of the state leaving little space for nonprofit activity, the third sector nevertheless plays a significant role in society, not as a service provider, however, but as a vehicle for the expression of political, social and recreational interest. Thus the social democratic model translates into a sector characterized primarily by club life and voluntary engagement. Sweden is a textbook example for the social democratic model where the sector ranks at the low end of the European countries with respect to nonprofit employment, but first regarding civic engagement and membership affiliation of citizens. The driving force behind this model is a strong labor movement and a social democratic party in power, which, however, is not in favor of a patriarchal state but on the contrary fosters civic activity and an egalitarian approach of citizenship.

The rationale of the corporatist model is the struggle of the traditional elite to stay in power and not lose its societal status. According to Salamon and Anheier, a central characteristic of the corporatist model consists of the use of nonprofit organizations by government to calm demands of the working class. The embeddedness of the nonprofit sector in Germany provides a textbook example for the corporatist model. In Germany, the state, backed by a powerful landed elite who was afraid of losing political power and societal influence and who managed to cooperate with a relatively weak urban middle class, responded to the threat of the developing social democratic workers movement by forging an agreement with the major churches in the late 19th century to create a state-dominated social welfare system that, nevertheless, maintained a sizable religious, and hence nonprofit presence. This agreement was ultimately embodied in the concept of "subsidiarity" as the guiding principle of German social policy (Salamon/Anheier, 1998: 242).

Finally the social and political bedrock of the statist model of embeddedness consists of an obedient society and a powerful state, which works in close cooperation with the new entrepreneurial elite, thus leaving almost no societal space for nonprofit activity. Salamon and Anheier identify Japan as being the prime example for the statist model of nonprofit embeddedness. A comparatively small third sector and low government welfare spending reflects the tradition of state dominance originating in the 19th century, and which up until now has not been put into question either by a self-assured entrepreneurial class or by a powerful working class movement.

Without any doubt, there are lessons to learn from the Social Origins Theory developed by Salamon and Anheier. First of all, the Social Origins Theory clearly shows that the embeddedness of the sector depends on more than just one factor. The interrelationship between the state and the sector is the result of historical developments and particularly class struggles along the process of modernization. However, this particular approach also has shortcomings. Salamon and Anheier are primarily looking backward while

identifying the different models. Therefore, those models are not very helpful for today's nonprofit managers trying to work out arrangements with government. By referring to the four models it is possible to answer the question: why do the nonprofit sectors in various countries differ in size and composition? However, the models as such do not answer the question: what are the shortcomings of a respective model? Finally, although the Social Origins Theory claims to cover the full branch of nonprofit activities, what is indeed taken into consideration, at least when testing the theory, is very closely connected to the welfare state and more precisely to social policy.

Because it is very difficult to capture the entire world of nonprofit activity, some concepts focus exclusively on the social policy dimension, thus asking how nonprofit organizations are embedded in a particular welfare state regime, why this is the case, and moreover who benefits from this particular institutional arrangement. The social policy-related concepts by and large refer to the *Three Worlds of Welfare Capitalism* elaborated by Esping-Andersen, as described in the next section.

2.4 Esping-Andersen's Three Worlds of Welfare Capitalism and Nonprofit Organizations

In his seminal work *Three Worlds of Welfare Capitalism*, Esping-Andersen identified three welfare regimes, which he characterized as: a) the liberal regime, b) the social democratic regime, and c) the conservative regime (Esping-Andersen, 1990; Goodin et al., 2001).¹

While these regime models are primarily worked out to explain the nexus between the market and the state, which is achieved by welfare state regulations, Esping-Andersen's "ideal types" are also increasingly used in order to point out differences of nonprofit embeddedness, specifically in the areas of social policy, healthcare and personal social services (Freise/Zimmer, 2004; Janoski, 1998; Rymsza, 1998). Following Esping-Andersen's argumentation, the regime approach, which takes into consideration only nonprofits active in social policy-related fields, distinguishes the level of embeddedness with respect to the following key dimensions: "government social welfare spending," "position and market share of nonprofits within social policy," and "impact of side-effect of the model-specific embeddedness structure on NPOs."

1 Esping-Andersen's regime approach built on the work of among others Titmuss (1974). The regimes that he identified are in line with other welfare state typologies such as the classification of the marginal, the institutional-redistributive and the performance-achievement model constituting equivalents of the liberal, the social-democratic and the conservative regime.

Figure 5. Nonprofit Organizations and Social Service Production

	Liberal Regime	Social democratic Regime	Conservative Regime
Government Social Welfare Spending	low	high	medium or high
Position of NPOs within Social Policy	Competing with Forprofit Enterprises	not relevant	Privileged Position/Protected Against Commercial Competition
Major Supplier of Social Services	Nonprofit Sector on par with the Market	Government	Nonprofit Sector
Impact and Side-Effects on NPOs	Professionalization and Marketization of NPOs	Marginalization of NPOs in the Field of Social Services	Development of Nonprofit Cartels within the Field of Social Services

Source: Freise/Zimmer (2004)

The Liberal Regime

The liberal regime stands out for its limited government social welfare spending, thus marginalizing the intervention of the state in social policy. Accordingly state interference is permissible only in those cases in which the natural channels of goods distribution, viz the market and the family, fail. Under this regime, nonprofit organizations are treated on a par with the market. However, at the same time, the nonprofit sector remains slightly dominated by the market sector, because nonprofits are fiercely competing for resources, including government contracts, private donations and foundation grants. The role ascribed to the state is limited, a “minimum state,” which is clearly separated from the nonprofit sector. In the field of social services there are many possibilities for nonprofit activity. Nonprofits are even allowed to engage in business activities as long as earnings are reinvested in the organization and not distributed among the members, shareholders, or owners of the organization. Cooperation with government is highly formalized and organized in a businesslike way. A widely accepted contract culture as well as competitive tendering, forcing nonprofits to compete for government contracts with other nonprofit and commercial organizations, is a fairly common feature of the liberal regime. Market competition provides the clue for the understanding of the liberal regime of nonprofit embeddedness. The state does not harbor any a priori preferences for nonprofit organizations as opposed to commercial enterprises; nor does it extend any special privileges to selected nonprofit organizations such as the Red Cross or organizations that are affiliated with one of the religions.

Having to cope with a highly competitive environment, in which contracts constitute the prime source of nonprofit revenue, nonprofits tend to become “businesslike” organizations, which are characterized by efficiency, professionalization and a strong orientation towards the market. The strongholds of the liberal regime are the Anglo-Saxon countries, the British Commonwealth, and particularly the United States. Over the 1980s and 1990s, certain elements of this model – especially the contract culture – became very popular among public policy advisors in Europe, and particularly in Eastern Europe.

The Social Democratic Regime

The social democratic regime, representing in many aspects the antithesis of the liberal regime, stands out for its generous government social welfare spending and a broad spectrum of social services offered by state institutions. This translates into a situation where there is little room for nonprofit activity in welfare service provision. The role nonprofits play in social policy is rather limited because the majority of services are state financed and delivered.

However, the social democratic regime of social policy need not be confused with state socialism of the former Soviet bloc countries. In sharp contrast to state socialism, service provision is highly decentralized and taken over by the local communities in the social democratic regime. Nevertheless, due to the fact that the state assumes responsibility for the fulfillment of citizens’ basic needs, nonprofit organizations are put to the margins in the area of social service delivery. Since the 1930s the social democratic regime has been strongly in place in the Nordic countries. Most recently, however, connected to the so-called crises of the welfare state, even in the Nordic countries politicians and policy experts alike started to recognize the potentials of nonprofit organizations as grassroots providers of social services (Wijkström, 2004). The concept of the Third Way (Giddens, 1994), in particular, provided a platform for integrating nonprofits into social democratic policy planning. In the meantime, modern social democrats as well as the European Union increasingly acknowledge the superiority of nonprofit organizations in the delivery of social services given their capacity to reach minority groups and counteract social exclusion.

The Conservative Regime

The conservative regime has to be put in between the other two. With respect to government social welfare spending, it comes close to the social democratic regime, whereas regarding the market share and importance of nonprofit organizations as social service providers, it has more in common

with the liberal regime. The hallmark of the conservative regime is the subordination of nonprofit organizations under state authority; or to put it differently, the state serves a subsidiary function vis a vis selected nonprofit organizations. Thus, in the conservative model the “principle of subsidiarity”² rooted in the social teaching of the Catholic Church plays a very significant role.

There are two practical dimensions to the principle of subsidiarity: First, social policy planning and social service delivery are decentralized with local governments constituting the most important level of policy implementation. Second, specific nonprofit organizations enjoy a privileged position in the market for social service delivery, being by law protected against the competition of forprofit as well as public providers. To put it differently, backed by the principle of subsidiarity, some nonprofit organizations, in particular those that are affiliated with the churches, are more equal than others are. This translates into a public policy situation in which government works closely together with a limited number of nonprofits that are selected by government and endorsed with privileges in terms of financial support, access to information and acceptance within the policy process.

Under the conservative regime, state and public insurance funds are the prime financier of social services. Very common is the use of earmarked government grants, awarded without any competition for specific public utility activities, which are specified in the charters of the nonprofit organization. Without any doubt, under this regime the nonprofit sector is closely connected with the state. That nonprofit organizations are an active part of civil society and therefore should enjoy independence from government is not regarded as a policy value worth cultivating. On the contrary, the state and not civil society determines the common good, which according to political rhetoric is of overarching importance in conservative welfare regimes, thus demanding the subordination of any interest, including those of nonprofit organizations and civil society. Accordingly, nonprofit organizations in conservative welfare regimes tend to copy government entities with respect to their management procedures. Excessive bureaucratization of nonprofits is just one pitfall of the conservative regime in which NGOs financially tend to become client organizations of public administration. Furthermore, nonprofit organizations tend to forget about their advocacy functions because lobbying seems to counteract smooth cooperation with government. Finally, those selected nonprofits that work closely together with government tend to form cartel-like arrangements in order to protect their privileged position and to keep out newcomers

2 This concept essentially holds that principal responsibility for dealing with any social problem lies first with the social unit closest to the problem and that state involvement should operate with and through such local institutions of neighborhood, church, and social group (see Salamon/Anheier, 1998: 242, Footnote 17).

effectively. Being members of a so-called “social policy welfare cartel,” nonprofit organizations avoid transparency with the effect that they gradually distance themselves even further from civil society. Against this very critical assessment it has to be mentioned that, on the other hand, under the conservative regime nonprofits are keeping apart from the market because there is no need for them to become businesslike.

Of the countries under study, Germany and Austria come very close to the conservative model of nonprofit-government relations. In the two countries, church-affiliated nonprofit organizations, in particular the welfare associations Caritas and Diakonie, play a very significant role in the provision of social services and healthcare (see Country Profiles Austria and Germany in this volume). The conservative regime originated in Germany towards the end of the 19th century. Since then it has spread across Western and Central Europe. Between the World Wars it also was very popular in Poland, Hungary, and in Czechoslovakia. In this way, the conservative regime, which is sometimes also termed the “continental model” (Jordan, 1996), serves as a term of reference for the Visegrád countries. However, the same holds true for the liberal regime due to the fact that after the breakdown of the authoritarian regimes, policy advisers with a U.S. background were very influential in the countries under study in Central and Eastern Europe.

Against the background that due to the current crisis of public funding the conservative regime – not unlike the social democratic regime – has come under financial as well as political pressure, it is an open question which regime type will indeed survive. In Germany and Austria, government has started to modify the environment for nonprofit organizations that are engaged in service provision by introducing elements of competition, in particular for government grants. Thus, in these countries preferential treatment of the “social policy welfare cartel” is being gradually replaced by contract management, which puts commercial enterprises providing social services as well as nonprofits that were until now outside the realm of the “social policy welfare cartel,” such as self-help groups, mutual aid organizations and cooperatives, on equal footing with the welfare associations. In Austria as well as in Germany, specific tools of new public management such as competitive tendering and contracting out have become accepted mechanisms of public policy in the field of social services and healthcare. This situation leads to the question whether the conservative model of nonprofit-government relations with its focus on subsidiarity and non-market regulation has indeed a chance to survive. Without any doubt in Germany and Austria there are tendencies of convergence, with the conservative regime increasingly moving towards a regime type that shows elements of the liberal regime. By taking a closer look at the Visegrád countries, the following section examines whether this is also the case in Central and Eastern Europe.

3. Government-Nonprofit Sector Relations in Central and Eastern Europe

Although decades of authoritarian rule have put the countries under study in Central and Eastern Europe behind the “iron curtain” that separated them from the societal developments in Western Europe, they share a common heritage. In fact, tradition matters particularly with respect to government-nonprofit sector relations, as the following section will outline. However, these countries also have to undergo numerous processes of modernization. While they are in the process of building new political structures, they have to integrate their formerly planned and centralized economies into the competitive marketplace of a globalized economy. Since societal and political changes are encompassing, civil society and its nonprofit organizations thoroughly benefit from the current situation, although the changing environment simultaneously poses a threat to the further development of the sector and its organizations.

Referring specifically to government-nonprofit sector relations, the following section will take a closer look at the historical heritage of the Visegrád countries. Subsequently, against the background of the political developments underway since 1989, the role and function of nonprofit organizations specifically in the area of social services will be discussed.

3.1 Traditions of Government-Nonprofit Sector Relations

The common trait of the nonprofit sector in the countries under study, particularly the sector in Poland, Hungary, the Czech Republic, and Slovakia, lies in the similar history of its development. In the first place, charitable activity in all these countries somehow referred to the charity work of church institutions, be they monastic orders, brotherhoods, or the local parish. Such activity on the part of ecclesiastic bodies predated the appearance of secular charities as well as the involvement of the state in assisting the needy (see Kuti on CD). What is more, the role played by the church and its social organizations - i.e., the various church-affiliated associations and foundations - in the provision of social services continues to be quite significant, particularly in the areas of education and social care. This is particularly the case in Poland, where nonprofit organizations affiliated with the Catholic Church and other churches account for roughly half of the infrastructure of the nonprofit sector in the above-mentioned areas.

In the second place, the societies of Poland, Hungary, the Czech Republic, and Slovakia have spent long years under conditions of outright colonization or of limited statehood; as a consequence, charitable activity was

often fused together with the pro-independence struggle. This phenomenon was particularly manifest during the second half of the 19th century. In the twenty years intervening between the World Wars, the social policies of these countries remained strongly influenced by the ideology of the former Habsburg Empire, and thus under the sway of the conservative model of government-nonprofit relations. Not unexpectedly, the conservative approach was reflected in the ways in which NPO activities were regulated. Therefore, still upholding certain aspects of post-colonial heritage, the influence of the conservative model on the shape, image and mission of the nonprofit sector in the countries under study has been quite substantial.

Third, the four Central and Eastern European countries of the focus project have passed through a period of socialism and of quasi-independence within the Soviet sphere of influence. This resulted in the virtual marginalization, if not liquidation, of the nonprofit sector. Finally, these countries regained their independence by the early 1990s and embarked on a course of political, economic, and societal transformation. With respect to societal transformation, the reconstruction of civil society ranks prominently among its goals. Restructuring, deepening and further development of the nonprofit sector were given high priority by politicians and policy experts alike during the historical period in which the transformation from post-communism to democracy took place (Arato, 1992; Deakin, 2001).

The same holds true for the embeddedness of the sector and for government-nonprofit relationships, particularly in the field of social policy and social services. Shared history has a marked influence on government-nonprofit relationships in each of the countries, no matter whether the focus is on Poland and Hungary or on the Czech Republic and Slovakia. Thus, the development of civil society in the Visegrád countries seems to proceed along two tracks: first, by reference to the democratic roots of the country concerned and, second, by implementation of solutions, models, and institutions that are employed in the democratic countries of the Western Hemisphere. Without doubt, the Central and Eastern European countries under analysis are turning away from the model of the socialist welfare state, as described in the social democratic model of social policy. In this way, the “away from” vector has been defined; the direction of “to where,” however, has yet to be elaborated or, at any rate, defined in greater detail.

3.2 Clash of Paradigms?

Without being too provocative, there are many reasons to recognize a clash of paradigms concerning relations between government and the nascent nonprofit sectors in the Central and Eastern European countries. To a certain extent, government-nonprofit relations in the countries under study currently

are at a crossroads. On the one hand, there are forces tending toward a social policy approach that is very much in line with the conservative model and that is legitimized by politicians by referring to the “back to our roots” persuasion, with the decades of the 1920s and 1930s adopted as a point of reference. On the other hand, corresponding with the current *zeitgeist* of neoliberal economic reforms, consultants and think tanks as well as politicians are very much in favor of a social policy approach that is on par with the liberal model, which supports new public management techniques such as contract management, thus putting a high emphasis on contracting out public duties to nonprofit organizations. Until now, political and public discourse has not yet achieved agreement on the final approach towards social policy or on the role and function of the nonprofit sector within the growing market for social services. With respect to social policy, the countries in Central and Eastern Europe are still in a situation that Deacon characterized as the “interim” model (Deacon, 1992).

In the early 1990s at the beginning of the reforms in Central and Eastern Europe, the liberal model was the prevailing one, given both the appeal of neoliberal reform in Europe and the tack favored by Western advisors. Since the mid-1990s, however, a renaissance of the continental or conservative model of social policy has been observed in the countries concerned as well as in selected Western European countries. In Western European countries, particularly in France, Spain and Italy, due to policy recommendations of the European Union, the potentials of the nonprofit sector and its organizations are utilized specifically to address problems of social exclusion and unemployment, thus putting a high emphasis on the “social economy” (CIRIEC, 2000; Borzaga/Defourny, 2001). However, these two topics are not on the agenda of government-nonprofit relations in Central and Eastern Europe. Instead the priority of public policy towards the sector in the Visegrád countries lies in transferring public duties to nonprofit organizations, thus using the sector and its potentials as a tool to privatize and decentralize the former socialist welfare state, which was marked by its hierarchical organization and public financing.

The Visegrád countries, however, are not resorting to a straightforward adoption and propagation of the liberal model with its contract management culture. There is a unique characteristic of policy followed in Central and Eastern Europe that translates into preferential treatment of selected organizations to which government provides access to state-owned infrastructure that had been nationalized after World War II. These organizations enjoy preferential treatment and working conditions because they carry out public service activities. Government affords these organizations special treatment, most frequently enabling them to secure the legal status of a public benefit organization (see Freise/Pajas in this volume). These public benefit organizations are nonprofits that enjoy a privileged

status within the country's nonprofit community because the infrastructure extended to them makes them prime partners of public authorities. By virtue of their access to the infrastructure, they are very well equipped to meet the standards that are laid down in the contracts issued by public authorities. Public benefit organizations also enjoy preferential treatment with respect to tax law. Hungary and Slovakia have enacted tax laws enabling citizens to assign 1% of their income tax to public benefit organizations; Poland has drafted similar legislation.³

Very much in accordance with Young's analysis of nonprofits being complementary to government, thus helping to carry out the delivery of public goods largely financed by government, the privileged position of nonprofits chartered as public benefit organizations (PBOs) is accompanied by increased government supervision. Therefore, there are good reasons to put into question whether these nonprofits designated as public benefit organizations and enjoying the aforementioned privileges are still NPOs, or whether they have already become quasi-nongovernmental-organizations (Quangos)? It is also questionable whether such public policy towards the nonprofit sector is reconcilable with the liberal model and its normative underpinning, which puts a high emphasis on competition.

3.3 Policy Development: Ebb and Flow in Government-Nonprofit Sector Relations

Analysis of the development of policy towards the nonprofit sector in the Visegrád countries since the early 1990s, taking into account the so-called clash of paradigms described above, reveals a certain logic or rationale underpinning the strong ebb and flow in government-nonprofit sector relations.

At the very beginning of the transition period from authoritarian rule to democracy, public policy towards the nonprofit sector and its organizations primarily aimed at making room for civic and nonprofit activity. Certain forms of controlled civic activity were already tolerated in the waning days of communism. There were several reasons why even before the breakdown of the regimes governments in the former Eastern bloc countries started to become more liberal towards civic engagement and nonprofit activity. More precisely, the change of attitude towards the sector was the result of: (i) the state's weakening grip over societal life, (ii) economic difficulties and

3 This solution is a fairly unique one, not encountered beyond the region. In Western Europe, for instance, NPOs engaging in public benefit activities receive only a double tax exemption on the funds solicited by them with the exemption extending to the benefactor and to the NPO receiving the gift. Tax breaks of this sort are also offered to the public benefit organizations of Central Europe, without prejudice to the 1% rule just discussed.

attempts by the state to ameliorate the situation by referring to social and self-help potentials, and (iii) government trying to control incoming foreign financial support by legalizing the structures for its distribution. This was especially the case in Poland.

After transformation, membership in nonprofit organizations as well as affiliation with social movements flourished in the Central and Eastern European countries. In a way the floodgates were opened, with social activity becoming a free-for-all. The number of registered nonprofit organizations in the Visegrád countries increased significantly. In accordance with the entities' continental tradition, associations and foundations became the most frequently used organizational form. Indeed, registration of associations and foundations skyrocketed in those early years. During this first stage, government was very much in favor of this development, thus securing tax benefits and facilitating the work of nonprofit organizations in many ways. At that time, government was not yet interested in establishing a complementary policy arrangement with the nonprofit sector, particularly in the area of social services. Referring to the terminology of Young (2000), nonprofits were perceived as supplementary to government immediately after the transition.

Around the mid-1990s, governments of the post-communist countries began a policy of decentralization of their public administrations. By law local governments were entrusted with a whole range of public duties and were given relatively large leeway in how to go about tackling these responsibilities. The policy of pronounced decentralization was put into practice by referring to the principle of subsidiarity according to which the smallest unit of state administration should be responsible and take over those duties and responsibilities that are closest to it. However, the principle of subsidiarity was not at all applied to the nonprofit sector and its organizations. On the contrary, the policy of decentralization was accompanied by a hardening of the line adopted by government vis à vis the sector. Beneficial treatment of nonprofit organizations, discussed earlier, was either curtailed or abolished. To a large extent, this was the result of increasing problems of public financing, with the state nervously seeking new ways to obtain revenues. However, representatives of public institutions also criticized nonprofit organizations for what they saw as bad management and for misappropriation of funds. In sum, the public mood that had been very much in favor of the nonprofit sector right after 1989 started to shift towards the opposite, thus harshly criticizing the sector and its organizations. It should be noted that specific examples of mismanagement and other issues that were cited in support of allegations of corruption were limited to isolated cases that had been covered in the mass media rather than being derived from any kind of systematic monitoring of nonprofit organizations.

The aforementioned period has been followed by one characterized by a policy approach that increasingly acknowledges nonprofit organizations as

partners of government in social policy implementation. In accordance with this new governmental approach towards the sector and its organizations, legislatures have issued a new set of privileges for nonprofits. However, as already mentioned, these privileges are no longer addressed to all nonprofit organizations alike. On the contrary, they are specifically directed towards public benefit organizations, which by now enjoy a quasi-governmental status providing social services on par with government institutions.

Politicians and policy experts alike again refer to the principle of subsidiarity when explaining the rationale behind this policy towards the sector. According to this line of argumentation, the principle is operationalized in the following two ways. First, it refers to policies of decentralization of the public administration and thus enforces local self-government. Second, it is linked to the introduction of the complementary model of government-nonprofit sector relations. However, as already mentioned, the way that the complementary model is put into practice translates into a situation in the Visegrád countries where nonprofit organizations become mere extensions of the public administration apparatus. In the long run, this development may lead to excessive bureaucratization of the nonprofit sector.⁴ Finally, although there are still significant differences among the Visegrád countries with respect to how government policy addresses the nonprofit sector and its organizations, nevertheless there is at least one common trend regarding government-nonprofit sector relations in the countries under study: Contract management gives preference to nonprofit organizations granting them priority over commercial enterprises.

4. Conclusion

The purpose of this chapter was twofold: first, to provide an overview of the latest models and theoretical approaches relating to nonprofit-government relationships, and second, to address the embeddedness of nonprofit organizations in welfare state arrangements by specifically referring to the current situation in the Visegrád countries. The overview presented four distinctive models conceptualizing nonprofit government relations: the Four-C's framework developed by Adil Najam; Dennis Young's categorization of nonprofits as supplementary, complementary, or adversarial to government in the supply of public goods; the Social Origins Theory of Lester Salamon and Helmut Anheier; and finally the regime approach which, based on Esping-

4 This comment does not apply to Poland as much as it may to other countries given the relatively low employment in the nonprofit sector – as compared with the three other countries discussed.

Andersen's seminal work *Three Worlds of Welfare Capitalism*, highlights the importance on nonprofit organizations in social service production.

Najam's Four-C's framework distinguishes between cooperative, confrontational, complementary, and co-optative nonprofit-government relations. According to his analysis, in a cooperative relationship government and nonprofits agree upon goals and strategies, while in a confrontational relationship they disagree on both the goals they try to attain and the strategies by which they want to reach their goals. In a complementary relationship government and nonprofits share similar goals but prefer different means to reach those goals. Finally, in a co-optative strategy government and nonprofits share similar strategies but pursue dissimilar goals. Covering a broad spectrum of nonprofit activities, Najam's Four-C's framework constitutes a very abstract, highly theoretical approach without, however, referring to any specific strand of nonprofit theory.

Dennis Young, on the contrary, links his categorization of nonprofit-government relationships specifically to economic theories developed within nonprofit research. Furthermore, Young exclusively looks at nonprofits providing social services. He identifies three models of nonprofit-government relationships. From the point of view of the nonprofit sector, he characterizes the function of nonprofits within these relationships as being supplementary, complementary, or adversarial to government in the supply of public goods. While in the supplementary model, nonprofits fulfill the demand for public goods left unsatisfied by government, in the complementary model they are partners to government, thus helping to carry out the delivery of public goods largely financed by government, and in the adversarial model, nonprofits lobby government to change public policy. Young's framework is very helpful for conceptualizing nonprofit-government relationships in different policy fields as well as for analyzing changes in nonprofit-government relations over time.

The Social Origins Theory of Lester Salamon and Helmut Anheier is thoroughly integrated into social sciences theory, drawing equally on the work of the political sociologists Barrington Moore and Gosta Esping-Andersen. The theory puts forward an explanation why the nonprofit sector differs from country to country with respect to size and composition. According to this theoretical approach, the size, internal structure and embeddedness of the nonprofit sector in a particular country today is the outcome of social and political forces, which link or embed the sector between the market, the state and the society in the respective country. In their analysis Salamon and Anheier identified four distinct "routes" of nonprofit sector development resulting in four models of nonprofit sector embeddedness: the liberal, the social democratic, the corporatist and the statist route. The outcome of the liberal route is an embeddedness of the sector where low government social welfare spending is associated with a

relatively large nonprofit sector; the social democratic model is the outcome of state-sponsored and state-delivered welfare services leaving relatively little room for nonprofit service activity; a sizable nonprofit sector going along with extensive government welfare spending characterizes the corporatist regime; and in the statist model government continues being the dominant actor, albeit neither heavily investing in social services nor leaving societal space for nonprofit activity. The Social Origins Theory draws attention to the fact that the embeddedness of today's nonprofit sector is the outcome of historical developments along processes of societal and political modernization. Thus, Salamon and Anheier were looking backward while developing this theoretical approach of government-nonprofit relations. It explains the current state of affairs but keeps silent with respect to the further development of government-nonprofit relations.

This shortcoming is taken up by the regime approach of nonprofit research, which builds exclusively on the work of Esping-Andersen and particularly on his categorization of the liberal, the social democratic, and the conservative welfare state regime. Referring to three key dimensions - government social welfare spending, position and market share of nonprofits within social policy, and impact and side-effects of the model-specific embeddedness structure on NPOs - the regime approach provides an analysis of the current embeddedness of the sector in a respective country, and at the same time draws attention to the fact that each regime entails advantages as well as drawbacks for nonprofits. According to this analysis, the liberal regime stands out for a market-like embeddedness of the nonprofit sector. Due to limited government social welfare spending, the regime provides many possibilities for nonprofit activity. However, having to cope with a highly competitive environment, nonprofits tend to become "businesslike" organizations, characterized by efficiency, professionalization and a strong orientation towards the market. The social democratic regime is characterized by generous government social welfare spending and a broad spectrum of social services offered by state institutions, leaving very little room for nonprofit activity. In the conservative regime, high government social welfare spending goes along with a sizable nonprofit sector. The hallmark of the conservative regime is the subordination of nonprofit organizations under state authority, which is encapsulated in the principle of subsidiarity that translates into a situation where social service delivery is highly decentralized, with local governments constituting the most important level of policy implementation. Furthermore, specific nonprofit organizations enjoy a privileged position in the market for social service delivery, being by law protected against the competition of forprofit as well as public providers. There are no doubts that in the conservative regime nonprofits enjoy a favorable situation as accepted partners of service delivery. However, the drawback of this specific embeddedness is that nonprofit organizations tend

to lose their grassroots orientation by becoming government-like and thus highly bureaucratized institutions.

Against this background, government-nonprofit sector relations in Central and Eastern Europe were discussed with the aim of determining which of the aforementioned models best suits the situation in the Visegrád countries. As an introductory note to the discussion, the section briefly summarized the historical development of government-nonprofit relations specifically in the field of social service delivery. Here again, it became clear that the Visegrád countries build on a common historical heritage that thoroughly integrates them into the community of European countries.

After the breakdown of the socialist regimes, the development of civil society and nonprofit social service delivery seems to proceed along two tracks: by reference to the former roots and embeddedness of the sector and by implementation of solutions and models that are employed in the Western Hemisphere, particularly in the United States. As a result, there exists a current clash of paradigms concerning relations between government and the nascent nonprofit sectors in the Central and Eastern European countries. Government-nonprofit relations in the countries under study are at a crossroads between a social policy approach that is very much in line with the conservative model and one that corresponds with the *zeitgeist* of neoliberal economic reforms, i.e., the liberal model. Political and public discourse has not yet achieved agreement upon the ultimate approach towards social policy or the role and function of the nonprofit sector within the growing market for social services. Furthermore, the authors draw attention to the fact that, although social policy in the Visegrád countries refers indeed to models and paradigms applied in other European countries and in the U.S., there is no one-to-one transfer of these approaches. Whereas in selected Western European countries potentials of the nonprofit sector are specifically utilized to cope with problems of unemployment and social exclusion, in the Visegrád countries the sector and its organizations are heavily used for policies of privatization and decentralization.

The same holds true for the adaptation of government-nonprofit relationships. Neither the liberal nor the conservative model is thoroughly put into practice in the Visegrád countries. Although government finally embarks on a policy of partnership with nonprofit organizations, thus providing them with a complementary function, relations are organized in accordance with businesslike techniques that characterize the liberal model of embeddedness. At the same time, however, government launches a policy, which is very much in accordance with the conservative model, and grants preferential treatment to nonprofits, more specifically, by providing them access to infrastructure and financial resources. There are good reasons for providing special treatment because government heavily uses those nonprofits organized as public benefit organizations for policies of decentralization and

privatization. By now it is questionable whether public benefit organizations have already developed into quasi-governmental organizations or whether they still have at least some features in common with nonprofits. The authors conclude that despite the heterogeneity of the current developments, there is one common trait: the Visegrád countries do not move straight ahead in the direction of adapting the liberal model in its pure culture.

Suggested Readings

- Young, D.R. (2000): Alternative Models of Government - Nonprofit Sector Relations: Theoretical and International Perspectives. In: Nonprofit and Voluntary Sector Quarterly, Vol. 29, Nr.1, pp. 149-172
- Najam, A. (2000): The Four-C's of Third Sector-Government Relations. Cooperation, Confrontation, Complementary, and Co-optation. In: Nonprofit Management and Leadership, Vol. 10, Nr. 4, pp. 375-396
- Kramer, R. (2000): A Third Sector in the Third Millenium? In: Voluntas, Vol. 11/1, pp.1-23
- Esping-Andersen, G. (1990): The Three Worlds of Welfare Capitalism. Princeton

References

- Arato, A. (1992): Revolution, Restoration, Legitimation: Ideological Problems of the Transition from State Socialism. New York
- Borzaga, C./Defourny, J. (eds.) (2001): The Emergence of Social Enterprise. London
- Deacon, B. (1992): The Future of Social Policy in Eastern Europe. In: Deacon, B. et al. (eds.): The New Eastern Europe: Social Policy Past, Present and Future. London, pp. 167-191
- Deakin, N. (2001): In Search of Civil Society. London
- Freise, M./Zimmer, A. (2004): Der Dritte Sektor im wohlfahrtsstaatlichen Arrangement der post-sozialistischen Visegrád-Staaten. In: Croissant, A./Erdmann, G./Rüb, F. (eds.): Wohlfahrtsstaatliche Politiken in jungen Demokratien. Opladen, forthcoming
- Giddens, A. (1994): Beyond Left and Right. The Future of Radical Politics. London
- Gidron, B./Kramer, R.M./Salamon, L.M. (eds.) 1992: Government and the Third Sector. Emerging Relationships in Welfare States. San Francisco
- Goodin, R. et al. (1999): The Real Worlds of Welfare Capitalism. Cambridge
- Hansmann, H. (1987): Economic Theories of Non-Profit Organization. In: Powell, W.W. (ed.): The Nonprofit Sector: A Research Handbook. New Haven
- Janoski, T. (1998): Citizenship and Civil Society. Cambridge, pp. 8-11, pp. 28-74
- Jordan, B. (1996): A Theory of Poverty and Social Exclusion. Cambridge
- Moore, B. (1967): Social Origins of Dictatorship and Democracy. London

- Powell, W.W./Clemens, E. (eds.) (1998): *Private Action and the Public Good*. New Haven
- Rymsza, M. (1998): *Urynkowanie panstwa czy uspołecznienie rynku? (Marketization of the State or Socialization of the Market?)* Warsaw
- Salamon, L.M. (1995): *Partners in Public Service*. Baltimore
- Salamon, L.M./Anheier, H.K. (1997): *Der Nonprofit-Sektor: Ein theoretischer Versuch*. In: Anheier, H.K. et al. (eds.): *Der Dritte Sektor in Deutschland*. Berlin, pp. 211-246
- Salamon, L.M./Anheier, H.K. (1998): "Social Origins of Civil Society: Explaining the Nonprofit Sector Cross-Nationally." In: *Voluntas*, Vol. 9, No. 3, pp. 213-248.
- Salamon, L.M. et al. (eds.) (1999): *Global Civil Society. Dimensions of the Nonprofit Sector*. Baltimore: The Johns Hopkins Center for Civil Society Studies
- Steinberg, R. (1997): *Competition in Concentrated Markets*. In: 6, P./Kendall, J. (eds.): *The Contract Culture in Public Services*. London, pp. 161-179
- Titmuss, R. (1974): *Social Policy. An Introduction*. London
- Weber, M. (1973): *Gesammelte Aufsätze zur Wissenschaftslehre*. 4th ed. Tübingen
- Weisbrod, B.A. (1987): *The Voluntary Nonprofit Sector*. Lexington
- Wijkström, F. (2004): *Changing Focus or Changing Role? The Swedish Nonprofit Sector in the 1990s*. In: Zimmer, A./Stecker, Ch. (eds.): *Strategy Mix. Nonprofit Organisations - Vehicles for Social and Labour Market Integration*. New York (in press)

Karl Gabriel and Hermann-Josef Große Kracht

The Catholic Church and Its Third Sector Organizations

Remarks on Historical and Present Challenges of the Church and Ecclesiastical Welfare Production in the Context of Modern Civil Societies

1. Introduction

During much of the 20th century European intellectuals considered church and religion an obsolete phenomenon of “premodern” times, determined to disappear completely from the political agenda of modern societies sooner or later. But today there is a new empirical skepticism about this strong thesis of secularization (Casanova, 1994). In many countries a clear continuity or even a new upsurge of religious attitudes and religious presence in the public sphere can be detected – dealing not only with “private” religious convictions and beliefs but also with politically contentious questions of human rights, political liberty, democracy and – even more so – with special claims on welfare and social justice for the poor and disadvantaged.

As it seems, at the beginning of the 21st century the enduring presence of religious groups and traditions within modern civil societies must be taken seriously. This does not mean that a new religious period of anti-modernism is also arising. Instead, there seems to be a historically new correlation between, on the one hand, the modern state and the modern secular public sphere established during the European Age of Enlightenment and, on the other, the continuity of churches and traditional religions. Both are challenged to develop a new relationship without the old battles and hostilities of earlier times. As a result there are two fundamental problems to be solved at present: a) how religions define their relationship to modern secular states and civil societies, and b) how these modern societies behave in the face of continuing or even growing public religions and their political attitudes.

This chapter attempts to address these issues with special regard to the problems of the Catholic Church and of welfare production and social security. A brief overview of the present status of religious traditions and beliefs in the postcommunist countries of Eastern Europe is followed by a

review of the main historical tendencies and developments of the relationship of churches/religions and state/modernity in the European modernization process. With this as background, the following section highlights the principal challenges facing the Church in modern civil societies: firstly, the challenge of modern secular self-understanding of the political process; and secondly, the challenge for ecclesiastical third sector organizations in the context of different types of modern welfare society.

The concluding section focuses on the main principles and convictions of the traditional social teaching of the Catholic Church in the context of the problems of social conflict, poverty and distress in industrializing societies. In contrast with merely state-oriented or market-oriented types of welfare states, the Church's social teaching always has favored a "third way" between a solely state-oriented "collectivism" in the socialist tradition and a purely market-oriented "individualism" offered by the liberal tradition of 19th century political thinking. This "third way" deals with strong social responsibilities and commitments not only for state administration but also for the Church and the main associations of workers and entrepreneurs. This intermediate model of welfare state is marked especially by the principle of subsidiarity, and it is traditionally oriented on two normative convictions that are highly questioned today: culturally, in a more traditional and conservative than modern and individualistic view of society and human beings and structurally, in a more consociational and corporatist than democratic and pluralistic type of political process. Nevertheless, a critical reflection on ecclesiastical principles and traditions of welfare production between and beyond states and markets may be helpful to clarify some important aspects in the present debates on ways to make modern civil societies work.

2. Religions in the East European Postcommunist Countries: A Brief Overview

During the times of state communism after World War II in Eastern European countries a strong period of organized "de-Christianization" by official government policies took place. But these policies of "top-down secularization" were not always highly successful. Especially in countries with a long history of strong and homogeneous religious traditions such as Poland, Croatia and Romania, the impact of anti-religion state policies was often very limited, while in traditionally less religiously dominated states and societies such as the Czech Republic and East Germany, a strong decline of religious convictions occurred.

The present status of faith and religions in the various postcommunist countries is very far from any easily comparable similarity. Instead, there are often highly surprising differences in religious life and influence in these countries, which makes them difficult to characterize as “areligious” or even “godless” or “pagan”. On the other hand there is also no new and broad religious renaissance or even a continuing boom of religions in these countries, contrary to the early hopes and expectations of some ecclesiastical representatives after the 1989 revolutions. It seems that the postcommunist societies of Eastern Europe sooner or later have been able to avoid the temptation for any cultural “rollback” to earlier political visions of state and society. Apparently, they have learned the lesson of the 1989 changes and used the opportunity to launch into a modern, i.e., secular, liberal and highly pluralistic, civil society. So all in all they proved the thesis of the German philosopher Jürgen Habermas (1990), who characterized the democratization process of the 1989 events as a “delayed and recovering” revolution, finally installing and establishing the main achievements of the French Revolution in the Eastern European countries hindered for a long time by strong anti-modern and anti-democratic visions of political fascism and Stalinism.

Until today little empirical research on the present status of religious traditions and beliefs in Eastern Europe has been done. One of the most important empirical studies on this topic was conducted by Miklós Tomka and Paul M. Zulehner (1999). They pointed out that all in all in post-communist countries there still remains a considerable degree of religious traditions and church activities, with significant differences from country to country. The authors of this study gave an index of the present status of church membership in these countries, showing that there still exist countries with strong Catholic or Orthodox majorities such as Poland, Croatia and Romania, while the Czech Republic and East Germany can be called more or less “atheistic” societies (see Table 1).

Furthermore, the study dealt with significant changes in the field of church memberships between 1991 and 1998 showing a declining number of people defining themselves as religious or as members of any church (see Table 2). So it seems that in Eastern European postcommunist countries there are some tendencies at present similar to those found for a long time in Western European societies: a slow and undramatic trend toward cultural de-Christianization within a secular civil society, combined with still considerably strong religious traditions and well-established Christian churches, dealing not only with the “private” religious convictions of their members but also with public and political demands for human rights, social justice and welfare for the poor.

Table 1: Denominational Map of Eastern and Central Europe

Country	Members of a church					Without denomination of which				
	Roman-Catholic	Greek-Catholic	Orthodox	Protestant	Others	Without denomination	Baptized/ not obliged	Not baptized	Baptized/ resigned	No details
East Germany	5%	0%	0%	20%	2%	72 %	19%	36%	16%	1%
Poland	89%	0%	0%	0%	1%	7%	6%	0%	1%	0%
Slovakia	58%	3%	1%	9%	1%	27%	21%	5%	0%	1%
Czech Republic	23%	0%	0%	1%	3%	73%	37%	34%	1%	1%
Hungary	42%	1%	0%	15%	2%	40%	29%	7%	1%	3%

Source: Tomka/Zulehner (1999: 27)

Table 2: Religiosity and Membership in a Denomination 1991 and 1998

Country	1991		1998	
	People who call themselves religious	People who assign themselves to a denomination	People who call themselves religious	People who assign themselves to a denomination
Czech Republic (1991 still a part of the CSSR)	37%	40%	29%	27%
Slovakia (1991 still a part of the CSSR)	69%	72%	54%	73%
East Germany	38%	35%	25%	38%
Hungary	57%	58%	58%	60%
Poland	95%	96%	75%	93%
Romania	75%	94%	63%	97%

Source: Tomka/Zulehner (1999: 43)

3. Historical Developments of Religion, State and Society in the European Modernization Process: A Short Review

This chapter cannot deal with the entire history of the often very complex relationships between the churches/religions and the state in the different Eastern European countries. Because of different historical conditions and developments, these relationships differ in considerable degree from country to country. It is therefore impossible to give a complete overview of these processes. Instead, this section will present only some important main tendencies in the historical development of religion, state and civil society within the European modernization process, with special regard to the above-mentioned issues of social welfare production. What happened to church and religions in modern Europe on their way from the Middle Ages to the present highly industrialized and highly differentiated societies?

Religion, State and Society from the Middle Ages to Modern Times

In many countries the history of the Christian churches is marked by a long tradition of (often organized) charity and brotherly love. This tradition goes back to the early roots of Christianity in these countries. Practicing acts of charity has been an integral part of everyday life of Christian communities since their beginning, because in the poor and suffering – referring to the message of the New Testament (Matthew 25)– Christians recognize the suffering Christ himself. So in traditional religious societies there is a rigorous religious duty to give donations to the poor and to do acts of charity, in spontaneous or institutionalized ways.

Today many people tend to hold the notion that the numerous ecclesiastical institutions and organizations dealing with social distress, charity and social problems, as well as with education and training, with schools and creches, etc., can be classified as “third sector” organizations “beyond the market and the state”. But concerning this classification a semantic problem of modernity has to be reflected. The triad of “state, market and third sector” is related to the modern European societies arising from the Middle Ages through a long and complicated process of “functional differentiation” (Gabriel, 1992).¹

These “functionally differentiated” societies are marked by the modern “culture of separation”, totally unknown to the premodern societies of the Middle Ages. Instead, these societies were dominated by an all-encompassing “political and religious culture of unity”. At that time, the status, rights and duties of all people and the meaning of society at all were totally based on

1 For the following see Gabriel (1992).

Christian beliefs and convictions, shared more or less by all people.

Today there is – since the time of French Revolution – an autonomous, secular state without any religious predominance. That means that there is “religious liberty” not only as a civil right of the people, but also as a characteristic of the modern self-awareness of society. Furthermore, there is an autonomous economic system of a “free” market in which religious beliefs or certain moral convictions do not play any role. And there are highly institutionalized forms of church and religion separate and a certain distance from the (recently secular) forms of the state, the market and the public sphere. Thus, there is a tendency of a so-called “churchization” in the European modernization process, which separates the church from other “relatively autonomous” sectors of society and which completes in this way the notion of the “three” sectors of modern European societies.

The traditional religious societies were pre-industrial. They were dominated by agriculture, by a static economy of subsistence, by feudal law and feudal traditions of personal domination and personal duties of care, etc. These societies perceived themselves as static, unchangeable and well-ordered hierarchical formations, given and guaranteed by the will of God, the creator of the world and of all men. According to this self-image the rural population and craftsmen, by God’s will, were supposed to work hard and without expectation of remuneration for the benefit of all members of society, and the aristocracy was supposed to protect and defend the poor as well as the clergy since the clergy had the duty to pray to God, to teach religious beliefs, to support the poor and, in this way, to reproduce the religious foundations of the social cohesion of traditional society (Duby, 1978). These societies were dominated by church and religion to a very large extent. Not only priests and some very engaged Christians, but also nearly everyone thought of themselves as an integral part of the church. The king, the nobility, the salesmen, and the merchants also wanted to be “good Christians”, to fulfill their religious duties of charity, etc. That is why the “welfare production” of these societies was based on a wide-ranging, but voluntary, often spontaneous and arbitrary fulfillment of religious duties. State and market as potential “welfare producers” were still unknown. The most important welfare producers in these traditional societies were the religious duties of charity and the traditions of everyday solidarity within families, local communities, rural parishes, etc. In less industrialized societies without high potentials for economic growth and national wealth, some residues of this traditional kind of welfare production can still be found. Modern industrialized societies with their own problems of class conflict, their growing rates of national wealth, their “new political inventions” of secular state and secular economy, etc., create a lot of new possibilities and new challenges to welfare production and welfare guarantees under fundamentally changed societal conditions.

Church and Religion in the Face of the New Challenges of the 19th Century

The modern industrialization project was carried by the new “enlightened” ideas of freedom, progress and reason, by secular science, by strong bourgeois self-awareness and, of course, by an extensive attitude of criticism against the church and the clergy. With the beginning of the modern secular state, a first general conflict occurred between the church and the state in which the latter attempted to organize and regulate all new and old problems of social life on its own, including the tasks of welfare and social security. The church observed – since the last decades of the 19th century – the modern state turning into a welfare state with new activities implementing accident insurance for workers and guaranteeing social security for the masses *by law* (and not only by voluntary charity and the “private goodness” of some wealthy people or some ecclesiastical charitable organizations) with a rather considerable attitude of skepticism. Church representatives tried to defend their traditional patterns of charity and donations to the poor and suffering against the new welfare state. Even though the social doctrine of the church since the beginning of the industrial era points to the need for a welfare state and for social responsibility and social care as an important and original task of the state and its politicians, the church was simultaneously in fear of losing its so-far unquestionable role as main producer of social welfare. In other words, “Mother Church” was afraid of losing its leading welfare responsibility to the new “Father State”. So the first reactions of the church to the new challenges of industrializing societies and new secular states were rejection and fear, but also a certain kind of organized new self-support among the Catholics.

At this point of the European modernization process, the church reached a certain crossroads because there were three different paths to follow, depending on different national circumstances and conditions in terms of the level of homogeneous or heterogeneous religious convictions of the population, in terms of degrees of industrialization, urbanization and secularization in opposition to the older feudal and rural traditions, and so on. In some countries with a predominantly Catholic population, a weak modern state, strong remaining influences of the older aristocratic traditions and low rates of industrialization, the above-mentioned “modern” conflict between the secular state and the traditional role of the church reached only low intensity. Other countries with a strong modern bourgeois class, with a great impact from the “enlightenment ideas”, and with high degrees of industrialization tended to establish a strong and powerful secular state fighting against the traditional influence of the church, thereby inciting strong ideological tensions and conflicts between church and modernity. And there is still a third pattern of a relationship between church and modernity especially in countries highly

influenced by the Lutheran Reformation and the process of “pluralization” of the old-Catholic Christianity into the three different confessions: Roman Catholic, Protestant and Calvinist. In these confessionally separated countries with strong confessional minorities, the Roman Catholic Church began to establish new kinds of organizations and institutions of self-support for the Catholics, such as clubs of Catholic workers, cooperatives, Catholic trade unions, etc. As a result, a so-called “Catholic sub-society” arose in various countries during the 19th century.² This cultural sub-society offered a kind of quasi-traditional “homeland substitute” to the Catholic people, who often still lived in rural traditions and far away from the “modern” cultures, convictions and experiences of progress, urbanity, industrialization, and free market economy. But it offered to the Catholics also typically modern forms and structures of social life such as clubs, cooperatives, political parties, and political press. Due to this subculture with its traditional meanings and its modern forms, a certain kind of “negative integration” of the Catholics into the new secular society occurred, giving the Catholic people the possibility to adapt to modern culture and society gradually.

These three patterns of European modernization in the field of church/religion and state/modernity took place in different European countries during the 19th and 20th centuries. The first pattern of a more or less conflictless continuity of strong and homogeneous religious traditions within a weak secular state was found in countries such as Poland and partly in Italy. The second path entailing a strong secular state’s ideological fight against the public role of the church was followed especially in France. And the third pattern of ideological conflict among different religious minorities within a state of cooperation, accepting and integrating the churches and their public role as part of state politics developed in countries such as Germany and the Netherlands (van Kersbergen, 1995). It would be very interesting to study the impact of these three patterns of “modern” relationship in the different countries of Eastern Europe, such as the Czech Republic, Hungary, Poland and others, but instead, this section will end with some remarks on specific opportunities and challenges in the field of church/religion and state/modernity in the “totalitarian age” of the 20th century: How did the historical experiences of fascism and Stalinism influence the development of the three above-mentioned patterns?

2 For the German case see Loth (1984).

Religion, State and Society in the "Totalitarian Age" of the 20th Century

In a certain sense it can be said that the totalitarian state of the 20th century recurred on the idea of a strong and omnipotent state power, first developed by representatives of the French Revolution. The fascist project tried to establish a strong and "absorptive" state power, incorporating all classes, all groups and all ideologies and beliefs into only one "mega-philosophy" of the whole society (Arendt, 1951). So fascism was the most aggressive enemy of the modern "enlightened" ideas of individual human rights, human autonomy and legitimate differences and pluralities within society. The political motto, "one People, one state, one leader (*Führer*)", is characteristic of this anti-individualist and anti-liberal objective of coerced political unification. At the time, the Roman Catholic Church with their strong political traditions of anti-individualism and anti-liberalism seemed to many protagonists of the fascist project to be strongly allied in this "rollback" political project. Furthermore, prominent representatives of the Roman Catholic Church quickly became major supporters of this project, especially in countries with a strong and homogeneous Catholic population such as, for example, Croatia, where some efforts towards a certain "Catholic form of fascism" can be studied.

Another form of totalitarian politics arose after World War II especially in the state communist countries of East Europe. Stalinism was no less oriented by the integral idea of a unified and conflict-less society without any space for individuality, autonomy and cultural difference than the recently fought and successfully beaten fascist project. Unlike fascism, however, the Stalinist project was anchored in a strongly atheistic ideology and fought all remaining relics of churches and religions rigorously. In countries with only weak religious traditions the Stalinist project achieved a rapidly increasing rate of de-Christianization, while in countries with strong and homogeneous religious populations the (not governmental, but societal) political role and importance of the churches (as the only remaining and "unvanquishable" fields of resistance and places of liberty and difference) were still able to expand. This can best be studied in the unexpected processes of radical change and democratization during the events of 1989 and the important and enormous significance of the churches in this process (Ash, 1993).

4. The Church in the Face of Modern Civil Societies: New Challenges

Church's Self-Conception in Transition

Today, at the beginning of the 21st century, the Roman Catholic Church has to reflect on its political self-conception and to redefine its role and position within a secular state and an open and pluralistic civil society. This society offers space and opportunities for all religious convictions and traditions but strictly rejects any kind of religious predominance and confessional hegemony over state and society. Not only the relationship between the church and the secular state, but also the church's relationship to a modern postreligious civil society has to be reconsidered.

Being confronted, on the one hand, with the new industrial society and the secular state of the 19th century and, on the other hand, with the brutal and inhuman experiences of 20th century fascism and Stalinism, the Roman Catholic Church tried to redefine its role and function within society in a fundamental way during Vatican Council II (1962-1965). For a long time the Church was in favor of a conservative project of "re-Christianization", trying to achieve not only politically, but also culturally a real "rollback" to premodern realities and a dismissal of the secularization project and the modern "culture of separation". With the results of Vatican Council II these romantic longings for the "good old times" are no longer in accord with the official social teaching of the Roman Catholic Church (Große Kracht, 1997). At the time of that Council the Church started to make its peace with the modern world of secularization, industrialization and democracy. But for some decades thereafter many prominent leaders of the Catholic Church – especially in countries with a strong and homogeneous Catholic majority – had considerable problems in accepting and appreciating the Church's new social thinking and teaching. This was the case especially in some East European countries like Poland and Croatia. After the sudden fall of the state communist governments in these countries many bishops tried to re-establish a kind of political "re-Christianization" with a strong Roman Catholic state, with Roman Catholic politicians, strong Church influence on the legislature, and a clear hegemony of Roman Catholic views and visions in society.³

At the beginning of the 21st century these restorative projects can be seen more or less as a definitely out-of-date view because today Western and Eastern European countries – despite all their cultural and historical differences – seem to be united in the political vision of a liberal and secular state within an open and pluralistic civil society without any religious or

3 For the case of Poland see the contributions of Tischner et al. (1991/92).

ideological hegemonies.

Today the official social teaching of the Catholic Church is completely in favor of the modern ideas of civil rights and political democracy, of secular institutions and the modern “culture of separation”. Nowadays, in many countries the Church and its members are discussing the main tasks and responsibilities of the Roman Catholic Church as a certain religious community among other religious and non-religious communities within modern civil societies. They must choose between two directions. On the one side, the Church could remain primarily a more or less “private” organization, offering religious and philanthropic services to its members and – because of its religious convictions – also to the suffering poor. On the other side, the Church could be an explicitly “public” and politically involved and engaged organization of a modern civil society with strong claims to the “common good”, to social justice and to public welfare, trying to influence the political process of democratic civil societies with all its high degrees of complexity and differentiation.

Ecclesiastical Third-Sector Organizations in the Face of Different Types of Modern Welfare Society

In modern civil societies with a secular state and a free market economy there arise not only problems of secular modes of democracy, but also new challenges for the church and its traditional contribution to societal welfare production. Three different types of modern welfare production, implemented in different ways in different European industrial societies, can be identified. They include a “statist welfare society”, a “liberal, market-centered welfare society”, and an “intermediary welfare society” (Esping-Andersen, 2000).⁴ This differentiation is not only a question of historical interest; especially in the East European transformation process, there is also today a strong political competition and conflict between these patterns since these different types are related to different political views and visions of society as a whole.

The first is the *statist pattern*, i.e., a *strong welfare state in rivalry with traditional third-sector organizations of the church*. During the 19th and 20th centuries in some European countries, the modern secular state became the leading responsible agent for the social duty of “welfare production”. This occurred especially in countries with weak traditional church-related third-sector organizations and with weak “sub-societies” of relevant religious minorities. In the Scandinavian countries this statist pattern of welfare production can be clearly seen. The strong welfare state guarantees to all citizens equal social rights and a high level of social security. It is financed by high tax rates

4 For this differentiation see Esping-Andersen (1990) and Leibfried (2000).

and administered by a large public administration. This type of welfare society is in large part the result of social class struggle of the socialist worker movements with well-organized trade unions and left-wing parties. The state pretends to be the only legitimate producer and controller of society's whole welfare production. As a result, this type of welfare regime perceives traditional third-sector organizations in the field of welfare production as possible rivals, denying states unique legitimacy and responsibility for societal welfare production. In this pattern the public administration seems to be the only target of welfare claims and the only actor in welfare politics.

To a certain degree the statist type of welfare society seems to be quite near to the welfare production pattern of the state-communist societies of Eastern Europe before 1989. The communist state rigorously defended its monopoly in welfare production, especially against the traditional role of the church and its third-sector organizations or other rivals and competitors in the field of welfare services. The churches were at best relegated to a strictly apolitical role of offering spiritual services to their members. And due to this attitude of the state-centered conception of welfare, there is a principal tension between the secular state and the religious traditions and self-understandings of the church. Furthermore, as a result of these historical conflicts, some of the East European countries are today not only without strong and self-confident ecclesiastical third-sector organizations but also with often more or less frightened and skeptical ecclesiastical attitudes towards the modern postcommunist state.

The second pattern is known as the liberal pattern, i.e., a weak welfare state with church-related third-sector organizations as welcomed private substitutes for state duties in the field of welfare production. This anti-statist pattern of welfare society is found traditionally in Anglo-American countries. The liberal pattern of welfare production is focused on the market, not on the state. Therefore, the level of state-guaranteed social rights for citizens is highly restrained. People more or less have to take care of their social risks at their own cost, for example, by using private insurance agencies. In this perspective the free market seems to be the main welfare producer, much more adequate to solve problems of social security than the "overloaded state". The field of welfare should be opened as far as possible to the free process of supply and demand, with little state intervention. It sets its hope on new private enterprises in the – not yet sufficiently opened – "welfare market". In this view it is easier to fulfill the real social needs and claims of the people by using the "anonymous logic" of private calculation of costs and profits. On the one hand, so the hope of liberal welfare economics, there will rise very soon many new private companies and agencies offering a set of new products and services in the field of social welfare; and on the other hand, the people in need of social help and support are going to be wanted customers instead of being only helpless and disregarded clients of the

welfare state bureaucracy. In this conception the main duty of the state is not to offer its own welfare services directly but to initiate and support the opening of welfare services to profit-oriented suppliers on a free welfare market. After 1989 this liberal, anti-statist pattern of (not only) welfare production was recommended emphatically by many Western economists and politicians to the transformation countries of the postcommunist era and often implemented through “shock therapy”. The results of this therapy, however, are questionable.⁵

The liberal type of welfare production offers opportunities not only to new private companies, but also to voluntary third-sector organizations and their charitable and philanthropic activities. The liberal political project to reduce the size and scope of the state seems to be viable only with the silent support of many active and powerful voluntary associations. Here third-sector associations often assume the role of a (at least transitory) substitute for former state activities. Traditional (or modern) third-sector organizations like the church’s should act primarily as mere philanthropic organizations in the highly difficult and not “market-viable” fields of heavy social problems and distress, unable to be “opened” for the welfare market and the profit prospects of new private welfare enterprises. So the liberal concept is in need of philanthropically highly motivated and engaged – and politically highly uncritical and disengaged – third-sector organizations.

The relation of the church to this rather young pattern of welfare production is marked by general reservations. The “market economy” has been rejected by the Catholic Church’s social doctrine for a long time, and still today the Church’s attitude towards the market logic is very skeptical (John Paul II, 1991). The liberal focus on the “unencumbered self”, on the values of individual success and individual responsibility for own social risks, etc. does not fit with the Church’s religious conception of the world and of man and with its values of solidarity and common good. Especially the liberal idea of the Church as a “quiet”, i.e., politically uncritical, and in this sense “private” supplier of (non-market-viable) philanthropic services is fundamentally unacceptable for the social thinking and behavior of the Church and its third-sector organizations.

The third and final pattern is the so-called intermediary pattern, i.e., a mediating welfare state with a strong quasi-governmental presence of the church and its third-sector organizations as important co-producers of welfare. Historically, in different ways this type has been realized in countries with strong Catholic minorities such as Germany and the Netherlands or in traditionally Catholic countries like Austria, for example.

This pattern of welfare production is marked by a special welfare-mix because here the main protagonists of welfare production are not exclusively

5 See for example Stiglitz (2002).

the states or the anonymous logic of the market. Here, in an explicit way, also the strong (traditional or modern) organizations and institutions of the society, especially the ecclesiastical third-sector organizations and the representatives of the major business and workers interest groups, are organizationally involved in specific ways in the process of societal welfare production. The resulting systems differ from country to country in terms of the real social impact of these religious traditions and political associations, sometimes with a certain kind of ecclesiastical monopoly like in Austria and other times with a balanced plurality of ideologically different suppliers like in Germany. Nevertheless, these suppliers become at least partially “quasi-governmental organizations” and assume long-lasting “quasi-public” duties and responsibilities. The state rejects the idea of a statist monopoly in society’s welfare production and opts for cooperation with the main religious institutions and the important social interest groups. So in this view the main responsible agent of welfare and social security is not the administration, but an institutionalized system of social insurance under public law, involving representatives of employer’s associations and trade unions in equal parts. In a similar way the main ecclesiastical welfare organizations are recognized by the state as autonomous and important “quasi-public” institutions. For this, they receive from the public administration significant support and many privileges, whereas competing private companies, willing to offer social services on their own, are structurally disadvantaged by this type of welfare regime.

Thus, in this top-down type of welfare production, the welfare organizations of the church are in danger of losing their own specific values and traditions, turning into big bureaucratic state-like institutions without any critical attitude or even sufficient freedom and distance to the government. Furthermore, this “intermediary” pattern traditionally is not based on a high level of guaranteed social rights for every citizen but on the – in the 21st century more and more precarious – economic conditions of full and life-long employment for every male (not female!) citizen. In this way it is marked less by a modern individual but more by a traditional household orientation. Moreover, because this traditional type of intermediary welfare state favors the “big” and “old” organizations with fixed and established forms of exclusive financial and organizational support, it tends to hinder new and smaller grassroots-oriented initiatives and new forms and projects of social welfare services and organized self-support of the weak and the poor. As a result, many of the new initiatives clamor for the liberal type of welfare state, which offers the same financial support to all “suppliers”, little and big ones. Furthermore, as a result, the big and old non-/quasi-governmental welfare organizations are going to lose new experiences and institutional access to innovative projects in the wide field of welfare services.

In countries with such an intermediary type of welfare state the Catholic

Church of course often tends to defend this pattern, not only because of the considerable privileges for the established ecclesiastical third-sector organizations. But this traditional, i.e., “Bismarck-type”, welfare state and its structurally conservative conception of society and political culture are likely to enter into crisis at the beginning of the 21st century. Today also the churches and their third-sector organizations have to deal with the new challenges of post-industrial societies; they have to decide whether they primarily want to fix their status as big “quasi-governmental” organizations, to redefine themselves as market-oriented suppliers in terms of economic success, or to define themselves rather as politically engaged advocates for the political interests of the poor and disadvantaged, rediscovering the prophetic traditions of the church’s claims against social injustice and humiliation. Today, many representatives of these institutions are dealing with all these questions, discussing the different patterns of more or less state-oriented, market-oriented or civil society-oriented ways of welfare production. In this field, still today the traditional social doctrine of the Catholic Church seems to offer some relevant and interesting orientation in this debate.

5. The Social Doctrine of the Catholic Church and Its Principle of Subsidiarity: Civil Society Beyond States and Markets

The starting point for the official social doctrine of the Catholic Church was the encyclical *Rerum novarum* of Pope Leo XIII (1891). Confronted with economic liberalism and its conception of a laissez-faire capitalism on the one hand and with the urgent social problems of industrializing societies, the hard and oppressive working conditions in the new mills and factories, the poverty and misery of millions of workers and their families on the other hand, the official social teaching of the Church began to change its orientation. Beginning with the middle of the 19th century, many Church representatives began to understand that the old traditions of Christian charity and a rollback to the “good old times” of an integrated “Catholic society” with premodern social structures would not be able to solve the “social question” of proletarianization and class conflict.

With this background, Leo XIII’s *Rerum novarum* emphasized a so-called “social-realistic line” of social teaching, taking seriously the new political realities of industrializing societies instead of favoring a traditional “social-romantic line” of supposedly better earlier times. Concretely, the Pope called for three political reform projects. First, he stressed the necessity of social policy and concrete state intervention by law in favor of workers’

interests not only in the field of safety provisions for workers but also in terms of building systems of social security for the sick and elderly. Second, he condemned the wrong liberal idea of a “free labor market”, because people without any property of their own are not really “free” to take a job or not. As such, society must ensure better protection for the workers’ interest in an adequate family income. And third, in this context Leo XIII called for the freedom of association as an elementary human right not yet realized sufficiently. In particular, he thought about associations and cooperatives of Catholic workers in terms of mutual self-support under the guidance of Church representatives and, of course, not about the idea of a unified trade union. Nevertheless, the actual debate on civil society and “associational democracy” is not necessarily far from some of the main conceptions of the Church’s social teaching since 1891.

Today, Pope John Paul II stresses rigorously the idea of peoples’ associations and workers’ unions beyond a state-centered collectivism and a market-centered liberalism. With the rejection of both pure capitalism and pure socialism he had influenced massively the democratic revolutions of the 1989 era, especially the *Solidarnosc* movement in Poland. And today, based on the social doctrine of the Church, John Paul II is one of the most resolute critics of global capitalism.

The most important principles of Catholic social thought are the principles of personality, solidarity and subsidiarity. The principle of personality stresses elementary human rights, but it emphasizes also – contrary to a purely liberal conception of individual liberty – the duties and responsibilities of human beings. The principle of solidarity accentuates the mutual dependence of all members of society because no one can live his life and obtain his food, his well-being and his security only on his own. So the principle of solidarity remains the social fact that we are “all sitting in one boat” and must take care of it together.

While personality focuses on individuals and solidarity focuses on societies, the principle of subsidiarity, formulated “officially” by Pope Pius XI in his encyclical *Quadragesimo anno* (1931), offers a certain paradigm for the political organization of the relationship between them – concretely, between the different social groups and communities, beginning with the families, the neighborhoods, the town associations, etc. from the bottom of society up to the state government. It opposes a merely top-down view of the political process and its often inadequate centralistic conceptions of decision-making, but it also opposes a purely liberal and anti-statist idea of denying all state services and responsibilities for these groups and communities. So the principle of subsidiarity creates a double norm for the respective upper and stronger levels of society: on the one hand, “the imperative to help” (*Hilfsgebot*) the respective lower and weaker levels of society in case of their incapacity of self-help and self-support, and on the other hand, corresponding

to this, the “prohibition of assumption” (*Kompetenzanmaßungsverbot*) in order to keep them from assuming ordinary tasks and responsibilities of the respective lower levels and communities in a paternalistic attitude.

In this way the principle of subsidiarity takes seriously the existence of different social groups, associations and levels within society and attaches to each of them special duties and responsibilities in terms of welfare, social security and the common good. The principle of subsidiarity of the Church’s traditional social thinking perceives societies to be composed of different levels that are more or less fixed in a clearly distinguishable vertical order, beginning with the families as the lowest communities and ending with the state as the highest community. With this background, critics of the Church’s traditional social thinking often noticed a certain harmonistic attitude of this conception of society that underestimated the impact of social class conflict differentiating the political society in terms of different interest groups with long lasting social and political tensions instead of a potentially well-ordered relationship between higher and lower levels of a more or less united society. Nevertheless, together with the principles of personality and solidarity, the idea of subsidiarity supports the idea that well-ordered political societies are not to be described as an unordered sum of isolated individuals connected only by their own market activities, and served only by a weak state administration in order to guarantee the liberties and properties of these individuals.

The above-mentioned intermediary pattern of welfare society is based in large part on a certain interpretation of this principle of subsidiarity. This type of welfare state in a “subsidiary” way incorporates the main traditional welfare organizations and activities of strong religious, humanitarian or socialist traditions into the state apparatus and converts them from free and independent movements of civil society into official and quasi-governmental organizations assuming state duties in the field of welfare production. In the same way, the class conflict between entrepreneurs and employees is politically organized and partly reduced by models of official cooperation between the state and both sides of industry in the crucial problems of social policy. Thus, the competitive free market society of the 19th century becomes an organized social market society regulated by unanimity and consent. Since World War II this corporate type of organizing political society has been very successful. However, it is also based on a certain kind of democratic elitism since only the representatives of the large traditional organizations of society were incorporated politically. As a result, there is a certain pressure to introduce bottom-up conceptions of democracy and civil society.

After the 1989 transformation process this “subsidiary” model of state, society and democracy has hardly been questioned, either by new social movements and their idea of a strong civil society-centered democracy or by a newly enforced economic liberalism in favor of a political project of re-establishing a free market economy of free individuals without the further

political influence of churches and workers unions.

Today modern democracies must seek new ways to fulfill their duty of welfare production within the new social conditions of 21st century societies. Remembering the principles of personality, solidarity and subsidiarity may keep them from losing the political sense of direction. There is a need for broad political discussions on how modern societies in an intelligent and adequate way are able to take care of their political "main duty": Not only to organize and guarantee freedom and civil rights but also to organize and guarantee a high level of quality welfare services and social security for all citizens.

Suggested Readings

- Gabriel, K. (1992): Christentum zwischen Tradition und Postmoderne. Freiburg
 Pierson, C./Castles, F.G. (eds.) (2000): The Welfare State. A Reader. Cambridge
 Tomka, M./Zulehner, P.M. (1999): Religion in den Reformländern Ost
 (Mittel)europas. 3 Vol. Ostfildern
 Texte zur katholischen Soziallehre (1992). Die sozialen Rundschreiben der Päpste
 und andere kirchliche Dokumente (Hg. v. Bundesverband der Katholischen
 Arbeitnehmer-Bewegung Deutschlands – KAB), 8th edt. Kevelaer

References

- Arendt, H. (1951): The Origins of Totalitarianism. New York
 Casanova, J. (1994): Public Religions in the Modern World. Chicago
 Duby, G. (1978): Les trois ordres ou l'imaginaire du féodalisme. Paris
 Esping-Andersen, G. (1990): Three Worlds of Welfare Capitalism. Princeton
 Garton Ash, T. (1993): The Magic Lantern: The Revolution of '89 Witnessed in
 Warsaw, Budapest, Berlin and Prague. Washington
 Große Kracht, H.-J. (1997): Kirche in ziviler Gesellschaft. Studien zur Konflikt-
 geschichte von katholischer Kirche und demokratischer Öffentlichkeit. Paderborn
 Habermas, J. (1990): Die nachholende Revolution. Kleine politische Schriften VII.
 Frankfurt
 Leibfried, St. (2000): Towards an European Welfare State? In: Pierson, Ch./Castles,
 F.G. (eds.): The Welfare State. A Reader, Cambridge, pp. 190-206
 Loth, W. (1984): Katholiken im Kaiserreich. Der politische Katholizismus in der
 Krise des wilhelminischen Deutschlands. Düsseldorf
 Johannes Paul II (1991): Encyclic 'Centesimus annus'
 van Kersbergen, K. (1995): Social Capitalism. A Study of Christian Democracy and
 the Welfare State. London
 Stiglitz, J. (2002): Globalisation and its discontents. New York

Political Developments After 1989 and Their Impact On The Nonprofit Sector¹

1. Preliminary Remarks

The installation, functioning and fall of the communist regime took considerably different courses in each of the Central European countries that were part of the so-called Soviet bloc, i.e., Czechoslovakia, Hungary and Poland. Nevertheless, the fundamental political changes happening in these countries in the late 1980s had one typical feature in common: they were significantly influenced by the ideology and activity of people who voluntarily engaged themselves in civil (dissent) initiatives, or, today it could be said, in nonprofit organizations standing in opposition to the totalitarian communist power (see for example Solidarity in Poland or Charter 77 in the former Czechoslovakia).² The fundamental changes the dissenters and their nonprofit organizations (NPOs) desired, were, above all, establishing parliamentary democracy with a pluralist system of political parties and people's freedom of association. The manner in which NPOs in these countries managed initiating these changes, influencing them, or participating in them was then reflected in the later attitudes of politicians and the entire society toward the nonprofit sector. There can be no doubt that it was these changes that enabled the nonprofit sector to develop, which was unthinkable in these countries under socialism. The most obvious evidence of that is the rapid growth in the number of NPOs after 1989 in all Central European postcommunist countries.

The immediate impact of the political changes after 1989, however, meant not only the quantitative expansion of the nonprofit sector, but also the consolidation of its position in society. Before the installation of communism after World War II, Hungary, Poland, and the former Czechoslovakia all had relatively strong nonprofit sectors, which during the pre-war period had played a very important social role that communism later took away from

1 I would like to thank Annette Zimmer who encouraged me to write this chapter. I am also grateful to Eva Kuti for her excellent comments. Without her contribution this text could not have been completed.

2 See the country profiles of the Czech Republic, Hungary, Poland and Slovakia in this volume.

them by force.³ After communists came to power, NPOs were subject to severe persecution – many of them were dissolved by force and completely liquidated, and a large number were nationalized. The rest (especially organizations active in sports, recreation and interest activity) were incorporated into the centralized structure of the totalitarian state and politically paralyzed. NPOs in these areas were “united” in large centrally managed umbrella organizations, in which members of the Communist Party were installed as managers to ensure their ideological control. The communist supervision over the activity of NPOs deprived many of these organizations of their authenticity and made them henchmen to the communist regime (though in many cases purely formally). Consequently, these organizations had lost the status of NPO in the real sense of the word.⁴

In the first months, and perhaps even years, after 1989, political developments had resulted in a massive surge of enthusiasm for democratizing this part of Europe. Under this enthusiasm’s influence, the idea (already cherished in the dissent circles) that building civil society is an integral part of communist society’s transition to a democracy with a market economy became widely spread. The surge of enthusiasm penetrated politics and public administration, and the representatives of NPOs could reckon with friendly, helpful attitudes of politicians and officials. This time of general enthusiasm gave the nonprofit sector the leading role in building civil society (Leš, 1994: 16), regardless of its actual abilities. It was challenged to significantly contribute to consolidating democracy in postcommunist countries. In the light of this noble challenge, however, the need to consolidate the nonprofit sector as such was forgotten.

It is a paradox that the fall of communism, on the one hand, gave unheard of opportunities for developing the nonprofit sector, but, on the other hand, caused a massive departure of activists from nonprofit organizations into politics and state administration (Siegel/Yancey, 1992: 16; Cox/Vass, 1995: 161ff.), and thus significantly weakened the sources of its consolidation.⁵ This loss could not be compensated for by the huge inflow of foreign assistance to NPOs in these countries after 1989. The recovery and building of nonprofit sector organizations and structures were hampered by many insufficiencies. They lacked everything: property, money, quality legislative framework, tradition, professional background, information networks and the entire service infrastructure, training and educational centers, volunteers, etc. It was

3 Ibid.

4 E.g., Eva Leš speaks about them as “quasi-nongovernmental organizations,” since they were politicized: “Since the early 1950s the activities of these quasi-nongovernmental organizations were heavily politicized, aimed at legitimizing the political system. Their primary role was a political one, with service delivery a secondary function.” (Leš, 1994: 9)

5 “... the result of the transition itself has been a further weakening of the prospects for the development of civil society.” (Cox/Vass, 1995: 163)

generally expected that, with the support of the democratically elected political representation, filling these gaps would proceed swiftly.

At first, it appeared that way. The first legislative changes opened opportunities for people to associate and set up new NPOs. Over time, however, the creation of the legislative framework began lagging markedly behind the developments in the nonprofit sector, and the consolidation of its position in society considerably slowed. The wave of democratic enthusiasm relatively quickly vanished, and the first disputes and conflicts between the representatives of the public and nonprofit sectors could be seen. The attitudes of the governmental political representatives toward strengthening the role of the nonprofit sector in society and toward the efforts of NPOs inside the sector to consolidate changed when they were confronted with the day-to-day problems of governing. And even though the line of governments in the particular countries differed, it became apparent that in terms of consolidating the nonprofit sector, it was a change for worse. The new lines varied from open conflict (Slovakia), to cool reservation (Czech Republic), to verbal helpfulness accompanied by practically no interest, or a not high enough level of political will to make necessary changes (Hungary, Poland).⁶

2. Political Developments After 1989

Why did such a change in the attitudes of political elites and official authorities happen? To answer the question, attention should be focused on the overall political developments in Central Europe after 1989, where four common processes (problems) can be identified, which ultimately influenced the relationship between political representatives and the nonprofit sector. These are: a) elimination of the threat of a return of the totalitarian regime, b) building the system of political parties, c) forming the governance style, and d) decline in the population's trust in democratic institutions.⁷

6 For example in Poland according to Eva Leś, "... the idea of civil society has clearly lost its appeal for the political elites and, therefore, it has lost their support." (Leś, 1994: 16)

7 Due to reasons of scope, this chapter focuses on analyzing and describing the common features of relationships between politics and the nonprofit sector in the postcommunist countries in Central Europe rather than the differences and specificities of each country. The chapter does not pretend to describe the complex position of the nonprofit sector inside the processes of societal transformation through which the Central European countries passed during the last thirteen years. To a great extent such analyses have been already done in the excellent work of Anheier and Seibel (1998). The approach taken in this chapter focuses on the revelation of the dominant political processes and relationships among the main political actors (government and parliamentary political parties) and nonprofit organizations or the nonprofit sector as a whole after the year 1989. Such an

Elimination of Totalitarian Regime Comeback Threat

After overthrowing the political monopoly of communist parties, power was in the hands of dissidents and the circle of professionals representing the effort to build a meritocraticized system of governance. A great number of the former communist leaders withdrew from political life and went to the financial and business sectors.⁸ Some of their successors cooperated with the new elite and shared the execution of power, whereas others did not give up their fight for the “leading power in society”. Relying on the strong economic background they inherited (most of corporate management was one way or another tied to the Communist Party), they were either aiming to revitalize the (radically) left-wing view of the direction of society, or setting up new, left-wing parties and taking part in parliamentary life. Their economic influence and populism, carried on the wings of egalitarian ideas about social welfare, represented a threat in the eyes of the new political elite. And it was a threat to two main cornerstones of the beginning social transformation, i.e., to democratization and marketization. In the situation in which the fragility of democracy was apparent and the market economy only barely taking its first breath, the ideology of civil society (together with liberalism) proved itself to be a very effective means for putting the authoritarian powers on the defensive. For this reason, and because of the massive departure of civil activists into politics, the reborn world of nonprofit organizations was met with the spontaneous support and understanding of parties from the entire spectrum of the newly founded political parties and movements.

The ideology of civil society perceived as a natural part of the vision of building a pluralist democracy was developing during the period of unity in the moral opposition to the communist state. Its foundations were seen in the thoughts of dissidents about “parallel polis” (Michnik, Benda), the “other society” (Kornai, Széleányi), and “anti-political politics” (Havel, Konrád). But after 1989, when the state in the postcommunist countries became legitimate, the civil society was facing new challenges with which its “opposition” concept could not cope. The civil society was expected to be the vehicle for transformation (Leś/Nalecz/Wyngański, 2000: 20) or, at least, the “watch-dog” of its materialization (Leś, 1994: 51). The organizations of civil society were supposed to open space for spontaneous activities of the population and contribute to the “de-institutionalization” of society (Večerník, 1993: 129). They were to improve the “associative desert” (Offe) of the postcommunist countries and help remove the “learned helplessness” (Marody, 1987)

approach allowed the author to develop a more structured and elaborated view of the impact of political developments on the nonprofit sector.

8 According Eva Kuti, in Hungary some of the former communist political leaders who gave up their political ambitions even became nonprofit leaders. This means that the “brain drain” was not only a one-way process. (Eva Kuti remarks on this chapter.)

inherited from the time of state paternalism.⁹ Because of a rapidly changing political situation, the new (cooperative) face of the ideology of civil society emerged and spread too slowly, while its old (opposition) one remained still present in society.¹⁰ It was the counter-position of the picture of civil society against that of long-term monopoly rule of one party identified with the state that resulted in a widely shared aversion to political parties as such (Vnuk-Lipiński, 1991: 171) visible among intellectuals as well as in the general public in the postcommunist countries in Central Europe. By contrast, the need to rapidly spread the concept of cooperative civil society was reflected in a tendency to build modern civil society from above, according to Western models and as an outcome of efforts made by intellectuals (Kuti/Králik/Barabás, 2000: 5). But the effort to seize the modern dimensions of civil society, or nonprofit sector, led to overlooking the role of old nonprofit organizations surviving the time of communism. Often they were not perceived as a part of the nonprofit sector, or were sweepingly negatively labeled as, for example, “mastodons” (Gliński, 1999: 12) of civil society. This factor also contributed to a relatively swift division of the nonprofit sector in the postcommunist countries in Central Europe into old (traditional) and new (modern) nonprofit organizations.

Building the Party System

The developments in the postcommunist countries of Central Europe after 1989 were described by Jürgen Habermas as a “catching up revolution”, in which these countries were aiming to catch up with everything they neglected during the forty years of communist rule and in which they lagged behind Western societies (Habermas, 1999: 162). Neither the nonprofit sector nor political parties were immune to copying Western models, to so-called “westernization”. All these countries adopted the Western model of parliamentary democracy, which for its functioning required building a (pluralist) system of loyal political parties. The system emerged from a wide reservoir of parties and small parties that after the fall of communism started rapidly multiplying. These new parties absorbed into their ranks a great

9 They should also strengthen trust in society (Bútorá et al., 1995: 190-1), absorb the “transformation anomy,” participate in reconstructing social order, give people the necessary enthusiasm, and overcome the lack of participation, passivity and apathy (Kolarska-Bobinska, 1990). They should be aiming at “... recreating public life, decentralizing public services, making government accountable, promoting pluralism and diversity, mediating conflict, helping to build trust through unforced association and cooperation, and motivating people to act as citizens” (Siegel/Yancey, 1997: 3).

10 E.g., in 1994, Polish Prime Minister Bronisław Geremek felt he should emphasize that: “Civil society is neither against the state nor is it a parallel polis” (Leś/Nalecz/Wygniański, 2000: 20).

number of the former civil (anti-communist) dissent, and many a time were even founded by members of the opposition. The influence of dissidents put into the execution of politics and party battles an element of the ethos of civil society, which contradicted the (at that time) widely accepted ideas about the standard model of the left-right spectrum of political parties. It involved, for example, preferring personal moral integrity over party benefits, giving precedence to social welfare over party interests, highlighting civil over national identity, experimenting with various versions of the so-called “third way”, stressing humanitarian values, horizontal networks, soft interactions, and greater intraparty democracy, rejecting party discipline, and accepting the principles of direct democracy. The effect of these elements of civil ethos on political life hindered the efforts of the parties to form a political system according to the standard, Western models most of their leaders wanted. This together with a lack of ideological embeddedness of political parties in civil society (Cox/Vass, 1996: 163) resulted in a gradual removal of the elements of civic ethics from the life of political parties.¹¹

In the formative period of the new political system in the postcommunist countries in Central Europe, the dominant issue for politics became the direction and speed of economic reform. First and foremost it was the method for managing this issue upon which the ideological spectrum of political parties gradually crystallized. In other words, the ideological (left-right) profiling of parties did not come out of their attempt to represent certain groups of civil society,¹² but rather depended on the chosen program of transformation¹³ supposed to ensure political leaders as wide as possible support among voters in competition with leaders of other parties.¹⁴ Even the nationalist parties, richly represented mainly in the Slovakian and Hungarian political scenes, had to offer their own version of managing problems of the transition to a market economy. Basically, in the fight for economic reform, two ideological streams took shape: neoliberal and social democratic. The first one making the claim, “Market without attributes,” was favored by the right-wing parties, and the other one, most often represented by the claim, “Social market economy,” was popular among the left wing of the political

11 “... civil society had been robbed, its values looted by the process of rapid party formation.” (Bozóki, 1992: 3)

12 Which was caused by a not very strong social differentiation of postcommunist society as such.

13 “The political conflict in Poland today is not a conflict between interests of particular social groups. It is a conflict over political and economic programs, or rather strategies for achieving basically the same goals – political democracy and a viable market economy.” (Frentzel-Zagorska, 1991: 110)

14 “... the polarization of the new political parties was not the result of ancient ethnic differences or economic forces, instead, the political result of leaders of new parties competing for electoral support in uncertain conditions.” (Glenn, 2000: 174-5)

spectrum.¹⁵ Both streams offered voters well-defined, relatively simple and understandable solutions to the current economic and social problems. By contrast, many representatives of the former anti-communist opposition failed to give a clear answer to the question of the direction of economic reform. They perceived it as very complicated and not unambiguous, and so they were perceived by the public as difficult to classify, hard to read, complicated and intellectual. Therefore, in the next round of political battles the ideology of civil society could not successfully compete with that of political parties infected by pandering consumerism. The aversion to populism and politics perceived as mission or a continuing dialogue about key values simply did not correspond with the expectation of the population concerning improvements in their standard of living (which was very strongly encouraged by the leaders of political parties).

On the other hand, along with the “missionary approach to politics” (Plasser/Ulram, 1996: 26) taken by former dissidents, their presence in the executive bodies of the government resulted in a not sufficiently professional approach to managing the administration machinery and political talks with strong interest groups. The ideals of dissidents came up against stiff transformation reality. The representatives of the former anti-communist opposition, facing the dilemmas of the transformation process, turned out to be impractical dreamers,¹⁶ and the effect of civil society on the formation of the political scene gradually became totally weak. “Their” parties either adapted to the standard measures or, in time, disappeared or stagnated in the extra-parliamentary opposition. They would typically lose elections, and do so also thanks to political compromises, revising the image of some dissidents as morally fearless leaders.¹⁷ After removing the acute threat of a totalitarian comeback, the ideology of civil society became in the eyes of most politicians only a useless burden¹⁸ on the road to achieving party interests,¹⁹ guaranteed

15 As has been seen it does not mean that in political practice, the left-wing parties cannot implement the neo-liberal economic reform strategy and vice versa that the right-wing parties cannot try to develop a social market economy.

16 “Technocratic elites replace the former ones comprising especially dissidents coming from humanistic or humanistic-existential orientations: Dissidents were thinkers or artists – philosophers who rebelled against the communist system because they had their own social ideal, wanted to have a different type of society. These idealistic spokespersons, however, lost the former support of society, in the eye of citizens having fulfilled their key mission by contributing to the collapse of communism. Under the new circumstances many citizens feel they are not very pragmatic, arousing concerns that they are leading society to radical, axiologic standpoints ...” (Strmiska, 1993: 110)

17 E.g., according to Strmiska, “... (T)he representatives of the elite formed from dissidents contributed to their political weakening primarily because some of their members did not sufficiently stick to their mission of intellectuals – clerics, but fairly pragmatically accepted for themselves the strategy of not minor compromises ...” (Strmiska, 1993: 111).

18 This process is typical mainly for the central or federal level. At the local level the situation is much better.

by the “standard” model of representative democracy. This, though often unspoken attitude of politicians was naturally reflected in their relationship with the nonprofit sector, to which many (in the free elections) beaten representatives of the former anti-communist opposition returned.

The only country standing out from this model is perhaps, Slovakia. The ideological crystallization of the political spectrum in Slovakia did not happen as quickly and successfully as in the other countries. Even today, in the Slovak Parliament there is still a significant representation of the non-standard, extremist (fundamentalist) and nationalist parties in opposition to the full spectrum of left-wing parties looking for their allies in the nonprofit sector. Moreover, the nonprofit sector helped the left-wing parties considerably in their fight against Mečiar’s authoritarian political style.²⁰ In the other countries, by contrast, the extremist powers were pushed out of the center of political events. Various groups of “standard” right-, center- and left-wing parties take power in turn, depending on the practical success of their concept of economic reform implementation.

Forming the Governance Style

The situation of newly emerging political parties was not easy. Not only did they have to aggressively seek their own identity in competition with a number of competitors (Ágh, 1996: 139), but they also faced major problems in financially securing their existence. That parties (perhaps except communist and postcommunist parties) were not embedded in specific social classes meant that they did not have many members or a stable (loyal) electorate. This was true in a situation in which only a costly, spectacular election campaign could guarantee their further survival in Parliament. In this respect they shared the general crisis of mass parties in Western European countries, yet they were not ready for it. An increase in the costs of party activities, a decline in proceeds from membership fees, and problems with getting support from private sponsors made them (identically to their Western examples) stick more to the state, where they found the key source of income for their activity in the form of state financial contributions for the results in the elections. A consequence of this method of consolidating the position of political parties in society was a deeper separation of party interests from the interests of civil society, and even more free relationships with the non-consolidated nonprofit sector. Political parties could expect neither more votes, nor more money from cooperation with weak NPOs. On the contrary,

19 After the enter of non-political authorities into politics, the vision of common good – welfare – was pushed out by political parties that started pursuing their own interests (Osiatyński, 1998: 17).

20 See the Slovak Country Profile in this volume.

according to Katz and Mair, the process of parties becoming part of the state caused that “political parties do not have to compete to survive any more in the same sense as before (when competing as regards the definition of public policies) and made the right conditions for forming a cartel, where all parties share the same sources and survive” (Katz/Mair, 1996). The state controlled by political parties becomes not only a substantial source for their survival, but also a barrier to new actors (growing from civil society) entering into political arenas.²¹

Perhaps, even a bigger danger for the everyday life of NPOs than the cartelization was the obsessive inclination of governmental political parties to centralism,²² by which they wanted to tackle problems by asserting their own ideas about the political environment of social transformation. Paradoxically, this also applies to the parties ostentatiously showing their neoliberal line.²³ The governmental political parties saw in the strong (paternalistic) state an optimum means to achieve their own goals and to do so regardless of their own ideological line. It was technocratic pragmatism that absolutely beat ideological orthodoxy. The effect of this style of governing also manifested itself through the gradual elimination of ideological differences between parties and through the expectation that every party could cooperate and govern together with any other one (naturally, except extremist parties). As the reform was progressing, it became more and more evident that it did not matter which party was in power; any of them would do the same as its (seemingly) ideological opponent would (e.g., privatization was in the hands of both right- and left-wing governments). In this way the political elites become technocratized, as the technology of power is paramount to them, when “the goals of political activity are considered known and their definition is not understood as the main problem” (Strmiska, 1993: 110). The “new” governance style typical of centralism and technocratic pragmatism was in sharp contradiction with the expectations of NPOs concerning their cooperation in developing concepts of public policies and their participation in decision-making processes. Its enforcement actually meant pushing the activities of NPOs out to the periphery of the ongoing social transformation.

Incompatible with the technocratic concept of executing power was especially the idea of “robust democracy” (Salamon, 1999) or of a “broader

-
- 21 Katz and Mair therefore call the political parties tied to the state and separated from civil society “cartel parties” (Katz/Mair, 1996). Also Attila Ágh speaks about political parties in the postcommunist countries in a similar way calling them “elite parties” (Ágh, 1992: 19).
 - 22 “... (T)here is an embedded tendency towards centralism and strong elite in Hungarian society which will limit the possibilities of establishing strong links between civil associations and formal politics ...” (Cox/Vass, 1995: 176).
 - 23 “The crucial and possibly somewhat paradoxical aspect of the neo-liberal position – given that the neo-liberals argued for the need to push the state out any significant involvement in the economy – was to press for the strong and highly centralised state.” (Kavan, 1999: 6)

concept of democracy” (Strmiska, 1993: 108), which is part of the civil society ideology. This idea is not satisfied with a democracy limited only to the political sphere and concentration of political democracy on representative democracy. Rather, its cornerstones are: 1) continuous communication between voters and representatives, 2) participation of the general public in decision-making, and 3) getting the execution of power closer to the citizen, i.e., consistent enforcement of the principle of subsidiarity. By contrast, the technocratic elites are naturally in favor of a narrower concept of representative democracy, in which the dominant role is played by political parties and the function of citizens is limited to electing their representatives. The technocratic elites see in a broader concept of democracy a threat of irrational and incoherent decision-making distorting the logic of the system of representative democracy (Strmiska, 1993: 109).

The dispute over the character of democracy – participative versus representative (Morawski, 1991: 28) – is still going on in all postcommunist countries in Central Europe.²⁴ Thanks to the cartelization of the political environment, the party representatives have good access to the media, which play one of the key roles in the fight for the character of democracy. And it is up to the media whether they become the vehicle of dialogue or the means for biased voter persuasion. Furthermore, because managing the work with the media has been a long-term Achilles heel of the nonprofit sector in the postcommunist countries in Central Europe, the media are more strongly influenced by political parties than by civil society.²⁵ It is hardly surprising that in this part of Europe it is the narrow representative model of democracy that is winning, as it better suits the technocratic elites in power here. This model enables them effectively to resist the claims of NPOs to enforce their advocate (political) function in society. On the other hand, although technocratic pragmatism leads political elites to ignore NPOs as legitimate opponents in the fight for power, it is not against quiet, but very broad cooperation at the level of “sub-politics” (Beck, 1994), i.e., in the area of providing services, in particular at the regional and local levels.

Nevertheless the technocratic style of governing caused the political and civil elites to begin to depart from one another.²⁶ Communication among them is not sufficient. NPOs in all Central European postcommunist countries feel

24 In this respect, the polemic between Václav Havel and Václav Klaus in the Czech Republic is very instructive (Pithart, 1996).

25 The Czech Republic is no exception. The civil society prevented the strongest political parties from gaining direct control of public-owned television (at the turn of 2000 and 2001), but in the long run has not been able to effectively mobilize its strengths and resources to pursue its view of democracy.

26 E.g., in the Czech Republic, one can even speak about the “split of elites” into political and civil (Machonin/Tuček, 2002: 34), resulting in generally weakening the legitimacy of elites in society.

a lack of contact with political parties.²⁷ Such interaction would typically take place merely on the basis of personal contacts and not within negotiated programs and projects open to the public. This selective method of communication would often give cause to suspect cronyism, of which people tend to accuse the old (traditional) NPOs. The cartel and technocratic style of governing ended up in a situation in which the nonprofit sector is not a strong enough counter-player to political parties (contrary to the situation in advanced, Western democracies). The departure of political parties from civil society meant eliminating the control mechanisms of their activity that the weak NPOs managed to have formed. Political parties happened to be in a situation in which they could effectively limit only themselves (reciprocally). But self-limitation is not one of their strong points. The cartel symbiosis even directly encourages them to exceed democratic norms of political behavior. In the opinion of Petr Pithart, thanks to their party spirit and corruption, political parties take more for themselves in the democratic system than they should have right to:

“...(T)hey put their people where there should be professionals positioned, in other words, politicize the state administration. They make the state administration obliged to them, as they bribe it: they allocate more money to the towns, where they have their own mayors or local governments. They place state orders (and also loans/credits and guarantees of the banks they control, contributions from the funds, where they have the main say) where they can expect support. ... And they generally strengthen the state, because the state, it is actually they, the ones who are in power at the moment.” (Pithart, 2002)

Without the effective and constant control from the civil society, political parties face a threat of degeneration into corruption cronies. The data of the international research survey on the corruption climate in the postcommunist countries indicate that something like that has already happened to a considerable extent (Frič, 2001).

Table 1. Perception of Corruption in CEE

WE LIVE IN A CORRUPT STATE:		Yes	No	Do not know
1.	Slovakia	84%	12%	4%
2.	Hungary	64%	24%	12%
3.	Czech Republic	53%	35%	13%
4.	Poland	49%	51%	1%
5.	Austria	30%	64%	6%

Source: GfK Prague, 2001, N = 12,454. Line %. (Frič et al., 2001)

27 See, e.g., Wygnański (1995), Gliński (1999), Bútorá (1995) and Frič (2000).

Decrease in the Population's Trust in Democratic Institutions

The negative effect of the above-described technocratic style of governance was intensified by failures in implementing economic reforms,²⁸ and left its visible marks in the attitudes of the public toward political parties and democratic institutions in general. Soon after the change in the political regime, the population of the postcommunist countries in Central Europe got an impression that politics is being done behind people's back (Kolárska-Bobinska, 1990: 280), that new elites are recruited on the basis of friends (cronies), bribes²⁹ and backstage maneuvering rather than according to professional performance (Siegel/Yancey, 1993: 17). The "arguing" elites (Kolárska-Bobinska, 1990: 278), all kinds of scandals involving prominent politicians, and the egotism of political parties resulted in undermining the legitimacy of new, democratic institutions in the eyes of the public (Miháliková, 1996: 172-3). Again there emerged the well-known "anti-party sentiment" (Fink-Hafner, 1996) inherited from the time of communism, which was reflected in a decline of public trust in political institutions, declining party identification and failure of political parties to represent social interests. The outcome of all of that is civil passivity, or lack of people's activity toward the tasks of the time (Kolárska-Bobinska, 1990: 279), and a heavy tendency to personalize politics, i.e., orient to political celebrities rather than to programs of political parties.

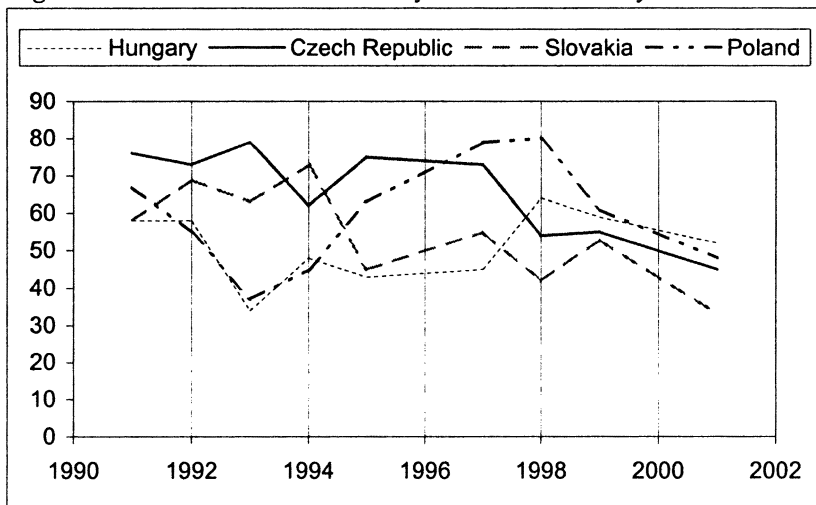
Jadwiga Staniszkis (1981: 167) called the combination of a rising level of distrust in democratic institutions, inclination to the government of firm hand in the system of one political party, and growing social apathy the "Weimar syndrome". As is well known, this syndrome is lethal to young democracies. That is why issues such as "strengthening the representation of interests", "representation deficit" (Plasser/Ullram, 1996: 18), the problem of "democracy embeddedness", or "compensation for democratic deficit" (Deakin/Taylor, 2001) have slowly but surely been coming back not only to social sciences publications, but to political discourse in the Central European postcommunist countries. It means that the idea of broader or robust democracy contained in the ideology of civil society is not dead, but far from it, becoming more important when most political parties may not openly admit, but at the practical level (where it suits them), actually follow it and consider improving cooperation with NPOs. They have to also because of the growing importance of NPOs in society and the relatively high trust these

28 In relation to the problematic economic developments in the postcommunist countries in Central Europe, Klaus Müller even speaks about "transformation crisis" in his opinion, it is mainly manifest in unemployment, social inequality and poverty (Müller, 2001: 236).

29 "... (T)he rich buy democracy; they always have and they always will." (Miháliková, 1993: 8)

organizations enjoy among the population.³⁰ Moreover, they must do so under the pressure of the regulations they should observe in relation to the process of their countries joining the EU.

Figure 1: Satisfaction with Political System and Democracy



Source: GfK Prague, New Democratic Barometer, 2001

3. Public Policy and the Nonprofit Sector

Decision-making Agenda

The re-birth and consolidation of the position of the nonprofit sector in the postcommunist countries in Central Europe would not have been possible without substantial assistance from the official authorities or the state. The effectiveness of NPOs functioning as social institutions depended on their decisions and legislative activities. Making correct and timely decisions was

30 According to the results of EUROBAROMETER 2001 the population trusting political parties in the postcommunist countries in Central Europe ranges from 8% (in Slovakia) to 18% (in Hungary). But trust in charities varies along a much wider range: from 45% (in Czech Republic) to 57% (in Poland). In the countries that are candidates to EU accession, 39% of people trusted NPOs on average, and a mere 13% political parties. Moreover, in the Czech Republic in 2001, for example, three-quarters of people trusted NPOs more than political parties (Frič, 2001a: 40).

not easy, for the decision-making agenda of particular governments and parliaments was always under the pressure of different and often opposite tendencies. That is why in individual cases of the decision-making agenda there were made several, not fully compatible, decisions. The decision-making agenda for deciding the fate of NPOs was very broad in all the countries studied, but in principle could be summarized in three points, or dilemmas:

- 1) The choice between the tendency, on the one hand, to build an adequate legal background for different NPO types with an aim to facilitate their development as much as possible and, on the other hand, to keep NPOs existentially insecure and conveniently distant from the decision-making processes.
- 2) The choice between, on the one hand, restructuring the system of public funding for NPOs and, on the other hand, keeping the current one in which the state prefers conformist, old NPOs to problematic, new NPOs.³¹
- 3) The choice between, on the one hand, keeping “easy”-to-control, state-maintained nonprofit service organizations and, on the other hand, opening a bigger space for competition, which would give greater chances to private NPOs to provide services in areas such as schools, healthcare and social care/welfare.

None of the above dilemmas was absolutely definitely solved to the benefit of one or the other tendency. In the first case, all postcommunist countries in Central Europe did build a relatively solid legislative framework making it possible for the full spectrum of NPOs to function. But its construction was not totally straightforward and did not proceed without significant delays and inconsistencies causing serious problems to specific types of NPOs. The establishment of the legislative framework lagging behind developments in the nonprofit sector was one of the major causes of, for example, spreading the negative image of NPOs in the public. It was most evident in the case of foundations, the legal regulation of which was at first very free and unclear and made their misuse possible.³² The cases of abuse were made public through the media and were used to discredit the role of NPOs in the eyes of the population (Bútorá, 1995: 22; Freiová, 1994: 12, Leš, 1994: 49; Leš/Nalecz/Wygnanski, 2000: 20; Stein 1994: 25f.). With the change in the legislative framework the situation calmed, and the reputation of NPOs improved.

In the case of the second dilemma, it should be noted that although the

31 From the administrative point of view, the more conformist character of the old NPOs and the more problematic character of the new NPOs are typical mainly in the service not advocacy sphere.

32 Eva Leš (1994: 49) says that fraudulent activities of so-called “fake foundations” have created suspicion and cast doubt on the reputation of all foundations in the region.

state spent more (in some places even much more) on supporting the nonprofit sector over the past decade, the role of the state in funding the nonprofit sector is markedly smaller in the postcommunist countries of Central Europe than in, e.g., Western European countries (Salamon et al., 1999). Moreover, the system of funding NPOs from state resources has not really changed since the time of the Communist Party regime, and in its lack of transparency favors cronyism and conserves some anomalies in the structure of the nonprofit sector inherited from that time (Frič, 2000; Gliński, 1999). An indication of this is that the areas of nonprofit activity supported under communism such as sports, recreation and professional interest organizations represent a much more important part of the sector in economic terms in Central Europe than in the West. It is typical that most old NPOs are active just in these areas. New NPOs (founded after 1989) had to build relations with the state administration and, by identifying new problems and nontraditional solutions, disturbed the routine of administration machineries. The representatives of the state administration were not ready for this kind of situation and were not used to communicating with different interest groups and organizations (Potůček, 1997). Even today, the public sector tends to act from the position of a monopoly supplier of social services. And so many new NPOs often were set up in conflict with or without the notice of the government and state administration.

A relatively lower share of public sector funding in the revenue base of the nonprofit sector in the Central European postcommunist countries is connected to the solution of the third dilemma. The state opened the door somewhat for private entities in areas such as schools, healthcare and social care, but because the organizations founded by the state and active in these areas are given preferential treatment, it actually preserves their almost monopoly position. It means that this dilemma has been solved more to the benefit of the idea of a strong state and the tendency to centralism.³³ In these three social welfare activities (which in the West are the core activities of the nonprofit sector), the state spends money to support its own “state nonprofit organizations” rather than real NPOs. Until now, no government – regardless of its ideological color (or after long discussions, project preparations and timid, practical attempts) – has managed to reliably solve the problem of “de-etatization” of public services. As a consequence, the nonprofit sector in the postcommunist countries in Central Europe is relatively small, and NPOs have not yet managed to win the position they have in the West.

33 Eva Leš (1999: 2) speaks about the method of solving this dilemma as “neo-etatization”, beating the principle of subsidiarity.

Lack of Information, Myths and Inconsistencies

The ambivalent solution of the above dilemmas indicates that the policies of the governments in the individual countries toward the nonprofit sector are not entirely clear-cut. A more detailed and long-term view of developments in the relations between the government and NPOs reveals that in none of the countries is the policy of funding and legislatively ensuring the functioning of NPOs actually of a consistent character (Bútorá, 1995; Frič, 2000; Kuti/Králik/Barabás, 2000; Leš, 1999; Regulska, 1999). As Eva Kuti (1999: 194) points out: "In most Eastern European countries there are several explicit and implicit government policies influencing nonprofit organizations, and they often lack consistency". Moreover, as Kuti says, the practice of executing these policies at different levels of the public administration can be significantly different.³⁴ Furthermore, the policies of individual governments of different ideological color and of those of the same orientation differ over time. Logically, the lack of consistency of the public policy toward NPOs is not so much an outcome of changing ideological orientation of governments (representing various segments of society), but that of lack of professionalism and ad-hoc pragmatic solutions politicians accept under the pressure of different interest groups. Public policy is not guided by clear and firmly set principles, which would characterize the ideas of the political representatives regarding the role of the nonprofit sector in society, the method of its consolidation, and building civil society. It is evident that none of the governing political representatives has, so far, crafted an integral concept for developing the nonprofit sector. Until now, they even have not tried to systematically collect and master the relevant information about the issues of its development.³⁵

The lack of knowledge shown by public officials is very dangerous for the nonprofit sector. It enables the spread of odd myths about it and the degradation of its status in society. In the postcommunist countries in Central Europe in the public discourse about the nonprofit sector, two so-called "relic" myths linked to two basic ideological streams established on the postcommunist political scene were combined. The first one, born in the neoliberal environment, believes that the nonprofit sector is solely the sphere of the voluntary and is entirely economically independent of the state and that, therefore, state subsidies to NPOs are a relic of the communist era. The other myth, emerging from social-democratic ideology, says that the

34 For example, "... (R)egulation at the constitutional level can be significantly different from actual policy at the operational level" (Kuti, 1999: 194).

35 It should be added that the situation recently is becoming slightly better. See for example the support of the Czech government to creating the document: "Strategy for Development of the Non-Profit Sector" (Frič et al., 2000), or the Hungarian government's document: "Civil strategy of the Government" (2002).

welfare state is a universal tool to solve social problems and that NPOs are only the relic of the efforts of outdated, traditional societies to come to terms with their own problems. Therefore, they are perceived as an archaic method of tackling social problems, which can play at most a complementary function to the institutions of the welfare state. The nationalistic ideological stream also played the myth-creating role concerning the nonprofit sector, with its representatives thinking that NPOs (above all foundations) are the Trojan horse of multinational corporations or other foreign “enemies of their national state”.³⁶ Obviously, some politicians contribute to the nonprofit mythology, who, e.g., saw in the nonprofit feature of NPOs their parasitic character (“If nonprofit, they must live from the profit of others!”), saw in it a threat of return of collectivism, and expected that NPOs would undermine the foundations of the emerging market economy. Uninformed citizens and public officials could easily give in to these myths. As such, it is hardly surprising that Eva Kutí (1999: 194f.) thinks that the lack of information about the nonprofit sector is “more dangerous and harmful than the occasional political attacks against it”.

In a situation in which the desired data are unavailable and there is, in fact, little interest in them when all kinds of rumors about misusing NPOs and myths about their position in society are widely spread, it cannot be expected that the public policy toward NPOs would resist the pressures of opposite tendencies and have a consistent shape. But why is it so? From where does the lack of interest of the representatives of political parties and governmental institutions spring? The answer to these questions was already indicated in the prior analysis of building the political system and forming the style of governing. The verbally helpful but practically reserved and sometimes almost unfriendly attitude is a logical consequence of being aware of their own specific party interests and chosen technocratic style of governing. The lack of consistency of the policy toward NPOs is thus an outcome of an in reality very consistent attitude of political elites that could be called party pragmatism, i.e., an effort to act as economically as possible in the election term.

Partnership?

Is the attitude of the government and party leaders in the Central European postcommunist countries the cause of the conflict between NPOs and public administration, or is it cooperation that prevails? The answer is clear:

36 E.g., in Slovakia at the time of the Vladimír Mečiar government, even the state's secret service (SIS) was involved in the anti-state (against Slovakia) activity of foundations (Bútora et al., 1995: 186).

cooperation prevails everywhere (Frič, 2000; Glinski, 1999; Kuti, 2000). In fact, with the exception of a short period during the Mečiar government in Slovakia, in none of the countries did the conflict in the relations between the state and NPOs play a dominant role. The concept of civil society as the vital power not opposing the state, but rather cooperating with it, gradually became strongly embedded among politicians, officials and the general public. Can it therefore be assumed that there exists a partnership relation between the state and NPOs in this region? And when not, for what kind of model of partnership do NPOs actually strive? Most authors involved in analyzing the functioning of NPOs in the region admit that the situation has improved over time, but do not think this relationship is a full partnership yet. Not even the representatives of NPOs would say it is, in spite of often admitting that in fact they themselves do not know or cannot agree on what the partnership relation with the state should look like (Frič, 2000).

According to Salamon and Anheier (1994: 104), there exist in principle three functioning models of partnership. They called the first one the “German corporative model”, in which several associations of NPOs formed a formal, cooperative body the government is obliged to consult with in questions relating to all main social areas. The second is the “American model of interest groups,” which through lobbying gives individual NPOs significant opportunities to influence the results of the legislative process, but only in an ad hoc, formally non-codified method. The third model, called the “model of program cooperation”, is evident in Great Britain and requires a joint, umbrella organization negotiating the goals and conditions of meeting the program by the state.

It could be said that older NPOs tend to prefer the corporative model, and new NPOs so far cannot agree which model is better for the nonprofit sector. Today, those closest to realizing their ideas about cooperating with the state tend to be the old NPOs. Nevertheless, for both new and old NPOs, it is hard to enforce the partnership, even in spite of the pressures coming from the European Union in the form of annual assessments. No one will publicly admit doubts about the principle of partnership, but in practice the governments of the postcommunist countries in Central Europe continue to overlook NPOs “as meaningful social partners in service delivery and in formulating public policy agendas...” (Leś, 1999: 2). The lack of formally guaranteed program cooperation is particularly acute.

“With very few exceptions, there are no legal regulations ensuring non-governmental organizations’ participation in the process of drafting and passing administrative decisions, in process of formulating development objectives or mapping social needs ...” (Glinski, 1999: 18).

The lack of program partnership leaves the cooperation between NPOs and the state dependent “on the benevolence or preference of officials” (Glinski, 1999: 18) and opens a wide space for cronyism (Frič, 2000).

As Martin Bútorá noted (1995: 20), the balanced and equal partnership between the state and the nonprofit sector is hard to build in a country strongly affected by the tradition of state paternalism. The already mentioned tendency of public officials toward centralism is derived from this tradition, ultimately hindering the development of partnership relations mainly at the local level. The principle of subsidiarity has not yet become a firm part of political culture in the postcommunist countries of Central Europe. Public officials fully accept it verbally, but their actions do not agree.³⁷ Often it is sheer formalism with none of the desired content.³⁸ This is accordingly reflected in the activity of local government. In spite of really very broad cooperation with NPOs,³⁹ local government officials "... often do not understand the role played by NGOs, and NGOs often perceive local government actions negatively, feeling that they are being used instrumentally" (Regulska, 1999: 187). Over time, negative stereotypes emerged on the part of both sides. NPOs often perceive official authorities as bureaucrats not serving the public but the state. On the other hand, the representatives of NPOs are in the eyes of local government authorities sometimes only naive amateurs (or even extremists), who make them unnecessarily more busy (Frič, 2000: 54ff.). In the past several years a positive trend toward overcoming these negative stereotypes has been observed. However, it is a very slow process and faces many barriers (Gliński, 1999: 23f.). One of these barriers is the mutual lack of information about the functioning of democracy. The local government authorities do not know the role NPOs play in the expanded democratic system and know nothing about the possibilities of social participation techniques, direct democracy and civil consultations. On the other hand, the representatives of NPOs do not know how the local authority mechanisms operate or which legal regulations are valid in the area (Gliński, 1999: 25).

37 "... (S)ubsidiarity principles are not rooted in the Hungarian political culture. They are imported, they represent an attractive element of the recently developed vocabulary which fits, in the best case, in the ideology, but not in the behavioral patterns of the government" (Kuti, 2000: 30). "At current, the principle of subsidiarity is rather a part of the democratic rhetoric than a real vehicle of social welfare reform" (Leś, 1999: 1).

38 "When some tasks of the state administration were transferred to towns and local governments, that is, formally beyond the reach of the state power, the new holders of authorities and power were not ensured enough money to be able to execute their competencies" (Bútorá, 1995: 20).

39 See Frič (2000: 35), Gliński (1999: 22f.), Kuti (2000: 26f.) and Regulska (1999: 186).

4. Consolidation of the Nonprofit Sector

The above reveals that the political developments in the Central European postcommunist countries after 1989 had a significant impact on the fate of the nonprofit sector in this region. Unfortunately, the consequences for NPOs were not always only positive. The political culture here did not develop that rapidly, since it was necessary to solve the urgent problems of social transformation. Political decision makers were and still are afraid of letting NPOs enter into politics, consistently enforce free competition in public services, and cancel the cronies' relations with old NPOs. The reason is that it suited their narrowly conceived party interests. The often intoned "lack of political will" to solve the current problems of NPOs is just the euphemism helping cover the real face of postcommunist politics. The "lack of political will" is not a consequence of the inability of politicians to cope with the demanding task they set up themselves. It is a logical consequence of the common method of executing politics in this region. In fact, in relation to the nonprofit sector, "big politics" failed! It does not sufficiently fulfill its role as facilitator of the sector's development. The fact that the nonprofit sector is in crisis, or, in several crises at once (as described by Eva Kuti)⁴⁰ or that it has run into the limits of its inner development (as mentioned by Polish authors)⁴¹ is not only a function of in-house problems caused by NPO leaders as such. It is mainly a consequence of long-standing problems relating to the effectiveness of its operating framework (primarily funding and legal regulation of NPO operations), the "treatment" of which falls within the political sphere. It was the state controlled by the Communist Party that robbed the nonprofit sector of the most precious values: tradition, authenticity and property. Today the state controlled by democratic elites boasts condescendingly that it contributes annually a not insignificant amount to the development of the nonprofit sector out of the state budget, even though this sum is only a fraction of what the nonprofit sector could have earned off its own resources had the state not robbed it of them half a century ago.

There is no doubt that, after the long period of non-organic development, the nonprofit sector needs to consolidate its position in society. In the author's opinion there is also no doubt about the "lack of political will" causing a serious delay in the nonprofit sector's consolidation. The question is how to find enough political will to solve the problems of nonprofit sector. It would certainly be naive to expect that political parties would recognize on their own the importance of the need to consolidate the nonprofit sector. The

40 In relation with the four Visegrad countries, Kuti (1999) mentions fiscal, economic, effectiveness, identity and legitimacy crises. See also the Hungarian Country Profile in this volume.

41 See: Leś/Nalecz/Wyngański (2000: 21).

only way is to try – using inner strength – to overcome the nonprofit sector's "identity crisis" and materialize the vision of its conversion into a social actor able to defend its own interests. It means that the nonprofit sector must be able to conceptually prepare, organize, facilitate, coordinate, and moderate the changes within it. At the same time it will be necessary to reconcile the efforts of many individual NPOs, their branch or regional groups, coalitions, associations or umbrella organizations so that they would work in synergy. To act as social actor means formulating and defending the sector's interests through joint activities engaging a larger number of NPOs. Without that, the identity of the nonprofit sector remains inconsistent, and the sector as a whole is not able to act as a partner not only at the central social level, i.e., mainly with the central government, ministries and parliament, but also at the regional and local levels.

Suggested readings

- Anheier, H.K./Seibel, W. (1998): The Nonprofit Sector and the Transformation of Societies: A Comparative Analysis of East Germany, Poland and Hungary. In: Powell, W.W./Clemens, E.S. (eds.) *Private Action and the Public Good*. New Haven and London, pp. 177 – 189
- Kuti, E. (1999): Different Eastern European Countries at Different Crossroads. In: *VOLUNTAS*, Vol. 10, Nr. 1
- Frič, P. et al. (2001): *Corruption Climate: Central and Eastern Europe*. Prague

References

- Ágh, A. (1996): Political Culture and System Change in Hungary. In: Plasser F./Pribersky, A. (eds.): *Political Culture in East Central Europe*. Avebury
- Ágh, A. (1994): After Four Years: The General Situation in Hungary in 1994. Budapest. *Papers on Democratic Transition*, Nr. 88, Hungarian Center for Democracy Studies Foundation, University of Economics. Budapest
- Ágh, A. (1992): The Emerging Party System in East Central Europe. Budapest, *Papers on Democratic Transition*, No. 13, Hungarian Center for Democracy Studies Foundation, University of Economics. Budapest
- Beck, U. (1994): The Reinvention of Politics: Towards a Theory of Reflexive Modernization. In: Beck, U./Giddens, A./Lash, S. (eds.): *Reflexive Modernization. Politics, Tradition and Aesthetics in the Modern Social Order*. Cambridge
- Bozóki, A. (1992): *Democrats Against Democracy? Civil Protest in Hungary Since 1990*. Paper presented to the Annual Conference of the British Sociological Association, Canterbury: April 1992

- Bútora, M. (1995): Spoločenské pozadie rozvoja tretieho sektora. In: Bútora, M./Fialová, Z. (eds.): *Neziskový sektor a dobrovoľníctvo na Slovensku*. Bratislava
- Bútora, M. et al. (1996): Tretí sektor, dobrovoľníctvo a mimovládne organizácie na Slovensku (1995- jar 1996). In: Bútora, M./Hunčík, P. (eds.): *Slovensko 1995*. Bratislava
- Civil strategy ... (2002): *Civil Strategy of the Government*. Budapest: Office of Government Information Technology and Civil Relations
- Cox, T./Vass L. (1995): *Civil Society and Interest Representation in Hungarian Political Development*. In: *Hungary: the Politics of Transition*. Budapest
- Deakin, N./Taylor, M. (2001): *Citizenship, Civil Society and Governance*. (Paper presented at the conference "The third sector from a European perspective" held at University of Trento, Italy 15-15 December 2001)
- EUROBAROMETER (2002): *Candidate Countries Eurobarometer 2001*, March 2002. (http://europa.eu.int/comm/public_opinion)
- Fialová, Z. (1995): Súčasný stav tretieho sektora. In: Bútora, M./Fialová, Z. (eds.): *Neziskový sektor a dobrovoľníctvo na Slovensku*. Bratislava
- Fink-Hafner, D. (1996): *Political Culture in a Context of Democratic Transition. Slovenia in Comparison with other Post-Socialistic Countries*. In: Plasser, F./Pribersky, A. (eds.): *Political Culture in East Central Europe*. Avebury
- Frentzel-Zagórska, J. (1991): *Two Phases of Transition from Communism to Democracy in Poland and Hungary*. In: *Sisyphus: Sociological Studies*, Vol. VII
- Frič, P. (2001a): *Korupce ve světě postkomunistických zemí. (Výsledky mezinárodního výzkumu korupce v 11 zemích střední a východní Evropy)*. Prague
- Frič, P. (2001b): *Dárcovství a dobrovolnictví v České republice: Výsledky výzkumu NROS a AGNES*. Prague
- Frič, P. (2000): *Neziskové organizace a ovlivňování veřejné politiky: Rozhovory o neziskovém sektoru II*. Prague
- Frič, P. et al. (2000): *Strategy for Development of the Non-Profit Sector*. Prague
- Freiová, M. (1994): *Neziskový sektor v politickém pohledu*. In: *EMP*, Vol. III
- Gliński, P. (1999): *The Development of the Third Sector in Poland: The Relationship between the Third Sector and Other Sectors*. (Paper presented at the Third Sector in Central and Eastern Europe. Prague, October 15-16, 1999)
- Habermas, J. (1990): *Die nachholende Revolution*. Frankfurt/M
- Katz, R.S./Mair, P. (1996): *Changing Models of Party Organization and Party Democracy: The Emergence of the Cartel Party*. In: *Party Politics*, Vol. 1, Issue 1
- Kavan, Z. (1999): *Democracy, Civil Society and Citizenship in Central Eastern Europe*. (Paper presented at the Third Sector in Central and Eastern Europe. Prague, October 15-16, 1999)
- Kolarska-Bobińska, L. (1990): *Civil Society and Social Anomy in Poland*. In: *Acta Sociologica* 1990, Vol.33, Nr. 4
- Kuti, E./Králík, M./Barabás, M. (2000): *NGO Stock-Taking in Hungary*. Budapest: The International Bank for Reconstruction and Development/The World Bank Regional Office Hungary
- Leś, E. (1999): *Is the Principle of Subsidiarity Suitable for Central Europe? The Polish Case*. (Paper presented at the Third Sector in Central and Eastern Europe. Prague, October 15-16, 1999)

- Leś, E. (1994): *The Voluntary Sector in Post-Communist East Central Europe*. Washington DC
- Leś, E./Nalecz, S./Wygnański, J. (2000): *Defining the Nonprofit Sector: Poland*. In: Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project. Baltimore
- Machonin, P./Tuček, M. (2002): Zrod a další vývoj nových elit v České republice (od konce osmdesátých let 20. století do jara 2002). *Sociological Papers*, Institute of Sociology, Academy of Sciences of the Czech Republic, SP 02:1
- Marody, M. (1987): *Antynomie społecznej świadomości*. (Antinomies of Social Consciousness). Odra, Wrocław, 1
- Miháliková, S. (1996): *Understanding Slovak Political Culture*. In: Plasser, F./Pribersky, A. (eds) *Political Culture in East Central Europe*. Avebury
- Miháliková, S. (1993): *The End of Illusions: Democracy in Post-Communist Slovakia*. Paper presented at the Seminar on Constitutionalism and Politics, Piešťany, November 11-14
- Morawski, W. (1991): *Democracy and the Market on the Treshold of the Great Transformation*. In: *Sisyphus: Sociological Studies*, Vol. VII
- Müller, K. (2001): *Komplexní transformace*. In: Adamski, W./Machonin, P./Zapf, W.: *Transformace a Modernizační výzvy: Česko, Německo, Maďarsko, Polsko, Slovensko*. Prague
- Osiatyński, W. (1998): *O potrebe vízie spoločenského dobra*. In: OS – fórum občianskej spoločnosti. Apríl 1998/4
- Pithart, P. (2002): *Tretí střídání*. (http://www.arts.gla.ac.uk/Slavonic/staff/Pithart_volby.html)
- Pithart, P. (1996): *Rival Visions*. In: *Journal of Democracy*, Vol. 7, Nr. 1, January
- Plasser, F./Ullram, P. (1996): *Measuring Political Culture in East Central Europe: Political Trust and System Support*. In: Plasser, F./Pribersky, A. (eds.): *Political Culture in East Central Europe*. Avebury
- Potůček, M. (1997): *Problémy zrodu občanského sektoru v České republice po roce 1989*. *Bulletin ICN*, 1997, Vol V., č. 10
- Regulska, J. (1999): *NGOs and Their Vulnerabilities During the Time of Transition: The Case of Poland*. In: *VOLUNTAS*, Vol. 10, Nr. 1
- Salamon, L.M. (1999): *The Nonprofit Sector at a Crossroads: The Case of America*. In: *VOLUNTAS*, Vol. 10, No. 1
- Salamon, L.M./Anheier, H.K. (1994): *The Emerging Sector. The Nonprofit Sector in Comparative perspective – An Overview*. Baltimore
- Siegel, D./Yancey, J. (1996): *The Development of a Regional Center for Nonprofit Education and Development*. Indiana University Center on Philanthropy, Eastern European Initiative. (Discussion Paper)
- Siegel, D./Yancey, J. (1993): *Znovuzrodenie občianskej spoločnosti: Rozvoj neziskového sektoru v strednej a východnej Európe a úloha západnej pomoci*. New York
- Staniszki, J. (1991): *Challenges to Pluralism and Democracy in Eastern Europe: Views from Inside and Outside*. In: *Sisyphus: Sociological Studies*, Vol. VII
- Stein, R. (1994): *The Not-for-Profit Sector in The Czech Republic*. Prague
- Strmiska, Z. (1993): *Socio-politické kultury a postoje v podmínkách ekonomické přeměny ve střední a východní Evropě*. In: *Politická a ekonomická transformace v zemích střední a východní Evropy*. Nr. 3. Prague

- Večerník, J. (1993): Utváření nové sociální regulace v Československu. In: Politická a ekonomická transformace v zemích střední a východní Evropy Nr. 3. Prague
- Wnuk-Lipiński, A. (1991): Challenges to Pluralism and Democracy in Eastern Europe: Views from Inside and Outside. In: Sisyphus: Sociological Studies, Vol. VII
- Wygnański, J.J. (1995): Czym jest Trzeci Sektor w Polsce? (What is the Third Sector in Poland?). Paper prepared for the seminar „Building Civil Society: Role of Non-governmental Organizations in Poland“. Republic of Poland Senate, June 12, Warsaw

Part III:

Central Topics of Nonprofit Management

Introduction

Issues of the management of NPOs are gaining importance. The size and societal significance of NPOs, together with growing competition and financial constraints, are pressuring organizations to use their resources in an effective and efficient way. Thus questions concerning the management of NPOs are attracting more attention, which is also reflected in the expanding field of literature on NPO management. Nevertheless, so far there exists no systematic theory of NPO management.

The chapters of this section intend to introduce and discuss important areas of business administration strategies and tools that are suitable for use in NPOs. They will give a short overview about important tools also for readers who have not specialized in the specific areas of management. Therefore they will both introduce these strategies and tools in a practicable way and give hints regarding NPO-specific questions. Thus, since in many cases it would not be reasonable just to transfer concepts from the forprofit world to NPOs, a central question of all chapters will be how NPOs can use these strategies and tools to their advantage and which adaptations are required for this purpose.

Readers must be aware that the field of NPOs is very heterogeneous. Therefore often it is not possible to make general assumptions. It might well be that some of the suggested tools or some of the assumed specifics of NPOs are not applicable for all kinds of NPOs. However, the section was assembled with a view to collecting chapters of high relevance for most NPOs. Overall, the chapters of this section cover the core functions of management.

Generally nonprofit research is based on the assumption that the non-profit status implies particular organizational characteristics such as less means-rationality, a higher degree of both value-based and participatory decision-making, or a lower degree of effectiveness. Seibel has called this phenomenon "functional dilettantism" (1992). He argues that due to a lack of evaluation criteria and goal specification in NPOs, a failure of coordination and control is rather the norm than the exception.

Managerial sciences in particular, which are oriented toward ideal-type forprofit organizations, tend to ascribe severe deficits to NPOs, for example, the lack of means-rationality, of formality, or of efficiency (Horak, 1999; Burgess/Wilson, 1996). This criticism might simply reflect ideological views of how organizations should ideally work and an inherent tendency to

overestimate organizational rationality in forprofit organizations.¹ Nevertheless it may hold some truth, pointing towards inefficiencies and counterproductive modes of operation in nonprofit organizations.

Business administration sciences have developed a set of tools to improve the performance of organizations. Their goal is mainly the development of usable knowledge, i.e., tasks and models that offer managers support for decision-making to improve the efficiency and competitive strength of organizations. Thus, it would be important for NPOs to use these tools in an adequate way to meet the demands they face.

Nevertheless, the logics and instruments of business administration somehow seem strange in the context of NPOs. Business administration and NPOs partly exist at a certain distance, and one may even get the impression that the two are irreconcilable by nature. In some aspects this is not surprising: The philosophy of business management and its instruments have been developed in large parts with forprofit organizations in mind. Although in management sciences NPO research is the most quickly increasing field, most of these works reflect a very undifferentiated approach, and existing tools are applied to NPOs without regard to specific conditions of NPOs (Merchel, 1995; Scheuch, 1999). As a consequence business management and its instruments show little orientation toward NPOs in style and content. One example of a less-than-useful approach is the tendency in existing quality and performance measurement models to attach excessive importance to quantifiable activities described in economic terms (see Matul et al., 1997; Moss Kanter et al., 1987; Murray et al., 1994).

NPOs for their part are less experienced in applying this type of rationality. There is also a tendency among NPOs to set themselves deliberately apart from forprofit organizations, which in some instances leads them to reject the logic of success associated with the world of forprofit business (Horak et al., 1999). Given the undifferentiated way in which managerial tools are often applied, this aversion may be well founded. The transposition of business performance logic to the NPO world can easily lead to inadequate results. The main reasons for this are the unprofessional use of these tools and the disregard for the unique character of many NPOs as organizations in which different interest groups with specific, often contradictory, expectations are involved.

Thus, the spirit of this section is based on two notions. One is the principle of organizational effectiveness, which is drawn from business administration. The other is the assumption that, due to characteristic features

1 For approaches that challenge the ascription of high rationality in forprofit organizations, see for instance Cyert/March (1963), March (1990), Weick (1985) or research on the basis of institutionalist approaches like Meyer/Rowan (1977); Meyer (1994); DiMaggio/Powell (1991; 1991a).

of NPOs, the management of these organizations is faced with specific and often particularly high demands and challenges. Both aspects shall be explained briefly in the following.

Organizational Effectiveness and the Philosophy of Business Administration

Business administration sciences largely derive from the premise that the primary objective of any enterprise is to earn profits. This presupposes that a political process between several stakeholder groups has been clearly decided in favor of the enterprise's owners. If predominantly those business administration criteria that derive from the dominance of the profit principle are applied, the nature of NPOs as organizations in which diverse interests participate and where the relative weight of these groups has not been decided in advance is ignored.

Thus, as groundwork for further considerations, the basic principles of business administration, i.e., the principle of operational efficiency and the principle of profit-orientation (Gutenberg, 1962: 340ff.), will be briefly outlined. They are sometimes confused or equated with each other in debates about the usefulness of business administration instruments in NPO management, and this has contributed to the problems that some NPOs have in applying them.

Operational efficiency refers to the combination of factors of production such as human labor, operating resources and materials within the framework of the operational production processes. In terms of operational efficiency, the combination of factors is optimal, if a given input of productive factors brings forth a maximum of goods or services, or vice versa, if a given volume of goods or services is produced using a minimum of productive factors. Adherence to this principle leads to the most economical use of resources. Thus, operational efficiency is a measure of the relationship between input and output and can be described in technical and financial terms.

The profit principle requires that a given financial input produces maximum profit, return or interest. In many cases, profit will be increased by achieving operational efficiency, but in some cases, profit will be increased despite working against or not adhering to the principle of operational efficiency. According to Gutenberg, the profit principle applies only to one type of organization: capitalist enterprises operating in market economies (Gutenberg, 1962: 356).

The principle of operational efficiency should be interpreted as a general expression of economic rationality. As such, it is of vital importance for any type of organization. It can also be regarded as an ethical principle of economic activity or a general principle of rationality which requires that

resources be used economically to achieve the desired objectives. In this light, operational efficiency is certainly highly relevant for NPOs. For example, NPOs can apply it in organizing the processes for the provision of services, i.e., to provide the desired service in the desired quantity and quality with the smallest possible use of resources, or – and this is probably more often the case with NPOs – to use the available, limited resources to produce maximum output in quantity or quality.

The profit principle per se is generally not relevant for NPOs. However, in a restricted version, it is necessary for all NPO activities: This restricted version requires that NPO revenues and expenditures be at least balanced over the long term, if revenues do not exceed expenditures. NPOs that do not meet this requirement jeopardize their economic viability, not to mention potential liability claims against their management.

Nevertheless, the instruments and methods that are based on the profit principle and relate to capitalist enterprises in the world of market economy cannot be applied to NPOs without modifications. Different stake-holders might rightly fear that the nature of an NPO may be distorted, if it is to be managed according to profit-oriented performance criteria.

Organizational Conditions in NPOs – Challenges for Management

Due to the heterogeneity of NPOs, it is very difficult to make general claims concerning their organizational features. They operate on the basis of different organizational structures and procedures, depending on their type (membership, service, advocacy, and support organizations), size, financial resources, culture, and history. The degree of centrality and hierarchy varies significantly, too.

Results of NPO research reflect this heterogeneity. Yet, the findings of organizational research may be summed up, very briefly, as follows: Differences between NPOs and other organizations cannot be regarded as absolute (Simsa, 2001), and tendencies of isomorphism of NPOs and other organizations have been observed under certain conditions (Moss Kanter/Summers, 1987; Horak, 1999; DiMaggio, 1987; Dees, 1998). However, those investigations describing the specifics of NPOs indicate in two aspects a homogeneity that is surprising in view of the heterogeneity of these organizations (e.g., Zauner, 1999; Herman/Renz, 1997; Flecker/Simsa, 2001; Feeney, 1997; Zauner/Simsa, 1999; Brown, 1988; Powell, 1987; DiMaggio, 1987; Seibel, 1992; Ryan, 1999).

First, many NPOs are affected by organizational inconsistencies to a particularly high degree and they have fewer options than other organizations to solve these inconsistencies through the prioritization of one logic. Reasons for this can be ascribed to their multi-dimensional role within society and to

their need to meet the often conflicting expectations of many and diverse groups of stakeholders. Analyzing empirical data on stakeholder judgments about the efficiency of nonprofit organizations, Herman and Renz concluded that NPOs must be seen fundamentally as multiple stakeholder organizations (1997, see also Bogart, 1995). Thus, while all organizations face dilemmas and contradictory expectations, nonprofit organizations have fewer possibilities to handle these problems since they cannot refer to one dominant external relationship. Second, there are many indications that ideologies have a specifically high impact on these organizations.

As a consequence of these specific features, the management of NPOs has to meet uniquely difficult challenges. For example, strategic decisions in NPOs are generally made through a highly political process that involves various internal and external stakeholders. The high importance of ideologies, to give another example, might be a basis for commitment and motivation of employees, but, on the other hand, it often fosters a certain resistance against formal structures and thus against management and its decisions. Organizational inconsistencies arising from diverse stakeholder interests are often reflected in difficulties of NPOs to define and measure success, or in the specifically high ambiguity and heterogeneity (sometimes even inconsistency) of goals in NPOs (DiMaggio, 1987; Horak/Matul/Scheuch, 1999).

The examples given here are necessarily short and random. Nevertheless, they will hint that the NPO world is a very special world that in some aspects needs a special attitude and management ability as well as special adaptations of some of the instruments of business administration. The following chapters will reflect this philosophy. They will refer not only to specific instruments or tools of business administration but also to characteristic features of NPOs that are relevant in the respective field of management. The general aim of this section, therefore, is to supply NPOs with information that helps them to fulfill their vital role in society in an efficient and effective way.

References

- Badelt, Ch. (ed.) (2002): Handbuch der Nonprofit Organisation. Stuttgart
- Bogart, W. (1995): Accountability and Nonprofit Organizations. An Economic Perspective. In: Nonprofit Management and Leadership, Vol. 6, No. 2, pp. 54-69
- Burgess, J.F./Wilson, P. (1996): Hospital Ownership and Technical Inefficiency. In: Management Science, Vol. 42, No. 1, pp. 110-123
- Cyert, R.M./March, J.G. (1963): A Behavioral Theory of the Firm. New Jersey
- Dees, G. (1998): Enterprising Nonprofits. In: Harvard Business Review, Vol. 76, No. 1, pp. 54-69

- DiMaggio, P. (1987): Nonprofit Organizations in the Production and Distribution of Culture. In: Powell, W.W. (ed.): *The Nonprofit Sector. A Research Handbook*. New Haven
- DiMaggio, P.J./Powell, W.W. (1991): The Iron Cage Revisted. Institutional Isomorphism and Collective Rationality in Organizational Fields. In: Powell, W.W./DiMaggio, P.J.: *The New Institutionalism in Organizational Analysis*. London
- Feeney, S. (1997): Shifting the Prism: Case Explications of Institutional Analysis in Nonprofit Organizations. In: *Nonprofit and Voluntary Sector Quarterly*, Vol. 26, No. 4, pp.34-49
- Flecker, J./Simsa, R. (2001): Transnational Coordination and Control in Business and in Nonprofit-Organizations. In: Pries, L. (ed.): *New Transnational Social Spaces. International Migration and Transnational Companies*. London
- Gutenberg, E. (1962): *Grundlagen der Betriebswirtschaftslehre*. 1. Band: Die Produktion. Berlin et al.
- Herman, R.D./Renz, D.O. (1997): Multiple Constituencies and the Social Construction of Nonprofit Organization Effectiveness. In: *Nonprofit and Voluntary Sector Quarterly*, Vol. 26, No. 2, pp. 185-206
- Horak, Ch. et al. (1999): Management von NPOs – Eine Einführung. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organisation*. Stuttgart
- March, J.G. (1990): Entscheidung und Organisation. Kritische und konstruktive Beiträge, Entwicklungen und Perspektiven. Wiesbaden
- Matul, Ch./Scharitzer, D. (1997): Qualität der Leistungen in NPOs. In: Badelt, Ch. (ed.): *Handbuch der Non-Profit-Organisation*. Stuttgart
- Merchel, J. (1995): Sozialmanagement. Problembewältigung mit Placebo-Effekt oder Strategie zur Reorganisation der Wohlfahrtsverbände? In: Rauschenbach, T./Sachße, Ch./Olk, T.: *Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch*. Frankfurt/M
- Meyer, J.W. (1994): Rationalized Environments. In: Scott, W.R./Meyer, J.W.: *Institutional Environments and Organizations. Structural Complexity and Individualism*. London et al.
- Meyer, J.W./Rowan, B. (1977): Institutionalized Organizations. Formal Structure as Myth and Ceremony. In: *American Journal of Sociology*, Vol. 83, pp. 340-363
- Moss Kanter, R./Summers, D. (1987): Doing Well while Doing Good: Dilemmas of Performance Measurement in Nonprofit Organizations and the Need for a Multiple-Constituency Approach. In: Powell, W.W. (ed.): *The Nonprofit Sector. A Research Handbook*. New Haven
- Murray, V./Tassie, B. (1994): Evaluating the Effectiveness of Nonprofit Organizations. In: Herman, R.: *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco
- Powell, W.W. (ed.) (1987): *The Nonprofit Sector. A Research Handbook*. New Haven
- Ryan, W. (1999): The New Landscape of Nonprofits. In: *Harvard Business Review*, Vol. 77, No. 1, pp. 127-136
- Scheuch, F. (1999): Gemeinnützigkeit oder Gewinnstreben? Nonprofit Organisationen aus betriebswirtschaftlicher Sicht. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organisation*. Stuttgart
- Seibel, W. (1992): Funktionaler Dilettantismus. Erfolgreich scheiternde Organisationen im „Dritten Sektor“ zwischen Markt und Staat. Baden-Baden

- Simsa, R. (2001): Gesellschaftliche Funktionen und Einflußformen von Nonprofit-Organisationen. Eine systemtheoretische Analyse. Frankfurt/M et al.
- Simsa, R. (ed.) (2001): Management der Zivilgesellschaft. Gesellschaftliche Herausforderungen und organisationale Antworten. Stuttgart
- Weick, K. (1985): Der Prozess des Organisierens. Frankfurt/M
- Zauner, A. (1999): Von Solidarität zu Wissen. Nonprofit Organisationen aus systemtheoretischer Sicht. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Stuttgart
- Zauner, A./Simsa, R. (1999): Konfliktmanagement in NPOs. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Stuttgart

Organizational Theory and Nonprofit Management: An Overview

1. Introduction

Over the past decade or so, there has been a perceptible increase of interest in, and need for, management knowledge, skills, and training that are specific to the characteristics of charitable, nongovernmental or nonprofit organizations (NPOs). To a large extent, this has been due to significant changes in the institutional environments in which nonprofits operate. In much of the West, the purported failure and prophesied end of the traditional welfare state (Pierson, 1991) in combination with the economic recession of the 1970s led to fiscal retrenchment and growing interest in private, more market-oriented approaches to the production and delivery of collective services beginning in the 1980s. In the East, the end of state socialism in the late 1980s triggered similar changes, perhaps only more rapidly and with less institutional inertia.

As a result, Western nonprofits have seen a slow decline of the traditional societal arrangements that protected their particular niches in the overall welfare system, and Eastern nonprofits faced the challenge of developing their niches and societal position in the context of the overwhelming tug-of-war between the state and the market after 1989. All in all, greater environmental turbulence and complexity in terms of funding and cross-sectoral partnership arrangements, for example, raised awareness for the need of a more professionalized approach to nonprofit management.

In the context of state retrenchment, the post-1989 resurgence of civil society concepts and the current wave of neo-Tocquevillian thought (Edwards/Foley, 1998), triggered by Robert Putnam's theses on social capital (1993; 2000), placed the spotlight on nonprofits and led to a worldwide increase in the visibility of the sector, but also brought a new set of challenges and expectations (Anheier/Kendall, 2001). In a way, this has been both a boon and a bane. While favorable political rhetoric and expressions of support for the sector have increased, so has public scrutiny and critical media coverage of misconduct and management scandals in nonprofits (Gibelman/Gelman, 2001). What is more, the neo-Tocquevillian vision of civic activities is not easily reconciled with the increasingly complex and competitive management reality of nonprofit service providers in particular.

A misfit between new political visions and organizational realities brings with it the potential for eventual public disillusionment and the risk of political backlash. This in turn makes it harder for nonprofit managers to find their way around the new and at times conflicting demands and expectations that they are facing. Moreover, the diversity of the sector—ranging from small grassroots clubs to highly professionalized hospitals—and the newness of the emerging management needs further complicate the *sui generis* development of a coherent nonprofit management science.

Accordingly, nonprofit management thinking has been subject to various ideas and concepts emanating either from the business world or public administration. The privatization and new public management strands in the government sector (Kettl, 2000; Reichard, 2001) have brought to nonprofit management concerns about, among others, outcomes versus outputs, efficiency versus effectiveness, as well as accountability and performance measurement. Business administration contributed *inter alia* an increased consumer orientation (Drucker, 1990), marketing management concepts (Kotler/Andreasen, 1991), and most recently a focus on social entrepreneurship (Borzaga/Santuari, 1998; Borzaga/Defourny, 2001; Dees/Emerson, 2001). These various concepts and pressures have led to a number of competing tides of nonprofit management reforms (Light, 2000) on the one hand. On the other, they have so far prevented the development of generally accepted, comprehensive management models that are distinctly different from those of business and public administration and go substantially beyond the discussion of typical nonprofit management tasks and issues.

2. Special Functions of Nonprofits and Structural Differences between Nonprofits, For-Profits and Public Agencies

Given this background, the question arises as to why the evolution of a specific nonprofit management science is necessary or desirable in the first place. To the extent that NPOs were no more than an extension of government, public administration and management concepts would be sufficient to address management challenges. To the extent that nonprofits were no more than “for-profits in disguise” (Weisbrod, 1988), traditional business administration might suffice. In the end, there are two answers to this question: firstly, nonprofit organizations may perform a set of special functions that set them apart from both government and the business sector; and

secondly, a number of structural differences exist between organizations across the three sectors that make a separate exploration of nonprofit management issues necessary.

Special Functions

Looking across NPOs in the welfare field in four developed countries, Kramer (1981) identified four key special roles or functions that NPOs tend to perform and that set them apart from the other sectors. In one form or the other, these roles appear to be applicable not only in the developed world, but in transitional and developing countries as well (Salamon/Hems/Chinnock, 2000; Edwards/Hume, 1996). Specifically, Kramer (1981) differentiates the following roles:

Vanguard Role: NPOs innovate by experimenting with and pioneering new approaches, processes or programs in service delivery. In their fields, they therefore serve as change agents. If innovations prove successful after being developed and tested by NPOs, other service providers, particularly government agencies with broader reach, may adopt them.

Value Guardian Role: Governmental agencies are frequently constrained—either on constitutional grounds or by majority will—to foster and help express diverse values that various parts of the electorate may hold. Businesses similarly do not pursue the expression of values, since this is rarely profitable. NPOs are thus the primary mechanism to promote and guard particularistic values and allow societal groups to express and promulgate religious, ideological, political, cultural, social and other views, preferences and interests. The resulting expressive diversity in society in turn contributes to pluralism and democratization.

Advocacy Role: In the political process that determines the design and contours of policies, the needs of underrepresented or discriminated groups are not always taken into account. NPOs thus fill in to give voice to the minority and particularistic interests and values they represent; and serve in turn as critics and watchdogs of government with the aim of affecting change or improvements in social and other policies.

Service Provider Role: Since government programs are typically large-scale and uniform, NPOs perform various important functions in the delivery of collective goods and services. They can be the primary service providers, where neither government nor the business sector is either willing or able to act. They can provide services that complement the service delivery of other sectors, but differ qualitatively from it. Or they can supplement essentially similar services, where the provision by government or the market is insufficient in scope or not easily affordable.

Looking across the diversity of organizational types and purposes within

the nonprofit sector, it should be understood though that individual NPOs are rarely able (or willing) to perform all four roles at the same time. Moreover, the simultaneous pursuit of multiple functions may occasionally lead to tensions that hamper rather than improve role performance (e.g., aggressive advocacy campaigns may curtail an organization's ability to receive government contracts for service delivery). In balancing such tensions, nonprofit managers should at a minimum aim for a reasonable performance of one core role.

Following the differentiation of organizational forms (membership, interest, service and support organizations), certain organizational types can be associated with respective core functions. Membership associations typically act as value guardians by primarily providing a vehicle for members to express beliefs and worldviews (e.g., religious associations) or pursue joint interests (e.g., sports and hunting clubs). Service organizations engage in the service provider and—ideally—in the vanguard roles, and interest organizations in the advocacy function. As Sachße (see bonus section on CD) rightfully notes, these core roles are quite frequently flanked by the pursuit of additional roles, such as membership organizations providing services for their members (or the public at large) or service organizations promulgating values (e.g., religiously-affiliated schools or hospitals) and advocating on behalf of the clientele for their services. Support organizations can pursue a variety of these roles, depending on their nature. For instance, a privately endowed foundation or fund may foster the specific values of the founding donor (value guardian), seek to fund innovation in service delivery (vanguard) or support independent policy research and analysis (advocacy).

Structural Differences

Beyond these broad societal functions, NPOs also tend to differ to varying degrees from both governmental agencies and businesses at the organizational level. Several analysts (including Kramer, 1981; 1987; Horch, 1992; Najam, 1996; Zimmer, 1996), have developed lists of characteristics that allow an ideal-typical comparison in Max Weber's sense of the three types of organizations. Table 1 presents a not necessarily comprehensive set of criteria to distinguish the three types of organizations. Each sector is discussed in turn.

Table 1. Ideal-typical Comparison of NPOs, Government Agencies and Businesses

	Business Firm	Government Agency	Member-serving NPO (association)	Public-serving NPO (service provider)
Objective Function	Profit-maximization	Social welfare maximization	member benefit maximization	client group benefit maximization
Outputs	Private goods	Public/collective goods	Club goods	Collective and private goods
Distribution criteria	Exchange	Equity	Solidarity	Solidarity
External Orientation	External, indiscriminate (customers)	External indiscriminate (public, citizens)	Internal, discriminate (members)	External, discriminate (targeted client groups)
Goals	Specific, clear	Complex, ambiguous	Complex, diffuse	Complex, clear
Structure	Formal	Formal	Informal	Formal
Accountability & Control	Owners/shareholders	Voters through Elected officials	Members	Board
Decision-making	Hierarchical	Indirect: democratic Direct: hierarchical	Democratic	Hierarchical
Participants	Quasi-voluntary (economic needs)	Automatic/coercive	Voluntary	Voluntary/Quasi-voluntary
Motivation	Material	Purposive	Solidaristic	Solidaristic/Purposive
Resourcing	Commercial	Coercive (taxation)	Donative	Donative/Commercial
Size	Large	Large	Small	Medium

Source: Own Table

Business Firms

At the most fundamental level, the literature suggests that the different sectors pursue fundamentally different objectives. Private firms pursue the key objective of profit maximization for owners through the production of private goods that can be sold in markets. Production is regulated by the interplay of supply and demand, and the distribution is based on exchange. Business firms are outwardly oriented toward customers and are indiscriminate in whom to serve, as long as there is a willingness to pay.

At the organizational-structural level, the bottom line measure of profit allows business firms to set clear and specific goals that are also easily monitored and measured. High goal specificity translates into clearly delineated tasks and a formalized structure. Decision-making is top-down and hierarchical, and the controlling authority is vested in the owners or shareholders to whom the organization is also primarily accountable.

Participation in business firms is voluntary, although necessitated by economic needs. Choices concerning work participation can also be understood as a managerial sorting process (Weisbrod, 1988; Steinberg, 1993) that depends on organizational objective functions and individual preferences, motivations and perceived incentives.¹ In the business context, material incentives, such as tangible, monetary rewards, dominate. Lastly, organizations across the three sectors principally differ in the way they generate financial resources. Business firms employ commercial means of financing by way of charging market prices.

Government Agencies

Government is generally concerned with optimizing overall social welfare by redistributing resources and providing for basic needs that are not otherwise met. Outputs are pure and impure public or collective goods that are not privately provided due to the free rider problem (Olson, 1965) or where market provision would lead to socially inefficient solutions. Equity and social justice are the primary distribution criteria for publicly provided goods and services. Outwardly oriented toward citizens, public services are indiscriminate, serving all who meet the respective eligibility criteria.

Government agencies lack a clear bottom line measure. Goals and mandates are both complex and ambiguous due to changing and at times conflicting political imperatives as well as interventions of outside interest groups. External accountability and the locus of control are split with public

1 There are basically three types of incentives (and corresponding types of organizations): material, solidaristic, and purposive incentives (Clark/Wilson, 1961; see also Etzioni, 1975; Mayntz, 1963 for similar organizational typologies).

agencies being ultimately accountable to the voters, while direct control is vested in elected officials that serve as the electorate's proxies. The decision-making process is thus indirectly democratic (through the election of political officials), but internally and directly hierarchical. Ambiguity and conflicting accountability lead to rules-based formalized structures (Rainey/Bozeman, 2000).

Regarding organizational participants, participation in the state is typically automatic (i.e., citizenship) and, given eligibility requirements, the same is also true for public sector agencies whether individuals choose to avail themselves of entitlements or not. In some types of public agencies, such as schools, prisons, or the military, participation is or can be also coercive. Beyond this, government agencies attract participants that respond to purposive incentives, i.e., goal-related, intangible rewards. Public agencies are predominantly financed in a coercive manner through the government's power to tax.

NPOs

Before discussing structural differences between NPOs and private firms and public agencies, it is important to introduce a caveat. Given the significant differences between nonprofit organizational types, the validity of the concept of a unified sector (and a corresponding generic approach to nonprofit management) is frequently questioned. Arguably, a large and highly professionalized nonprofit hospital and a small-scale self-help group have too little in common to be treated theoretically and managerially in a similar fashion. However, such arguments fail to take into account that differences of similar or even greater magnitude also exist within both the market (e.g., multinational corporation vs. neighborhood grocery store) and the public sector (e.g., military vs. county arts council). Nevertheless, for heuristic purposes in the context of this volume, it may be appropriate to discuss a nonprofit ideal type as well as common deviations. For the present purposes, the member-serving associations are considered as the ideal type, but structural differences with and commonalities to public-serving organizations will be highlighted briefly.²

Member-serving Associations: Associations typically aim at maximizing member benefits. Accordingly, outputs have "club good" character, and distribution is based on solidarity between members. On occasion, there may not be any tangible outputs at all. In terms of their orientation, associations are internally focused on their members and can discriminate in terms of their

2 For reasons of clarity of argument and presentation, this discussion is restricted to service organizations (in Sachße's typology on focus-CD) and omits further differentiations with interest and support organizations.

willingness to welcome and serve members.

Like public agencies, associations also lack clear-cut bottom lines. Missions tend to be broad and vague, and members may join and support the organization for a diverse set of reasons leading to complex and diffuse sets of goals. In contrast to public agencies though, associations are primarily accountable to their members who may vest limited operational control in the governing board. The proximity between membership as principal and the board as agent, however, is closer, decision-making procedures are directly democratic, and the organizational structure is informal. Participation in nonprofits is typically purely voluntary. Members participate because of intangible solidaristic incentives resulting from the act of association itself.

Ideal-typically, associations rely exclusively on membership dues and gifts for their financing, although some associations also have to draw on outside resources (e.g., sports clubs may need to rely on facilities provided by the municipality). Since donative financing is also subject to the free rider problem, nonprofits face chronic resource insufficiency issues (Salamon, 1987), which tend to restrict organizational size vis-à-vis public and business organizations.

Public-Serving Organizations: In contrast to the pure ideal-type of the membership association, public-serving nonprofits typically aim at maximizing client group benefits (e.g., the homeless, environmentalists, opera fans). To the extent that public-serving NPOs have members in the first place, any member benefits are coincidental and indirect. For example, supporting members of a nonprofit opera company help finance the public service, such as staging a performance, but may choose to attend the performance themselves. Outputs are primarily collective goods, although public-serving nonprofits also produce private goods in order to cross-subsidize their collective good provision (James, 1983; Weisbrod, 1998). While their objective function thus differs from associations, governments and businesses, outputs are closer to markets and governments than associations. However, solidarity as the primary distribution criterion is the same as with associations. Like business firms and government agencies, public-serving nonprofits are essentially externally oriented in contrast to the internal, member-orientation of associations; but like associations, they may discriminate in terms of their willingness to serve clients on grounds of faith, ideology, social status, etc.

Like associations, they also lack clear-cut bottom lines, such as profits or political mandates. Missions are frequently broad and vague as well, and institutional goals complex. Nevertheless, without having to accommodate and navigate changing membership directives and with final authority vested in small (self-perpetuating) boards, public service NPOs can define goals more clearly and implement formal organizational structures and hierarchical decision-making procedures. In these respects, public-serving nonprofits tend

to resemble firms and public agencies more than associations. However, in some cases issues of professional autonomy and equality set limits to hierarchical structures. University presidents or hospital administrators, for example, must work within the confines set by faculty or physicians and surgeons.

Participation in public-serving nonprofits is typically voluntary (volunteers) or quasi-voluntary (staff). Volunteers join because of intangible solidaristic (or altruistic) incentives, but purposive incentives—like those that prevail in government—typically motivate professional staff (e.g., religious and political groups, human rights campaigns). While these organizations may receive membership dues, the focus lies on external donative revenue, including private gifts and grants and public subsidies and contracts. To combat resource insufficiency, public-serving NPOs also fall back on commercial income by charging fees for their collective good provision, where feasible, or by offering private goods like business firms. Being thus more akin to public agencies in attracting human resources and private firms in commercially generating financial resources, public-serving nonprofits tend to be larger than member-serving associations, but do not necessarily reach the size of businesses or government bureaus.

Summary

Naturally, broadly generalized views of how public and private organizations differ—as exemplified by the ideal-typical comparison—tend to obscure the fact that in the organizational reality many of these differences may only be weak or even non-existent. It has been argued, for instance, that many commonly accepted assumptions about public agencies do not hold up to empirical comparisons with business firms (Rainey/Bozeman, 2000). Similarly, ideal-typical or “idealized” beliefs about what sets nonprofits apart are not always easily reconciled with the highly professionalized, either bureaucratic or commercialized nature of large nonprofits—as the differentiation between member- and public-serving nonprofits has shown. This, in turn, further complicates the nonprofit management and leadership challenges. Both the general public and most policymakers tend to cling to the traditional view of NPOs, which is closer to the ideal-typical model (i.e., small, informal associations, financed through dues and donations, without much broader public benefit significance), forcing nonprofit managers—particularly in public-serving organizations—to balance environmental expectations resulting from these views with organizational needs resulting from competitive pressures of the increasingly commercialized collective goods market places. Additional complexity derives from the frequently multiple pursuit of societal as suggested above.

While the ideal-typical comparison illustrates that there are similarities between nonprofits and both public agencies and business firms on a number of dimensions, these similarities cut across both sectors and thus prohibit a simple sorting of nonprofits into either public or business administration. Both apply partially, but neither fully; and nonprofits retain organizational characteristics that are specific to them. The implication for the development of management models is therefore that nonprofit management is, at the minimum, characterized by greater stakeholder, goal and structural complexity (Anheier, 2000), resulting from a push and pull between the state, market and civil society and underlining the need for a multi-faceted, organization-focused approach.

3. Organizational Theory Models

Although the literature on nonprofit management has grown considerably over the past two decades, there have been few attempts (e.g., Schwarz et al., 1999) to develop a comprehensive conceptual framework that captures both the unique features of nonprofits as well as the similarities to other organizational forms (Kramer, 2000). On the other hand, a not insubstantial number of organizational theory approaches were first developed on the basis of research on specific types of nonprofits. Among the general organizational concepts that are the most useful in illuminating aspects of nonprofit management are systems theory, contingency theory, resource dependency theory, and neo-institutionalism.

Systems Theory

Drawing on Scott's (1998) typology and discussion, organizations can be understood either as rational, natural or open systems. The rational perspective sees organizations as mechanisms constructed to purposefully pursue certain ends or goals. Goals as the focal point of organizational activity and behavior are highly specified, clearly delineated, explicit and unambiguous. Rational systems are also formalized with precise rules concerning organizational tasks and roles; and rules and formal structure are constructed in view of the goals pursued. Frederick Taylor's scientific management, Henri Fayol's public administration and Max Weber's bureaucracy theories exemplify the rational perspective (Scott, 1998: 37-49).

The natural systems perspective, by contrast, sees organizations as collectives of individual participants who pursue their own goals. The collective goal set is complex and diffuse and changes over time and with the

addition or attrition of participants. Formal goals and structures can still be in place, but they do not necessarily guide individual and organizational actions and behaviors. Informal, relational structures prevail, and the multiple goals and interests are held together by the realization that the organization constitutes an important resource for all participants. The human relations school and the work of Talcott Parsons among others embody the natural systems view (Scott, 1998: 61-76).

The open systems perspective overlays the rational versus natural systems perspectives. The central tenet of this perspective is that organizations are not closed in the sense of being isolated from external forces. Rather, organizations are closely interconnected and interdependent with their external environments from which they exchange and draw resources, including participants, funding and information. The open boundaries between the organization and its environments make it more difficult to pursue common goals, as loose coupling requires bargaining and renegotiating of goals. Most organizational theories since the 1970s, including those discussed below, incorporate the open systems perspective.

These different understandings of organizational systems have already been played out in the earlier ideal-typical comparison. Business firms tend to be more rational systems with well-specified goals and high degrees of formalization. Public agencies are similarly rational, although goals are more ambiguous. Nonprofits, on the other hand, resemble the natural systems perspective the closest with goal sets that are diffuse and at times even conflicting due to variation in the motivations of members, employees, volunteers, funders, and other stakeholders.

Contingency Theory

Recognizing the open systems nature of organizations, contingency theories emphasize the importance of the goodness of fit between key characteristics of task environments and organizational structure (Lawrence/Lorsch, 1967). For some tasks, a centralized, hierarchical approach works best for both efficiency and effectiveness, while for other task environments, an organizational structure made up of decentralized and flexible units seems best suited (Perrow, 1986). Whether organizations are efficient and able to survive thus depends on (that is, "is contingent on") the appropriateness of their structure in relation to the nature of their environments. Formal and centralized structures are more appropriate for relatively stable environments, but environmental turbulence requires higher degrees of flexibility and informality. However, organizations can face stability and turbulence in their various task environments at the same time.

In the case of nonprofit organizations, a complex picture is presented:

some parts of the organizational task environment are best centralized, such as controlling or fund-raising; other parts of the organizational task environment could be either centralized or decentralized, depending on managerial preferences or the prevailing organizational culture; other parts, typically those involving greater uncertainty and ambiguity, are best organized in a decentralized way. In other words, nonprofit organizations are subject to both centralizing and decentralizing tendencies. For example, a social service agency may face relative stability in its client base (allowing for a centralization or routinization of service provision) at the same time that it faces turbulence in its funding environment (requiring a diversification of funding sources and a concomitant decentralization of fund-raising efforts). Contingency theory remains the most widely accepted organizational perspective and holds important insights for understanding the nature of nonprofit organizations (see Anheier, 2000 for a nuanced application).

Resource Dependency

The realization that the most effective structure is contingent on the respective task environment should not necessarily lead to the assumption that there is a one-way interaction between the organization and its environment. In fact, managers and organizations have the ability to change their task environments in turn. Resource dependence theory (Pfeffer/Salancik, 1978) argues that organizations face environmental constraints in the form of external control over resources that the organization needs to ensure operational efficiency and continued survival. Since few types of organizations are resource independent, they necessarily become interdependent with their environments. At the same time, external actors in control over critical resources will attempt to influence the organization and threaten managerial autonomy. Organizations will, however, not simply comply with external demands, but attempt to employ various strategies to manage dependencies and regain managerial freedom and autonomy. In the process, the organization influences and changes its environment as well. Pfeffer and Salancik (1978) suggest that among the strategies organizations employ are various types of interorganizational linkages, including mergers, joint ventures, interlocking directorates, and the movement of executives within industries. This may either help reduce dependence on given critical resources or help obtain other resources that are in turn critical to the external actors trying to exercise control.

In the nonprofit context, the resource dependency perspective is particularly useful in understanding the perpetual quest for a balanced mix of revenue sources. In both Western Europe and the United States, the overly heavy reliance of some types of NPOs on government financing has given rise

to concerns about governmentalization, bureaucratization, loss of autonomy, as well as goal deflection of NPOs (Kramer, 1981; Horsch, 1992; Smith/Lipsky, 1993; Horsch, 1994; Evers, 1995; Anheier/Toepler/Sokołowski, 1997; O'Regan/Oster, 2002). All of this can be understood as a failure on the part of NPOs to manage and neutralize dependency on government resources. It may also partially explain the current revived interest in fostering philanthropy and civic engagement in many countries (Anheier/Toepler, 2002) as an attempt to regain resources with no "strings attached" that increase the managerial scope of action.

Neo-Institutionalism

Neo-institutionalist theories have made significant inroads in a variety of disciplines, ranging from economics to political science and sociology (North, 1990; Alt/Shepsle, 1990; Brinton/Nee, 1998), and have also deeply influenced management and organizational thinking (Powell/DiMaggio, 1991; *Academy of Management Journal*, 2002). At the heart of neo-institutionalist thinking lays the belief that the rational-actor model of organizations is insufficient and that organizational actions are formed and shaped by institutions, that is, prevailing social rules, norms and values that are taken for granted. Institutions constrain and also form individual and organizational behavior by limiting the range of available options that are perceived as legitimate. Legitimacy, understood as conformance with institutional expectations, thus becomes the central resource that organizations require for long-term survival.

In addition, since all organizations in a particular organizational field are subject to the same institutional expectations and constraints, they will tend to become homogeneous over time, a process that is called isomorphism. Powell and DiMaggio (1991) differentiate between three mechanisms of institutional isomorphic change. Coercive isomorphism appears as a reaction to direct or indirect pressure to abide by institutional expectations and such pressures are typically exerted by organizations on which the pressured organizations depend. Mimetic isomorphism occurs in situations of technological or environmental uncertainty. Faced with uncertainty, organizations may mimic, or model themselves after, other organizations that are perceived as successful. Finally, normative isomorphism derives from professional norms and standards that guide the work of professionals in organizations and thus shape organizational behavior.

Neo-institutionalist theory is helpful in explaining a large variety of trends in the nonprofit management field. Coercive pressures exerted by government and other funders help explain how NPOs change from informal, voluntaristic and amateuristic groups to increasingly bureaucratic and

professionalized organizations through the coerced adoption of accounting, monitoring, performance and certification requirements. Similarly, with the replacement of volunteers with service professionals such as trained social workers, counselors, art historians or educators, normative pressures affect change in the same direction (Sokolowski, 2000). Mimetic pressures, on the other hand, help explain why NPOs, facing considerable financial uncertainty, begin to utilize business techniques and profit-making activities. More broadly speaking, isomorphic trends are also largely responsible for the increased “borrowing” of American nonprofit management techniques, such as fund-raising, that has taken place in both, Western and East-Central Europe over the past decade or so, as well as the modernization of nonprofit legal frameworks in Central and Eastern Europe after 1989.

4. Implications for Nonprofit Management

As this chapter has shown, nonprofits perform a set of important functions that set them apart from both business firms and government agencies. Not all NPOs perform all of these functions and there remain significant differences even among various nonprofit types. In terms of organizational characteristics, nonprofits also differ from governments and private firms. These differences are most clearly borne out in the case of member-serving associations, whereas public-serving nonprofits—particularly service providers—show more similarities with either businesses or public agencies. Such commonalities, in terms of outputs, structure, or resource generation, make it more difficult for nonprofit service providers to navigate a proper balance in the pursuit of the special roles and functions, and the constant challenge is to integrate the expressive dimension—essential to nonproftness—into the management of dominant service activities (Mason, 1996).

The review of some key strands of organizational theory provides further useful insights for understanding nonprofit management and the relative importance and distinctiveness of specific management functions and tasks. Most broadly conceived, fundamental leadership and governance structures (e.g., one or two-tiered—see Siebart and Reichard) as well as decision-making procedures are largely contingent on both the immediate task environment (internal for associations; external for service providers) and the concomitant specifications in the regulatory environment. Somewhat oversimplifying, the basic internal or external nature of the primary task environment also highlights differences in the nature and extent of various management functions. Marketing (other than applied to member recruitment) is generally of lesser salience to associations than service providers, except where associations choose to utilize social marketing techniques in the

context of larger advocacy purposes (e.g., a mental health self-help group advocating on behalf on the mentally ill beyond its more narrow membership). Similarly, evaluation, project and quality management tasks are generally more germane to public- and member-oriented NPOs.

The distinctive nature of nonprofit finance—combining commercial and donative revenues from public and private sources—is an important area where nonprofit management significantly diverges from business and public administration. In addition to differences in accounting requirements and procedures, nonprofits—except for purely member-dues financed associations—usually must manage simultaneously revenue streams deriving from fees-for-services, public grants, contracts and third-party payments, private grants and donations, investments and commercial loans. As noted above, resource dependency issues often arise in the context of government funding, but, as the Central European experience has shown, dependency on large private donors yields the same effects. To manage resource dependencies, the nonprofit-specific management task of fund-raising serves to diversify funding sources and reduce potential for external control. Within the context of limited philanthropic resources though, nonprofits find it increasingly necessary to adapt and employ traditional marketing techniques in efforts to attract fee income as well new public sector resources to generate a balanced revenue mix.

The open and natural systems character of all NPOs in combination with the nature and motivations of participants lends another distinctive element to nonprofit management. Nonprofit managers have to be particularly sensitive to the individual goal sets of participants, as material incentives have no hold over members and volunteers and only marginal hold over staff that responds more strongly to solidaristic and, to some extent, purposive incentives. Increasing isomorphic pressures on nonprofit service agencies to act more like business firms or government agencies and de-emphasize the expressive and solidaristic dimensions of their work constitute a constant threat to the precarious balance of member, volunteer and staff goals that nonprofit managers have to negotiate. The complexity and diffusion of stakeholder and participant goal sets complicate strategic planning on the one hand (v. Eckhardstein/Simsa in this volume), but most clearly affect the management of participants within or around the organization's loose boundaries. This poses specific challenges to traditional human resource management issues (v. Eckardstein/Brandl); highlights the necessity for specialized volunteer management (Sozanská/Tošner/Frič); and puts a premium on the often-neglected conflict management task (Simsa) within the broader nonprofit management context.

All in all, the management of nonprofit organizations presents its own set of more or less distinct challenges that can be addressed at best only partially by adopting the approaches of traditional business or public administration.

Both disciplines provide concepts and techniques that modern nonprofit managers have to be familiar with, but too much emphasis on these concepts will likely lead to a further blurring of the boundaries of the three sectors and ultimately to the loss of the distinctive features that accord nonprofits their special role within the political economies of both the East and the West. On the other hand, the behavioral management sciences offer useful conceptual frameworks that lend themselves easily to an application to the nonprofit context. The key challenge in the development of a nonprofit management discipline remains to harness the analytical tools and insights of organizational theory to a greater extent, and to highlight the importance of focusing on people, expression and multiple role performance, while acknowledging and recognizing the proper place of currently dominant management issues in the nonprofit management repertoire, such as financial management, marketing or questions of efficiency and quality control.

Suggested Readings

- Anheier, H.K. (2000): Managing Non-profit Organizations: Toward a New Approach. www.lse.ac.uk/Depts/ccs/pdf/cswp1.pdf
- Mason, D. (1996). Leading and Managing the Expressive Dimension. San Francisco
- Scott, R.W. (1998): Organizations: Rational, Natural, and Open Systems. Prentice Hall
- Staehle, W./Conrad, P./Sydow, J. (1999): Management – Eine verhaltenswissenschaftliche Perspektive. München

References

- Alt, J./Shepsle, K. (eds.) (1990): Perspectives on Positive Political Economy. Cambridge/New York
- Anheier, H.K. (ed.) (2001): Organizational Theory and the Nonprofit Form. CCS Report #2. London
- Anheier, H.K./Kendall, J. (2001): Third Sector Policy at the Crossroads: An International Nonprofit Analysis. London
- Anheier, H.K./Toepler, S. (2002): Bürgerschaftliches Engagement in Europa: Überblick und gesellschaftspolitische Einordnung. In: Aus Politik und Zeitgeschichte, 9, pp. 31-38.
- Anheier, H.K./Toepler, S./Sokołowski, W. (1997): The Implications of Government Funding for Nonprofit Organizations: Three Propositions. In: International Journal of Public Sector Management, 10:3, pp. 190-213

- Borzaga, C./Defourny, J. (eds.) (2001): *The Emergence of Social Enterprise*. London
- Borzaga, C./Santuari, A. (eds.) (1998): *Social Enterprises and New Employment in Europe*. Trento
- Brinton, M./Nee, V. (eds.) (1998): *The New Institutionalism in Sociology*. New York
- Child, J. (1972): Organizational Structure, Environment, and Performance: The Role of Strategic Choice. In: *Sociology*, 6, pp. 1-22
- Clark, P./Wilson, J. (1961): Incentive Systems: A Theory of Organizations. In: *Administrative Science Quarterly*, 6, pp. 129-166
- Dees, G./Emerson, J./Economy, P. (2001): *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*. New York
- Drucker, P. (1990): *Managing the Non-Profit Organization: Principles and Practices*. New York
- Edwards, B./Foley, M. (1998): Civil Society and Social Capital Beyond Putnam. In: *American Behavioral Scientist*, 42:1, pp. 124-139
- Edwards, M./Hulme, D. (1996): Too Close for Comfort? The Impact of Official Aid on Nongovernmental Organizations. In: *World Development*, 24:6, pp. 961-973
- Etzioni, A. (1975): *A Comparative Analysis of Complex Organizations*. New York
- Evers, A. (1995): Part of the Welfare Mix: The Third Sector as an Intermediate Area between Market Economy, State and Community. In: *Voluntas*, 6:2, pp. 159-182
- Gibelman, M./Gelman, S. (2001): Very Public Scandals: Nongovernmental Organizations in Trouble. In: *Voluntas*, 12:1, pp. 49-66
- Grønbjerg, K. (1993): *Understanding Nonprofit Funding*. San Francisco
- Herman, R. (ed.) (1994): *The Jossey-Bass Handbook of Nonprofit Management and Leadership*. San Francisco
- Horch, H.-D. (1994): Does Government Financing Have a Detrimental Effect on the Autonomy of Voluntary Associations? Evidence from German Sports Clubs. In: *International Revue for the Sociology of Sport*, 29:3
- Horch, H.-D. (1992): *Geld, Macht und Engagement in freiwilligen Vereinigungen*. Berlin
- James, E. (1983): Why Nonprofits Grow: A Model. In: *Journal of Policy Analysis and Management*, 2:3, pp. 350-366
- Kettl, D. (2000): *The Global Public Management Revolution: A Report on the Transformation of Governance*. Washington
- Kramer, R. (2000): A Third Sector in the Third Millennium? In: *Voluntas*, 11:1, pp. 1-23
- Kramer, R. (1987): Voluntary Agencies and the Personal Social Services. In: Powell, W. (ed.): *The Nonprofit Sector: A Research Handbook*. New Haven, pp. 240-257
- Kramer, R. (1981): *Voluntary Agencies in the Welfare State*. Berkeley
- Lawrence, P./Lorsch, J. (1967): *Organization and Environment: Managing Differentiation and Integration*. Boston
- Light, P. (2000): *Making Nonprofits Work: A Report on the Tides of Nonprofit Management Reform*. Washington
- Mayntz, R. (1963): *Soziologie der Organisation*. Reinbek
- Najam, A. (1996): Understanding the Third Sector: Revisiting the Prince, the Merchant, and the Citizen. In: *Nonprofit Management & Leadership*, 7:2, pp. 203-219
- North, D. (1990): *Institutions, Institutional Change and Economic Performance*. Cambridge/New York

- Olsen, M. (1965): *The Logic of Collective Action*. Cambridge
- O'Regan, K./Oster, S. (2002): Does Government Funding Alter Nonprofit Governance? Evidence from New York City Nonprofit Contractors. In: *Journal of Policy Analysis and Management*, 21:3, pp. 359-379
- Perrow, C. (1986): *Complex Organizations: A Critical Essay*. New York
- Pfeffer, J./Salancik, G. (1978): *The External Control of Organizations: A Resource Dependence Perspective*. New York
- Pierson, C. (1991): *Beyond the Welfare State?* University Park
- Powell, W./DiMaggio, P. (eds.) (1991): *The New Institutionalism in Organizational Analysis*. Chicago/London
- Putnam, R. (2000): *Bowling Alone: The Collapse and Revival of American Community*. New York
- Putnam, R. (1993): *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton
- Rainey, H./Bozeman, B. (2000): Comparing Public and Private Organizations: Empirical Research and the Power of the A Priori. In: *Journal of Public Administration Research and Theory*, 10:2, pp. 447-469
- Reichard, C. (2001): New Approaches to Public Management. In: König, K./Siedentopf, H. (eds.): *Public Administration in Germany*. Baden-Baden
- Salamon, L./Hems, L./Chinnock, K. (2000). *The Nonprofit Sector: For What and For Whom?* Comparative Nonprofit Sector project Working Paper #37. Baltimore
- Salamon, L. (1987): Of Market Failure, Voluntary Failure, and Third-Party Government: The Theory of Government/Nonprofit Relations in the Modern Welfare State. In: *Journal of Voluntary Action Research*, 16:1/2, pp.29-49
- Schwarz, P./Purtschert, R./Giroud, C. (1999): *Das Freiburger Management-Modell für Nonprofit-Organisationen*. Bern
- Smith, S./Lipsky, M. (1993): *Nonprofits for Hire: The Welfare State in the Age of Contracting*. Cambridge
- Steinberg, R. (1993): Public Policy and the Performance of Nonprofit Organizations: A General Framework. In: *Nonprofit and Voluntary Sector Quarterly*, 22:1, pp. 13-31
- Weisbrod, B. (1998): Modeling the Nonprofit Organization as a Multiproduct Firm: A Framework for Choice. In: Weisbrod, B. (ed.): *To Profit or Not to Profit Commercial Transformation of the Nonprofit Sector*. Cambridge, pp. 47-64
- Weisbrod, B. (1988): *The Nonprofit Economy*. Cambridge
- Zimmer, A. (1996): *Vereine – Basiselement der Demokratie*. Opladen

Corporate Governance of Nonprofit Organizations¹

This chapter deals with organizational governance, and thus outlines a fundamental aspect of nonprofit organization management. The governance structure is decisive for aspects such as the organization's fundraising capacity and its ability to adapt to environmental changes. The authors argue that already at the founding stage of the organization, the governing body's roles and responsibilities should be considered carefully in terms of their impact on the organization's development. Later on – especially before employing any professional executives – the subject has to be reconsidered to ensure a productive atmosphere of mutual trust between the board and that executive. The chapter discusses various aspects of nonprofit organization governance in order to give some advice as to which aspects ought to be taken into account to support an effective and efficient nonprofit organization. Both executive directors and board members will gain some insights into each other's role and the specific requirements for effective nonprofit organization governance.

1. Issues and Elements of Corporate Governance

Since the 1990s governance has become a topic of increasing interest. In particular, the collapse of several well-known companies and fraud charges against their (mostly) inside directors attracted attention to topics such as accountability, performance monitoring by outside members of the board, and auditing standards for private sector companies. Different academic disciplines have formulated a wide variety of definitions and regard “governance,” or “corporate governance” when speaking of the private for-profit sector, from different perspectives: while “governance” is being used by the political sciences to describe a self-organizing network of governmental, nonprofit and for-profit organizations within the political process, the concept of “corporate governance” refers to arrangements of guidance and supervision within certain organizations and has been developed and discussed particularly

1 The authors would like to acknowledge the support of Dr. Andrzej Juros, who provided the information on the specifics of Central European countries.

regarding joint stock companies. More specifically, corporate governance is

“concerned with the procedures associated with decision-making, performance and control of organizations and with providing structures to give overall direction to the organization and to satisfy reasonable expectations of accountability to those outside it” (Hodges/Wright/Keasey, 1996: 7).

Several specific issues have been discussed within this context, among them the structural choice of the one-tier board (as in Anglo-Saxon countries and – varying a little in detail – most other countries all over the world) versus the two-tier board (as in some European countries, mainly Germany and Austria), forms of cooperation and control between inside and outside directors, as well as choice, composition, and responsibilities of the governing body’s members. In addition, aspects of accountability of the executive as well as the governing board and individual members of the governing board to the organization’s stakeholders are being examined. These discussions will be outlined later in this chapter.

Another – more general – issue regarding corporate governance is very important and very difficult to answer: in whose interest should the organization be governed? For private for-profit organizations there would be three general models: owner capitalism, corporate capitalism and shareholder capitalism (Malik, 1999: 106). As Malik (1999: 106-118) argues very persuasively, corporate governance should always be oriented towards the company’s interest, i.e., its long-term increase in value, depending especially on the creation of customer value and innovative capability as well as the development of its market position (Malik, 1999: 116). An unfocused stakeholder orientation leads to unproductive actions, as does a one-dimensional shareholder orientation.

All governing bodies, but especially those of nonprofit organizations, should develop a distinct picture of the organization’s policy as well as a strategic plan to make the organization’s priorities clear to those inside and outside of the organization.

The issue of corporate governance is an especially fundamental topic for nonprofit organizations because of the exceptional diversity of their stakeholders (e.g., members of the organization, clients, and the government). Adequate governance structures and mechanisms are a highly important prerequisite for success and decisive for the survival of any nonprofit organization.

Axelrod (1994: 119) already noted increasing attention from the media and government towards nonprofit organizations’ governance issues. In order to avoid drawing attention towards a weak performance of the governing board and, as a result, losing the public’s confidence, governance has become a central issue for board members (Axelrod, 1994: 119). All the same, as Gibelman and Gelman (2001: 58) found in their study, not too much has changed since the mid-1990s. Governance still has to be dealt with as a topic

of high interest, since many allegations and findings of wrongdoing within nonprofit organizations suggested governance failures. These included

“failure to supervise operations, improper delegation of authority, neglect of assets, failure to ask the ‘right questions’, lack of turnover of board members, lack of oversight of the Chief Executive Officer (CEO), failure to institute internal controls, absence of ‘checks and balances’ in procedures and practices, and isolation of board members from staff, programs, and clients” (Gibelman/Gelman, 2001: 58).

Talking about governance of nonprofit organizations means discussing fundamental questions about the organization. For instance, as the responsible decision-making entity, the governing body must discuss aspects such as the organization’s mission and whether it corresponds to its actual needs and fundamental aims and in whose interest the organization should be governed – the board’s, any specific board member’s, the executive director’s², the government’s (when it is the funding agency), or specific stakeholders’ (e.g., clients).

In most nonprofit organizations the governing board will make decisions about the way the organization should be governed. But as this does not always correspond to real-world experience, nonprofit organization governance also touches on issues surrounding the board’s (legal) responsibilities, the corresponding responsibilities and tasks of the executive director, and accountability. Governance strongly corresponds to the nonprofit organization’s strategy. Since a recipe for setting up an effective governance structure that would be applicable to all nonprofit organizations does not exist, this chapter will outline possible choices and show some problems and pitfalls that may arise. Ultimately, the decision for a specific governance structure should correspond to the organization’s specific requirements – according to its environment, its area of engagement, its size, and its aims and target group. Other aspects of the choice will be whose interest the organization wishes to serve and which role volunteers are supposed to play within the organization. Since there are many interrelated aspects and limited space, the chapter will describe the advantages and disadvantages of some of the choices and present the research of various scholars pointing out aspects of good governance in nonprofit organizations. Special attention will be given to the type of organization and the organization’s stage in its life cycle since these aspects allow some general description of their impact on governance.

2 The term “executive director” or “chief executive officer” (CEO) will be used in this chapter, but these terms refer more generally to the highest ranking staff position within the organization. The term “president” or “chair” refers to the highest ranking volunteer position chairing the board of directors or trustees.

2. Governance Structure in Nonprofit Organizations

General Structures for Organizational Governance

The choice of an organization's governance structure is essential for the exercise of management oversight as well as the organization's ability to act and react upon possible demands. The following two basic organizational structures will be discussed here since most nonprofit organizations choose to adopt one or the other:

- a governing board with outside directors and executive director(s) (one-tier model)
- a governing board with outside directors only and a separate board of executive directors, which in nonprofit organizations usually consists of a single executive director (two-tier model)

Unlike in most for-profit companies in Anglo-Saxon countries, where boards usually combine inside and outside directors³ and therefore choose the one-tier governance structure, nonprofit boards typically consist only of outsiders who are not employed by the organization (Oster, 1995: 75). According to Fama and Jensen (1983: 319), the mixture of inside and outside directors in one-tier boards works for for-profit companies due to the existence of an active market for shares, providing the necessary discipline. According to this argumentation, nonprofit organizations limit the role of insiders on their boards because they face a higher potential for conflict of interest on the part of insiders since there is no other outside force, e.g., a takeover market, providing a discipline similar to that felt by for-profit. The final two parts of this section of the chapter will discuss the general influence of different legal forms, as well as the type of nonprofit organization, on an organization's governance structure.

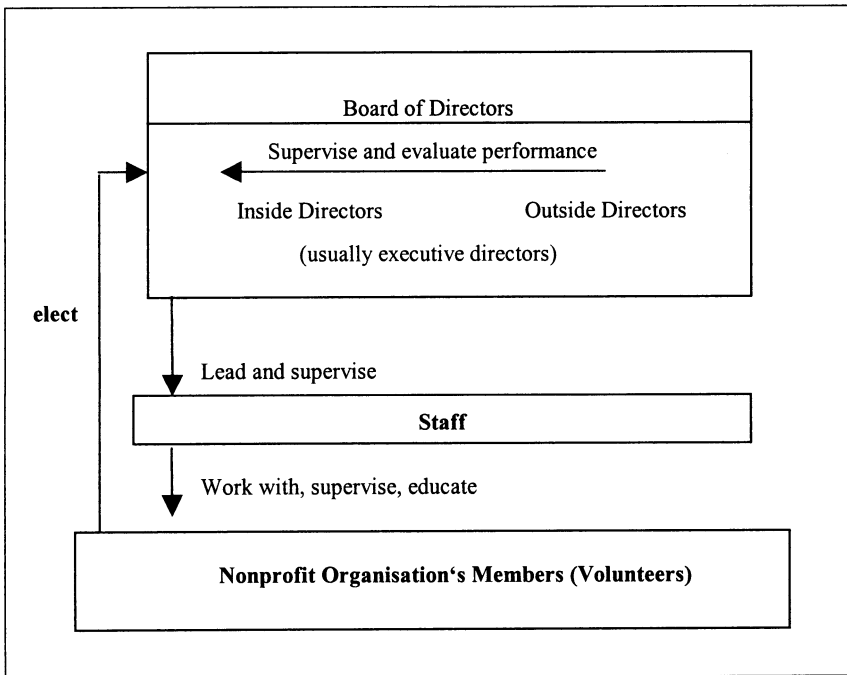
One-tier Model

In the one-tier model the board of directors consists of trustees and inside directors that govern and manage the organization (see Figure 1). Usually within that entity there are executives who are engaged in the organization's operations as well as outsiders who are to represent the organization's stakeholders and participate in policy setting and the assessment of management performance.

3 However, some boards, e.g., General Motors, have begun to have board meetings with outside directors only in order to increase the board's ability to monitor the inside directors' performance and avoid conflicts of interest.

The one-tier model has one striking advantage: the board as a committee has very good access to all information concerning the organization – communication between staff and trustees is simplified (Martens, 1999: 32; Block, 1998a: 19). However, it is harder for trustees (as outside directors) within the board to supervise the members of their own committee who are inside directors. The ability to conduct an independent review of management performance will grow as the percentage of outside directors on the board increases (Martens, 1999: 33; Hopt, 1997: 12).

Figure 1. One-tier model of governance structure



Source: Own Figure

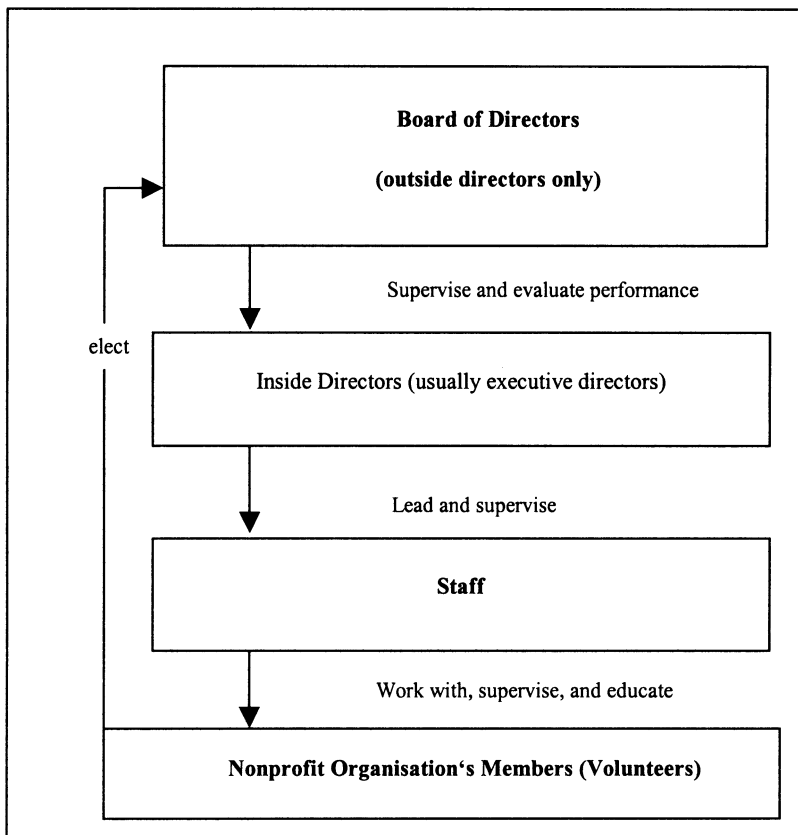
For inside directors the responsibility for supervising their own actions will inevitably lead to a clash of interests within the board since decisions made by the board might personally benefit the inside director(s). Therefore the executive director might influence the direction of the board and organization to maximize his personal benefits (Oster, 1995: 78). Obviously, especially if one person jointly holds the chair of the board as well as the CEO position, this also leads to a conflict of interests regarding the board's oversight responsibility. Consequently, the Cadbury Committee recommended that

corporations separate these functions within for-profit organizations (Committee on the Financial Aspects of Corporate Governance, 1992: lit. 4.9). To avoid a conflict of interest for (outside) board members, U.S. law even prohibits self-dealing of nonprofit organization directors (Oster, 1995: 80). In Germany, an association's board member may not partake in voting if the board's decision concerns an arrangement between that member of the board and the association (§ 34 BGB).

Two-tier Model

In most nonprofit organizations the board consists only of volunteers who are not employed by the organization. The board does not include the organization's executive director (see Figure 2). This corresponds to the two-tier model applied by for-profit companies in some European countries. The supervisory body's independence is supposed to be one of the greatest advantages of this model. In most cases the board's members do not receive individual benefits as a result of taking a certain action or making a particular decision. As will be outlined later, the advantage of greater independence will apply mainly regarding personal benefits; however, it may not apply to nonprofit boards' decision-making processes because of the strong dependence on the executive director and the information provided by her. The greatest disadvantage of the two-tier model, therefore, is a lack of information since none of the supervisory board's members is involved in operating the organization – they cannot fall back on their knowledge gained from the organization's day-to-day business. In order to be able to monitor the executive director's performance, the outside directors have to be experts in relevant areas and have to decide on which basis to monitor that performance.

Figure 2. Two-tier model of governance structure



Source: Own Figure

3. Legal Forms Versus Ideal Types of Nonprofit Organizations

The existence of different legal forms suggests that an organization's governance might depend on the chosen legal form. Although the legal provisions are of some influence on governance structures – e.g., the German regulations of the association's law (German: *Vereinsrecht*) that require a general assembly and an elected board – most details of the governance concept of an individual nonprofit organization are determined by the articles

of incorporation (mostly constitution; German: *Satzung*). The articles of incorporation and bylaws are used to formalize and institutionalize the governance structure and procedures within an organization. The articles of incorporation must state the organization's purpose(s) and basic affairs such as the liquidation procedure and whether the organization will have members. In addition and more important for ongoing governance, they should also contain the terms and conditions of board membership as well as the duties and selection of trustees and officers, voting requirements, and procedures for forming committees (Hopkins, 1998: 81).

The bylaws should be used to identify the limits of action for the executive director. These bylaws may also outline specific operations the board would have to approve before they may be set into action. This would provide guidance for the executive director and determine the portfolio of independent decisions without having to consult the board, thus clarifying the entity's responsibilities. A code of conduct could also – as a bylaw – outline what is expected of the various actors within the governance process.

As pointed out previously, the constitution is the most important building block of the nonprofit organization's governance structure. However, differences may exist according to the chosen legal form.

Usually the boards of nonprofit organizations consist of elected members who are nominated by the general assembly of members, an appointing committee, the executive director, or other board members. Generally, choices are made to ensure that the elected bodies reflect a diversity of opinion and the diversity of at least the nonprofit organization's members, if not its stakeholders. Democratization through election processes also supports the stakeholders' demand for co-determination. Elections cause some unpredictability concerning the composition of a board, but reflect the stakeholders' interests and ensure a reasonable inclusion of divergent interests.

Some legal forms require the appointment of the governing body's members instead of an election. While elections present certain disadvantages, appointments do not guarantee a better result with respect to diversity and representation of interests. The quality of appointments depends strongly on the abilities of the person(s) designated to appoint the board member. After all, appointments tend to encourage the creation of homogenous boards.

There is some evidence that in Central European countries nonprofit organizations depend strongly on leaders who influence the selection of future board members. Therefore elections may resemble appointments that are approved by the organization's members. With regard to the organization's corporate governance a weakened oversight may result. The discussion of aspects that should be taken into consideration before choosing suitable board candidates will apply to both elected and appointed boards. These aspects will be discussed later in this chapter in the context of board composition.

If a particular legal form does not call for any outside directors at all, the above-mentioned aspects of regulatory power and its exercise do not apply.⁴ The nonprofit organization should therefore develop a set of instruments to ensure that the supervision of the executive director(s) or secretary is guaranteed. One possibility could be the intensification of auditing activities, which is not explicitly discussed in this chapter. Some of the aspects outlined in the section on board composition will apply to a board with inside directors only as well. For nonprofit organizations, this case appears generally in small or very young nonprofit organizations, in which the founders still manage the organization and are heavily involved in its day-to-day operations. This situation applies to about 80 to 95 percent of the existing nonprofit organizations within Central European countries. The key issues of nonprofit organization governance such as the interaction between different governing entities do not apply under these circumstances. With regard to the influence of the type of nonprofit organization on the organization's governance, it will be of some importance whether the organization is a membership organization, a service provider, or an advocacy or support organization. Although real-life nonprofit organizations normally do not represent any type exclusively, some aspects that might have an impact on the organization's governance may be discussed. Membership organizations, for example, usually organize themselves and often do not need a lot of professional staff. They also are rather independent of their environment and more eager to meet democratic standards, which will be of some influence regarding the board's election. Volunteers usually work within the organization's hierarchy and gain detailed knowledge about the organization. Board members that are being recruited after having worked as volunteers within the organization usually are not as dependent on an executive director as they are in other types of nonprofit organizations.

Service providers usually have to meet legal standards and need some expertise volunteers might not be able to provide. Therefore the influence of professional staff may rise in these organizations. Aspects of liability may become more important, and management capabilities and abilities usually increase in comparison to membership organizations. If volunteers take part in these organizations, they usually do so only to assist in the organization's professional service or as members of the board.

Support organizations usually rely on professional staff as well. Even though volunteers can still serve as members of the organization's board, the choice of board members in support organizations will usually tend toward large donors or persons with specific expertise rather than those who represent a specific group of stakeholders.

4 This chapter will not deal with organizations without any supervisory body.

4. Roles and Responsibilities of Governing Bodies

It is interesting that even though an organization's fate is determined much more by the executive person or body than by the advisory or supervisory body, most authors thoroughly discuss the roles and functions of the supervisory body and only touch on the roles and functions of the CEO or executive board (Peltzer/v. Werder, 2001: 2). For nonprofit organizations this might be due to legal requirements and the fact that, in line with the organization's hierarchy, the executive's role is primarily being interpreted as that of the board's assistant (Herman/Heimovics, 1994: 138). There is, however, much evidence – especially for nonprofit organizations – that the relationship between the executive director and the board is crucial for the nonprofit organization's performance. Therefore, the board's role should be discussed in relation to the executive director's role, and a key issue has to be the interaction between the two. Because of its particularities compared to public or for-profit companies, special attention is dedicated to the board of directors and its role within the governance process before outlining the executive director's role. The interdependence of the two merits a discussion of issues relating to the interaction between the board and the executive director, such as aspects of supervision, accountability and evaluation.

Depending on the legal form, there are additional legal entities that have to be considered when constructing governance structures. In the case of associations, for example, the general assembly of members has some mandatory rights and competencies, such as the election of board members, or any change in the organization's constitution.

Nonprofit organizations vary widely in their mission as well as their size, their stage in the organizational life cycle, and their field of action. Therefore the exact governance structure and the responsibilities of the governing bodies will always differ, especially according to these context factors. Since every possible mission cannot be discussed and since problems tend not to occur in great intensity for small nonprofits, this section will first describe the board's development according to the organization's stage within its life cycle.

During the founding stage, the founder or a group of founders will form the first board. The board will manage the nonprofit organization without any staff. During this time the board members will be heavily involved in the organization's day-to-day activities. Werther and Berman (2001: 19) speak of a "working board" during this stage of development.

There is some evidence that especially in Central European countries "legal boards" (boards constituted to meet legal requirements) exist, which are in many cases "leader's boards" similar in their functions to "working boards." This is due to the fact that social activity in Central European coun

tries is rather low, and social competence and management abilities are rather poor. Even if individuals are board members, their activity and effective competence might be low.

Rather often there will not be an executive director during the founding stage of development, and the roles and responsibilities of board members will not necessarily adhere to the rules of corporate governance. This situation may be – if there are strong leaders, e.g., the organization's founder – very similar to that of a one-tier board.

As the organization matures the board will turn into a “managing board,” considering the executive director's proposals as to policy, operations, and funding issues. Among mature nonprofit organizations the board typically takes the role of an advisory board giving guidance and supervising the executive director's performance (Werther/Berman, 2001: 18f.).

The different functions and roles of the board during the organizational life cycle will also influence the terms of board members as well as the board's composition and the frequency of board meetings. During the founding stage, for example, the board will meet more often, serve for longer and a larger number of terms, and consist of managers rather than supervisors or advisors. However, these aspects differ for more mature organizations, which are the focal point for the discussion below.

Terms of Board Members

During more mature stages board members usually serve for a tenure of between one and four years, with the opportunity to serve for another term. In many organizations the number of consecutive terms is limited because a change of board members is supposed to protect the board against capture by the executive director (Oster, 1995: 78) and to ensure the addition of new perspectives to the board's discussions. Some amount of enthusiasm usually comes with new members as well.

On the other hand, a frequent change of board members will interfere with the continuity of the organization's policies and mission. It also complicates team-building processes within the board and requires additional efforts in board education – both of which are crucial to efficient governance of nonprofit organizations. All board members' terms should never end at the same time so that some measure of continuity of strategic direction can be maintained (Block, 1998: 22f.).

At the end of a board member's term the board member as well as the electing or appointing committee has to decide whether or not the member should serve another term. The preferred rotation system enables the board to assess the performance of those members who rotate off the board within a continuing process. In addition, it is advisable to evaluate the board member's attendance, participation, stewardship, and understanding.

In order to keep the board capable of acting, it should define procedures for the termination of board members who do not fulfill their duties or have violated the board's code of conduct.

Frequency and Organization of Board Meetings

The frequency of board meetings should correspond to the nonprofit organization's situation. It will range between three times a year (Drucker, 1990: 175) and several times a month. A higher frequency will be required if the organization has to deal with planning or policy issues, special threats, concerns about possible financial obligations, or changes within the organization (Block, 1998a: 22).

The board should establish a set of well-considered procedures for board meetings, especially regarding agenda and minutes. These procedures should also define the form of the board member's notification about the next meeting's topics and a stipulated period for the advance notification of a board meeting.

It is important to ensure effective governance by choosing a suitable number of meetings, but not to interfere with the executive director's responsibilities. Even though the executive director's task is to assist the board, the executive should not be completely occupied by preparing the board's meetings, but also have enough time and resources to execute other duties.

Size and Composition

The board of a nonprofit organization typically consists only of persons who are not employed by the organization. These board members are usually volunteers from a wide variety of backgrounds (Axelrod, 1994: 119; Oster 1995:79; Block 1998a: 15).

The decision about the board's size depends on different aspects, such as the required functions to be assumed by the board and the number of board committees to be formed (Smith Bucklin et al., 2000: 28). Other aspects include the diversity of stakeholder's interests and the inclusion (or not) of large donors (eventually raising the organization's fundraising capability). Networking aspects and the recruitment of experts that are to evaluate the management and advise the board are additional factors that are to be taken into consideration (Oster, 1995: 79).

Large boards will usually be able to mobilize a greater amount of financial resources due to the board member's networking activities, their fundraising efforts and the funds provided by the board members themselves. However, such large boards usually become unwieldy, and their meetings

tend to become more formal.

Small boards usually face limitations concerning the supportive capacities of the board members, but they are more cohesive and usually act in a more informal way rather than following formal parliamentary procedures (Block 1998a: 20). To combine the advantages, some organizations decide to have a large advisory board as well as a small governing board or decide to form different committees (e.g., executive committee, nominating committee, fund-raising committee, financing committee, public relations committee) with fewer members to prepare the decisions to be made by the board.

Figure 3. Advantages and disadvantages of small vs. large boards

	Small Boards	Large Boards
Advantages	More cohesive More informal	Better mobilization of financial resources Greater capacities for supportive activities
Disadvantages	Limitations concerning supportive activities Limitations concerning fund-raising capacities	Meetings more formal Immobility

Source: Own Figure

Homogenous boards usually make more consensual decisions, whereas diverse boards encompass different values, leading to different opinions and more argumentation (Block, 1998a: 18). Heterogeneous boards will be able to build broader networks and attract a broader range of donors and volunteers, as well as governmental aid, if built properly (Oster, 1995: 83). They will also be more willing to change policies (Block, 1998a: 18), as dissension might increase the organization's ability to react to vital, strategic problems (Oster, 1995: 83). In order to be able to form an effective board and function properly, they will have to find a common understanding and be content with differing interests, values and interpretations (Block, 1998a: 18).

Figure 4. Advantages and disadvantages of heterogeneous vs. homogenous boards

	Heterogeneous Boards	Homogenous Boards
Advantages	Broader networks Ability to attract a broader range of donors Greater willingness to change policies	More consensual decision-making
Disadvantages	Higher degree of controversial argumentation	Limited ability to react to strategic problems

Source: Own Figure

A board will usually be built taking into account the three Ws: wealth, work, and wisdom. "Wealth" stands for large donors who will also protect the interests of other donors. "Work" represents those members who are able to monitor the management's activities and partake in the organization's activities. "Wisdom" points to the experts from different areas who are to advise the board (especially if there are no insiders on the board) above and beyond the staff's input (Oster, 1995: 79). As there will be only very few experts in the nonprofit organization's specific area of action, it will be important to compose a board with members who complement each other's expertise.

In order not to undermine the structural decisions behind the board's composition, a board should under all circumstances avoid being dominated by one person, a group of board members or a group of stakeholders.

Responsibilities

As a governing body the board must assume various responsibilities, which are of course subject to the organization's specific context. The board's responsibilities include:

- policy setting
- strategic planning
- oversight of the organization's financial situation
- supervising compliance of the organization with legal requirements and professional as well as ethical standards
- Regarding the executive director, the board must:
 - select
 - supervise
 - advise
 - support and
 - evaluate.

If necessary, the board has to terminate the executive director.

To fulfill its leadership role, the board should set limits of action rather than approve or veto the means chosen by the executive director (Carver, 1997: 25ff.). In order to ensure clear accountability structures within the organization, the board should supervise the executive director as a committee thereby avoiding contradictory orders being given by the various board members.

Nonprofit boards often assume responsibilities that would be within the responsibility of the executive board within for-profit entities. These responsibilities include especially:

- fund-raising
- representation of the organization and
- promotion of the organization's mission.

In order to organize its own work, the board has to assume responsibility for recruitment and education of new board members as well as management of its own work including the definition of procedures to assess its own performance.

Obstacles to Board Effectiveness

Generally an organization's board is expected to determine the organization's mission and policy. Very often the trustees will depend on their executive directors or staff to advise them – the board may even adopt the policies the staff drafted in advance (Block, 1998a: 16). Therefore oversight might mean supervising the staff's actions in relation to the policies the staff itself drafted earlier. It is difficult to work as a team with the executive director, even provide and receive his advice, put him in charge of the board's educational and team building process, and at the same time maintain the distance needed to be able to evaluate the executive director's performance and supervise his actions (Chait/Holland/Taylor, 1996: 3).

In addition, most board members lack any special expertise in the nonprofit organization's specific domain and are largely unfamiliar with its culture. Even though most of them are experts in different areas, their expertise only applies in part to the nonprofit organization's engagements or needs (Chait/Holland/Taylor, 1996: 3ff.).

Moreover, most board members are selected according to their abilities and achievements in other areas, e.g., prestige, influence, and connections. This leads to the fact that most of the time trustees will be leaders or very influential individuals who are not used to discussing their decisions. They are used to being involved in their organization's day-to-day business and are not used to being team players. Therefore they tend to act individually and interfere with the nonprofit organization's day-to-day business. Any operating activities, though, should be coordinated with the executive director and the other board members (Widmer/Houchin, 2000).

Individual board members often give contradictory advice or try to influence the outcome of particular issues according to their personal interest. If they do so and fail to build a team, they will not come to a common decision. The result is a waste of resources (Chait/Holland/Taylor, 1996: 3ff.; Werther/Berman, 2001: 19). There are few, if any, penalties for a board's misgovernance. Individual board members will not be held accountable for, or attributed with, a negative outcome of a specific nonprofit organization's engagement. Attribution will in most cases be with the executive director

instead (Chait/Holland/Taylor, 1996: 6).

Finally, the board has to fulfill its role according to the organization's needs. A board that is heavily involved in the nonprofit organization's day-to-day activities could undermine the executive director and staff.

5. The Executive Director

Position and Role

The executive director – or the management board of executive directors – holds the highest-ranking staff position in a nonprofit organization. But

“in spite of the formal hierarchical structure that puts the CEO as subordinate to the board, the day-to-day reality – as it is experienced by CEOs, board members, and staff – is that CEOs are expected to accept the central leadership role in nonprofit organizations. This often requires that CEOs take responsibility for enabling their boards to carry out the board's duties” (Herman/Heimovics, 1994: 138).

In addition to the executive directors' leadership role, they typically have – maybe as a result of their day-to day involvement – a greater stake in and identification with the nonprofit organization they lead than do the boards' members. They also have – as all executives – a greater amount of information and specific expertise. In spite of these facts, the board has to assume the superior role within the organization (Herman/Heimovics, 1994: 139). Therefore, the executive director must focus on supporting the policies as well as the direction of the board (Block, 1998b: 101).

As there are some skills crucial to board effectiveness, there are also some skills crucial to the executive director's effectiveness. The executive director must spend time on external relations and develop an informal information network. The executive director always has to know her agenda and be able to follow it; she should be flexible and be able to improvise and accept partial solutions as well (Herman/Heimovics, 1994: 143). Dealing with the board, she should be able to facilitate the board members' involvement to make it a satisfying and productive experience, and show consideration and respect toward board members by being aware of their individual needs. Using her central position the executive director should also challenge “the board consistently to think and rethink the connections among mission, money (and other resources), and strategy” (Herman/Heimovics, 1994: 142). She should also provide the information the board needs and initiate and maintain the board's structure. Therefore, the board's accomplishments and productivity depend strongly on the executive director's engagement, and the board members have to rely on her (Herman/Heimovics, 1994: 142).

Responsibilities

The executive director's tasks (Brinckerhoff, 2000: 60f.) mainly entail providing information to the various volunteer committees, including the board, about new developments inside and outside the organization as well as advising the board about decision-making. In addition the executive director should develop an educational program for the board and provide support for board recruitment.

In return, he may use the board members as a resource. Of course, the executive director has to develop a sound understanding of the organization, maintain fiscal control, and strategically manage all aspects of the organization. He is also in charge of the organization's communication system (Smith/Bucklin & Associates, 2000: 45ff).

Interaction

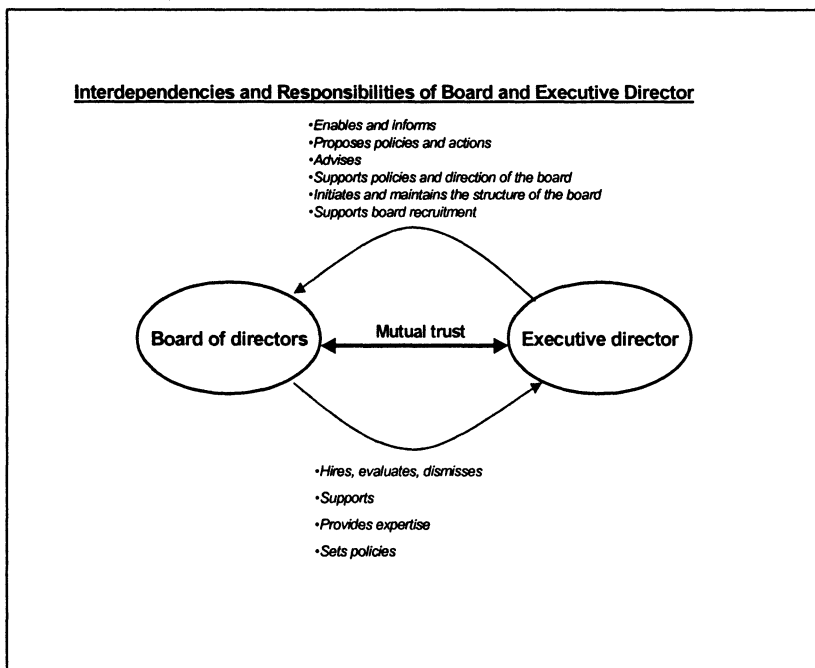
Contrary to what is expected of executive directors, some do not fulfill their role to provide the board information and often do not give the proper information. Gibelman and Gelman (2001: 59) argue that the board's oversight duty has been breached if the executive director becomes a co-equal board member and is allowed more than advisory power in nominating board members or develops a personal relationship with those in charge of evaluating her. This would also be the case if the executive director were given permission to operate independently of board oversight or to commit agency resources without the board's review.

Most if not all authors agree, though, that interaction between board and executive director should be more like a partnership than a superior-subordinate relationship in order to make sure the organization's governance structure functions effectively as well as efficiently. But it is exactly this kind of partnership that might interfere with the monitoring task of the board if it is not understood in the proper sense – in this case the board would be willing to give the executive director the “benefit of the doubt” (Gibelman/Gelman, 2001: 62). The board's supervisory duties would be very hard to fulfill especially if the board would be influenced strongly by the executive director or depended heavily on him because of, for example, a lack of experts on the board. As has been shown here, theory and reality in nonprofit governance differ significantly. In reality, the executive director is held responsible for the outcome of the nonprofit organization's actions – no matter whether good or bad – and this attribution is being made by the board as well as the executive director (Herman/Heimovics, 1994: 140). This corresponds with the findings of Gibelman and Gelman (2001: 59), who point out that the immediate response to allegations against a nonprofit organization is to fire

the executive director and hire a replacement.

In order to harmonize the executive director's responsibility and influence with the nonprofit organization's legal structure, Herman and Heimovics (1994: 140) propose two models: the "rubber-stamp" board, which acts according to the proposals of executive director, or the board that is also largely dependent on the executive director, but obligates the executive director to support the board in fulfilling its legal, organizational, and public role, since the board would be (legally) held responsible for mission accomplishment and public stewardship. According to recent research findings the central tasks for the executive director are to develop the board's abilities and to enable the board to carry out its duties and responsibilities. Trust between the board and the executive director is a precondition for effective and efficient governance but at the same time imposes the danger of insufficient supervision.

Figure 5. Interdependencies and responsibilities of board and executive director



Source: Own Figure

The executive director's position is crucial for the organization's success, but at the same time, she is dependent on the board because the board's members supervise and assess the executive director's performance. According to scholars' findings this means that the executive director must lead the board and, at the same time, be subordinate to it. The executive director's leadership may not go as far as to replace the board or the board's decision-making process, but she has to advise the board about the consequences of specific decisions. This might be seen as influencing the board. Nevertheless, regardless of the experts included and the board's training, the board's members will never be able to gather as much relevant background information as an executive director who is involved in the day-to-day operations of the nonprofit organization. Even if trustees are highly qualified and well informed, they will not be able to gain an insight equal to that of the executive director.

The result is a very ambivalent relationship between the board and the executive director with the executive director being responsible for making it a partnership. He will be responsible for informing the board about all relevant issues in order to avoid any surprises for the board.

Even though scholars agree that, in theory, the board's actions should emphasize strategic goal setting, the development of the organization's mission and the evaluation of the executive director's performance (e.g., Carver, 1997: 108; Werther/Berman, 2001: 19), they also state that the board is often reluctant to empower the executive director to choose the means without consulting the board (Carver, 1997: 108). But one of the potential pitfalls of board governance is the board's failure to withdraw from management as the organization grows more mature and, by doing so, the undermining of the executive director (Werther/Berman, 2001: 19)

In order to build and maintain the board-executive director partnership, the board chair should concentrate on educating and developing the board and mentoring the executive director, as well as fostering a mutual understanding between the board and the executive director. In return, the executive director should concentrate on assisting the chairperson in successfully carrying out the board leadership role and deepening the chair's knowledge as to the field in which the nonprofit organization carries out its mission (Eadie, 2001: 103f.).

Aspects of Supervision

Even though the board's members are held legally responsible for any wrongdoings within the nonprofit organization, it has been pointed out previously that usually the executive director will be held accountable. In order to fulfill its supervisory tasks the board should decide to establish and maintain internal controls such as audits, periodic board turnover, recruitment

of outsiders without any history or interest in the organization (as part of the board), or hiring of additional competent staff (Gibelman/Gelman, 2001:62). A problem that might occur, though, if the board decides to compensate the chair financially, would be that a professional president might try to replace the executive director or at least compete with her (Schmitz, 1996: 240). This would also be applicable for any additional staff that would be employed in order to supervise the executive director directly. The installation of professional boards, which may supervise up to six boards of directors from different organizations, as proposed by Kraakman (1996: 142), could be another solution. This would be of great advantage increasing the board's specific knowledge about the nonprofit organization's field of action, but might interfere with the organization's secrets vis-à-vis any possible competition.

Summarizing this aspect, the board will have to fulfill its task recruiting board members with specific knowledge about the nonprofit organization and its environment. The board members must always be aware of their supervisory and monitoring duty. This includes the requirement to keep themselves informed in a way that exceeds the information provided by the executive director. On the other hand, the board should not overlook the proposals presented by the executive director because of his deep knowledge of the organization and its surroundings. The interaction between board and executive director has to be based on mutual trust. The task of being a board member should not be accepted thoughtlessly nor should the board neglect its duty to recruit competent persons. Willingness to attend the board meetings should be a prerequisite for all board members.

Accountability

There are two types of responsibility: one is for individual actions within the NPO, the other is for the actions of subordinated individuals. The latter as the collective responsibility within an organization is to be called accountability in the following section.

Evaluators or supervisors do not have to deal with the individual actions of their subordinates, but rather should be concerned with gaining sufficient oversight on the whole business of the organization for which they are accountable (Carver, 1997: 105f.). The accountability of certain entities or persons should always correspond to the responsibility structure of the organization.

Even though it should be the board that is held accountable for the organization's outcome, it is most often not. There is a common perception that the members of nonprofit boards do not face the same consequences for breaching ethical standards as do board members of organizations in the public or business sector. However, nonprofit organizations face a number of

stakeholders that should enforce board members' accountability to regulators, the public and top officials (Belk/Daigneault, 1998: 120). Since it will always be difficult, if not impossible, to fulfill every possible stakeholder's expectation, the board should define in whose interest the nonprofit organization is to be governed.

Even though the board will not be involved in the nonprofit organization's day-to-day activities, it should be held accountable for the organization's output – especially since the board's members are accountable according to the law. As discussed earlier, the executive director is held accountable by the board, the staff and the executive director himself for the nonprofit organization's outcomes, but this does not apply to the board in most cases.

Gibelman and Gelman (2001: 60f.) found that the clarification of board responsibilities would be crucial to improve nonprofit organization governance in general and would also increase accountability within nonprofit organizations' hierarchy. They propose a mixture of internal nonprofit organization procedures, watchdog agencies and government oversight to increase the external accountability of nonprofit organizations. They propose this to avoid financial scandals as well as questionable business and ethical practices within nonprofit organizations. They state that external demands, e.g., in contract relationships with the government in which governments exercise the prerogative of demanding standards of management and oversight, have already imposed a growing need for accountability within nonprofit organization's governing bodies. Because it is the board's choice to avoid "leaky" accountability inside their organization, the demand that the board be held accountable by those outside the organization is reasonable.

On the other hand, the board must hold the executive director accountable for the organization's outcome. To make sure accountability accumulates within the hierarchy, the board must ensure that it does not interfere with the executive director's responsibilities. This task is also reflected by the board's accountability for the integrity of governance or organizational performance (Duca, 1996: 17ff.).

In this context another aspect of the interaction between board and executive director has to be discussed. Even though the CEO is accountable to the board (as a whole), the relationship between any individual board member and the executive director should be collegial, not hierarchical, because the board should speak to the executive director with only one voice. By the same token, the board should regard only the executive director as its direct counterpart – not the rest of the staff. All this is to ensure clear structures und unambiguity regarding accountability issues within the nonprofit organization (Carver, 1997:107f.).

Evaluation

In order to monitor an organization's performance, standards for the evaluation of effectiveness have to be set. There are certain prerequisites of evaluation, starting from the existence of formal goals supplemented by the definition of means chosen to achieve those goals and the definition of the instruments chosen to evaluate the effectiveness of the chosen means (Murray/Tassie, 1994: 304f.). The definition of means, though, should not be undertaken by the board since it interferes with the executive director's own best judgment to execute the board's policies or strategies (Carver, 1997: 78f.). The choice of means by the board will also likely result in "leaky" accountability for the organization's outcomes.

Because of the often-contradictory interests of a nonprofit organization's stakeholders, the formulation of criteria for defining an effective organization and the setting of goals are considered to be very complicated (Murray/Tassie, 1994: 310f.).

Nonprofit organizations may use outside evaluators to monitor its performance. These external consultants should be used especially to assist in five aspects: asking questions, helping to design monitoring systems, drawing conclusions, facilitating a reflective progress, and reviewing and improving the whole process. All these actions can be taken more easily by outsiders simply because they are not part of the organization and may, therefore, take a fresh look at it. They can facilitate evaluation because of their background as well as their distance to the organization (Patrizi/Sanders, 1998: 141ff.).

An attempt to formulate the nonprofit organization's goals could be made using the balanced scorecard model⁵ formulated by a board consisting of representatives of all important stakeholder groups. This would simplify the monitoring of staff activities as well as the choice of actions to be taken by the executive director. It would also avoid an excessive concentration on those outcomes that can be measured in quantitative terms but do not necessarily relate to the organization's top goals and mission – a phenomenon that is quite common in nonprofit organizations (Murray/Tassie, 1994: 315). In addition, to ensure ethical standards are being met, Carver (1997: 79) proposes proactive constraints delineating ahead of time which actions of the different actors within the process would be seen as being unethical and imprudent.

5 The balanced scorecard was developed by Robert Kaplan and David Norton (Boston, 1996). It is a management tool used to translate strategic vision into short-term goals using different perspectives and linking the formulated goals to one another.

6. Recommendations for a Well-functioning System of Corporate Governance in Nonprofit Organizations

In nonprofit organizations it is particularly important to establish a balance between formal and informal relations and procedures. The nonprofit organization's basic task is to build harmony among its three main functions: service provision, advocacy and community building. While the effectiveness of nonprofit organizations in terms of service provision depends on institutionalization and formalization, their community role is based on informal potentialities and possibilities. In Central European countries, the operational capacities of nonprofit organizations as service providers are rather low, whereas their potential service-delivering role is quite high. Yet their community-building role is more important. In Western European countries, by contrast, the nonprofit organization's role as service provider is well established, but in many cases the organizations have lost their community-building capacity.

In order to establish a well-functioning governance structure within a nonprofit organization, the board must establish a number of rules and regulations. At the same time it has to meet the requirements set in these rules and regulations. There are some formal aspects concerning the interactions between board members as well as personal requirements relating to each member of the board individually. A code of conduct set up for the board's members as well as any other member of the organization should be developed in order to clarify the expectations laid out for every individual actor or entity. In addition, a system of checks and balances has to be set up to ensure a clear but balanced relationship between the board and the executive director.

In order to nourish the organization, all board members individually should participate in raising funds and in promoting the organization's mission. The funding of the organization through its trustees can be seen as their commitment towards it (Wolf, 1999: 57f.). Involvement in fund-raising may also strengthen the willingness of board members to take their supervision responsibility more seriously. Therefore the donations of the board's members can be a strong supportive argument for the organization's fund-raising activities (Wolf, 1999: 57).

Because the board must monitor the organization's performance, it should stay well informed. In order to do so and to be able to evaluate the executive director's performance, the board's members have to attend board meetings on a regular basis (Duca, 1996: 22). At the same time the executive director should avoid any surprises for the board and fulfill her duty to keep the board well informed. Both partners must be continuously aware of the reality that there is no such thing as perfect information. Even though the

relationship between board and executive director should be based on mutual trust, the board has to fulfill its duty to supervise the executive director and monitor her performance.

In order to enable the board to fulfill its task, the executive director should set up training for the members of the board, while the president or chair should take the responsibility to educate fellow board members as well and ensure that the board's composition includes a maximum of the needed abilities. Therefore board recruitment and the choice of future board members deserve the board's special attention. At the same time, one of the strategic tasks to be performed by the board is to set up performance evaluations on a regular basis, also evaluating the strategic goals of the organization and the board's adherence to these requirements.

Of course it will be equally important to invest in the choice of the executive director. Feedback on the board's perception of the executive director's performance on a regular basis will help the executive director to evaluate the board's needs and expectations. Although a board should never decide thoughtlessly about the executive director's professional fate, it should at the same time be aware that, since the executive director is crucial to the organization's fate, he has to fit the nonprofit organization's needs and that these may change over time.

Suggested Readings

- Axelrod, N. (1994): Board Leadership and Board Development. In: Herman, R. (eds.): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco, pp. 119-136.
- Carver, J. (1997): *Boards that Make a Difference*. San Francisco
- Chait, R./Holland, T./Taylor, B. (1996): *Improving the Performance of Governing Boards*. Phoenix
- Herman, R./Heimovics, D. (1994): Executive Leadership. In: Herman, R. (ed.): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco, pp. 137-153
- Nonprofit Management and Leadership, Vol. 12, No 4, 2002 (Papers presented at the conference "Innovation, Change, and Continuity in Nonprofit Organization Governance", held in Kansas City, Missouri in April 2000)

References

- Axelrod, N. (1994): Board Leadership and Board Development. In: Herman, R. (ed.): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco, pp. 119-136.
- Belk, J./Daigneault, M. (1998): Ethics and Accountability. In: Gray, S. (ed.): *Trice and Associates: Evaluation with Power*. San Francisco, pp.113-122.
- Block, S. (1998a): Board of Directors. In: Ott, S.J. (ed.), (2001): *Understanding Non-profit Organizations. Governance, Leadership, and Management*. Boulder, pp.15-24.
- Block, S. (1998b): Executive Director. In: Ott, S.J. (ed.) (2001): *Understanding Non-profit Organizations. Governance, Leadership, and Management*. Boulder, Oxford, pp. 100-107.
- Brinkerhoff, P. (2000): *Mission-Based Management: Leading Your Not-for-Profit in the 21st Century*. New York et al.
- Carver, J. (2001): Setting Limits. Standards of Ethics and Prudence. In: Ott, S.J. (ed.): *Understanding Nonprofit Organizations. Governance, Leadership, and Management*. Boulder, pp.25-37.
- Carver, J. (1997): *Boards that Make a Difference*. San Francisco
- Chait, R./Holland, T./Taylor, B. (1996): *Improving the Performance of Governing Boards*. Phoenix
- Committee on the Financial Aspects of Corporate Governance (1992): *Report of the Committee on the Financial Aspects of Corporate Governance*. London
- Drucker, P. (1990): *Managing the Nonprofit-Organization*. New York,
- Gibelman, M./Gelman, S. (2001): Very Public Scandals: Nongovernmental Organizations in Trouble. In: *Voluntas*, No. 1, pp. 49-66.
- Eadie, D. (2001): *Extraordinary Board Leadership. The Seven Keys to High Impact Governance*. Gaithersburg
- Fama, E./Jensen, M. (1983): Separation of Ownership and Control. In: *Journal of Law and Economics*, June 1983, pp. 301-326.
- Gray, S.T. and Associates (1998): *Evaluation with Power*. San Francisco
- Herman, R. (eds.) (1994): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco
- Herman, R./Heimovics, D. (1994): Executive Leadership. In: Herman, R. (ed.): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco, pp. 137-153.
- Hodges, R./Wright, M./Keasey, K. (1996): Corporate Governance in the Public Services: Concepts and Issues. In: *Public Money & Management*, No. 2, pp.7-13.
- Hopkins, B.R. (1998): The Law of Tax-Exempt Organizations. Organizational, Operational, and Similar Tests. In: Ott, J.S. (ed.) (2001): *Understanding Non-profit Organizations. Governance, Leadership, and Management*. Boulder
- Hopt, K.: The German Two-Tier Board (Aufsichtsrat). A German View on Corporate Governance. In: Hopt, K./Wymeersch, E. (eds.): *Comparative Corporate Governance*. Berlin, New York, pp. 3-20
- Kraakmann, R. (1996): Die Professionalisierung des Board. In: Feddersen, D./Hommelhoff, P./Schneider, U.: *Corporate Governance*. Köln, pp.129-142
- Malik, F. (1999): Wirksame Unternehmensaufsicht. In: *Frankfurter Allgemeine Zeitung*. Frankfurt/M

- Martens, K. (1999): Managementüberwachung durch den Aufsichtsrat. Lohmar
- Murray, V./Tassie, B.: Evaluating the Effectiveness of Nonprofit Organizations. In: Herman, R. (ed.): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco, pp. 303-324.
- Oster, S. (1995): *Strategic Management for Nonprofit Organizations. Theory and Cases*. New York
- Ott, S.J. (ed.) (2001): *Understanding Nonprofit Organizations. Governance, Leadership, and Management*. Boulder
- Patrizi, P./Sanders, J.: Using Outside Evaluators. In: Gray, S.T. et al.: *Evaluation with Power*. San Francisco, pp. 140-147.
- Peltzer, M./v. Werder, A. (2001): Der „German Code of Corporate Governance (GCCG)“ des Berliner Initiativkreises. In: *Die Aktiengesellschaft*, No. 1, pp. 1-15.
- Smith Bucklin et al. (2000): *The Complete Guide to Nonprofit Management*. 2nd ed. New York et al.
- Schmitz, R. (1996): Praktische Ausgestaltung der Überwachungstätigkeit des Aufsichtsrats in Deutschland. In: Feddersen, D./Hommelhoff, P./Schneider, U.: *Corporate Governance*. Köln, pp. 234-241.
- Werther, W.B./Berman, E. (2001): *Third Sector Management. The Art of Managing Nonprofit Organizations*. Washington, D.C.
- Wolf, T. (1999): *Managing an Organization in the Twenty-First Century*. New York

Human Resource Management in Nonprofit Organizations

1. Theoretical Foundations and Related Research

Human resource management (HRM) as a discipline within economic research has developed over the past 30 to 50 years with the focus being primarily on business enterprises. In the meantime, many enterprises, especially larger ones, have become highly professional in doing HRM. Following this trend, the role that HRM plays within scientific research has also increased. This development was mainly driven by two forces. First, the expenditures for personnel especially in nonproductive industries often consume more than half of the revenue or total costs. Second, personnel has an enormous influence on organizational performance. In a situation of intense competition, it is therefore important for companies to concentrate on HRM in order to improve their own performance and to reduce their costs.

As far as nonprofit organizations (NPOs) and public sector organizations are concerned, forces of competition, limited access to resources and need for performance improvement have, although with some delay, become highly relevant (Horack/Heimerl, 2002: 180f.; Zimmer/Priller/Hallmann, 2003: 40f.). In general, responsible managers in NPOs realized much later the need for implementing professional HRM, even though NPOs have relatively higher expenditures for personnel than their forprofit counterparts due to their service orientation. In the meantime, the pressure for rationalization has also grown in many NPOs. As a result, personnel is increasingly regarded as a valuable resource, and HRM, in turn, has become a critical instrument for organizational success. As a further consequence, institutionalized HRM, i.e., the HR function *per se*, is becoming more professional in NPOs.

Following these developments, academic research interest increasingly focuses on examining HRM (or the effort to implement HRM) in NPOs at different levels. At the *conceptual level* it is asked if and how HRM, which was originally conceptualized for business enterprises, can be transferred to NPOs. The transferability of management instruments to the specific case of NPOs is discussed widely for almost every management function. Conclusions at this point differ and depend on the specific functions under examination. For accounting systems, for example, a transfer seems to be

possible without fundamental changes. Other functions such as financing, on the other hand, require more in-depth analysis. For the field of financing, existing instruments must be expanded in order to account for specific aspects of NPOs such as fundraising. For the HR function, additional questions arise as well. Mayerhofer (2003), for example, discusses whether volunteers, who are an important if not a constitutive element of NPOs, should be regarded as personnel at all. A positive answer to this question would be a precondition for the application of HRM instruments. Other authors wonder whether the unique character of NPOs (especially their non-economic values, which also affect the treatment of personnel) can be retained when HRM instruments “inspired” by forprofit companies’ management strategies are applied (see also Krönes 2001 with respect to the Protestant Church). There is fear that as a result of increasing commercialization, NPOs might lose their specific character, such as the trust that they enjoy (especially in the area of social services) and their ability to recruit and keep volunteers (Simsa, 2002: 138f.)

Purpose of This Chapter

In general, the central task of human resource management is to secure quantitatively the availability of human resources and to ensure quality levels of the work carried out by employees (in proportion to cost). If HRM is neglected, the efficiency of the organization could be endangered. More than any other type of organization, NPOs depend on their employees’ performance so that they can fulfill quality expectations. They also need to ensure that labor costs are at an acceptable level. Therefore, excellent employee performance is the most basic condition for the survival of any organization (Capelli/Crocker-Hefter, 1996). Increasing competition for employees as well as for funds will force NPOs to rethink their current HRM activities in order to become more cost-sensitive, efficient, and effective.¹ It is therefore worth asking whether and how the principles of human resource management can be transferred to NPOs in the same way they were developed for profit-oriented organizations over the past 20 years.

The purpose of this chapter is to outline the ways HRM can stabilize and increase the efficiency of NPOs. To do so, special attention must be paid to the specific characteristics of NPOs. As the technical term human resource *management* already indicates, the management perspective will be the focus. The management perspective implies that the viewpoint of the top management of the NPOs will be adopted (e.g., the one of a secretary general, managing director, or executive committee). It only seems sensible to adopt

1 The extent to which these challenges affect NPOs and the necessity to become more professional in terms of HRM varies between NPOs. As this article aims at giving a general overview, we will focus on aspects which are relevant for different types of NPO.

this perspective for the case of relatively large NPOs. If NPOs are relatively small (especially when they are still in their formation process), there does not seem to be much room for *strategic* personnel management. This is mainly due to the special *ad hoc* character of management decisions in smaller organizations.

2. Special Conditions for HRM in NPOs

NPOs can be described by a number of characteristics that allow them to be distinguished from profit-oriented enterprises and public sector organizations. These aspects must be taken into account whenever HRM tools are designed or converted to fit the NPO case. In recent years HRM in NPOs also has become a matter of particular interest to many researchers. Research in this area is primarily concerned with the effects that specific characteristics of NPOs (which will be examined below) have on the development and implementation of HRM concepts.

Mission Instead of Profit as an Institutional Goal

A particular characteristic of NPOs is their pursuit of a “mission,” in the fields of, for example, culture, sports, politics or social service. In contrast to profit-oriented enterprises, the highest goal of the nonprofit organization is the fulfillment of this mission, not the maximization of profit. Thus, within the organization, attention is focused on the realization of non-economic values. These values must be expressed in strategic plans. They also need to be transferred into the daily application of HRM in order to secure, both internally and externally, the success of the NPO. The Protestant Church is a good example at this point (Krönes, 2001). This idea completely rules out a predominantly instrumental use of employees. Instead, within NPOs the individual as such can claim benefits or satisfaction from the realization of the organizational mission.

Structure of Employees in NPOs

Many NPOs differ from profit-oriented enterprises and public sector organizations due to the particular composition of their labor force. A main characteristic of profit-oriented enterprises and public sector organizations is that employees almost exclusively work for remuneration (i.e., in order to earn a living). For many NPOs it is common that *volunteers* are active in addition to paid employees (who themselves often receive a much smaller

remuneration than the prevailing market rate). Due to their status, volunteers do not receive any remuneration at all (Badelt, 1985; Wehling, 1993). In most social service NPOs, *community service workers* must be added as a third group of employees. These community service workers are often required by law to work in NPOs. As a result of this complex situation, HRM must adjust itself to the respective combination of paid workers, volunteers and those carrying out community service. It is a strategic HRM decision to choose an appropriate combination of these groups (in terms of size).

Motivation Structure of NPOs Employees

Following what has been said previously regarding the importance of voluntary employment in NPOs, it can be concluded that NPO management needs to implement *motivational tools* that substantially differ from the ones typically employed in profit-oriented enterprises. This has consequences for HRM practices, too. First of all, voluntary activity means that an activity is done for its own sake (“honor’s sake”). The aim of such an activity is to reach a goal or to create an externality that derives from the NPO’s mission. The motivation of employees in NPOs is predominately *intrinsic*. The usual function of management as motivators or stimulators of performance is therefore unnecessary because the employees are already highly motivated.

On the one hand, this results in less pressure for managers, especially if one assumes that many employees in the forprofit sector do not feel at all motivated by their tasks, but only by the payment they receive. On the other hand, the possibility is not given in NPOs to stimulate a desired behavior through money and other incentives. Volunteers themselves determine whether, how, with what intensity, and how long they want to be active in their organization. Therefore, if looked at under the aspect of *influence possibilities*, this situation creates at the same time both problems and opportunities. Current empirical research about the commitment motives of volunteers offers a more differentiated picture of the motivation. It can be concluded from recent findings in the literature that apart from the activity itself, employees are motivated by their desire for a meaningful use of spare time, social networking, their desire to gain valuable experiences, and the wish to extend their own range of knowledge through learning (see, e.g., Gensicke, 2000: 78).

Summing up, special requirements for HRM in NPOs result from the parallel existence of mostly income-related motivational structures (for paid employees) and non-income-related motivational structures (for volunteers and possibly for community service workers).

Specific Restrictions on the Use of Volunteers

Voluntary activity is subject to certain *restrictions* that have special relevance for the HRM of NPOs. Taking on volunteers implicitly presumes that the person hired has a reliable income that covers living expenses. Volunteers therefore have to receive other income from third parties (such as full-time employment income, pensions, or support from employed husband, wife or parents). Only in some cases are volunteers wealthy enough to cover their living expenses completely. Furthermore, voluntary service commitments in combination with other duties can lead to a degree of involvement that is comparable to full-time employment. As a consequence, volunteers usually only work a limited amount of time per week or month for the NPO due to other pressing activities.

Limited Availability of Performance Benchmarks and Cost Standards

NPOs often develop in areas where there are no market rules to regulate economic activity. Clients of the services often have no clear expectations about the quality, quantity, and cost of the services they receive. If NPO managers cannot refer to market standards as reference cases, they will find it difficult to value their employees' achievements. Under these circumstances, the NPO itself needs to define service standards, e.g., on the basis of direct agreements between the provider and the recipient of the goods and services.

The lack of reference cases often also applies to *personnel expenditure*. A significant number of NPOs either have no or only low personnel costs because their employees do not receive any remuneration for their activities. In other NPOs, personnel costs can be quite high. In this case, costs crucially depend on the proportion of volunteers and paid employees. In a third case, personnel costs exist and can be compared to other firms. In this case, however, personnel costs have no effect on the organization's performance because they are directly refunded by other organizations, e.g., by the community or the state.

3. Instruments of HRM

Choosing the Appropriate Mix of Employees Within an NPO

A large number of NPOs can be characterized by a *mix of different types of employees*, such as full-time and part-time employees, unpaid volunteers,

fully remunerated employees and, in certain cases, even community service workers. This being the case, management has to choose the right mix of employees (in terms of the composition of all workforce categories). Choices need to be made regarding the proportions or the representation of certain groups of employees in relation to the overall structure of employees depending on the kind of activities that are to be carried out (Wehling, 1993).

Thus far, no general rules regarding the optimal mix or composition of employees in an organization have emerged. The following recommendations offer practical guidelines. In general, as in any organization, key criteria for employees are their availability, their qualifications and the overall cost level. *Availability* refers to the recruitment possibilities on the "external job market." The availability of the various types of employees will affect the mix. For example, the potential for part-time employees, volunteers and community service workers on the external job market is limited, especially since NPOs compete for these groups of employees among themselves. The criterion of availability also covers the fact that part-time employees and especially volunteers tend to quit their engagement for the NPO after a relatively short employment time.

Volunteers and community workers in particular are not always in possession of the required *qualifications* for the field in which they are working. Therefore, specific training is necessary at the beginning of the employment period. If no such training is carried out, the NPO risks low-quality performance. If neither qualified adequately nor trained appropriately, these groups of employees are often assigned simple tasks. Over a longer period of time, it might lead to a decrease of their intrinsic motivation.

The aspect of *cost economies* relates to labor costs. In relation to unpaid volunteers or community workers, labor cost levels in NPOs can be quite high for those parts of the workforce that are fully compensated. The use of volunteers can lead to cost advantages, which in turn is an argument in favor of employing relatively large numbers of volunteers (in terms of their proportion to total workforce, cf. Gaskin, 1996; von Eckardstein/Mayerhofer/Raberger, 2001). As the proportion of volunteers increases, paid employees often tend to worry about their job security. In order to avoid competition among different groups of employees, management might adopt dysfunctional personnel strategies for volunteers. Another cost factor can be derived from personnel structure: Training volunteers and community workers means relatively high *worktime-specific costs* of qualification because of the generally short payback periods for these education investments. This makes education investments for full-time employees more economical.

Finally, *coordination and interface problems* contribute to the limited use of volunteer staff. On the other hand the volunteer staffing policy must be seen from the perspective of creating potential opportunities for highly motivated part-time employees in the future. Coordination problems and other

difficulties thus should be seen related to this potential.

Structuring can be done also giving consideration to other criteria, e.g., by aiming at a mixed *age structure* in order to avoid obsolescence with its unfavorable consequences or by aiming at an appropriate *gender structure* within the different fields of work.

Recruitment

Recruiting serves to create the personnel structure or to maintain it. Basically the importance of *diligent recruitment* rises with the length of employment, requirements for qualification and motivation as well as the wage demands.

Staff selection procedures are based on the existence of applicants. Therefore recruiting actually starts with external communication to increase the number of potential applicants. It is advisable to broaden the applicant pool by target group marketing over different communication channels (advertisements, articles in newspapers, contacts made by existing employees).

The most common instrument for staff selection is the *interview*, which is based on an analysis of the application documents or a personnel questionnaire. Interviews are an opportunity to become acquainted with the applicant personally. On the other hand applicants need information as well, which influences their decision-making, and wrong decisions can be reduced on both sides. To reduce subjectivity, it is helpful to include a second interviewer or to assign an additional interview. The interview can be also standardized by asking every applicant the same questions in the same order so that one can compare the response behavior.

Especially for the recruitment of management staff the so-called *assessment center* is recommended. Information about the applicants is obtained by observing how candidates behave under simulated work conditions. For this purpose applicants have to accomplish different tasks (e.g., presentations, discussions), which reflect their future work situation. Afterwards the observers compare their perceptions and decide which candidate fulfilled the duties best. The use of assessment centers in selection procedures is relatively time-consuming, but leads to a high-quality prognosis for the future suitability of the proven applicant. They are used at present in many large profit-oriented enterprises (see, e.g., Fisseni/Fennekels, 1995).

Sometimes organizations use *knowledge, behavior and personality tests* for their candidate selection. Such tests can be useful in pre-selection if there are large numbers of applicants. Since the connection between task fulfillment in real work situations and test results is not discussed, the quality of their prognoses remains still undefined.

By now, staff selection procedures for full-time paid employees in NPOs

are a matter of course. For *volunteers* by contrast, the use of selection procedures is less widely accepted. A frequently mentioned argument for this fact refers to the donation aspect of voluntary work, which cannot be rejected even if the volunteers are not always reliable or qualified. Some NPOs stress that volunteers are not only employees but also members on which they are dependent. A further argument reflects the low costs of unpaid employees. From a HRM perspective it is to be said that volunteers contribute to the quality of performance as much as other employees. Applying professional selection procedures could therefore improve performance quality and lower costs.

Organization of Work

The organization of work consists of two steps, both having strategic importance: First, the tasks are specified for each employee, second, it must be decided whether the employee accomplishes these tasks individually or within a group structure.

Task definition is critical for job requirement levels, for demands (von Eckardstein et al., 1995: 192), and for the attractiveness of the job activity. A general rule is: The narrower the task is defined, the lower are the job requirements for the activity and the smaller is the attractiveness of the work for the identification possibilities, which are connected with the task, and also regarding remuneration. On the other hand, the advantage of narrowly defined tasks resides in the fact that they can be done by a relatively large number of employees after only a short briefing.

The second organizational parameter is the decision between *individual or group work*. Recent trends in the profit-oriented economy show that numerous enterprises strongly promote group work as they increasingly discover the advantages of group work concepts and seek to use them for improved productivity.

The advantages can be explained best based on the model of the *semi-autonomous working group*, which also represents the preferential model for the introduction of group work. In semi-autonomous groups the members decide about internal task distributions, sometimes also about output quantity, about their schedule, about the replacement of temporarily absent members, etc. The main advantages lie in the rapid, briefly closed self-management without superiors, in quick replacement when group members leave, and in the very effective social control of individual group members, which is realized over task execution and problem-solving as well as learning together. The mechanism of working groups is based on a less hierarchical organization, which makes it possible to use the advantages of self-organization in a hierarchically structured organization without questioning hierarchy as a

coordination principle itself. Such group work normally presupposes that each member controls substantial elements of the entire task assigned to the group. Besides semi-autonomous groups, there are several other concepts for team work (e.g., quality circles, continuous improvement processes, project groups), which are all based on comparable principles.

Most NPOs have implemented elements of group concepts. The question is whether the success of this concept can be further increased by intensified shaping and additional implementation of such groups (e.g., by intensified group socialization). The advantages of group concepts in the forprofit sector are so highly convincing that managers of NPOs cannot really even consider the absence of group concepts.

Cooperation between full-time employees and volunteers is a special topic of work organization (von Eckardstein/Mayerhofer/Raberger, 2001: 144 ff.). Conflicts arise mostly as a result of the fact that volunteers feel insufficiently informed or gerrymandered by full-time employees, so they reject responsibility for their own duties. To improve cooperation between both, specific solutions for each organization are needed, which can also lead to a group-specific task separation.

Leadership

Leadership covers *personal communication* between *unit managers* and the *persons employed* within an organizational unit. The purpose of this communication is to affect the employees' behavior so as to achieve the respective goals of the organization. Under this condition, leadership makes sense only if goals were expressly formulated for the organization. Unit managers have to "break down" the goals so that they are translated into clear actions. Leadership is an indispensable function in every organization, although there are substantial differences between organizations concerning the intensity of this control instrument.

The practice and theory of leadership defines important *leadership instruments* each supervisor should know: feedback, employee evaluation, and performance discussions. *Feedback* is communication about the evaluation of behavior as soon as possible after an observation. This happens in positive cases in the form of acknowledgement, in negative cases as criticism. For practical purposes, numerous rules are helpful, how such feedback discussions can be led as effectively as possible. *Employee evaluation* represents a systematic procedure to collect comprehensive information about the achievement and the behavior of the employee being evaluated (von Eckardstein/Schnellinger, 1978: 302). This information should be made accessible to the employee and be discussed in detail, typically in the context of personnel development interviews. *Performance discussions* constitute the

place to exchange assessments of past achievements and behavior and are mostly conducted at least annually. Transparency in the process and an orientation for future behavior are important for both participants.

In practice, leadership follows very different principles in which the respective individuality of the involved persons as well as specific organizational aspects are reflected. Some organizations create *leadership guidelines*, which include statements about the desired leadership behavior of the superiors.

For NPOs the question of whether and how volunteers should be integrated into leadership processes has not been convincingly answered so far. Some organizations enter into agreements in which mutual expectations, rights and obligations are outlined (Biedermann, 2000: 118). In hierarchically oriented organizations such as fire brigades and rescue organizations, clear instructions exist and have to be applied. In the context of regular interactions (goal agreement, feedback, performance discussions), leadership has only modest value.

HR Development

Qualification of employees refers to activities conducted by an organization to improve the abilities of its employees to increase the quality and quantity of output. Qualification can be called HR development if such activities follow a longer development concept (Mayerhofer, 1999).

Important qualification components are professional education and professional training. The goal of *professional education* is to enable particularly young graduates in the practice of a qualified vocational activity by conducting an official training program that meets a set of national standards. The aim of *professional training* is to enlarge and deepen vocational abilities already acquired. In contrast to professional education, professional training is not regulated. Its main purpose is to adapt the employee's qualifications to the qualification requirements that are necessary for the respective job or tasks.

In the context of increasing professionalism in numerous NPOs, HR development is very much appreciated. In considering the *intensity* and the goals of qualification activities, it is essential to differentiate between a minimum qualification for the execution of the tasks at hand and a more general qualification. In the case of the first, the main advantage results from cost economy; in the case of the second, a greater flexibility for new tasks is acquired. Especially in situations that require high personal responsibility, a broad qualification level is obligatory.

If volunteers and community service workers are active in an NPO in addition to paid personnel, the strategic question arises whether the NPO

should expand its qualification programs toward these two groups. Economic facts argue rather against including unpaid employees because they generally work a smaller number of hours in relation to the paid employees and - in the case of community service workers - remain only a relatively short time in the organization. In this case the worktime-specific expenditures for the qualification noticeably exceed those of the paid employees.

However, if investment in the qualification of unpaid workers is systematically less, a two-class system is generated because the unpaid employees can be assigned generally only simpler work or auxiliary activities. From this again, the organization's inclination might be to reduce voluntary activities and to allow unpaid employees to remain a shorter time within the organization. One should ask instead whether a *qualification policy* could increase the attractiveness of unpaid activities to the "volunteer labor market." Thus, the integration of unpaid workers could be improved, their proportion in the organization could be increased, and conflicts between paid and unpaid workers over the often-proclaimed lack of acknowledgement of the latter would be reduced.

Remuneration

Within the realm of paid work, remuneration is usually regarded as a main incentive for performance. A salary is the price for which the employees give their work to the organization. In this market-oriented view, the amount of payment naturally has a substantial role, since it represents a cost factor for the organization and is generally the most important source of income for the persons employed. Numerous organizations use payment as a main *instrument for performance management*. In the context of NPOs, two questions in particular are raised: How can the amount of remuneration be determined, and should the remuneration system be used for the control of performance?

The question about the *amount of remuneration* must be treated differently for the different segments of people employed in NPOs. For paid employees, the NPO will try to pay a wage that corresponds to the usual market conditions for the respective activity category in order to survive in the competition for qualified workers. Otherwise organizational performance could be jeopardized. However it is to be pointed out that many persons employed in NPOs are satisfied with a smaller remuneration than they would receive in a profit-oriented enterprise for a comparable activity, due to a strong identification with the mission of the NPO (Badelt, 2002: 124).

Improved goal-orientation is the aim of performance-oriented remuneration systems. An additional payment is connected with the achievement of special quantitative and/or qualitative performance goals. Pay-for-performance systems generally seem to be less common in NPOs than in

profit-oriented enterprises. To motivate performance, their application should be considered also for NPOs. In the context of mixed personnel structures, however, caution is indicated since conflicts between value orientation and income orientation are to be expected there. The remuneration of management presents a special problem: Should their compensation vary according to their contribution to the organization's performance as is the case for high-level personnel in forprofit enterprises (von Eckardstein, 2001)?

With paid employees, by definition the payment in cash is the main focus. This does not generally apply for unpaid *volunteers*. For volunteers a non-material "return" by representatives of the NPO in the form of acknowledgement of their achievements holds more importance. Apart from this, non-material privileges such as access to reasonable purchase possibilities, training and other qualification opportunities, etc. come into consideration for the acknowledgement of voluntary activity as well. Privileges for volunteers - for instance within the social security system - could also be justified from the social context of voluntary work (e.g., Biedermann, 2000: 123 f.; Gensicke, 2000: 85).

4. HR Strategies

Concept of HR Strategy

The different instruments of HRM outlined above are interdependent and cannot be seen without considering their context. Human resource managers have to assume that employees are affected not so much by individual instruments but rather by *all instruments as a whole*. Therefore a consistent total concept in which the individual instruments can be arranged is needed. These instruments represent an action program that the participants in HRM pursue for a longer term. It is defined here as *human resource strategy*.

With the development of such a concept, a fit of instruments is to be aimed at in the sense that individual instruments mutually strengthen each other's effect, or at least do not obstruct each other (*horizontal fit*). The question of a *vertical fit* also arises: This includes the harmonizing of the personnel strategy with relevant contextual conditions on the one hand and the strategic goals of the NPO on the other hand. It is evident that a fit of relevant contextual conditions and organizational goals with the personnel strategy is more favorable for the performance of the NPO than an independent personnel strategy. Nevertheless fits in the horizontal and vertical dimensions cannot be monitored regularly (von Eckardstein, 2003: 392f.). Human resource strategies are not controlled by logic, by developing

action programs on the basis of relevant contextual factors and organizational goals, which must then just be converted by the responsible persons. They rather reflect the *subjective logic of the participants and the culture of an organization* (von Eckardstein/Mayerhofer, 2001: 227f.). Human resource strategies depend on whether and how conditions are assessed and how they are converted from organization goals into action programs (von Eckardstein/Mayerhofer, 2001). Every human resource strategy is connected with a basic idea, a “philosophy,” which the participants share and put into action. Basic ideas or “philosophies” of the participants as well as the organizational culture do not change on short notice; they are longer-term stable constructs. Their function in the context of HRM is to put the complexity of HRM action and appropriate planning into a frame of reference and thereby to make it describable. Thus the classification of individual instruments within a general context is made easier. The responsible person has to ask whether and to what extent these instruments are compatible with organizational goals, circumstantial factors, and the “philosophy” and organizational culture (see Eckardstein/Simsa: Strategic management, in this book).

Designing HR Strategies

The following section outlines prescriptive and empirical aspects of HR strategies in NPOs. The prescriptive perspective offers organizational recommendations, while the empirical perspective focuses on the practical shape of HR strategies in NPOs.

From a *prescriptive* viewpoint, numerous recommendations regarding instruments and measures can be found in the literature, primarily with reference to paid personnel in enterprises (see, e.g., Pfeffer, 1994; Berthel, 2000; Drumm, 2000; Oechsler, 1997; Klimecki/Gmuer, 2001). These recommendations express the “best practice” of HRM without regard to sector-specific conditions. Beyond that, more NPO-specific recommendations exist in the literature about NPO management (e.g., Herman, 1994; Naehrlich/Zimmer, 2000, therein esp. Biedermann; Pidgeon, 1998 with reference to volunteers). These volumes recommend highly proven HR strategies with a general validity. However, they lack any link with situational conditions such as participants, pursued goals or types of NPOs. This is not to diminish the value of these recommendations because they contain numerous valuable suggestions. Nevertheless, they are often too general for direct application and include too little information about how to set priorities under specific conditions. In this context the findings of Simsa (2001) appear remarkable. Simsa describes different influence strategies NPOs can exert on other organizations based on two dimensions: “divergence of logic and interpretation tendencies” and “extent of coupling.” The four HR strategies

that result from the matrix of these two dimensions in the picture below can be assigned to specific types of NPOs. Simsa differentiates between influence strategies based on *confrontation*, which apply to human rights organizations, for example. To ensure acceptance by their surroundings and to fulfill background activities, these organizations should offer internal career brackets, also with a focus on older employees. *Cooperative* influence strategies are typical for membership associations, which try to exert influence through negotiations with other organizations. For them HRM must concentrate on the selection of personnel and employee development to strengthen the employees' commitment to the organization's goals. *Damage limiting* strategies are focused on the reduction of negative effects and are very appropriate for aid organizations. HRM should concentrate on protecting employees from burnout effects and loss of motivation through coaching and team development. The dominance of *service provision*, which applies mainly to NPOs in the cultural and social fields, requires high professionalism of the NPO personnel because of the competitive environment. HRM can support this, for example, by defining quality standards for employees. There are only a few *empirical* studies about HR strategies pursued by NPOs. Empirical research in HR strategies still is at the beginning in general, and this is true particularly for NPOs. Ridder/Neumann (2001) find in an exploratory study (hospitals and nursing facilities in Lower Saxony/Germany) that the vertical fit between general management and institutional HRM is only weakly evident, since responsible HR managers are rarely consulted for strategic questions with impact on HRM. They concentrate on the operational activities of HRM instead. For quantitative personnel planning as well as for qualitative staffing, they follow instructions from external sponsors. Management by objectives as a leadership tool is seldom found. A HR strategy taking horizontal fit into account does not exist.

Another exploratory investigation based on twelve case studies of social service NPOs in eastern Austria (von Eckardstein/Mayerhofer, 2001) with a focus on volunteers found a *different staffing pattern* for voluntary employees. They are assigned within the operational range as either

- additional to paid employees in order to support the work of the latter and/or
- equivalent, i.e., with the same tasks as paid employees, or
- exclusively for the execution of operational tasks, while paid employees concentrate their activities on management tasks.

A second finding shows substantial differences for the *development level of HRM*. On one hand, there are NPOs using only few HR instruments and mostly not in a purposeful and systematic way (lacking in particular HR development). On the other side of the spectrum, a highly developed HRM can be observed, characterized by the use of comprehensive instruments that

are coordinated among themselves (horizontal) as well as with the organization's goals (vertical). While the first case is found very often in smaller NPOs, the latter mostly applies to large NPOs in the sector of social services.

A third set of findings refers to whether the NPO sees *differences in qualification and achievement* among volunteers and how these differences are handled. This perspective is important for the maintenance and improvement of performance quality and highlights the question how NPOs react to differences in their volunteers' performance and qualification. From the combination of two criteria (development level and handling differences), a four-field matrix can be developed with four types of HR strategy (selective, harmonizing, differentiating, leveling). The sample allows a first empirical insight into HRM strategies in NPOs. Results show that on one hand NPOs with a highly developed HRM emphasize performance and quality orientation; on the other hand there are NPOs stressing the community of volunteers and the acknowledgement of the donated work (harmonizing human resource strategy). Both developments reflect specific "philosophies" of participants and organizational culture. In terms of strategy development these conceptual frameworks can be used as analytical tools for self-description of the actual HR strategy as well as for the definition of strategic goals.

Human Resource Management Dependent on the Type of NPO?

The NPO sector as such is quite heterogeneous. NPOs can be classified according to a number of criteria (Badelt, 2002a: 70f.), for example, the purpose of the NPO (membership, service, advocacy, or support), its stage of development, its size, and its proximity to private sector companies, to public sector organizations or to society as a whole (Zauner, 2002: 174). A classification of NPOs could be carried out also according to their geographic affiliation (e.g., Eastern European countries, transition economies, Western European countries, U.S.A.). Following this idea of heterogeneity among NPOs, the question arises whether HRM should be differentiated, too, according to the type of NPO. A second question is whether there is even empirical evidence for potential differences in HR strategies.

As far as the main functions of personnel management are concerned (such as the recruitment, management, and remuneration of employees), it is suggested that from a purely *prescriptive perspective*, these functions are the same for any kind of organization (i.e., regardless of its nonprofit or forprofit nature). Mayrhofer/Scheuch explicitly point this out saying that management functions need to be carried out regardless of the specific character of an NPO (Mayrhofer/Scheuch, 2002: 100). Employees need to be recruited, managed, and remunerated independent of whether they work in a hospital or for

a political party. Volunteers need to be recruited, too. By definition, however, they do not receive any remuneration (in monetary terms). Following these considerations, it is therefore not controversial to assume that NPOs carry out their HRM functions (such as recruitment or management) with a varying intensity. Recruitment in NPOs might be a less complex task if there are volunteers that approach the NPO themselves with the intention to work for it (in comparison to the case where the NPO needs to engage actively in costly recruitment activities). As far as the objectives pursued with these HR functions are concerned, there are potential differences among NPOs, however. It is suggested that NPOs should treat their employees in the same manner or with the same set of values as they proclaim themselves. A religious order that is itself obliged to dutifulness should therefore apply this itself as a key governance principle. v. Eckardstein/Ridder have formulated, with the necessary precaution, a number of hypotheses regarding the relationship of NPO types and the focus of their personnel strategies (v. Eckardstein/Ridder, 2003: 18f.). Simsa, too, recommends differentiating personnel strategies in NPOs according to type of NPO (Simsa, 2001; cf. 6.4.2 Designing HR Strategies). From an *empirical viewpoint*, there is no information as to whether personnel strategies in NPOs clearly depend on the type of NPO. It seems more to be the case that there are significant differences *between organizations of the same type*. These differences can most likely be explained by differences in orientations of human resource managers (e.g., their own opinions or priorities) or other situational factors.

5. Conclusion

HRM has a substantial influence on the performance and the expenditures of NPOs. There exists an extensive body of knowledge and recommendations, which were originally developed for profit-oriented organizations and which can be applied in different ways to NPOs as well. However, the special characteristics of these organizations must be considered. HRM practices vary from NPO to NPO. Single observations and case studies show that several NPOs already use instruments for recruiting and long-term planning or develop HR strategies. But there still is a need for increased professionalism. If the application of professional HRM instruments remains behind expectations and needs, the question of why arises. In this area there is a lack of knowledge about practical problems NPOs face when they implement existing recommendations for HRM. Because intensive empirical research is missing, there are substantial gaps in this field, which are difficult to fill because of the heterogeneity of these organizations.

Suggested Readings

- Badelt, Ch. (ed.) (2002): Handbuch der Nonprofit Organization. Stuttgart
Berthel, J. (2002): Personal-Management, Grundzüge für Konzeptionen betrieblicher Personalarbeit. Stuttgart
von Eckardstein, D./Ridder, H.-G. (eds.) (2003): Personalmanagement als Gestaltungsaufgabe im Nonprofit und Public Management. München
Hermann, R.D. (ed.) (1994): The Jossey-Bass Handbook of Nonprofit Leadership and Management. San Francisco

References

- Badelt, Ch. (2002a): Der Nonprofit Sektor in Österreich. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organization. Stuttgart, pp. 63-105
Badelt, Ch. (2002b): Zwischen Marktversagen und Staatsversagen? Nonprofit Organisationen aus sozioökonomischer Sicht. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organization. Stuttgart, pp. 107-128
Badelt, Ch. (1985): Politische Ökonomie der Freiwilligenarbeit. Frankfurt
Berthel, J. (2000): Personal-Management. Stuttgart
Biedermann, Ch. (2000): Was heißt Freiwillige managen? Grundzüge des Freiwilligen-Managements. In: Nährlich, St./Zimmer, A. (eds.): Management in Nonprofit Organisationen. Opladen, pp. 107-128
Capelli, P./Crocker-Heffer, A. (1996): Distinctive Human Resources are Firms' Core Competencies. In: Organizational Dynamics, 24/3, pp. 7-22
Drumm, H.J. (2000): Personalwirtschaftslehre. Berlin
von Eckardstein, D. (2003): Personalmanagement, in Kasper, H./Mayerhofer, W. (eds.): Personalmanagement, Führung, Organisation. Wien, pp. 361-446
von Eckardstein, D. (2001): Variable Vergütung für Führungskräfte als Instrument der Unternehmensführung. In: von Eckardstein, D. (ed.) (2001): Handbuch Variable Vergütung für Führungskräfte. München, pp. 1-25
von Eckardstein, D. (1995): Zur Modernisierung betrieblicher Entlohnungssysteme in industriellen Unternehmen. In: von Eckardstein, D./Janes, A. (eds.) (1995): Neue Wege der Lohnfindung für die Industrie. Wien, pp. 15-39
von Eckardstein D./Mayerhofer, H. (2001): Personalstrategien für Ehrenamtliche in sozialen NPOs. In: Zeitschrift für Personalforschung, No. 3, pp. 225-242
von Eckardstein, D./Mayerhofer, H./Rabberger, M.-Th. (2001): Personalstrategien für Ehrenamtliche in sozialen NPOs. — Projektbericht, Wien
von Eckardstein, D./Ridder, H.G. (2003): Anregungspotenziale für Nonprofit Organisationen aus der wissenschaftlichen Diskussion über strategisches Personalmanagement. In: von Eckardstein, D./Ridder, H.G. (eds.): Personalmanagement als Gestaltungsaufgabe im Nonprofit und Public Management. München, pp. 11-31
von Eckardstein, D./Schnellinger, F. (1978): Betriebliche Personalpolitik. München
Fisseni, H.-J./Fennekels, G.P. (1995): Das Assessment-Center. Göttingen
Gaskin, K. et al. (1996): Ein neues bürgerschaftliches Europa. Untersuchung zur Verbreitung und Rolle von Volunteering in Europa. Freiburg

- Gensicke, Th. (2000): Freiwilliges Engagement in den neuen und alten Ländern. In: Bundesministerium für Familie, Senioren, Frauen und Jugend (ed.): *Freiwilliges Engagement in Deutschland* (No.2). Stuttgart, pp. 22-113
- Hermann, R.D. et al. (1994): *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco
- Horak, Ch./Heimerl, P. (2002): Management von NPOs –eine Einführung. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organization*. Stuttgart, pp. 181-195
- Klimecki, R.G./Gmür, M. (2001): *Personalmanagement*. Stuttgart
- Krönes, G.V. (2001): Personalmanagement in der Evangelischen Kirche. In: *Zeitschrift für Personalforschung*, No. 3, pp. 321-335
- Mayerhofer, H. (2003): Der Stellenwert Ehrenamtlicher als Personal in Nonprofit Organization. In: v. Eckardstein, D./Ridder, H.G. (eds.): *Personalmanagement als Gestaltungsaufgabe im Nonprofit und Public Management*. München, pp. 97-118
- Mayerhofer, H. (1999): Qualifikationsmanagement. In: v. Eckardstein, D./Kasper, H./Mayerhofer, W. (ed.): *Management*. Stuttgart, pp. 489-520
- Mayerhofer, W./Scheuch, F. (2002): Zwischen Nützlichkeit und Gewinn: Nonprofit Organisationen aus betriebswirtschaftlicher Sicht. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organisation*. Stuttgart, pp. 87-105
- Nährlich, St./Zimmer, A. (eds.) (2000): *Management in Nonprofit Organisationen*. Opladen
- Oechsler, W.A. (1997): *Personal und Arbeit*. München
- Pfeffer, J. (1994): *Competitive Advantage through People*. Boston
- Pidgeon, W.P. jr. (1998): *The Universal Benefits of Volunteering*. New York
- Ridder, H.-G./Neumann, P. (2001): Personalwirtschaft im Umbruch? Empirische Ergebnisse und theoretische Erklärung. In: *Zeitschrift für Personalforschung*, No. 3, pp. 243-262
- Simsa, R. (2002): NPOs und die Gesellschaft: Eine vielschichtige und komplexe Beziehung – Soziologische Perspektiven. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organisation*. Stuttgart, pp. 129-152
- Simsa, R. (2001): Einflusstategien von Nonprofit-Organisationen: Ausprägungen und Konsequenzen für das Personalmanagement. In: *Zeitschrift für Personalforschung*, No. 3, pp. 284-305
- Wehling, M. (1993): *Personalmanagement für unbezahlte Arbeitskräfte*. Bergisch-Gladbach
- Zauner, A. (2002): Über Solidarität zu Wissen. Ein systemtheoretischer Zugang zu Nonprofit Organisationen. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organization*. Stuttgart, pp. 153-177
- Zimmer, A./Priller, E./Hallmann, Th. (2003): Zur Entwicklung des Nonprofit Sektors und zu den Auswirkungen auf das Personalmanagement seiner Organisationen. In: v. Eckardstein, D./Ridder, H.G. (ed.): *Personalmanagement als Gestaltungsaufgabe im Nonprofit und Public Management*. München, pp. 33–52

Management of Volunteers in Nonprofit Organizations

1. Why is Volunteer Management Important?

In the contemporary world, globally interconnected thanks to advanced technology and, at the same time, marked by giant corporate contracts, volunteering represents a phenomenon that crosses national, religious and social borders and points to the possibility of a coexistence that is based on mutual help and solidarity. A new phenomenon, which also appeared in connection with the International Year of the Volunteer 2001, is organizations and individuals that engage in volunteering on a professional basis. It sounds paradoxical, but for voluntary work to be productive, it must be managed effectively and professionally. Volunteering has reached such an extent in the world that a new field has emerged – volunteer management.

The importance of volunteer management is derived from the significance of volunteering in contemporary society. The emerging era of the information society brings along major changes not only in production technologies but also in the labor market, social structure and population lifestyle. Contemporary societies are facing the challenge of readiness to prevent a social schism, due in part to unemployment and the marginalization of various population groups, as well as to prevent the creation of a “lonely crowd” of fumbling individuals frustrated by unfulfilled aspirations for meaningful incorporation in communities and social networks.

The specific objectives of volunteering are the provision of actual help to suffering and needy people and the creation of specific public benefit values (material or symbolic). The general purpose of volunteering promotion is the empowerment of social cohesion in the society. Voluntary work provides space for social incorporation of the unemployed or otherwise disenfranchised part of the population and for meaningful utilization of the free time of gainfully employed and wealthy citizens. It opens opportunities for multiplication of social capital (Putnam, 1993), i.e., inducing and strengthening of mutual trust among citizens, which is essential for the consolidation of democracy and a market economy in the Central European postcommunist countries.

Development of volunteering contributes to social prosperity and empowers it (i.e., society) to behave rationally in the long term (Frič et al., 2001).

Efficiently organized volunteering within nonprofit organizations helps society understand the role volunteerism has in the society and the importance of volunteer activities for particular communities and thus improves the real position of volunteering in the society.

In the final analysis, well-organized volunteering increases people's ability to affect public issues (Johnson, 2000). In this aspect, a key role is played by nonprofit organizations, which not only ensure the efficient and professional organization of voluntary activities but also provide the appropriate institutional framework for volunteering: they take care of the values of volunteering, maintain good examples of volunteering behavior, and take part in the creation of its informal and formal rules. At the same time, they participate in the processes of supervision and monitoring, sanctioning those who violate these rules and rewarding those who conform to good volunteering practices. Professionally organized volunteering and effective volunteer management in the Central European post-communist countries are thus necessary conditions for the successful completion of the process of renewing social foundations.

2. Development of Volunteering in Central Europe

In discussing volunteerism in Central European countries, it is important to view it against the background of its history with communism in order to gain a better understanding of where volunteerism is today. Under communism, the devaluation of natural human values such as the principles of solidarity and humanism was typical. The state took over the responsibility for social protection, culture and social welfare, which had previously been organized around the church and different clubs and associations. While communist governments needed the individual to help promote their agendas, they did not want citizens to be freely involved or organized in any informal clubs. These governments dissolved and destroyed many networks, especially those associated or connected with the church or international networks such as the YMCA and Scouts. The regime created new organizations and structures, while replacing the existing networks or changing the leadership of organizations like labor unions, the Red Cross, and the Union of Women.

One important part of the communist ideology was the idea that each citizen should be involved in community improvement and should do something for the society. Consequently, people were obliged to be volunteers. It was not the good will of the person, and very often people did such work with feelings of distaste and distrust. The socialist regime actually used "volunteerism" to compensate for the absence of the commercial sector. Unfortunately, this confusion between the "proletarian altruism" (Frič et al., 2001) of

the past and the present concept of volunteering coming from one's own free and personal choice has frequently made the best efforts today more difficult, and after thirteen years of transition, things are still not easy.

One might think that all the volunteering difficulties in the Central European countries are explained as a result of communism. Of course, after thirteen years of building civil society many things have changed, but the most difficult thing to change is the mentality of the people, a process that takes more than one generation. It is obvious that the communist period of history has had a damaging influence on the present-day perception of volunteerism. For citizens in these countries, the word "volunteer" still has negative connotations. In the Czech Republic, for example, one-third of the population thinks that volunteers are ridiculous people in the eyes of the rest of population.

"There are still vestiges visible in the Czech people's attitudes towards volunteering. They were left over by the state paternalism and idealizing of the philanthropy of the socialistic regime. Most of the people think that volunteering is a poor substitution for the failing state interventionism or because of incapable public services. According to 70% of respondents, there would be no need for volunteers, if the state fulfilled its duties." (Frič et al., 2001: 68-69).

State paternalism's impact on the attitudes of citizens toward volunteerism is also visible in the other Central European post-communist countries (Fialová, 1995: 74; Czakó et al., 1995: 43; Dabrowska-Wygnanski, 2001: 10).

After the political changes in 1989, life in Central and Eastern European countries changed dramatically. Freedom gave people new chances to organize themselves freely and independently of the state's wishes, focusing on their own interests and personal motivation. Because of their existence before communism, groups such as the YMCA and Scouts were some of the first to be reestablished. In all these countries, thousands of nongovernmental organizations (NGOs) were founded and began to operate in all spheres of community life. Very often such NGOs were created by a group of friends who wanted to engage in activities either for themselves or for others; nearly all of them were based on volunteering. Unfortunately, many of these groups failed, and their failure was the result of having very little previous experience in volunteering or no experience in effectively using and managing volunteers.

Another very important factor was the influence of foreign countries. Immediately after the borders opened, many people, especially young people, came as volunteers to the various Eastern European countries to help. They taught languages, took part in summer - mostly ecological - work camps, or helped with the management of small companies. These volunteers were mainly organized by United Nations Volunteers (UNV), European Volunteer Service (EVS), Peace Corps, Greenpeace, Amnesty International and many

others. Their influence was very strong but only in very limited areas; ordinary people had generally no idea that this kind of volunteering even existed. During this time, the emphasis was on youth – young people volunteering with and for other young people. Even today, although some changes in this age range are visible, the majority of local volunteers are between 18 and 25 years old.

It is support important to mention that at the beginning of concerted efforts to introduce and promote volunteerism in Central European countries, there was strong financial for the NGO sector from official state institutions such as the United Nations Development Program (UNDP) and the PHARE Program of the European Union. In addition, there was strong support from private foundations such as the Open Society Institute of the Soros Foundation (USA), the Charles Stewart Mott Foundation (USA), and the Robert Bosch Foundation (Germany), which are still active in the field of civil society support. Most of these programs supported NGOs and their activities with a similar aim – to help build a strong and well-functioning civil society.

Despite the considerable initial increase in the number of volunteers and nonprofit organizations after 1989, volunteerism in the Central European postcommunist countries is relatively limited. In fact, the average share of volunteers in these countries is 50% lower than in the West European countries (1.7% vs. 3.3%) (Salamon et al, 1999).¹ At present, the share of the adult population that volunteers occasionally for nonprofit organizations is 8% in Bohemia (2000), 10% in Poland (2001) and 13% in Slovakia (2000),² in comparison with 48% in Sweden (1999), 48% in Great Britain (1999) and 34% in Germany (1999).³ Where there are data time series available as well, it appears that the share of volunteers has decreased or stagnated in the last years. The number of volunteers in Hungary dropped from 506,142 in 1995 to 313,000 in 1999.⁴ In Slovakia, it went from 19% of the adult population in 1998 to 13% in 2000 (see Table No. 1).⁵

1 Converted into full-time equivalent (FTE) of adult population volunteer work. Data for 1995.

2 Source: Czech Republic see Frič et al. (2001); Poland see Dabrowska/Wygnanski (2001); Slovakia see Demeš (2001).

3 Source: Closing materials at the Volunteerism and the Role of the State (2000).

4 Source: KSH, 1995-1999.

5 Stated according to Demeš, 2001. See also the chapter on associational capacity from Mansfeldová/Nalecz in this volume.

Table 1. Did you do volunteer work for an NGO last year ?

Did you do volunteer work for an NGO last year?							
% of Slovak population	1993	1995	1996	1997	1998	1999	2000
1. Yes, at least once a month	6	3	4	4	4	3	3
2. Yes, less than once a month	5	10	15	15	14	10	10
3. No	85	82	79	79	80	84	85
4. Do not know	4	4	2	2	2	3	3

Source: Demeš (2001: 510)

A unique characteristic of volunteering in the Central European postcommunist countries is also its internal structure in comparison with western countries. According to Salamon and Sokolowski, volunteering in Central European post-communist countries fulfils rather an “expressive role”, i.e., focuses especially on the areas of culture, sport, recreation, environmental protection, politics, advocacy, labor unions, and professional and business associations. In western countries the bulk of volunteer work one can find in the area of church, social and health care. (Salamon/Sokolowski, 2001).

An important development related to volunteering in the Central European post-communist context is the relationship with the commercial business sector, which has opened a number of new opportunities for mutual cooperation. The many social and economic issues that are addressed by the voluntary sector, the multiple educational needs, and a strong perception that there is much wrong with the environment are all examples of needs within the community that can be addressed by the skills and resources of the commercial business sector. A growing number of major companies recognize the clear connection between philanthropy and profitability of their business and the philanthropy and general well-being of the community in which they carry out their commercial activities. Thus a new kind of volunteering – employee volunteering – will likely be more and more widespread in Central European postcommunist countries. This is especially true for multinational companies, many of which encourage their employees to engage in voluntary activity and organize events in which employees can take part. For the nonprofit sector, the volunteers from commercial companies are a significant contribution because they are a great source of skills, knowledge and energy, and their practical input or advice may significantly help in improving the activity of nonprofit organizations for fundraising and more efficient organization of volunteering activity (Halley, 1999).

3. Definition and Typology of Volunteerism

There is general agreement that volunteerism consists of unpaid, deliberate, freely chosen activities provided by citizens for the benefit of others. This definition of volunteerism may be implemented in various ways. Some already have a certain tradition in the Central European post-communist countries, while others are gradually gaining in significance and publicity.

First, it is necessary to remind the Central European post-communist countries that volunteering is a natural part of the lifestyle in all advanced democratic societies based on the principle of citizen engagement and cooperation. Volunteering in this sense is not a required duty but a natural manifestation of civil maturity, it not only brings actual help but also provides the volunteer with the feeling of meaningfulness and is a source of new experience and skills and of enrichment in interpersonal relations. Freely chosen volunteer activities are actions that make the volunteer the bearer of the transformation process in the society. This creative energy is the power that helps find and open resources and possibilities for new solutions. Thus, it becomes the bridge in the process of cooperation between the state, the commercial sector and the nonprofit sector.

From the point of view of historical development and with some simplification, a number of models of volunteering can be distinguished. One is the older European model, i.e., communal, in which volunteers meet spontaneously on the basis of their joint interest in a natural community, such as the church or any sport or children's organization. This communal model prevails where interpersonal relations are good or where the purpose and mission of the organization are a good fit. Examples are charities or humanitarian organizations of church and religious societies. If the communal model retains face-to-face communication between its staff and volunteers, then volunteer management is a simple task. In contrast, when membership in these communities expands or they become professional volunteering centers, then volunteer management is crucial for their success. A center can still keep its communal characteristics and personal friendly relations (see below for more details on volunteering centers).

Since 1989 Central European countries have been presented with an American volunteering model, i.e., managerial, in which the professionally managed volunteering centers work with volunteers; they search for altruistically oriented citizens and offer them volunteering opportunities in various spheres of human activities and organizations. The center is built upon professionals whose social consciousness and emotional intelligence enable them to carry out this helping profession successfully. According to the American model, the role of volunteers in an organization can take three forms (Křížová, 2001):

Operation of the organization depends directly on volunteers. In addition to a small group of professionals, volunteers participate in the fulfillment of the main organizational goals. This type is characteristic for organizations engaging in humanitarian activities or for ecological initiatives and campaigns, among other examples. In this case volunteers are the decisive power of the organization. Without their participation, it would not be possible to organize occasional events, which the organization uses for its own publicity and for the fulfillment of its mission.

Volunteers perform activities together with professional employees. Voluntary activity is not the basis of the operation in the organization. This type can be seen most often in social and healthcare facilities. Volunteers participate in the provision of financial resources, they receive the public and they help with accounting, and sometimes even with cleaning or construction, etc. This means that if volunteers did not perform these activities, they would have to be provided by professionals.

Activity of volunteers is not indispensable for the operation itself, but the voluntary activity helps improve the services provided or facilitate the operation. These are activities such as walks with clients, participation in art or language clubs, and other leisure time activities. Even consultancy in tax and accounting issues, administrative aid, manual assistance, etc. may be partially on a voluntary basis. Volunteers represent a supplement to the services or improvement in their quality, but the organization could exist without them.

From the point of view of a time frame, three types of voluntary engagement can be distinguished. Volunteers can become involved in one-time events such as campaigns, collections, benefit concerts, etc., which are organized once or several times a year. These events are also a good way to recruit new volunteers and provide an opportunity for supporters who can only volunteer a few times a year. In this case, the voluntary activity does not have to be highly formalized, and any agreement is usually only oral. The second type of voluntary engagement involves long-term assistance provided repeatedly and regularly. For example, three hours per week throughout the entire year is a common commitment that can be fulfilled by the volunteer and is useful for the organization thanks to the volunteer's regularity. It is good to have a written agreement between the volunteer and the organization, which regulates the commitments, rights and obligations of both parties. The organization usually "invests" in the initial preparation and training of the volunteer, or perhaps in liability insurance. The third form of commitment is also long-term; however, it means a voluntary commitment to perform activities for a period of several months or years, usually outside one's own country. The preparation of the volunteer for this mission plays an important role here, including the costs associated with traveling, lodging and other possible expenses such as health and social insurance. This type of voluntary

service is organized professionally, and its costs may be high.

For all three types of volunteer engagement, a good organization will ensure a proper “return” on costs or investments related to the volunteer, though the value of the volunteer’s input is difficult to quantify in monetary terms. These values play a key role in deciding whether and for what the organization needs the volunteers. Will the volunteers be a burden, i.e., people that have to be taken care of in addition to doing one’s own work? Can they be trustworthy and be entrusted with more responsible activity if they are “only” volunteers? The voluntary assistance cannot be forced or demanded. The desire to work must come from the needs and motivation of the volunteers, employees and company management and in return, the volunteer must respect the needs of clients and the character of the services that the organization provides.

4. Motives for Voluntary Activity

The individual motivations of volunteers vary considerably, and many volunteers identify a variety of reasons as having an influence on their decision to work voluntarily. However, in general, there are three basic kinds of motivation to volunteer: reciprocal, normative and emotional.⁶

Reciprocal Motivation

As the name implies, the reciprocal motivation type orients its bearer to look for the elements that could be useful personally. The specific motivation of a “reciprocal volunteer” may vary from “God’s reward beyond the veil,” to the consideration that acting on behalf of the whole is good for the individual, to ambition and expectation of material profits. Reciprocally motivated volunteers understand their work as an organic interconnection between good for others and their own benefit. They are interested in, for example, gaining new experience, establishing new relationships, applying their skills, and staying in good shape. As the data imply,⁷ this pragmatic motivation is perceptible especially among young people up to 30 years of age with an altruistic worldview.

6 Following the three types of altruistic conduct analyzed in Frič et al. (2001).

7 See Frič et al. (2001).

Conventional or Normative Motivation

Motivation for volunteering has a conventional character when its bearer becomes a volunteer because of either the moral standards in his closest surroundings or the general informal rules of conduct in the given community. The conventional motivation shows traces of influence of either expectations or behavior patterns within the family and among friends or the moral imperatives of the broader community. Those volunteers for whom the conventional motivation dominates tend in their decisions to refer to their religious beliefs and are impressed by examples of donative activities from among their relatives and friends. In the Central European area, this motivation is identified especially with the principles of Christian morality and the ideas of the proper lifestyle of the appropriate population group. Its bearers become volunteers simply because it is right and proper. People who are concerned about their reputation cannot afford to ignore volunteering. In addition to their own (internalized) moral imperatives, volunteers may thus give in to the pressure from their surroundings, which impress the character of conventional conduct onto their altruism.

Emotional Motivation

When people internalize the volunteering standards,⁸ they “feel” that volunteering is a right thing. It is said that they have a sense or feeling of moral responsibility. These people do not have to think long about how to react when they are confronted with the suffering of others. Their moral consciousness urges them to volunteer. The emotional motivation is thus not based on traditional moral principles but is characterized rather by case-by-case decision-making. The bearers of this motivation often decide according to the current emotions aroused by specific cases of disaster or suffering people, which are presented, e.g., in the mass media. Behind the decision-making of the emotionally motivated volunteer, there might be both compassion and love toward neighbors or the feeling of relief or even a sudden emotional passion.

It is necessary to say that the above-described types of motivations for volunteering are ideal types, which never exist in this crystal clear form in practice. Each particular act of volunteering is initiated by a mixture of all three kinds of motivation, whose proportion is different from case to case. However, there is typically a dominant motivation in the specific cases of individual volunteers. In the Central European post-communist countries, where the history of authentic volunteering is still short, there often arises the

8 Martina Schaad speaks in this sense of intrinsic motivation for benefaction (Schaad, 1998: 105).

phenomenon in which the observed motivations are very weak and none of them have a dominant effect, i.e., an “undeveloped motivation to volunteer” (Frič et al., 2001: 68).

It is also true that the volunteers’ motives need not be unambiguously beneficial to others. “Each nonprofit organization should thus show heightened caution toward the following characteristics exhibited by applicants for voluntary work:

- Extreme compassion leading to degradation of the client;
- Excessive and useless curiosity;
- Service originating from the feeling of obligation;
- Act making effort to deserve something;
- Desire to sacrifice oneself; the applicant cannot handle a personal misfortune and therefore seeks to regain his or her own mental balance through the service;
- Loneliness and desire for friendship resulting from it;
- Feeling of one’s own importance, irreplaceability;
- Lack of self-respect and associated desire for meeting even “more miserable” people;
- Bossiness, desire for managing others and exercising own influence.

In all these cases, the declared wish to help hides the real desire for power over somebody else or for appreciation. When the dangerous motive is very strong or combined with some other negative motives, it may seriously damage the client and relations among the voluntary team members if it is not identified” (Vitoušová, as cited in Tošner/Sozanská, 2002). It is necessary to note that as long as the prestige of volunteering in the society is low (as it still is in the Central European post-communist countries), people with questionable motives are a small group.

5. Volunteering Management

Role of Volunteers in Organizations

The successful operation of a nonprofit organization is based upon the good work of professionals and the professionalism of their work with volunteers. The professionalization of voluntary activity is understood as the existence of a volunteer coordinator whose job is to select, train, manage, supervise, and evaluate volunteers. This person acts as an intermediary among the volunteers, other personnel, clients, and the organization’s management. Coordination of voluntary activity may be carried out either by a salaried worker or a

volunteer whose work has basically the same requirements. The difference is how and what voluntary activity the coordinator organizes. The need for selection, training, management, supervision, and evaluation of paid professional workers is not questioned by anyone; however, the role of volunteers in a nonprofit organization is usually underrated.

A paid professional has formal qualifications required by labor regulations for the performance of the activity in addition to education, experience and motivation. The employee knows what her job description is, what remuneration she shall receive, what her working hours are, who her superior or subordinate is, what rights and obligations she has, including the right to vacation time and other benefits. In nonprofit organizations, which are still looking for their place and resources in society, an enthusiastic professional is needed.

A volunteer decides to contribute part of his time and energy to the organization's charitable mission without any claim to financial remuneration. This is the first and most important assumption, but it is not sufficient. In order for the volunteer to become a real source of sustainable assistance and an indivisible part of the organization, the volunteer needs to be managed in a style similar to that of the professional. If it is not so, one small misunderstanding or bad information transfer is enough, and the volunteer leaves disappointed or the professional will conclude that he cannot rely on the volunteer.

The difference between the labor-law relation of an employee and the commitment of a volunteer – either oral or in the form of a written contract – is in the extent of formality. In the case of the volunteer, motivation is the main focus and other, non-financial forms of valuing the volunteer's contribution to the organization are used. *Professionally organized volunteering is not free of cost, though it is "worth it" for the organization.*

The professionalization of voluntary activity can be considered even from the economic point of view. If a single coordinator manages the work of dozens of volunteers, the overall value of their contribution cannot be translated into strictly monetary terms. While cost saving is important for the organization, the volunteer contribution in human terms is equally important. The entry of a volunteer in the organization represents a system change, but above all, an opening to the surrounding world. This transformation need not be desired or accepted by everyone in the organization. In fact, at the beginning, some skepticism is to be expected rather than an enthusiastic greeting of the volunteer. Important first steps vital to successful planning for such changes include detailed briefings regarding the principles of volunteering, the utilization of the volunteer impulse, and where the volunteers can be helpful. *Each change – even for the better – must be planned in advance, and the changes explained and practiced.*

An organization that starts to work with volunteers systematically should

prepare a plan based on the steps described in the following sections. Mapping the organization's operation and suggesting the changes may take weeks or months. Implementation of changes in their full extent may take months or years, and without the support of the employees, it may create many conflicts and crises. A principle applies here that when more employees, especially those in key positions, can be incorporated into the mapping phase, successful change is easier. *A well-prepared volunteering program may increase not only the performance but also the professionalism of the nonprofit organization.*

Experience confirms that in some cases, organizations are simply not interested in volunteering programs, which require the presence of volunteers, their training and supervision, because the organizations themselves have not structured their main operations in this way. The topic of volunteering is often distant not only for management and employees, but also for the clients or their family members. No one initiates the system change. They do not know what they could improve nor for what the volunteers could be useful.

It sometimes happens that the organization's management would like to cooperate with volunteers but does not have sufficient experience. It is believed that the implementation of a volunteering program is an easy and short-term matter. The management does not realize that an incorrectly prepared system can discourage the workers, and the program may end up as a negative experience for all participants.

Volunteers provide assistance in the fulfillment of the organization's mission, bring new views to the solution of problems and the feedback preventing stereotype performance. Volunteers can sometimes better identify needs, problems and target groups on which the organization may focus its activities. They bring new spirit and enthusiasm; they are the replenishment of the team. Furthermore, volunteers establish new contacts the organization can use and can significantly contribute to public promotion. *Preparation of an organization and selection of activities for volunteers.*

The preparation for *systematic* work with volunteers requires determining what the attitudes toward volunteering in the organization are; where applicable, what atmosphere in the organization in general there is; how communication among the workers is carried out; and how the organization communicates with its surroundings and with the community, partners, and other institutions. These are all decisive factors to help volunteers to find their voice. Most nonprofit organizations founded on the basis of voluntary service do not have to be persuaded about the benefits resulting from volunteering. There is more often the problem of how to convince them that it is *organized* volunteering that can increase this contribution many times over. Assessment of the existing volunteering activity and planning of the further use of volunteers also create a good opportunity for appraisal of the quality of communications in the organization.

There are only a few limitations that should circumscribe volunteering activity. They include especially the principle that a volunteer should not replace the work of professionals and that a volunteer should not perform activities that no one else wants to do.

Development of the job description for a volunteer is a continuous and open process. The job description will expand gradually based on how the employee wants to involve the volunteer, the extent to which the volunteer's experience allows it, and how the organization is changing and developing.

Volunteer Coordinator

The coordinator of volunteers is the key person in volunteering management. The person in this position coordinates all volunteering activity in the organization from the selection of volunteers, their recruitment and training, up to the incorporation of volunteers in the organization's operations. The coordinator leads volunteers and evaluates their activity, resolves any possible misunderstandings, looks for and organizes opportunities for thanking the volunteers, and is a point of contact between the volunteers, employees, management and clients. The volunteer coordinator maintains contact with any volunteering center, as well as with media and other organizations. He or she elaborates codes, rights and obligations of volunteers and confidentiality rules, and manages the necessary administrative tasks such as contracts with volunteers, possible insurance agreements, etc. The coordinator may be either an employee or a volunteer who must have the support of the volunteering program guarantor in the organization. In small nonprofit organizations, the coordinator might be the organization's manager or an executive employee who takes on this role in addition to regular duties.

Coordinators should complete training in volunteering management or at least an internship in a volunteering center or in an organization with a well-functioning volunteering program. The coordinator should be part of the company management, e.g., in the position of a department manager in larger organizations. Usually a coordinator has several assistants, typically volunteers who either are waiting for their assignments or like the organizational work more than working with clients.

Voluntary activity is a process in which all the parties concerned participate and is not exclusively a question of the abilities of the coordinator but of the whole organization and how it accepts volunteering. Therefore, an important part of volunteering management is also regular supervision, including the coordinator's activity, of the volunteers and professionals who come into contact with the volunteers.

Recruitment of Volunteers

If we compared a volunteer with a commodity, it would then apply that the volunteer is a “fast-moving commodity with a short warranty.” (Tošner, 2002)

In other words, volunteers come and go more often than employees. Volunteer recruitment, selection, training and moral support are part of a continuous, recurring process. In programs based mainly on student participation, it is essential that their work schedule respect their school (academic) year. It is practical to take this into account in the case of other volunteers as well since the mid-year holiday period is a more important turning point than the turn of the calendar year. Volunteer recruitment should run continuously but with emphasis on the September-October period, i.e., after mid-year holidays or vacations, and similarly in January and February, i.e., after New Year's and at the beginning of the university term.

The specific methods for recruiting volunteers depend on the coordinator's creativity. Good “recruiters” at schools, for example, are the volunteers already working with an organization. Different methods are used for one-time events and for a repeated and long-term engagement. The most often used recruitment techniques are:

Leaflet, poster, bulletin board: These are very frequently used ways of informing the public about what the organization is doing and why volunteers are needed; however, it is an inefficient method that should always be supplemented with other techniques.

Local press, regional radio or TV broadcasting: Work with media should be a priority of every organization because, with the media's help, the information can reach the desired target audience.

Recruitment campaign: Such a method is used to recruit volunteers for a specific activity for which higher public interest is expected, e.g., concert, exhibition, fair, etc.

Cooperation with volunteering centers: Institutions of this type can be found in the larger cities of Central European postcommunist countries. With the gradual expansion of their activities, there will be more possibilities for preparing volunteer recruitment campaigns.⁹

High schools and universities: Students are the richest source of volunteers; they tend to be open, direct and eager for new experience. For their recruitment, a bulletin board is not enough; it is necessary to arrange with instructors to either come directly to the class or organize a special event. A well-prepared presentation with sufficient time for answering questions is the basis for successful recruitment of student volunteers.

Personal contacts: These are one of the most often used forms of recruiting volunteers. Though tapping relatives and acquaintances is a very efficient

9 See more details below in the section on volunteering centers.

method, it is also very time-consuming, and the circle of acquaintances will soon be depleted. For a small nonprofit organization, it is the most natural and feasible way to begin a volunteering program (Blažeková, 2000).

Combining several different forms of recruitment is usually recommended. Especially where people are not yet very familiar with volunteering, it is necessary to invest significant energy in raising public awareness.

The funnel rule applies in volunteer recruitment: It is possible to invite hundreds of people to a special presentation, fifty would attend, fifteen would come to a training activity, and ten would actually decide to become volunteers.

Selection and Training of Volunteers

The orientation and training of volunteers depend on the character of the activity they will perform. A volunteer will be oriented differently to work with children in a clubroom or in the playground, than for engagement in a hospital. In practice, it proves useful before the orientation to invite those interested in voluntary activity to an individual or group meeting, which helps the volunteers make clear their own motivations and interest and learn about possible activities. For the organization, such a preliminary meeting is an opportunity to learn more about the volunteers and acquaint them with the specific offerings and conditions.

In the case of more complicated activities for which volunteers require special knowledge of skills, volunteers with proper qualifications will have to be identified before the training itself. Sometimes it is necessary that the volunteer undergo a day or weekend training (e.g., volunteers in hospitals), or long-term training spread over several weeks (volunteers for help lines or some types of voluntary service abroad). However, for activities requiring more moderate skill levels (e.g., organizational assistance for a single event, help in administration), the orientation of a volunteer may last only a few minutes or an hour.

It is necessary to pay special attention to training in facilities where volunteers help clients or patients and where there are higher demands on them and their coordination. Evaluation by a psychologist gives the facilities coordinator certainty that the selected volunteer is the right one and proof to all involved that the selection process has been comprehensive.

Preparation of the volunteer consists of two components, a general one and a special or professional one related to the character of the activity.

General Orientation

In a general orientation, the volunteers will learn about their potentials and needs but also about commitments and possible limitations. They will become acquainted with the mission and goals of the organization, basic documents (statutes, operating rules, etc.), organizational structure, and their place and role in the organization. At the same time, they will gain basic information about who the coordinator is or the person they might contact if necessary, who the managers are, and how the organization operates.

Professional Preparation

It is recommended that all possible problems are discussed in detail with the volunteers and that the training get as close as possible to the activity that the volunteer will consequently perform. Some of the staff should participate in the training since they can inform the volunteers best about the activity they will perform, but also so that the employees can get to know the volunteers and their motivation and orientation. In some cases, for example, when the volunteers work independently with minor children, the training includes psychological evaluation of volunteers regarding their maturity and possible psychopathological characteristics.

Some volunteers have their particular ideas before entering the organization. Others want to do good things, but they do not know how or where they can help. It is necessary to handle each interested person individually and with regard to his or her motive and the needs of the organization.

Parting with the Volunteer

One of the coordinator's most demanding tasks is to inform a volunteer when he or she is not suitable for the chosen activity. Therefore it is better when the selection and orientation processes are more complicated than the activity itself. Even so, it may happen that there are still problems despite careful screening. The coordinator will try to resolve them, but, if not successful, will have to inform the volunteer of the possibility of termination of the cooperation. Saying goodbye might be hard especially when the volunteer is strongly motivated for the activity and does not see any problems.

Sometimes the initial interview with a volunteer suggests a need for professional help. In such a case, it is necessary to inform the volunteer candidate where to find such help. It is a sensitive way of parting with a person so as to avoid bitter feelings because of the rejection.

The volunteer may also decide that the offered activity is not suitable.

Here it is necessary that the coordinator and the organization are straightforward. It is a good relationship when the volunteer knows that the coordinator is available at any time and will listen to reservations or reasons for leaving.

Well-prepared training gives the volunteers the feeling of confidence about what they have committed themselves to, and usually deepens their motivation as they take on a real form. Training prevents unreal expectations or future misunderstandings between the volunteer, personnel and clients.

Supervision of Volunteers

In the various areas of human activity, there are a growing number of "schools" of supervision. Volunteering supervision is considered to be closest to supervision in the helping professions (Kopřiva, 1997). Even here, however, there are several different methods of supervision. Supervision of volunteers lies in the communication among the volunteer coordinator, the volunteer or group of volunteers, and the supervisor. The purpose of supervision is to allow volunteers to discuss their attitudes and feelings about their activity and any possible problems that have arisen in the course of activities.

Supervision is performed differently for activities involving manual labor compared with those related to a hospice or a children's oncology clinic. In the first case, it will be an evaluation and appraisal that is like an operational meeting; in the latter two cases, it will approach in some aspects the supervision in a psychotherapeutic process. In the case of simple activities, the volunteer coordinator may take on or lead the supervising function. By contrast, in the case of activities requiring a relationship between the volunteer and the client, an independent supervisor is irreplaceable. The coordinator is often glad in such cases to discuss these more complicated situations with direct supervisors.

Supervision of volunteers serves not only to provide basic feedback and as a communication channel – mediated by the supervisor together with the coordinator – between the volunteers, other workers and clients. It also shows that in the postcommunist countries, supervision offers volunteers an opportunity to feel recognition and respect toward their work – as in Western countries, where volunteers feel such respect from acquaintances and their broader surroundings. Supervision may therefore serve also as a club "meeting place" where all are together and feel fine. It is a place where people are close to their interests and their life values are met.

Evaluation of Volunteers

The volunteer evaluation process is associated with the evaluation of the entire organization. It depends on the organization's management and whether and how their work will be evaluated, so that it is presented objectively to the public, media, sponsors, donors, clients, and the organization's own employees. Volunteers deserve that their activity be recorded and counted, along with the number of hours they devote to the organization and their contribution to the organization as a whole. Single events can be evaluated with the volunteers after the event at the meeting of organizers and participants and by writing down suggestions and remarks. Even in this case it is recommended that the evaluator be appointed already during event planning.

Evaluation of the long-term process is more difficult. The volunteers come to the organization, their numbers gradually increase, and their contribution cannot be evaluated by a single meeting of competent people. In such cases, it is suitable to use independent observers. In cities these observers could be university students, and in smaller communities, it is important to engage those involved in the process as well as others who can act as independent observers. These observers may record the processes and changes that occurred because of the volunteers by using surveys, interviews and similar techniques. The results can be used not only for presentation but also for suggestion of changes, which would help the organization in improving its work and effectiveness.

The evaluation may serve not only to improve the effect of voluntary assistance, but also to present the results as an argument for volunteering to be accepted as an activity that has its place in a market society. It may become a convincing argument that volunteering is not only a source of humanity and strength but also an economic contribution to society. These evaluations are excellent source material for grant proposals.

Volunteer Appreciation

Volunteer appreciation is a process that should accompany volunteers throughout their entire engagement with the organization. Volunteers may be "remunerated" for their activity in many ways. A simple "thank you" is a natural reward – this goes along with each interpersonal contact. However, formal thanks may become only empty words if not communicated with a sincere demonstration of personal interest. Therefore, there should be occasions to meet the volunteers and show appreciation for their help. There are a number of opportunities throughout the year. December 5, for example, is International Volunteer Day when many celebratory events are organized in

many countries, where volunteers receive gifts, diplomas and other signs of appreciation. A good time is also before the mid-year holiday period when many volunteers discontinue their activity for the summer; a special event or appreciation could entice them to come back again. Dates that are important for the organization could also be used – the anniversary of the organization's establishment, a date that has some relation to the organization's mission, but also, for example, the volunteer's birthday or name day.

At least once a year, the coordinator and the management should organize a meeting of volunteers and employees to show their appreciation. Other possibilities for recognizing the special contribution of volunteers are stating the names of volunteers in the annual report; inviting them to an informal meeting or to a trip or excursion with employees or clients; publishing their activity; providing a free ticket to a sporting or cultural event; or providing other benefits resulting from the organization's orientation. In Poland and Slovakia, for example, celebratory events took place in which awards were given to volunteers by the president of the republic. In the Czech Republic, the mayor of Prague awarded the prize *Køesadlo* ("Prize for ordinary people who do extraordinary things") for the first time in 2001.

The feedback between the volunteer and the organization, effected through supervision or a friendly meeting to exchange of experience, as well as the evaluation of their activity (and somewhere even evaluation of the activity of the whole organization) and regular appreciation events, contribute not only to improvement in the quality of work but also to a positive atmosphere within the organization.

6. Volunteering Centers

In many countries around the world, there are nonprofit organizations specializing in volunteering management: volunteering centers. The basic mission of volunteering centers is the promotion and support of volunteering and cooperation with regional organizations in order to engage as many people as possible in the resolution of community problems. The centers undertake their mission especially in cooperation with mass media, municipalities, and self-governing and state authorities. National volunteering centers coordinate the activities of local or regional centers and are often members of international organizations focused on volunteering such as the International Association for Volunteer Effort (IAVE) and the European Volunteer Center (CEV). In the Czech Republic, for example, Hestia, the National Volunteering Center in Prague, coordinates the Coalition of Volunteering Initiatives, which in 2002 included 27 regional organizations

engaging in volunteering.¹⁰

Volunteering centers create their own programs to solve the current problems in the community, e.g., programs for the unemployed, newcomers, children in crisis situations, drug addicts, and the like. They cooperate with nonprofit organizations in the region, establish databases of organizations looking for volunteers and people looking for volunteering opportunities, and bring them together. The centers often initiate events associated with charitable activities and various activities focused on volunteer recruitment. In addition, they play an important role in education and research relating to volunteering and organize discussion clubs, seminars, and long-term courses in which volunteering is the main subject.

The history of the development of volunteering centers in postcommunist countries is not long. The first center was formed in Warsaw, Poland (*Centrum Wolontariatu w Warszawie*) in the year 1993. However, most were formed through the Volunteer Development Program that was launched in 1997 by the Open Society Institute (OSI) of the SOROS Foundation.

In 1999, the directors of these newly founded volunteer centers met in Bratislava, Slovakia. They agreed to share their experience and resources by forming a network, VolunteerNet, to assist each other as they undertook the important role of encouraging the active participation of citizens as volunteers and promoting the development of partnerships between NGOs and governments. As of 2002, *VolunteerNet* had 29 members representing 19 countries, including Czech Republic, Slovakia, Poland, and Hungary.

For the purpose of VolunteerNet membership, a volunteer center is defined as any NGO or nonprofit agency or organization that performs four recognized and accepted functions:

- Identify and assist organizations and government agencies in the integration of volunteers into their programs and activities;
- Provide training, consultation and materials for successful management of volunteers;
- Recruit and place volunteers;
- Promote, advocate for and recognize volunteerism.

As members of VolunteerNet, volunteer centers accept and adhere to its mission to strengthen volunteerism in Central and Eastern Europe, the Baltic States and Eurasia by providing services to the volunteer centers that mobilize resources to address local community needs. Additionally, members accept VolunteerNet's core values, which call on organizations to:

- Support volunteerism;
- Encourage activities for citizen participation;

10 See more information about the individual centers at www.volunteernet.ecn.cz. See also: www.hest.cz; www.dobrovolnik.cz; www.volunteer.cz.

- Remain non-religious, non-political and non-discriminatory;
- Model the democratic procedure in their decision-making and operation management practices;
- Initiate and maintain partnerships.

VolunteerNet's coordination headquarters is Prague-based Hestia, which ensures exchange of information among the members, creates web pages and helps support participation of the network members in various international events such as the Volonteurope Conference (Prague 2000), the IAVE Conference (Kromiříž), CEV conferences, and others.

7. Volunteering and Law

Despite the significant development of volunteerism, the legal environment for volunteer work in the Central European postcommunist countries is still only at the beginning of its construction process. At the same time, there are many issues that could shape the agenda for legislative efforts that should improve the legal position of volunteers. These issues include the following (Tóth, 2002).

- Legal definition of volunteers' status;
- Questions of employment law (mainly contracts with volunteers, reimbursement of costs, etc.);
- Taxation of volunteer work (including evaluation of volunteer work);
- Third-party insurance for volunteers;
- Connection between volunteerism and unemployment;
- Undertaking of volunteer work abroad by young people;
- Foreign citizens undertaking voluntary work in the Central European postcommunist countries.

The missing legal framework for voluntary work may be considered a very serious problem for the further development of volunteerism in these countries. Nevertheless, it is necessary to say that the formal requirements of volunteering are not very popular among the volunteers or among the representatives of nonprofit organizations. Some volunteers, for example, worked in state organizations a few years ago and left due to excessive formality. Thus, it will have to be acknowledged that there will always be volunteers who will help honestly and regularly without any contract, only on the basis of an oral promise. Therefore, it is necessary to find an individual solution for each organization and each particular volunteering activity that will suit both parties. How to conclude oral or written agreements with

volunteers, how to remunerate them, insure them and reimburse the accrued costs will have to be determined on the basis of the extent and character of the voluntary activity.

The Czech Case

The vast majority of points in the above-stated agenda are not legally regulated in any of the Central European post-communist countries except the Czech Republic (CR). Thus, the Czech Republic case merits a closer look. In 2001, the Czech government gave significant support to the voluntary service field. In fact, in April 2002, the Senate of the CR Parliament approved the Volunteer Services Act (this Act was effective as of January 1, 2003), which is based on several principles already laid out in the government's proposal:

- This is the first legislation setting out rules in a completely new area, an area without previous history in the CR legal order. The purpose of this Act is therefore to stipulate, as precisely as possible, the basic framework for voluntary services.
- Voluntary services cover a broad spectrum of human activities and are therefore sensitive to any kind of standardization; thus, it would be unreasonable to make all types of voluntary activities subject to this Act. The proposed Act therefore does not stipulate conditions for volunteer services generally, but rather the conditions required by the state so that it may support some of the activities.
- The government supports only the development and protection of volunteers, i.e., natural persons who perform certain services free of charge (who do not claim any remuneration). It means that obligations stipulated by this Act apply to the maximum extent to the entities cooperating with volunteers (delegating and receiving organizations) and less to the volunteers themselves.
- The Act sets out an organizational system supported by the government. This system is based on three pillars: delegating organizations (which protect volunteers vis-à-vis the receiving organizations and assert their claims vis-à-vis the state), volunteers (people with certain characteristics) and receiving organizations (organizations using the services offered by the volunteers).
- The Act stipulates an obligation that all these parties enter into a mutual contractual relationship.

The Act specifically lists the fields of activity in which voluntary services can be performed.

“This does not mean, however, that volunteers cannot be working elsewhere. This Act separates voluntary services from other voluntary work mainly by providing state support only for specifically stipulated areas.” (Frištenská, 2002)

The support of the state to the voluntary services field has several very concrete forms:

Possible financial support from the state. The Ministry of Interior may provide to a delegating organization a subsidy for the payment of:

- pension contribution;
- damage liability insurance;
- part of the expenses connected with the transportation of volunteers;
- part of the expenses connected with the registration of volunteers;
- part of the expenses connected with the organization of voluntary services.

Additional state support for long-term voluntary services:

- Rendering voluntary services on a long-term basis is considered to be an activity equivalent to employment for the purposes of participation in the unemployment insurance scheme;
- The length of performance of long-term voluntary services is taken into account for the purpose of pension insurance;
- The state covers medical insurance for people rendering voluntary services;
- Any income generated in relation to rendering voluntary services is exempted from income/donation taxation.” (Frištenská, 2002: 3-4)

The Voluntary Service Act came into effect only in January 2003. The future will reveal its practical consequences and possible drawbacks. It is expected that it will be amended soon on the basis of lessons learned and practical experience.

8. Summary and Conclusion

The field of volunteer management (VM) developed out of a need for the efficient engagement of volunteers within a nonprofit organization. VM has fostered improved volunteer placement and increased volunteer satisfaction on the job.

In the last decade, numerous writings on VM have appeared, including specialist literature on VM in hospitals, in small groups, for special event planning, and for NGO cooperation with the business sector. It would benefit

all organizations to read this material, to discover what styles and types of VM will suit the organization's particular needs. Networking within VM organizations and joining VM centers and/or national or international VM organizations will also educate and support leaders in the VM community. At the end of this chapter, there is a list of some recent VM articles, as well as Web sites of some of these organizations.

Where and how volunteers are used is a crucial component to VM implementation and success. There is a substantial difference between a group of friends getting together to clean a park over a weekend and a project run by a large organization. In the case of the small group, to agree when and where to meet, who will provide tools or refreshments, first aid, and so on, is an easy task. But in the case of large institutions such as a hospital with specific hierarchical structures, many factors must be taken into consideration to make the project a successful one. VM needs to undertake a comprehensive analysis of all components involved. In a hospital setting for example, when working with young patients one must consider all hospital staff involved, the patient's family, psychosocial factors, the maturity of the volunteer involved, etc., for this cooperation to succeed. When this level of VM professionalism is implemented, the program has a high chance of success.

In postcommunist countries, "stone" facilities such as hospitals, residences for the elderly, and facilities for the disabled, where volunteerism is nonexistent, it is crucial for the positive development of volunteerism to implement programs slowly and successfully. Since these "stone" facilities behave as a closed system, strong VM is essential to help develop new volunteer programs.

Well-managed volunteering programs, together with good promotion, are important in developing new volunteer organizations. Positive examples of volunteer projects can help to create an environment to stimulate volunteer recruitment and improve a society's view of volunteerism.

Suggested Readings

- Billis, D./Harris, M (1996): Voluntary Agencies. Challenges of Organisation and Management. Basingstoke
- Govaart, M.-M. et al. (ed.) (2001): Volunteering Worldwide. Utrecht
- Salomon, L.M./Sokolowski W. (2001): Volunteering in Cross-National Perspective: Evidence from 24 Countries. Working Papers of The Johns Hopkins Comparative Nonprofit Sector Project. Baltimore
- Tošner, J./Sozanská O. (2002) Dobrovolníci a metodika práce s nimi v organizacích. Prague

Zimmeck, M. (2002): *The Right Stuff: Approaches to Volunteer Management*. London

References

- Bárta, J. (1997): *Strategické plánování pro neziskové organizace*. Prague
- Blažeková, B. (2000): *Dobrovolníci a organizace, které se na dobrovolné činnosti podílejí*. Olomouc
- Bútorá, M./Fialová Z. (1996): *Neziskový sektor a dobrovolnictvo na Slovensku*. Bratislava
- Davis Smith, J. (1996): *Should Volunteers be Managed*. In: Billis, D./Harris, M. (eds.): *Voluntary Agencies. Challenges of Organisation and Management*. Basingstoke
- Demeš, P. (2001): *The Third Sector and Volunteerism*. In: Mesežnikov, G./Kollár, M./Nicholson, T.: *A Global Report on the State of Society*. (2001). Bratislava
- Frič, P. et al. (2001a): *Dárcovství a dobrovolnictví v ČR*. Prague
- Frič, P. et al. (2001b): *Giving and Volunteering in the Czech Republic*. Prague
- Frištenská, H. (2002): *Activities of NGOs in the Czech Republic combating social exclusion and their support by the State*. Lisbon
- Gay, P. (2000): *Delivering the Goods: The Work and Future Direction of Volunteer Management*. In: *Voluntary Action*, 2(2), pp. 45-57
- Halley, D. (1999): *Employee Community Involvement*. London
- Johnson, K. (2000): *Volunteers and Their Communities in Development: An Exploratory Study of the Role of Volunteerism in Reshaping Communities*. New York
- Kopřiva, K. (1997): *Lidský vztah jako součást profese*. Prague
- Křížová, E. (2001): *Dobrovolníci v neziskových organizacích*. In: Frič, P. et al.: *Dárcovství a dobrovolnictví v ČR*. Prague
- Putnam, R. (1993): *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton
- Rochester, C. (1999): *One Size Does Not Fit All: Four Models of Involving Volunteers in Small Organizations*. In: *Voluntary Action*, 1(2), pp. 7-20
- Salamon, L.M. et al. (1999): *Global Civil Society: Dimensions of the Nonprofit Sector*. Baltimore
- Sozanská, O./Tošner, J. (2001): *Czech Republic*. In: *Volunteering Worldwide*. Utrecht
- Tóht, A. (2002): *Development of voluntarism and Government Policy in Hungary*. Lisbon

Finance of Nonprofit Organizations

1. Finance as a Major Management Task in NPOs

Today, most nonprofit organizations (NPOs) work under considerable financial pressure. Under these circumstances, it is amazing that many still do not have financial strategies beyond the basics of traditional fundraising. Though it is fundraising that first comes to one's mind when thinking about the financial security of NPOs, fundraising and financing are not the same. The two have different points of reference. While fundraising focuses upon the necessities of mobilizing revenues, financing is primarily about generating and managing cash flow (i.e., cash in- and outflows) efficiently. Due to its importance, fundraising is discussed in a chapter of its own (see Haibach/Kreuzer: "Fundraising" in this book) and will be referred to in this chapter only with regard to financial aspects.

But what is financing, and why should it be considered at all? Financing is so vital for NPO management for several reasons:

- Every nonprofit organization that handles money in any way is involved in finance. Since financing helps in managing money, it can be seen as a basic management tool.
- Most NPOs have to mobilize resources in order to pursue their mission. Here, financing helps to monitor and support fundraising activities.
- The financial status of an NPO provides important information to grantors, donors, and banking institutions. Lately, this aspect has been scrutinized increasingly by the general public, professional rating agencies, the media, and potential donors. Sound financial management can improve the public standing of an NPO.
- Greater control of resources often results in more resources. Efficient financing can be "profitable" in and of itself, for example, by saving money through competent handling of cash. Thus, by ensuring the efficient use of money, NPOs can increase the funds available for pursuing their true mission.
- NPOs frequently hold money and assets in trust for others or work with public funds. This demands a great deal of proficiency in financial management.

- Grantors often impose certain requirements on the organization regarding the use of money. Financial management should ensure that the NPO always complies with such requirements.
- Financing helps to decrease risks. By monitoring the risk of investments and the cost of loans, it reduces the danger of partial or total losses from financial transactions, thereby avoiding financial distress.
- Finally, the most important single objective of financing is to secure an organization's economic survival. It is supposed to safeguard the NPO's solvency and liquidity. This means that it must ensure the ability of the NPO to meet its recurring financial obligations (i.e., to pay its bills) and to secure its economic survival by planning and balancing assets and liabilities in the short and long run and by monitoring cash flow carefully.

Though these are obviously all good reasons for dealing with financing, the mission of an NPO is to do charitable work, provide member services, or promote social change, but not to invest money. It therefore seems helpful to remember that sound financing is merely a means to an end. This is a major difference between nonprofit and many for-profit activities, and it could also be the reason why financial matters tend to receive more attention in commercial enterprises. The use of financial management need not be legitimized here, and an abundance of literature focuses on commercial finance in general¹ and on specialized management issues.² Since both for-profit and nonprofit organizations need cash to operate, many finance issues are the same. Nevertheless, nonprofit finance is different from for-profit finance in many regards, a fact that has been recognized only relatively recently by nonprofit research. Though recent years have seen a more intense discussion of NPO financial issues, there is no such long-standing tradition as can be found for nonprofit marketing, for example.

This chapter therefore addresses specific NPO financing issues and will offer a brief introduction to them. Given the space available, differentiated mathematical analyses and in-depth descriptions of single tools or strategies cannot be provided. However, brief bibliographical references at the end of this text will allow interested readers to pursue these and other topics.

Finance is very much dependent on the NPO's financial environment (capital markets, banking system, availability of capital) and on its sources of

1 For example, the clear and easy-to-read book by Brealy/Myers/Marcus (2001). A broad overview is given in Perridon/Steiner (2002) or Ross/Westerfield/Jaffe (2002). Chew (2000) includes a number of articles written on different financing issues, whereas Smith (1990) focuses on the theory of finance and corporate financial policy and is suitable for advanced students.

2 For example, debt management or capital market theory, investment policy, cash management and financial planning or financial instruments.

income: “The nature of a nonprofit’s income is the single most important factor in determining its overall financial management” (Dropkin/Hayden, 2001: 7). The income in turn also is determined by a number of different variables that cannot be influenced by the NPO’s management. It can be seen partly as a product of institutional settings and organizational characteristics. Before looking at the specific tasks, tools, and requirements of NPO financing, it therefore is necessary to provide some insight into the special environment of financing in NPOs that is a reflection of their role as organizations between the public, commercial and informal sectors.

2. The Overall Environment for Financing NPOs

NPOs are part of society and their financing is, indeed, embedded in the overall financial flows among the public sector (state, regional and local authorities and governments), the private sector (for-profit companies, cooperatives, etc.), and the general public (natural persons, households). Moreover, none of the sectors shaping the environment for NPOs are restricted to national boundaries: there is an important, sizable and, in many cases, even decisive international factor. However, as far as financing is concerned, the NPOs differ from all other sectors in the following ways:

The *public sector* depends on revenues from taxes, customs, and dues, and, to a certain degree, on revenues resulting from its own economic activities (e.g., fees for services or sale of property). These revenues are generally stable and can be influenced by changes of fiscal and tax laws. However, the public sector is weighed down by the burden of mandatory expenditures and has to set aside reserves for irregular events, such as abrupt changes in the global or national economy or natural and social disasters. Thus, the most difficult and responsible task of any government is to prepare a balanced budget and to guarantee its implementation.

The *private commercial sector* builds its financial capacities by using available assets for the production of goods and provision of services. The process must not only cover expenses, but also provide profits as income for their owners. However, any successful firm would hesitate to distribute all of its profits, since investing part of the profit in new equipment or entrepreneurial activities is important for enhancing future profits. The same is true for nonproductive investments such as portfolio investments and speculation (with stocks, bonds, options, or futures), which currently account for the biggest share of global financial transactions.

The *general public* – natural persons or families and their households – is significantly dependent on some sort of employment. It also derives part of its income from entrepreneurial activities, from the sale of intellectual resources,

or from rents resulting from savings, property or other assets. However, living in an advanced society is expensive – every person, both natural and legal, is obliged to pay taxes and fees for the services provided by the public sector. Of course, everything the free market provides has to be paid for as well. Still, the general public is the most important reserve of wealth of today's consumer society.

In contrast to all these sectors, the *nonprofit sector* represents entities that, in general, cannot directly enforce the change of income patterns through their own decisions (as governments do). Usually, making profit and consuming it for their own welfare do not primarily motivate NPOs. Instead, their goals and objectives tend toward assistance to other persons. This can be the creation of an outlet for their members' interests and hobbies, direct advocacy, or services or support provided to other persons or the general public. This makes NPOs different from both the public sector and the private sector. To a certain degree, individual NPOs may be compared to individual natural persons. Some may be rich, some may be poor – most need money on a regular basis to survive. NPOs in general are both dependent on the assistance of other persons and capable of generating some income through their own activities. Figure 1 depicts the most important sources of income and expenditure for all sectors.

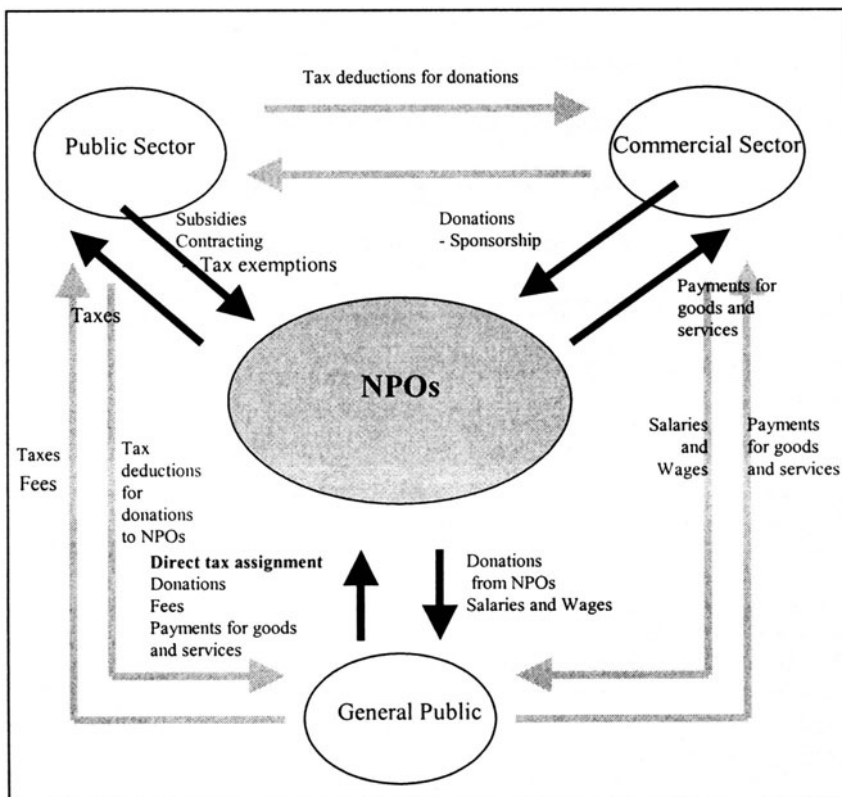
Since NPOs are closely related to the other sectors, it is not surprising that they collect income from many different sources. In many countries, the public sector substantially supports NPOs through subsidies and tax exemptions and by contracting out special services (especially in the fields of healthcare and social services). The commercial sector contributes to the revenues of NPOs mostly through sponsorship and donations, whereas support from the general public ranges from fees and payments for goods and services to donations. Additionally, direct tax assignments such as those recently introduced in Hungary and Slovakia (see below) are possible.

On the spending side, salaries, wages and remunerations paid to employees, managers or even to external trustees of NPOs represent an important share of the total cash outflow. Together with the costs of material, facilities, and services, they constitute administrative expenditures. As such, they are often constrained or monitored with special attention by organized donors and the general public.

Now that the financial relations between different sectors have been described, it should be mentioned that the third sector is, to a certain degree, self-sustaining and allows the concentration and distribution of resources among NPOs themselves. Here, foundations play a special role. Foundations are NPOs that use their assets to support their own and other objectives through grants and services provided free of charge. By fostering the objectives of others, they circulate money within the third sector – from one NPO to another. Furthermore, associations and foundations sometimes

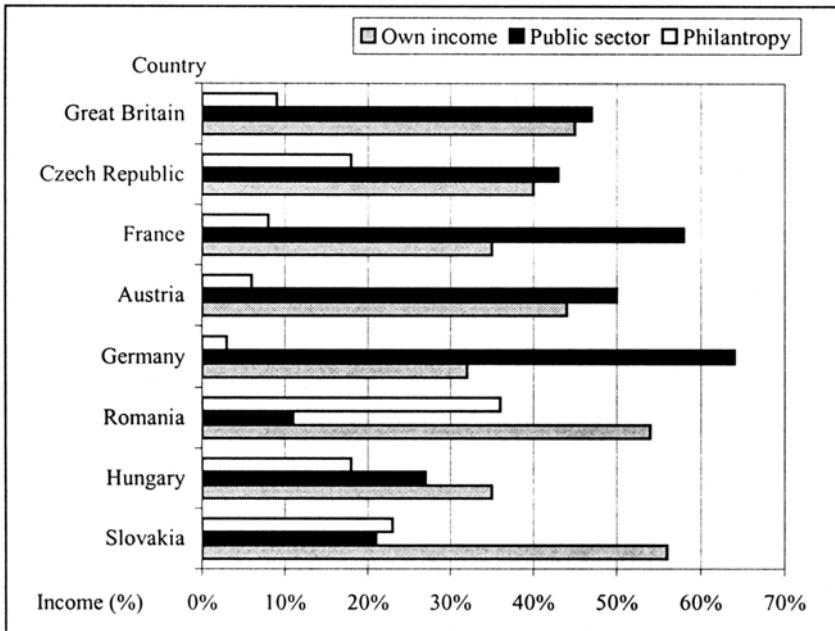
establish centers or other kinds of subsidiaries, which are either supported by the founding NPO or actively generate profit and thereby support the founder. This also creates “intrinsic” financial flows.

Figure 1. Cash Flows between sectors



Source: Own Figure

The weight of the various income sources depends on several factors. Figure 2 illustrates how the mix of different revenue sources can vary according to the geographical location of NPOs, therefore giving an impression of the importance of socio-political influences. Fees in this figure refer to an NPO's own economic activities, including investments, or financing through membership dues. While they account for more than three-quarters of nonprofit revenue in Slovakia, they amount to only a third of NPO income in Germany. For German NPOs, public funding dominates and accounts for

Figure 2. Sources of NPO Income in Selected European Countries

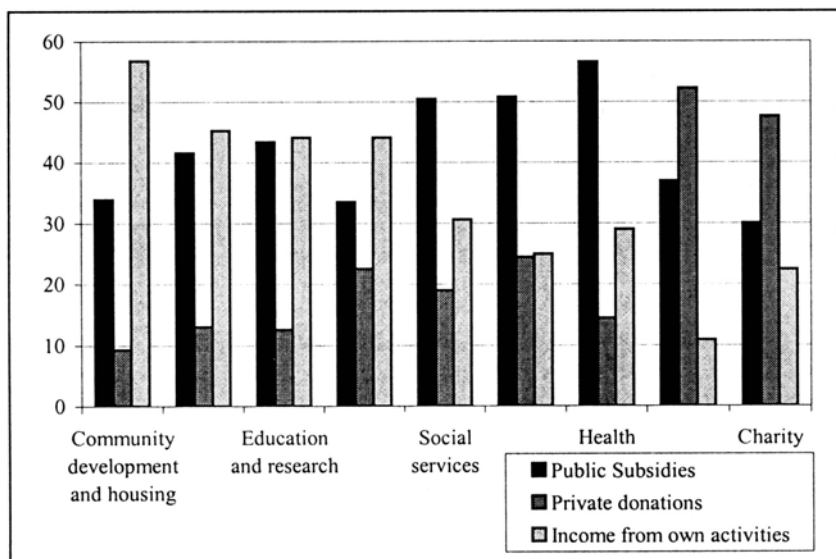
Source: Own Figure

about two-thirds of NPO income, whereas Romanian NPOs derive only about one-tenth from public sources. In nearly all countries, philanthropy accounts for less than one-fourth of total income.

Income patterns can also be analyzed in relation to the fields of activity and the purposes of NPOs. Figure 3 illustrates these findings for the Czech Republic as an example.

It is not surprising that government resources play the most important role in healthcare and social services and in advocacy for civil, legal and human rights. In the fields of healthcare and social services, this is a long-standing tradition, which even survived under the socialist system. Public funding in the field of advocacy results from the attention paid to the issue of human and other rights by the political establishment in the Czech Republic after 1990. Similarly, one can understand the prevalence of private donations in the fields of philanthropy and international activities, as well as the significance of self-generated income in the fields of housing and development, culture, private education, and recreation and sports, where services usually must be paid for and typically only losses are covered from government sources and private donations. However, the significant

Figure 3. Distribution of NPO Revenues in the Czech Republic by Purpose, 1995



Source: Salamon, et al., (1999) Global Civil Society (1999), taken from Frič (2002)

proportion of self-generated income in the field of environmental protection seems a bit surprising. Although private philanthropy is visibly weaker than public funds in most fields, it should not be underestimated, since many needs would not be addressed without it. Individual donations are usually smaller, but can be easily targeted to concrete needs because they are not subjected to strict requirements (see below). Many donations – even though they are small – might represent a vital resource for NPO activities, especially on the local level. Collections in churches, the proceeds of which are often used for charitable activities, may serve as an example here.

Finally, the introduction of direct tax assignments in Hungary and Slovakia can be mentioned as a new phenomenon. Both countries have recently introduced a procedure, known as the “1% Law,” which allows taxpayers to decide which NPO receives what parts of the tax they have to pay. While the overall financial impact of this procedure on NPOs might not be extremely great, the direct income generated by tax assignments can play an important role in the development of solidarity and philanthropy in a society. The first experience from application of the “1% Law” in Hungary also confirms the expectation that smaller and local NPOs benefit most – another positive feature of such assignments.

The role of international support, also part of the socio-political

environment, varies considerably among NPOs and among countries. For the development of civil society in Poland, the Czech Republic and Slovakia, for example, such support was of greatest importance during the first decade after the change of the political system. However, the interest of the international community is always focused on regions of special need. Therefore, it was quite natural that in the first years after the fall of Berlin Wall many state agencies³ or political foundations,⁴ as well as independent private foundations⁵ and others, contributed enormously to the creation of many new NPOs in all countries in order to help restore democracy and to support the development of civil society in general. The nominal contribution of foreign independent foundations amounted to approximately US\$100 million between 1989 and 1994 (Quigley, 1995). In 1997, the U.S. Government decided to withdraw its direct support from some of the Central European countries, increasingly shifting its support towards Eastern and Southeastern Europe and into the Caucasian and Central Asian regions. This move caused a period of uncertainty for many Central European NPOs, during which their financial strategies had to change dramatically towards self-sustainable financing, i.e., more revenues had to be generated through their own activities. NPOs had to learn how to raise funds and how to make contracts or develop partnerships with the public sector.

In sum, the financing process and income of NPOs can be seen as a result of various independent variables, three of which appear to be dominant:

- The socio-political environment reflects the historical and political background, traditions, and prevailing religious and ideological beliefs, as well as the legal framework. For finance, this includes additional aspects such as the banking system, the norms and regulations of capital and money markets, and simply the availability of money. Part V of this book, "Country Profiles," illustrates the similarities and differences in this socio-political dimension for several Central and Eastern European countries.
- Another important factor is the legal form of the organization. Due to the special rules, regulations and requirements corresponding to the legal form of an NPO, its financial management can differ

3 e.g., EU Phare program, US Agency for International Development, Canada Fund, British Council.

4 E.g., Konrad Adenauer Foundation of Germany and National Foundation for Democracy of USA.

5 For example: George Soros's network of Open Society Foundations, MacArthur Foundation, Mellon Foundation, Rockefeller Brothers Fund, C.S. Mott Foundation, German Marshall Fund, Ford Foundation, and Foundation for Civil Society of USA; Charities Aid Foundation of England; Cooperating Dutch Foundations of the Netherlands; as well as Volkswagen and Robert Bosch Stiftung of Germany. These and many others have contributed enormously to the creation of new NPOs in all countries thereby helping to restore democracy and civil society.

considerably. Associations, foundations and cooperatives are the most common legal forms (cf. Part III. 2: Freise/Pajas “Organizational and Legal Forms of NPOs”).

- Finally, the structure of income also varies according to the organizational form. NPOs differ according to their purpose (membership, interest, service, and support organizations) (Sachße: “Organizational Types” in bonus section of the CD), their fields of activity (sport, culture, social or health sector, etc.), and their size and stage in their lifecycle (newly founded, strongly growing, stable, mature or declining).

Of course, all of these factors are interrelated in some way. Small, membership-based NPOs, such as a local soccer club, for example, mostly choose the association as their legal form. In this case, membership dues often play a vital role in financing their activities and, therefore, entail specific financial management challenges, such as cost-efficient payment and cash management systems. Foundations, on the other hand, are asset-based by definition. To a large degree, their activities are financed through earnings from interest or dividends based on their assets. Therefore, efficient investment strategies are important.

A long tradition of civic engagement can favor private grants and donations, whereas a traditionally strong governmental orientation can encourage public sector financing. Most bigger NPOs mobilize their income from various sources and have a finance mix. Smaller organizations, on the other hand, tend to be more dependent on few sources of revenue or even only a single one.

3. Financial Management

Just as the finance mix varies according to several factors, so does the organizational structure of financial management. Large NPOs frequently have different persons responsible for different functions, such as a controller (data processing and financial and cost accounting) and a treasurer (cash and credit management), who may be answerable to the President or the Vice-President for Finance. In many smaller and younger NPOs, finance activity is associated with only one board member, the treasurer, or a chief financial officer, who has to deal with all aspects of financial management, which can be quite demanding.

In any case, excellent management skills are essential for improving or optimizing an organization’s financial situation. Financial management basically sees to it that financial obligations can be met in the short and the

long run, so that cash inflows cover cash outflows. Among other tasks, the financial manager implements investment and liability management plans and optimizes payment systems, bank relations and cash holdings. In order to achieve all these goals, financial management depends on a smooth-functioning planning system, as described in the next section.

Financial Planning

Active management entails a continual process of gathering information, planning future action, and monitoring output in accordance with the given objectives of an organization. Thus, financial planning is very much dependent on the mission of an NPO, its objectives, and its strategic plan. Furthermore, NPO finance has its own objectives within an organization, which require management to:

- maximize return on investment (ROI),
- safeguard solvency and liquidity, and
- increase security by reducing risks (Matschke/Hering/Klingelhöfer, 2002: 1ff.).

Basically, the ROI is the ratio of the profit of an investment or an activity to the capital employed. It can be seen as a measure of the efficient use of capital. The objective is not to maximize profits, but to optimize the ratio between capital employed and the return on it.

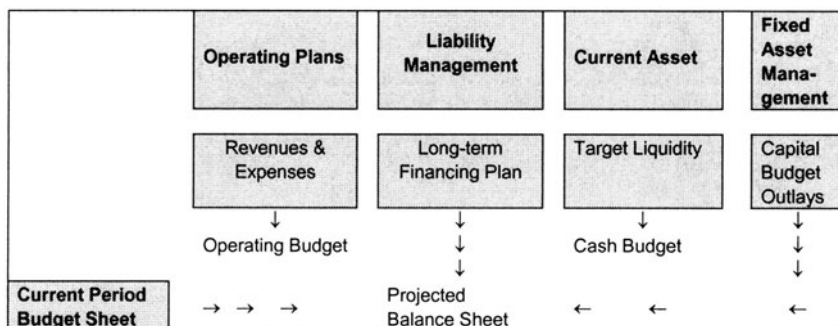
Securing the ability to meet future obligations is important for the survival of any organization. This implies that there has to be sufficient funding to cover liabilities and repay debt at any given time in the future. Cash shortages can increase costs (through late payment penalties or loss of vendor discounts, for example) and endanger the solvency of the organization, which can finally result in bankruptcy in the worst case. A cash surplus, though, entails opportunity costs, since the cash is not invested and will not return any profits. In order to meet all its obligations, the NPO must at least break even, i.e., costs are not higher than revenues in the long run. Since it is typical for NPOs to engage in activities that cannot break even at all or during certain time periods, NPO management must find ways to compensate for such losses (e.g., through cross-subsidization).

Management of the risks of capital transactions is also of fundamental importance. There is always a trade-off between risk and return. The higher the possible return on an investment is, the higher the risk usually will be. This risk consists either of achieving less than the expected return or even of losing the invested money partially or totally. Hence, judgments on the value of investments or loans must take into account this trade-off between risk and return.

Since all three objectives can never be achieved at the same time, an organization's challenge is to balance them and reach an optimal mix. The financial manager, therefore, needs to know how much risk the NPO is prepared to take. The financial specialist must plan how much liquidity will need to be provided for future periods and must manage liabilities and investments. Information and planning tools are needed in order to accomplish these tasks.

The heart of any financial management system is the budget. A budget is a planning document projecting the income and expense necessary to accomplish a set of objectives. "The budgeting process is important because it allocates resources, in turn revealing the programmatic preferences of the parties involved in budgeting." (Hankin/Seidner/Zietlow, 1997: 147)

Figure 4. Budgeting Process



Source: Based on Hankin/Seidner/Zietlow (1997: 148)

In order to develop budgets, several steps are necessary. As Figure 4 shows, the operating budget is calculated based on the projected revenues and expenses corresponding with NPO activity (e.g., cash inflow through fundraising and cash outflow through mission-based activity). Many NPOs earn considerable amounts of cash through their assets. Whereas current assets (cash, work in progress, etc.) are regularly turned over, fixed assets (e.g., buildings and machinery) are normally used over a long period of time for the purpose of generating profits. On the other side of the balance sheet, liabilities are the debts of a person or a company. They are financial obligations that affect cash flow in various ways.

Figures related to the management of liabilities and assets are expressed in the corresponding plans and are key inputs for the cash budget. Together with the operating budget and the current period balance sheet, they provide the input for the projected balance sheet. The balance sheet is one of the main components of a company's financial statements. It provides a snapshot of

everything the company owes and owns at the end of the financial year.⁶ The balance sheet provides the most important information for the financial analysis of an NPO, along with the profit and loss account and cash flow statement.

While the balance sheet provides useful information about the fundamental “health” of an NPO, such as whether it can pay its debts and how good its cash management is, the profit and loss account gives information about performance in the previous year.

Many analysts in the for-profit sector regard cash flow as the ultimate test of financial health. Since NPOs usually have no interest in maximizing their profits but do need cash to operate, it seems to be even more important for the nonprofit sector. The best way to check the cash flow position of an NPO is to scrutinize the cash flow statement in its annual report and financial statement. It provides information on whether an NPO has generated or consumed cash in the past year and how. In conjunction with the balance sheet, the cash flow statement can be used to assess liquidity, solvency and financial flexibility.

Since budgeting is to be understood as a process, plans have to be revised from time to time. If any problems with the operating or cash budget are experienced, feedback has to be given in order to alter underlying plans. It therefore is recommendable to use periodic reports to compare budgeted and actual revenues and expenses. This guarantees that discrepancies can be located and analyzed at an early stage and is a vital precondition for short-term financial management. Plans must then be regularly reviewed to ensure that goals remain on target with modifications being made as necessary.

NPO Cash Flows

Cash flow depicts the amount of money flowing in and out of a business, the difference between the two being the important number. If more money flows into a business than out of it, it is cash positive; if more money flows out than in, it is cash negative (Harvey’s Hypertextual Finance Glossary (2002)). For financial management it is important to monitor both cash inflows and outflows. As mentioned above, the expenses of an NPO are very similar to those of a private business. It buys short- and long-term assets, it pays for products, services and interest on debt and it has to pay taxes and wages. However, since financing mostly deals with obtaining resources, the cash inflow side will likely be of more relevance for NPOs.

There are many ways to generate cash, some of which will be analyzed in

6 Though balance sheets differ according to national and international standards they normally include accounts payable, capital and reserves on the one hand, and (in) tangible assets, stocks, receivables, and cash on the other.

more detail below. As shown in Figure 5, the forms of financing can be distinguished, in the first place, according to the origin of the funds, i.e., financing from one's own resources (internal financing) and financing from other resources (external financing). The various financing mechanisms can also be differentiated according to whether they are debt-based or equity-based or a mix of the two. In debt-based financing, NPOs can borrow money from another person or organization in order to finance their programs, in which case the money has to be paid back, usually with a certain interest. In equity-based financing, on the other hand, they can work with their own money, which should not entail direct costs.⁷

Fundraising

A wide variety of fundraising methods and instruments have been developed within the past decades. Furthermore, fundraising is one NPO aspect that has enjoyed a great deal of attention in scientific and management literature in the past years. (See, e.g., Fundraising Akademie, 2001; Urselmann, 1998; Haibach, 1998; for small NPOs see Mussoline, 1998; for international dimension cf. Harris, 1999).

Since fundraising can be seen as an aspect of financial management, but is covered in a chapter of its own in this book (cf. Haibach/Kreuzer, chapter IV 8), this chapter will provide only a short review of some common sources of income in order to focus on special financial management issues.

Special events, such as sporting events, e.g., marathons or soccer matches, charity dinners and parties, or cultural activities, are very well recognized NPO activities. They are opportunities for increased public visibility, for cultivation of new prospects, and for disseminating information about the organization and its mission. From the financial point of view, they are interesting because they can help improve cash flow. Over time, some events even become the main source of an organization's annual operating revenue. Typically, the income from such events is immediately available and unrestricted. However, events also carry a high financial risk. With no guarantee of financial success, thorough planning is essential. Because expenses often have to be paid prior to receipt of revenues, a financing concept, which ensures that the gap between cash outflow and inflow is bridged, has to be set up in advance. This can be done by negotiating timed payment options, by arranging short term loans, by moving funds out of liquid investment accounts, or by asking participants to pay fees or other payments in advance (Dropkin/Hayden, 2001: 154ff.).

7 However, since the organization's own cash cannot be invested alternatively, no interests, dividends or royalties can be obtained. The income that could have been generated additionally with an alternative investment is called 'opportunity costs'.

Figure 5. Forms of Financing

	External Financing	Internal Financing
Equity-based	Donations, Contributions* Interest, Dividend and Royalty Income through Investments	Profit retention Membership Dues Sales of Assets and Inventory Sale-lease-back Depreciation
Mixed	Endowment Sponsoring Grants, Subsidies	Leasing Factoring
Debt-based	Overdraft, Cash Credit Supplier loan Customer Deposits Loans with different Ranges	Financing through Reserves

* Since donations and contributions normally do not involve financial obligations (repayment of principal or interest), this form will be seen as equity-based external financing. Grants and subsidies, on the other hand, often are tied to legal or financial obligations.

Source: Own Figure

Once having qualified for them, *grants* are a very stable and therefore very popular form of income for an NPO. There are many types of grants (cf. Dropkin/Hayden, 2001: 133ff.). Grants for which the grantor has identified a particular purpose ("restriction") or a certain manner of use are called restricted grants. Most have in common that they impose more or less strict requirements that can refer to the use of money, to certain procedures such as documentation and reporting, or to the need for program matching funds.⁸ Thus, managing this type of grant is usually very demanding. This is true

8 With program matching funds, the organization must provide a certain share of its own funds or resources in order to qualify for the grant. These can be of monetary or in-kind nature. Sometimes challenges, such as a defined amount of support from third parties, have to be met.

especially for “official” grants, provided by entities such as the EU or federal, state and local government agencies. In general, these entities provide lists of necessary requirements the grant-receiving organization has to comply with. Noncompliance will often cause major delays in the receipt of funds or even revocation of the grant altogether. Since different grants usually are tied to different requirements, an increasing number of grants in a single organization complicate management considerably. A financial manager should keep in mind that complying with the grantor’s wishes would itself entail costs. Furthermore, grant payments can be delayed for reasons beyond the recipient’s control even if cash outflows must continue. In such cases, a far-sighted management should set aside reserves.

Decision-making and management normally are much easier with unrestricted grants, which come to an organization for no specified purpose (other than the general support for the organization) and can be used by the institution wherever the funds are most needed. Normally no specific reporting or management requirements are laid down. In essence, they are similar to contributions.

Compared to restricted grants, *donations, gifts and contributions* are a rather simple-to-handle form of income. They can be defined as unconditional, nonreciprocal⁹ transfers of cash or other assets to an NPO by another entity. Many smaller NPOs in particular often depend on donations to a large extent. Though many contributions are monetary, in-kind contributions are widespread as well. For financial management, it is important to remember that contributions often do not allow for long-term planning. Though good fundraisers have considerable influence on the amounts and continuity of contributions, donors and contributors are free to dedicate their donations whenever and to whomever they want. If unhappy with the performance of the NPO, they can easily redistribute their donations. Donations involve several administrative duties, including the management of donation accounts, distribution of receipts and information, and building and administering a system for soliciting contributions.

From a long-term perspective, an *endowment* is one of the most effective of all donations. In Europe, endowments were for centuries a popular way of setting aside a part of private property or property of a sovereign for other than personal purposes. In Austria, Bohemia, Germany, Hungary, and Poland there existed or still existing foundations built upon endowed buildings, land or rights, which were established by sovereigns to serve as hospitals, shelters for the handicapped, lodging for students, sanctuary for monks, etc. Since the late medieval times, endowments also became a privilege of rich freemen and townsmen – sometimes serving as long-term security for their heirs.

9 “Nonreciprocal” means that NPOs do not have to provide tangible or marketable goods or services in exchange for such contributions or donations. Instead donors often have a non-economic intangible benefit (such as feeling good) from supporting an organization.

From the fiscal point of view, the most important features of an endowment are the constraints imposed on it by the donor. Usually, endowments are not to be alienated, used as security against liabilities, or endangered in other ways. They should primarily serve to generate regular income, thereby not consuming the principal. The income is to be used for the given purpose and maintenance of the endowment. Endowments can be patents or authors' rights, collections of valuable art, or other income-generating and durable assets. Last but not least, there is the monetary form of an endowment involving special long-term banking accounts and portfolios of bonds,¹⁰ shares, investment trusts or other securities.

Increasingly, corporations sponsor events or facilities for NPOs. While the NPO receives goods or money from the sponsor, it normally provides the company a certain amount of advertising and publicity based on the amount of the sponsorship. Thus, *sponsoring* normally is a reciprocal transaction involving the transfer of marketable goods (advertising normally is a commercial service which has to be paid for). This is the reason sponsoring in countries such as Germany is not exempted from taxes, whereas donations and endowments are. A sponsoring agreement specifies the obligations of both parties. Meeting these obligations is vital for satisfying the sponsor and obtaining future sponsorships. Because payment schedules vary according to individual treaties, it may be advisable to match payments with predicted cash outflows in order to avoid financing gaps.

There are many more fundraising instruments such as lotteries, affinity credit cards, payroll giving, humanitarian broadcasting, or collections. For financial management, it is important to know that all of them have their own legal and financial issues to consider. Each instrument produces certain patterns of cash in- and outflow and has its underlying risks. Evaluating different instruments according to their match with mission and objectives and their ability to generate income is a crucial task for NPO management.

Management of Liabilities¹¹

While, on the one hand, working with debt-based financing is a normal part of economic life in most industrialized countries, on the other, there are plenty of examples of failed NPOs that ruined their future because they took on too much debt. Borrowing money offers the possibility of stabilizing the

10 Bonds are a form of debt. They are usually issued by national, regional or local government, and big private or public companies (in some countries by big NPOs as well) for a period of more than one year. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal of the loan at a specified time with a specified rate of interest (Harvey's *Hypertextual Finance Glossary*, 2002).

11 Liabilities, in short, are a borrower's debts and legal obligations.

organization's cash flow. Normally, it is available faster than other forms of income and is, therefore, ideal for bridging financial gaps caused by revenue shortfalls or unexpected increases in expenses. It can help to accelerate income-generating projects or to meet financial obligations.

A typical feature for debt-based financing is that the lender has the right to recover the principal plus an additional interest rate. This means that borrowing money constitutes a legal obligation. The lender normally does not have managerial responsibilities and does not participate in general risks.

The availability and price of a loan is very much dependent on the creditworthiness of an organization (Gräfer/Beike/Scheld, 2001: 163) and current market conditions. In order to secure loans, external lenders normally check the credit standing of an NPO in advance. Several factors, such as the character of the NPO's management, the collateral that the borrower has available to pledge, the capital available to the organization, and the capacity to earn cash flow now and in the future are relevant for the assessment of an NPO (see Hankin/Seidner/Zietlow, 1998: 346).

In addition to these factors directly related to the organization, other variables, such as current market conditions, legal regulations, and characteristics of the banking system and money market, have to be considered. Member countries of the EU, for example, have been very much affected by the new BASEL II agreement, which changed formal requirements and risk evaluation for the granting of credits through banking establishments (Bank für Sozialwirtschaft, 2002).¹² Some instruments of debt-based financing are not available for NPOs in most parts of Europe, e.g., the issuance of bonds. Therefore, the range of possibilities, especially for smaller NPOs, can be rather restricted.

A very common form of interest-free loan – often not thought about – is *payables* (credits). If the payment terms offered by a supplier allow the customer to pay for received goods within 14 or 30 days from the date of invoice, the customer would give up an interest-free short-term loan by paying the invoice before it is due. From the supplier's point of view, payables are part of the financial and marketing decision system, especially in larger or service-producing NPOs. They are often used to distinguish customers according to certain features or to reward special customers. From this perspective, payables can be seen as loans to the customers. Management must choose the financial services it wants to provide, the terms for credits, the customers that may benefit, and the way the credit will be collected (Ross/Westerfield/Jaffe, 2002: 749).

Often a *cash discount* is offered for payments before a certain date. One form may be to offer a 2% reduction on the price when paid within 10 days,

12 Since loans are granted by humans, of course there always is a personal aspect as well. Chances to receive bigger loans rise when the organization or the financial manager is well known to the lender and the two are on friendly terms.

with the net amount being due after 30 days. Not using the cash discount could be interpreted as a very expensive loan, since the use of money for 10 days has to be paid for with 2% of the price.

Another form of debt-based financing is *customer deposit*. A deposit is money given by a buyer in advance of delivery of the product or service to bind the sale. In a sense, the customer is providing the supplier a short-term interest-free loan during the time between the receipt of the money and the delivery of the goods.

Effective management of payables, cash discounts, and customer deposits can improve an organization's financial situation considerably, but it usually must be complemented by more stable and longer-term loans. Banks traditionally provide most of these middle or long-term *loans* to NPOs.

Most organizations have at least a bank account. A simple type of loan in this case is an *overdraft* enabling an account holder to withdraw more money from the account than is held there.

A *line of credit* is a commitment by a financial institution to lend up to a stated amount to a customer during a certain period of time. Normally no contractual commitment is entailed, so that the lender can claim back the resources on rather short notice. Though normally no commitment fee is charged, credit lines usually are rather expensive in terms of interest rates. Nevertheless, they have an important role in balancing cash flow fluctuations. Usually they are unsecured, and the amounts available depend on banking policies and are often related to monthly or annual income.

Long-term loans, however, are generally backed by collateral. A *mortgage*, for example, is a loan in which the borrower offers property or land as security to the lender until the loan is repaid. Other goods such as current or fixed assets or accounts receivable also may be used as collateral. In addition to banks, other institutions such as government agencies and foundations offer loans as well. In these cases, they are tied to certain purposes. These loans are often cheaper because interest rates or the repayment of the principal are subsidized. In most cases, the application for a loan goes through an approval process. The borrower prepares and delivers some form of a presentation to the lender, who evaluates the data and either denies or approves the loan. Since many loans are not approved because of bad presentations, financial managers should be well prepared when facing potential lenders.

In addition to these traditional forms of debt-based financing, innovative instruments such as credit substitutes are becoming increasingly important for NPOs. They are often provided by special companies or financial institutions that do not necessarily have to be banks. Some of these instruments, like those described below, overstep the line between equity and debt-based financing.

Factoring, for example, is an agreement through which a financial institution buys the accounts receivable of a company and collects the loans

itself. Selling an NPO's accounts receivable creates the possibility to turn debts into cash flow very quickly. Factoring institutions (factors) now offer full service in collecting receivables (from managing accounts to collection procedures). Factoring can be sensible for medium-sized NPOs that cannot afford major data processing equipment but do have considerable amounts of receivables. Of course, this service is not free of charge. The factor usually collects a service fee and compensation for the risk undertaken.

Leasing provides the opportunity to benefit from certain assets without owning them. It is a kind of long-term rental contract that grants the use of cars, machines, real estate or other fixed assets for a stated period of time in exchange for payment. Many different forms of leasing have been developed. In some cases, the leased items are returned after the stipulated period; in others, the lessee has an option to buy them afterwards. In any case, leasing an item decreases cash outflow at the beginning of the operating life of an asset and thus relieves liquidity. Over time, however, cash outflow rises because regular installments must continue to be paid. Since the lessor needs to recover the costs of the credit and additional services he provides, the cost of leasing can easily exceed the cost of an alternative loan.¹³ Whether leasing is advantageous or not, therefore, must be calculated for every single decision.

Managing Investments

Still quite a few NPOs have problems in seeing the need for investing their surplus cash. Governing boards should be aware of the fact that not investing their money will lead to a decrease in funding over the long run because of the inflationary effect that will automatically reduce the purchasing power of "idle cash" over time. Thus, the most important objective of long-term investment is to preserve an organization's capital by hedging against inflation, which is possible only by achieving a positive rate of return (at or above the inflation rate). So, investment can be defined as any use of capital whose purpose is to receive a return. This can be realized through income (by receipt of dividends or interest) or capital gains (by increase of the value of an asset) (Fry, 1998: XII).

For younger and smaller NPOs, short-term investment is of higher importance. However, their needs change with growing size and maturity. In later stages of an organization's life cycle and for cash-rich organizations, long-term investment typically is of greater relevance. The investment markets offer a broad variety of different types of investments such as bonds, equities and real estate.

13 In many countries different types of leasing have tax advantages, which then have to be considered as well.

Of course, investments also cause changes in cash flow. On the one hand, they produce a cash outflow in the moment the money is invested. It then is not available for other activities any longer. On the other hand, there are cash inflows resulting from dividend or interest payments and from finally recovering the invested money.

Most NPOs at least have some cash inflow in the form of interest, which is payment for money held in savings or checking accounts, private or government bonds, and certain funds. Since cash flow from interest usually is highly stable and predictable, it allows for relatively precise forecasts and planning. Saving accounts and bonds, especially government bonds, are ideal instruments for rather conservative or risk averse investors.

More venturesome managers, however, will prefer other investment forms like stocks or even derivatives. If NPOs hold investments that include securities, such as stocks or mutual funds, they usually collect dividends, which are payments made by a firm to its owners (stockholders). The amount being paid and the value of the shares are closely related to the economic performance of the firm. Therefore, it is more difficult to forecast the development of the investment, leaving the investor with more risk. With certain forms of investment, this risk entails not only the possibility of having smaller profits, but also of losing parts or all of the invested money. As a consequence, a good investment strategy should involve a lot of experience or at least some qualified advisors.

Internal Financing and Cash Management

Simply changing internal structures and procedures can generate often cash. Liquidating overfunded pension plans, for example, can be a means to recapture assets for the organization's use. In addition, changing the business structure can help reduce operating costs and minimize cash outflow. However, restructuring as a means of financing has to be used carefully since it produces costs itself and may create considerable unrest inside the organization. If possible, non-productive assets such as unused machines, cars or buildings should be sold,¹⁴ or membership dues and service fees increased. If accepted by customers and members, such an increase in prices is an easy way to lift cash inflow. If not accepted, however, this step may easily lead to a loss of customers or members.

Other often-neglected measures include intensifying cooperation with other service providers and forming strategic alliances and joint ventures. Though these are neither internal nor direct forms of financing, they may have

14 In the event that assets are vital for operating the business and cash flow is urgently needed as well, there is the possibility of selling such assets to a lessor and leasing them back again afterwards.

internal effects over the long run, since they can lead to a better division of labor and the reduction of costs. They can also provide new contacts and sources of income.

Through efficient cash management, costs can be lowered and cash inflow can be increased as well. Cash management is one part of financial management involving a number of different activities such as cash collection and disbursement. NPOs with high receivables and customers with rather bad paying habits, for example, may enhance their cash flow situation by improving collection practices.

Still, NPOs not only provide goods and services, they also buy them. From this customer viewpoint, management can improve the financial situation by stretching out supplier loans by, for example, extending payment terms or interest-free periods.

Ultimately, active cash management should reduce the amount of idle cash in the organization and ensure that most of its money is working instead of idling uselessly.

There also is an external dimension to cash management since it is responsible for optimizing banking conditions. For this reason, management must be aware of various special offers and charges. However, the lowest price is not always the deciding factor. A trusting relationship with a bank is of relevance as well. It is an important task for a treasurer or cash manager to establish these positive relationships. In order to accomplish all these duties, cash management has to be closely interrelated with the cost accounting system as well as with the financial accounting and planning system.

4. Special Nonprofit Financing Issues

Ethical issues would seem to be far more relevant for NPOs than for commercial businesses. This is especially true for the acceptance of donations, for investments, and for borrowing money.

In extreme cases a “wrong” source of support can bring into question the organization’s own mission. Imagine a peace movement NPO being supported by an arms producer or an anti-drug organization investing its money in a brewery or tobacco company. Financing must be in line with the organization’s mission. However, right and wrong cannot always be distinguished so clearly and are a matter of perception. Governments, for example, usually bring in considerable revenue from alcohol and tobacco taxes. Would it now be wrong for an anti-drug organization to accept government funding or to invest in government bonds? No matter how this issue is settled, it certainly appears to be wise to have a set of rules in the mission statement or the bylaws of an organization that can be of help in such situations.

Some problems may relate to the *cultural vulnerabilities* of NPOs that result from their specific nature. Avoidance of the use of “rate-of-return” language and similar economic concepts, for example, is widespread among NPOs and is more than a pure semantic problem. Dealing with money tends to leave an unpleasant taste. If, in addition, sufficient knowledge about finance is lacking, financial issues will more likely be neglected.

NPOs often develop certain behaviors in order to deal with uncertainty. One can be described as wary risk avoidance behavior. In this case, management will place no trust in financial advisors, and it will only invest in low-risk investments or borrow money from well-known institutions. This risk-averse behavior often results in under-average rates of return or relatively high loan costs.

NPOs also tend to focus on doing good, rendering services to the needy, or lobbying on behalf of their clients. This can produce an atmosphere of gentleness and a desire to please, resulting in an increased propensity for the organization to trust financial “sharks.” Often this is the background for many scandals.¹⁵ In any case, it can cause major damage to an NPO’s financial situation and reputation.

If there is one lesson in NPO finance to be learned from ancient Greek mythology, it is this: not all gifts are welcome. “Trojan” gifts, which take their name from the mythological Trojan horse, are donated either in order to eliminate any problems the donor has with the gift or in order to deliberately cause problems for the recipient organization. An example of such a gift is polluted property. Many countries require landowners to clean up their polluted property. Since these costs can easily exceed the value of that property, it is cheaper to donate it. Other examples may be stolen goods sought by the police and insurance companies, or inheritances with high debts.

“Bad” gifts on the other hand are given to an organization with the clear intention of helping it. Nevertheless, the organization has problems using such gifts since they are not immediately marketable (e.g., furniture, jewelry, etc.) and must be sold to help the organization. Other donations or endowments such as art collections must be displayed in order to obtain revenues. This requires insurance, facilities and expenditures for all necessary logistics and marketing. Real estate may generate relatively stable rent revenue or be used to house the organization or its operations. Still, at some stage, buildings need some kind of maintenance or renovation, the costs of which might easily exceed the benefits of the real estate’s use.

Whether the gifts are “bad” or “Trojan,” the consequences for the NPO are similar. They, along with the examples given above, demonstrate the need to better protect the organization. Setting up a gift acceptance policy, which

15 The New Era for Philanthropy Fund scandal in the USA is an example of fraud involving a significant number of NPOs.

provides guidelines relating to the conditions under which the organization may accept gifts and donations, can do this. The following questions can help to evaluate possible risks: What is known about the history of the donor and the gift itself? What is the value of the gift and can it be used immediately or does it have to be sold? What are the costs of steps required in order to use the gift?

Finally, another important issue, especially for political organizations, is that of the *influence of external sources*, in particular, donors. Many scholars (see e.g., Salamon/Anheier, 1997) consider organizations to be truly nonprofit only if they are independent entities. However, most cannot survive without either public or private subsidies or donations. The important questions are, then, to what extent these NPOs are independent and to what degree they are actually controlled by their donors. There is no simple answer, but it seems reasonable to think that an organization may be considered independent as long as the choice of mission and objectives and the choice of means of achieving them are under the control of the NPO's statutory bodies. Whenever a donor requires having a decisive influence on the objectives and the choice of means, the NPO's independence can be in jeopardy. Therefore, it is advisable to have more than one major source of income so that no single source can exert such power.

5. Conclusion

As shown throughout this chapter, finance is a core management function and an important instrument for securing the economic survival of NPOs. The most crucial single factor for financial management is the income mix. The income itself substantially depends on several external factors, such as the economic strength of households and economy, the socio-political environment, and the willingness and potential of governments to support third sector organizations, as well as the existence of other national or international NPOs with substantial funds. In addition to these external forces, specific features of an individual NPO, such as its purpose, age and legal form, influence the income mix.

Modern NPO finance differs to some degree from finance in commercial enterprises. As indicated previously, NPO finance is strongly related to the organization's mission and objectives and has the vital role of guarding financial efficiency, solvency and liquidity and of minimizing financial risks. In short, the most important tasks for financial management include:

- *Financial planning, budgeting and accounting*: Plan cash flows, evaluate and document them. If necessary, revise them.

- *Cash management*: Configure the banking system by comparing fees and charges, raise sufficient cash, collect and monitor the cash, protect and pool the cash, disburse it and invest any surplus. If necessary, borrow more cash on favorable terms.
- *Payables management*: Pay invoices on time but not too early.
- *Receivables management*: Collect all the money owed to your organization on time and deposit it immediately.
- *Inventory management*: Keep your inventory at proper levels. Sell inventory not needed and think about leasing inventory.
- *Fundraising management*: Keep adequate records and compute effectiveness and efficiency. Raise funds in anticipation of needs. Make sure that the organization complies with grantors' requirements.
- *Risk management*: Foresee risks that threaten financial viability and take steps to moderate their potential impact (Hankin/Seidner/Zietlow, 1998)

Management always has to take into account the individual circumstances of its own organization. Accordingly, there is no general rule for finance that can be applied to every single organization. However, the following statements may be considered as rules of thumb:

Service-oriented NPOs typically earn the largest share of income from their own economic activities (i.e., selling goods and services) or from grants. Often these NPOs compete against commercial businesses so that management must ensure professional production and marketing (pricing, distribution, communication with customers etc.). Grants are important not only for service-oriented NPOs, but also for membership-oriented NPOs and advocacy groups. Such grants can be obtained by establishing good relationships with governments or enterprises and by efficient public relations.

Bigger NPOs – especially foundations – with significant capital usually are more interested in investments than smaller ones. These larger organizations need to develop an investment policy and a formalized and efficient planning and documentation system, whereas the smaller entities can do with a less formalized planning system.

Membership-based NPOs frequently depend on dues and donations. Though a personal atmosphere may be more important for a local soccer team than for a big international organization with thousands or even millions of members, both have to satisfy their members in the long run. Additionally, they must optimize collection practices and fundraising techniques. Financial management must consider all these circumstances in order to further the mission of an NPO by securing and improving its financial situation. Therefore, NPOs need professional knowledge about financing in general and about the needs and objectives of their organizations in particular. This chapter has highlighted some of the most important issues of NPO financing.

For those readers interested in additional information, the following literature complements the sources mentioned so far. McLaughlin (2000), for example, provides an easy-to-use introduction to the financial basics for nonprofit managers. Brinckerhoff (1998) presents a more practical, direct guide, which aims at optimizing financial success through financial empowerment. Finally, for those interested in financial planning, Blazek (2000) presents a guide that deals with budgeting, asset management, nonprofit accounting, and financial tools, plus provides many worksheets for practitioners.

Suggested Readings

- Hankin, J.A./Seidner, A./Zietlow, J. (1997): *Financial Management for Nonprofit Organizations*. New York et al.
- McLaughlin, T.A. (2002): *Streetsmart Financial Basics for Nonprofit Managers*. 2nd ed. New York
- Blazek, J. (2000): *Financial Planning for Nonprofit Organizations*. New York et al.

References

- Bank für Sozialwirtschaft (2002): *Auswirkungen von Basel II auf die Sozialwirtschaft*. Köln
- Brealy, R.A./Myers, A./Marcus, S. (2001): *Fundamentals of Corporate Finance*. New York
- Blazek, J. (2000): *Financial Planning for Nonprofit Organizations*. New York et al.
- Brinckerhoff, P.C. (1998): *Financial Empowerment: More Money for More Mission: An Essential Financial Guide for Not-For-Profit Organizations*. New York et al.
- Chew, D.H. (2000): *The New Corporate Finance*. New York
- Dropkin, M./Hayden, A. (2001): *The Cash Flow Management Book for Nonprofits. A Step-by-Step Guide for Managers, Consultants, and Boards*. San Francisco
- Fry, R.P. jr. (1998): *Nonprofit Investment Policies. Practical Steps for Growing Charitable Funds*. New York
- Fundraising Akademie (ed.) (2001): *Fundraising. Handbuch für Grundlagen, Strategien und Instrumente*. Wiesbaden
- Gräfer, H./Beike, R./Scheld, G.A. (2001): *Finanzierung. Grundlagen, Institutionen, Instrumente und Kapitalmarkttheorie*. Berlin
- Haibach, M. (1998): *Handbuch Fundraising. Spenden, Sponsoring, Stiftungen in der Praxis*. Frankfurt
- Hankin, J.A./Seidner, A./Zietlow, J. (1997): *Financial Management for Nonprofit Organizations*. New York et al.
- Harris, T. (1999): *International Fund Raising for Non-for-Profits. A Country-by-Country Profile*. New York

- Harvey's Hypertextual Finance Glossary (2002). Located at: <http://www.duke.edu/~charvey/Classes/wpg/bfgloso.htm>
- Matschke, M.J./Hering, T./Klingelhöfer, H.E. (2002): Finanzanalyse und Finanzplanung. München
- McLaughlin, T.A. (2002): Streetsmart Financial Basics for Nonprofit Managers. 2nd ed, New York
- Mussoline, M.L. (1998): Small Nonprofits: Strategies for Fundraising Success: New Directions for Philanthropic Fundraising
- Pajas, P. (1999): Endowments of Foundations Receive Contributions from the State Privatization Fund of the Czech Republic. In: The International Journal of Not-for-Profit Law - Volume 2, Issue 2. Washington
- Perridon, L./Steiner, M. (2002): Finanzwirtschaft der Unternehmung. München
- Quigley, K.F. (1995): For Democracy's Sake. Washington
- Ross, S.A./Westerfield, R.W./Jaffe, J.F. (2002): Corporate Finance. Irwin
- Salamon, L.M./Anheier, H.K. (1997): Toward a Common Definition. In: Salamon, L.M./Anheier, H.K. (ed.): Defining the Nonprofit Sector: A Cross-national Analysis. Manchester
- Salamon, L. et al. (2000): Comparative Nonprofit Sector Project – Germany. Johns Hopkins University Press
- Smith, C. (1990): The Modern Theory of Corporate Finance. New York
- Sprengel, R. (2001): Statistiken zum deutschen Stiftungswesen 2001. Arbeitshefte des Maecenata Instituts für Dritter-Sektor-Forschung, Heft 5. Berlin
- Urselmann, M. (1999): Fundraising. Erfolgreiche Strategien führender Nonprofit-Organisationen. Bern et al.

Fundraising

1. Introduction

Fundraising is the process by which a not-for-profit organization (NPO) receives funding to finance its activities. Although private donors as well as the state are target groups when it comes to raising funds, the term fundraising is more closely associated with philanthropic giving and attracting private support for not-for-profit causes. During the 1990s, the use of the term “fundraising” grew beyond the English-speaking countries of North America, the United Kingdom and Ireland. It is now used all over Western Europe, be it in the German-speaking countries, France, Italy, Spain, or Scandinavia.

Traditionally, the USA has been the “home country” of fundraising. There, fundraising enjoys a rather positive image; it is a “basic technique” that is practiced all over the country in many parts of society. Volunteers as well as professionals are engaged in fundraising. Since the 1960s, there has been a tremendous expansion of professional fundraising.

Philanthropy – the voluntary giving of time and valuables for the public good – is a public virtue in America that is based on the notion of private responsibility for the public good. In Europe, however, the responsibility for the public good is more often delegated to the state. Historically, philanthropy has been regarded in Europe as a private virtue aimed at filling the gaps left by the state. Approaching people actively for donations has been derided as begging. This perspective is based on the assumption that when needed, people will give donations of money spontaneously, without being asked.

Since the early 1990s, philanthropy and fundraising have attracted increasing interest in many parts of the world. At the same time, the state has lost much of its credibility everywhere. Terms like “civil society”, “citizen participation” and “voluntarism” have gained popularity. The “third sector” is gaining an ever more important place in society; it has already created millions of jobs in the last few years and exhibits considerable potential for generating even more employment opportunities. As far as fundraising is concerned, a significant professionalization trend has been observable in many parts of the world since the early 1990s as well. Increasing numbers of NPOs have hired fundraisers, and the range of methods employed has become

wider and wider. A major reason for this is the fact that more NPOs – but even government agencies, too – have tried to boost their income from private sources.

After the collapse of state socialism, private support – in particular foundation grants – has been an important source of income for nonprofit organizations in the Central and Eastern European countries. Professional fundraising is still in its early stages there, although its importance will grow in the future because it will play a crucial role in creating a solid base for NPO funding. One important goal in this region as well as in Western Europe is to encourage the growth of local private philanthropy.

As far as literature on fundraising is concerned, there has been a tremendous expansion of “how-to” books over the last two decades. Almost all of these publications are based upon examples and experiences in particular countries and address their specific legal and cultural environments. There is no single book or a specific set of books that deserves the characterization as “basic book(s) on fundraising” on an international level. Not surprisingly, the USA is the country with the largest body of fundraising literature. Apart from the many books published there that give an overview of fundraising strategies and techniques, a growing number of publications deal with specific aspects, e.g., specific techniques such as direct mail and major donor fundraising, or issues that require special attention such as ethics. The following few books provide helpful overviews (with the limitation in mind that they primarily address the audience in specific countries): Ken Burnett: *Friends for Life. Relationship Fundraising in Practice*, London 2002 (UK); Joan Flanagan: *Successful Fundraising: A Complete Handbook for Volunteers and Professionals*, Chicago 1991 (USA); Fundraising Akademie, ed.: *Fundraising*, Wiesbaden 2001 (Germany); James Greenfield: *The Nonprofit Handbook: Fund Raising*, New York 2001 (USA); Marita Haibach: *Handbuch Fundraising*, Frankfurt/Main 2002 (Germany); Kim Klein: *Fundraising for Social Change*, Berkeley 1996 (USA); Judith Nichols: *Pinpointing Affluence in the 21st Century*, Chicago 2001 (USA). There is one book in which the fundraising practices of several countries are portrayed: Thomas Harris (ed.): *International Fund Raising for Not-for-Profits. A Country-to-Country Profile*, New York 1999. *The Worldwide Fundraisers' Handbook* by Michael Norton (London 1996) is a “how-to” book in which basic techniques are portrayed in a universal way; however, it needs to be updated.

2. The Different Forms of an Organization's Capital

According to Pierre Bourdieu (1996), there are three forms of capital that are essential for not-for-profit organizations (NPOs) as well as business firms. Contrary to common perception, fundraising is not just a means of attracting financial resources. Rather, the primary goal of fundraising is to build a solid foundation for the organization's work. To do this, an organization needs more than simply financial resources.¹ Indeed, other types of capital are available, and all must be cultivated.

In addition to financial capital, there is a second form of capital that can be called "knowledge capital". The knowledge capital in organizations and institutions includes the skills and qualifications relating to an organization's management and the professional treatment of its clients and customers. In addition, organizations possess very specialized knowledge of their projects, which needs to be conveyed to the public. Furthermore – and this is quite important for fundraising – organizations also hold other knowledge: Knowledge of their current and potential friends, sponsors and donors, people who all feel a certain solidarity with the institution and who have supported it over the years with time and/or money.

The third form of capital that is accumulated in the nonprofit sector is "social capital", which plays a prominent role in fundraising (Burnett, 1996). The organization's supporters and sponsors, friends and door-openers, individuals, institutions and companies, people who believe that the work is useful and worthy of support are all therefore important "multipliers," and it is in the best interests of the institution to lavish care and attention on them. Another form of social capital is an institution's own employees and staff (Luthe, 2001: 87ff.).

The form donations take also varies. Of course, there is the direct monetary contribution. Organizations receive donations of goods and services, as well as – above all – donations of time, in other words, volunteer time. Many third sector activities are dependent upon those "donations of time" (Summary of the Studies Commission's Report, 2002).

3. Basic Requirements for Successful Fundraising

Fundraising is a complex task dependent on the successful interaction of a variety of factors. A regular stream of income often depends on whether fundraising is treated as a strategic management process. The individual steps

1 For further discussion see Greenfield (1997: 95–105).

of this process and their implementation need to be planned carefully based upon the analysis of an organization, its environment and its markets. Depending upon the different target groups, appropriate fundraising instruments need to be employed. Income and donor loyalty are usually much higher when the specific needs of individuals are addressed.

A Good Reputation and a Unique Profile

NPOs function within a market and must position themselves in this marketplace. Many organizations are competing for customers, services and donations. In the future, no NPO will be able to survive without acknowledging and utilizing the principles of social marketing (Kelly, 1998). It will become increasingly more important to brand an organization and strengthen it with its own corporate identity, its own corporate design and its own corporate culture, and thus sharpen the contours of its own profile. The better the public reputation of an organization and the clearer its profile, the better are its chances to attract donors.

Marketing Approach and Communication Strategy

Fundraising is a specific form of marketing in order to secure the resources an organization needs. Donors do not receive an adequate material equivalent for their donation. Marketing is based upon the principles of a relationship of mutual exchange from which both sides benefit. When it comes to donations, the benefit to the donors is primarily intangible. Many people feel enriched on a personal level by their philanthropic activities, which give their lives meaning.

Marketing involves presenting one's services and products to current and potential donors in a way that they understand. Because of the mass of information that is available everywhere on a daily basis, messages will only reach the groups at which they are aimed when they are based upon concepts that are in line with the preferences and needs of different target groups. One important marketing strategy is to repeat those messages in different ways again and again.

Needs (Projects, Amounts)

Raising funds tends to be most successful when potential donors are asked to support clearly defined projects and to provide reasonable amounts of resources. It is very difficult, and hardly ever possible, to raise money for an institution as a whole.

A Constituency: Stakeholders and Supporters

There are three basic groups of private donors: individuals, corporations and foundations. Although many people who have any detailed knowledge about fundraising believe that the major part of private giving comes from corporations, this is not necessarily true everywhere. In the USA, for example, individuals account for more than 80 percent of private giving (AAFRC: Giving USA 2001, 2001). Although no reliable statistics are available, a similar trend can be noticed in many other countries, too.

The identification of potential supporters, i.e., gathering names and addresses, is a basic fundraising task that each institution needs to do on its own. There is no standard list of donors who support whatever cause needs support.

In fundraising, there is a basic distinction between “warm” and “cold” contacts. Whereas with cold contacts there has been no contact at all before they are approached, warm contacts are people, whether private individuals or staff of corporations or foundations, who already have been in touch with the organization (in particular people with a self-interest such as recipients of its services, staff and board members, their friends and relatives, former staff, or former students). Organizations that are not successful in attracting support from their warm contacts tend to have even more problems in attracting strangers.

Fundraising Staff and Volunteers

Fundraising ideas and plans require people who are responsible for translating them into reality on a regular basis; otherwise, the plans and ideas will remain just that. Therefore, dedicated fundraising staff is necessary. In the USA, fundraising has been professionalized tremendously over the past four decades. Today, many NPOs have staff persons in charge of “development”, i.e., fundraising. In large organizations in particular, the size of the fundraising department is significant.

In the United States, there are several associations of professional fundraisers. The biggest such organization is the Association of Fundraising Professionals (AFP), which was founded in the early 1960s and, as of early 2002, has a membership of 25,000. The European country where the professionalization of fundraising began already in the early 1980s is the United Kingdom. That country's Institute of Fundraising is the biggest association of fundraisers in Europe with a membership of over 3,000. The International Fundraising Congress, which has been held since 1980 every October in Noordwijkerhout (Netherlands), is an important event for professional fundraisers in Europe and beyond. From here, professional

fundraising began to move beyond the USA and the UK. In the 1990s fundraisers' associations were formed in several Western European countries, among them Germany, Austria and Switzerland. The second largest fundraisers' association in Europe is Bundesarbeitsgemeinschaft Sozialmarketing – Deutscher Fundraising Verband (BSM), the German fundraisers' association, with a membership of over 800. In 2002, the European Fundraising Association (EFA) was created as an umbrella organization of fundraising associations all over Europe. During the last years there has been a growing demand on qualified fund-raising professionals. In Germany, in 1999 the Fundraising Akademie was formed which offers a two-year qualifying track in order to fulfill the need for qualified fundraisers. All participants belong to not-for-profit-organizations. During their two years training, the students acquire knowledge and abilities, methods and tools that every fund-raising professional needs for a successful fund-raising. At the same time, the participants of the course have to develop their own fund-raising plan for a special field of activity in a not-for-profit sector.

Active Leadership

Fundraising staff alone does not guarantee fundraising success. Fundraising requires leadership, official representatives of an institution who internally and in public act as its ambassadors. Fundraising also involves teamwork. The responsibility for managing and coordinating fundraising activities should be placed with fundraising staff, but an organization's leadership (including volunteers from the board or other committees) serves as link between the fundraising staff and the organization as a whole. The leaders are the ones that need to provide vision and encouragement, and who should create a positive climate for fundraising within the organization. When it comes to asking for major donations in particular, they are the ones who should cultivate potential donors and do the "ask".

Budget for Fundraising Activities

Successful fundraising requires financial investments, which indeed have to start before the first donations will be received. This is not only true for staff costs but also for public relations (costs for flyers, postage, etc.) and other administrative costs. In Europe, the debates on acceptable levels of fundraising costs are still in their early stages. In the USA, there are guiding limits as far as fundraising costs are concerned. These guidelines suggest that, after a three-year start-up phase during which a higher level of investment costs is acceptable, fundraising costs on the whole should not exceed 25 percent of the organization's income. However, the cost level may vary for

different fundraising instruments. For example, for fundraising events, which also are a form of public relations, a cost of up to 50 percent of the organization's income is considered tolerable.

Strategic Planning

Fundraising requires long-term, goal-oriented activities. All details need to be coordinated. It is necessary to compile a fundraising plan for the coming year already early in the second half of the previous year. Moreover, for each single measure, a detailed plan as to timing and steps needs to be formulated. Many fundraising activities fail because they are not planned well in advance.

A Donor Database

Names and addresses of potential donors are the “working capital” of fundraisers. Without efficient fundraising software and a donor database, it is difficult to communicate with donors. The creative use of the donor database is the key to developing and maintaining good relations with the donors. Current and potential donors should be approached individually in a way that fits their needs and preferences. All contacts with a donor should be reflected in the database. This will lead to the creation of individual contact histories. In this way, it can be seen, for example, what triggered the donation of a specific person, what amount she or he gave, and how these amounts developed during the course of time. The database also helps to identify a donor's motives. This information is crucial for knowing how to approach a donor for future fundraising activities.

4. Fundraising Methods

To begin with, there is a set of general fundraising principles that can be applied to any fundraising effort:

- People give to People.
- Personal requests for donations are the most successful.
- People give to make the world better.
- Friend-making comes before fundraising.
- The more involved the donors, the larger the gift.
- Open their hearts, then open their minds, and then open their checkbooks.

- Report on activities and successes to encourage participation.
- Every activity should be aimed at making donors feel important, valued and respected.
- The most important words are “Thank You”:
- Always be honest, open and ethical in your dealings with donors.

There is a wide range of fundraising methods that, generally speaking, are more or less universal. However, when it comes to details, the actual application of these instruments varies from country to country and from organization to organization. There has been a trend over the years toward applying fundraising instruments originally only used in the USA in many other countries, especially in Western Europe but elsewhere as well. This, however, has required careful adaptation to the different cultural environments. As noted previously, each method is geared ideally to fulfill the needs of the targeted individual donors and donor groups.

The most frequently used fundraising instruments primarily targeted to individuals are Asking Personally, Direct Mail, Fundraising Events, Legacy Fundraising, Telemarketing, and Internet/Online Fundraising, each of which is described in more detail below. In addition, there are a broad variety of other methods that are used to raise funds, such as merchandizing (selling products for which a part of the price is donated to a charitable purpose), TV galas, and anniversary or commemorative donations. Generally speaking, a mix of various instruments is required. Apart from raising funds to meet annual targets, fundraising can also be organized as a campaign (e.g., a capital campaign encompassing various projects or a campaign for a specific project) over several years.

Asking Personally

Asking personally is the most successful way to raise funds. This is inevitable, especially when it comes to asking for major donations. However, many people have difficulty asking someone directly, especially when it is someone who is a friend or a relative. One frequently made mistake is to ask someone too early. Asking personally normally requires a period of cultivation before actually asking.

It is very important to decide carefully who will be in charge of cultivating and asking a potential donor. It should be someone whom the prospect trusts and who will be accepted by him or her as a peer. A meeting with a potential donor needs to be prepared quite well. Background information needs to be gathered. The responsible person should not only be well informed as to the person he or she will talk to but also be in a position to give all the necessary information regarding the organization and the project for which funds are needed.

Direct Mail

Direct mail is a very common and successful instrument of fundraising. However, it is not a method that works for all target groups. While it is one of the most effective methods when it comes to relatively small donations from private individuals, mailings to corporations to ask them for major sums hardly ever work. Over the past decade, response rates have declined in many countries, and quite a few people are annoyed by the ever-growing quantity of “junk mail” that is placed in their letterboxes. Nevertheless, direct mail should not be disregarded as a fundraising instrument, especially so far as existing donors are concerned, because it also serves as a means of communication that contributes to increasing their commitment.

The response rates of cold mailings, a method of acquiring new donors, tend to be very low, often in a range between 2 and 0.5 percent or lower. Even when it comes to already existing donors, i.e., an NPOs “house list”; the response rates are frequently in the range of not more than 10 percent. Therefore, the target groups need to be very carefully selected. An organization that wants to make a surplus from direct mail needs to do repeated mailings (at least two or three times) to the same people over a given year. Of course, different projects and their needs should be described in each letter.

Direct mail packages are usually professionally designed; each element needs to be thought through carefully. The envelope may already determine whether the recipient reacts positively or negatively. After opening the letter, the decision whether to make a donation or not is normally made within a few seconds. One important design principle is personalization: addressing the letter to the recipient personally and using his or her name within it wherever possible or appropriate. The letter text should follow the principles of KISS (keep it simple and stupid) as well as AIDA (attention, interest, desire, action).

Fundraising Events

Events are a very important fundraising instrument that can be targeted to private individuals as well as to corporate leaders, staff, and others. There are various forms of events, including gala dinners, cultural events, auctions, and sports events, among others. The more creative the idea, the better. Events become more popular when they are offered regularly (once a year or so). Before deciding about the focus of an event, the target audience should be carefully considered. Events serve two purposes. First, they are a way to initiate personal contact with potential donors, multipliers and the general public. At the same time, the goal is to make money. Events should be

planned in detail well in advance. They usually tend to be very labor-intensive. Therefore, it may be useful to create an organizing committee consisting of staff and volunteers. Nevertheless, normally it is best when staff is in charge of coordinating the work.

Legacy Fundraising

Currently, in many of the highly industrialized countries, tremendous wealth is passed from one generation to the next. There are quite a few people who are interested in leaving at least a part of their legacy to charitable organizations. Nevertheless, active legacy fundraising used to be taboo within most institutions. However; this changed in the meantime. Many organizations have appointed staff persons responsible specifically for legacy donors. They also have developed various forms of printed material aimed at motivating people to include the organization in their wills. Nevertheless, one needs to be very careful when approaching potential legacy donors. The most important target groups in legacy fundraising are normally those people who already made donations to the organization.

Telemarketing

Telemarketing is quite successfully used in fundraising. It usually supplements other fundraising instruments such as direct mail, TV galas or events. It is used in various ways, e.g., to ask for donations, to upgrade donors to higher levels of giving, or to win people back who cancelled their membership. Often, telemarketing agencies are the ones in charge of offering the necessary call center services.

Internet/Online Fundraising

To be present in the Internet with a website has become more and more important for NPOs over the last few years. To raise funds is only one among several other reasons for this. Primarily, a Web site serves as a PR instrument. Generally speaking, the yield from online fundraising is still marginal as far as the percentage of an organization's income is concerned, but this is changing. Younger donors especially show an increased interest in using the Internet in many ways, including making donations. A major role of the Internet in fundraising is creating and maintaining donor loyalty. For example, existing donors can be informed in a very cost-efficient, but at the same time quite personalized, way about new projects and ideas, media reports and other aspects.

Attracting Corporate Support

Corporations support nonprofit purposes through various means: charitable donations in the form of cash, products or services; sponsoring; cause-related marketing; corporate volunteering; foundation grants (often major corporations have their own corporate foundation); and others. Although corporations try to gain an image as good corporate citizens through their activities, their goals are also in many cases directly related to actual business-related reasons, above all in the area of PR. Forprofit organizations need and want to make profits.

Nonprofit organizations that want to attract corporate support need to develop and offer projects that are creative and innovative. Also, it is helpful when these projects include the potential of attracting public attention and ways by which the donors will be recognized and visible. In any case, the proposal needs to be prepared in a businesslike and professional way. Since many NPOs target corporations, those who find a way to get personal access to a corporation's leadership have the best chances.

Much effort needs to be put into identifying potential corporate supporters and doing research on potential candidates (leadership, situation of their business, charitable activities in the past). A significant concern is whether the NPOs image could be harmed through its association with a specific corporation (e.g., an organization active in healthcare that receives money from the tobacco industry).

Attracting Foundation Support

Foundations are an important source of support for many not-for-profit organizations. Although the level of development of the foundation sector varies tremendously from country to country, the number of foundations and their capital increased significantly at the end of the 20th century, especially in Western Europe. Those organizations that want to attract foundation support need to start by thoroughly researching the priorities of the existing foundations. In this area, the Internet has become a major research tool. Standardized mailings to a variety of foundations are seldom successful. A carefully worded proposal needs to be formulated based upon current information about a foundation's activities. Usually, foundations want to support innovative ideas. Before writing a proposal, the officer in charge within the foundation should be personally contacted.

Creating Donor Loyalty

An important aspect of creating donor loyalty is to thank a donor immediately for his or her gift by sending a letter and/or – especially when it comes to bigger gifts – in more personal ways (e.g., phone call, visit). Another common practice is to offer memberships that include benefits such as a regular magazine, invitations to visit the organization, or specific events for donors. An important task here is to supply the sponsors and supporters with information – perhaps even exclusive information – about current projects. To donate means to help shape a project or an organization; therefore, it is legitimate that the sponsors and donors should expect to be informed about what has become of the money and other gifts that they donated. In the future, donors will increasingly seek to be active participants in the organizations to which they give, and the disclosure of financial information will be an expression of this new organizational culture.

6. Fundraising – Different Opportunities for Different Segments of the Nonprofit Sector?

The importance and extent of fundraising will continue to grow. A major challenge will be presented, however, when the level of philanthropic giving does not continue to grow or even declines. It needs to be taken into consideration that, in environments in which a tradition of private philanthropy still needs to be developed or revived, it may take quite some time to bring about major shifts. Therefore, various means by which a more positive climate for philanthropy may be created in individual countries need to be explored.

Nevertheless, there will never be enough resources to fund all ideas, initiatives and needs that are developed in the third sector. Therefore, fundraising is also a form of competition in which certain ideas succeed and others fail. Furthermore, income from private sources plays a different role for different segments of the nonprofit sector. Whereas advocacy organizations such as Greenpeace and others will continue to rely primarily on private donors, for service organizations private donations will only supplement their income from government or fees.

Local organizations have the great advantage that they are known in the community. Communications can be far more personal and direct, since employees, projects and frequently even the beneficiaries are generally known. As a consequence, it can be cautiously predicted that, although fundraising will likely be dominated in the future by large organizations that

have adequate personnel and both the logistical and financial resources to pursue fundraising in a professional manner, the small, locally operating organizations, whose projects and faces are known and where the donors are informed as to how their money is spent, will also be successful in fundraising.

Suggested Readings

- Burnett, K. (2002): Relationship Fundraising. San Francisco
Greenfield, J. (ed.) (2001): The Nonprofit Handbook: Fund Raising. New York
Klein, K. (1998): Fundraising for Social Change. Berkeley

References

- AAFRC, Giving USA 2001: The Annual Report on Philanthropy for the Year 2001
(<http://www.aafrc.org/giving/index.html>)
Bourdieu, P./Wacquant, L.J.D. (1996): Reflexive Anthropologie. Frankfurt/M
Burnett, K. (1996): Relationship Fundraising. London
Kelly, K.S. (1998): Effective Fund-Raising Management. Manwah
Luthe, D. (2001): Fundraising als integrierte Kommunikation. In: Fundraising Akademie (ed.): Fundraising. Ein Handbuch für Grundlagen, Strategie und Instrumente. Wiesbaden
Summary of the Study Commission's Report (2000): Civic Activities: Towards a Civil Society with a Future. Berlin

Accounting and Management Control in Nonprofit Organizations

1. Introduction

Evidence of the need for strong accounting practices in nonprofit organizations, such as showing the sources of revenue and the purpose of spending, is found early on in 1990 Bulgaria. After tax-exempt status was granted in Bulgaria, many nonprofit foundations used that status to import and sell commercial items such cigarettes and alcohol on the open market (Higuera, 1993). Charities, membership or advocacy nonprofit entities cannot faithfully carry out their public service missions without an accounting system that provides sufficient information to the Board, the public, donors and to the State.

More recently, in 1998, Nongovernmental Organizations (NGOs) met in London and presented an 11- point plan for “managed globalization” to British Prime Minister, Tony Blair (De Sarka, 1998). Characteristic of NGO goals, this plan called for promotion of workers’ and women’s rights, the needs of children, strengthening democracy and reversing economic ground that is destructive of natural resources. While this is an admirable agenda, it needs a foundation of good accounting and financial reporting to help make allocation decisions and assure donors (including, governments, individuals and foundations) that money is being spent for these missions.

More direct evidence of the need for strong accounting practices in nonprofit entities comes from Dadrawals (2002) and the Institute for Charter Accountants of India. According to an article by Dadrawals,

“The leveraging on resources and the effectiveness of [the] working of not-for-profit organizations [...] can be significantly higher if all the organizations operate under a uniform understanding of [...] financial/accounting practices.”

The article also calls for global uniformity in accounting, financial reporting and disclosure norms. Within the European Union (EU), nonprofits must be sure to be transparent and accountable. Their finances will need to be public (Alhadeff/Wilson, 2002).

In the United States, the Financial Accounting Standards Board (FASB), set accounting and financial reporting regulations for private nonprofit

organizations that came into effect in late 1995. The main purpose was to increase consistency in each nonprofit over periods of time and comparability among nonprofit entities so that private donors, investors and government could have clearer picture of the source of funding and uses of money.

Thus, a reliable accounting and management control system, while sometimes lost in the face of start-up uncertainties or mission and program demands, is an indispensable condition for the viability of a nonprofit organization as well as the stability of democratic tenets (Luong/Weinthal, 1999). While sound accounting and management control do not guarantee success, poor performance in these areas will lead to a possible collapse of an organization and faith and trust in the nonprofit sector.

Notwithstanding the diversity of nonprofit organizations – charities, advocacies and membership – to name some, nonprofits must disclose financial information so internal and external parties can judge performance. A management control system is an integral aspect of a good accounting and financial reporting system. Numerous organizations seeking full disclosure accounting and reliable management control that are international in scope will be mentioned in the paper on nonprofit accounting and management control. The nonprofit sector cannot consider itself a candidate for an essential part of the civil society, if it operates without the highest regard for public knowledge

2. Accounting

Definition

Accounting can be defined as a process largely for regular and systematic recording and assessment (evaluation) of the organization's quantifiable financial transactions, procedures, amounts and valuables, in order to plan, manage and monitor the mission developments. For instance, when a nonprofit receives a donation it is essential to quickly record the amount and wish of the donor (for instance, the money can only be spent for a given cause) and report how it was spent. The aim of accounting is to obtain an instrument that is for internal (e.g., executive directors, supervisory directors) and external stakeholders (e.g., creditors, donors, the Treasury, members) and can be used to manage or contribute to the organization or any other institution connected to the organization in a goal-oriented and responsible manner. Ideally, accounting and financial reporting systems lead to better decision-making on the part of internal managers and external donors. A significant amount spent on administration, for example, rather than for the

mission may dissuade a donor from further contributions. A poor audit of the financial report may cause a government to stop future funding or take action to get back the money.

Purpose

Accounting has as long history dating back to antiquity. Traders in East Africa, China and Renaissance Italy all sought fair and systemic ways to keep records of transactions and growth or loss in an operation. Monk Luca Pacioli (1494) is given credit for assembling and putting into writing rules for accounting for recording transactions and assessing the state of a business operation by summarizing business transactions into the assets and liabilities, or value, of a business operation (Weis/Tinius, 1992). Paraphrasing the writings of the 15th century Monk Pacioli admonished the bookkeeper not to go to sleep until he recorded all the business transactions (purchases, sales and uses) of the day.

Over time accounting followed several main purposes leading to the development of two different approaches. One is mainly directed to the past (historical) and oriented towards *accountability* over income, spending, liabilities due and valued assets whereas the second type focuses on the future with the purpose of good *decision making*, planning and governing.

Accountability means the responsibility toward a third party (donors, creditors or the government) for the performance and the handling of the business deals (including purchases, care of equipment, inventory counts, income and salaries). The necessity or the obligation for accountability can be towards internal or external stakeholders. External stakeholders are public accountants, tax and revenue offices, state auditors, creditors, customers and clients, suppliers, donors, grantors of a subsidy and the public, such as the media, public authorities, parliaments, citizens' action committees and other associations. The most important internal stakeholders of the accounting reports are the internal supervisory and audit bodies (supervisory directors, board of directors, foundation council, internal auditor), the management (general managers, executive directors, chairman), the employees, the employee representative committee and particularly the members or contributors of the nonprofit organization. Among these it is extremely important for the Board of Directors to play a central role in accountability. They approve the budget, hire and fire the Chief Executive Officer (CEO), hire the auditor and deal with all external parties. A weak, uninvolved Board opens the door to poor performance and fraud.

A second main purpose of accounting is to support *goal-oriented decision-making* and *future-oriented governing* (steering toward the goal or mission and regulation of goal oriented behavior) in the organization. For this

purpose, the organization collects, saves, handles, processes and interprets data (sales, for example) and converts it into information (annual surplus or deficit) and further into knowledge (how to avoid losses or deficits) as well as into illustrations of target-figures (budget salaries), sub-ordinate targets (salaries of administrators versus counselors) and target-variances (such as actual administrative expenses may have been higher than budgeted).

Despite the differences between the approaches (internal, external, historical, future) the assumption is that accounting is based on the following principles that can evolve and change:

- Principle of reliable, relevant and correct presentation (implies a complete statement of all assets and liabilities and their valuation in compliance with statutory rules) as well as timely book entry,
Example – An entity provides a warranty to repair parts within a year of purchase. The full anticipated cost of repair is a liability or future obligations that must be placed on the records at the date of the sale.
- Principle of unambiguous and transparent presentation (i.e. a clear and well-structured presentation of assets, liabilities, revenue and expenses),
 - Example – An operation sends books to a bookstore with the written permission allowing the bookstore to return any unsold books. Only the expected amount of sales by the bookstore can be considered as revenue. Recording the total value of the books would create an overstatement of revenue.
- Principle of full disclosure and prohibition or restriction to net assets and liabilities or revenue and expenses,
 - A nonprofit Board sets aside 100,000 Euros for repayment of a bond. That is a restriction on net assets (net assets are similar to the equity in a business).
- Principle of a consistent valuation of assets and liabilities,
 - If a nonprofit invests in stocks, a consistent valuation would be the current value of the stock as reported in a business newspaper. One stock should not be valued at its purchase price and another at its current (fair market) value. Selecting which method to use can lead to manipulation of the value of the assets of the nonprofit.
- Principle of conservatism in valuing assets and liabilities,
 - One of the constraints is that the more negative of two values should be reported. If a piece of equipment appears to be useless it should not be reported as an asset even if the unit retains ownership. Assigning it a value inflates assets.
- Principle of formal consistency,
 - Example – If a nonprofit subtracts the same amount every year (use of straight-line depreciation), it should not, without good

business reason, subtract higher amount in the next year (a switch to accelerated depreciation).

- Principle of going concern.
 - Example – Unless an entity cannot hope to operate in the next fiscal year it should not value its assets as if they will be used (going concern) and valued as if they will be liquidated (sold) for the best price.

Profit vs. Nonprofit Accounting

Although profit and nonprofit organizations differ in many aspects, nonprofit accounting and also management control pursue principles commonly followed by commercial companies. The commonality comes from the assumption that both profit and nonprofit entities seek money from similar resource pools. Thus, if commercial profit operations depreciate major assets such as vehicles and nonprofit operations do not then the full cost of the entities is not comparable. Creditors could be very confused over comparing the success of the operation with no depreciation to the one with depreciation. The International Accounting Standards Board (IASB) feels common standards are needed around the world and for different types of organizations. Their audience consists of people outside the entities who need full disclosure to make rational investment, donation and credit decisions. Information on the (IASB) can be found at <http://www.iasc.org.uk/cmt/0001.asp>. In the United States, the Financial Accounting Standards Board (FASB) took the same stance in the mid 1990's. Commercial and private nonprofit organizations must use the same standards, if they wish to obtain a clean audit and provide comparable information to outside interested parties.

Notwithstanding the effort to present a common set of accounting rules to outsiders, some distinctions exist which are particularly a function of the different reasons for the existence of profit and nonprofit organizations. The objective of a nonprofit organization is mostly to meet some socially desirable mission or need of its members or the community (*Stewardship*). Therefore, the nonprofit collects monetary donations and donations in kind or is being subsidized by public authorities. Nonprofit entities, can, up to a point, seek earned revenue, especially when the earned revenue is related to the social mission. However, none of the excess can be distributed to stakeholders. On the other hand commercial organizations – in oversimplified terms – aim to realize net profits and to increase shareholder wealth through the performance of some service or delivery of some goods wanted by other people (*Profitability*).

Prior to the push for similar accounting rules for profit and nonprofit entities in the 1990's, nonprofit organizations felt that the social mission

orientation permitted them to use accounting rules different from commercial, profit oriented operations. Nonprofit operations did not take into account that they were competing for similar pools of money and were becoming more entrepreneurial, often moving into areas such as house cleaning that might be considered a commercial activity. Commercial operations pushed into activities, such as rescue service, considered the realm of nonprofit or government organizations.

Cash vs. Accrual Accounting

In profit organizations the records in many cases, especially those that wish to have their records audited or those seeking money in competitive capital (money) markets, are kept on an *accrual basis*. Traditionally, nonprofit organizations used the *cash basis* of accounting, especially in smaller nonprofit organizations, regardless of whether they were charities, advocacy organizations or membership entities. Size, not purpose, was often the deciding factor.

World wide the trend is toward accrual accounting. Accrual basis means keeping the records in such a way that in addition to recording transactions resulting from the receipt and disbursement of cash (the entity pays cash for the purchase of chairs, for example), the organization also has to keep track of the amounts owed to and by others regardless of whether cash has changed hands. For the chair illustration, even if the chairs arrive and the unit does not pay for it but makes the purchase on credit, the unit must record an asset (the chairs) and a liability (the amount owed for the chair) in its official records. With the cash approach, only a note or memorandum is kept. No one outside the organizations knows that a liability for payment of the chairs exists.

In accrual all the expenses incurred (regardless of whether cash changed hands) are matched against the all the revenue earned. To earn a profit the revenue earned must exceed the effort made. If a unit earns revenue (completes the work) but has not yet paid workers in full, the total cost for the workers (paid or unpaid) must be matched against the revenue. If the revenue were 1,000 € and the workers were due 1,100 € for the job but received 900 € with 200 € due, the unit would have a loss under accrual of a 100 € (1,000 € - 1,100 €) and a gain (1,000 € - 900 €) under cash of 100 €.

The accrual basis generally gives a fuller disclosure of an organization's financial situation because of the fact that cash basis accounting only reflects transactions where cash has been involved. No effort is made (other than to keep up to date memos) to record unpaid bills owed to or amounts due to others. Many small nonprofit organizations content themselves with cash basis accounting. However, more and more medium and large organizations now are using the accrual basis. Outside donors, grantors and creditors want

fuller information on financial success and information that is comparable, namely in the form of accrual accounting.

With cash, admittedly, it is easier to track the transactions than with accrual. Therefore, the cash basis is chosen in smaller units when the nature of the organization's activities is such that there are no significant pledges or accounts receivable or outstanding debts and so there is no meaningful difference between the cash and the accrual basis.

Other nonprofit entities keep their records during the year on a cash basis, but at the end of the year convert to the accrual basis, often for the purpose of an audit and annual report. It is essential that the accounting system fits the nature of the organization and its needs. For some organizations, legal requirements require the use of the accrual basis of accounting.

Segment Reporting, Fund Accounting and Consolidation

Useful knowledge for external party decision makers (donors, creditor, investors and grantors) comes from knowing the whole financial picture of the unit and its relevant operating aspects. One such relevant aspect is called a segment in the for profit sector. A segment provides an identifiable part of a business. An automobile manufacturer may have a financing segment. While the manufacturing may be doing poorly, the financial segment maybe doing better. The IAS (International Accounting Standard) and FASB (Financial Accounting Standards Board) regulate the disclosure of information about an enterprise's operations in different market segments. These standards require segment reporting on the company's different industries or branches, its foreign operations, its major customers and export sales.

The term fund accounting, while common historically in government and nonprofit organizations, is seldom used by businesspeople. Fund accounting in nonprofit organizations means the segregation of the organization's assets into categories in accordance with the restrictions that donors or the Board places on their use. Historically, completely unrestricted assets are put in one fund, endowment funds in another, fixed assets or building funds in a third, and so on. Usually an organization using fund accounting presents separate financial reports for each fund, with no consolidation or picture of the nonprofit's overall financial health. Fund accounting has been used by nonprofit organizations because it provides compliance and stewardship reporting. Internal and external decision makers can determine how an asset can or cannot be used. One drawback is the proliferation of funds, making it difficult for outsiders to comprehend the financial reports. Another major drawback is that funds, as separate accounting entities, are not consolidated to provide a picture of the financial success and health of the entire nonprofit.

Appropriations

To prevent overspending, appropriations can be used. An appropriation is an authorization to spend money for specific future projects. It is neither expenditure nor an already existing obligation. However, amounts appropriated are added to amounts spent or legally obligated and subtracted from the total available in order to avoid overspending. If, for instance, the budget for supplies is 100,000 € with 20,000 spent and another 15,000 obligated as a liability an appropriation for a purchase order of 5,000 € would leave 60,000 € ($100,000 - 20,000 - 15,000 - 5,000 = 60,000$ €) available for future spending.

Treatment of Fixed Assets

In accrual accounting, in profit organizations fixed assets are usually registered as assets on the balance sheet, and are depreciated over their expected life cycle. Nonprofit organizations using a cash method handle fixed assets in different manners. Assume a nonprofit using the cash method pays 105,000 € for a large truck. They write off the assets when purchased. Thus, if cash were paid, that period would have 105,000 € expenditure and nothing on the balance sheet. Others handle them in the same way as commercial companies (i.e. depreciate the fixed asset over its useful life). In a cash system; a 105,000 € truck would be an expenditure immediately, if paid for in cash. In accrual (regardless of how financed), the 105,000 € would be written off over its useful with attention to salvage value. Thus, if the useful life were five years and salvage value 5,000, then 20,000 would be written of as an expense each of the five years ($(105,000 - 5,000)/5$).

Consolidated Financial Reporting

With consolidated reporting (as opposed to fund reporting) the reporting is done for the entire organization so that both internal and external decision makers can see the degree of financial health for the organization as a whole. For nonprofit operations, the consolidated approach eliminates funds but does not eliminate categories of revenue and assets. Rather, the categories are displayed then consolidated. Thus, it is possible to have an unrestricted, temporarily restricted (by time and or program), permanently restricted (usually the gains but not the corpus can be spent) category with a consolidated total. If, for instance, a nonprofit obtained 100,000 € in unrestricted money from donors, 250,000 € in government grants that were restricted for childcare and 150,000 endowment where the 150,000 was

permanently restricted (and only gains could be spent), the total consolidated revenue for the nonprofit would be 500,000 €. The advantage of consolidation over separate funds is that one knows the financial status on the entire operation.

Pledges, Cash and Noncash Contribution

Pledges are unique for nonprofit organizations. They are promises to contribute at some future date. A donor may receive a phone call and promise to give 250 €. Necessary information is taken so the nonprofit can contact the person in order to obtain the 250 €. Pledges pose problems in accounting. If accrual is used, nonprofit organizations record pledges as pledges receivables (an asset with future) and revenue. Under accrual, the pledge is considered revenue because the work, such as phone calls, Web sites and other methods to acquire pledges are considered the effort that has generated revenue even though cash has not changed hands. Continuing with accrual, an estimated uncollectible is decreed as an expense to off set those pledges that might not be forthcoming. Thus, for the 250 € pledge, all 250 is revenue. However, if in the past, the nonprofit has not generally collected about 1% of its pledges, and then 2.50 cents would reduce the revenue. The revenue minus the estimated uncollectible for this 250 € would be 247.50 €. The net pledges receivable would also be 247.50 €. Other nonprofits may not do this either because by law they have no legally enforceable claim or they use a cash approach.

In addition to estimated uncollectibles, there is a situation when a pledge cannot be considered revenue. If a check or money is offered directly to the nonprofit, with a virtually impossible condition, then the contribution cannot be revenue. A virtually impossible condition may be that the donor says: I'll give you 10,000 € but you must hire me for 10,000 €.

Noncash contributions are common in nonprofit organizations compared to commercial companies, e.g., in the form securities (stocks and bonds), equipment, supplies, and services. National accounting standards concerning reporting noncash contribution as well as the valuation have to be taken into consideration. One method, growing in popularity, is to record these noncash contributions at their fair market value. If a stock is listed on the Italian stock market (La Borsa Italiana) at 20 € a share on the day contributed and 1,000 shares are given, the total revenue, at fair market value, is 20,000 €. The underlying assumption is that without the contribution the nonprofit would have to pay the fair market price.

Tools of Accounting

The individual parts of the accounting system must be designed in a way that they intertwine as gear wheels of a transmission. If a part is missing or does not work, then the whole transmission will fail to work. The two main tools of accounting are:

- Financial accounting and
- Cost accounting.

Financial accounting is usually stipulated by law, statute or constitution. Accrual and consolidated accounting with categories such as unrestricted, temporarily restricted and permanently restricted are assumed in this sector for nonprofit financial accounting. Cash accounting is relatively straightforward and has already been addressed. Financial accounting will have some type of operating statement (revenues and expenses) and a balance sheet (assets, liabilities and accumulated surplus or deficit). When accrual is used, the nonprofit could also have a statement of cash flow. The statement of cash flow covers the accrual numbers to cash so the organization know where the cash is coming from (donations or loans, for example) and where it is going (salaries or interest payments).

With respect to operating activities (those activities designed to obtain revenues for the mission), the most important items (not necessarily in order of presentation) within the revenues of the nonprofit organization are:

- Contributions,
- Membership fees,
- Public subsidies,
- Grants and contracts,
- Endowments, inheritances, bequests,
- Gains on endowments, inheritances and bequests
- Income from sale of assets and
- Service fees and earned revenue on sale of goods.

Important too, with regard to revenue, is the mix. Like an investment portfolio, some diversity in revenue is desired. A nonprofit that relies almost solely on public subsidies or grants, may find it does not have the market tools to reach out for nongovernmental sources, if the government grants and subsidies drop precipitously.

The most important expense types (the term expenditures can be used in cash systems; expense is usually reserved for accrual systems) within the operational activities of a nonprofit organization are:

- Program expenses
- Administration and general (overhead, associated with more than one program)
- Fund raising

The advantage of using these three expense types, program, administration and general and fund raising, is that decision makers can see what percentage is going to programs and thus how much is supporting the mission of the nonprofit. Large percentages going to administration and general or fund raising might indicate that the mission is not receiving adequate attention. If less than 75% is going to the programs that can show poor attention to the mission.

Specific expenses include salaries, pension expenses, telephone, postage and rent. These are then summarized into major categories such as program, administrative and general and fund raising.

In addition to revenue and expenses, nonprofit entities will have assets, liabilities and something often called net assets. Assets include cash, pledges receivable, short-term investments, and long term items such as property, plant and equipment. Assets have future value, in that they can be used to operate the entity. Liabilities include accounts payable, bonds payable and something called deferred revenue. With respect to deferred revenue, if a nonprofit received money for a government to carry out a project next year, that money is liability in which the nonprofit has a future obligation to provide goods or services. Net assets are the residual after all liabilities have been subtracted from all assets. A nonprofit does not wish to have more liabilities (future obligations) than assets (things of future value).

All these individual items need to be grouped into reports. In terms of reporting financial success and conditions, (using accrual and consolidation) a variety of useful financial reports can be generated. One important part is the *profit and loss statement* (sometimes called the income statement or statement of activities). In actuality, nonprofit entities should avoid the term profit in any statement. Nonprofits do not distribute income to owners, as is the case with for profit operations. Income and loss or statement of activities is preferred. This type of statement is a measure of financial or operating success in which revenues are matched with expenses. An excess of revenues is an indication of operating success. If revenues amounted to 500,000 € and expenses came to 480,000 €, then the surplus would be 20,000 € and an indication of successful operations. If the nonprofit's mission were to advance voting rights, then, at least in terms of finance, the nonprofit was doing well. Further, if most of the 480,000 € in expenses were being directed to programs that would be another indicator of success. The operating statement (often called the income statement or statement of activities) does not show performance in terms of items such as increased voting. More and more annual reports go beyond financial statements and delve into mission

performance. These performance reports show accomplishment such as an increase in voter turn out, decreased pollution or improved workers' rights. Performance reports may also show the cost incurred in any accomplishments.

Another important financial statement is the *balance sheet* (or statement of financial position). Its main purpose is to determine whether assets (things that have future value) are greater than liabilities (obligations arising from past actions). Within these two categories, assets and liabilities, analysts often examine the ratio of liquid assets (cash, for example) against short-term liabilities (those due in a year or less). If a nonprofit has 200,000 € in cash and 210,000 € in short term liabilities (payments due on supplies, for instance) then that is a sign of poor financial health.

The balance sheet also has a residual, assets minus liabilities. If there are more assets than liabilities, then the residual is positive and a common term used is that the nonprofit is in the "black". If there are more liabilities than assets, then the common term is the nonprofit is operating in the "red". In nonprofit entities this residual can be called net assets. The term net assets comes from the mathematical operation of subtracting liabilities from assets (Assets – Liabilities = Net Assets). Positive net assets are built over the years as revenues exceed expenses. Thus, another way of looking at net assets is the accumulation of surpluses and deficits.

The cash-flow statement provides information about the source of money and the application or spending of money in the period covered by a report or in the planning period. With regard to securing and control of an organization's liquidity, a cash-flow statement, particularly for financial planning, is essential. It serves the organization's risk management policies with respect to where the organization gets its cash and where it spends it. Over time the organization need to obtain most of its money from donations, grants, subsidies and earned income. Reliance on heavy borrowing or "fire sale" of assets can be detrimental to the chance of a nonprofit surviving.

Income statement and balance sheet, supplemented by explanations and an appendix, are summarized under the collective term "annual financial statement". In nonprofit organizations the financial statement is usually made after the end of the financial year (to the balance sheet key date, for example, 12/31/x2). Depending on the chosen legal form (e.g. association, co-operative society, foundation, corporate entity) nationally different structure prescriptions and formal requirements have to be observed.

Economists sometimes call for what is known as a value-added statement in addition to the traditional income, balance sheet and cash flow statements. It provides information about the extra values created in an organization. A nonprofit may begin the year with a million Euros in net assets (assets minus liabilities) and end the year with a million and a half Euros in net assets. Economists would like to have these value added statements record all assets

and liabilities at current value. For instance, if a machine is purchased at the beginning of the year costing 100,000 €, it is necessary to determine what that machine could be sold for at the end of the year. If it can be sold for 105,000 €, then the value of the unit, at least in terms of this machine, is higher. The value added using current values is different from the income statement using historical values. If the machine that was purchased for 100,000 €, had a useful life of five years and no resale value, its “cost” for the year would be 20,000 € $((100,000-0)/5)$. The nonprofit would have to bring in revenue of at least 20,000 € to breakeven or have a surplus for that period assuming the machine was the only cost.

Cost accounting is an important part of internal accounting. Because of the increasing pressure as a result of competition and the dynamics regarding the developments of the business-environment, its importance rises quickly. The term cost accounting embraces the following accounting systems: cost, input, output, direct cost, overhead and result-accounting. Without a well-appointed cost accounting system the organization’s management is not able to make sound decisions on price setting, investments, rationalization of make or buy decisions and profitability-studies. Also inventories cannot be correctly assessed in the financial statement without cost accounting. For instance, three sets of inventories (shoes, for example) might be purchased for different prices. It is the cost accounting system that keeps track of inventory orders, the prices associated with each order and the sale of the inventory. For instance, if 5 pairs of shoes are purchased at 25 € apiece and later 8 pair at 30 € apiece, then when the first six pairs are sold (assuming the first that came in were sold), the total cost of the shoes sold is 155 € $(25*5= 125+ 30= 155)$. The remaining unsold seven have a carry cost of 240 €. Again, this all assumes that the first that came in where the first sold (FIFO, first in, first out). Incentive systems for full-time or voluntary employees (e.g., for economies in administration and transportation) can hardly be developed without underlying documents based on cost accounting. If the budget calls for using 250 € in supplies for a given period, some incentives can be build around staying within budget. More sophisticated incentive systems can be built around cost accounting that enable flexible management systems. A budget might have 300 € for supplies, 600 for testing instruments and 10,000 covering salaries for a given period adding to a total of 10,900 €. As long as the manager stays within the total, they can sift around to strive for the best productivity. Productivity might be assessed by the number of clients served.

Cost accounting provides important data for investment into things such as an organization’s fixed assets (long term assets, such as vehicle and buildings). For instance, will the return on purchase of a fixed asset generate more revenue than the cost of the investment itself? If a vehicle cost 20,000 € will the revenue generated by that purchase be sufficiently greater (acknowledging that the later the money flows the less value because the less

chance to re-invest) than the cost? Because revenue flow in later years is of less value than revenue earned today (time value of money), the revenue would have to be greater than 20,000 €. Furthermore cost accounting helps to decide on and to justify the outsourcing of activities and the acquisition of the appropriate services from outside, i.e., the market. If cost analysis suggests that in-house efforts are less productive than outsourcing, then outsourcing should be pursued. The in-house versus outsourcing decision is sometimes called a “make or buy” decision. Often, if there is competition in the market for a given product, then the “buy” can be cost saving.

In cost accounting, costs - including the imputed costs (such as the interest avoided by using one's own money instead of borrowing) - are recorded, stored (mostly electronically) and assigned to different services or products and compared with the revenues. The system of cost accounting is an area developed comparatively well in business administration. Here is an illustration of assigning costs to a particular nonprofit service in order to estimate its full costs. Assume, in a very simple case, that a particular type of client service takes up 50% of a building with a total value for the building of 200,000 €. The service would then be responsible for 100,000 € ($200,000 \times 0.5 = 100,000$). This is referred to as indirect or overhead cost. The direct salaries (direct cost) for the service come to 75,000 €. The total costs are 175,000 € ($50\% \text{ of } 200,000 = 100,000 + 75,000 = 175,000$). If a supervisor (another overhead type cost in this case) with a salary (for the period) is 25,000 € and that supervisor gives 1/3 of his or her time to those employees involved in providing the service, then 5,000 € need to be added for new total costs of 180,000 €. The cost of 180,000 € can be divided by the number of clients served (20, for instance) to give a cost per client (9,000/client).

In *cost center accounting*, costs as far as possible are directly assigned to cost centers, as the origins of consumption. Cost centers are the places at which costs in their major parts can be influenced and responsibility can be assigned. When selecting cost accounting systems it has to be paid attention on a fair and suitable allocation of costs according to responsibility. Strong disagreements can arise over how much of certain costs a cost center is assigned and how. One type of cost that is assigned to cost centers is the cost of a building. If three cost centers all use the building, then the allocation should be based on the square feet used, the number of employees or the number of clients seen (assuming, each cost center sees similar types of clients). The goal is to capture the facet which puts the heaviest use on the building. If the building has a value of 750,000 € and the client use is considered the best indicator of wear and tear on the building then assignment of the 750,000 € might be based on the number of clients being serviced. If one cost center has 40% of the clients, then 300,000 € should go to that cost center ($750,000 \times 0.4 = 300,000$). To cut back on assigned costs, the center

might be more careful in terms of who really needs the service. If square footage were used, then the head of the cost center might have control over how much is assigned. The center might actually have excess space and thus use the space more wisely in the future. In addition, if the head of the cost center has the authority, the excess space might be rented to take in earned income.

In *product costing* (such as environmental testing kits) those costs are registered which can be allocated directly to cost objects (the material for the kits) or, as in the case of the overhead costs (that part of the building used to make the kits), are allocated based on cost rates or allocation rates derived in cost center accounting. Costs can be assigned to the cost objects per period (product costing per period) or per unit of a cost object (product costing per unit or order). Simple cost accounting proceedings suitable for nonprofit organizations are direct costing and overhead calculation. For instance, in a nonprofit that sells environmental testing kits for water quality, one direct cost would be the material used to build the kits. An indirect cost might be the insurance that covers the workers. If 20% of the workers are building the kits, then 20% of the cost of the insurance is assigned to the cost of the kits. Once the total cost is estimated, a cost per kit produced can be calculated by dividing the total cost by the number of kits produced.

Recently, cost accounting systems have been developed which are considering the fact that it gets more and more difficult to assign costs to single cost centers. Since the volume of (overhead) costs that are not directly but only through an allocation rate allocable is increasing, it is recommended to charge costs to activities (e.g. purchase order processing, inspection conduction, delivery of a product). This is called activity based costing (ABC). Consider the case of assigning insurance costs to the environmental testing kits. It is possible that part of the construction of the kits is dangerous. The dangerous part would then drive the costs of the insurance higher. If the process of building the kits is broken down to degree of danger, then that part which is most dangerous should carry more of the insurance overhead than other parts of the kit building process. Assigning overhead (such as insurance) to aspects or activities within a process provides manager with a better idea of where the greatest costs are occurring. Using activity-based accounting the management of the organization's value chains can be organized in a suitable and in a responsibility-oriented manner. Can that dangerous part or activity of the kit construction be made less dangerous and thus lead to reduced insurance?

Cost accounting in nonprofit organizations is very strongly cost dominated since revenue is not necessarily driven by sale of services of products or is not controllable at times. Therefore especially for nonprofit organizations target costing is a worthwhile option. The question that stands in the foreground is: How much may a service or a product cost, if sold in the

market place? The service and product plan is then based on the ex-ante (forecasted) calculated allowable costs. In the example of environmental testing kits the kits may be given away instead of sold. General donations or grants might be used to cover the costs. In this case, the nonprofit would have to estimate the cost or price of the kits produced by the private sector and use that to see how much of the contributed revenue is needed to cover the cost of the "free" kits.

In sum, cost accounting can take into account either proved numbers of last accounting periods (accounting for actual costs) or figures estimated for future accounting periods (standard cost accounting). Responsible management of a nonprofit organization requires both tools. One is mainly focused on accountability and the past performance, whereas the second primarily concentrates on planning and managing the future.

3. Management Control

Purpose

The purpose of management control is to insure the safekeeping of assets (such as cash and equipment), to maintain productivity along the lines of the nonprofit mission statement, to produce reliable and relevant financial records (i.e., relevant to important decisions), other reports (including the budget and financial statements) and keep communications open on the various issues of management control.

The need for management control arises out of the split between those who contribute to the nonprofit and those who make decisions and run operations. Those who contribute do not have day-to-day information and thus are not generally effective at management control including safekeeping and safekeeping of assets. In the business or for profit world, the split is between the owners and top managers. Owners do not generally have the day-to-day information equal to the managers. One concern is that managers will take advantage of their in-depth information and follow their own self-interest rather than the wishes of the owners or donors. In the nonprofit world, a similar split takes place. Those providing the funds do not have in-depth knowledge of how their money is being used or misused.

Another need for management control arises out of the distance between top management and the employees. Managers cannot and should not supervise every activity of employees. Thus, top management needs control techniques to realize such things as productivity along the lines of the mission statement. Moreover, much of the financial accounting and cost accounting

already presented can be used in management control. In a way, the management control task is circular. The better the management control, the better the financial and cost accounting and vice versa.

While financial and cost accountings are part of the circular nature of management control, management control has a variety of specific tools. These include internal control, internal audits and external audits. The umbrella for internal control and auditing are auditing standards. However, assumptions about trust versus self-interest can affect the impact of auditing standards.

Trust versus Self Interest

Underlying the extent and nature of a management control system is the view of trust versus self-interest (sometimes called opportunism). The greater the assumption of trust, the less or more loosely constructed the management control systems. On the surface nonprofit organizations would seem to fall in the trust category and for profit in the self-interest category. However, mistakes and misuse can occur in either environment. As a result, while it might be overkill, nonprofit entities find themselves in the situation where they need to build good management control systems. One legal reason is the demand from governments, creditors or contractors that all types of entities, nonprofit and for-profit, must provide the same level assurance to be considered viable entities for receiving money or valued assets.

International Organizations

A number of international organizations are working on both financial and management control. Those involved in management control ordinarily employ terms such as auditing and assurance. One such organization is the *International Auditing and Assurance Standards Board*. It is a committee of the *International Federation of Accountants*. More information about it can be located at the *International Federal of Accountants* and its sister sites.

www.ifac.org/IAASB/

Another international organization to look at is the *International Consortium on Government Financial Management*. Its Internet site is at

www.icgfm.org/index.htm

The *International Organization of Supreme Auditors Institutions* can also be a source on management control. Their website is

www.nao.gov.uk/intosai/edp/home.html¹

Who is in Control?

Before moving into specific definitions and tools of management control it is necessary to probe the concept of management control. One definition is that internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. Given this view, internal control is the responsibility of management. However, given the amount of fraud seen around the world by management in the 1990s and in the early years of 2000, it is important to look at internal control from a broader range of responsibilities.

Responsibility for internal control is spreading to Boards and the audit committees of Boards. Governments are also involved by establishing oversight and actual rule making for internal control and auditing instead of leaving it to managers and their auditing associations. In other words, self-regulation by the managers is now being checked or overseen by government regulators.

An Overview of Auditing Standards

The primary approach taken to help understand management control is to cover those standards and processes the auditor uses to conclude that financial statements are clean (sometimes call unqualified or without qualification). As a result, those in the nonprofit charged with building a management control system must appreciate the audit requirements to put in place the elements of a good management control system. For instance, those in the nonprofit working on the management control system need to understand that for each account such as cash, the auditor will look for several types of evidence in order to say that cash is clean of any misuse. These include:

- Completeness—were all the cash transactions recorded?
- Existence—can amounts of cash on the financial statements be traced back to documents and physical items?
- Valuation and allocation—are items stated at their expected amount since cash can include short-term investments?

¹ All these websites are of June 2003.

- Rights—does the entity have the rights to the items, cash in this case?
- Presentation—are the statement items shown according to Generally Accepted Accounting Principles (GAAP)?

Those developing the management control system will also have to understand that the auditors will take a hard and close look at top management attitudes on such things as setting high expectations for a surplus each year or high percentages going into mission programs rather than administration and general or fund raising.

Regardless of how the various issues of trust, self-interest and development of controls are settled, it is the auditing standards that are central to the various controls of policy and accounting. To obtain a grasp of auditing standards, this section of the chapter is subdivided in several parts:

- Standards and audit quality
- Internal control and evidence
- Audit planning and program and
- Auditing specific accounts.

Standards and Audit Quality

While many facets of a nonprofit can be subject to different types of assurance (is one program being carried out according to grant rules rather than are the entire of the financial statements done in accord with GAAP), the focus for now is on the financial statements. The primary reason for auditing standards is to ensure quality in auditing, that is, competent and independent auditors find and document evidence to support their conclusions about financial statements. The conclusion is usually a written opinion noting that the financial statements of the nonprofit entity are clean (technically, unqualified), namely, fairly presented in accord with Generally Accepted Accounting Principles (GAAP). Of course the opinion can note various problems with the financial statements, including a disclaimer (no opinion) because material could not found to satisfactorily conduct the audit. The balance sheet might show vehicles and machines as well as notes payable, but the underlying documentation is inadequate or not to be found.

The quality of the audit provides reasonable assurance that outside parties can make decisions using the audited financial statements. In fact, the independent auditor looks for instance of material misstatements, that is, misstatements of the size or nature that would change the decision made by an outside party. If the misstatement is of the size or nature that the decision maker would have made a different decision (extend credit, locate a factory, etc.) had he or she known the correct amounts then the misstatement is

material. Either the entity changes its presentation to avoid the material misstatement or the auditor cannot offer a clean (called unqualified opinion).

A major misstatement might be that the nonprofit assumes 1% of its pledges will be uncollected when management knows that 5% will likely not be collected. This misstatement on pledges not collected combined with failure to disclose a loan to the CEO constitute the type of misinformation that causes outsiders to make wrong judgments about the operation of the nonprofit. A government grant may be given on the assumption that pledges to match are forthcoming.

Auditing standards can have several broad categories and specific standards to pursue this goal of quality (trustworthy) audits. The broad categories can extend to:

- General
- Field Work and
- Reporting

General covers the character of the people doing the audit; fieldwork covers planning, supervision, internal control and evidence; and reporting articulates the nature of the conclusions about the veracity of the financial statements.

Internal Control and Evidence

The presentation takes a different sequence than the three categories of quality – general, fieldwork and reporting. Although internal control and evidence is just a part of planning (under the Field Work category), auditing can be more easily understood by discussing the important role of internal control and how it shapes much of the auditing including finding sufficient, competent evidence to support the conclusions or opinion about the financial statements. For this reason internal control and evidence are presented before the section on fieldwork planning.

Internal controls are those policies and procedures designed to ensure operating efficiency, production of reliable data, and compliance with laws and regulations. Segregation of duties is an element of internal control. For example, if a particular function such as collection, recording, and depositing of credit accounts (e.g., pledges receivable or accounts receivable) is divided among different people and units, then there is less likelihood of someone taking money illegally or not accurately recording the money (usually checks) that arrives. Actually, internal controls go far beyond individual policies such as segregation of duties. Internal controls have a number of major categories, each designed to provide reasonable assurance that the entity can operate efficiently, produce reliable data, and comply with laws and regulations. One of these major categories is called control environment. Among its several

goals, control environment focuses on the reputation and attitude of top management. If top management wants to see good operating results even if it means bending the accounting rules, then that is an attitude that weakens internal control.

More generally, the less attention the entity gives to internal control or the more risky the nonprofit area (e.g., sole dependence on government contracts), the less the auditor can rely on the assertions of management and the more evidence the auditor must collect to support any conclusions about those assertions in the financial statements. From the mid 1990s, because of misuse of funds, the importance of the attitude of top management has become an even more critical aspect of internal control and control environment. Thus, the role of the nonprofit board, the audit committee on that board and perhaps government regulations are becoming more critical to off set to management "ownership" of internal controls.

Another way to understand internal control is to see it as one of the sieves that keeps out flawed data and actions and lets through reliable data and proper actions. If the auditor feels that internal control is in place and can document that internal control is well articulated and in place then the auditor can depend more heavily on the assertions of management and collect less evidence to backup conclusions about management assertions. Thus, internal control plays a critical role in audit decisions, plans, and programs.

Coupled with internal control is the issue of evidence collected by the independent auditor. Although the amount, type, and nature of evidence depends in large measure on the control risk, this is, whether the internal control is very poor (risk placed at maximum) or good (risk placed at minimum), evidence has value (validity) in its own right. Auditors assume that evidence generated outside the entity being audited and sent directly to the auditor is superior to evidence generated inside the organization and handed over to the auditor. In the first case the auditor assumes less bias and less chance for manipulation of the evidence. A confirmation by a lending institution on a note payable or some type of liability sent directly to the auditor is of more value than examining an entry in the auditee's books about the liability. Of course, if control risks are high (set at maximum) then the auditor needs more evidence and evidence of high quality.

Audit Plan and Audit Program

Since internal control and evidence are so important to both the plan and the audit they were presented before planning. In actuality, the audit plan goes on from the point when the auditor shows an interest in the engagement to the end of the audit. It is a changing, evolving document. In fact, the plan may need to be revisited if new evidence or problems are found after the audit is

completed.

Early on in the plan the auditor attempts to find out about the client and the client's operating environment. Poor past audit results may discourage the auditor from pursuing a particular client. Even later in the audit the auditor may uncover evidence that obliges the auditor to leave, abandon, or dramatically alter the audit plan.

Obviously, from the organization of this presentation, two important questions addressed in the audit plan are expected risks associated with internal control and the nature, type, and extent of evidence necessary to support the conclusions. The auditor does some preliminary work on internal control and the risk associated with it. Then, continually updates the assessment of internal control even as the auditor turns more of his or her attention to gathering evidence on the assertions in the financial statements.

While the plan is considered an overall strategy, the audit program consists of specific procedures to find evidence to test management's assertion on important financial statement accounts. For instance, the auditor may examine the pledges receivable and cash deposited for these pledges to see that all that came in found their way into the records. Such a procedure is a test of an assertion called completeness. That is, were all relevant transactions placed in the books? If several major transactions were not recorded or if non-recording was a consistent problem then the financial statements can be considered to have material limitations. If the entity fails to correct the mistakes the auditor will hold back on a clean (unqualified) opinion.

At the detailed level, the plan takes each major account such as cash, lists the important assertions for that account and designs procedures to test those assertions. The major accounts can be taken from either the balance sheet or the income statement (also called statement of activities in the nonprofit arena) although auditors typically start with the balance sheet and follow balance sheet accounts to related income statement accounts. For instance, two balance sheet accounts, cash and pledges receivable, have links to contributions from the income statement.

Although it is the accounts (cash, pledges receivable, fixed assets, investment, bonds payable) that the auditor is attempting to verify, the process is actually more detailed. For each major account the auditor tests for five different assertions since what the auditor needs to know about an account in order to render an opinion is involved and complex. The assertions the audit examines for each account studied include:

- Completeness—were all the transactions recorded?
- Existence—can amounts on the financial statements be traced back to documents and physical items?

- Valuation and allocation—are items stated at their expected amount?
- Rights—does the entity have the rights to the items?
- Presentation—are the statement items shown according to GAAP?

Conducting audit procedures for each assertion provides a comprehensive picture of what is called the fairness of the presentation of the account. An account can fall down on any one of these assertions and if there are material problems (a decision maker would be misled) that would lead the auditor to suspend a clean report. For instance, fixed assets (buildings, vehicles or machines) may exist but the value can be incorrect. Some of the items may be carried at a value too high to justify the future benefit or worth they will give to the entity. A machine or computer may exist but be nearing obsolescence and thus required to be carried at a nominal value or simply written off indicating it has no value for the productivity for the company.

In view of these audit standards, a working management control system would include a fair and balanced attitude on the part of top management about things such as annual surpluses (revenue over expenses), clear explanation of the reasons for any debt and good communications with the Board and employees on mission policies. The internal control system would have to be sensitive to factors such as segregation of duties. In addition, the management control system would have keep records for all accounts, including cash, type of restrictions on donations and payables so that items such as existence and completeness can be checked by the auditor.

Performance Measures

A management control system would not be complete without performance measures. Performance measures present an effort by nonprofit organizations to provide a substitute for the lack of price and profit (or loss) in the market place. Without price and profit (or loss), nonprofit entities can possibly avoid or down play assessment of efficiency. In price and profit-loss situations businesses fail because of lack of efficiency and effectiveness. As a result of the price and profit pressures, businesses tend to generate cost and performance data. In a larger sense, performance measures are part of the push for accountability in the nonprofit sector.

Performance measures, with their focus on efficiency and effectiveness, complement financial statements that show where money was raised and how it was spent but not necessarily how efficient or effective the efforts were. One performance model to address issues of efficiency and effectiveness begins with measures close to the organization (workload, e.g.) then moves to performance assessment or impacts that take place in the community (citizen or client satisfaction or improved welfare).

Typical performance measures include work effort such as number of

clients seen, cost efficiency data including cost per client seen, and assessment of client satisfaction such as views on improvements in conditions (health, for example) over time.

Performance indicators appear to be gaining in popularity and value, but not without problems. Problems include the extra cost, organizational resistance, and the inability of these indicators to tell why a change occurred or failed to occur. An improvement in the health of a client may have little or nothing to do with the efforts of a nonprofit. The family may have helped independent of the effort of the nonprofit. Additionally, it appears that good cost principles are not used in developing performance measures. For instance, cost per legislation passed or cost per fire is presented as a cost per unit indicator, but such a measure can be a meaningless indicator since a piece of legislation is not a homogeneous unit. Imagine how to decrease cost per fire – have more fires! If the cost (total cost = 1,000,000 €) to fight five fires is 200,000 € ($1,000,000/5 = 200,000$) €, then raise the number of fires to ten ($1,000,000/10 = 100,000$).

3. Conclusion

Nonprofit organizations are oriented to social mission and public service. This passion or drive to serve can cloud the importance of various types of record keeping and management systems. Accounting and management control are two of the functions that may suffer in the nonprofit environment of service and trust. This chapter examines how the elements of accounting and management control systems can benefit by adding to and achieving those social missions and public services. Accounting is designed to carefully record financial transactions, summarize them and provide reports on financial success and health of the nonprofit. Such work is both a tool for safeguarding assets and improving decision making about efficient allocation of assets for the betterment of a community or nation. If transactions are not recorded in the accounting books, they can more easily disappear. If a nonprofit hides losses or inflates surpluses, donors might continue to contribute and thus send money to unsuccessful operations. Given scarce resources society can ill afford to over-allocate to poor performing entities.

The accounting systems implemented in nonprofits can vary. In nonprofits, cash accounting systems are sometimes established because they are relatively simple to use. Small operations prefer cash based systems. Under a cash system inflows and outflows of money are recorded and reported. Items that do not require cash flow such as depreciation of equipment (a vehicle, for example) are not recorded as a periodic cost, limiting measuring the full annual cost of operations. Historically, nonprofit

entities have also used funds (separate sets of books) to keep track of restrictions placed on use of money by either donors or the Board. While funds provide a good tool for compliance (money contributed to a dental program should be spent on that program), they are separate systems and do not allow for the necessary consolidation to gauge the financial success or health of the nonprofit as a whole.

One popular accounting alternative to cash and funds is accrual and consolidation. Accrual records transactions and events regardless of whether money changed hands. Depreciation, pledges receivable and amounts payable will all be recorded and reported giving a fuller picture of financial success and health. Under accrual and consolidation, funds are replaced by categories on type of restriction (e.g., permanent restriction on use of the corpus of an endowment) and these categories are consolidated for a total characterization of the financials of the nonprofit.

Intertwined with accounting are systems of management control. Both seek to enhance compliance and efficiency in nonprofit organizations. The purpose of management control is to insure the safekeeping of assets (such as cash and equipment), to maintain productivity along the lines of the nonprofit mission statement (clients serviced), to produce reliable and relevant (i.e., relevant to important decisions) financial statements, other financial reports (including the budget and financial statements) and keep communications open on the various issues of management control.

This chapter examined the issue of management control through the auditor's eyes. It is the independent auditor and the auditor standards boards that make rules and standards for good management control systems. For instance, one audit standard has to do with the attitude of top management toward items such as maintaining annual surpluses or full disclosure of debt. Any suspicion of top management pressure to conceal or diminish the amount of debt is a strong signal that internal controls are not likely to work to generate candid financial reports. Other audit standards focus on the more detailed items such as all the accounts in the balance sheet. They, including cash, pledges receivable and fixed assets (e.g., plant and equipment), must be testable for existence and completeness.

Performance measures in nonprofits often attempt to measure mission efficiency and effectiveness without the help of price and profit offered in the market sector. One performance model to address issues of efficiency and effectiveness begins with measures close to the organization's input (workload, e.g.) then moves to performance assessment or impacts that take place in the community (citizen or client satisfaction).

With good accounting and management control systems in place, social missions and public service are more likely to be achieved. Nonetheless, combining mission, accounting and management control is not without extra monetary cost. The hope is that the return in terms of revenue and

productivity on these accounting and management control systems is greater than the cost. Thus, the task is not to simply install these systems but to make them add value to the social mission and public service.

Suggested Readings

- Gross, M.J./Warshauer, W./Larkin, R.F. (1991): *Financial and Accounting Guide for Not-For-Profit-Organizations*. 4th ed. New York
- Eschenbach, R./Horak, C. (1999): *Rechnungswesen und Controlling in NPOs*. In: Badelt, Ch. (ed.): *Handbuch der Nonprofit Organisation*. 2nd ed. Stuttgart, pp. 331-355

References

- Alhadeff, G./Wilson, S.(2002): *European Civil Society Coming of Age*. New York
- Dadrawals, N. (2002): *A Move Toward Best Governance. Accounting and Financial Reporting Practices*. In: *The International Journal of Not-for-Profit Law*, No. 5(1)
- Delaney, P.R./Epstein, B.J./Nach, R./Weiss Budak, S. (2001): *GAAP 2002 – Interpretation and Application of Generally Accepted Accounting Principles 2002*. New York
- De Sarka, D. (1998): *NGOS Want Globalization Managed, But How?* New York
- Epstein, B.J./Mirza, A.A. (2001): *IAS 2001 – Interpretation and Application*. New York
- Higuera, J.J. (1993): *Creating a Charitable Sector*. Foundation News. Washington, D.C.
- IGC (ed.) (1999): *Controller-Wörterbuch – 100 wichtige Begriffe der Controllerarbeit mit ausführlichen Erläuterungen; englisch-deutsch/deutsch-englisch*. Stuttgart
- Larkin, R.F. (2001): *Accounting*. In: Connors, T.D. (ed.): *The Nonprofit Handbook*. 3rd ed. New York
- Luong, P.J./Weinthal, E. (1999): *The NGO Paradox: Democratic Goals and Non-democratic Outcomes in Kazakhstan*. In: *Euro-Asia Studies*, No.: 51(7), pp. 1267-1284
- Pacioli, L. (1494): *Summa de Arithmetica, Geometric, Proportioni et Proportionalita*.
- Prachner, D./Prachner, G./Schmatzer, H. (1991): *Accounting and Auditing in the U.S. and Austria – Rechnungslegung und Prüfung in den USA und Österreich*. Vienna
- Weis, W./Tinius, D./Pacioli, L. (1991): *Renaissance Accountant*. In: *Journal of Accountancy*

Strategic Management: A Stakeholder-Based Approach

1. Introduction and Problem Outline: The Need for and the Difficulties Involved in Strategic Management and Performance Evaluation in NPOs

Over the last decade many nonprofit organizations (NPOs) have felt increasing pressure to become more performance oriented (Gray et al., 1998). A number of reasons, including the increased competition for funds, financial constraints, and more demanding stakeholders, have forced NPOs to think about evaluating their existing programs and developing new strategic orientations. That is the main purpose of strategic management. It deals with clarifying the mission of an organization, with setting clear long-term objectives, and with formulating steps to achieve them (Harrison et al., 1995). It seems to be obvious that NPOs should use the tools developed for business organizations to improve and evaluate their performance, but there are a number of difficulties in simply transferring management instruments from the for-profit sector to the nonprofit sector.

Nevertheless, conspicuously few authors¹ have discussed the issue of strategy development and performance evaluation of NPOs – a fact that is probably attributable to the specific problems involved in this issue. The next section, therefore, discusses characteristics specific to NPOs concerning strategy development and performance evaluation. The following section introduces three models of strategy building that serve as the basis and point of reference for a model developed by the authors, which is presented in the subsequent section. The final section discusses the advantages of this model and challenges faced in applying it.

1 Exceptions are, e.g., Matul/Scharitzer (2002); Moss Kanter/Summers (1987: 155); Murray/Tassie (1994).

2. Specific Features of NPOs Concerning Strategy Development and Performance Evaluation

Nonprofit organizational strategy and effectiveness are always multidimensional and will never be reducible to a single measure (Herman & Renz, 1999). This is partly because NPOs normally do not have a primary objective such as maximizing profits or a dominant stakeholder such as the owner, as do for-profit organizations. Often NPOs have multiple goals to fulfill (Oster, 1995). Additionally their goals are frequently intangible (Shoichet, 1998).

Many nonprofit organizations experience trouble implementing strategic management because of the lack of operational goals (Horak et al., 2002: 4). Strategic planning can generally be seen as a process to produce fundamental decisions about general questions such as what business an organization is in, how it wants to achieve its main goals, and what values and beliefs can be seen as central to the organization. These decisions typically concern the mission, mandates, management, products, cost, financing, and design of an organization (Herman, 1994: 5). Therefore, one part of strategic management has to be the definition of goals and evaluation criteria. For that reason in particular, nonprofit organizations should not neglect the process of formulating goals and implementing a strategic planning process (Horak et al., 2002: 4).

Furthermore, NPOs are typically subject to the – often widely divergent – demands and expectations of different groups of stakeholders. Commercial enterprises are also influenced by a number of stakeholders, but the owner is without doubt the most important stakeholder. Therefore conflicts like the ones occurring in NPOs are normally resolved in favor of the owner. The NPO, however, has to survive amid diverse pressures from multiple stakeholders who want to support or threaten the organization. They want to see it continue, diverge, grow, shrink, or even vanish (Shoichet, 1998). This conclusion has been drawn by authors writing about specific types of NPOs such as welfare associations (e.g., Olk, 1995: 10; Pankoke, 1995: 12), voluntary organizations (Harris, 1998: 13), and social change organizations (Brown, 1988; Covey/Brown, 1985), but also in studies about NPOs more generally (Horak et al., 2002: 4; Horch, 1995: 16; Herman/Renz, 1997; Moss Kanter, 1987: 17; Simsa, 1999: 18; Simsa, 2001; von Eckardstein, 1999: 19; Zauner, 2002: 153; Feeney, 1997: 21). Thus there is not a single objective measure of organizational effectiveness independent of the judgments of the various stakeholders (Herman/Renz, 1997).

All these factors are problematic with regard to strategy development.

Concerning performance evaluation,² another problem arising for NPOs is the fact that in some cases the beneficiary cannot place a value on the results of a certain service, because he or she is physically or psychologically unable to do so (Marik, 1997). In the for-profit sector the price realized at the market is the ultimate yardstick for performance measurement and reflects at least to a certain degree the preferences of the customer. Therefore qualitative aspects come only second, whereas in the nonprofit sector – since the outcome is often not purchased on the marketplace – the qualitative aspect of performance measurement tends to be the dominant one. Furthermore, the usefulness of financial data as central performance indicators is very limited for nonprofit organizations. In the for-profit world, however, financial results are important and widely recognized as the criteria for measuring an organization's performance. NPOs, while by necessity concerned about financial effectiveness, often have a much stronger orientation towards non-financial results due to their mission. Various authors (Murray, 1994: 5; Hermann, 1997: 50; Gray, 1998: 389) report that NPOs often measure inputs rather than outcomes to assess performance. Outcome-based evaluation is believed to be important, but it is uncharted territory for most NPOs (Gray et al., 1998).

3. Models of Strategic Management for the For-Profit Sector as a Base

The concepts of strategic management in for-profit organizations cannot be used in nonprofit organizations without adaptation (Gmür, 2000: 3).

- **Financing:** NPOs are dependent on several donors with different interests. Therefore the NPO has to legitimize its programs with respect to different funders. This is one reason stakeholder management is central to the strategic management process.
- **Variety and ambiguity of goals:** It is not possible to reduce the goals of NPOs to a simple criterion of economic success. Goals concerning the financial dimension are therefore only sub-goals to the primary mission.
- **The value of tradition:** Tradition is very important for nonprofit organizations because it is a main source of trust in and identification with the organization. This leads to less flexibility compared with firms.

2 See the chapter on Evaluation by E. Rusteberg, A. Appel, and J. Dabrowska in the volume.

For these reasons, the political dimension of strategy development and performance measurement is of particular importance. This means paying special attention to the interests of NPO stakeholders and to the process whereby performance measurement is developed and implemented. In recent years, international business administration researchers and practitioners have developed several models that can be usefully applied to performance measurement and monitoring of NPOs from a political perspective, provided that they are appropriately modified for this purpose.

The Balanced Scorecard According to Kaplan and Norton

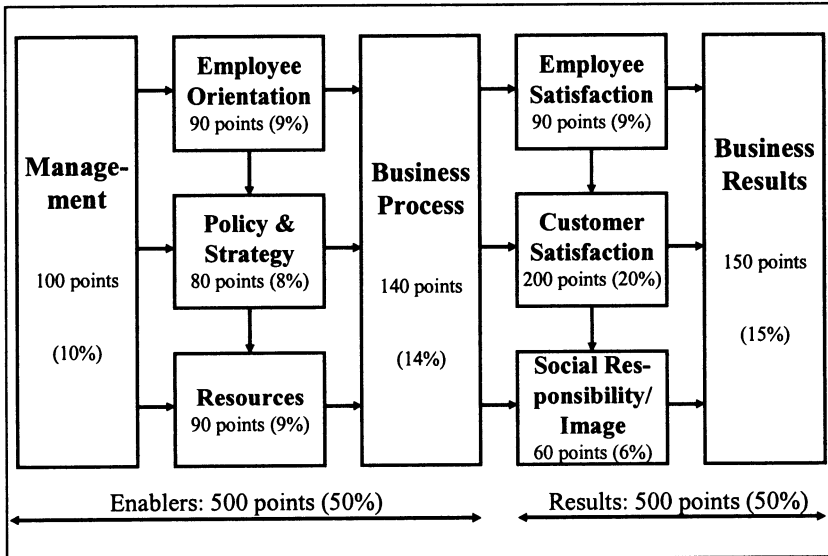
Kaplan and Norton (1996) offer an instrument that was developed for business enterprises. Their intention is not so much to grasp aspects of the political process in the formulation of objectives and their realization; rather, their goal is to look at more than only the financial performance of a corporation for its shareholders, but to draw attention also to its foundations and sources by which financial performance is controlled. In this sense, they propose to consider not only financial results, but also processes within the corporation, i.e., corporate learning and growth. In addition to the owners who are the dominant stakeholders, they introduce also the customers as a second class of stakeholders who are a source of corporate success. In the context of measuring and controlling the performance of NPOs, the Balanced Scorecard approach means that performance must be regarded as a complex phenomenon involving different stakeholder groups. Another important factor is that internal processes and organizational learning are seen as an expression of the ability to achieve change and improvement. They are also instrumentalized for the medium- and long-term success of the shareholders. The authors propose to define operationalized objectives with respect to these criteria. The Balanced Scorecard approach thus provides a comprehensive management model that enables a rough differentiation by stakeholder, albeit not as its primary objective.

The Excellence Model of the European Foundation for Quality Management

The European Foundation for Quality Management (EFQM) model is based on the quality management approach (Krzal, 1999). Its goal is to provide a matrix of criteria for the measurement and promotion of the quality of enterprises. It can be used for organizational development through measuring and developing quality. Since it differs from the Balanced Scorecard approach insofar as it includes additional stakeholders such as employees and

performance of NPOs in a political perspective, provided that the predetermined weighting of the individual criteria is disregarded and, if necessary, additional stakeholders are introduced.

Figure 2: The Excellence Model of the European Foundation for Quality Management



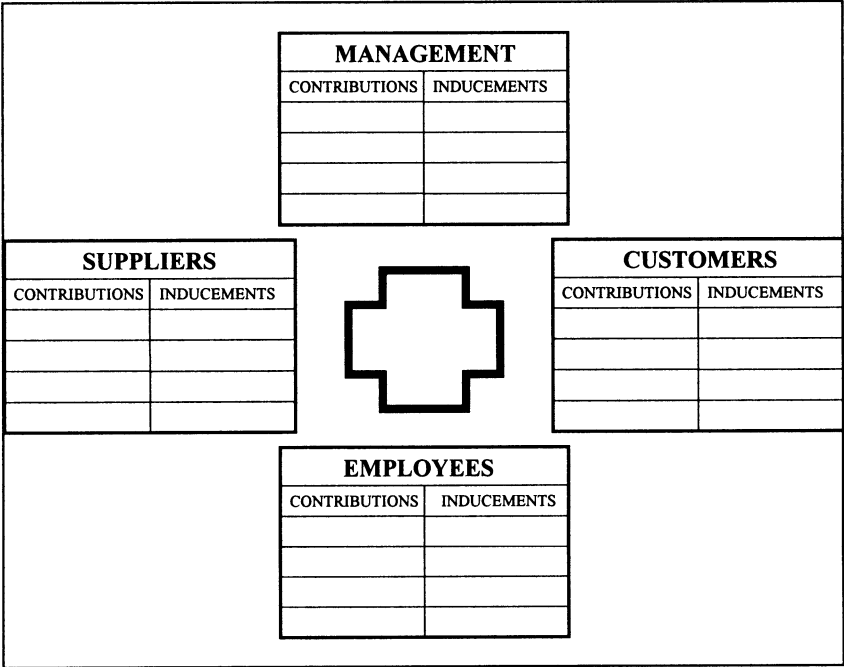
Source: based on www.efqm.org

The Accountability Scorecard Model

Nickols (1998) proposes an Accountability Scorecard, which he developed directly for application by NPOs. Its fundamental concept is that key stakeholder groups should be integrated into performance management. In his example, the key stakeholders are clientele, staff, suppliers, management and society at large; the societal dimension is operationalized as a positive impact on the general level of education. Nickols asks what stakeholders contribute to the organization, and, conversely, which inducements the organization offers to its stakeholders in return for their contributions. It calls for a balance between inducements and contributions. Nickols calls for a dialogue between the organization and the various stakeholders to enable them to reach an understanding on the trade-offs of inducements and contributions. However, the question of how the organization can deal with the contradictory expectations of different stakeholders remains open. Compared to the other

two models described above, the Accountability Scorecard approach focuses most prominently on the multiple stakeholder perspective and thus on political aspects. Each stakeholder group is awarded an autonomous position.

Figure 3: Accountability Scorecard



Source: Nickols (1998)

4. Integrated Model of Stakeholder-Oriented Strategy Development for NPOs

The authors of this chapter propose a model of stakeholder-oriented strategy development and performance measurement. It integrates ideas of the models described above but does not establish the owner as the most relevant stakeholder nor fix the number of stakeholders that should be included and the weight of their expectations. Therefore, it is more open for the special situation of a given NPO.

In this model stakeholder expectations are at the center of strategy

development and performance assessment. Stakeholders are individuals, groups and organizations (and in some cases, society at large) that, from the perspective of the organization, have legitimate or enforceable expectations vis-à-vis the organization. These expectations must be compared with and related to the organization's interests and scope for action. Since the political perspective provides the background for the model, power relationships between the NPO and its diverse stakeholders are a significant factor to be considered.

Process of Strategy Development

The description focuses on two aspects: one of them is what has to be done, i.e., which steps have to be taken as factual issues; the other political perspective focuses on the question of managing the political processes within the organization and between the organization and its stakeholders, i.e., the management task of how to design and manage the process.

Figure 4: Steps and participation in the process of strategy development

Process of Strategy Development	
What To Do	How To Do It
1. Analysis of the present situation	Decision on the degree of participation;
2. Surveying the expectations of relevant stakeholders	Which stakeholders and members of the NPO are to be included in which step in which way?
3. Internal processing of stakeholder expectations	
4. Transposition of the response strategy into operational objectives and performance criteria	
5. Evaluation, reflection and external communication of organizational performance	

Source: Own Figure

Apart from useful methods regarding process structuring and management, every step requires decisions on participation, i.e., which members of the organization should be included, and how they should be included. Fact-finding and decision-making may be tasks exclusively for the top management, or they may be organized as a collective, internally negotiated process. Still, the judgment of the organization's leaders will eventually be decisive in these choices. With a view to the creation of internal transparency and, as far as possible, common perspectives, it is advisable to include at least representatives of the various organizational units in the assessment process. Usually, a more participatory approach improves acceptance and thus the willingness of staff to implement decisions. Moreover, there will be many

cases in which top management will have to rely on the expert knowledge of members or units. However, “top-down” decisions, which can reduce stress and produce welcome clarity, may also function as a useful expression of leadership, especially in NPOs whose scope for action is restricted by an excessive orientation toward its staff (see also v.Eckardstein/Simsa, 2002).

Frame of Reference for the Model

The central point of reference for any strategy development and performance measurement is an organization’s mission, i.e., its self-defined, overarching task. Measuring and controlling performance always refers to achievement or failure relative to the mission goals. Operationally, the situation in which the organization acts is determined by three sets of factors: the constituent factors of the organization, relevant stakeholders, and external factors. Constituent factors of an NPO include (a) the resources of the NPO, i.e., “tangible” features, such as its size, financial resources, and composition, number and qualification of staff; (b) reality concepts of the organization, i.e., relevant ideologies and patterns of explanation; (c) products, i.e., tangible and intangible benefits that the organization provides for its stakeholders; and (d) processes, i.e., the modes by which the organization performs.

Another relevant aspect of an organization’s situation is those stakeholders who currently receive some kind of product or service from the NPO or, conversely, provide products or services to an NPO. Usually, there are far more relevant stakeholders in the case of NPOs than are taken into consideration in business administration models.

External factors are the conditions under which NPOs operate, but on which they have no or only indirect influence. A general rule cannot be formulated regarding which external factors should be included in the analysis. For example, national social policy strategies and the resulting changes in social legislation or government spending may be extremely important for NPOs who engage in social work. Another example is the development of the new media, which may impact the conditions under which many NPOs work.

Steps in the Process of Strategy Development

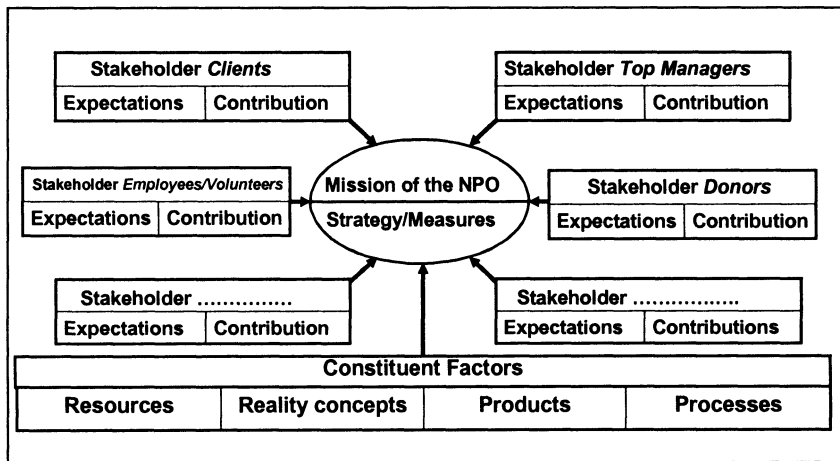
First Step: Analysis of the Present Situation

The first step in stakeholder-oriented performance measurement and control is to assess the present situation on the basis of the following questions:

- What are at present the constituent factors of the organization?

- Who are the stakeholders for whom the organization performs services, and what are the services in each case? Conversely, what does the NPO need from which stakeholders? How can the stakeholders be weighted in accordance with their importance for the NPO?
- What are the external factors that influence the organization at present?

Figure 5: Constituent factors and stakeholders as determinants of the NPO's strategy



Source: Own Figure

Finding answers to these questions is not a uniformly easy or difficult task. While it is comparatively easy to identify the organization's resources, it may be much more difficult to confirm consensus on its mission. Is the original founding idea still valid? An analysis of these questions may even lead to a tentative answer to the question, "How do we know if we are successful?"

Experience has shown that the assessment of significant environmental conditions and the identification of the relevant internal and external stakeholders and their relative importance for an NPO tend to be exercises with some potential for conflict. This makes clear that the first step in the process is not only an assessment in a technical sense, but also a political process in which values and interests play a role. Thus, the best approach at this stage is to involve as many staff members as possible.

A well-tested and relatively simple method is to visualize results. In an initial brainstorming session, all persons, groups and institutions that (may)

have claims on the organization are listed. Then their relative importance from the organization's perspective is assessed.

Second Step: Surveying the Expectations of Stakeholders with Regard to the Organization

The second step is to identify the expectations of the stakeholders that have been identified as relevant. Often there are assumptions and conjectures regarding the expectations of the various stakeholder groups, which are only rarely put to the test.

This analysis of stakeholder expectations should not be misinterpreted as a merely mechanical process that produces an objective guidance for actions by the NPO management. Various methods can be used. The methodology of empirical social research provides a broad range of survey instruments. The selection of survey techniques depends on the available resources and on the nature of the relevant stakeholder groups. Examples of methods to identify stakeholder expectations are customer surveys (e.g., by telephone, questionnaire, interviews), staff surveys, interviews with selected stakeholders, or discussions and focus groups. In the case of stakeholders that cannot express their views, such as "society at large" but also individuals who can hardly articulate their views (e.g., mentally handicapped patients), the NPO has to act as their representative in defining expectations.

Third Step: Internal Processing of Stakeholder Expectations

Surveying stakeholder expectations is an interim step. It provides the raw material, which then needs to be processed by the NPO. This is necessary for a variety of reasons. The expectations of different stakeholders are often conflicting: many expectations are too high and cannot be reconciled with the NPO's resources; in some cases, they may also be opposed to the objectives of the NPO. In a subsequent step, the organization therefore has to develop strategies for responding to expectations, i.e., it must decide how and to what extent expectations of the various stakeholders will be fulfilled. This decision has to be based on the analysis of the organization's scope for action. The question to be answered is: To what extent is the fulfillment of stakeholder expectations compatible with the NPO's objectives, financial resources, physical capital resources (Barney, 1991), and existing processes? These questions refer to the resource-based view of strategy development. Particular attention must be paid to the prior weighting of the importance of different stakeholders. Possible response strategies may be categorized as follows:

- *Negotiation*: Here the expectations of individual stakeholders are set against the scope of action and goals of the organization and

modified in a bargaining process. A typical example for this is the negotiation of service contracts with government authorities providing public funds. The organization's knowledge regarding the needs of clients, as well as information about contradictory expectations, may be used as a solid basis for arguments against the expectations of public authorities so that modified contracts can be negotiated.

- *Acquiescence*: If stakeholders are in a highly influential position, it may be necessary to meet their expectations without the organization's having any say in the matter. One example may be the expectations of a dictatorial regime that permits activities by humanitarian organizations only on condition that they refrain from organizing protests against human rights violations. Less extreme examples include dealing with major donors, but frequently also key members of the organization whose interests are unconditionally accepted within the organization. The only questions are what the NPO can get in exchange for its acquiescence, and from where and how it can secure such an exchange.
- *Ignoring*: Many expectations cannot be met. This may be due to limited resources, but expectations may also conflict with the objectives, strategies or ideologies of the organization. Clear-cut decisions in this respect have a stress-relieving effect. For example, the expectations of public funding authorities are often met where financial administration is concerned, whereas they are ignored with respect to policy content.
- *Reframing*: In this case, certain demands are re-interpreted. This may mean that needs of stakeholders which are "hidden behind" overt expectations may be fulfilled in a way that differs from what is explicitly demanded. For example, the explicit expectation may be the provision of care in nursing homes; reframing may mean providing support for relatives, neighbors or others to make the provision of care possible in the patient's own home.

The process of internal decision-making may again be structured in different ways, i.e., with different degrees of participation of the organization's staff. Because of the decision's central strategic significance, however, management is ultimately responsible for it.

Fourth Step: Transposition of the Response Strategy into Operational Objectives and Performance Criteria

After decisions have been taken about how to respond to stakeholder expectations, the next step is to operationalize objectives and set performance criteria. The fundamental question is how to determine whether expectations have been fulfilled as agreed.

This step must relate to concrete products or actions; it is therefore useful to operationalize objectives as far as possible. If the objectives are very general, then as a minimum, indicators may be defined that permit conclusions to be drawn as to the degree to which the objectives have been realized. For example, media attention, measured by newspaper articles, may be defined as an indicator of the impact the organization is making on society.

Usually, criteria are set by top management. With regard to the criteria that are extremely difficult to measure, it is advisable to conduct an internal discussion at which the various staff groups have the opportunity to voice their opinions. The basis for decisions on participation is, on the one hand, information on the stakeholders' criteria, and, on the other hand, the specific expertise of staff members or organizational units. The defined objectives and performance criteria have to be broken down and at the same time communicated internally. They serve as input for the process of Management by Objectives (MbO), which should follow the decision on relevant goals. Particular attention should be given to resource constraints and the consequences for the NPO's financial situation. (MbO is a very common management tool which is characterised by the setting of goals for all departments of an organisation and for all its members or employees. The function of these goals is to serve as orientation and stimulus for organizational and individual performance and as an instrument for coordinating the activities of the organizational departments and members.)

Fifth Step: Evaluation, Reflection on the Underlying Criteria and External Communication of Organizational Performance

Organizational performance must be reviewed on the basis of the predefined objectives and criteria after a certain agreed-on period of time. Performance results should always be communicated to all members of the organization. On the basis of the insights gathered from the analysis of expectations, a decision may then be taken on how to communicate the organization's performance to the different stakeholders. Private donors whose expectations focus mainly on success in the organization's activities will probably have little interest in detailed documentation of the financial administration of the organization.

On the basis of the experience gathered in this process, the underlying

criteria should be reconsidered. Useful questions to ask in this context include, among others: Did we forget important stakeholder groups? Do the selected criteria work in practice? Have we correctly assessed stakeholders' responses? Has the situation changed since the first stage, and does the organization have to respond to such changes, and in which way?

5. Benefits and Challenges

One central benefit of this model of stakeholder-oriented strategy development is that it adapts the strategic controlling approach for use by NPOs. This makes it possible for an NPO to harmonize strategy development with performance measurement³ and to relate this to operational management tasks, thus achieving a closed NPO management model.

This management model is based on the (political) stakeholder approach. Compared to other models it is much more open as regards the type and number of stakeholders, as well as their relative weight and position, because it is not based on predetermined priorities, but rather makes these decisions an intrinsic part of the model. Moreover, the model enables NPOs to explicitly state their objectives. NPOs are often characterized by ambiguity and lack of clear goals and objectives. Defining objectives, by way of negotiation or otherwise, can contribute to improving the overall *clarity of goals* within the organization.

Furthermore, the model creates the basis for a clear documentation of objectives and performance, but the NPO does not have to communicate the documentation externally in its full complexity. If, how and to whom documentation is provided has to be decided on the basis of the known stakeholder expectations. Decisions on how to respond to the expectations of different stakeholders not only create clarity, but also have a stress-relieving effect. No organization is able to meet all expectations fully and equally, but ignoring demands is easily seen as an individual failure if there are no clear decisions in this respect.

Finally, performance is determined proactively, that is, the organization does not wait for an evaluation from outside, but sets performance criteria for itself in accordance with relevant environments. NPO performance is particularly difficult to evaluate by standardized criteria. Furthermore, the analysis of stakeholder interests may also be used in negotiations with stakeholders. For example, documented expectations or contradictions can be used in arguments to reject or modify demands.

The challenges involved in the effective application of the proposed

3 See the chapter on evaluation in this volume.

model are twofold. Firstly, it may require considerable resources – for this reason, it will often be impossible to follow an ideal course of action. In certain stages, for example, a collective, organization-wide decision-making process may be judged useful, but may be too costly or time-consuming. Neither will it always be possible to analyze stakeholder interests in the theoretically most desirable way. Secondly, effective use of the model's instruments requires high sensibility and qualification as regards process structuring. The management must decide, for example, when to involve which staff members or units of the organization in the process, and which instruments to apply for assessments, analyses and decision-making.

Suggested Readings

- Horak, Ch. et al. (2002): Ziele und Strategien von NPOs. In: Badelt, Ch. (ed.): Handbuch der Non-Profit-Organisationen. 3rd ed. Stuttgart
- Oster, M.S. (1995): Strategic Management for Nonprofit Organizations. New York

References

- Barney, J.B. (1991): Firm Resources and Sustained Competitive Advantage. In: Journal of Management, Vol. 17, Nr.1
- Barthel, D. (1979): The Role of "Fictions" in the Redefinition of Mission. In: Nonprofit and Voluntary Sector Quarterly, Vol. 26. Nr.4
- Covey, J.G. /Brown, L.D. (1985). Beyond Strategic Planning: Strategic Decisions in Nonprofit Organizations. IDR Reports, Vol. 2. Nr.1
- Brown, D.L. (1988): Organizational Barriers to Strategic Action by NGOs. IDR-Reports, Vol.5. Nr.2
- Covey, J.G./Brown, L.D. (1985): Beyond Strategic Planning: Strategic Decisions in Nonprofit Organizations. IDR-Reports, Vol.2, Nr.1
- DiMaggio, P. (1987): Nonprofit Organizations in the Production and Distribution of Culture. In: Powell, W.W. (ed.): The Nonprofit Sector. A Research Handbook. New Haven
- Eckardstein, D.v. (1999): Das EFQM-Modell des Qualitätsmanagements. In: Eckardstein, D.v./Kasper, H./Mayrhofer, W. (eds.): Management. Stuttgart
- Eckardstein, D.v./Simsa, R. (2002): Entscheidungsmanagement in NPOs. In: Badelt, Ch. (ed.): Handbuch der Non-Profit-Organisation. 3rd ed. Stuttgart
- Eckardstein, D.v./Schnellinger, F. (1978): Betriebliche Personalpolitik. 3rd ed. München
- Eschenbach, R. (ed.) (1996): Controlling. 2nd ed. Stuttgart
- Eschenbach, R./Tarek, H. (eds.) (1999): Die Balanced Scorecard. Führungsinstrumente im Handel. Wien

- Feeney, S. (1997): Shifting the Prism: Case Explications of Institutional Analysis in Nonprofit Organizations. In: *Nonprofit and Voluntary Sector Quarterly*, Vol. 26, No.4
- Gmür, M (2000): Strategisches Management für Nonprofit Organisationen. In: Nährlich, S./Zimmer, A. (eds.): *Management in Nonprofit-Organisationen*. Opladen
- Gray, S.T. et al. (1998). *Evaluation with Power - A New Approach to Organizational Effectiveness, Empowerment, and Excellence* (First Edition ed.). San Francisco.
- Grunow, D. (1995): Zwischen Solidarität und Bürokratie: Organisationsprobleme von Wohlfahrtsverbänden. In: Rauschenbach, T./Sachße, Ch./Olk T. (eds.): *Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch*. 2nd ed. Frankfurt
- Gutenberg, E. (1962): *Grundlagen der Betriebswirtschaftslehre*. 1. Bd. Die Produktion. 7th ed. Berlin
- Harris, M. (1998): Doing it Their Way: Organizational Challenges for Voluntary Associations. In: *Nonprofit and Voluntary Sector Quarterly*, Vol. 27, No.2
- Harrison, J. et al. (1995): *Management and Strategy*. Foulks Lynch
- Herman, D.R./Renz, D.O. (1999). *Theses on Nonprofit Organization Effectiveness*. In: *Nonprofit and Voluntary Sector Quarterly*, 28(2), pp. 107
- Herman, R.D./Renz, D.O. (1997): Multiple Constituencies and the Social Construction of Nonprofit Organization Effectiveness. In: *Nonprofit and Voluntary Sector Quarterly*, Vol 26, No.2
- Horak, Ch. et al. (2002): Ziele und Strategien von NPOs. In: Badelt, Ch. (ed.): *Handbuch der Non-Profit-Organisationen*. 3rd ed.. Stuttgart
- Horch, H.D. (1995): Selbsterstörungsprozesse freiwilliger Vereinigungen: Ambivalenzen von Wachstum, Professionalisierung und Bürokratisierung. In: Rauschenbach, T./Sachße, Ch./Olk T. (eds.): *Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch*. 2nd ed. Frankfurt
- Kaplan; R.S./Norton, D.P. (1997): *Balanced Scorecard. Strategien erfolgreich umsetzen* (Titel der amerikanischen Ausgabe: *The Balanced Scorecard. Translating Strategy into Action*, 1996). Stuttgart
- Krzal, A. (1999): Von der Qualitätskontrolle zur kontinuierlichen Qualitätsverbesserung. In: Eckardstein, D.v./Kasper, H./Mayrhofer, W. (eds.): *Management*. Stuttgart
- Marik, M. (1997): Ansatzpunkte für die Messung der Leistungsqualität in gemeinwirtschaftlichen Organisationen. In: *Zeitschrift für öffentliche und gemeinwirtschaftliche Unternehmen*, (2), pp.178-188
- Matul, Ch./Scharitzer, D. (2002): Qualität der Leistungen in NPOs. In: Badelt, Ch. (ed.): *Handbuch der Non-Profit-Organisation*. 3rd ed. Stuttgart
- Moss Kanter, R./Summers, D. (1987): Doing Well while Doing Good: Dilemmas of Performance Measurement in Nonprofit Organizations and the Need for a Multiple-Constituency Approach. In: Powell, W.W. (ed.): *The Nonprofit Sector. A Research Handbook*. New Haven
- Murray, V./Tassie, B. (1994): Evaluating the Effectiveness of Nonprofit Organizations. In: Herman, R.: *The Jossey-Bass Handbook of Nonprofit Leadership and Management*. San Francisco
- Nickols, F. (1998): *The Accountability Scorecard*. ARNOVA Conference Paper, Washington

- Olk T./Rauschenbach, T./Sachße, Ch. (1995): Von der Wertgemeinschaft zum Dienstleistungsunternehmen. oder: über die Schwierigkeit, Solidarität zu organisieren. In: Rauschenbach, T./Sachße, Ch./Olk T. (eds.): Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch. 2nd ed. Frankfurt/M
- Oster, M.S. (1995). Strategic Management for Nonprofit Organisations. New York
- Pankoke, E. (1995): Subsidiäre Solidarität und freies Engagement: Zur "anderen" Modernität der Wohlfahrtsverbände. In: Rauschenbach, T./Sachße, Ch./Olk T. (eds.): Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch. 2nd ed. Frankfurt/Main
- Patak/Simsa, R. (1993): Paradoxien in Nonprofit-Organisationen. In: Heitger, B./Schmitz, Ch./Gester, P.-W. (eds.): Managerie. 2. Jahrbuch. Systemisches Denken und Handeln im Management. Heidelberg
- Salamon, L. et al. (1999): The emerging Sector Revisited. Baltimore
- Salamon, L. (1994): The Nonprofit Sector and the Evolution of the American Welfare State. In: Herman, R. (ed.): The Jossey-Bass Handbook of Nonprofit Leadership and Management. San Francisco
- Seibel, W. (1992): Funktionaler Dilettantismus. Erfolgreich scheiternde Organisationen im „Dritten Sektor“ zwischen Markt und Staat. Baden-Baden
- Shoichet, R. (1998): An Organization Design Model for Nonprofits. Nonprofit Management and Leadership, 9(1), pp. 71-88
- Simsa, R. (2001): Gesellschaftliche Funktionen und Einflussformen von Nonprofit Organisationen. Eine Systemtheoretische Analyse. Frankfurt/M et al.
- Simsa, R. (1999): Zwischen Wirtschaft und Werten. Nonprofit-Organisationen als spezifisches Feld von Training und Beratung. In: Gruppendynamik. Zeitschrift für angewandte Sozialpsychologie, 4
- Streeck, W. (1987): Vielfalt und Interdependenz. Probleme intermediärer Organisationen in sich ändernden Umwelten. Berlin
- Tassie, B./Murray, V./Cutt, J. (1998): Evaluating Social Service Agencies: Fuzzy Pictures of Organizational Effectiveness. In: Voluntas: International Journal of Voluntary and Nonprofit Organizations, Vol. 9, No.1,
- Zauner, A. (2002): Von Solidarität zum Wissen. Nonprofit Organisationen in systemtheoretischer Sicht. In: Badelt, Ch. (ed.): Handbuch der Non-Profit-Organisation, 3rd ed. Stuttgart
- Zech, R. (1997): Managementprobleme in Gewerkschaften – Ein Beitrag zur Theorie der Non Profit-Organisation. In: Schauer, R./Anheier, H.K./Blümle, E.B. (eds.): Der Nonprofit Sektor im Aufwind – zur wachsenden Bedeutung von Nonprofit-Organisationen auf nationaler und internationaler Ebene. Linz
- Zimmer, A./Priller, E. (1997): Die Zukunft des Dritten Sektors in Deutschland. In: Anheier, H.K./Priller, E./Seibel, W./Zimmer, A.: Der Dritte Sektor in Deutschland. Organisationen zwischen Staat und Markt im gesellschaftlichen Wandel. Berlin

Marketing in Nonprofit Organizations

1. Introduction

Nonprofit marketing has been controversial in many countries for years. Marketing practices are still an unpleasant topic for many people in the nonprofit sector – and not only in the postcommunist transition countries. The term nonprofit or not-for-profit marketing was first coined in the late 1960s and early 1970s in a series of articles by Kotler and Levy (1969), Levy and Zaltman (1975) and Shapiro (1973). The marketing concept entails more than selling fast-moving consumer goods. Nowadays, marketing is understood to be a type of philosophy or culture of behavior toward the market.

A market orientation could be inappropriate for nonprofits in certain cases because it implies some form of exchange. In the nonprofit context, the concept of exchange is not always helpful. While there are a number of occasions when nonprofits do exchange value with the recipients of their goods or service (even thanks for donations), there are many occasions when the notion of exchange has no meaning. Recipients of international food aid, for example, exchange nothing except for their need to stay with supplying body. Perhaps a more acceptable term to be used in these cases is “matching” as Foxall (1989) advocates. Another difference could be found in sources for nonprofit activities (as described in the chapter on Financing by Petr Pajas and Michael Vilain in this volume).

Differences among nonprofits that influence their view of marketing are also found in definitions of what a market is, what targets there are, what their aims, objectives and expectations are, etc. These must all be defined based on the individual nonprofit’s mission. At that point, it can be determined whether and how the marketing concept is applicable to the nonprofit sector as such.

The modern nonprofit sector has a very short history in the post-communist countries of Central and Eastern Europe. The system changes that occurred in the political environment encouraged privatization of public services. The main reasons for doing so – the efficiency and effectiveness of social programs and public services – could be found in all types of countries: developed, developing and transition. As countries find themselves with both rising expectations on the part of their citizens and a growing number of alternative uses for public revenues, their governments have given increasing

attention to privatization as an innovative means of lowering costs and improving the effectiveness of public programs.

Recent changes in the social climate encouraged increased voluntarism in highly developed countries – not yet the case in developing and transition countries. Currently in Central Europe (Austria, Poland, the Czech Republic, Germany, Slovakia and Hungary) dramatic changes in behavior can be seen. For example, thousands of volunteers participated during the 2002 floods in efforts to save lives and property, collect basic materials, clean, and raise and distribute money to victims of the floods. It is likely that these events will help to improve the situation of nonprofit organizations and the perception of voluntarism in the future.

2. Current Situation

Most nonprofit managers agree that marketing has become essential for the nonprofits that want to compete for money in a marketplace culture. However, many studies¹ reveal some alarming facts (Skloot, 1988). Only few nonprofits have incorporated a comprehensive approach to marketing. While many of them perform one or more marketing functions, few have embraced a marketing approach to operations.

Marketing directors understand that marketing is more than a collection of independent functions such as advertising or publications. They see these tasks rather as pieces of a comprehensive approach. That approach, broken down to its essence, is to find out what people want and then see that they get it. This final step is missing in most nonprofits.

Other studies show that the reason most managers in marketing positions perform only pieces of the whole strategic concept is that they lack marketing background. They can, therefore, be put into the category of “accidental marketers”. Especially in transition countries where the nonprofit sector is very young and the demand for marketing managers in business is very high, there are not so many prepared to serve in this typically lower paid sector. Based on personal interviews in the Czech Republic and on other international information sources, it could be argued that the marketing manager – if there is such a position in a particular nonprofit – tends to be recruited from different areas of society, mostly having background in education, law, social work or fine arts, basically in humanities more than in business. Such managers feel that they are there to help others, but what is missing are the strategic vision and tools to implement the nonprofit’s

1 See www.danenet.org/snpo

strategic objectives and fulfill its mission successfully.

While a number of nonprofits have begun to add marketing functions and the personnel to manage them, research strongly suggests that only a few of them have adopted a comprehensive marketing approach to their operations. A majority of those currently engaged in marketing came into their jobs without formal training in marketing; they rate their knowledge high in some marketing skills, low in others, but they demonstrate little interest in learning what they do not yet know in such critical areas as research or direct marketing. While low salary structures are a problem in attracting top talent, a nonprofit leader who does not appreciate marketing as a comprehensive process and is not fully committed to incorporating the marketing approach into the organization's operating strategies may represent even a larger problem.

The managerial practices of existing and future nonprofit managers can be significantly improved, if they accept proper marketing philosophy, develop a systematic approach to marketing problem-solving, and are able to use the concepts and techniques proven in the forprofit sector.

Translated into practice, an organization adopting a marketing approach would be driven by a four-step process:

- Do research to learn what the market wants, what it needs, and what it thinks of the organization and its competition;
- Design the organization's offerings (products and services considering factors such as hours, locations, pricing, customer service, and sustainable quality) to meet the needs or desires of the market, as determined by the research;
- Communicate the organization's offerings through advertising, publicity, publications, personal contacts, or special events (highlighting the benefits that research indicates are key to the market);
- Evaluate the success of the communication, learn how the market responds to the offerings now, and determine whether to redesign.

With the above-mentioned steps as the basis, the remainder of the chapter will review the marketing approach and develop further the four-step concept.

3. Marketing Strategy

The marketing strategy should be an integral part of an organization's strategic plan, which defines the organization's vision, mission and long-term objectives (see Annex 1). The first step to success is to develop a marketing mindset among managers and personnel, concentrating on a customer-

oriented philosophy. This means that everyone must understand that the customer/client's needs and desires truly determine the success of the nonprofit organization in the long run.

Customer needs and desires can be identified through research only. Based on the research findings, the market should be segmented, i.e., divided into smaller parts with similarities, to be served more effectively. Having segmented the market, competition coming from widely diverse sources could be easily identified. Learning about competitors' offerings helps to position the nonprofit activity more precisely by locating gaps in the market. The next step should be identification of strengths and weaknesses in order to anticipate how likely is the organization's success in the activity.

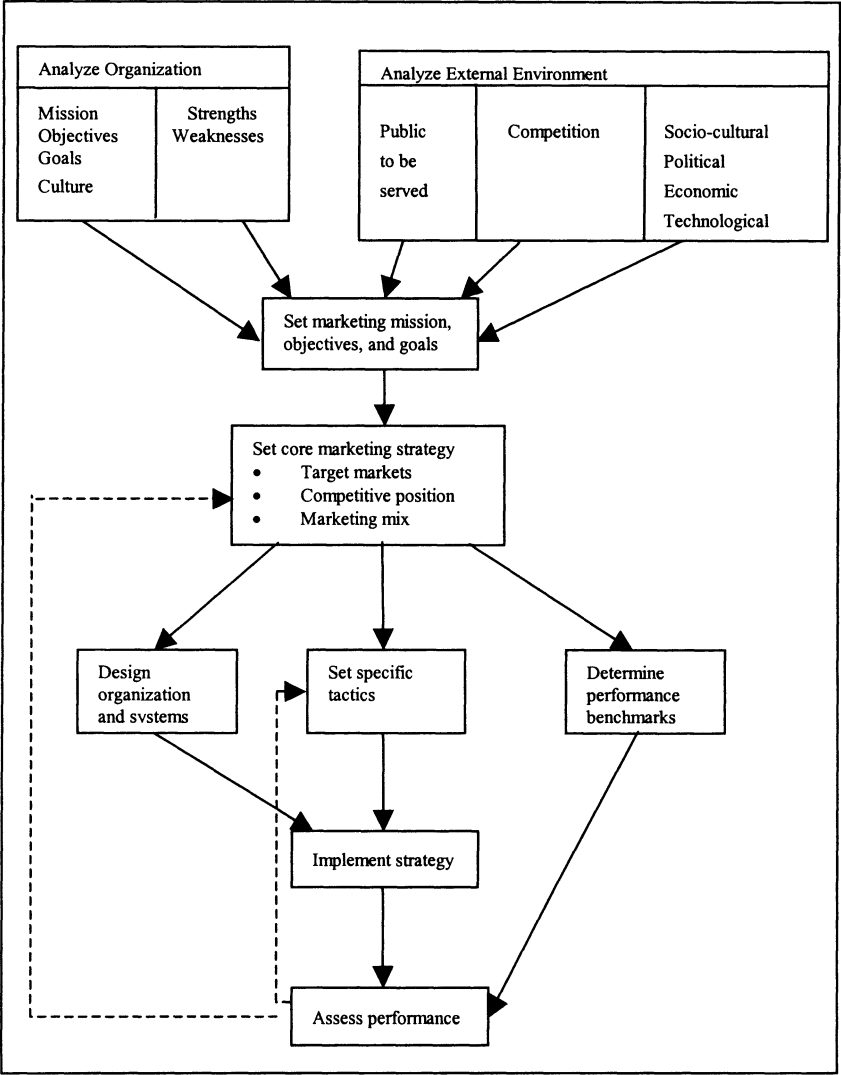
The success of the whole nonprofit sector is strongly related to the macroenvironment (political, economic, socio-cultural and technological) of the society and to the preparedness of people to help others (as a part of the culture). Therefore continuous monitoring of the macroenvironment, which influences the nonprofit sector even more and faster than it does the forprofit sector, is an indispensable part of marketing research.

Having collected important information about the needs and desires of potential clients, competitors and the macroenvironment, the first draft of a marketing plan could be written. A marketing plan starts with the definition of a marketing mission and strategic objectives, which are derived from the organization's business plan. The next steps should be determination of the marketing mix and then the design of an evaluation system (see Figure 1).

Analysis of Internal Potential

These analyses are the result of internal activities undertaken prior to the drafting of the business plan and could be used for making strategic marketing decisions. What is mainly needed is a clear definition of the organization's strengths (S) and weaknesses (W) as part of a basic SWOT analysis. The opportunities (O) and threats (T) on the market should be determined as a result of an external environment analysis, as discussed below.

Figure 1: Strategic Marketing Planning Process



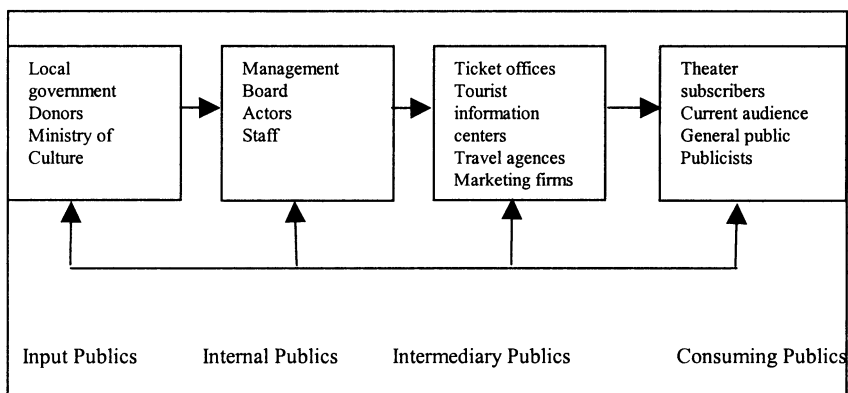
Source: Kotler/Andreasen (1991: 69)

Analysis of External Environment

When managers start examining the external environment, they find that the environment contains several publics, and the organization has to market to most or all of them. What is a public by definition? A public is a specific group of people and/or organizations whose actual or potential needs and desires are to be served now or in the future.

Analyzing publics in the broad sense defined here is very complicated. To have a better chance of understanding them, it is recommended strongly that all current and potential publics be broken down into groups as shown through the example of a theater (see Figure 2):

Figure 2: Publics of a Theater



Source: Own Figure

The competition of the theater could be defined as all possible types of entertainment and cultural events of any kind. A competitive analysis facilitates understanding of the desires and wants of subscribers and the audience and therefore allows for the definition of the motivation of the theater customer. The same approach should be used in the analysis of any nonprofit activity. Findings of this nature help to identify the competitive advantage of the subject and help to position its offerings properly in the next step.

The macroenvironment consists of broad forces creating the playing field in which nonprofit managers must operate today and in the future. As shown in Figure 1 above, there are many different variables that can change from country to country, and the same could be seen within a given country in different regions or activity sectors. For example, legal and demographic trends are very important for strategic planning in social services; economic

trends are significant for charities; technological trends for libraries; socio-cultural trends for theaters, cinemas, zoos, and recreational services. Every nonprofit organization should define the main indicators that are crucial for its current and potential activities and monitor them regularly. Any changes in the macroenvironment must be signaled, analyzed and used for decision-making.

Marketing Mission, Objectives, Goals

Setting the marketing mission, objectives and goals is a function of an organization's business plan, and they are derived from the overall mission and objectives. Nevertheless, the marketing mission must be more precise and concrete about future activities, giving strategic guidance to the nonprofit's portfolio of products and services. There are five potential strategies in portfolio development:

- Building – into which offerings to pour additional resources because their potential looks promising;
- Holding – which offerings to maintain in their present positions because they are satisfactory;
- Harvesting – from which offerings to drain resources because their future is less promising;
- Divesting – what offerings to drop because of declining potential or because other offerings look better;
- New offerings – which offerings to add to the portfolio over the period.
- There are many proven approaches for managing portfolios and making this kind of decision. BCG² and GE³ matrices are two well-known examples widely used in the forprofit sector.

The product/market opportunity matrix is recommended for identifying opportunities on the market using a systematic approach over time. In the case of nonprofits, the offerings and their markets fit better. The example of an employment office offering education can help illustrate (Table 1).

2 BCG portfolio matrix uses categories of Question marks, Stars, Cows and Dogs to represent different strategies based on analysis of the market growth and market share.

3 McKinsey/GE matrix analyzes the market attractiveness and market strength of a company.

Table 1: Employment Office Education Offerings (Product/Market Opportunity Matrix)

Existing	Modified	New	Markets
1. Market penetration Intensify activities, attract new unemployed to enter programs	2. Service modification Distance courses Evening courses Short courses	3. Service innovation E-learning New specialization	Existing
4. Geographical expansion New areas of the city	5. Modification for dispersed markets Program offered in bigger villages Distance courses with tutor on the spot	6. Geographical innovation	Geographical
7. New markets Offer education to employed individuals Offer education to companies	8. Modification for new markets Offer special social education to individuals Offer special social education to companies	9. Total innovation New concept of bachelor studies	New

Source: Own Table

Nonprofit organizations pursue a number of marketing objectives, which could be defined in different ways according to the mission and the activity sector. Some are more desirable from a social standpoint than others.

- *Surplus maximization*⁴ could be an example of an artistic group's strategy to accumulate resources for building a new theater for its performances.
- *Revenue maximization* might be the strategy used by a public transport company to help in the reconstruction of the city subway after floods.
- *Usage maximization* – in the case of museums, zoos, etc. – means having as many visitors as possible, which signals to others how well the nonprofit performs. It can also help in attracting more money from the local authorities.
- *Usage targeting* helps to balance out the variable attendance at cultural events such as concerts. If the demand is high, prices increase, but decline if demand is lower. (The Prague Spring Music Festival is a textbook example: prices have been increasing for more than 50 years.)

4 Objective classification according to Kotler/Andreasen (1991).

- The aim of many nonprofit organizations is to *break-even* every year, which means that they provide as much service as they can as long as their resources just *cover their costs*.
- *Partial cost recovery* means that the organizations operate with a permanent deficit every year. Public transport companies offering services in rural areas in the Czech Republic can serve as a good example.
- *Budget maximization* means that the success and competitiveness of the nonprofit depend only on the resources the management is able to attract. In many cases the organization has money but not successful programs.
- *Producer satisfaction* means concentration on the organization's own wants and desires. There are many examples of organizations that are basically self-serving and oriented towards maximizing their own interests (McKnight, 1977).

Marketing goals should be stated in terms of public served, staff, costs, revenues etc., depending on the influence of the environment on the core activities of the nonprofit organization.

3. Core Marketing Strategy

Marketing strategy and tactics aim to understand and influence consumer/client behavior. Marketing managers make four broad classes of managerial decisions for which an understanding of consumers is especially crucial. These managers must:

- Define the level of consumer aggregation into similar groupings (segmentation), choose what segment or segments will be targeted (targeting), and finally determine how the product or service will be positioned against others on the market (positioning);
- Decide how to market to each target and set a proper marketing mix;
- Assign how much to market to each segment, which means how much money from the annual budget to allocate where, with what staff, etc.;
- Be able to time accurately all activities to the target segments; be able to use different tactics according to the current market situation in a timely way.

Market Segmentation, Targeting, and Positioning

The bases for market segmentation are already well known in the forprofit business environment. For the nonprofit, the same criteria should be used:

Geographic criteria relate to the location of the prospective target and the distinguishing characteristics associated with each location. Managers may focus on a single area, a few areas or many, depending on such considerations as the size of each geographic area and the cost of serving it. If more than one area is selected, products and services may be tailored to different natures and needs among those areas.

Demographic criteria refer to such basic measures as age, sex, family size, family life cycle, income, occupation, nationality, citizenship, etc. They all can be used to identify and define target markets and to develop offerings that are attractive to each segment and coherent with the focus of the nonprofit organization.

Psychographic criteria are the state-of-mind variables that have a direct influence on consumer behavior. They include social class, personality, and lifestyle, as measured by a diversity of tests, such as the AIO (Attitudes, Interests, Opinions), VALS II (Values and Lifestyles); in CR by market research agency STEM/Mark), and Lifestyle (in CR and other CEE countries by advertising agency Leo Burnett).

Behaviorist criteria define targeted segments in terms of how their members behave as consumers/clients towards a nonprofit product or service, i.e., how frequently they use it, how loyal they are toward it, what benefits they seek from it, and so on. These criteria are useful both in determining dimensions of a target segment and in devising marketing mixes to appeal to defined segments. Behaviorist variables used to identify target markets and design attractive offerings for prospective clients include:

- *Occasions* – when the segment's members decide to actually use the offering;
- *Benefits sought* – to which the market segment will respond favorably;
- *User status* – segments are defined and cultivated based on the extent to which segment members make use of the product;
- *Usage rate* – defined as a percentage of users in the whole population, or more precisely in the specific population (usage rate of wheelchairs among the disabled population);
- *Loyalty status* – focuses on degrees of loyalty to the product or service (or the nonprofit organization itself) as defined by usage patterns (there are hard-core loyals, soft-core loyals, switchers). The number of offerings on the market must be known. The most dangerous type is enforced loyalty, when the client has no opportunity

- to change the source of service;
- *Client readiness* – At any point, actual and prospective clients may be in different stages of readiness to purchase, consume, or accept service. This issue is very important for the effectiveness of marketing communications.

A nonprofit organization may decide based on its own purposes how to segment markets and what criteria are to be used in which combinations and for how long. When a market is segmented, the next step is target market selection according to the strengths of the nonprofit and the potential of the segments.

Once the market for the product or service has been segmented and a segmentation strategy decided upon, the manager must decide what position the offering can occupy most favorably in each selected segment. The concept of *positioning* is an extension of the brand image concept, defined as the sum of perceptions – favorable or unfavorable – about attributes of a product or service based on consumers' experience and knowledge. In brief, an offering's position is its "brand name image" [*Konto Bariery* (targeted to wheelchair users), *Pomozte detem* (Help Children) and *Kapka krve* (Drop of blood) are examples of successful charity "brands" in the CR] with respect to competing offerings—the way the offerings are competitively defined by consumers on key attributes. Of course, competition on the charity (and nonprofit) market is more about competitive cooperation than about real competition, but a strong competitive climate could be found in relation to resources. That is the reason every organization should pay special attention to the positioning of its offerings in the eyes of all kinds of publics.

Market Potential, Sales Potential, Market Share, and Forecasts

Market potential is the prospective volume of a specific good or service that would be consumed by a defined customer/client group over a specific time period in a defined geographic area and environment.

Sales potential is the prospective proportion of market potential for a specific good or service that could be purchased from a specific seller/organization. Market potential is what consumers and organizations could purchase from all sellers; sales potential, from an individual entity.

A *forecast* is what the seller projects the market or sales potential volume will be, usually stated in monetary or product/service units. *Market share* is the percentage of market potential that the seller actually gets. For example, if the market potential for all private secondary schools is currently 10,000 students and a school has 500 students, its market share is 5%. Suppose that in five years, the market potential will be 20% lower (8000 students); if the school wants to maintain the same number of students (500), it must strive to

increase its market share to 6.25%, which entails a commitment to more marketing efforts. Alternatively, if the market potential increases by 20% (to 12,000 students), the school will need to attract 600 students in order to keep the same market share. With the same number of students (500), its market share will be only 4.16%.

Fundraising

Fundraising is a very specific activity existing only in the nonprofit sector. The basic concept for approaching donors should be very similar to looking at the consumer/client market. Marketing orientation, data analyses, and other marketing principles should be easily applied.

The organization must analyze its own position in the marketplace (position in relation to other competing nonprofit organizations), concentrate on those donor sources whose interests are best matched to its own (segmenting, targeting), and design its solicitation programs (offering - marketing mix) to supply the necessary satisfaction to each donor group (results of need and desire analysis).⁵

4. Marketing Mix

Budgeting

As in a forprofit business, a nonprofit organization has to start by defining the optimal level of marketing expenditures. There are many methods for doing it, but setting the marketing budget is an activity specific to each nonprofit. The task is even harder in the postcommunist transition countries because the sector as such is still young, with almost no experience from the past. In many cases, nonprofit organizations lack a stable position. The demand for services vacillates according to the present situation during the transition process.

What could be recommended not only in transition economies but everywhere is the use of the *objective-and-task method* which is based on the definition of marketing objectives, determination of tasks to be performed, and estimation of the costs. All other methods are antiquated and grounded on experiences accumulated in a relatively more stable environment.

5 See the chapter on Fundraising by Haibach and Kreuzer for more detailed information.

Cost-effective Marketing Mix

When using the above-mentioned budgeting method, there is a need to be deliberate in resource allocation. The key management task is to decide on the most cost-effective marketing mix for any given marketing objective.

The first step in decision-making is the preparation of alternative programs. Cost/benefit analysis helps to decide which alternative would be preferable. Quantitative measurement methods are recommended. However, in some areas of nonprofit activity, non-quantifiable benefits should be taken into account.

Having completed all necessary analyses, the manager has to determine the optimal marketing mix.

Offer

The nonprofit sector differs from the forprofit one mostly in the perception of the offerings. Conventionally, offerings are divided into two categories: products and services. A product is seen as a set of tangible and intangible layers, and there are alternative definitions. A widely used concept by Kotler and Andreansen (1991) defines three levels of product: core product, tangible product and augmented product. The core product represents a core benefit. The tangible product involves brand name, features, packaging, quality, and styling. The augmented product entails also some element of service – installation, delivery and credit, warranty, and after-sale service. Pure service is defined as intangible, inseparable from its producer, variable in its characteristics, perishable, and dependent on the involvement of the customer in its production.

On the nonprofit market there are offerings combining product and service in one. The complexity of the offerings could be linked with industrial offerings, which are in many cases very individual and serving very specific demands. The tangible part of the offering is typically smaller than the intangible. Lovelock's (1983; see Table 2) classical division of services is useful for better understanding and practical use. All nonprofits could use this table of types of services to start with organizing and perhaps cleaning up their portfolio.

As noted previously, most nonprofit activities are totally or partially services. Therefore, proper staff selection and training, as well as establishment and maintenance of quality standards are critical.

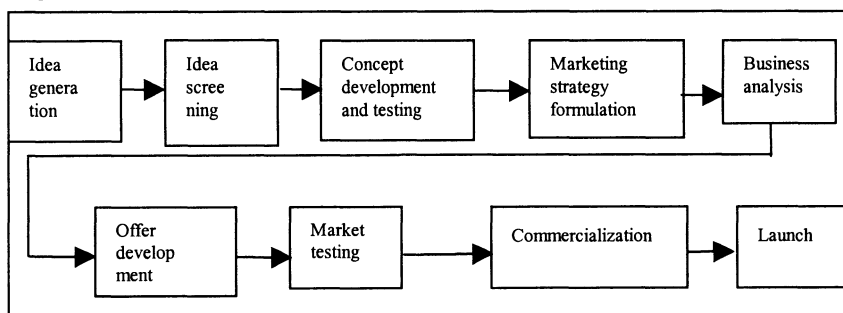
Table 2: Dimensions and Types of Services

1. Recipient <ul style="list-style-type: none"> • Done to people (healthcare) • Done to things (plumbing repair) 	2. Tangibility <ul style="list-style-type: none"> • Tangible (physical exam) • Intangible (psychotherapy) 	3. Length of the service relationship <ul style="list-style-type: none"> • One-time (tire repair) • Continuing (telephone service)
4. Connection to customer <ul style="list-style-type: none"> • Subscriber (telephone service) • Nonsubscriber (police service) 	5. Extent of possible customization <ul style="list-style-type: none"> • Low (public transport) • High (healthcare service) 	6. Stability of demand <ul style="list-style-type: none"> • High fluctuation (police service) • Low fluctuation (insurance)
7. Adjustability of supply <ul style="list-style-type: none"> • High (utilities) • Low (theater) 	8. Location of delivery <ul style="list-style-type: none"> • Customer comes to the service (banking) • Service comes to the customer (plumbing) • Service is provided from a distance (TV program) 	9. Role of products versus people <ul style="list-style-type: none"> • Mostly products and equipment (car leasing) • Mostly people (haircutting) • A mix of products and people (hospitals)

Source: Lovelock (1983: 9-20)

Analysis of an organization's current portfolio was discussed in the chapter on strategic management.⁶ Successful operations on the market and long-term positive results call for new offerings. In fact, a part of the management job is looking for new opportunities. Continuous monitoring of the environment and searching for market gaps enable an organization to develop pioneering programs with the first-mover advantage. The product development concept (see Figure 3) frequently used in the forprofit sector is suitable also for nonprofit organizations.

Figure 5: Stages in Product Development



Source: Own Figure

6 See the chapter on Strategic Management by Dudo von Eckardstein and Ruth Somsa in this volume.

An idea can arise from market monitoring, individual ideas of the management and/or staff, demand from clients, activities of government bodies, etc. The most important task is to create a system for handling these ideas. It is widely known that this step is crucial for the long-term success of any organization since innovation is the challenge of our times. Of course, that does not mean that an organization should be innovative just for the sake of it; rather, innovations are meant to serve clients better at the lowest possible cost over the long run. A new offering may involve new or existing offerings in combination with new or existing markets. Extensions into new offerings or markets may involve undertakings that are similar or dissimilar to present marketing programs. To be successful, the organization must be both creative and systematic, and both characteristics are needed in each step.

Cost Management

“Value for money” is a very popular saying in the forprofit business environment. It means literally that what someone pays for a benefit should be no more than what it costs to produce or deliver. Consumer cost is not only the price paid for goods or services, even in the forprofit sector. The perception of cost is much broader, and price is only a part of it. An individual perceives a cost as the sum of price and other costs he/she pays for things, such as time, transport, distance, comfort, additional services, personal attention by staff, etc. In different situations and with different goods and services, the perception of proportions in cost varies. For example, an individual coming down with a headache on a Sunday evening might be willing to pay more for pills and go farther to find an emergency pharmacy because of the urgency of his situation.

The perception of price, time and distance is different in case of an emergency. This fact has to be stressed because many activities in the nonprofit sector deal with urgent problems of individuals, communities, and groups. Furthermore, many offerings are not paid for with money, although many of them are.

All goods have a dual nature. A benefit on one side is a cost on the other. This principle is the nature of exchange. As suggested previously, “matching” would be a better term than exchange in the nonprofit sector. An optimal cost management strategy from the marketer’s standpoint is one that maximizes the number of matchings (or revenue) for a given cost to the marketers. The marketer must begin by researching consumer perceptions of the costs they must pay. Otherwise, crucial but subtle barriers affecting particular client segments might be missed. For example, the elderly refuse nursing home care because they would have to admit their age (price); they are not prepared to “pay” for comfort because they feel that the “price” is too high.

Pricing Objectives and Strategies

Price objectives are often in conflict. For example, the director of a private school states, "We want to keep tuition as low as possible to enable more students to enroll". However, he must be sure that the school will not lose money in the long run. The school is financed partly by the state, partly from funds raised through projects, and partly from tuition. Therefore, the director must take into account the fact that the sum total of resources is limited and unstable over the long term.

The situation will differ in charities, foundations, nursing homes, hospices, churches, etc. The possible cost and pricing strategy must be developed according to the actual situation in every type of the nonprofit organization, keeping in mind all kinds of specifics relating to mobilizing resources and serving clients/markets.

According to Kotler and Andreasen (1991) there are five different pricing objectives and strategies derived from them.

1. *Surplus maximization* is a strategy that could be used by private business schools organizing a conference for which the fee per 40-minute session could be highly priced since prominent management gurus will speak and the audience is recruited from the top managerial positions in big companies. The major objective in this case is to maximize receipts over costs. The surplus obtained might be used for the school's scholarship programs for students from less developed countries or for maintenance of computer labs. For this pricing strategy, a demand analysis approach is recommended. The demand function describes the expected quantity demanded per period (Q) at various prices (P). Suppose that the maximal number of participants (demand) could be 1000 at the price P=0. Suppose also that for every EUR 1 increase in price, there will be 4 participants less.

$$Q = 1000 - 4P \quad (1)$$

Therefore, the number of participants at a fee of EUR 150 would be 400.

$$400 = 1000 - 4(150)$$

The other side of surplus is costs. The cost function deals with the expected total costs (C) for various quantities per period (Q) that might be covered. The business school derived the following cost equation for the conference:

$$C = 6000 + 50Q \quad (2)$$

where fixed costs are expected to be EUR 6000 and the variable costs per participant are EUR 50.

From theory it is known that two additional basic equations are needed. Total revenue (R) is equal to the price times quantity sold:

$$R = PQ \quad (3)$$

Total surplus (S) is the difference between total revenue and total cost:

$$S = R - C \quad (4)$$

From these four equations, the surplus maximization price can be derived. Beginning with equation (4):

$$S = R - C$$

$$S = PQ - C$$

$$S = PQ - (6000 + 50Q)$$

$$S = P(1000 - 4P) - 6000 - 50(1000 - 4P)$$

$$S = -56,000 + 1200P - 4P^2 \quad (5)$$

Equation (5) represents the total surplus expressed as a function of the price that will be charged. The surplus maximization price could be set in two possible ways. The school could use the trial and error approach, trying out different prices to shape the profit function and locate the maximal price. The school could also use a parabola and surplus reaches its highest point (EUR 34,000) at the price EUR 150 per session. At the price of EUR 150 per session, the business school sells 400 tickets and produced total revenue of EUR 60,000. This model works only in the short run, and its careful use is recommended for short-term and irregular activities. The precise definition of the target group is needed because when using this approach many secondary segments could be omitted and lost. In some cases, the government may enact regulations that set a price ceiling for nonprofit activities, therefore excluding the use of this approach. Furthermore, it must be determined whether a surplus maximization policy is compatible with other elements of the marketing mix. The success of using this model lays in the precise and accurate estimation of basic variables in the equations. In the case of a new pure service, there will be no experience upon which to base these estimates.

2. *Cover the costs.* Organizations with few alternatives for bringing in additional resources try to set their prices at a reasonable and bearable level. There are two basic strategies. The first seeks to cover only operational costs and does not leave room for development of new activities. Additional resources for such activities must be mobilized through fundraising. The second strategy is based on full cost recovery, which enables the organization to cover operational costs as well as new developments. This kind of approach is applied in cases when the

- organization has a small or zero chance to raise sufficient funds from other sources. In both cases careful research of price perception is needed, and all potential benefits have to be communicated thoroughly.
3. *Maximization of market share* is a strategy based on the idea that an organization should attract as many people as it can to use its services. Even if the nonprofit charged only a small price, with many users it could cover part of its costs. This would be the case, for example, with museum or zoo visitors. Theory implies that a low price stimulates higher usage and may produce satisfactory revenue in the long run.
 4. *Social equity* is a concept connected with the use of general taxes. Many nonprofits receive support from government budgets. Weaver and Weaver (1979) found that poorer people in the United States pay more through their taxes for public libraries because their usage rate is substantially lower than that of affluent people. The per capita contribution is the same, but affluent people “purchase” library services more frequently. In this case, library management might decide to charge some client groups in order to maintain social equity. On the other hand, the situation in welfare services is the complete opposite, with the poor “purchasing” services more often than the affluent.
 5. *Market Disincentivization* is a strategy made prominent by utilities, such as energy suppliers, and by telecommunications companies. It is based on price differentiation during peak hours. Its main purpose is to induce clients to postpone usage during peak hours. The same principle is applied with the taxation of cigarettes and alcoholic beverages where excise taxes are charged with the aim to lower consumption.

In developing strategies to meet the pricing objectives, the same approach is applied as in the forprofit sector. There are three variables to be taken into account: costs, demand and competition.

1. *Cost-oriented pricing* is popular for a number of reasons. In the first place, there is generally less uncertainty about costs. If this strategy is used throughout an entire sector in which both costs and markups are similar, then the prices on the market are similar as well. For a nonprofit organization this strategy looks very fair because it covers the costs of service and makes some surplus for the future development of its service. Break-even analysis can be applied for this purpose. It helps an organization to set a minimum volume of product/service to be offered without any profit or loss and allows it to determine the target profit necessary for future developments. Recall the example of the private business school. Suppose the fixed costs (FC) of the school are EUR 400,000; tuition fees could be EUR 2000 (P); and the variable costs (VC) per student approximately EUR 500. Inserting these numbers in the break-even point (BEP) formula, the number of students necessary to

enroll to cover the costs and to break even is determined. There is no potential for development.

$$\text{BEP} = \frac{\text{FC}}{\text{P} - \text{VC}}; \text{ in this case } \text{BEP} = \frac{400,000}{2000 - 500} = 267$$

The result is that the school must have 267 current students paying full tuition in order to break even. If the school has no additional resources, management must consider lowering fixed costs, or if the number of students is higher than the school can manage with the current fixed costs, increasing tuition.

As mentioned above, the formula could be modified to take into account surplus. The result answers a crucial question: "How many students are needed to cover the costs and make a reasonable profit of EUR 10,000?"

$$\text{BEP} = \frac{\text{FC} + \text{S}}{\text{P} - \text{VC}}; \text{ in this case } \text{BEP} = \frac{400,000 + 10,000}{2000 - 500} = 273 \text{ students.}$$

The first calculation is recommended for testing. When the school is aware of its capacities and costs, the formula could be used easily for calculations of different tuition levels and fixed and variable costs. Nevertheless, the final decision is a managerial one.

2. *Demand-oriented pricing.* The cost-oriented approach is easy but ignores the organization's market situation. Management can set a higher tuition, but the question remains how many students could afford it? Demand-oriented pricing uses the concept of perceived value in consumers' (in this case, students') minds. An easy answer to this question is how much potential students are prepared to pay for education and/or the diploma awarded.

The quality of a product or service is a crucial issue and can be used for so-called price discrimination, which means that different prices for different segments, occasions, etc. are set depending on the business of the nonprofit. Examples of such price discrimination include higher tuition for a master's degree from one of the top ten business schools; lower prices for students and teachers versus normal museum visitors; different rates for weekdays and weekends in the zoo, etc.

Managers using this pricing approach must be aware of a number of characteristics of the market served, including its segmentability, the possibility of reselling the product from low price segments, opportunities for competitors to undersell the high priced segment, etc. Furthermore, the organizational costs of segmenting should not exceed

- the revenues gained thanks to price discrimination.
3. *Competitive pricing.* This strategy seems to be the easiest because an organization prices its service in relation to that of its competitors rather than to its own costs and market situation. However, it is really the most dangerous one, if it is used without any other internal or market information.
 4. *Combination of costs, demand and competition approach.* The long-term success of any organization is a function of its ability to market and finance its goods or services. Experience from the forprofit sector shows that from the point of view of pricing the combination of all three concepts is needed. A nonprofit organization has a better chance to set the price of its offering to meet its financial objectives when the process is based on a realistic calculation of costs, with the knowledge of the market, together with observation of the competition.

Distribution and Channel Decisions

This part of the marketing mix answers the question: "How to deliver and where is the best place to deliver?" The nonprofit sector must also be concerned with how to pay for the channel used or how to build and finance one's own. The reasonable strategy available in this case is to attract partners from the forprofit sector to help share or finance this kind of activity.

The nonprofit organization has to be able to develop a viable distribution strategy according to the characteristics of the offering and target markets and to identify potential partners. The next step will be to approach these potential partners with a proposal for cooperation and, potentially, a long-term relationship. The proposal should remind the forprofit company that participation in nonprofit activities improves public goodwill. In addition, it could help confer political advantage, especially to multinational companies proving themselves able to help in local problem-solving, e.g., the free distribution of vaccines during floods. If a company is prepared to help in emergency cases, nonprofits could try to cooperate even when the emergency situation is over.

Marketing Communication Strategies

Promotion and marketing communication are the most visible instruments of the marketing mix. They involve all instruments by means of which the organization communicates with its target groups and stakeholders to promote its offerings or the institution as a whole. There is no doubt about the necessity of a communication strategy in the forprofit sector. As proved in the

international environment, marketing communication are even more important for the nonprofit sector because of its dependence on different kinds of publics. Nonprofits serve the public and obtain resources (money, employees, volunteers, facilities, etc.) for their activities from many different sources. They are not able to survive without proper and targeted communication.

Advertising is often considered a synonym of marketing communication because it is the most visible tool of the communication mix. That is why many nonprofit organizations are reluctant to plan and implement a proper communication strategy. Nonprofit managers very often feel that there is no place for serious communication. This way of thinking originates from the misunderstanding of the whole concept of marketing communication. Of course, there is a large variety of communication instruments, each with its own typical characteristics, strengths and weaknesses.

Advertising is non-personal mass communication using mass media (such as TV, radio, newspapers, magazines, billboards, etc.) the content of which is determined and paid by a clearly identified sender (the organization).

Usage (sales) promotion is stimulating campaigns, such as competitions, loyalty programs, samples, etc.

Sponsorship implies that the sponsor provides funds, goods, services and/or know-how. The recipient organization (the nonprofit) will help the sponsor with its communication objectives such as building and reinforcing brand and corporate image. Sports, art, education, sciences and social projects are widely sponsored. Events are often linked to sponsorship – a company can sponsor an event of the nonprofit.

Public relations (PR) consists of all the communication an organization instigates with its audiences and stakeholders, i.e., groups of individuals or organizations with which the nonprofit wants to create goodwill. Press releases and conferences, some of the major PR tools, should generate publicity.

Publicity is impersonal mass communication in mass media, but it is not paid by the sender and the content is written by journalists. This source of information is considered to be independent and trustworthy (but the content could be negative as well).

Point-of-delivery (purchase) is communication at the point of purchase of service. It includes several communication tools such as displays, presentations, layout of premises, etc.

Exhibitions are of great importance for contacting prospects, users, sponsors and donors.

Direct marketing communication is a personal and direct way to communicate with current and potential clients, sponsors and donors. Personalized brochures and leaflets (with feedback potential), direct mailings, telemarketing actions, direct response advertising, etc. are possible ways of

using direct marketing communications.

Personal selling is the oral presentation and/or demonstration by one or more sales persons aimed at offering a service to clients and/or cooperation with sponsors and donors. It is a personal contact between an organization representative and a prospect, a client, or a current or potential sponsor or donor.

Interactive marketing uses new media such as the Internet and extranets and offers new ways to communicate interactively with different stakeholders and, together with e-commerce, combines communicating with selling.

Marketing communications tries to influence or persuade the (potential) client by conveying a message. This transfer may be directed at certain known and individually addressed persons, in which case it is called personal communication. The message may also be transferred to a number of receivers who cannot be identified, using mass media to reach a broad audience. This is called mass communication. Personal communication is mainly direct and interactive marketing action and personal selling. All other promotional tools are mass communication. This comparison is of course generalizing. The practical implications of the selection mix depend on the situation and the creative implementation and execution of the communication instruments. Table 3 compares personal and mass marketing communication on some criteria important for decision-making.

Figure 6: Personal vs. Mass Marketing Communications

	Personal communication	Mass communication
Reach of large audience		
Speed	Slow (selling), faster (DM)	Fast
Costs to reached person	High	Low
Influence on individual		
Attention	High	Low
Selective perception	Relatively lower	High
Comprehension	High	Moderate – low
Feedback		
Direction	Two-way	One-way
Speed of feedback	High	Low
Measuring effectiveness	Accurate	Difficult

Source: Nagyová (1999)

Integrated Marketing Communication (IMC)

Integration of marketing communications is a relatively new concept emerging at the end of the 20th century. What was seen initially in forprofit business is even more important in the nonprofit sector. The following definition suggests a comprehensive view of integrated marketing communication:

“a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines, e.g., general advertising, direct response, sales promotion and public relations – and combines these disciplines to provide clarity, consistency and maximum communication impact” (Duncan and Everett, 1993).

The major benefit of IMC is that a consistent set of messages is conveyed to all target audiences by means of all available forms of contact and message channels. Communication should become more effective and efficient as a result of the consistency and the synergetic effect between tools and messages.

Image and Reputation

All nonprofit organizations need to take care of their image and reputation since their consideration as a reliable partner for the government, sponsors and donors depends on a positive perception of these two. Integrated marketing communications must focus primarily on these dimensions. A marketing or communication manager has to be able to incorporate image and reputation objectives into the strategic plan and has to be sure that everyone in the organization understands how important the image and reputation of the nonprofit are in the long-term perspective.

The image of an organization is its identity as perceived by its target groups. It is the attitude of the public towards the organization, a subjective and multidimensional impression of the entity. An organization's image is not always consistent with its desired identity, which means that an image gap may exist.

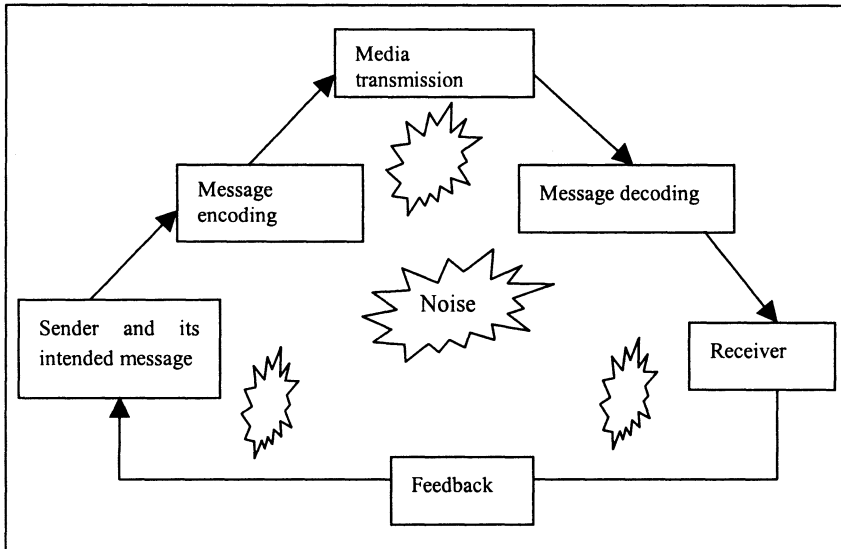
Organizational reputation is an individual impression, based on experience with the organization or exposure to communication, behavior and symbols. While image can be quite transient and short-term in nature, reputation is more firmly embedded in the mind of an individual. Images may change, but reputation is not easily altered in the short run. It implies credibility, trustworthiness, reliability and responsibility (Fombrun, 1996).

These definitions should help in communicating within the organization the importance and personal responsibility of all its members and employees for the image and reputation of their organization.

Marketing Communications Process

Among the marketing manager's responsibilities is communication planning. Typically this requires that the manager understand particular elements of the communication process and how it works (see Figure 4).

Figure 4: Communication Planning



Source: Own Figure

Any communication process involves a message sender and a message receiver (audience). The sender has an intended message, but whether the received message is in most respects identical to it is determined by the extent to which the communication process is relatively noise free and the sender and receiver share the same cultural values and codes. The major implication of this view of the communication process is that in any given situation the probability is high that the received message will be different from the intended message. Therefore the nonprofit sender should never assume that the target audience is receiving what the communicator thinks is being sent. The necessity of planned feedback is apparent in any case. The marketer has to have a means to monitor not only a part of the process, but also its results through a well-prepared set of measures derived from communications objectives.

Steps in Marketing Communications

The steps include:

1. Setting communications objectives (target market selection, target response, target reach and frequency);
2. Budget determination;

3. Preparation of possible messages (three types of messages can be generated—rational, emotional, and moral);
4. Message execution (slice of life, lifestyle, fantasy, mood, musical, personality, expertise, scientific evidence, testimonial evidence, big picture, etc.);
5. Choosing a medium (one medium or their combination), scheduling and timing;
6. Message evaluation and selection (message must be rated on desirability, exclusiveness, and believability);
7. Execution (sending a message);
8. Test of changes in audience behavior;
9. Feedback (relate audience reaction to objectives set).

This step-by-step approach is to be used for the strategic communication plan as well as for individual tools. An important issue that must not be forgotten is the integration of all communications activities of the nonprofit organization in one unit called integrated marketing communication.

5. Marketing Control

The purpose of marketing evaluation and monitoring is to maximize the probability that the organization will achieve its short- and long-run objectives in the marketplace. Monitoring systems are an intrinsic part of the planning process since they permit crucial and timely adjustments. The monitoring system in a nonprofit organization can differ from that in a forprofit one – basically, it can be less rigid and complicated. However, it must include the following steps:

1. Goal setting (what is to be achieved);
2. Performance measurement (what is happening);
3. Performance diagnosis (why is it happening);
4. Corrective action (what should be done about it). This action leads back to Step 2, when performance measurement starts again.

The basic approach to monitoring is derived from the so-called “management by objectives”. Top management starts the process by developing aggregate objectives for the planning period (number of clients served, grants made or received, amount of funds raised, etc.). These main objectives are broken down into sub-objectives for lower levels. Employee performance is then evaluated according to the level to which the employee reached the objectives set for the particular time period.

In nonprofits with a specific revenue objective, three main monitoring

tools could be used: revenue and market share analyses, effectiveness measurement, and marketing expense per sales analysis, which measures efficiency. For those without any sales or revenue targets, other measures are necessary.

In all cases, client satisfaction should be a major indicator of success. How can this be measured? Satisfaction is a function of expectations and perceived performance. In theory and practice, three levels of satisfaction are observed: very high satisfaction, satisfaction and dissatisfaction. The responsive nonprofit organization must have systems to measure and deal with dissatisfaction in order to avoid future problems. Consumer satisfaction surveys could be helpful, and complaint and suggestion systems are recommended.

Summary and Conclusion

Nonprofit marketing applies to intangible goods or services, such as education, healthcare, entertainment and religion, as well as to ideas or viewpoints, such as drug prevention, the use of seat belts, the prevention of cruelty to animals, and the promotion of blood or organ donation. Nonprofit organizations also market goods, but this is not as common as marketing services or ideas.

Marketing can be utilized by both large and small nonprofit organizations. Based on the experience of forprofit businesses, smaller organizations usually have more limited resources (staff, money, etc.), but can understand better their clients (niche strategy); therefore, they have to target their publics more precisely and be more creative in reaching them.

Four key differences exist between nonprofit and forprofit organizations (Lovelock & Weinberg, 1978). Nonprofit organizations are characterized by the following:

1. *Multiple publics.* Most nonprofit organizations direct marketing activities to at least two different audiences – those involved with resource attraction and those involved with resource allocation. In the case of a school, for example, donors represent resource attraction and students represent resource allocation (even though they also give the school resources to pay for the service they receive). It can be argued that forprofit businesses also have multiple publics, but marketers are involved in exchange relationships only with consumers. Although business firms must attract resources from the sale of stocks or bonds or the negotiation of loans from financial institutions, marketers are rarely involved in these exchange relationships.

2. *Nonprofit objective.* All marketing decisions should be evaluated in terms of their ability to contribute to the organization's objectives. In the case of forprofit organizations, strategies and tactics that contribute the most to producing a profit can be selected. With nonprofit organizations, there are multiple objectives that do not involve profit-making. With multiple and often immeasurable objectives, it becomes difficult to evaluate alternative marketing programs or activities. For example, assume a zoo was trying to decide whether to enlarge the crocodile section or to add a room where children could pet certain animals. The decision would depend on whether the zoo was trying to increase the total attendance (and revenues), maximize the satisfaction of those coming, or increase the educational value of a visit.
3. *Service rather than physical goods.* Nonprofit organizations tend to be more involved in marketing services that they are in marketing physical goods. Marketers in nonprofit organizations must not only adapt the marketing tools used by consumer goods firms to account for these differences but also make adjustments for the kind of products and services to be marketed.
4. *Public scrutiny and nonmarket pressures.* Many nonprofit institutions, at least those serving public benefit, are subject to close scrutiny because of their roles in providing public services using public resources. In addition, nonprofit organizations often are expected, or even required, to provide services or serve the market segments that profit-making organizations would find uneconomical.

The marketing tools used in nonprofit organizations, small and large ones, are the same as those used by businesses. However, how those tools are used differs because of the difference in the offerings (product and service, the kind of market) and organizations (type, size).

It is important for nonprofit organizations to conduct *market analyses* and to *segment* and *target* their markets, but marketing research is often difficult, and there is usually not much secondary information available.

Nonprofit organizations should develop strategies regarding positioning, branding (if relevant) and the offering mix. They often use marketing communication tools, including public service advertisements. Their channels of distribution are usually very short, going directly from provider to consumer without using intermediaries. Finally, pricing strategies are often different from those used by profit-oriented businesses because the objectives are not the same.

Good marketing is integrated marketing. Two principles are important when designing and implementing a marketing mix, i.e., *interaction* and *synergy*. Marketing instruments have to be combined in such a way that the organization's offering is consistently marketed. In other words, all marketing instruments have to work in the same direction, and not conflict with each

other. The second important principle is synergy. The instruments in the marketing mix have to be designed in such a way that the effects of the tools are mutually reinforcing.

Ultimately, for marketing to be most effective, it should be formally integrated into a nonprofit institution's organizational structure through a marketing committee, task forces, marketing specialist firms, marketing consultants, a marketing director, or a marketing vice-president.

Suggested Readings

- McLeish, B.J. (1995): *Successful marketing Strategies For Nonprofit Organizations*. John Wiley&Sons
- Drucker, P.F./De Pree, M./Buford, R. (1992): *Managing the Non-Profit Organization: Principles and Practices*. HarperBusiness, Reprint Edition
- Herron, D.B. (1996): *Marketing Nonprofit Programs and Services: Proven and Practical Strategies to Get More Customers, Members, and Donors*. Jossey-Bass
- Grobman, G.M. (2000): *The Nonprofit Organization's Guide to E-Commerce*. White Hat Communications
- Ratke, J.M. (1998): *Strategic Communications for Nonprofit Organizations: Seven Steps to Creating a Successful Plan*. John Wiley&Sons, Boot&Disk Edition

References

- Bennett, P.D. (1988): *Dictionary of Marketing Terms*. Chicago
- Beracs, J./Bauer, A./Simon, J. (1996): *Marketing for Expanding Europe*. Proceedings of the 25th EMAC Conference. Budapest
- Cornwell, T./Maignan, I. (1998): *An International Review of Sponsorship Research*. In: *Journal of Advertising*, 27(1)
- De Pelsmacker, P./Geuens, M./van den Bergh, J. (2001): *Marketing Communications*. In: *Financial Times*. Prentice Hall
- Duncan, J./Everett, B. (1993): *Client Perceptions of Integrated Marketing Communication*. In: *Journal of Advertising Research*, May/June, 30-9
- Drucker, P. (1989): *What Business Can Learn from Nonprofits*. In: *Harvard Business Review*, July-August
- Drucker, P. (1990): *Managing the Non-Profit Organization*. Oxford
- Engel, J./Warshaw, M./Kinnear, T. (1991): *Promotional Strategy, Managing the Marketing Communication Process*. Homewood
- European Commission (1996): *Green Paper on Commercial Communication in the Internal Market*
- Fombrun, C. (1996): *Reputation: Realising Value from the Corporate Image*. Harvard

- Foxall, J. (1989): Marketing Domain. In: European Journal of Marketing, Vol.23, No.8
- Foxall, J. (1989): Marketing Domain. In: European Journal of Marketing. Vol.23. No.8. pp. 7-21
- Kotler, P./Andreassen, A. (1991): Strategic Marketing for Nonprofit Organizations. Prentice Hall
- Kotler, P./Levy, S. (1969): Broadening the Concept of Marketing. In: Journal of Marketing, Vol. 35, January
- Levy, S./Zaltman, G. (1975): Marketing, Society and Conflict. Prentice Hall
- Lovelock, Ch. (1983): Classifying Services to Gain Marketing Insights. In: Journal of Marketing, Vol. 47
- Lovelock, Ch./Weinberg, C. (1978): Public and Nonprofit Marketing Comes of Age. In: Zaltman, G./Bonoma, T.: Review of Marketing. AMA, pp. 413-452
- McKnight, J. (1977): Professional Service Business. In: Social Policy, November/December
- Nagyová, J. (1999): Marketingová komunikace není pouze reklama. Marketing communications is not only advertising. Prague
- Nagyová, J. (1996): Marketing pro neziskový sector. Marketing for nonprofit sector. První poradenská. Prague
- Nagyová, J. (2001): Vliv internetu na zvýšení konkurenceschopnosti SME. Influence of internet on the competitiveness of SME. Research report. Prague
- Sargeant, A. (1999): Marketing Management for Nonprofit Organizations. Oxford
- Shapiro, B. (1973): Marketing for Non-profit Organizations. In: HBR, September/October, pp. 123-132
- Skloot, E. (1988): Market Research. Usefull Tips, Key Questions. In: Nonprofit World, March/April 1988
- Weaver, S./Weaver, F. (1979): For Public Libraries the Poor Pay More. In: Library Journal, February, pp. 325 - 355

Annex

Nonprofit Organization Business Plan

Every business plan should include:

- A cover page identifying the business plan as the property of the organization, including
 - Name
 - Address
 - Phone number
 - Month and year when the plan is written or revised
- In one simple paragraph, write to whom the business plan belongs and the limitations on its distribution

- A table of contents
- A summary of the plan, including:
 - Vision and/or mission declaration
 - Brief paragraph about the organization and its long-term objectives
 - Four-line description of the offering to be introduced
 - Four-line description of the market
 - Brief paragraph on production/preparation
 - Paragraph on distribution, if needed
 - Short paragraph on financial requirements
- A description of the organization and new business with description of:
 - Organization
 - New offerings
 - Target consumer
 - The consumer's need for the offering
 - Sales strategy
- A description of the market for the new offering, including information on the competition and cost/price comparisons between competitors and the organization
- A marketing plan that includes information on:
 - Markets
 - Customers
 - Competitors
 - Microenvironment
 - Demography
 - Economy
 - Technology
 - Government
 - Culture
 - How each of these areas affects the marketing of offerings
 - Evaluation of potential problems
- Financial plan, including:
 - Sources and applications of cash and capital
 - Equipment list
 - Balance sheet
 - Break-even analysis
 - Cash flow estimates by month for the first year and by quarter for the second and third year, with notes of explanation for each of the estimates
 - Projected income and expenses for the first three years, with notes of explanation
 - Historical financial reports for the organization, such as

- balance sheets and income statements for the past three years
- Current audit report
- An appendix with:
 - Management resumes
 - Organizational brochure and newsletter
 - Other pertinent material about the organization and its work
 - Letters of endorsement

Quality Management

1. Reasons for the Popularity of Quality Management

For NPOs, quality management is a new topic that is increasingly gaining importance. This growing awareness of the need to invest time and resources into quality management is found mainly among NPO service organizations and NPOs that are financed by public funds. As regards the NPO life cycle, quality management is primarily a topic for service NPOs that are maturing or established and have achieved a certain degree of professionalism. Service quality standards are also an issue for NPO interest organizations, especially in the health and social sectors, not as a tool for themselves but as a lobbying target.

The increasing popularity of quality management is due partly to the fact that nowadays many service NPOs operate in a turbulent and competitive environment. NPOs are confronted with demands to prove – in competition with private and public competitors – that they are not only efficient but also effective. They must also demonstrate that they produce high quality goods and services and create a specific added value for their clients. As the environment becomes increasingly competitive in sectors with sometimes-limited price autonomy, customer orientation and the provision of high-quality services offer NPOs an opportunity to realize a competitive advantage.

The spreading of the ideas of “new public management”, which often accompanies the introduction of a contract culture, fosters a tendency for service contracts between NPOs and public authorities to include more and more service standards. Such standards specify not only the quantity of services expected but also their quality levels. Other funding agencies are also increasingly attaching importance to making NPOs accountable for quality. Meeting specified standards may be vital for NPOs to secure their financial health. The worldwide trend in which NPOs are becoming executing agents for public sector funded programs on behalf of state or local governments is also putting pressure on NPOs to demonstrate that they can implement such programs in accordance with external process quality standards.

Moreover, quality standards play an important role in terms of legal obligations. Legislation is driven, on the one hand, by ideas of consumer

protection in areas in which the goods and services provided entail a significant element of trustworthiness and, on the other hand, by the objective of ensuring efficient service provision. Especially with regard to educational, health and social services, quality standards are embedded in the laws of many countries and provide a legal framework for the specific service sector. Such legal obligations include specification of (selected) service quality indicators, the existence of quality assurance or quality management systems and quality benchmarking, accreditation, and detailed regulations on the disclosure of quality-related information. Special consumer protection laws, for example, in the form of patient Charta's (e.g., Great Britain 1991, Finland 1993, Netherlands 1995, Iceland 1997, Denmark 1998, Germany 2002), are becoming more and more popular. Many of these rulings include minimum service standards. Such legal obligations certainly influence the way an NPO can operate in a chosen field.

Apart from these external demands, the establishment and continuous improvement of quality management appeal to the self-interest of the NPOs. Today, quality commitments are increasingly becoming an integral part of the mission statements of many NPOs. In some parts of the nonprofit sector, e.g., the health and education sectors, customer satisfaction surveys are an instrument that is applied more and more frequently. Systematic evaluation of customer and client demands helps NPOs in many fields to improve their target-group orientation, thereby helping them to increase their ability to fulfill their mission. For NPOs, providing high quality service is not so much a critical factor in satisfying their shareholders, but an obligation to fulfill their predominantly nonfinancial mission as effectively as possible. Regular self-assessments also enable NPOs to identify areas for improving their efficiency. Quality management helps to ensure that scarce organizational resources are being used to their best advantage.

Beyond the business-administrative aspects, which tend to concentrate solely on the role of the service recipients as customers, there exists a political dimension to quality management. Nowadays, the issue of quality standards, especially regarding health and social services, is discussed in many countries in the context of a new civil society that includes an intensified public or patient and caregiver involvement. There is a rising awareness of the need to establish institutional solutions that integrate service recipients or their advocacy groups more fully in decision-making processes, e.g., with respect to service quality standard-setting and evaluation processes. Public and patient involvement is emerging as a key driving force for demand-oriented service (quality) improvements and towards more participatory and democratic structures.

Taking the emerging importance of NPO quality management into account, this chapter first provides an overview – from a business administrative point of view – of definitions, methods, instruments, concepts

and general frameworks regarding quality and quality management, especially in service industries. Next, in light of the political context of the topic, steps are identified towards a more participatory formulation of quality standards.

2. Concepts of Quality

Since quality is a concept and therefore a way of thinking, various definitions exist for what is meant by the term “quality”. Table 1 provides an overview of often-quoted definitions of “quality” in service industries, which are also suitable for NPOs.

Some definitions regard quality mainly as something that is measurable in objective terms (*objective quality*). These quality standards are defined ex ante and need to be verifiable, independent of individual subjects. Other definitions treat quality as a construct that can mainly be defined only from a user/customer perspective and is therefore subjective (*subjective quality*). This kind of understanding of quality varies from client to client. Both standpoints are the two sides of the multidimensional construct of quality.

With respect to the specification of quality indicators for service management, it is also popular to use the framework of Donabedian (1980: 79), who distinguishes three dimensions of quality. *Structural quality* relates to the input factors of the production process. *Process quality* refers to the quality of the service-providing process. *Outcome quality* focuses on the intermediate or final results of the production process. Donabedian was the first to distinguish various levels of service quality and draw attention to the fact that it is too shortsighted to evaluate only the results of the service process (Haller, 1995: 71). A broader view of Donabedian’s quality model can be found in Meyer and Mattmüller (1987: 191). Influenced by the idea that the customer is a co-producer, Meyer and Mattmüller include a customer-related quality dimension: For example, to which extent the clients have the ability and willingness to integrate themselves in a cooperative way.

Another distinction often found in the service sector is that of Grönross (1982: 60), who distinguishes between a “tech” and a “touch” dimension of quality. While the *tech dimension* refers to the quality promise and to what the customer gets (e.g., a hospital patient gets a bed and receives medical treatment), the *touch dimension* focuses on how services are offered (e.g., in a friendly, abusive, paternalistic, or empathetic way). The evaluation of the latter dimension relies on standards that are more subjective. Table 2 combines the ideas of Donabedian and Grönross and includes examples for the various dimensions.

Table 1: Overview of Quality Definitions

App- roach Criteria	Trans- cendental	Product-based	User-based	Manufactur- ing-based	Value-based
Defi- nition	"Quality is neither mind nor matter, but a third entity of the two [...] even though quality cannot be defined, you know what it is." (Pirsig, 1974: 189)	"Difference in quality amount to differences in the quantity of some desired ingredient or attribute." (Abbott, 1955: 126)	"Quality is fitness for use, i.e., freedom from deficiencies; product features that meet internal and external customer needs." (Juran, 1989)	"Quality [means] conformance to requirements." (Crosby, 1979: 17)	"Quality means best for certain customer conditions. These conditions are (a) the actual use and (b) the selling price of the product." (Feigenbaum 1961: 1)
Origin	Philosophy	Business Administration	Marketing	Quality Control Approach and Production Theory	Utility Theory Marketing
Key Message	Quality means top service standards. Although quality is vague everybody recognizes high quality.	Differences in the quality level are caused by differences in the quantity of ingredients or attributes that are linked to a service.	Quality can be defined only from a customer perspective. Quality as a highly subjective construct.	Quality as meeting the ex ante defined requirement	Quality is defined as an exchange process. Individuals evaluate their contribution in relation to the expected benefit.
Eva- luation	Vague definition; not operational	Does not take a customer view into account; quantitative focus; easily operational; quality understood as meeting ex ante specified objective quality standards	Danger of reducing quality to customer satisfaction.	Easily operational; degree to which customer orientation is included varies.	Highly subjective; difficult to define clear measures.

Source: Garvin (1988: 39); Haller (1993: 13)

Table 2: Quality Management for NPO Services

	Tech Dimension	Touch Dimension
Structural Quality	Building interior decoration technical infrastructure number and qualification of staff	organizational culture service culture image of the organization working atmosphere awards
Process Quality	(technical) skills waiting time process time	contact and communication behavior of the staff (accessibility, courtesy, empathy, flexibility, reliability, responsiveness)
Outcome Quality	For health and social services, intermediate and final (health) status (after a health treatment) sustainability of the treatment treatment costs	customer satisfaction customer complaint rate subjective evaluation of his/her (health) status after the service

Source: adapted from Meyer (1991: 201); Gorschlütter (2001: 35)

Berry (1986: 6) and Brandt (1987: 61) draw attention to the point that, from the customers' perspective, there is something like service minimum standards. The producers or providers must meet these basic standards, called routine elements. Exceptional or value-adding elements provide an extra (sometimes unexpected) service for the customer. With the latter quality dimension, the service provider can gain a competitive advantage.

The above-mentioned concepts of quality focus on an NPO as an entrepreneurial unit and therefore on aspects of *micro quality*. With respect to the special aims of NPOs and their contributions to society, one could additionally put emphasis on *macro quality*, i.e., qualitative aspects of NPO actions on the societal level. The underlying concept is that of performance criteria based on a broader welfare function (Kendall/Knapp, 2000: 113). Facets of such a quality concept also relate to the question whether NPOs are the best choice for reaching a certain social objective (e.g., provide a qualitatively excellent day care service for mentally handicapped people) (Matul/Scharitzer, 1999: 465). For NPOs as mission-driven organizations, a good outcome and macro quality have special importance because they refer to the ultimate goals of NPOs. Their impact on society is also being evaluated in the context of social and political science. However, there are still a number of unresolved methodological issues waiting to be tackled.

3. Quality Measurement

Quality measurement is not an easy task. The fact that intangible elements dominate within service fields makes measurement even more difficult (Corsten, 1999: 15). The fact that services cannot be stored away and therefore repeated measurement is not possible presents additional problems (Haller, 1995: 59). Zeithaml (1981:186), who distinguishes between search qualities, experience qualities and credence qualities, emphasizes that most services are, from a customer point of view, difficult to evaluate as they have a high degree of trustworthiness in it. Regarding service industries and especially personal-interactive services, many authors promote the opinion that the degree of subjective quality standards, especially with respect to output and outcome quality, is quite high (e.g., Maleri, 1997: 122). Another challenge is that within human services the output of such services is usually related to individually defined (i.e., subjective) needs (Osborne, 1996: 228). The observable output/outcome quality and process quality are highly influenced by the customer/client as a co-producer. His/her ability and willingness to participate influence the production process and the observable outcome. The issue of customer/client influence becomes even more complex, if the services provided have elements of club or collective goods.

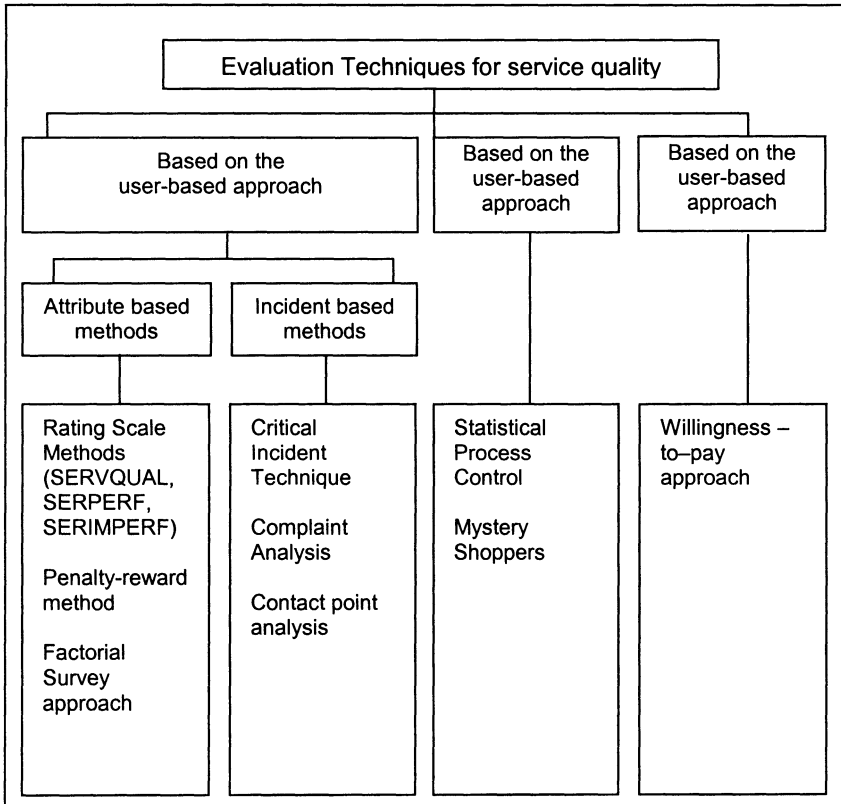
From the measurement point of view, the fact that in many NPOs the interests of various stakeholders need to be balanced leads to additional difficulties in defining quality standards. Such standards may easily become a controversial issue. For example, a student's conception of quality may differ from the teacher's, and neither may be in line with the quality expectations of the financing body.

Figure 1 provides an overview of frequently mentioned measurement techniques (Bruhn, 2001: 86; Haller, 1995: 91). Many of these techniques ask the customer to evaluate the quality. Such customer or client surveys are becoming more and more popular in the NPO sector.

In all *attribute-based methods* quality is broken down into various sub-items. All *rating-scale methods* use standardized questionnaires. In SERVQUAL, customers are asked to compare the expected and the perceived quality ex post. It is therefore a method that draws heavily on the confirmation/dis-confirmation paradigm. The SERVPERF method focuses only on the measurement of the perceived performance, while SERVIMPERF evaluates the relative importance of the sub-qualities. The *penalty-reward method* aims, on the one hand, to identify reward factors that increase customer satisfaction without leading to dissatisfaction, if these requirements are not met, and, on the other hand, to extract penalty factors, which lead to dissatisfaction, if they are not fulfilled. The *factorial survey approach*, also called conjoint analysis, is based on three assumptions: (1) human judgments

are based on few criteria, (2) judgments are relatively consistent, and (3) more or less a consensus exists concerning the importance of a certain criterion. The aim of this approach is to identify those elements on which the customer bases his/her quality judgment. Consumers are asked to evaluate different hypothetical situations that represent varying combinations of "critical quality characteristics", identified beforehand in group interviews.

Figure 1: Techniques for Evaluating Services



Source: adapted from Haller (1995: 91)

In the incident-based methods, the consumer is asked to evaluate episodes of the service delivery process. The critical incident technique asks for experiences that were considered very positive or very negative. Complaint analysis uses customer complaints and how they are processed as an information source. In contact point analysis the consumer is either asked to

evaluate certain selected episodes of the service delivery process (sometimes called moments of truth) or all activities that are in the line of the customer's sight.

Within the *manufacturing-based methods*, *statistical process control* focuses on the conformity to objective measurable requirements and their development over time. In the *mystery shopper approach*, an anonymous test person acts as a consumer and forms an opinion based on his/her experience.

The *willingness-to-pay method*, as an approach within the *value-based quality concept*, tries to identify how much the customer is prepared to pay for quality improvement.

All these methods may be used for different purposes. While the factorial survey approach, the penalty-reward method and the willingness-to-pay method have a conceptual focus, parts of the rating-scale methods and the critical incident technique ask for a quality judgment after the consumption process. Methods such as statistical process control, complaint analysis, contact point analysis, and the mystery shopper approach are mainly control-oriented (Haller, 1995: 144).

4. Internal Approaches toward Quality Management

The different quality concepts and the different measurement approaches result in different opinions on what quality management should focus on for NPOs. Quality management entails all quality-related activities and (long-term) objectives of an organization along the management cycle (Matul/Scharitzer, 1999: 468; Stauss, 2001: 391). It also covers all aspects of an overall management function that determines and implements the quality policy (Stebbing, 1990: 173). European Norms of the International Standardization Organization (EN ISO 9000-9004:2000) regard quality management as a part of the organization's management system that specially focuses on the achievement of results in relation to the quality objectives in order to satisfy the needs, expectations and requirements of the relevant stakeholders (EN ISO 9000: 2000: 17).

There are three common approaches to quality management. The most traditional approach is the *control-dominated approach*, which focuses mainly on the ex post verification of whether requirements defined ex ante are met. Quality is essentially related to objectively measurable specifications. This understanding of quality management is highly influenced by the product- or manufacturing-based conception of quality and demands that quality criteria be easily specified. It fits neatly into the world of internal quality standards or legally binding external quality specifications. Examples include minimum standards for staff qualification in training institutions or in

homes for elderly persons, as well as requirements to provide 24-hour medical service in hospitals. Structural or process-oriented quality indicators of the tech dimension predominate. Such a quality management concept represents a technocratic approach toward quality management. It is only suitable for quality factors that can be standardized (Benkensten, 1993: 1109). Because of the dominance of personal-interactive services in NPOs, the limits of this approach are reached earlier in NPOs than in more traditional industries, where objective technical requirements can be specified more easily.

The *structure-oriented approach*, by which quality management is implemented either as a task for a special unit or in the form of problem-oriented quality circles, does not focus so much on ex post evaluation of quality standards. Rather, the expertise of the employees is used to identify ways to improve quality throughout the whole management cycle, starting with the planning process. In quality circles, for example, problem-oriented staff working groups analyze problems and identify solutions. In organizations that are differentiated functionally, it often might be helpful if the quality circles consist of people from different departments so that they can identify process-oriented quality improvements along the customer-value chain. Quality circles are seen not only as think tanks for quality improvement but also as an instrument for staff motivation. However, a frequent problem with quality circles and special staff units is their lack of power to implement the identified changes. Here a process of management persuasion is necessary (Benkenstein, 1993: 1110).

The most advanced and extensive quality management concept is the *culture-oriented approach*. In this approach, quality orientation is an integrative part of the corporate philosophy or corporate culture. *Total Quality Management (TQM)*, which – depending on the point of view – may be regarded as one of the most popular management concepts or management fashions in the 1990s, entails such a commitment to high quality and a service orientation on the part of the whole organization.

“Total” means that quality management is not the task of a specified unit but a joint endeavor of all employees at all organizational levels. Quality improvement is a continuous task that is never completed. The “quality” concept referred to is that of the user-based approach. Good process quality is regarded as a precondition for good outcome quality. Finally, “management” means that a serious management commitment exists and that managers act as shining examples of the quality orientation. It is also the task of the management to create an open communication culture for quality improvements and to enable a continuous quality-related learning culture. The idea of TQM serves as the leading idea for well-known quality prizes such as the Deming Application Prize, the Malcolm Baldrige National Quality Award and the European Quality Award (Malorny, 1999: 139).

As a first step towards a quality improvement process, TQM requires a framework for the self-evaluation of the organization. The criteria of the above-mentioned quality prizes may serve as the basis for such a self-evaluation process or at least as starting points for NPOs to develop their own self-evaluation criteria.

In addition to self-evaluation, evaluations conducted by external agents or entities are becoming increasingly important for NPOs operating in a competitive environment. The following section, therefore, provides an overview of the two most commonly used general (i.e., not sector-specific) frameworks, which are often modified to incorporate criteria specific to a particular industry. Among NPO activities, industry-specific approaches are especially popular for health and social service providers as well as in the educational sector¹ (Laske et al., 2000; Posch, 1997; Dubs, 2000: 195; Vught, 2000: 71).

5. Selected General Frameworks for External Quality Evaluation

In Europe, the most commonly used general frameworks for external quality evaluation are based on either the European Norms of the International Standardization Organization (EN ISO 9000-9004:2000) or the model for excellence of the European Quality Award. In an increasingly competitive environment, such external evaluations may serve as important signals to key external stakeholder groups that NPOs operate in accordance with internationally agreed quality standards and can therefore be regarded as trustworthy and reliable. These general frameworks are also becoming more and more popular as an instrument for NPO self-evaluation.

The EN ISO 9000 family (see <http://www.iso.ch/en>) provides a framework of standards for a quality management system. According to ISO 9000:2000 the “quality management approach encourages organizations to analyze customer requirements, define the processes that contribute to the achievement of a product which is acceptable to the customer and keep these processes under control” (EN ISO 9000:2000, 2000: 9). Table 3 provides an overview of the relevant ISO standards for a quality management system. The ISO norms are based on eight quality management principles (see Table 4).

1 Among universities even subject-specific accreditation agencies exist (e.g., for faculties or schools of business administration).

Table 3: ISO 9000 family

Standards and Guidelines	Purpose
ISO 9000:2000 <i>Quality management systems – Fundamentals and vocabulary</i>	Establishing a starting point for understanding the standards and definition of fundamental terms used in the ISO 9000 family.
ISO 9001:2000 <i>Quality management system – Requirements</i>	Specifying the requirements for a quality management system for any organization that needs to demonstrate its ability to consistently provide products that meet customer and applicable regulatory requirements and aims to enhance customer satisfaction.
ISO 9004: 2000 <i>Quality management system – Guidelines for performance improvements</i>	Providing guidance for continual improvement of the quality management system to benefit all parties through sustained customer satisfaction.

Source: <http://www.iso.ch/en> – ISO 9000 selection and use

While EN ISO 9000:2000 and EN ISO 9004:2000 provide general guidelines and definitions, the certification requirements for the quality management system are specified in EN ISO 9001:2000. This norm establishes requirements not for product quality but for a process-based quality management system. EN ISO 9001 focuses on the effectiveness of the quality management system in meeting customer requirements.

Table 4: Leading ISO Quality Management Principles

Principle	Explanation by ISO
Customer focus	Organizations depend on their customers and therefore should understand current and future customer needs, should meet customer requirements and strive to exceed customer expectations.
Leadership	Leaders establish unity of purpose and direction of the organization. They should create and maintain the internal environment in which people can become fully involved in achieving the organization's objectives.
Involvement of people	People at all levels are the essence of an organization and their involvement enables their ability to be used for the organization's benefit.
Process approach	A desired result is achieved more efficiently when activities and related resources are managed as a process.
System approach to management	Identifying, understanding and managing interrelated processes as a system contributes to the organization's effectiveness and efficiency in achieving its objectives.
Continual improvement	Continual improvement of the organization's performance should be a permanent objective of the organization.
Factual approach to decision-making	Effective decisions are based on the analysis of data and information.
Mutually beneficial supplier relationship	An organization and its suppliers are interdependent and a mutually beneficial relationship enhances the ability of both to create value.

Source: DIN ISO 9000: 2000 (2000: 7)

The certification procedure is not carried out by ISO, a body that develops and sets standards, but by independent third-party auditors. The certification confirms that a quality management system is in accordance with the requirements of EN ISO 9001:2000. The certificate is valid for three years. In some enterprises, it is common practice to perform intermediate audits. According to EN ISO 9001:2000, the relevant quality management documentation shall include a) a documented statement of a quality policy and quality objectives, b) a quality manual, c) documented procedures required by ISO standards, d) documents needed by the organization to ensure the effective planning, operation and control of its processes, and e) records required by EN ISO 9001(EN ISO 9001:2000). Table 5 provides an overview of the various topics addressed by EN ISO 9001:2000 standards.

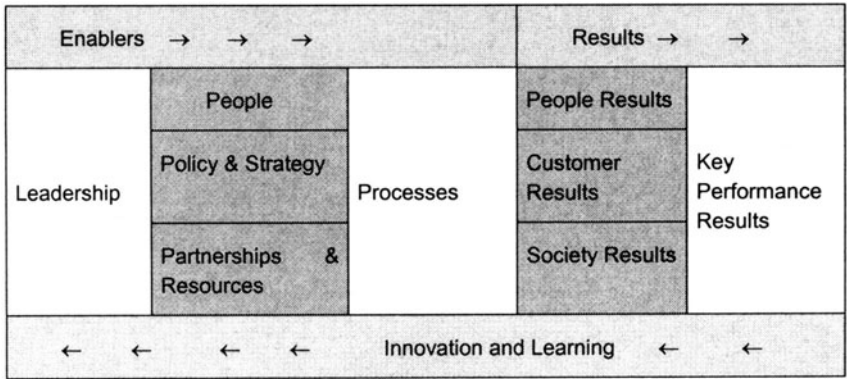
Table 5: Requirements of EN ISO 9001

Criteria group	Sub-Criteria
Quality management system	General requirements for a quality management system; documentation requirements; minimum content of the quality manual; standards for control of documents and records required by the quality management system.
Management responsibility	Demand for a strong management commitment toward the development and implementation of a quality management system; requirement of a customer focus; establishment of a quality policy; requirements related to quality objectives for the planning process including those for quality management system planning; institutionalization of a management representative for the quality management system; requirements for the internal communication of the quality management system as well as demands of a regular management review of the organization's quality management system.
Resource management	Requirements referring to the resources needed to implement and maintain a quality management system and to enhance customer satisfaction. The requirements are subdivided into demands on human resources (e.g., education, training, skills, experience), required infrastructure for achieving conformity to product requirements, and requirements related to the conditions of the working environment.
Product realization	Requirements referring to the planning of product realization, customer-related processes, design and development processes, the purchasing process, the production and service division, and the necessary monitoring and measuring devices to provide evidence of conformity of products to determined requirements.
Measurement, analysis and improvement	Requirements regarding monitoring and measurement (of customer satisfaction, conduct of internal audits, processes, and the characteristics of products); requirements for the identification and control of non-conforming products; requirements related to the handling of data that demonstrate the suitability and effectiveness of the quality management system as well as demands for continual improvement of the effectiveness of the quality management system.

Source: EN ISO 9001:2000

The European Quality Award is a quality prize, which is awarded by the European Foundations for Quality Management (EFQM®) on an annual basis. EFQM® (see <http://www.efqm.org>) was created as a membership-based not-for-profit organization in 1988 by fourteen European business companies in order to promote the idea of quality as a critical success factor for private companies. NPOs mainly use the EFQM® model as a reference for self-evaluation (e.g., Gorschlütter, 2001: 234; Graf, 2000: 33; Schmutte, 1997: 144). Traditionally the European Quality Award was tailored to big private sector companies. In 1997, however, a special category for small and medium-sized enterprises was introduced. A few years later, a special category for the public sector was also introduced and implemented. Within the public sector division of EFQM® two special working groups focusing on health institutions and the education sector have been established. Although NPOs do not form a special subsection within the European Quality Award, efforts exist to open the public sector category for NPOs. The prize committee is striving to award several quality prizes every year in each category. The best of the prizewinners receives the European Quality Award. Up to now, within the public sector, the prizewinners have come from the labor administration, various inland revenue services, and the education sector. As are EN ISO 9000 standards, the European Quality Award is based on a set of guiding principles, influenced by TQM. The EFQM® excellence model (see Figure 2) provides a framework for evaluating key activities, based on nine criteria groups. A score of up to 1000 points is possible. Fifty percent of these points are determined on the basis of “enabler” criteria, which are concerned with how organizations undertake key activities. The other 50 percent are related to results criteria, which try to measure the results achieved.

Figure 2: EFQM® Model



Source: EFQM® 2001, Appendix 2

Table 6 provides an overview of the nine EFQM® criteria groups and the related sub-criteria, which may serve as an example for the way many different aspects are evaluated in a quality management system.

Table 6: Evaluation Criteria for EFQM®

Criteria group and contribution to the overall performance	Content	Performance sub-criteria
Leadership 10 Percent	How leaders develop and facilitate the achievement of the mission and vision, develop values required for long-term success and implement these via appropriate actions and behaviors, and are personally involved in ensuring that the organization's management system is developed and implemented.	a) Leaders develop the mission, vision and values and are role models of a culture of excellence. b) Leaders are personally involved in ensuring that the organization's management system is developed, implemented and continuously improved. c) Leaders are involved with customers, partners and representatives of society. d) Leaders motivate, support and recognize the organization's people.
People 9 Percent	How the organization manages, develops and releases the knowledge and full potential of its people at an individual, team and broader level, and plans these activities in order to support its policy and strategy and the effective operation of its processes.	a) People resources are planned, managed and improved. b) People's knowledge and competencies are identified, developed and sustained. c) People are involved and empowered. d) People and the organization have a dialogue. e) People are rewarded, recognized and cared for.
Policy & Strategy (P & S) 8 Percent	How the organization implements its mission via a clear stakeholder-focused strategy, supported by relevant policies, plans, objectives, targets and processes.	a) P & S are based on the present and future needs and expectations of stakeholders. b) P & S are based on information from performance measurement, research, learning and creativity related activities. c) P & S are developed, reviewed and updated. d) P & S are deployed through a framework of key processes. e) P & S are communicated and implemented.
Partnership & Resources 9 Percent	How the organization plans and manages its external partnerships and internal resources in order to support its	a) External partnerships are managed. b) Finances are managed. c) Buildings, equipment and

	policy and strategy and the effective operation of its processes	materials are managed. d) Technology is managed. e) Information and knowledge are managed.
Process 14 Percent	How the organization designs, manages and improves its processes in order to support its policy and strategy and fully satisfy and generate increasing value for its customers and other stakeholders.	a) Processes are systematically designed and managed. b) Processes are improved as needed using innovation in order to fully satisfy and increasingly generate value for customers and other stakeholders. c) Products and services are designed and developed based on customer and other stakeholder needs and expectations. d) Products and services are produced, delivered and serviced. e) Customer relationships are managed and enhanced.
People Results 9 Percent	What the organization is achieving in relation to its people.	a) Perception measures b) Performance indicators
Customer Results 20 Percent	What the organization is achieving in relation to its external customers.	a) Perception measures b) Performance indicators
Society results 6 Percent	What the organization is achieving in relation to local, national and international society as appropriate.	a) Perception measures b) Performance indicators
Key Performance Results 15 Percent	What the organization is achieving in relation to its planned performance.	a) Key performance outcomes (financial and non-financial, e.g., meeting the budget, market share, time to introduce new products, success rates as defined by the vision and mission, compliance with legislation and codes of practice results) b) Key performance indicators

Source: EFQM® 2001, Appendix 2

Looking at the number of indicators that need to be considered, it becomes obvious that this is quite a resource-intensive process and that the demands on data documentation and information systems are quite high. Sometimes fears of a quality bureaucracy arise. With respect to the motivation for engaging so much energy in developing and enhancing a quality management system, it may be said that organizations always hold the hope that such a system may lead to an increase in efficiency or effectiveness.

6. Approaches toward More Participatory Quality Standard-Setting Procedures

Until now the issue of quality management has only been dealt with from a business administration point of view. The decision about who is to take part in determining quality standards and evaluating their fulfillment has a highly political dimension. Within and outside the NPO sector, standards for quality management are set traditionally either by the organizations themselves, by legislators, by external funders, or by quality standard bodies like the ISO or EFQM. The direct, active involvement of patients or clients of health and social services in the definition of the services provided and the accompanying quality standards is often nearly nonexistent. Services are defined for them, not with them in areas that directly affect their lives and well-being.

In the context of the international debate about greater citizen involvement, a new civil society and client empowerment, it is an important issue how the recipients of health and social services or their collective interest groups could play a more active role in setting and evaluating quality standards. The debate has a lot to do with turning the recipients' traditionally passive role into a more active one, which goes along with a change of perspective. The patient is no longer an object but a participating subject in designing a quality management system. The competence and participation of patients are seen as very relevant factors with respect to process and outcome quality (Sachverständigenrat, 2000: 40).

Overall, objectives in this context are to increase the demand orientation in order to make health and social care provision more effective and efficient and to establish more democratic and participatory structures. Along this line the 1994 World Health Organization (WHO) Declaration on promoting patients' rights in Europe stated: "Patients have a collective right to some form of representation at each level of the healthcare system in matters pertaining to the planning and evaluation of services, including the range, quality and functioning of the care provided" (WHO, 1994). The 1996 WHO-Ljubljana Charta demands: "The citizens' voice and choice should make as significant a contribution to shaping the healthcare services as the decisions taken at other levels of economic, managerial and professional decision-making" (WHO 1996). The Council of Europe also sees patients'/citizens' participation as an integral part of healthcare systems and demands that decision-making should be made more democratic by ensuring

"whenever possible, citizens' participation at the problem identification and policy development stages; participation should not be confined to resolving problems and simply choosing between solutions, which have already been drawn up" (Council of Europe, 2000).

The health sector provides a backdrop for examining various possible forms of increased public or patient involvement, which goes beyond regarding patients only as consumers. Generally speaking, approaches either aim to strengthen the role of the individual patient in the service provision process or focus on the representation of collective patient group interests. The former have a lot to do with giving the individual patients and their interests a voice and supporting them in articulating their individual demands, the latter with establishing patient interest organizations as partners in collective health policy and planning processes. Here the search for innovative solutions has just begun.

A starting point for strengthening the individual patient role could be the establishment of patient complaint management procedures or the obligatory or voluntary institutionalization of an independent patient spokesperson or patient ombudsperson. These solutions strengthen patients' right to complain and provide institutionalized support for them in finding solutions, if some procedures have not met the patients' expectations. The experiences gained in these processes often help service providers to identify ex post weaknesses in the service provision process and therefore mainly give NPO service providers ideas as to how to improve the structural, process and subjective outcome quality. It also draws attention to general shortcomings of the health system. To enable the patients to make an informed choice, obligatory quality reporting by the service providers or by patient advice centers offers opportunities to decrease ex ante the patients' information asymmetries. Better-informed patients receive services of a better quality. Consumer protection organizations are also aiming at providing patients with resources to make more informed choices, for example, about quality issues, and supporting them in legal claims in cases of malpractice.

The engagement of patients or their caregivers in self-help groups, also an integral part of the NPO sector, is another way for patients or their caregivers to increase the information base. That the self-help movement is not a *quantité négligeable* is demonstrated by estimates that, for example, in Germany up to 6 million people are organized in self-help organizations and about 50 percent of these groups operate in the health sector. In recent years, an intensive networking between these self-help groups has started, and umbrella organizations are emerging. Besides the aspect of self-help, these organizations are increasingly acting as advocacy groups, for example, for patients with chronic diseases.

As a first step toward patient participation in decision-making procedures, service providers could consider voluntarily or compulsorily consulting patients or their interest groups in an institutionalized way. The German home committees in homes for the elderly may serve as an example. The Health and Social Care Act 2001 in Great Britain demands that in order to establish a more responsive service, the service provider consult service

recipients directly or through their representatives on issues of planning for the provision of those services, the development and consideration of proposals for changes in the way those services are provided, and decisions affecting the operation of health services. In all these fields, quality aspects are relevant (e.g., regarding access to services, process quality, output quality of services provided). Obligatory consultation processes can be found mainly in EU states with a public health system.

With respect to public or *patient involvement in health planning and policy decisions* at the level of collective decision-making, two levels can be distinguished. The lower level grants patient interest groups an *advisory status*. Advisory round tables on health planning and health policy issues, in which patient interest groups participate, may serve as an example. Voluntary consultation with self-help groups regarding the development of science-based guidelines for diagnostics and therapy are another step in that direction. Institutionalized participation of patients' advocacy groups in parliamentary hearings or compulsory reporting obligations of patients advocates to parliaments (which can be found in Austria, for example) are other examples on the long road towards a more systematic integration of patient representatives with their expertise in health policy and planning decisions.

A higher level is reached if patients' representatives participate in the health-related *decision-making process*. Patients' representatives on healthcare boards of arbitration, whose task it is to settle conflicts between the service providers and financing institutions, are one option for integrating patients. Having official patient representatives with voting rights in health policy and health planning committees goes a step further. How strong the influence on the decision-making is depends, among other things, on how many patient representatives are on such boards in comparison with representatives of other interest groups. To give the patient self-help and advocacy groups more than a symbolic voice makes it also necessary to think about how such organizations can be supported in their capacity-building, especially in a field where one finds professionally organized vested interests. Another question sometimes raised relates to the establishment of democratic procedures for nominating and selecting citizens' representatives (e.g., Council of Europe, 2000). Looking at the special roles NPOs can play, at least two options can be identified. NPOs as service providers could act as frontrunners towards more participatory structures in defining service standards, for example, by establishing voluntary patient consultation boards with an advisory status. Taking into account that the discussion about patient participation in the collective decision-making process has only just started, lobbying for an increased participation in health-related collective decision-making processes could be an aim for advocacy NPOs. Wherever this is already possible, patients' advocacy NPOs should play an active role.

7. Concluding Remarks

As shown in the introduction to this chapter, there are many good reasons quality management is gaining increasing importance for NPOs as service providers. It may attract and secure customers or financial contributions or help to increase efficiency, or it may just be a necessity in order to meet legal requirements. For NPOs in particular, quality management might help to start a process in order to get a clearer understanding regarding the main target groups and their specific needs and therefore contribute to an increase of target-effectiveness.

It has also become obvious that quality management not only requires strong commitment but also is quite resource-intensive. Quality management starts with clarifying the underlying quality concept and deciding how quality should be measured. Many modern quality measurement approaches put the customer at the center of the quality evaluation. Furthermore, decisions must be taken as to what type of quality management is to be established and whether a quality management framework such as those described in this chapter is to be used solely for self-evaluation or whether the NPO is also aiming for external accreditation.

The way quality management standards are determined also has a political dimension attached to it. The need will arise to define these standards with greater public or service-recipient involvement. To find these innovative solutions could be a highly interesting field for NPOs.

Suggested Readings

- Bundeszentrale für gesundheitliche Aufklärung (ed.) (2000): Bürgerbeteiligung im Gesundheitswesen – eine länderübergreifende Herausforderung. Köln
- Bruhn, M. (2001): Qualitätsmanagement für Dienstleister. 3rd ed. Berlin et al.
- Donabedian, A. (1980): The Definition of Quality and Approaches to its Assessment: Explorations in Quality. Ann Arbor, Michigan
- Kennedy, L.W. (1991): Quality Management in the Nonprofit World. San Francisco
- www.efqm.org
- www.iso.ch/en

References

- Abbott, L. (1955): Quality and Competition. New York
- Benkenstein, M. (1993): Dienstleistungsqualität. In: Zeitschrift für Betriebswirtschaft,

- No. 63, pp. 1095-1116
- Badura, B./Hart, D./Schellschmidt, H. (1999): Bürgerbeteiligung im Gesundheitswesen. Baden-Baden
- Bundeszentrale für gesundheitliche Aufklärung (ed.) (2000): Bürgerbeteiligung im Gesundheitswesen – eine länderübergreifende Herausforderung. Köln
- Bruhn, M. (2001): Qualitätsmanagement für Dienstleister. 3rd ed. Berlin et al.
- Berry, L.L. (1986): Big Ideas in Service Marketing. In: Venkatesean, M./Schmalensee, D./Marshall, C. (eds.). Creatives in Services Marketing. Chicago, pp. 6-8
- Brandt, D.R. (1987): A Procedure for Identifying Value-Enhancing Service Components using Customer Satisfaction Survey Data. In: Surprenant, C.: Add Value to Your Service. Chicago, pp. 61-67
- Corsten, H. (1997): Integratives Dienstleistungsmanagement. Kaiserslautern
- Council of Europe (2000): Recommendation No. R. 5 On the Development of Structures for Citizens and Patient Participation in the Decision-Making Process Affecting Health Care. 24 February 2000. Straßbourg
- Crosby, P.B. (1979): Quality is free. New York
- Donabedian, A. (1980): The Definition of Quality and Approaches to its Assessment: Explorations in Quality. Ann Arbor, Michigan
- Dubs, R. (2000): Bildungscontrolling im beruflichen Bildungswesen in der Schweiz. In: Scheber, S./Krekel, E.M./Buer, J. van (eds.). Bildungscontrolling. Frankfurt/M, pp. 195-211
- European Foundation for Quality Management (EFQM) (2001): European Quality Award: Information for Applications –2002. Brussels
- Feigenbaum, A.V. (1961): Total Quality Control, Engeneering and Management. New York et al.
- Forschungsjournal Neue Soziale Bewegung (2002): Partizipation und Mitgestaltung: Wege aus der Intensivstation Gesundheitswesen. Heft 3, Juli 2002
- Garvin, D.A. (1988): Managing Quality. New York
- Graf, G. (2000): Qualitätsentwicklung in der ambulanten Kinder- und Jugendhilfe. Berlin: Bundesministerium für Familie, Senioren, Frauen und Jugend
- Gorschlütter, P. (2001): Das Krankenhaus der Zukunft. 2nd ed. Stuttgart et al.
- Grönroos, C. (1998): Strategic Mangement and Marketing in the Service Sector. Helfingfors
- Haller, S. (1995): Beurteilung von Dienstleistungsqualität. Wiesbaden
www.iso.ch/en
www.efqm.org
- Juran, J.M. (1989): Juran on Leadership for Quality. New York
- Kendall, J./Knapp, M. (2000): Measuring Performance of Voluntary Organizations. In: Public Management, No. 2 (1), pp. 105-132
- Laske, S./Habersam, M./Keppler, E. (eds.) (2000): Qualitätsentwicklung in Universitäten. München
- Maleri, R. (1997): Grundlagen der Dienstleistungsproduktion. 4th ed. Berlin et al.
- Malorny, C. (1999): TQM umsetzen. 2nd ed. Stuttgart
- Matul, C./Scharitzer, D. (1999): Qualität der Leistungen in NPOs. In: Badelt, Ch. (ed.). Handbuch der Nonprofit Organisationen. 2nd ed. Stuttgart. pp. 463-491
- Meyer, A. (1991): Dienstleistungs-Marketing. In: Die Betriebswirtschaft, No. 51, pp. 195-209
- Meyer, A./Mattmüller, R. (1987). Qualität von Dienstleistungen. In: Marketing, 1987

- (3), pp. 187-195
- Normenausschuss Qualitätsmanagement, Statistik und Zertifizierungsgrundlage (2000). Din EN ISO 9000:2000. trilingual version
- Normenausschuss Qualitätsmanagement, Statistik und Zertifizierungsgrundlage (2000): Din EN ISO 9001:2000. trilingual version
- Normenausschuss Qualitätsmanagement, Statistik und Zertifizierungsgrundlage (2000): Din EN ISO 9004:2000. trilingual version
- Osborne, S.P. (1996): Performance and Quality Management in VNPOs. In: Osborne, S.P.: Managing the Voluntary Sector. London et.al., pp. 217-236
- Pirsig, R.M. (1974): Zen and the Art of Motorcycle Maintenance. New York
- Posch, P. (1997): Möglichkeiten und Grenzen der Qualitätsevaluation und Qualitätsentwicklung im Schulwesen. Innsbruck
- Sachverständigenrat für die konzertierte Aktion im Gesundheitswesen (2000): Bedarfsgerechtigkeit und Wirtschaftlichkeit: Bd.1: Zielbildung, Prävention, Nutzerorientierung und Partizipation. Baden-Baden
- Schmutte, A.M. (1997): Total Quality Management im Krankenhaus. Wiesbaden
- Stebbing, L. (1990): Quality Management in the Service Industry. New York et al.
- Vught, F.A. van (2000): In Search of Quality Management in Western European Higher Education. In: Laske, S./Habersam, M./Keppler, E. (eds.). Qualitätsentwicklung in Universitäten. München, pp. 65-99
- WHO (1996): The Ljubiana Charta on Reforming Health Care. Geneva
- WHO Regional Office for Europe (1994). Declaration on the Promotion of Patients' Rights in Europe. Copenhagen
- Zeithaml, V.A. (1984): How Consumer Evaluation Process Differ Between Goods and Services. In: Donnelly, J.J./George, W.R. (eds.). Marketing of Services. Chicago, pp. 186-190

Conflict Management

1. Introduction

No one likes conflicts. Organizations usually try to avoid them, too. They do so by using a particular form of hierarchy and by setting formal and informal rules concerning operating procedures and communication. Nevertheless, conflicts are a vital part of every organization. Over the long run, they cannot be avoided completely. With the problems many hierarchical organizations face and the tendency towards more complexity in society, it seems that the number of conflicts that have to be dealt with in organizations is generally increasing.

Thus, the ability to handle conflicts in an adequate way is an important prerequisite in modern organizations. More and more, it becomes a central skill for successful management. In nonprofit organizations (NPOs) the management of conflicts is particularly challenging and important for several reasons. Although the sector is very heterogeneous, NPOs generally face more contradictions in their environment and more ambiguous and diverse expectations and, therefore, tend to have to handle more conflicts than other organizations. As such, the particularities of conflict management in NPOs will be the focus of the third part of this chapter. The analysis in that section will be driven by more general NPO research since there is little to no literature specifically on conflict management in NPOs (Zauner/Simsa, 2002).

Before doing so, however, basic assumptions and knowledge regarding conflicts in general will be introduced (see next section). Because the state of the art of theory of conflict management is not very systematic, this section will be based mainly on the work of Schwarz (1995). Finally, implications and recommendations for NPO managers will be given.

2. Conflicts in Organizations: Definition, Diagnosis and Management Strategies

What Are Conflicts?

Conflicts can be defined as the collision of contradictory positions, matched with different interests and thus with emotional engagement in a situation that requires at least a minimum of agreement. As such, individuals involved in a conflict are dependent on each other to a certain degree. If a common solution is not necessary, the involved partners can act as they like, and there is no need for confrontation. On the other hand, in situations that are characterized by cooperation and a high degree of contact, a high potential for conflict is the normal case to be expected.

To understand conflicts it is helpful to distinguish between avoidable problems and unavoidable situations. Breakdowns of machines, for example, are avoidable problems. They can be resolved because they are based on the fact that something has gone wrong. Real conflict situations involve unavoidable contradictions which cannot be resolved and whose occurrence cannot be prevented completely (Krainz, 1999; Schwarz, 1995).

Apart from conflicts generated by differences between people (e.g., age, gender or nationality), the features of a system can produce fundamental contradictions and thus conflicts. For example, the relationship between organizational values and economic necessities in many NPOs are a typical (sometimes latent) source of conflict (von Eckardstein/Simsa, 1999). The logic of the two follows different laws, philosophies and interests. In this case, neither side should win, as both sides are right and legitimate in terms of the goals of the organization as a whole.

Therefore, a fundamental conflict must be allowed to exist, but must be brought into a form where it can be controlled and managed. This entails increasing consciousness within the organization, making the conflict permanent, and developing suitable mechanisms for working on the clash of interests and for negotiating (Zauner/Simsa, 2002).

The down side of this perspective is that real conflicts often cannot be solved completely. The positive side is that conflicts do not necessarily escalate and that an early and adequate diagnosis of conflicts increases the chance of handling the conflict in an appropriate way.

Diagnostic Devices

This section will focus on diagnostic devices especially suitable for organizations.¹ First, the main types of conflicts will be presented. This is necessary because it is often difficult to determine the real nature of a conflict. For example, although conflicts occur between individuals (usually recognized as arguments), in organizations people are involved not merely as individuals but also as role-players, occupants of functional positions, representatives of a system, and so forth. Therefore, situations might occur when people would get on very well privately, but they become involved in a conflict because they act as members or representatives of different departments of an organization. Thus, the leading analytical question to be asked is: "What are the interests of the systems which are represented by these people?" The typology of conflicts presented here might help to distinguish between different systems, and it might thus lead to an accurate diagnosis.

In the second subsection, various types of conflict resolution will be introduced. On the one hand, this can be helpful for recognizing the most preferred and thus most regularly applied methods for handling conflicts. People, groups and organizations often favor certain methods of dealing with conflicts, thereby overlooking or neglecting other possibilities, which nevertheless sometimes might be more useful. Analyzing the conflict culture by using the suggested typology can thus lead to a more comprehensive diagnosis and self-reflection. It might also help to expand the space for maneuvering by drawing attention to other, thus far neglected ways of dealing with conflicts.

Types of Conflicts

Personal or individual conflicts occur inside individuals; they refer to situations when individuals cannot decide between alternatives. For example, people want to be free and secure at the same time; people want to be close to others and maintain sufficient distance.

Pair conflicts are manifold. Still their primary source is the contradiction between individuality and communality. Individuals want or have to cooperate, but at the same time, they are in competition. Relationships between two persons always restrict the opportunities for developing one's own individualities for the sake of common results. They need a permanent balance of nearness and distance, of intimacy and demarcation.

1 While there is also much to say about personal conflicts between individuals resulting from emotional relationships or misunderstandings, such a discussion would take this chapter too far afield.

Triangular conflicts involve three persons. They involve feelings of being shut out, jealousy and competition.

Group conflicts involve two opposing needs of their members, i.e., internal differentiation and group unity. Internal differentiation results from the need to secure the identity of individuals within the group. It can be seen in fights for rank and superiority and in demands for status, for positions, for personal territory, and for leadership. On the other hand, the formation of subgroups, pairs or extreme individualism within groups is scarcely tolerated.

In *organizations* as in groups, differences are a latent potential for conflict. For example, any form of division of labor becomes a structural characteristic through which conflict crystallizes. Other typical organizational conflicts result from dual membership, e.g., in the case of mid-level leaders who belong to their own department and to the cadre of leaders, or in the case of people working in an organizational department and in project groups at the same time. Before carrying out an intervention, it is always helpful to determine what opportunities are available for managing or resolving conflict. Often the room for maneuvering is not assessed correctly, and thus chances are not taken or energy is wasted. For example, in pair, triangular or group conflicts there are more opportunities for personal involvement. However, it is much more difficult to make one's individual influence felt in an organizational conflict. Organizational conflicts can be resolved mainly through organizational processes (Zauner/Simsa, 2002). Thus, in order to understand a conflict, it is necessary to know what type it is.

Another typical organizational conflict is that between groups and the organization (Heintel/Krainz, 1988). Groups and organizations are two social systems that reject one another, contradict one another but often necessarily need each other. Other structural conflicts are those between centralization and decentralization, those that result from power struggles between groups or departments, from departmental egotism versus the need for common norms and strategies, or the struggle for norms and organizational goals. Furthermore, every change is reason for a conflict because it disturbs a steady balance.

Institutional or *system conflicts* arise from different social norms, values and cultures. Institutions are social customs reflecting solutions to society's central issues, such as the balance between individual freedom and collective responsibility; religious beliefs and the attitude towards the metaphysical and the transcendental; or the relationship between men and women or between different generations. Institutions have great impact; they exist in all spheres of life and bring about conflicts in which individuals get caught up and with which they have to bear both inside and outside organizations, groups and pair relationships (Krainz, 1999).

Interventions and Conflict Management Strategies

Another means for diagnosing conflicts and determining the most appropriate intervention is to review and understand the various methods of conflict management and resolution. Although there are many varied ways to handle conflicts, a logical classification reveals six patterns of conflict resolution: namely, fleeing or avoidance, fight with the objective of destruction, fight with the objective of subjugation, delegation, compromise, and consensus (Schwarz, 1995).

Fleeing or avoidance means that the conflict is ignored, postponed, or not addressed (e.g., in meetings there is never enough time to talk about the problem). This is a very simple and quick way to handle a conflict. Nevertheless, it might have severe repercussions: It is not a real solution and the conflict will come again – sometimes in an aggravated way.

Destruction does not mean – at least usually in organizations – actual physical destruction of the counterpart. Strategies of destruction include, for example, looking for a scapegoat who can be dismissed or transferred to a position of insignificance, intrigues, or attempts to ruin competitors. Sometimes just arguments – i.e. not persons – can be destroyed, i.e., they no longer count in an argument. Although this type of solution seems inhumane (and it often is), sometimes it might be the most appropriate one. An organization will be better off, if – to give a simple example – the argument two plus two is five is destroyed and not further negotiated. Solutions of this type are final, uncomplicated and non-recurring. On the other hand, they are inhumane and irreversible, and the winner need not be the one who is right.

Subjugation is institutionalized in the hierarchical system. In situations of conflict, the hierarchically higher ranked is automatically correct. Other forms of subjugation are persuasion, votes by ballots, and manipulation. Advantages of this type of solution are the reversibility of the decision, the “survival” of the subjugated party or argument, and the possibility of development because of the prolonged possibility to find other solutions through conflict. Disadvantages are its instability and reversibility, the rigid allocation of roles, and the danger of finding only second-best solutions.

Delegation of conflicts means that people who are involved in a conflict pass on the decision about the conflict to a third, independent party, such as a judge, a superior, or even a formal system of norms and rules. This requires that both participants in the conflict recognize the third party and approve of the system. Solutions of this type might overcome win-lose games; they are based on common and reliable (legal) commitments and the ideas of objectivity and neutrality. On the other hand, they might be subject to corruption, often the parties are not identified with the solution, and they might lose their abilities to find solutions by their own.

A *compromise* is a partial agreement. Good compromises are found where the most important issues on both sides are balanced out and included in the agreement. In unfair or weak compromises, on the other hand, one party has to give up more than the other, or the most important issues are not negotiated. The advantage of this type is that it is a face-saving partial agreement found by the parties themselves. Disadvantages are the partial dissatisfaction and partial dissent that might still remain.

Resolution by *consensus* is a creative act that generates new ideas or ways of handling different interests. Here all the interests of the participants are addressed; they are preserved and raised to a higher level and developed further. While in a compromise everyone loses to a certain extent, in a consensus the result is more than the sum of the interests of the conflicting parties. These resolutions are lasting and reliable, but they require a long time, a high level of commitment and much competence of the involved parties. For many issues, other types of conflict resolution will be more suitable since this is a very time-consuming form.

3. NPOs and Conflicts

NPOs are often founded to “do good.” Members are usually very committed to the mission and more or less share the same ideologies. Compared with business organizations, the atmosphere is often very friendly, member-oriented and intimate. Thus, is conflict management a topic of high relevance in these organizations at all? The answer is: yes. NPOs have to deal with many conflicts, and in some respects, NPOs are exposed to them in a very intensive way.

General Aspects

Because of the heterogeneity of NPOs, few general claims can be made regarding NPOs and conflicts. Nevertheless, two widely shared assumptions are held. First, both research and theory suggest that nonprofit organizations are faced with more contradictory elements than profit-oriented organizations because of NPOs’ multiple embeddedness in society (Simsa, 1999; 2001) and the often-conflicting demands of different groups of stakeholders. Second, there are many indications that ideology has a particularly high impact on these organizations (Flecker/Simsa, 2000; Jeavons, 1994; Nelson, 1997).

This section will provide an overview about structural conflicts often found in NPOs as well as about typical ways of handling them. This should contribute to the diagnosis of conflicts existing in NPOs and thus enable NPO managers

to recognize conflict situations as early as possible when the chances for effective conflict resolution are higher than when the conflict has started to escalate. Organizational conflicts will be the focus since the particular features of NPOs are most relevant in these types of conflicts.

Structural Conflicts often Found in NPOs

Many NPOs play a multi-dimensional role within society. Acting often as intermediary organizations, they mediate between different parts of society. Thus, they must cater equally to a number of different environments and satisfy multiple divergent demands. Because of their multiple embeddedness in society, NPOs must balance diverse logics and criteria, a task that not only heightens the chances of “speaking many languages” but also leads to internal contradictions. Service organizations, for example, must address the needs and interests of their clients, offer high quality services to them, and sometimes fight for their rights. On the other hand, these NPOs need to raise money – often from the same institutions that they are confronting with criticism. Advocacy organizations often are in opposition to the establishment, but to be successful they also must secure at least a minimum of acceptance by established political parties or politicians. All organizations must take different goals or logics into consideration, but often they can prioritize them. Nonprofit organizations have fewer options for handling these problems by referring to one dominant logic or to one dominant external relationship. Therefore, they are often confronted with a number of structural conflicts. These conflicts cannot be solved entirely, but have to be handled in a productive way.

Conflicts Arising from Different or Contradictory Stakeholder Demands

NPOs are generally faced with a large number of stakeholders, who often have very different – sometimes even contradictory – expectations. Herman and Renz (1997) state that NPOs could be understood fundamentally as being multiple-stakeholder organizations. Clients of a social service organization, for example, want intensive and personal care; donors demand lower costs per client; employees want to act according to their professional standards; the media demands spectacular information; and the public wants to avoid being confronted with suffering or disease. Donors of an advocacy organization that is engaged in the Third World might want the NPO to implement their projects in poor countries and let them go on with their life as before, but people of these countries often demand political advocacy and changes in consumer behavior or trade policies in the industrialized world. In membership organizations with a relatively homogenous member structure,

this type of conflict might be less problematic. While in forprofit organizations the relative weight of different stakeholders has been clearly decided in favor of the enterprise's owners, NPOs generally cannot refer to one single group of stakeholders (Bogart, 1995). As such, they often try to fulfill multiple, sometimes incompatible goals. A characteristic feature of NPOs is thus high ambiguity and heterogeneity (sometimes even inconsistency) of goals (DiMaggio, 1987; Horak/Matul/Scheuch, 1999).

Conflicts between Economic and Ideological Orientation

While forprofit organizations may base their strategies and goals primarily on financial criteria, NPOs must take both financial and ideological aspects into account (Simsa, 1999; von Eckardstein/Simsa, 1999). To survive as organizations, they have to consider financial criteria in a balanced way. If an NPO mobilizes enough resources to secure future operations and wages, it might alienate major donors by seeming to be too rich and therefore not in need of donations. Private donors and members might be alienated if the organization seems too business-like, whereas public sector donors frequently demand just this. The conflict between economics and ideology can also be seen in strategic decisions. For example, if public funds given to a social service organization are provided based on the number of clients successfully treated, the organization faces the conflict of whether it should treat only less problematic people, i.e., clients who can be satisfied quickly and cheaply, or whether it should also care for people in greater need. The conflict between economics and ideology is most severe in those NPOs that are strongly oriented towards ideologies, especially advocacy, support and service organizations.

Conflicts between Member and Output Orientation

Most NPOs have to deal with very different groups of members and employees, including volunteers and unpaid board members, full- and part-time employees. Conflicts between these different groups are often the result of different interests, time, and professional training. In addition, the management of both volunteers and highly ideologically motivated, but often badly paid, employees provides further ground for conflicts. Members expect to be highly integrated in decision-making processes and they often reject formal structures, the division of labor and responsibility, and the execution of formal power. Since these forms of hierarchical control can increase efficiency and output, the management faces a substantial conflict between formal structures and output orientation, on the one hand, and inclusive participation and member orientation on the other hand.

In this respect, the heterogeneity of the NPO sector is very important. Within the sector exist service organizations that do not face the dilemma between member and output orientation at all, but rather work very much like forprofit organizations. On the other hand, NPOs such as advocacy and support organizations that work with a large number of volunteers or with highly engaged but poorly paid employees often have to keep them in "good temper" to avoid losing them, even if this means establishing a dysfunctional degree of participation and relying too little on formal structures.

Typical Ways of Handling Conflicts in NPOs

One frequently observed way to deal with the inconsistencies inherent in NPOs is ambiguity concerning organizational structures, goals and success criteria. For example, to avoid offending any of the relevant stakeholders, only minimal goals are explicitly stated (Brown, 1988; Tassie/Murray/Cutt, 1998). This pattern of conflict resolution might be characterized as avoidance of conflict. This strategy may function well, but it is a rather strenuous exercise. It may result in employee insecurity and a tendency to personalize the impossibility of reaching irreconcilable goals as individual failure. For management, this situation is even more problematic since some management practices will fit with certain goals, and some will not. This leads to the situation in which

"ambiguity of purpose offers managers flexibility and slack at the same time it ensures that their successes are likely to be ambivalent ones." (DiMaggio, 1987: 214)

When parts of the organization become identified with the expectations of some subset of stakeholders, conflicting demands must be handled internally.

Another form of *conflict avoidance* is the typically high degree of informality within NPOs, matched with a certain resistance to and ambiguity of formal structures and formal power. To avoid struggle, formal structures and positions are kept unclear or de facto irrelevant. This might also be seen as an answer to the problem, which requires that NPOs deal with contradictory stakeholder expectations and with ideologies that often resent traditional bureaucracies. Most NPOs hold a deep mistrust of power politics, hierarchies and formal structures (Boorman/Levitt, 1982; Flecker/Simsa, 2000; Horch, 1995; Powell/Friedkin, 1987; Zech, 1997). Clear-cut job descriptions, elaborate rules for decision-making processes, and the existence of a centralized executive power are often seen as limiting personal freedom and destroying the individualistic features of their organizations, making them too similar to business organizations. Members often share an attitude that is critical and wary of power.

All organizations show considerable tendencies toward informality, but NPO research generally assumes that informality and personalization are more strongly pronounced in NPOs. Volunteers and members in particular exhibit strong ideological and moral orientations, but Moss-Kanter and Summers (1987) found significant ideology-based behavior on the part of NPO managers as well. As a result, the advantages of *delegation*, which can sometimes make life in organizations much easier, are not enjoyed to the full extent in NPOs.

In this case, delegation assumes individuals will perform according to a set of ethical norms and values. This might be useful when common ideologies are providing orientation and motivation. It might be dysfunctional, however, when ideologies are interpreted according to the personal interests of conflicting parties. To reproach someone for being unsocial or not environmental, for example, might thus easily be used to take advantage of the other party in the conflict.

Ideological orientation within NPOs often leads to the *rejection of fight*. NPOs applying strategies of damage limitation (e.g., humanitarian, social service and relief organizations for which the central focus is on alleviating the negative effects of the modes of operation of other systems) in particular show marked and often dysfunctional intra-organizational tendencies towards ideologically based conflict evasion. These NPOs have problems with the use of different forms of “destruction,” such as dismissal of members or even the rejection of well-meant ideas (see *Interventions and Conflict Management* above).

In those NPOs that tend towards conflict avoidance, fights nevertheless do occur. However, they are more hidden and subtle, more difficult to recognize, and therefore more difficult to manage or resolve.

Ideological orientation can also encourage a high propensity toward conflicts. This might be the case especially in NPOs that mainly use confrontational lobbying strategies, i.e., that exert influence through criticism and protest via activities such as consumer boycotts and protest campaigns. In these organizations delimitation and confrontation as the core concepts of organizational self-definition may take either a positive form, i.e., a low tendency towards conflict evasion in the organization’s internal relations, or a negative form, i.e., a high propensity for conflicts and a struggle against internal norms and structures (Simsa, 2002).

4. Conclusion: Implications and Recommendations for NPO Managers

Managers must deal with conflicts in their daily routine, be it as an involved party, as a mediator or as an adviser. The way they do this can be decisive for the culture and the effectiveness of the organization (Pankoke, 1995).

Two aspects are essential for effective conflict management: The manager's attitude toward conflict and his or her skill in using different diagnostic devices as a basis for intervention.

With respect to the attitude toward conflicts, it is helpful not to judge conflicts always as an expression of something being wrong. Conflicts can be a sign that the organization is working well; sometimes the absence of conflicts can even be a symptom of severe but ignored problems. In every conflict there is a hidden opportunity. Organizations, departments or groups that consider conflicts as something that should not happen miss the chance for development, for good results and for long-term effectiveness. Furthermore, conflicts that are kept latent are more difficult to manage in a conscious and positive way; they develop their own destructive patterns. Thus, managers should be aware of the positive meanings of conflicts, they must try to detect and prevent too much conflict avoidance, and they must try to develop an organizational culture in which conflicts can be addressed. Recognition of the hidden potential benefits of conflicts might help in dealing with them and might even prevent escalation. Thus, the questions "What would we miss if this conflict did not exist?" and "What could be the positive function of this conflict?" can sometimes be the beginning of more successful conflict management. With respect to the effective management of conflicts, it is important to understand that conflicts can be handled better if they are detected and treated at an early stage, i.e., before they escalate. Thus, managers should develop their ability to detect possible sources of conflict and should try not to hide their heads in the sand, but act as soon as possible. They should seek to investigate the nature of the conflict and its background, both of which are sometimes difficult to understand. Organizational conflicts in particular often appear to be personal problems among the individuals involved, but no appropriate solution will be found if the conflicts are always treated as personal relationship issues. Thus, it is necessary to dedicate significant attention to proper diagnosis. To understand the conflict, i.e., to reveal its essential aspects, it is helpful to keep in mind the types of conflicts described above. If two individuals enter into conflict, it might be that they simply do not get along with each other. It might also be that unclear formal rules or the behavior of a superior lead to jealousy or competition (triangular conflict), that the norms or ranks within a team are being worked out through their conflict (group conflict), or that the individuals act as representatives of

different organizational goals or stakeholders (organizational conflict) or as representatives of different values that are important in the organization (institutional conflict). In this context, it is useful to complete the sentence, "The conflict is about..." with the typology of different conflicts in mind. In personal conflicts, interactive interventions are necessary. A supervisor or an external consultant can act as a mediator, guiding the parties to a common solution. Here different methods of negotiation and communication can be used. It is necessary to separate the emotional and rational aspects of the respective interests and positions, without making the mistake of neglecting emotions. Generally, if emotions are not allowed to be expressed and dealt with, rational solutions will not be found. If conflicts are symptoms of structural or organizational problems, interactive interventions will not be enough. Resolution may require structural changes such as the clarification of organizational goals, decisions regarding explicit ways of dealing with different stakeholder expectations or different internal norms, or changes in responsibilities, the division of labor or internal rules. All this needs the development of suitable methods for working out the conflicts of interest and for negotiating. In addition to moderating these processes, managers must ensure sufficient opportunity and time for reflection, negotiation and the development of common ground and shared visions.

The typology of different solutions can be helpful for detecting and understanding the conflict culture of departments, groups or the organization as a whole. Thus, if members of an NPO tend to avoid conflicts too much, the typology can be used as a means for structuring reflection and seeking better ways to deal with conflicts. Following the examination of the prevalent types of solutions, members can consider how the other forms of conflict resolution would work and what costs, dangers and benefits they would each hold. This process might help to soften rigid structures.

To sum up, because of the unique features of NPOs, they face challenges concerning conflicts and their management not faced by other types of organizations. For many NPOs, it might thus be necessary to develop their own culture with respect to the management of internal contradictions and to dedicate enough time and space for finding adequate ways of dealing with unavoidable and sometimes insolvable conflicts.

Suggested Readings

- Krainz, E.E. (1999): Conflict Management. Klagenfurt
 Schwarz, G. (1995): Konfliktmanagement. Sechs Grundmodelle der Konfliktlösung. Wiesbaden
 Zauner, A./Simsa, R. (2002): Konfliktmanagement. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Stuttgart

References

- Bogart, W.T. (1995): Accountability and Nonprofit Organizations: An Economic Perspective. In: Nonprofit Management and Leadership, 6 (2), pp. 157-170
 Boorman, S.A./Levitt, P.R. (1982): The Network Matching Principle. (10)
 Brown, D.L. (1988): Organizational Barriers to Strategic Action by NGOs. In: IDR-Report, 5 (2)
 DiMaggio, P. (1987): Nonprofit Organizations in the Production and Distribution of Culture. In: Powell, W.W. (ed.): The Nonprofit Sector: A Research Handbook. New Haven
 Flecker, J./Simsa, R. (2000): Transnational Coordination and Control in Business and in Nonprofit-Organizations. In: Pries, L. (ed.): New Transnational Social Spaces. International Migration and Transnational Companies. London
 Heintel, P./Krainz, E.E. (1988): Projektmanagement. Eine Antwort auf die Hierarchiekrise? Wiesbaden
 Herman, D.R./Renz, D.O. (1997): Multiple Constituencies and the Social Construction of Nonprofit Organization Effectiveness. In: Nonprofit and Voluntary Sector Quarterly, 26 (2), pp.185-206
 Horak, C./Matul, C./Scheuch, F. (2002): Ziele und Strategien von NPOs. In: Badelt, Ch. (ed.): Handbuch der Nonprofit-Organisation. Stuttgart
 Horch, H.D. (1995): Selbstzerstörungsprozesse freiwilliger Vereinigungen. Ambivalenzen von Wachstum, Professionalisierung und Bürokratisierung. In: Rauschenbach, T./Sachße, C./Olk, T. (eds.): Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch. Frankfurt/M
 Jeavons, T.H. (1994): Ethics in Nonprofit Management. Creating a Culture of Integrity. In: Herman, R. (ed.): The Jossey-Bass Handbook of Nonprofit Leadership and Management. San Francisco
 Moss Kanter, R./Summers, D. (1987): Doing Well while Doing Good: Dilemmas of Performance Measurement in Nonprofit Organizations and the Need for a Multiple Constituency Approach. In: Powell, W.W. (ed.): The Nonprofit Sector: A Research Handbook. New Haven
 Nelson, P.J. (1997): Conflict, Legitimacy, and Effectiveness: Who Speaks for Whom in Transnational NGO Networks Lobbying the World Bank? In: Nonprofit and Voluntary Sector Quarterly, 26 (4), pp. 78-92
 Pankoke, E. (1995): Subsidiäre Solidarität und freies Engagement: Zur "anderen" Modernität der Wohlfahrtsverbände. In: Rauschenbach, T./Sachße, C./Olk, T. (eds.): Von der Wertgemeinschaft zum Dienstleistungsunternehmen. Jugend- und Wohlfahrtsverbände im Umbruch. Frankfurt/M

- Powell, W.W./Friedkin, R. (1987): Organizational Change in Nonprofit Organizations. In: Powell, W.W. (ed.): The Nonprofit Sector: A Research Handbook. New Haven
- Simsa, R. (2002): Fighting Heroes, Repair-workers or Collaborators? Functions and Forms of NPO-Influence. In: International Public Management Journal
- Simsa, R. (2001): Gesellschaftliche Funktionen und Einflußformen von Nonprofit-Organisationen. Eine systemtheoretische Analyse. Frankfurt/M
- Simsa, R. (1999): Zwischen Wirtschaft und Werten. Nonprofit-Organisationen als spezifisches Feld von Training und Beratung. In: Gruppendynamik, 4 (3), pp. 326-344
- Tassie, B./Murray, V./Cutt, J. (1998): Evaluating Social Service Agencies. Fuzzy Pictures of Organizational Effectiveness. In: Voluntas, 9 (1), pp. 59-80
- von Eckardstein, D./Simsa, R. (2002): Entscheidungsmanagement in NPOs. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Stuttgart
- Zech, R. (1997): Managementprobleme in Gewerkschaften - Ein Beitrag zur Theorie der Non-Profit-Organisationen. In: Schauer, R./Anheier, H.K./Blümle, E.-B. (eds.): Der Nonprofit Sektor im Aufwind - zur wachsenden Bedeutung von Nonprofit-Organisationen auf nationaler und internationaler Ebene. Linz

Project Management

1. Introduction

It was at the end of the 1960s and beginning of the 1970s when the attention of research institutions in the USA was drawn to the issue of project management. Initially, the research was sparked by the needs of outer space observation and exploration programs. Later, it became clear that project management could be useful in coping with more extensive changes in other aspects of human life.

The need for project management is increasing hand in hand with the development of information technologies, the shortening of the production cycle and the development of products, competition for resources, and continual organizational transformations. That means that the demand for project management arises not only in extensive (and expensive) international projects, but also in implementing changes of significantly less importance.

Nonprofit, nongovernmental organizations (NPOs) are established and exist thanks in large part to projects. They approach smaller or bigger problems and seek alternative, innovative, though practical solutions, use and administer all accessible resources, and influence and change the quality of life within a given environment. NPOs are often referred to as “project-type organizations.” Depending on the size of the organization and the level of its professionalization, NPOs implement one or more projects in parallel.

However precisely a project is planned, during its implementation it cannot be enclosed within a social vacuum. It is influenced by a number of internal and external factors. The task of a project manager is to take these factors into account and work with them. The more projects an organization works on, the more difficult it is to consider and create appropriate conditions for all of them. This is the task of project management.

This chapter begins with an overview of the basic concepts of project management, including the definition of a project, its general features, and the different types of projects. Subsequent sections outline the phases of the project cycle, the processes of planning and administration, the organizational structures surrounding and supporting a project, and the roles of the actors involved. The following sections describe the basic project management tasks and the tools available to managers. Different NPOs undertake these tasks and apply these tools in different ways. The next section, therefore, is devoted

to exploring these differences. The chapter concludes with a reminder that projects and their successful management ultimately depend on the people involved in them.

2. Project Management Concepts

What Is a Project?

The dominant word within the term project management¹ is, namely, project. This word has its origin in an Anglo-Saxon word project, which means a process of planning and administering extensive operations. However, it does not refer to “project documentation”.

A project consists of:

- A specific, defined problem,
- Justification for why it should be solved,
- Written concrete and clear way to solve the problem,
- Progression of steps that need to be taken in order to reach the objective,
- Start and end points for the steps leading to the solution,
- Specification in writing of duties and responsibilities,
- Achievable and realistic aims, the results of which are measurable, and
- Specification of individual budget items and their costs.

Limited aims and resources, uniqueness, and uncertainty characterize a project. In the first place, it is a set of activities designed to achieve a concrete objective, whether it be creating a product or developing and implementing a technology or service. The activities have a clearly determined beginning and end, a limited store of financial and nonfinancial resources available, and a set of quality expectations. A project is likewise a unique set of activities, which differ from routine activities in terms of not only content, but also objective. This particular set of activities has no pattern in the past and will

1 Project management is a philosophy of approaching a project with a clearly set target, which must be achieved within given parameters of time, cost and quality. It includes not only managing but also organizing and coordinating individual projects. It is a superstructure of project management. Final results and changes in an organization are achieved through deliberate coordination, administration and influence over individual projects that are linked together. In this sense, project management is systematically applied in project-type organizations where more than one project are implemented at the same time.

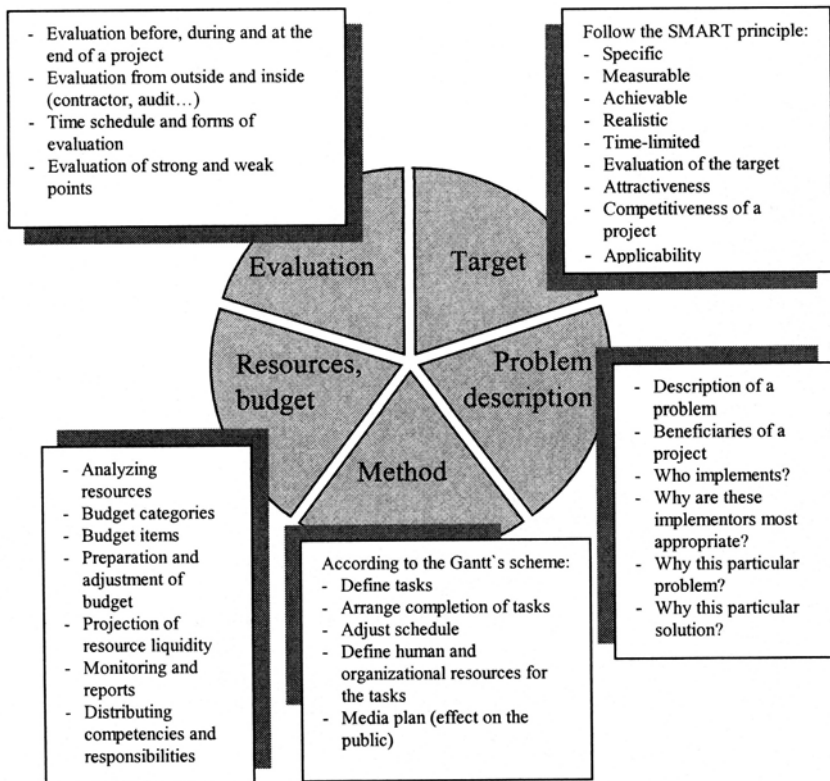
not be repeated exactly in the future. Because of its uniqueness, therefore, a project entails significant elements of uncertainty and risk.

A project requires integration of the effort and experiences of a number of specialists from different areas of expertise. Reaching the objective depends on interconnected, discrete activities that bring out new, as yet unknown problems.

A project is *not* periodically repeated work, such as everyday routine bookkeeping, dealing with the mail, etc.

The Form of a Project

Figure 1: The form of a project



Source: Own Figure

In terms of the scope of a project, there are at least three categories/types of projects. The complex type is connected with special organizational structures, high expenses, a variety of resources, and a large number of subprojects. Due to these demands, the complex project is usually devised for the long term future. The special project type is usually medium term in duration and therefore requires fewer activities, only temporary employees, and appropriate resources and cost. Finally, the simple project type refers to small, short term (lasting only few months) projects with a simple objective. Thus, there are few activities connected with the project and it can usually be done by only one person applying standard methods.

The administration of small projects undertaken by individuals is not in any way different from that of more extensive projects. The determination of basic requirements must be as clear as in "big" projects. Nevertheless, it is obvious that in small projects the objectives and requirements are less demanding.

Management represents gradually performing work such as organizing, planning, decision taking, communicating, motivating, and monitoring while using all resources in order to reach the goal of an organization ("Management represents achieving targets through other people", Drucker).

From the perspective of concepts, it is necessary to distinguish between the traditional, general administration still essential in the ordinary, routine and repeated activities of an organization and the administration of unique, time-limited tasks with determined resources, in other words, *project management*.

The core of project administration can be found in the answers to the "eight questions" ("8W" in German):

Why? (<i>Warum?</i>)	Why is the project created? What is its purpose?
What? (<i>Was?</i>)	What has to be done?
How? (<i>Wie?</i>)	How to do it? What procedures, methods and techniques to use?
Where? (<i>Wo?</i>)	Where is the project going to be implemented?
Who? (<i>Wer?</i>)	Which organizations and individuals will take part in the preparation, financing, and implementation of the project?
When? (<i>Wann?</i>)	When will the project be started and when will it end?
How much? (<i>Wieviel?</i>)	How much will the project cost?
How good? (<i>Wie gut?</i>)	What qualitative changes should be achieved by the project?

The term "project management" can be considered in a strict or a broad sense. The strict sense means the philosophy of approaching project administration with a clearly set objective that must be reached within the

required time, resources and quality. This refers to a specific methodology for two fundamental activities: project planning and the administration of its implementation. Planning is not a description of what is going to happen, but what should happen. Through administration of project implementation, the planned circumstances are achieved and the unplanned ones are prevented.

The broader sense of the term “project management” includes, in addition to management, also organizing and coordinating. It is a superstructure for the management of a number of individual projects. The final outcomes and changes within an organization are achieved through aim-conscious influencing of individual projects, which are interconnected and strategically administered and coordinated. In this case, “project-type organizations” that implement several projects in parallel systematically apply project management.

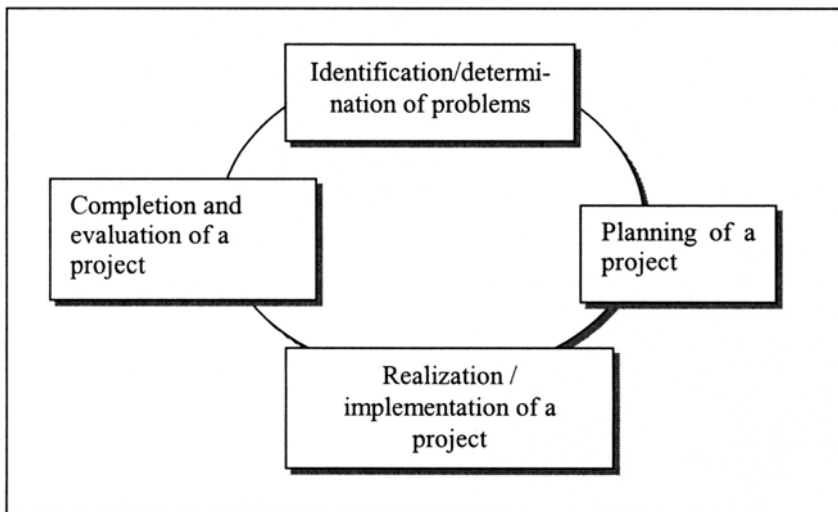
3. Phases of a Project Cycle

Since projects include unique activities, there is a certain element of uncertainty. Organizations performing such activities typically divide a project into smaller parts, i.e., phases, which are easier to cope with. This enables an organization to cancel a project in case the level of risk becomes intolerable. The phases of a project also facilitate the monitoring of intermediate results of a project and the adjustment of future steps. The separate phases together represent a project cycle. Compact parts of a project or its individual phases can be independent sub-projects that have the characteristics of a project. Phases also enable the creation of appropriate connections with the activities routinely carried out by an organization.

A project represents a system of activities that begin and end at certain moments. These two points in time represent the beginning and the end of a project cycle. The phases of a project cycle represent certain degrees of development of the final product of a project. Projects are distinguished according to size, level of difficulty and basis and character of outputs. There are several types of project cycles.

The phases of a project cycle can be illustrated by the clearly arranged model of Burton and Michael (1992). A generalized form of a project cycle includes the following phases: conceptual, conclusive, executive and final. According to these authors, projects are differentiated by size and level of difficulty. However, it is less obvious that there are certain proceedings common to all projects. All projects are planned and executed in the following four phases: preliminary planning, detail planning, implementation, and final evaluation.

Figure 2. Phases of a Project Cycle



Source: Own Figure

Phase 1: Elaboration of complex input information for a project

Preliminary planning: defining basic conditions and intentions and setting parameters of feasibility of a project

Phase 2: Preparation of a detailed assessment of project needs

Detail planning: elaboration of methods for a project; setting a time schedule of tasks and resources

Phase 3: Project implementation

Implementation: monitoring and control of work progress; adjusting the plan if necessary, documentation of progress and changes

Phase 4: Final evaluation

Presentation of final report, evaluation by the participants in the project, elaboration of material

Identification and Definition of the Problem/Preliminary Planning

This is probably the most important phase of the whole project. Here it is determined what must be done and whether it should be done at all. An environment for a project is created in this phase. This phase results in a clear concept of a final product or output of the project.

Planning/Detail Planning of a Project

The result of this phase is a detailed layout of the concept of the final product of a project so that implementation can be started.

Realization/Implementation of a Project

A person or a team coordinates activities according to a detailed plan. The result of this phase is an implemented new service, adopted and exploited methods, etc.

Evaluation/Completion of a Project

The whole project is documented through regular reports regarding the course of the work. Information from these reports is evaluated for the purpose of future use.

4. Project Planning and Administration

If a project is to be a complex and meaningful set of activities bringing about change with a long-term effect, the change must be the subject of long-term planning. This means that managers are expected to work on it over a long time frame. It obviously follows that a project is one of the ways of expressing an organization's strategy or mission.

The Terms Used in Planning

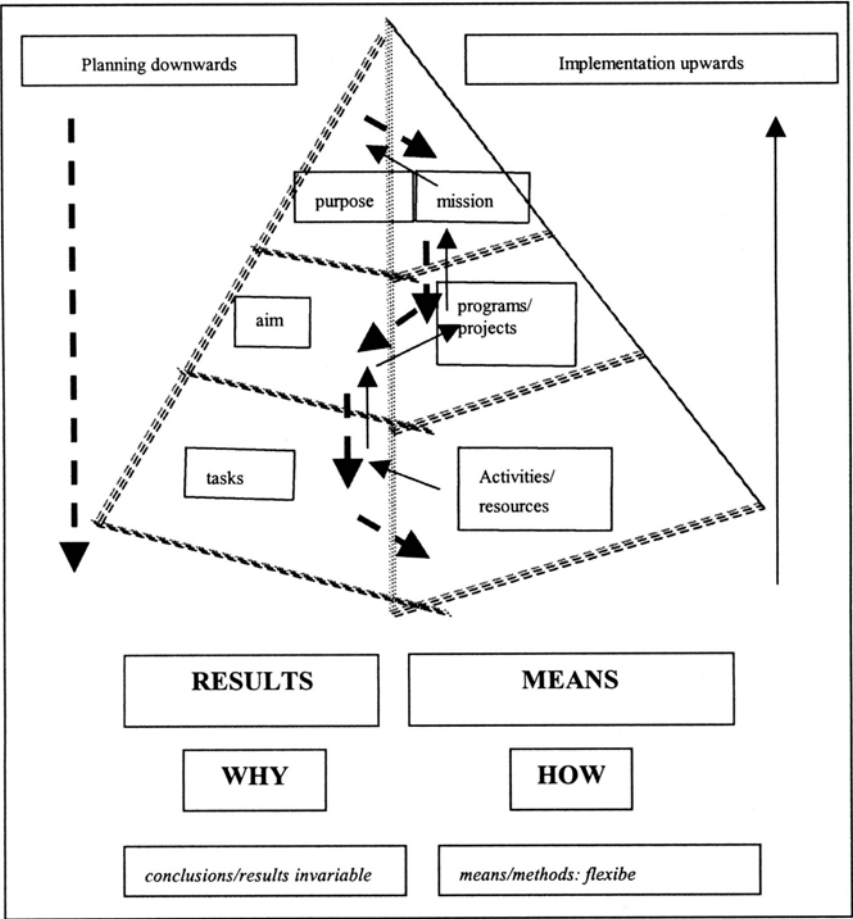
A plan is a set of decisions aimed at reaching a given result. The result is commonly referred to also as "purpose", "aims" and "intentions". The term means can be defined as a "mission, programs/projects and activities/resources".

Results versus Means

Project planners should remain "firm" when setting the targets that are to be reached, or the results to be achieved, and "flexible" when determining the means that are to be used in order to reach the target.

The relationship between the terms used for results and means in project planning are illustrated in the following diagram:

Figure 3: Results and means in project planning



Source: Own Figure

The purpose of an organization is fulfilling the mission it was established for. Common examples for a purpose solving a crime problem (Victim Support Fund), increasing the number of people, who live in harmony with nature (The Tree of Life), and increasing the importance of visual art (museum).

The mission is a major means used by an organization to fulfill its purpose. An organization has only one purpose, but very often it exploits several means in order to reach its aim. The most frequently cited goals of nonprofit organizations are education, training, counseling, advocacy,

prevention, research, information exchange, publishing, health service, etc.

Defining the “mission statement” of an organization is not always identical with its definition of purpose. The mission represents the means, while the purpose stands for results. A mission statement contains words such as “to secure” or “by the means of...” referring more to means rather than to results.

Criteria for Choosing a Project

A project is a planned process aimed at a concrete problem. A project suitable for a particular organization must therefore be apt to solve the concrete problem and must be in agreement with the overall purpose of the organization. In addition, the project has to be feasible and there have to be people in the organization that care enough about solving the problem so that they will support the project.

Aspects of a Problem

A real problem has a number of basic aspects such as indicators of symptoms, symptoms, reasons for symptoms, and system and basic problems. The solution is different for each part of a problem. The choice of which aspect of a problem to solve is up to an organization. Yet, the choice should be deliberate, based on the criteria mentioned above.

Table 1: Aspects of a problem

Aspects of a problem	Problem	Solution
Symptom indicator	The homeless	Temporary home
Symptom	Unemployment	Temporary employment
Reason for a symptom	Lack of working skills	Practical course
System, fundamental problem	Changing economy, shifting of employees, change in the needs of employers	Global economic planning at government level

Source: Own Table

Project Plan

A project plan is set in advance; it lays out the progression of an activity within the context of a presumed environment. It determines the required results and the means to be used in order to achieve these results. Planning a project will help to save time and achieve the desired results in increasing the effectiveness of the implementation of the project. It is also valuable with

regard to decreasing uncertainty, hierarchize project activities, and monitoring project implementation. Good planning requires time, but also saves it. If sufficient time is dedicated to planning, more will be achieved in a short time, with better results. If planning is not undertaken, a project may take longer to complete and the results may be worse.

Planning also helps to hierarchize activities. In order to be successful, the difference between “many trivial” and “a few absolutely necessary” activities must be understood. According to Paret’s principle, by focusing on “a few absolutely necessary” activities, the majority of desired results will be achieved.

Figure 4: Paret’s Principle

80% time for many trivial activities	→	20 % results
20% time for a few absolutely necessary activities	→	80 % results

Source: Paret’s principle – rule 80/20.

The project planning process includes the following stages: setting the targets of a project and defining strategies leading towards achieving them, elaboration of an activity plan, the creation of a project organizational structure and setting up a project team, and the elaboration of implementation plans, i.e., time plan including overlaps (Gantt’s graph, network diagram), expenses plan, resource allocation, matrix of responsibilities (explicit distribution of responsibilities and competencies among the individual subjects participating in a project). The concluding stages are the specification of tools and techniques of project administration and the identification of possible limits and risks of a project and suggesting ways to eliminate these influences.

The planning process is the most difficult part of project management, which to a large extent predetermines the final impact of an implemented project. The following principles are essential to the planning process:

- Planning is not a description of what will happen but what is required to happen.
- The one who does not plan does not know where he made mistakes.
- The rougher the planning, the higher the probability of accidental events occurring.
- Planning should be as detailed as necessary, not as detailed as possible.

Project versus Program

Programs have a long-term character and require ongoing or permanent financial support. Programs represent a wide range of activities, which have the following common features. They are generally characterized by long term collaboration with partner organizations while they are not restricted with regard to their geographical location or their time horizon.

In contrast with a project, which must be administered using project management methods, programs can be administered by the more traditional methods.

Projects are either part of programs or they are a direct result of an NGO strategy. When projects are part of programs, the following features bind them. Because a program may consist of a set of mutually connected projects, the projects represent the program's building blocks. These building blocks (projects) are joined together into a complex system by constantly occurring activities. It has to be acknowledged that projects and programs are interlinked according to the principle of cause and effect. Programs as well as their projects very often exploit the same resources

Management of Project Implementation

As noted above, the management of project implementation is a process supposed to achieve a state in which the events expected to happen will happen and unplanned events will not occur.

It is important to understand the difference between common, continuous administration of processes and project management. Unlike general administration, project management is aimed at reaching the target during a certain time, within a certain budget, taking into account all the procedural and technical requirements. Employees and managers participating in project implementation must at the same time also perform ordinary duties related to the functioning of an organization. However, project management is characterized by a clearly set beginning and end and by the uniqueness of the processes it administers. This fact practically excludes the possibility of routine administration, repetition and correction of previously taken wrong decisions.

Within the process of project administration, the following activities are typical:

- Realization of implementation plans and coordination of the people participating in its realization;
- Identifying and analysing up-to-date figures;
- Administration, monitoring, and continuous evaluation, analysis and correcting of the project progress - control of the set targets,

- deadlines and using resources and costs;
- Solving conflicts and non-standard situations;
- Technical and administrative support for a project;
- Coordination of gradual integration of the system;
- Final evaluation of intermediate phases of a project and proposals for corrections or adjustments.

5. Organizational Structures in Project Management

The duration of a project is limited – from its beginning to its end. Despite that, an institution tends to expect the project to “live forever.” This is the reason why it is so difficult to organize and administer a project within a large organizational complex. Although no organizational form is perfect for project implementation, it is necessary to seek the most appropriate organizational support structure for every project.

Practically all organizations have a certain formal structure with some management hierarchy. The formal arrangement of the organizational structure is not always flexible in reacting to current needs or changes.

In order to ensure a successful project management structure working towards the project’s objectives, it is necessary to select an organizational model that takes into account the complexity and range of the project to be implemented.² Within the chosen model of project management structure, it is essential, first of all, to delegate competencies and responsibilities.

When choosing a project management structure, its strong and weak points (virtues and imperfections) must be taken into account. However, there must be a willingness to select a model that enables the most efficient management of available resources – human, financial and material.

Basic Forms of Project Organization

There are three basic forms of project organizational structure: functional, project, and matrix. These organizational structures entail different types of cooperation among individual project teams. Most project teams have members from different areas of specialization with sufficient know-

2 It should be pointed out here that because of the unique nature of projects, it is practically impossible to copy or shift models of project management structures from one environment to another.

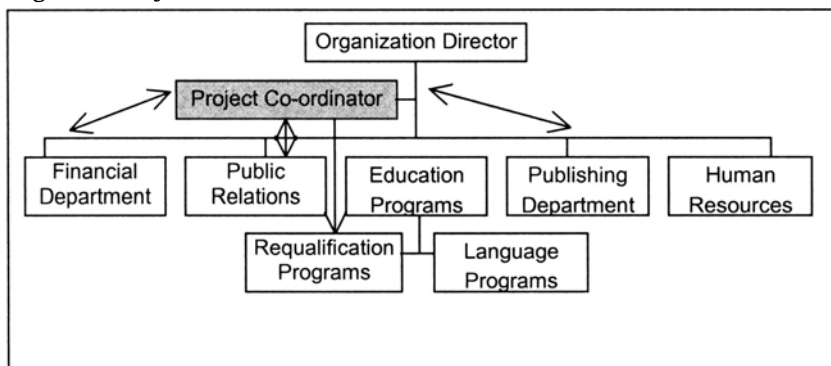
ledge and skills for doing project work. Within a project team, “superior – inferior” relations tend to be suppressed; members usually have significant competencies and responsibilities.

Functional Organization Structure – Project Coordination

This model of organizational arrangement calls for hardly any internal changes to an organizational structure itself. It is suitable for managing and coordinating smaller projects, which can be implemented by one department or a branch in which all the people of a certain qualification are concentrated. It does not put special demands on coordination, yet it is not suitable for bigger or more complex projects.

Project coordination is done by an individual employee of a division or branch as an addition to the employee’s routine work in an organization. The coordinator is subordinate to a manager at a particular level (e.g., the chair of the board of directors, the director of the organization, the division manager). The project coordinator’s mission is to supervise project planning and implementation and ensure good working relationships among individual departments, branches and divisions.

Figure 5: Project Coordination



Source: Own Figure

Figure 5 can be more easily grasped when one considers the following example situation in which a short visit by project partners is prepared (this visit may be the beginning of another project). The objective, time, available resources, and main topics and activities of interest to the partners are clear. The coordinator’s task is to convey all this information to the right places. Therefore, he should approach the colleagues, who have seminar rooms at their disposal, and then precede to inform colleagues about the meeting

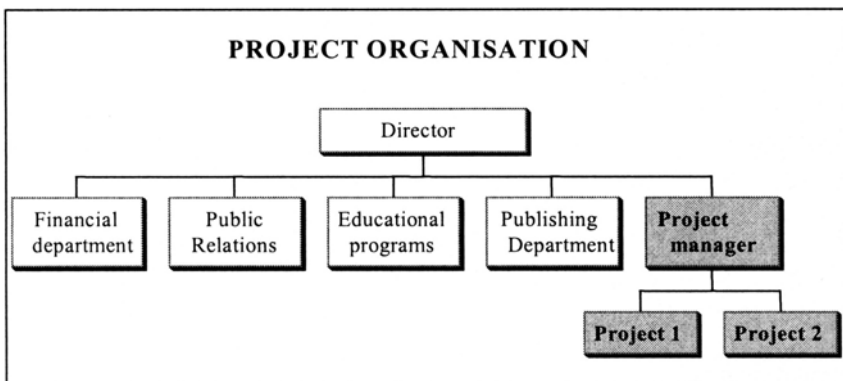
schedule, the topics, and extent of all the departments' presentations. At the same time he should consider consulting with the PR department on the organization of the press conference and gathering promotional materials.

However, this person has no authority to make changes or decisions, thus the coordinator is ultimately not responsible for achieving the project's objective. The coordinator's task is to provide information to the right places. This model of organization is used in cases in which the procedures are clear and central rectifying requirements are not demanding. This is a common type of organizational structure, used most often for small, short-term projects. It can be utilized by small, inexperienced NGOs as well as highly professional nonprofit organizations in short-term projects. In bigger projects, the limited authority of the coordinator could lead to serious problems in its implementation and threaten the general feasibility of the project.

Project Organization

This type of organizational structure is found in the case in which a separate project subdivision is created by a special project group or unit within an existing organizational structure. All, or almost all, people working on a project are subordinate to the project leader.

Figure 6: Module of project organization structure



Source: Own Figure

This separate project subdivision has been given authority and autonomy within a primary organization. The project manager's authority and responsibilities are at the same level as other department managers in the organization's administration.

This structure is used if the size of the project makes it worthwhile. An

organization must have a sufficient number of specialists who may be transferred from one department to another on a full-time basis.

In some cases, if the project to be implemented is to be long-term and extensive, an economically and legally independent organization is established. It comprises a few smaller or larger groups with project organizational structure. The whole organization has a horizontal structure, and all specialized departments maintain the operations of an organization as a whole. Project teams are flexibly connected horizontally. They are established upon the start of a project and dissolved its end.

The following are steps to be taken in the creation of project teams:

A project manager is appointed leader of an organizational structure and thus chooses the appropriate colleagues, who meet the criteria of specialization

The high professional level of the people working in a project team guarantees that after finishing one project they will begin working on another. Working on several projects in parallel is not rare. This can be elucidated by considering the following example.

A new educational project is being prepared. The organization's management chooses a suitable project manager (organizational skills, expertise, and experience). The project manager invites a group of specialists from other departments into the project. The project group, under supervision of the project manager, directly participates in the creation of a plan and the subsequent implementation of a project.

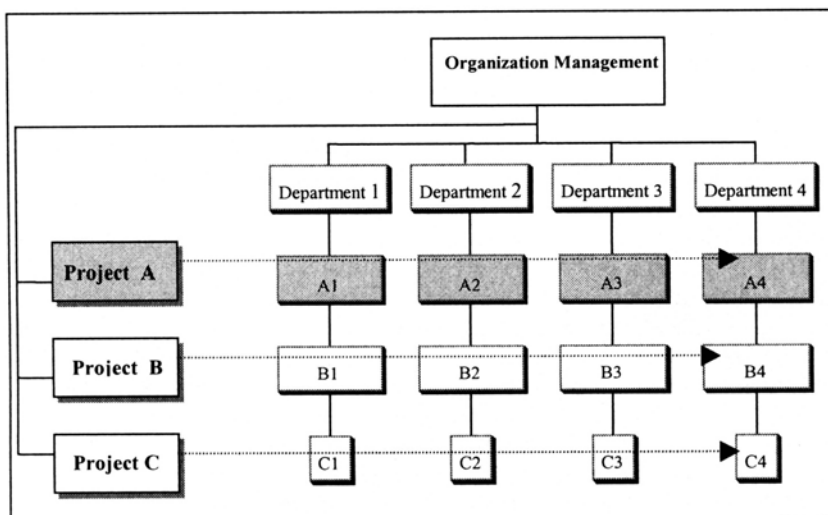
A new educational module is expected to be implemented within a year. The project team consists of five people. Apart from the project manager, who works in the department of educational programs, there is also one person from the PR department, one person from the publishing department, and another two people from the educational programs department. Three people work on a full-time basis (educational programs) and two people work part-time (PR, publishing department). Both of the part-time team members are involved in two other projects as specialists. The project manager works in close connection with the financial department (continuous and final financial reporting, accounting). At meetings, the project manager informs the organization's management about the project, the use of financial resources, changes in the project, etc. The project manager much coordinates with other project managers because there are many people working on this project in parallel with other projects.

This organizational structure is typical for the majority of nonprofit organizations. After all, nonprofit organizations are often called "project-type organizations". This type of structure is not suitable for small, short-term projects, or for start-up NGOs. It is an organizational form more appropriate for extensive and long-term projects.

Matrix Organizational Structure

The matrix organizational structure includes the advantages of the two types mentioned above. The team leader is responsible for completing the project, guaranteeing the quality, meeting deadlines, costs, etc. The project management unit is responsible for executing the project by exploiting specialists from other fields or departments. Therefore, people working on the project are answerable to two chiefs – to the head of a unit (the vertical structure is maintained for problem-solving) and to the project manager (horizontal relations of subordination).

Figure 7: Model of organizational structure of a matrix organization



Source: Own Figure

The following example will clarify this figure. In a situation where an organization is preparing an extensive informational project with the possibility of involving all the divisions throughout the country, each division will provide a certain number of employees for project purposes. In all the divisions at least one employee will be involved in creating databases; some branches also employ specialists – software, graphics, sociology, etc. Apart from this, all the divisions implement their own individual projects in parallel.

This may be the most demanding form of project structure. Managing a matrix organization can be very difficult if the responsibility for the project and its key tasks are divided, or the roles are not clearly defined.

This model is suitable for big, extensive projects. It places high demands on the maturity of the team, personal responsibility, independence and the ability to cooperate. It is often used by highly professionalized nonprofit organizations, which also have large networks of branches or affiliates.

In the implementation of any project, two basic interests must be considered: the effective administration of the organization's operations and the effective administration of the project process. Provided these two interests are taken into account, an optimal organizational structure should be achieved. The establishment of such an optimal organizational structure is neither simple nor straightforward. It is influenced by a number of factors that are often overlooked, such as habits, social relations, cultural traditions, etc.

In practice, "pure" forms of these organizational structures are very rarely encountered; modified versions are most common. Immensely important is a wise union of flexibility of organizational structure together with firmness and stability.

6. Actors, Project Manager and Project Team

Actors

Any project involves a number of participants, none of which should be overlooked; the project manager and project team, the donor organizations (responsible for monitoring and financial flows), the target beneficiary groups (involved in the project in the identification phase and in the implementation phase in particular), and the project partners. The stakeholders³ are indispensable even if they do not necessarily participate. However, they may take part in the decision-making process, while they influence this process they are at the same time influenced by it. This relationship of mutual dependence is especially evident when the stakeholders are local and central administrative bodies that want to know the programs implemented and the methods used in their jurisdiction.

Therefore it is very important that all the responsibilities and authority among them are clearly defined and respected. This section describes the responsibilities and authority of the project manager and the project team.

3 Stakeholder (in a community) is any institution, organization or individual that can claim anything with regard to the community. They have the right to participate in making decisions concerning resources; they use or provide services or are directly affected by activities within the community (Bryson, 1988). Concerning decision-making, there are three basic categories of stakeholders: 1) those who are formally responsible for the decision, 2) those who will be affected by the decision, and 3) those who are able to hinder or influence the realization of the decision (Potapchuk, 1991).

Project Manager

A project manager is key to the successful planning and resulting implementation of a project. The manager should be involved in a project from the very beginning until its completion. A good manager does not conduct planning alone, but rather employs key cooperators from the preliminary planning stage and all the way through any needed modifications to the primary plan. The difference between a good and bad manager is often depicted in one single word: planning.

As the top administrator, the project manager is responsible for the selection of appropriate projects in pursuit of the main strategic objectives of an organization, the choice of project managers or coordinators for individual subprojects, and the availability of the resources for project operations.

The project manager leads a team that is supposed to complete the tasks leading towards the project's objectives. The tasks are unrepeatable, and the objectives are ideally specific, measurable, acceptable, real, and possible to control under normal circumstances. In order to achieve such objectives, a project manager should be more of a leader than a manager. Several management resources offer the comparison: "A manager does things the right way. A leader does the right things".

"Managers who want to improve should evaluate their efficiency and effectiveness. Efficiency means doing the right things. Effectiveness means the most effective use of resources – to do the things the right way. Efficiency is more important than effectiveness since a human being must first of all do the right thing. Only then is it important whether it is done effectively."(Stewart, 1985)

The following functions of management or typical activities are performed by the project managers:

- *Anticipating and planning.* Managers should look toward the future. They must anticipate what will happen in order to be ready for it.
- *Organizing.* Managers must create a system of professional relations that fits the mission of an organization. The organizational structure should make preparation and fulfilment of plans easier.
- *Leading.* Managers should be an example for their subordinates. They must encourage and inspire everyone who works for them.
- *Coordination.* A manager should make the work of a project team fit the overall plan of an organization. Information flow within an organization is immensely important.
- *Control.* A manager and the project team must be able to determine whether what happened was supposed to happen.

Coordination

Coordination is an important project management function and therefore deserves additional attention here. Coordination requires information. If project managers do not have exact and up-to-date information regarding what is supposed to be done within individual departments, what is actually being done and what changes may have an influence on these activities, coordination is impossible. Information is key to effective coordination. Good coordination, therefore, depends on whether employees have the ability to acquire and elaborate information.

If an organization's activities are routine and predictable, some information may be elaborated in advance. Decisions may also be taken in advance in order to fit the system of regularly repeated situations. Decisions may be laid out in the form of rules, regulations and procedures. However, many activities are non-routine and unpredictable, therefore information must be acquired and elaborated while performing a particular activity. Decisions must be taken "along the march".

Project Team

A project team is the expression of a manager's role regarding redistribution of labour, synergy and the need to cope with the interdisciplinary character of each project. The selection of project team members is not a random choice, but a deliberate one. A project manager chooses a mosaic of team members ensuring that all meet standards of professionalism.

As an organic system, a project team also has its own dynamics and goes through certain stages of development. In general, there are the following stages:

- *Forming*: The group is not yet a group, but rather a set of individuals. The purpose, the name, the leader and the team's duration are the main issues to be determined during this phase. Individuals are trying to find their own identity within the group.
- *Storming/fermenting the process*: The group undergoes a conflict phase, the purpose of which is to reach some basic (often disputable) agreement. Everything is challenged – purpose, leadership, roles and norms. "Hidden programs" surface, and personal hostility may appear. However, if the process is careful and deliberate, fermenting leads to the formation of real objectives and procedures. The main point of this phase is to build up trust inside the group.

- *Norming*: The group sets norms and patterns of behaviour. Individuals, using various experiments, test the nature of a group in an attempt to determine the level of his/her obligation towards the group.
- *Performing*: This phase, i.e., optimal performance, is achieved if the previous stages have been successfully completed.

In a group for which the objectives have been clearly set and the members consider these objectives important; the first phases can pass within few hours, usually during the first meetings. In most cases, however, these phases last longer. This must be taken into account in the preparation of the projects and programs that have led to the group's formation. For example, the manager of a new project team consisting of members from different departments of the organization who have worked together before must allow some time for the group to mature and develop.

7. The Manager and Project Management

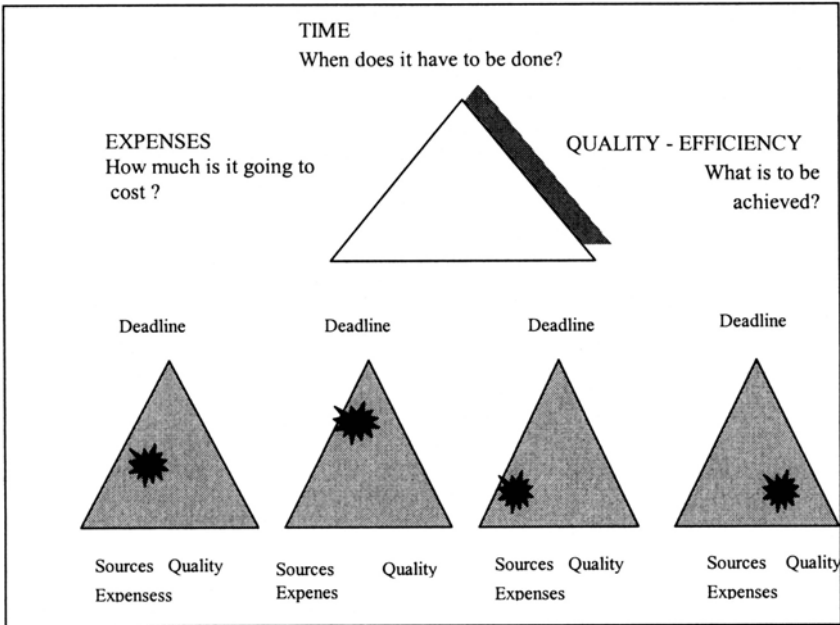
The manager responsible for project implementation must act keeping in mind that she/he is expected to finish the project in a given time frame, while not exceeding the budget, but at the same time achieving all projects objectives.

The everyday task of a project manager is constrained by three fundamental parameters – efficiency (quality), terms (time), and expenses. Different strategies for monitoring and evaluating a project's progress place emphasis on different parameters (see Figure 8):

- Balanced control strategy in which all three parameters are equally represented;
- Control strategy focused on time in which the primary stress is on meeting deadlines, while the issues of expense and quality are not emphasized;
- Control strategy focused on expenses and resources in which the issues of expenditures and exploiting available resources are dominant and the other two parameters - deadlines and quality - are of lesser importance;
- Control strategy focused on quality in which quality is the most dominant aspect.

It is important to realize, however, that none of these three parameters may be omitted.

Figure 8: Managers’ attitudes towards evaluation during project implementation



Source: Own Figure

Experience has shown that either it is a problem to stick to the planned schedule, or additional resources are required, or there is pressure for increased quality. The major challenge of project management is to satisfy all the requirements at the same time, not fulfilling one at the expense of the others.

Therefore, when starting to prepare a project it is necessary (from a project management point of view) to undertake the following tasks. The key activities to be included into a project have to be identified, the time of duration of individual activities has to be specified, and finally, the relationships among individual parts or activities have to be outlined.

As an example, the local government is interested in surveying the needs of the community. The government representatives want to find out whether the services are in accordance with the requirements of the citizens. Important tasks will be designing the key activities and subsequently determining the project’s overall duration. The table below is the output of the first task.

Table 2: Key Activities

Activity	Description of activity
A	<i>Determination of project targets</i> In order to define the key information, it is necessary to discuss the project targets with the top management of the government and elected representatives in the region.
B	<i>Questionnaire proposal</i> The survey will be conducted through personal contact with a selected group of respondents, and their answers will be recorded in a structured questionnaire.
C	<i>Determination of the method for selecting the group of citizens</i> It would be useful to discuss this issue with external consultants.
D	<i>Pre-test</i> Before the survey is fielded, it is necessary to prepare a pre-test to verify the strategy for selecting the citizens and the appropriate character of the questions.
E	<i>Adjusting the questionnaire and the method of selection of the respondents</i> The results of a pilot research and eventual adjustments will be taken into account in preparation of the final version of the questionnaire and process of selection of the group of citizens.
F	<i>Recruiting volunteers who will carry out the research</i> On the basis of the results of the pilot research, we should recruit a sufficient number of volunteers who will carry out the research.
G	<i>Training the volunteers</i> Before the research begins, it is necessary to train and prepare the volunteers. They need to be explained their role, the way they will ask the questions, and how the whole research will be realized.
H	<i>Printing the questionnaires</i> For the main research a sufficient number of questionnaires must be printed.
I	<i>Choosing the respondents</i> Choice of the respondents who will represent the sample for the research.
J	<i>Carrying out the survey</i> The research itself and recording the answers are done directly in the field.
K	<i>Gathering of information</i> Transferring information from the questionnaires into computer systems for the purpose of analyses.
L	<i>Volunteers' reports</i> The volunteers personally hand in the results, possibly give feedback from the respondents.
M	<i>Analyses of the collected information</i> The team of experts and the project manager do computer data analyses.
N	<i>Writing a report</i> The manager is responsible for writing a report including qualitative as well as quantitative conclusions, information concerning the credibility of the submitted figures, and the expenses. The report is submitted to the administrative body that ordered it.

Source: Own Table

A list of activities together with a description such as that provided in the above table creates an overall image of a project. However, the project manager must also determine (as precisely as possible) the duration of each individual activity, as shown in the table below.

Table 3: Duration of activities

Activity	Name of activity	Duration of an activity
A	Determination of project targets	3 days
B	Questionnaire proposal	6 days
C	Determination of the method for selecting the group of citizens	4 days
D	Pre-test	10 days
E	Adjusting the questionnaire and the method of selection of the respondents	5 days
F	Recruiting volunteers who will carry out the research	10 days
G	Training the volunteers	1 day
H	Printing the questionnaires	5 days
I	Choosing the respondents	8 days
J	Carrying out the survey	15 days
K	Gathering of information	5 days
L	Volunteers' reports	2 days
M	Analyses of the collected information	10 days
N	Writing a report	2 days

Source: Own Table

Once the duration of the individual activities is determined, the time frame for the whole project should be calculated. This is often a very demanding task. It may seem that once the duration of individual tasks is known, it is simple to determine the duration of the whole project. However, merely doing a sum of the figures would lead to an incorrect result. As the following table illustrates, some activities may be carried out in parallel, whereas some depend on the result of previous activities or can be carried out independently from the others.

Table 4: Interdependency of activities

Activity	Name of activity	Depends on completion of the activity
A	Setting the project targets	None
B	Questionnaire proposal	A
C	Determination of the method for selecting the group of citizens	A
D	Pre-test	B,C
E	Adjusting the questionnaire and the method of selection of the respondents	D
F	Recruiting volunteers who will carry out the research	D
G	Training the volunteers	E,F
H	Printing the questionnaires	E
I	Choosing the respondents	E
J	Carrying out the survey	G,H,I
K	Gathering of information	J
L	Volunteers' reports	J
M	Analyses of the collected information	K
N	Writing a report	L,M

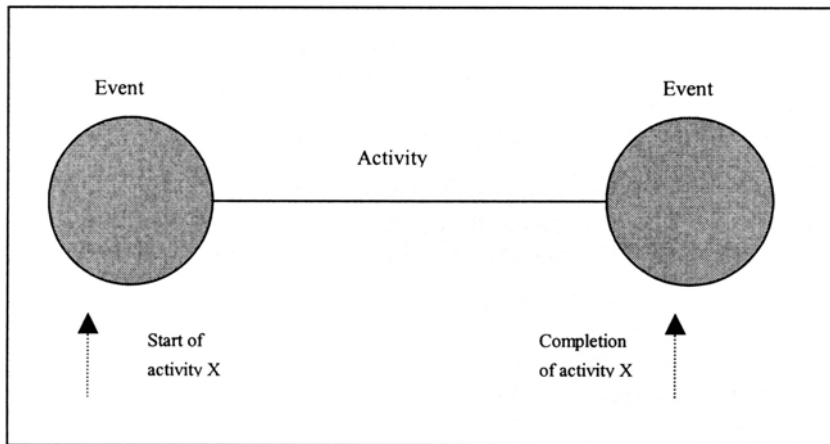
Source: Own Table

Net Graphs

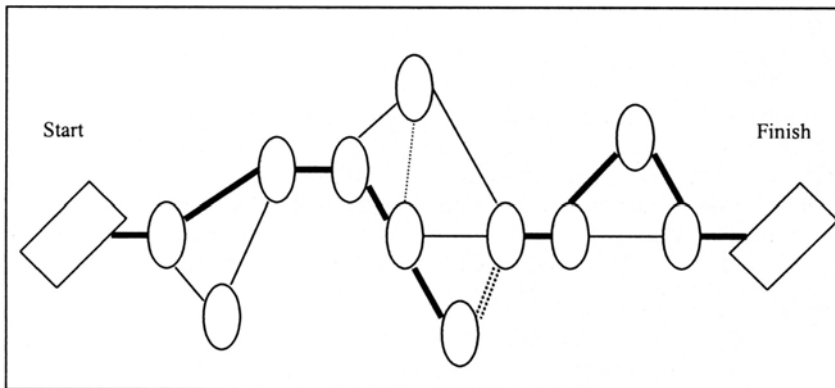
Most probably, net graphs are familiar to many, although they may have different names. For example, a car map is actually a net graph of roads, connecting cities and towns. This kind of graph helps users find the most optimal way from one place to another. There is a similar “optimal path” for a project manager. Drawing a net graph is not too demanding a task; however, several rules must be followed.

A net graph must contain a starting and a finishing point (knot). Each knot (point) – with the exception of a starting point – must follow at least one activity. After each knot (point) – with the exception of a finishing point – at least one activity must follow. Any two knots (points) may be connected only by one activity. In addition to the sequence of activities, the graph also indicates the duration of individual activities.

An important analytical step is to determine the “optimal path”, i.e., the longest variation of project implementation, with a minimum time reserve left. A net graph relating to the local government needs an assessment survey project described in the previous tables. This may be created in the following way, with the letters indicating separate activities and the numbers indicating the duration of each task (see Figures 9 and 10):

Figure 9: Basic features of a net graph

Source: Own Figure

Figure 10: A net graph of a research project – the critical way

Source: Own Figure

Using a net graph enables a manager to work with information that will be helpful in setting the overall time frame of project implementation, determining the priority of activities in order to finish the project in time. The net graph is also invaluable in outlining the influence of the duration of individual activities on the duration of the whole project, and finally monitoring the project progress.

Gantt's Diagram

The information resulting from a net graph allows the presentation of projected deadlines with the help of a Gantt's diagram. The horizontal time axis shows the duration of project implementation, while the vertical axis represents the particular activities. Gantt's diagram serves as an excellent project monitoring tool.

Although Gantt's diagram provides the same information as a net graph, it is regarded as more practical. It must be mentioned, however, that completion of a Gantt's diagram without a time net graph may be extremely difficult.

8. Tools of Project Management

Tools enable a manager to attain the sought-after objective. In project management and for a project manager these tools include principles, procedures, methods and techniques.

Principles

A principle is a fundamental idea, a solid point of every meaningful action, and an output of a scientific work. Principles are independent, many times verified truths. Their applicability in a certain environment is therefore straightforward since this environment has already verified them.

Dolanký, Měkota and Němec (1996) offer five principles for project management that are especially significant for project preparation:

1. Ask relevant questions.

According to this rule, a project manager and the project team should bring forward questions relating to the objectives (effectiveness and quality of the work, ways and means used, communication, etc.).

2. Never presume anything; everything has to be verified.

The second rule deals with argument-based decisions, not just blind estimations. Levels of tolerance of the possibility of failure should be clear in advance.

3. Keep bearing in mind the question: what is the purpose of the project.

Following this rule, people working on a project should be aware of the sense of their action; they should know the "because" to every "why".

4. Identify internal/external effects of a project.

This rule is a reminder of the need to identify the internal and external impact of the project on people in an organization where the project is being realized, or on people outside the organization who are affected by the project.

5. Approve individual phases of a project.

The fifth rule takes into account the diversity of large systems. For a project, this means monitoring and assessment at least at the end of each phase.

The sixth principle should also be mentioned since its importance grows alongside with the size of a project. The rule is: “Use a compact vocabulary of a project”. If understanding of certain terminology is not clear, there is an increased danger of conflict and also damage within a project.

Procedures

Procedures within a project represent a set of consecutive steps specific to each project. Procedures are based on the competence of a project manager and the members of a project team, i.e., their level of knowledge of a particular area and their creative initiative. This includes, for example, the use of specific forms, processes, or agreed-upon means of communication.

Methods

Methods are verified procedures. Depending on a project, some methods can be more or less suitable. For instance, the “brainstorming” which is a method of trying to solve the problem by intense thinking about it, often used during discussions and meetings. This method is popular in innovational projects.

Some methods are used in the design stages, some in the final stages of a project. For example, the “logical frame” method is often used for defining a project. This method has been developed by the specialists of the World Bank and the American firm *Team Technologies, Inc.* It is used for:

- Delineation of purpose, outputs, results and activities, required objectives;
- Determining what, how and what to use to measure the outputs;
- Estimation of conditions and risks when pursuing the objectives, results and activities;

- Brief presentation of a project;
- Framing the monitoring of the achieved objectives;
- Further delineation of activities and targets as the basis for the matrix of responsibility, the time schedule and other planning documents.

Techniques

Various kinds of technology are used in order to support project activities. In the first place, a technique is the project manager's approach towards resource utilization. It also refers to supporting computer techniques and information technologies.

9. Project Management in Nonprofit Organizations

A typology of nonprofit organizations is not as clearly elaborated as it is in the cases of types of airplanes, chemical substances, or languages. It is almost as difficult as sorting, for example, mental illnesses and disorders or musical styles. The classification criteria are typically unclear, and many "hybrids" exist that can belong to various subgroups at the same time.

Despite these difficulties, there are a number of "traditional" criteria that can be used to define at least approximate borderlines:

- *Public welfare*: organizations for public interest (also general interest) vs. organizations for mutual interest (i.e., members);
- *Major activities*: service organizations (directly providing services) vs. organizations focused on advocacy (private or public interests);
- *Support vs. direct implementation*: grant-making institutions vs. organizations implementing programs;
- *Target of an activity*: organizations serving the public vs. mediating organizations;
- *Independence*: independent organizations vs. organizations creating networks, divisions, umbrella structures, etc.
- *Criteria of formality*: formally registered organizations vs. informal entities (groups or associations).

On the basis of these criteria, nonprofit organizations can be divided into the following categories commonly used in Europe (see introduction of this book): Membership organizations, Interest organizations, Service organizations, and Support organizations.

These different types of organizations have many common, but also different project management approaches as described below.

Membership Organizations

Membership organizations tend to design and implement mainly smaller and short-term projects. In the project cycle, they pay attention to all four phases. The identification and evaluation phases are managed easily and at low cost, since these organizations have good knowledge of their members' needs. The project teams tend to be smaller, comprised of both professionals and volunteers, and they are organized mainly in the functional/project coordination or project organizational structures.

Interest Organizations

In contrast to membership organizations, interest organizations implement mainly larger, long-term projects. Like member organizations, however, interest organizations also pay attention to all four phases of the project cycle. Since the problem identification phase is critical, they engage in extensive marketing research and analysis. Equally important are the planning and monitoring/evaluation phases. The project teams tend to be composed of internal and external specialists, with a high level of professionalism. As such, this type of organization utilizes mainly the project and matrix organizational structures.

Service Organizations

Like interest organizations, service organizations are engaged in primarily larger and long-term projects. Although they give attention to all four phases of the project cycles, the problem identification and the monitoring and evaluation phases tend to be very important. As with member organizations, a mix of professionals and volunteers make up the project teams, but, like interest organizations, the project and matrix structures are favoured over other project organizational structures.

Support Organizations

Nonprofit support organizations design and implement programs. In the project cycle, the most important phases are problem identification, focusing on the target group and social needs analyses, and monitoring and evaluation. The program teams are highly professional, created by consultants, external advisors, and evaluators. This type of organization mainly exploits the project organizational structure.

10. Conclusion

This chapter has dealt briefly with the topic of project management. Project management has been defined here as the process by which the project manager plans and monitors project tasks and the resources, i.e., people, money, equipment, and time, on which the organization draws to carry out the project. It is also a skilful use of techniques to achieve a required result to a set level of quality, within a given budget and within a certain time frame. Bringing a project to a successful conclusion relates directly to management by objective, i.e., its success is measured by the degree to which it achieves the objectives set. Project management helps to ensure success in meeting objectives.

Since nonprofit organizations are so-called “project-type organizations”, the topic of project management is fundamental for their operations and sustainable development.

A nonprofit organization is often compared to a lively organism. It is not a static, unchanging structure. Rather, it develops, rises and falls, and adjusts to circumstances. Every organization goes through its “life cycles”.

A model NGO is said to go through six stages of development (less-structured group surrounding a charismatic leader, structured group with a defined mission, registered organization, professionalized organization, organization with a levelled labour distribution, organization with vertical or horizontal branch structure). An organization can decide whether to remain longer at one particular stage or to come back to a lower level.

Certainly, each stage of development is reflected in the quality and extent of the organization's projects. It is often said that changes cannot be done because there is not enough money. Paradoxically, the money itself does not cause changes. Regardless of the size and difficulty of projects, people and their interest and willingness to participate in projects are always the most important. If enthusiastic people are not involved, there is no state-of-the-art technology or a great budget that can guarantee the project's success.

Suggested Readings

- Drucker, P.F. (1990): Managing of nonprofit organizations. Prague
Koonty, H./Weihrich, H. (1993): Management. Victoria Publishing
Kotler, P. (1991): Marketing Management. Victoria Publishing
Lock, D. (1996): Project Management. Gower
Milogrom, P./Roberts, J. (2000): The Decision Taking Models in Economy and Management. Prague
Newbold, R.C. (1998): Project Management in the Fast Lane. CRC Press LLC
Palmer, S./Reaver, M. (2000): The Role of Information in Manager Decision-Taking. Prague
Rizzo, T. (1998): The Critical Chain in R&D: The One-project Solution. Avraham Y Goldratt Institute
Scheinopf, L.J. (1999): Thinking for a Change. CRC Press
Turner, J.R. (1993): The Handbook of Project-Based Management: Improving the Processes for Achieving Strategic Objectives. McGraw-Hill

References

- Adirondack, S.M. (1998): Just about Managing? Prague
Armstrong, M. (1999): Personal Management. Prague
Burton, C./Michael, N. (1992): A Practical Guide to Project Management. How to Make it Work in Your Organization. London
Clelend, D.I. (1989): Project Management – Strategic Design and Implementation. TAB BOOKS, INC., Blue Ridge Summit PA
Dolansz, V./Měkota, V./Němec, V. (1996): Project Management. Prague
Drucker, P.F. (1992): Management: The Future Starts Today. Prague
Halušková, M./Kollár, F. (1999): Project Management. Bratislava
Horning, M. (1993): Project Management – Training Materials, Support Centers of America. Washington
Collective of Authors (2000): Textbook for Advanced Nonprofit Organizations. Bratislava
Collective of Authors (1998): Textbook for Nonprofit Organizations. Bratislava
Rosenau, M.D. (2000): Managing of Projects. Prague
Wisniekowski, M. (1996): Methods of Manager Decision-Taking. Prague

Evaluation in Nonprofit Civil Society Organizations

1. Introduction

The future of civil society is closely related to the performance, efficiency and societal effectiveness of nonprofit organizations (NPOs) that are providing the infrastructure of civic engagement. These organizations are currently facing quite a number of challenges, one of which is the high uncertainty of financial support. Due to the so-called crisis of the welfare state, there is a chronic decline in financial resources, particularly in public funding, which translates into increased competition among nonprofit organizations for government grants and – most prominently – private donations. Against this background NPOs are highly interested in proving that they are working efficiently, and moreover that their programs and approaches towards the solution of societal problems are effective.

Nonprofit organizations that are working internationally, thus being engaged in foreign aid programs, are facing political pressure in addition. While years ago, compared to government agencies and forprofit entities, the superiority of nonprofit organizations working in the field of international activities was unquestioned, nowadays these organizations increasingly must prove that they are not only doing the right thing but that they also do things right. In other words, international donors, such as government institutions, e.g., the European Union-funded foreign aid programs, or private foundations, have become critical towards the effectiveness of the grassroots approach of nonprofit/civil society organizations. Therefore, nonprofits must show that they are indeed working efficiently and that their approaches to tackling the problems of our societies are effective, thus proving that they are worth being supported by the international donors' community.

Correspondingly, donors increasingly put a high emphasis on evaluation. Donors supporting the social welfare activities of nonprofit/civil society organizations in Europe and the developing countries frequently take a look at evaluation procedures from a technocratic point of view, thus considering evaluation as a management tool (Lewis, 2001: 135). This is particularly the case with EU institutions. In May 1996, the European Commission, one of the most important donors for European nongovernmental projects, issued a

memorandum that provides a textbook example of an evaluation process by indicating and specifically describing the concrete steps by which examples of best practice in policy and program evaluation are to be disseminated (European Commission, 1996). In the following years, within the EU bureaucracy close to 300 evaluations have been initiated, covering more or less all policy areas in which the Commission and its departments are involved via specific programs and initiatives. Guidelines and standard formats were established by the respective Commission departments (Leeuw, 2004: 73). Against this background recipients of either EU grants or co-financing are more or less obliged to invest time and money in evaluation procedures in order to keep up with the established standards of program monitoring and evaluation set up by the Commission and its departments.

Furthermore, the topic of evaluation is increasingly addressed within the broader context of accountability. According to Cutt and Murray (2000), accountability refers to the process of taking responsibility for political and programmatic activities that are carried out in favor of or in the name of beneficiaries.

Within the context of modern nonprofit management there is no doubt that students of nonprofit organizations should make themselves familiar with the most frequently used evaluation approaches. They should be familiar with the terminology of the evaluation process, with its distinct procedures, and – first and foremost – with the goals and purposes of evaluation. These topics are addressed in the following chapter, which – after a short summary of the development of the evaluation process – gives an overview of the different approaches and definitions used in evaluation procedures. The chapter aims to improve understanding of the evaluation process, its difficulties and shortcomings by taking a look behind the façade of the fashionable catchword “evaluation”. The introductory section is followed by a section that explains the most important characteristics, terms and approaches of evaluation. Special emphasis is put on the shift from the conventional to the participatory approach of evaluation, which entails also a significant shift in methodology. In order to highlight the practicability of participatory evaluation, a case report focusing on *Kindernothilfe*, a German childcare organization funding and supporting projects in countries all over the world, is presented. There are two reasons for choosing *Kindernothilfe* as a case study. Although the organization is active worldwide, *Kindernothilfe* currently supports several local nonprofit organizations in Eastern European countries. Moreover, *Kindernothilfe* provides a fine example of an internationally active donor organization that worked out a specific approach for evaluation to which the recipient organizations have to comply.

2. Definitions, Terms and Challenges of Application

Generally speaking, evaluation refers to the assessment of organizational effectiveness. More precisely, an evaluation tries to find out whether an organization or program is indeed doing what it is designed to do, and how well it is achieving its aims (Gray, 1998). This definition seems simple, but in fact it is full of pitfalls because of the ambiguity of the term “organizational effectiveness”. And just to anticipate one important finding of contemporary research, the existence of one “best-practice” model, which is at the same time applicable and effective in all cases, must be exposed as an illusion because of differences in contextual conditions (Cutt/Murray, 2000: 39). Nevertheless the large quantity of literature demonstrates the importance of further analysis of this topic.

2.1 How to Define Effectiveness?

To measure an organization’s effectiveness, it is necessary that certain elements be clearly defined from the beginning. There must exist a clear idea of the organization’s goals, of the instruments with which these goals will be achieved, and of the causality between these instruments and the results. Furthermore, there must exist answers to the following five questions concerning the character of the evaluation:

1. Why carry out an evaluation?
2. What does effectiveness mean?
3. How is it evaluated?
4. For whom is it evaluated?
5. When is the best time for evaluation?

The problem is that the majority of organizations – or rather their various actors or stakeholders – on the one hand, formulate a number of goals that are imprecise and perhaps even contradictory and, on the other hand, have differing answers to the questions mentioned above. There is also the fact that most often the people who defined the goals and formulated the answers are not identical to those doing the evaluation (Murray/Tassie, 1994: 305f.). To start finding a way through this jungle of difficulties, it is useful to take a look at the types of evaluation and the terms commonly used.

2.2 Evaluation: Approaches and Terminology

Evaluation is distinct from related management activities such as financial control or auditing, although the borderlines may sometimes be blurred. There are different approaches to evaluation, which are closely linked either to different stages of the program cycle or to distinct measurement criteria of program performance. More specifically, evaluation literature differentiates between process, strategy, and outcome of programs.

- Performance and process evaluation are strongly focused on whether the implementation is proceeding in accordance with the plan and whether the original objectives are being realized. It may be carried out as a mid-term review in order to uncover problems and to make recommendations to the administration with respect to timely adjustments.
- Strategic evaluations concentrate on how the program is responding to the needs of the organization itself. They analyze the relation between an organization and its partners and beneficiaries and verify the adequacy of a chosen strategy for an existing demand.
- Outcome evaluations focus on the effectiveness of a program to achieve the desired impacts and the set goals. It is carried out preferably as an end-of-project evaluation (Patton, 1996). Cutt/Murray mention as a problem of outcome evaluation the fact that the outcomes “may differ over time and be more difficult to measure the further they are from the program and intervention, both in time and causally” (Cutt/Murray, 2000: 31).¹

There are three basic types of program results (performance information):

- Outputs are quantitative indicators expressed in numbers referring to inputs such as money, staff and volunteer time used for a particular program or activity; e.g., number of clients served, number of brochures distributed, number of grants awarded, etc.
- Outcomes address consequences or results achieved. Outcomes provide data on conditions or occurrences external to the organization’s programs or activities, such as changes in the condition, behavior or attitudes of the target group of the program’s services (clients, participants, environment, etc.). It is used to measure improvement achieved as a result of a certain action. Usually the desired outcomes, i.e., those implied by the program’s mission, are measured. There are also unintended outcomes, which need to be wisely recorded, understood, and eliminated or replicated.

1 They also mention the input evaluation as another type that focuses on the needed resources such as money, people and technology.

The nature of outcomes is that they are immediate, usually caused directly by a program. Outcomes are measured with outcomes indicators, which are numerical measures expressing to what extent the outcomes have been achieved. They are often “the number of...” or “percent of...”.

- Impact refers to the long-term, community-based results of the program. It serves to assess the improvement of quality of life and might include economic, educational, health, family, or neighborhood indicators.

Conventional evaluations are often concerned with establishing final conclusions and assessments and as such are defined as summative evaluations. They are mostly seen as tools for donor organizations. Concerns about the process of development beyond projects, which are closed systems within time limits, highlight that evaluations need to have a learning function for donors and partners alike. A typical summative evaluation ends with conclusions regarding what has happened and makes recommendations for the future. The evaluation document itself is given great importance because it contains data, evidence, and results.

Formative evaluations will therefore raise questions about how particular strategies of the project correspond to complex and sometimes unpredictable circumstances, or on the contrary whether the project fails to take into account changing environmental conditions. The purposes of formative evaluations are to uncover and correct mistakes, to promote institutional learning, and to encourage managerial flexibility. A typical formative evaluation is more likely to be viewed as a snapshot in time – a process that must be ongoing if it is to be expected to improve the program operation. Conclusions and recommendations are presented as statements of understanding regarding potential opportunities, implementation barriers, and issues that must be further negotiated in order for the program to take advantage of opportunities and reduce obstacles to performance. The evaluation document itself is far less important than the process that the evaluation initiated and the process of negotiation that is sustained by stakeholders. A neat way to illustrate the distinction between formative and summative evaluation is through the analogy given by Robert Stake: “When the cook tastes the soup, that’s formative evaluation; when the guest tastes it, that’s summative evaluation” (Shadish et al., 1991). In practice, this clear distinction is difficult to maintain because of the potential reservations and use against the evaluated organization or staff (Cutt/Murray, 2000: 73).

2.3 The Evaluation Process, its Dimensions and Potential Problems

When carrying out an evaluation, it is helpful to follow a systematic approach that consists of several distinct sequences. The literature describes the following steps:

- designing the evaluation system (answering the questions mentioned under 2.1);
- choosing an appropriate methodological approach (qualitative and/or quantitative methods: e.g., document analysis, questionnaires, interviews, or focus group discussions);
- developing the data assessment standard (absolute assessment, which means to measure achievement at concretely defined target points, or relative assessment, which means to compare achievements of a number of different projects,
- interpreting and using the results (Cutt/Murray, 2000: 33).

However, there is no doubt that defining these distinctive steps is a very difficult task, which constitutes the most significant challenge of the evaluation process. Based on an analysis of the various approaches, Tassie, Murray and Cutt (1998) propose a helpful categorization of the evaluation process in which they distinguish between different perceptual dimensions:

- First of all, there is the dimension of the evaluation scope, which “refers to the identity being evaluated”. It embraces three identities: a single part of an organizational program (e.g., a bundle of related activities), the organization as a whole, or the larger system (like the policy field).
- Second, there is the focus dimension, which translates into the question “what is evaluated?”. Here the authors make a distinction between two aspects that could serve as focal points: On the one side, results and effects and, on the other side, the process itself, including its structure, activities, dynamics, etc.
- Finally there is the dimension of the tools that are employed within the process, the method dimension in which the authors worked out two variants from their research: nonformal and formal methods. Whereas nonformal methods “are not made official or explicit”, formal methods refer to supposedly objective and rational indicators (Tassie/Murray/Cutt, 1998: 62f.).

From this model, twelve different evaluation design combinations are possible. It is for this reason that the evaluation of a single organization by its various donors – each having their own focus – can produce widely different results. One difficulty could be contradictory findings, which make it impossible for the evaluated institution to react to all of them appropriately.

The following “ideal”, but unattainable, picture emerged from research: “An effective agency would be one that is large, established, and multiservice, yet ethno-specific and small; is innovative but stable” (Tassie/Murray/Cutt, 1998: 74). In addition, the research on the social construction of effectiveness has shown that different stakeholders per se do have different approaches to and claims on an organization, from which automatically different judgments follow: “[...] different constituencies are judging [...] organizations’ effectiveness in different ways and [...] they [the managers] should find out what criteria are important to the different constituencies” (Herman/Renz, 1997: 202).

Having mentioned a number of potential pitfalls during the process of defining the goals, claims and methods of an evaluation, the focus now turns to those pitfalls and misunderstandings that might lead to false conclusions on the part of the evaluators. The measurement inference fallacy occurs when “an outcome is inappropriately inferred from the measurement of a process or an input” (Cutt/Murray, 2000: 34). A focus fallacy occurs when the performance of a “whole organization is inferred from the performance of a program; or the performance of both of these is inferred from the performance of a single individual” (Cutt/Murray, 2000: 34). Finally, there is the possibility that some indicators might turn out to be highly influential, although at the beginning of the evaluation process these indicators were not taken into consideration. In other words, there is the problem of a side-effect fallacy. Besides these technical problems, one important human factor has also to be mentioned. The evaluation literature refers to this as the “look-good-avoid-blame” phenomenon. It describes the human tendency “to present their work in as positive a light as possible” (Cutt/Murray, 2000: 97).

According to the evaluation literature there is no way to avoid these problems completely. However, efforts should be made to minimize their effects on the measurement and evaluation procedures. In order to avoid the aforementioned problems, it is highly recommended that a consensus among the involved stakeholders be worked out regarding key characteristics of the evaluation process, such as scope, focus, methods, time perspective, and use of the results of the respective evaluation. Furthermore the evaluation should be designed as a continuous self-evaluation, in which all stakeholders are taking part (Murray/Tassie, 1994: 317f.).

2.4 From Conventional to Participatory Evaluations

A shift in classification and a reconsideration of evaluation models took place in the 1990s. Basically, the conventional evaluation model consists of a progress review and impact measurement conducted by “neutral” outsiders. This type of evaluation can be defined as a surveillance system, used by those

responsible for a project to see that everything goes as much as possible according to plan and that resources are not wasted. Conventional evaluation aims at showing that the program works. Therefore, conventional evaluation puts a high emphasis on the use of quantitative research methods, the results of which provide information concerning a linear causal relationship between inputs, outputs and impacts of the respective organization and program.

Evaluation theorists and practitioners have challenged this assumption, which was extremely difficult to prove in real life. There was increasing empirical evidence that projects had to cope with rapidly changing environments and that control-oriented management was not able to determine decisively why projects were deviating from their planned paths or not responding to the needs of beneficiaries. The success of projects was measured merely by the amount of resources expended or inputs used during implementation, rather than by the quality of outputs or the quality and direction of changes that were to be introduced in order to guarantee the project's successful operation. Whereas the supporters of conventional evaluation pointed to its scientific precision and its clear-cut technical solutions, its critics particularly underlined that this approach was not able to access and build on the specific knowledge and insights of those who were supposed to benefit from the particular program. This controversy was finally resolved by purposefully integrating the aforementioned actors, i.e., the stakeholders and beneficiaries of a project, in the evaluation process.

In line with the recognition that social activities will only achieve sustainability if they are managed and "owned" by the stakeholders, up-to-date evaluation approaches stress the importance of the involvement and participation of the recipients/beneficiaries. The key questions concern not only the outputs and their significance, but also equally who makes the judgment. A participatory evaluation is primarily concerned with adapting and adjusting a project while it is in progress and on conditions set by the participants. The basic differences between conventional and newer approaches to evaluation can be described along three main aspects:

- **Focus:** A conventional evaluation applies a positivist viewpoint, driven by the details of the objectives and outcomes that the project is designed to produce. The assessment is guided by the original intent of project designers. From a participatory point of view, the focus of the evaluation is on the concerns currently held by stakeholders and beneficiaries. The assessment is guided by the present situation.
- **Data:** Positivist evaluators search for the facts and want to know, in objectives terms, what has happened in the project up to the date of the evaluation. Participatory evaluations are interested in the perceptions held by various interest groups. Inquiries go beyond observation and quantitative measurement to get at the meaning

people attach to events. Take for example the fact that 100 young people have been trained. Is that good or bad? What does that mean to the young people trained? Did the training show results? Has it changed something in the life of the people? Is training a solution to current needs?

- **Process:** From the positivist point of view, an evaluation is a well-managed, carefully administered process of data collection, analysis and reporting. For the participatory evaluator, an evaluation is filled with negotiation and facilitation. It can be full of surprises as constant interaction among actors in various settings is taking place. The process is dynamic and managed to raise issues and to foster dialogue.

3. Evaluations in Intermediaries, such as Nongovernmental Agencies

As already mentioned, the dominant challenge of carrying out an evaluation lies in the definition of organizational effectiveness. In the case of intermediaries such as foreign aid agencies, the situation seems to be even more complex. Fowler (1996) contends that the formal, linear way that development aid passes from a supporting institution through an intermediary and finally to a project participant does not correspond to the complex course of the development process itself. "This fundamental mismatch complicates performance assessment, particularly when it comes to attributing cause to effects" (Fowler, 1996: 147).

3.1 Changes of the Environment

Over the last decade new trends emerged within the field of international activities that challenged and motivated nonprofit/civil society organizations to take the question of evaluations more seriously.

Support for foreign aid depends on the belief in its effectiveness, and the moral case for providing support – be it from private or public donors – rests upon its achieving its objectives. Since the early 1980s, disillusion and disappointment about the overall results and impacts of international activities and specifically foreign aid have grown. The mass media contributed to the skepticism by highlighting exceptional cases of misuse of funds by governments and statesmen. Skepticism grew as to the ability of donor organizations to deliver aid effectively and to produce positive changes in the development of the recipient countries. The question of effectiveness became

a burning issue, particularly due to the fact that despite some improvements of social indicators, the statistics showed an unchanged high level of world poverty over the years.

Whereas foreign aid awarded on a bilateral governmental basis has been criticized for many years, public opinion still appreciated the quality and effectiveness of private nonprofit/civil society organizations in development cooperation. However, during the last decade, a number of controversial debates arose about the so-called “comparative advantages” of nonprofit/civil society organizations compared to government entities. There was a growing gap between the rhetoric of nonprofit organizations and their performance measurement and information. Rhetoric stipulated that partnerships between nonprofit/civil society organizations of Northern countries and those of Southern and Eastern European countries, which are based on trust and shared values, achieve at least three aims: efficiency of project management, poverty reduction on a grassroots level as well as empowerment of the needy, and finally institution-building and sustainability. However, nonprofits were not able to provide evidence that their work indeed contributed to the achievement of the aforementioned results. Against this background, public opinion and the donor community asked for effective supervision of program management as well as for improved evaluation of project results.

Finally, nonprofit/civil society organizations realized that for their own sake they had to become interested in evaluation procedures in order to improve the effectiveness and efficiency of their activities and to be able to learn from experience. However, at that time nonprofits did not have any genuine professional norms and standards, not to mention a specific nonprofit evaluation policy with clearly established guidelines and methodology. Adequate evaluation concepts and methodology had to be designed that were consistent with the partnership principle and could address the issues of concern to each partner. The NPO evaluation models had to take into account that partner involvement is crucial and should amount to more than passive participation in the evaluation process. The partner’s involvement and influence from planning to monitoring to evaluation were considered to be a basic condition for sustainable institutional learning on both sides.

3.2 Evaluation and Accountability

As mentioned at the outset, evaluation is closely linked to questions of accountability. Although it is beyond the scope of this chapter to summarize the most important lines of discussion concerning accountability, at least some aspects linked to the topic of evaluation have to be taken into account. The main issues in the examination of accountability are two questions: “who is accountable to whom for what?” and “whose reality counts?” (Linden-

berg/Bryant, 2001: 211ff.). The answers to these questions touch on the main challenges to designing an evaluation system because they determine the kind of information and data to be collected. For example, in the case of nonprofit/civil society organizations one has to decide whose reality the organization has to take into account: boards, donors, members, counterpart organizations, or its target groups. In addition, further inconsistencies emerge because of the increasing financial dependency on public funds. On one side, public sector donors demand a stable, low overhead budget, which contradicts the relatively high expenditure nonprofits have to make to implement an evaluation process. On the other side, a public donor automatically enacts evaluation requirements and processes in the contracts it signs with the nonprofit organization. When nonprofit/civil society organizations are supported by more than one public sector funder, they are often confronted with very different, sometimes even contradictory, requirements with which they have to comply (Lindenberg/ Bryant, 2001: 221). On the basis of the multi-dimensionality of evaluation, nonprofit/civil society organizations have to identify the different criteria and tailor these to each group of stakeholders (Herman/Renz 1997: 219).

3.3 Evaluation Standards

When European governments introduced evaluation as a specific tool of public management and administration, it was put into practice by primarily multi- and bilateral governmental agencies as an external control mechanism, particularly in the field of international activities and foreign aid. In the 1970s, when evaluation gained momentum, several terms for describing the process of evaluation were introduced without, however, defining the concrete meaning of these terms. Furthermore, the methodological approaches and evaluation criteria that were defined and put into practice by the multi- and bilateral governmental agencies reflected very much mainstream foreign aid paradigms, which at that time were based on the assumption that macroeconomic growth and capital investments would trickle down and spread development in the respective countries. Conventional quantitative models and cost-benefit analyses, therefore, constituted the first choice with respect to the methodology of evaluation. Although already at that time it was well known that due to the very character of nonprofit organizations this aforementioned type of evaluation was of little value and limited utility, NPOs nevertheless had to adopt this particular approach.

In the meantime the paradigm has shifted, and governments have learned to pay more attention to institutional, social and cultural factors in project planning and implementation. This development translated into the situation that program effectiveness and efficiency are no longer measured exclusively

using quantitative methods, while qualitative methods have gained increased importance. Despite the fact that Fowler emphasizes that “the separation of project evaluations from features of the organization itself” constitutes the key weakness in performance assessment (Fowler, 1996: 152), three levels of evaluation should be distinguished along the scope dimension (mentioned above in section 2.3):

- the donor agency, which is the Western funding intermediary in the case described in this chapter;
- the funded organization, which are the East-European nonprofit organizations; and at last
- the target group, which refers to the recipients and beneficiaries of the program (Lewis, 2001: 136).

Finally in 1986, terminology was clarified by a definition worked out by the Organization of Economic Cooperation and Development (OECD) (OECD, 1986). According to the OECD, evaluation is “an examination as systematic and objective as possible of an ongoing or completed project or program, its design, implementation and results, with the aim of determining its efficiency, effectiveness, impact, sustainability and the relevance of the objectives” (OECD, 1986: 65). In other words, the OECD definition clearly highlights the following key elements of evaluation:

- Relevance refers to the analysis of the extent to which the objectives and mandate of the program are significant for the improvement of a particular situation or social problem.
- Efficiency implies that a project is using as few resources as possible to achieve its objectives. This means that a project can gain maximum results from existing economic contributions.
- Effectiveness relates to the outputs of a project vis-à-vis the objectives set. A project is effective to the extent that its objectives are achieved.
- Impact is a broad term. It refers not to any immediate output or outcome of a project or program but to lasting and sustained changes brought about in people’s lives. This requires an understanding of the perspectives of the various stakeholders who are affected by the program or project concerning its social or economic intervention, as well as of the economic, social, institutional, and political environment in which the program takes place.
- Sustainability refers to the extent to which the objectives of an activity will continue to be reached after the external project assistance has ended. As a matter of fact, only after the end of

external support will it be possible to answer this question. During the implementation phase, however, important prerequisites for sustainability can be assessed. This requires a look beyond the project level at organizational processes.

Today the OECD evaluation standard is widely accepted, even though it has been modified and sometimes enlarged with sophisticated techniques that reflect the desire of program managers and evaluators to cope with the complexity of foreign aid projects. Nevertheless, there are still many differences of opinion between public institutions and nonprofit intermediaries and/or civil society organizations with respect to evaluation design decisions. The concept of ownership with respect to the specific project or program is at the center of these differences. Whereas governmental donor agencies by and large assume the responsibility for project planning and implementation, the policy of nonprofit intermediaries or of church-related development agencies is to leave the overall responsibility for planning, implementation, monitoring, and evaluation with the local partner organization.

4. Evaluation in Practice: Kindernothilfe, a Nongovernmental Childcare Organization

Kindernothilfe e.V. is a private childcare organization based in Germany, not formally related to a church, but based on Christian principles and values. *Kindernothilfe* aims at helping needy children and young people in very poor countries gain access to education and training in order to take responsibility for their own lives and raise the level and quality of living standards. Their long-term programs are designed to address the needs of the most disadvantaged and vulnerable groups from the poorest levels of society: orphaned, abandoned, exploited, abused or disabled children and youths, who are supported without discrimination on the basis of gender, race or religion. *Kindernothilfe* is not operational in the field, but cooperates with partner organizations in Africa, Asia, Eastern Europe, and Latin America, most of which are local churches or congregations, or nonprofit organizations.

To achieve its aims, *Kindernothilfe* supports a wide range of projects and programs run by those partners who

- provide basic medical services, balanced nutrition, and appropriate pedagogical support;
- provide basic education for children and youths, since knowledge in terms of life-skills is seen as a crucial instrument for poverty

- alleviation;
- encourage and train young people to take responsibility for themselves and for the community and to exercise their constitutional rights;
- focus especially on the victims of the “new dimensions of poverty”, e.g., street children, AIDS orphans, child laborers, and sexually abused children;
- draw attention to the need for gender equity in development and help to improve the living conditions and social status of girls and women.

As the well-being of children is affected most by miserable living conditions in their respective communities, high rates of poverty or unemployment, and insufficient healthcare, to name just a few factors, project activities focus on the improvement of the social environment of the children. Community-oriented interventions seek a broader impact and are multi-sectoral, involving various felt needs of the population. Furthermore, the capacities of families and local communities for sustainable self-help activities are strengthened. Community development programs are poverty reduction programs that improve the quality of life of the poor by creating better employment opportunities, by improving incomes in agricultural and nonagricultural sectors, and through greater access to education and healthcare. One of the basic principles of this approach is the participation of the people in the needs assessment, project design, and all stages of implementation. This is supposed to contribute to strengthening self-help capacities at the grassroots level.

Kindernothilfe raises the majority of its funds from individual private donors in Germany. In addition, applications for co-financing are made to the German Federal Ministry of Cooperation and Development and the European Commission. In the agreements with the two public donors, evaluations are part of the management of the project cycle. The project cycle provides a structure to ensure that stakeholders of a project are consulted and relevant information is available, so that decisions can be made at key stages in the life of a project. The main stages of the project cycle and the linkages with the evaluation are briefly outlined:

- Problem analysis is the basis of each project, but very often situational analysis remains very general. Baseline data are often lacking. It is impossible, however, to assess changes or improvements produced by development projects without having ex-ante data, problem descriptions, and performance or impact indicators.
- Objectives are defined according to the problem analysis and lead to the establishment of operational plans. They should be as concrete as possible. Deficiencies in project planning show up in the evaluation. Obviously, the more precisely and concretely project goals are

formulated in the planning phase, the easier it is to find out whether or to what extent they have been achieved.

- Operational planning requires detailed and time-bound (e.g., monthly) implementation plans.

In order to safeguard that at every stage of the project cycle evaluation is taken into account, *Kindernothilfe* has developed an internal evaluation concept, including semi-standardized Terms of Reference (ToR) and standard procedures to carry out evaluations.

4.1 The Evaluation Concept of *Kindernothilfe*

For *Kindernothilfe*, evaluations are, in the first place, elements of the dialogue between partners. Following the common criteria for evaluations, they have summative and formative functions. The primary goal of project evaluation in *Kindernothilfe* is to give empirical evidence about achievements and/or failures with the intention of drawing out the necessary implications for program policies and strategies. Evaluations are summative in the sense that they inform all stakeholders (partners and target groups) about the outcomes of activities and programs and form an important element of the bilateral communication with partner organizations about quality assurance. On the basis of verifiable data, the development work will become transparent and assessed jointly. Evaluations are formative as they are supposed to be action-oriented and to produce learning effects. They give partners the opportunity to reflect on their own actions and adapt project management. Evaluations contribute to a better understanding of the mechanisms of development work and to ensuring that the desired outcomes and impacts are achieved without undesired side effects.

In accordance with the agreements between *Kindernothilfe* and its local partners, evaluations are provided for in every five-year program cycle with the aim of assessing the levels of achievements and failures in the project work. They serve as a monitoring instrument for the following first two years of implementation, and the results will be considered in the planning process for the next five-year plan. Thus, the evaluation is integrated into the program cycle as an action-oriented management and monitoring tool for further program development.

In accordance with project agreements, regular evaluations are compulsory for *Kindernothilfe* partners. In any case, the participatory approach requires transparent procedures from the very beginning and throughout the whole evaluation process. The transparency should guarantee that the evaluation will not be interpreted as an external control motivated by special interests, which might cause rejection of the results. The three main phases of an evaluation – preparation, implementation and follow-up – are

therefore designed with definite methodological patterns.

Figure 1: Sequences of evaluation

Sequence	Subject	Responsibility
Preparation	<ul style="list-style-type: none">• Agreement on the purpose of the evaluation• Selection of projects• Formulation of the Terms of Reference (ToR)• Setting up of the evaluation team• Converting ToR into research tools• Scheduling activities	<div>Partner/ Kindernothilfe</div>
Implementation	<ul style="list-style-type: none">• Transport and logistics• Data collection• Writing of final report	<ul style="list-style-type: none">• Partner• Evaluation team• Evaluation team
Follow-up	<ul style="list-style-type: none">• Discussion of results• Accept conclusions and recommendations• Agreement on follow-up activities• Monitoring the follow-up activities	<div>Partner/ Kindernothilfe</div>

Source: Own Figure

During the preparation and planning of an evaluation, its purpose and goals must be clarified and agreed upon between *Kindernothilfe* and partners openly and comprehensively. These goals have to be laid out in the ToR, which contains all research questions relevant to the project that *Kindernothilfe* and partners have agreed upon, indicates the selection of projects/areas of investigation, names the composition of the evaluation team, and indicates research methods. This will ensure that the assessments are comprehensible and transparent and, therefore, help to avoid misunderstandings. For these reasons, the ToR is a central document for the implementation and follow-up of evaluations. It should be set up specifically for each evaluation, but follow a semi-standardized pattern that considers similar criteria so as to make cross-section evaluations possible.

The design of an evaluation is the most demanding and crucial part of each evaluation. Despite the variety of project types, economic and cultural environments, and structures of partnership, a consensus on important criteria and key questions that should be considered in program evaluations of *Kindernothilfe* has evolved. The ToR in practice in *Kindernothilfe* is semi-standardized and in line with the standard evaluation format that the European Commission has produced for project evaluations. It is important to follow the main structure and adapt sections according to the scope and respective features of the projects and their development context.

The value of an evaluation depends very much on the quality and credibility of the conclusions and recommendations. The final report of an evaluation is the basis for the follow-up phase and has to be worked out very

carefully. The report should not restrict itself to stock-taking, but should unambiguously name and substantiate outcomes and conclusions, according to the ToR. Conclusions and recommendations reflect implementation barriers, potential opportunities, and issues that must be further negotiated.

Evaluators are not decision-makers, but very often decisions on the further allocation of resources to particular projects depend on evaluations. It is therefore a big responsibility to provide the necessary data and analysis and give project management and donor agencies recommendations about how to proceed. As a matter of fact, in the case of a clear negative assessment of project quality and impact, it can be assumed that donors will not hesitate to stop supporting that project. In the opposite case of an excellent assessment, continued support can be assumed. In the majority of cases, however, evaluations come up with both strengths and weaknesses. That is when the quality of the recommendations of evaluators is a decisive factor. They indicate how a program can take advantage of opportunities and reduce obstacles. Recommendations are helpful when they are improvement-oriented, operational, and pragmatic, and when they are given on the basis of the conditions under which the project operates. They may be used immediately for the adjustment of project activities, or are to be used to make better project plans in the future. Activities are described about how to overcome the weaknesses and build on the strengths, taking into account the mid-term perspective of the project and the resources available. The required adjustments are to be made clear to both the project management and the donors and agreed upon between them. The lessons learned from the evaluation can then be put into practice.

4.2 A Case Study: Evaluation of a Residential Childcare Project

Residential childcare gained significance for *Kindernothilfe* as the number of orphaned and abandoned children was on the increase. For decades, hostels that cared for the education, health, and development of these underprivileged and poorest of the poor children were supported. In the recent past, however, the conventional residential childcare projects were challenged by new requirements that emerged with an increasing number of children at “high risk”. Particularly for street and working children, children affected or infected by HIV/AIDS, and sexually exploited children, the traditional residential program offered only limited solutions. Furthermore, new visions emerged that focused on promoting a comprehensive childcare program for the survival, development, protection, and participation of the children within their social context. This vision recognizes the importance of making an investment in children in order to develop their potential to the maximum for the benefit of their own future. In addition, it emphasizes the children’s rights

as a strategic component for achieving the integrated development of their communities and society at large. Projects should therefore also build up the capacity of the family and community, and thereby, make the childcare program more relevant. The new aims and objectives changed the perception of the residential childcare program.

The ToR for the evaluation was designed with twin objectives: to review the quality and effectiveness of the residential childcare program and to identify new approaches that would be able to respond to the new challenges. The process covered the key elements of evaluation (see section 3.3 above):

1. What is the overall relevance of the project?

The question is whether the goals, concepts and activities of the partner organization are appropriate in order to achieve sustainable impacts to improve the situation of a significant number of children. The relevance is to be assessed according to several criteria, specifically that:

- target groups are selected according to the established criteria of age, risk situations;
- parents, community members, and children themselves participate in the project design;
- the project complies with the traditional support mechanisms of the civil society and the major needs and interests of the poorest and disadvantaged groups;
- the project fits with the governmental policy of service delivery for children;
- the project is a contribution to poverty alleviation for the families.

2. What is the overall effectiveness of the project?

To what extent has the project achieved its goals? Have the different inputs contributed to good infrastructure and pedagogical standards? Have health standards, school enrollment rates, and academic achievements of children improved? Did the assumptions made during the planning phase hold true? If not, why not and what consequences does that have on the project? Were the indicators appropriate? If not, did the project implementation team modify them? What factors can be identified as influential for success or failure? Who were the real beneficiaries of the different results?

3. What is the overall efficiency of the project?

Does the project budget match the activities to be implemented? Are the resources being spent economically and according to the objectives of the

project? How much do the program support and management structures cost and what is the added value of these structures? How do stakeholders contribute to the project?

4. What is the overall impact of the project?

How does the project contribute to the overall objective to improve the situation of children? What is its contribution to solving problems like high dropout rates from school or poor academic performance? What side effects or unexpected results can be observed? How did unexpected results affect the benefits that were obtained? How much are parents and community members benefiting from the project?

5. Sustainability

What is the level of ownership by stakeholders and beneficiaries? How much are parents and community members committed and involved in the project? What is the level of (technical, financial and management) skills of local stakeholders to take over the project or ensure the continuity of its activities? Are working methods or necessary financial and technical inputs adapted to the local standards?

6. What are the main lessons to be learned?

What are the errors to avoid in the future? What are the possible measures to take to resolve problems? What are the recommendations for the various stakeholders? What are the essential factors to ensure the success of similar projects?

To transform these guiding questions into instruments and tools is a challenging task for the evaluators. It requires a combination of quantitative and qualitative research methods and tools to get a maximum of information out of different sources. The project management in turn has to make sure that the evaluators find the best conditions to carry out their research. This implies in the first place that the project managers make sure that all relevant people to be interviewed are informed about the purpose of the evaluation, that they are available and willing to give true information. In addition, there are several primary and secondary sources of verification (documents) that the project management has to prepare or make accessible. In the example of the childcare project evaluation, among these documents are the registers of children that the institution keeps, together with the respective family profiles. Documentation about staff meetings, planning meetings, etc. gives evidence of communication and decision-making processes within the project itself.

Community profiles and government policy papers should also be provided in order to understand the social and political background. Secondary sources indicating poverty rates, standard of living, or nutritional status can be found in governmental statistics or surveys carried out by other institutions.

Coming back to the case study of *Kindernothilfe*, the evaluation demonstrated that institutional care helped in bringing changes in various facets of child development, such as academic achievement, health and nutritional standards, and moral and social development. On the other hand, weaknesses were identified with regard to the participation of parents and community members. Given the overall purpose of the evaluation to identify new approaches that would make a broader impact on the families, the recommendations highlighted the need for paradigm shifts. These included a shift in mentality from being benefactors to being partners with the poor. In other words, participation instead of paternalism was required. The recommended shift from charity to justice keeps the focus on the child rights approach and away from the welfare approach. In practical terms this would require giving children, parents, and communities opportunities for participation in decision-making processes. A shift from the present clientele to the more deserving category of children clearly emphasized that the starting point for any program has to be an assessment of children's needs in a given context. Institutions are called to divert from their vested interests and selfish motives and to reach out to new groups of young people who are facing much higher risks than the usual poor children in residential childcare.

A strategic planning process was agreed upon with *Kindernothilfe* that should guarantee that the project matches the felt needs expressed by parents and other community stakeholders. *Kindernothilfe* decided to continue supporting those institutions that achieve a broader impact and cope with ever growing challenges that children are facing in poor countries.

5. Summary and Conclusion

The call for attention to the area of evaluation came at a time when nonprofit organizations had to enter into a period of realism, as private and public donors were no longer willing to support them on the basis of "blind trust". For a long time, the simple fact that NPOs were tackling social needs and problems widely neglected by the state had given them the prestige of being effective: they were close to their target groups, they needed fewer resources and less bureaucracy than the state. However, the assumption that nonprofit organizations, seen as an autonomous expression of civil society, would automatically be more effective than the state in service delivery was not backed by evidence. With the growing demand for increased effectiveness in

goal achievement, the need for a system of performance measurement emerged and gave way to conceptual debates about evaluation methods and instruments applicable to the particular goals and institutional structures of NPOs. The chapter explored the process of evaluation focusing on terminology, concepts and challenges and its practical application.

At first, evaluations were carried out by governmental agencies to show the effectiveness and efficiency of international programs. In the early years, cost-benefit analysis was the main technique of performance measurement, which however proved to be insufficient to cope with the dynamics of international programs and their changing environments. Qualitative data were needed that were able to provide background information, thus assessing the relevance, impact and sustainability of nonprofit engagement. In the 1990s, a decisive shift in performance measurement took place when evaluation moved away from the approach of external surveillance conducted by outsiders towards an integrative approach that puts a high emphasis on knowledge and insights of the program's beneficiaries. Currently the most common approach among NPOs is participatory evaluation designed as a performance measurement in which the donor organization, the recipient NPO and the targets of the respective program participate. Participatory evaluation aims at improving understanding between partners by intensifying multilateral dialogues.

The evaluation concept of *Kindernothilfe*, a German childcare organization, demonstrated that the theoretical reflections about participatory evaluation models have implications for nonprofit organizations since they require that procedures have to be transparent in every phase of the evaluation. In practice *Kindernothilfe* has set up procedures and semi-standardized Terms of Reference for evaluations that are binding for all partners. This should allow for a maximum of usefulness of evaluation, and it is seen as a guarantee for an open and fruitful dialogue about project quality. The case study about the evaluation of residential childcare confirmed that the most important function of an evaluation is the learning process. The evaluation in question motivated fundamental paradigm shifts in mentality and methods of intervention. Organizations, like human beings, have equilibrium status. Once an organization reaches a particular state of equilibrium, it has a tendency to remain static and becomes complacent. In fact, evaluation is still a new and challenging issue for the majority of nonprofit organizations. Just in the last ten years a number of NPOs have developed and implemented a continuous evaluation system in order to learn from mistakes and to become learning organizations, constantly improving their effectiveness and impact.

Suggested Readings

- Cutt, J./Murray, V. (2000): Accountability and Effectiveness Evaluation in Non-Profit Organizations. London
- Edwards, M./Fowler, A. (eds.) (2002): The Earthscan Reader on NGO Management. London
- Murray, V./Tassie, B. (1994): Evaluating the Effectiveness of Nonprofit Organizations. In: Herman, R.D. (ed.): The Jossey-Bass Handbook of Nonprofit Leadership and Management. San Francisco. pp. 303-324
- Stockmann, R. (ed.) (2004): Evaluationsforschung. Grundlagen und ausgewählte Forschungsfelder. 2nd ed. Opladen

References

- Cutt, J./Murray, V. (2000): Accountability and Effectiveness Evaluation in Non-Profit Organizations. London
- European Commission (1996): Concrete Steps Towards Best Practice Across the Commission. Brussels [http://europa.eu.int/comm/budget/evaluation/communications/communication96_en.htm]
- Fowler, A. (1996): Assessing NGO Performance: Difficulties, Dilemmas and a Way Ahead. In: Edwards, M./Hulme, D. (eds.): Beyond the Magic Bullet. Non-Governmental Organizations – Performance and Accountability. London. pp. 143-156
- Gray, S.T. et al. (1998): Evaluation with Power. San Francisco
- Herman, R.D./Renz, D.O. (1997). Multiple Constituencies and the Social Construction of Nonprofit Organization Effectiveness. In: Nonprofit and Voluntary Sector Quarterly, Vol. 26, No.2. pp. 185-206
- Leeuw, F. (2004): Evaluation in Europe. In: Stockmann, R. (ed.): Evaluationsforschung. Grundlagen und ausgewählte Forschungsfelder. 2nd ed. Opladen, pp. 57-76
- Lewis, D. (2001): The Management of Non-Governmental Development Organizations. An Introduction. London
- Lindenberg, M./Bryant, C. (2001): Going global. Transforming Relief and Development NGOs. Bloomfield
- Murray, V./Tassie, B. (1994): Evaluating the Effectiveness of Nonprofit Organizations. In: Herman, R.D. (ed.): The Jossey-Bass Handbook of Nonprofit Leadership and Management. San Francisco. pp. 303-324
- OECD (1986): Methods and Procedures in Aid Evaluation. Paris
- Patton, M.Q. (1996): A World Larger Than Formative and Summative. In: Evaluation Practice, Vol. 17, No. 2. pp. 131-144
- Roche, C. (1999): Impact Assessment for Development Agencies: Learning to Value Change. Oxford
- Rondinelli, D.A. (1993): Development Projects as Policy Experiments: An Adaptive Approach to Development Administration. 2nd ed. London
- Shadish, W.R./Cook, T.D./Levin, L.C. (1991). Foundations of Program Evaluations. Newbury Park

- Tassie, B./Murray, V./Cutt, J. (1998): Evaluating Social Service Agencies: Fuzzy Pictures of Organizational Effectiveness. In: *Voluntas, International Journal of Voluntary and Nonprofit Organizations*, Vol. 9, No.1. pp. 59-79

Part IV:

Country Profiles: The Nonprofit Sector in Central Europe

Eckhard Priller

Introduction

The following chapters present the historical development and the current situation of the nonprofit sector in Poland, the Czech Republic, Slovakia, Hungary, Germany, and Austria. The reader will get an idea of the national profiles of the nonprofit sector derived from available empirical data. These country profiles provide a comprehensive and profound insight into the history, the prior development, and the current state of the nonprofit sector in each of these countries and will enable the reader to understand the extent of the various objectives and forms of the respective nonprofit sectors. Beyond the insight into the actual performance of nonprofit organizations, the profiles offer an understanding of their prospects and possible solutions to current problems.

The emphasis on national specifics within the different chapters makes it possible to compare the various countries. In addition to pronounced commonalities and parallel tendencies, distinct national particularities and influences of current political issues become obvious. The following chapters pave the way for various comparative perspectives. On the one hand, it enables a comparison between the postsocialist countries themselves. On the other hand, these country profiles can be brought into relation to those of Germany and Austria as representatives of Western Europe.

Although the structure of the country chapters is not fully identical, they all follow a similar scheme. In all the country profiles, the historical retrospective of the transformation countries draws a line between the year 1989 and the following years, which are examined in more detail. Nevertheless, long-standing traditions and post-World War II developments in these countries are covered as well. The section describing existing legislation and regulations governing the nonprofit sector also explains the relevant national terms and provides a typology of organizational forms. A particularly informative section of each chapter is the statistical profile of the nonprofit sector, in which the structure and development of the sector in recent years are clearly demonstrated on the basis of available data on the number of organizations, their fields of activities, their services, and their modes of financing. Of special interest are also the issue of volunteering as well as the sector's current relationship with the state.

Summing up all the presented country reports, several conclusions can be drawn. In the first place, the international increase in the significance of the

nonprofit sector over the last 15 years is evident in the Central-east and East European countries as well. Despite the fact that the processes of social change in Germany and Austria on the one hand and in the postsocialist countries Slovakia, the Czech Republic, Poland and Hungary on the other hand cannot easily be compared in terms of extent and intensity, all these countries experienced changes, as the reports show, that had a massive impact on their nonprofit sectors. After 1990 the nonprofit organizations especially in the postsocialist countries embodied the promise of social change, a new beginning, and the formation of a broad civic society. At the same time, they were confronted with deep distrust, stemming from various sources. In the dispute over the role of the nonprofit sector, the traditional view of the sector as an institution destined to solve the ills of capitalism represents one pole of objections. Following this argument, nonprofit organizations are confined to compensating for the deficits of the state and the market and to alleviate the negative consequences of their activities. The background of this thesis is the thought that a society cannot be created which from the beginning deliberately takes into account specific deficits and therefore in advance considers the creation of structures for the regulation of damage. The other pole of criticism is the thesis that nonprofit organizations are a "practiced collectivistic ideology" and should not be given any chance in a pluralistic party democracy and market economy.

Nevertheless, the support of the nonprofit sector in postsocialist countries also comes from different directions. First, there are the supporters of a civic society, for example, the former Czech president Václav Havel. For such supporters, nonprofit organizations represent organizational forms of a civic society without which it cannot do. Another line of supporters thinks of nonprofit organizations as a valuable potential for reforms that could promote the transformation process as a whole. Attributed to these organizations is the capacity to contribute to the destruction of old structures and the decentralization of society. In the same way, the nonprofit sector is supported by those who hope to find an alternative and a counterweight to the capitalist way of life and labor. Finally, there are supporters among the followers of the former ideology; for them the nonprofit sector is compatible with their ideals of solidarity and community.

A review of the country reports shows quite a few similarities as well as marked differences. Coincidences in the establishment and consolidation of the nonprofit sector, above all, are due to the similar historical background of the postsocialist countries. Although freedom of association formally existed before 1990, it was practically reduced to a system of organizations dominated by the state or the party (Anheier/Priller, 1991). On the one hand, the existing landscape of organizations was characterized by stability, predictability, regular financial allocations by the state, and, moreover, solid funding through fees from a large membership. All this was accompanied by

strict regulation by the state, dirigiste centralism, and the complete integration of the organizations into the political system, which deprived them of the opportunity to make decisions themselves (Anheier/Priller/Zimmer, 2001; Priller, 2001).

Another similarity among the postsocialist countries is the significant growth of the nonprofit sector after the collapse of the former system. The country reports show an enormous increase in the number of nonprofit organizations and a rise in economic strength, as indicators such as employment, turnover and services prove – both signs of great dynamism in this area. But at the same time, the level of the nonprofit sector in these countries significantly lags behind that of Germany and Austria which themselves, according to the international comparison of the Johns Hopkins Project, hold only average positions (Salamon et al., 1999).

The country reports show another resemblance, namely a slowing down or a certain stagnation in growth at the end of the 1990s. This “retarded” development is due to different factors that together form the specific terms of transformation and transition as well as contradictory situations. Among those factors was the impossibility to perform an abrupt and painful cutback of the dominance of the state of the former system. The responsibility of the state for several areas of society such as culture, healthcare, social services or education and science could not be transmitted to nonprofit organizations to the same extent as is common in Germany or Austria. Because there were no nonprofit organizations capable for such a transfer, there was no alternative to the continued involvement of the state. On the other hand, with a view of the persistent influence of the state, the responsibility for specific areas should remain with the nonprofit organizations. Despite this, the forced inclusion of nonprofit organizations into the production of services led to the formation of a rather state-dominated nonprofit sector (Frič, 2000).

The formation and consolidation of the nonprofit sector continue to be influenced in many ways by traditional structures and obsolete mechanisms. This becomes evident as the state continues to control the nonprofit organizations, and the nonprofit organizations attempt to obtain major allocations from the state, thus prolonging their dependencies (Toepler, 2000). This is also achieved by the way the state allocations are distributed. This situation is characterized by a deficiency in transparency and quite a low level of forward-thinking on the part of the nonprofit organizations. Indeed, this problem concerns nonprofit organizations in Germany and Austria as well, and hampers their activities.

Assessing recent developments, it can be said that the nonprofit sector did not get the same attention and support for its establishment and profiling in the course of the transformation process as the market and state sectors did (Anheier/Toepler, 1998). In retrospect, this seems only to a lesser extent to have been a question of lack of alternatives. More important was the fact that

the interest in the nonprofit sector and the support for it were limited because of the objective and individual subjection to traditional structures and mechanisms. In addition, the specific functions and capacities of the nonprofit sector are widely underestimated, and politicians are barely taking it into account in their proposals. The same applies for Germany and Austria.

Yet, on the part of the nonprofit organizations there are also specific deficits and missed opportunities. Thus, although a process of self-regulation and self-organization of the nonprofit organizations already had been started – which, in comparison with Germany and Austria, might even be considered more progressive – this process never got beyond the early stages. Therefore, the foundation of effective and strong umbrella organizations and the creation of a “code of ethics” in most of these countries are still on the agenda.

The country reports also reveal that nonprofit organizations face similar problems, which are not confined to the East European transition countries, but are at least in part relevant in Germany and Austria as well. In the first place, nonprofit organizations are not duly integrated into the civic society. In this respect, the demand for volunteers and their current insufficient integration into the activities of the nonprofit organizations are of specific significance. Similarly, the development of new forms of cooperation with the state, which go beyond the traditional relation of subordination, has to be fostered. Additional deficits exist especially in the management of organizations. In general, low professionalism and a rising demand for a higher professionalism as well as low staff salaries present serious problems. According to the country reports, the rivalry between organizations that existed before 1990 and those that were founded only after this date is yet another problem that continues to exist.

A comparison between the reports of the countries shows a broad coincidence of problems not only in the transformation countries, but also in Germany and Austria (Anheier/Seibel, 2001). Whereas the formation and integration of the nonprofit sector in Western Europe seem to be more comprehensive and realized more effectively, the interrelations between the nonprofit organizations in the transformation countries prove to be stronger. This means that a learning process in both geographic directions ought to be encouraged.

The country profiles also make clear that the consolidation of the nonprofit sector in the postsocialist countries will not be completed in the near future. In Germany and Austria as well, further development has to be initiated. All in all, the scene is dominated at present by an intensive search for new methods, ways and solutions. In spite of the nonprofit sector’s constructiveness, innovation, and search for new solutions, a skepticism concerning its effectiveness and attacks on the positions and status of nonprofit organizations still prevail. As the long-standing discussions in Germany, Austria and other countries of Western Europe show, these attacks

are also directed at the legitimacy of nonprofit organizations in general, at aspects of missing democratic control as well as their cooperation with the state. The nonprofit organizations in Western Europe as well as in the postsocialist countries are confronted not only with the demand to solve the actual problems, but also with the task to dispel the persisting reservations.

References

- Anheier, H.K./Priller, E. (1991): The Non-Profit Sector in East-Germany: Before and after Unification. In: *Voluntas* (2), pp. 78-94
- Anheier, H.K./Priller, E./Zimmer, A. (2001): Civil Society in Transition: The East German Third Sector Ten Years after Unification. In: *East European Politics and Societies* (EEPS), Vol. 15, No. 1, pp. 139-156
- Anheier, H.K./Seibel, W. (2001): *The Nonprofit Sector in Germany. Between State, Economy and Society*. Manchester/New York
- Anheier, H.K./Toepler, S. (1998): The Nonprofit Sector and the Transformation of Societies: A Comparative Analysis of East Germany, Poland and Hungary. In: Powell, W.W./Clemens, W. (eds.): *Private Action and the Public Good*. New Haven, pp. 177-189
- Frič, P. (2000): *Strategy for Development of the Non-Profit Sector*. Prague
- Priller, E. (2001): Der Dritte Sektor in den neuen Ländern – initiativ, engagiert und erfolgreich. In: Hinrichs, W./Priller, E. (eds.): *Handeln im Wandel. Akteurskonstellationen in der Transformation*. Berlin, pp. 175-199
- Salamon, L.M./Anheier, H.K./List, R./Toepler, S./Sokolowski, W.S. (1999): *Global Civil Society. Dimensions of the Nonprofit Sector, Part 4: Central and Eastern Europe*. Baltimore, pp. 283-370
- Toepler, S. (2000): From Communism to Civil Society? The Arts and the Nonprofit Sector in Central and Eastern Europe. In: *Journal of Arts, Management, Law and Society* (30), pp. 7-18

Andrzej Juros, Ewa Leś, Sławomir Nałęcz, Izabela Rybka, Marek Rymśza, Jan Jakub Wygnański

From *Solidarity* to Subsidiarity: The Nonprofit Sector in Poland

1. Preliminary Remarks

The history of institutionalized civic activity in Poland reaches back to the 12th century. Three commingling sources – namely, the Christian heritage, the secular humanist tradition, and pro-independence sentiment – inspired and animated the development of organized social activity in Poland. During the period preceding the political and economic reforms launched in 1989, it was the country's Christian tradition and its pro-independence efforts that assumed key importance. These two traditions, in particular, shaped the “Solidarity” civic movement, the emergence of which in 1980

“signaled a new stage of civil society development across the region and was a harbinger of the processes that eventually led to (...) the overthrow of the communist regimes and the reunification of Europe” (Leś/Nałęcz/Wygnański/Toepler/Salamon, 1999: 325).

Twenty years later, after finishing the transformation from communism to democracy and just before joining the European Union, the condition of the nonprofit sector in Poland is relatively modest, if not poor. Judging by the number of people supporting nonprofit organizations, commitment to civic involvement cannot be seen as very high.

“If we exclude trade unions — membership in which consists mainly of paying membership dues and rarely gives rise to any durable social bonds – it turns out that two-thirds of the Polish population is not involved in any form of civic life” (Bogucka, 2001).

The financial standing of the nonprofit sector is weak (Regulski, 1999). Compared with other European countries (including those in Central and Eastern Europe), nonprofit organizations in Poland employ relatively few people. Employment in the nonprofit sector is estimated to be an equivalent of 123,000 full-time jobs; this figure corresponds to roughly 1.2% of nationwide employment outside agriculture and to 2.5% of employment in the public sector (Leś/Nałęcz, 2001). The distribution of financial resources within the nonprofit sector is characteristic of an oligarchy — about 14% of nonprofit organizations operate with practically no financial resources while

the top 2% command 43.4% of all resources (KLON/JAWOR: 5).

The organizational infrastructure of civil society in Poland i.e., the number of organizations, is still five times smaller than in EU or other developed countries. At the same time clear similarities in the level of the nonprofit sector development can be seen between Poland and other Central and Eastern European (CEE) countries. This situation is a result of the communist state policy that damaged voluntary organizations and liquidated their economic base. The strong economic position of the sports and recreational organizations as well as the relatively good situation of labor unions and professional organizations also links the present structure of the nonprofit sector to the period of communism when these fields of organized activity were supported by the regime. Furthermore, the governmental authorities initially continued the policy of relatively generous state support towards the recreational organizations.

The weak economic standing of nonprofits active in the traditional welfare fields (education, health, social services, and local development) is another consequence of communism, which eliminated independent organizations active in the service sphere. To a certain extent, the post-1989 governments also bear responsibility for this. The reforms undertaken by these governments did not designate any space for the nonprofit sector within the reformed public welfare system. The nonprofits were treated during the last decade as a part of the private, commercial sector and were not entitled to any systematic assistance from the state. Given its currently limited economic potential, the nonprofit sector can perform the service function significantly only in some niches left by the state and unexplored by the market (e.g., shelters for the homeless, hospices) (Nałęcz, 2002).

As a result, the dynamic growth of nonprofit organizations in Poland during the first years of its political transformation decelerated markedly towards the end of the 1990s. The resulting stagnation could perhaps be overcome if nonprofits were to become able to get involved in providing social services financed with public funds. Such a structural solution is to be implemented through a new Law on Public Benefit Activity and Volunteering. The law will be finally passed most likely during the Spring 2003.¹

Two main terms are used to describe the institutional aspect of civic, independent, nonprofit and voluntary activities currently undertaken by Poles: "nonprofit sector" and "nongovernmental sector" (and respectively: nonprofit organizations, or simply nonprofits, and nongovernmental organizations, or NGOs). The term "nongovernmental sector" is used by the authors in a narrow meaning, according to the definition of NGOs in the new Polish Law on Public Benefit Activity and Volunteering. The draft of the law defines

1 During the time of up-to-dating the analysis and making closing remarks, the Law has been passed by Sejm and was waiting for the statement of the Senate and President.

NGOs as associations, foundations and church-affiliated organizations performing public benefit activity. The term “nonprofit sector” as used here takes into account all NGOs as well as a wider group of organizations, including: organizations (mainly associations) operating on the basis of specific legal regulations, including The National Defense League, the Polish Red Cross etc.; social committees, not necessarily fully formalized, e.g., parent councils, community bodies; organizations of the mutual/club character, e.g., agricultural clubs, rural housewives’ clubs, hunting clubs; business and professional self-government bodies other than organizations in which membership is obligatory for all practitioners, e.g., guilds, commercial and trade chambers; and trade unions and employers’ unions. It has to be stressed that this profile of the nonprofit sector in Poland does not cover some noncommercial but economically-oriented initiatives such as cooperatives, mutual insurance companies, etc., treated in some comparative analyses - using a term of French origin - as a part of the social (which means noncommercial) economy sector (CIRIEC, 2000).

Analyses are based on two main sources of data: (i) data collected by the KLON/JAWOR Association - operator of the Data Bank on Nongovernmental Organizations in Poland, and (ii) data from publications of the Institute of Political Studies, Polish Academy of Science (INP-PAN). These two sources of data are hardly comparable as KLON/JAWOR’s research interest is focused strictly on Polish NGOs, while the INP-PAN studies take into account rather the whole nonprofit sector. It may raise some difficulties for the reader but, on the other hand, a picture of the Polish nonprofit sector based on only one of these sources would be too simplified.

2. On the History of the Nonprofit Sector in Poland Prior to 1989

Six periods in the history of the nonprofit sector in Poland can be distinguished.² The first period, the Old Polish Era, begins in the Middle Ages and ends in the 18th century with the loss of Poland’s sovereignty. This period was shaped by the charitable, philanthropic and civic traditions of Occidental Christianity. Mediaeval Poland, after adopting the Christian faith in 966 A.D., fell under the influence of the Western Christian charity culture, which originated from the Christian imperative of mercy and was reflected in the church’s charitable and educational institutions. Ethnic and religious differences constituted another factor in Polish philanthropic practice. Although the Western Christian tenet of mercy remained the greatest

2 Most of the information presented in this section of the profile is based on Leś (2001).

inspiration, charitable activity in Poland relied strongly on the traditions of the Christian Orthodox, Judaic and Islamic faiths. Each of these religious communities developed its own concept of charity and its own institutions for care of the poor. The first period in the historical development of the Polish nonprofit sector is dominated by charitable activities of almost entirely sectarian nature. Modern state interventions in social welfare were weak, and a process of secularization of control over charitable institutions was not then introduced.

The dawn of the Age of Enlightenment, with its doctrine of New Philanthropy and humanitarian ideas, witnessed the glorification of work rather than charity as the antidote to poverty. Rapidly growing industry made the activity of philanthropic institutions, such as orphanages and hospitals, conditional on the demand for labor and productivity of unattached persons. Thus the typical Polish welfare institutions of the late 18th century followed the example of their counterparts in Western Europe and started to perform a dual function of charity and repression. Baron le Fort's *Instytut Ubogich* (Institute for the Poor), which operated in Warsaw in the years 1783-1786, was an example of such an establishment. It provided aid for the disabled and other "truly" needy, and, at the same time, was used as an internment house for the able-bodied that shunned employment. The ensuing age of industrial development saw the birth of a new kind of philanthropist – the entrepreneur.

The second phase of the historical development of Polish nonprofit sector started in 1795 (when Poland lost its independence). The partition period 1795-1918, when Poland ceased to exist as a sovereign state, was an exceptional time in Polish history. In spite of interdictions, obstacles and restrictions imposed by the oppressors, the charity and philanthropic organizations managed to continue their traditional aid for the poor, while taking over many functions of public institutions. Among the numerous civil ventures undertaken at the time was the *Warszawskie Towarzystwo Dobroczynności* (Warsaw Charity Society), one of the oldest philanthropic organizations in the partitioned country, founded through the initiative of countess Zofia Zamoyska nee Czartoryska. The Society provided immediate support for the poor and supervised several charity institutions: homes for orphaned children, a boarding house, a workhouse for seamstresses, and a home for the disabled.

The period of World War I brought great changes in charitable and philanthropic activity in Poland. Huge material loss and destruction, especially in the Austrian-ruled province of Galizia and the Russian-ruled Kingdom of Poland, made it necessary to organize aid for war victims. Here at least two examples of such enterprises should be mentioned: one inspired by Adam Stefan Sapieha, bishop of Kraków, and another, called *Generalny Komitet Pomocy dla Ofiar Wojny w Polsce* (General Aid Committee for War Victims in Poland), independently and almost simultaneously initiated by

Henryk Sienkiewicz, Ignacy Paderewski and Antoni Osuchowski in the Swiss township of Vevey. Bishop Sapieha's appeal of December 25, 1914, which summoned all nations to help Poland and its war victims, met with a prompt response from a variety of institutions throughout the world, especially from the Polish migrant community. The General Aid Committee, which collected funds and purchased necessary goods, transferred all the donations for subsequent distribution by the *Krakowski Biskupi Komitet Pomocy dla Dotkniętych Klęską Wojny* (Committee for Aid of the Victims of War Atrocities), chaired by Bishop Sapieha.

The restitution of independence in Poland in the year 1918 constituted a hiatus in the history of Polish nonprofit organizations whose role underwent a profound change as Polish authorities successively took over culture, healthcare and education. In any case, there was a widespread belief that the resurrection of Poland should result in state control over issues that had heretofore remained a matter of private generosity. The conviction that it is the duty of the state to shoulder the burdens suffered so far by the general public was so powerful that the prominent Polish writer Stefan Żeromski even expressed anxiety that the generosity of Polish citizens was at its end. In practice, however, voluntary work played an important role in the years prior to World War II, as the state was not strong enough to deal with the overwhelming social needs and problems. One example of civil initiative in the pre-war period was the Count Hutten-Czapski's Smogulecka Foundation, created for the purpose of supporting culture and scientific research.

During World War II, as in the period of partition, voluntary activity became an instrument of saving human life and national cultural heritage. Despite the total ban on voluntary social work imposed by the German occupation forces in the General Government district, there existed various kinds of self-help and self-defense organizations, taking the form of underground charity, clandestine teaching and legal aid, and once again confirming the exceptional solidarity and generosity of the Polish public. These charitable enterprises, as well as support provided for prominent figures of culture and science by *Rada Główna Opiekuńcza* (General Care Council), the Polish Red Cross, the Catholic Church, *Związek Spółdzielni Spożywców RP "Społem"* (Cooperative Consumers' Association "Społem"), and also by many entrepreneurs, factory owners and private donors, helped the nation to survive and preserve its culture.

In the post-war period 1947-1989, the role of the nonprofit sector in Poland was significantly reduced in comparison to Western European countries, as the adverse political, legal and financial conditions almost totally inhibited a truly free undertaking of civil initiatives. The totalitarian period was indeed a "charity depression," as the state took over most social welfare functions.

After 1947, Poland's newly installed communist authorities embarked on

a policy of stifling self-governed social activity. Their efforts to eliminate the institutions of civil society and seize control over the work of social organizations were pursued through the application of four instruments: (i) the liquidation of existing civic organizations and institutions; (ii) enforced merging of associations operating in a given field into single blocs; (iii) state propagation and sponsorship of social organizations on a mass scale; and (iv) stringent rationing of all resources necessary for organizations' existence and operation, e.g., office space, funds, permits for holding mass events, etc.

Given these political conditions, guardianship over the tradition of social activity, whether rooted in religious or in patriotic feeling, passed to the Catholic Church, the only institution that managed to maintain its independence from the totalitarian state. It is thanks to the Catholic Church that Poland's culture of social activity could preserve itself in a more or less latent form across the decades following World War II in order to rise again in 1980 in the form of the Solidarity movement. For more than forty years, civic activity, which sustained the national spirit and the traditions of working towards the public interest, was initiated and developed under the aegis, and often through the initiative, of the Catholic Church. Another group, which played an important role in maintaining civic self-initiative during the pre-Solidarity era, comprised the opposition circles assembling around dissident organizations such as the Polish Independence Pact (Polish acronym PPN), the Committee for the Defense of Workers (KOR), and the Movement for the Defense of Human and Civil Rights (ROPCiO).

The short-lived blossoming of the "First Solidarity" (1980-1981) enabled the actual involvement of a larger portion of the general public in the life of the country. Organizations that had been dissolved under communist pressure were reborn, and entirely new ones were convened; examples from this latter group include the St. Brother Albert Aid Society and the Committee for Protection of Children's Rights, both established in 1981. This brief period of political freedom enjoyed by Polish society can be compared to the first years of the country's reconstruction following World War II, which witnessed the re-activation of many organizations, secular as well as religious, that had been delegatized during the occupation (Leś, 2000).

The imposition of martial law in December 1981 again deprived Polish society of the possibility of uninhibitedly articulating its needs and rights. Over the years of 1982-1989, overt activity was possible only for quasi-social organizations remaining under control of the state. Most of the self-governing organizations established in 1980 and 1981 were dissolved, with a portion of them – such as the Solidarity trade union and the Independent Students' Association (NZS) – continuing their operations on an underground basis. In 1982, the underground National Education Council was convened and set to work fostering the growth of outlaw committees for independent education and culture (designated by the acronym OKNO – Polish for "window"). The

Nationwide Committee for Worker Resistance was also set up. Also in this area the Catholic Church played a prominent role, opening its infrastructure and organizational resources for use by the dissident groups – even those with no particular links to the Church. The Aid Committee established by the superiors of Poland's Catholic Church carried on social and charitable activity for the benefit of political prisoners and their families. On another level, the Church was the only institution independent of the state that maintained contacts with the authorities.

The Catholic Church's contribution to the development of nonprofit organizations might be characterized as long lasting and continuous, being a legacy of the Old Polish Era and recent post-war history. Despite formal restrictions, the Roman Catholic Church succeeded in running some of its historic charitable and educational activities and initiating and sheltering various informal conspiracy organizations as well as Catholic religious movements that were spreading alternative lifestyles based on a system of values contradictory to those promoted by the communist regime [e.g., movement "Light-Life" (*Światło-Życie*), rosary circles (*kółka różańcowe*), *neokatechumenat* priesthoods, scouts organizations]. Generally the parishes provided an asylum for all kinds of independent initiatives and offered an infrastructure for the activity of local communities (Leś/Nałęcz/Wygnański, 2000).

Energetic development of church-affiliated nonprofits in the 1990s was facilitated by the recovery of church properties nationalized during communism and by transferring catechization from church buildings to public schools, which allowed a significant part of the church infrastructure to be used for new purposes. In addition, the strong charitable traditions of numerous religious orders as well as longstanding cooperation between the orders and the state's social care institutions, which existed in a very limited form even during communism, played an important role in the dynamic reconstruction of Catholic Church-based charities (Nałęcz, 2003b).

The years following the repeal of martial law brought an overall decline in the quality of life and a progressing economic crisis. Given its manifest inability to address many important needs of Polish society, the government found it necessary to assume a more accommodating attitude with regard to various self-help social initiatives arising during the latter half of the 1980s (Leś, 1985). Also, there occurred a revival of selected "old" associations; one of these was the Society of the Friends of Children which put in place a system for mutual assistance extending to some 100,000 parents of children afflicted with diabetes, cancer, motion impairment, or mental disability.

A factor favorable to the invigoration of official as well as informal self-help efforts during the first half of the 1980s was presented in the sizeable influx of humanitarian aid from abroad. Much of this aid, its sheer volume surpassing anything seen in Poland since the end of World War II, was

channeled through the Catholic Church, one of the country's few remaining institutions of public trust. The various gifts arriving from church authorities and Caritas branches of various countries as well as from secular institutions, humanitarian organizations (such as the International Red Cross) and private donors were distributed by the Charity Commission of the Polish Episcopate and by the Diocese Charity Units. Thousands of households benefited from much-needed gifts of food and clothes. The medical aid alone received by the Charity Commission of the Polish Episcopate between 1984 and 1986 is estimated at more than \$100 million (Firlit, 1991).

Come 1983, the Polish Social Aid Committee, whose gifts were handed out to some 200,000 recipients in previous years, was extending in-kind assistance to approximately 1.2 million Poles. This feat was made possible thanks to the veritable deluge of clothes and food packages from abroad, particularly from the organization Care, based in the United States (Leś/Piekara, 1988).

Various informal self-help initiatives were also on the upswing, reinvigorating the self-organization of Polish society and contributing to a rebuilding of the philanthropic ethos during the waning years of the People's Republic of Poland.

The end of the 1980s was marked by the beginnings of far-reaching reforms and of the dynamic growth of civil society institutions brought on by those reforms. The year 1989 marks an undisputed breakthrough in the development of Poland's nonprofit sector. The political and social transformation launched at this time should not be regarded as an importation of civil society ideology from Western Europe or from the United States, but rather as a release of Poland's own social and cultural potential, which was finally presented with conditions providing for a relatively permanent institutionalization of its activity.

3. Formation of the Nonprofit Sector after 1989

After the 1989 signing of the Round Table Agreements that cleared the way for the country's gradual democratization, there followed a formidable upsurge of civic activity. One of the results of the talks between the democratic opposition and the communist authorities was the 1989 promulgation of a legislative act regarding associations. The Associations Law did away with the limitations on freedom of association that had been in place until that time. The "Solidarity-social" party's activities subsequent to the Round Table negotiations were carried on in the form of formal civic committees. During the initial stages, the operation of these civic committees evoked the mass social stirring of the "First Solidarity" (1980-1981). Yet the

democratization of public life ensuing after 1989 proved to be conducive to a parting of ways between the participants of the committees, who went on to assume quite a variety of political and social roles. At the same time, a distinct tendency for stepping back from the main current of political events soon manifested itself among the NGO activists, many of whom uttered hard words about the style in which political activity has been pursued – also by those members of the new power elite who trace their lineage to Solidarity.

Among the peculiarities of the nonprofit sector in Poland, the important pro-transformational role of the NSZZ “Solidarność” should be mentioned. “Solidarność” was the first legal, independent labor union in the communist block and at the same time acted as a large-scale, multifunctional civic organization challenging the party-state monopoly in the social and political sphere. From the martial law of December 1981 until 1989, “Solidarność” functioned mainly as an illegal political opposition movement, which finally managed to reach compromise with the communist authorities, and thereby facilitated the first free election and peaceful regime change. After 1989 “Solidarność” reintroduced itself as a labor union. At the same time it became a rich source of new political elites and performed a pacifying function during the most difficult period of the shock therapy introduced to the Polish economy in the first years of transformation. Later “Solidarność” also performed an important political role serving as a base of social support for right-center political parties. This political engagement turned out to be an obstacle to the effective performance of the main function of a labor union, i.e., representation of the employees’ interests, which in turn caused dissatisfaction and withdrawal of part of the membership. In addition to its political role, “Solidarność” was also a very active agent of change within public sector enterprises where its local structures pressed for preparation of the plans for market accommodation and served as watchdogs of the collective interests counterbalancing the selfish tendencies of the management (Nałęcz, 2003b; according to Pańków, 1999).

During the first years of the Polish reforms undertaken after 1989, nonprofit organizations served as agents for political, social, and economic change. In those days, the resurgent civic sentiment found its outlet in a feeling of shared responsibility for the reform process and for its ultimate success. At the same time, the activity of nongovernmental organizations presented a spontaneous response to the new needs and aspirations of Polish society. Many of the nonprofit organizations concentrated their efforts on assisting the “losers of reform” (the “new poverty” brought by large-scale unemployment associated with the institution of a market economy), becoming independent monitors of the social policy of the state in the process.

The political changes instituted in Poland paved the way for legalizing many civic initiatives that had operated on an informal, or altogether

underground, basis. There also arose a host of entirely new nongovernmental organizations. Between 1989 and 1992, 23,138 associations and 2,901 foundations were registered in Poland's courts (in the case of foundations since 1984). The subsequent years witnessed a significant decline in registrations, with a total of 26,121 new associations and 2,977 new foundations established between 1992 and 2002. This latter period, however, brought a steady, if slow, coalescing of the nonprofit sector's economic position, with this modest yet positive dynamic driven not by public subsidies, but by development of the nonprofits' own economic base and by considerable assistance furnished by organizations and foundations from other countries.

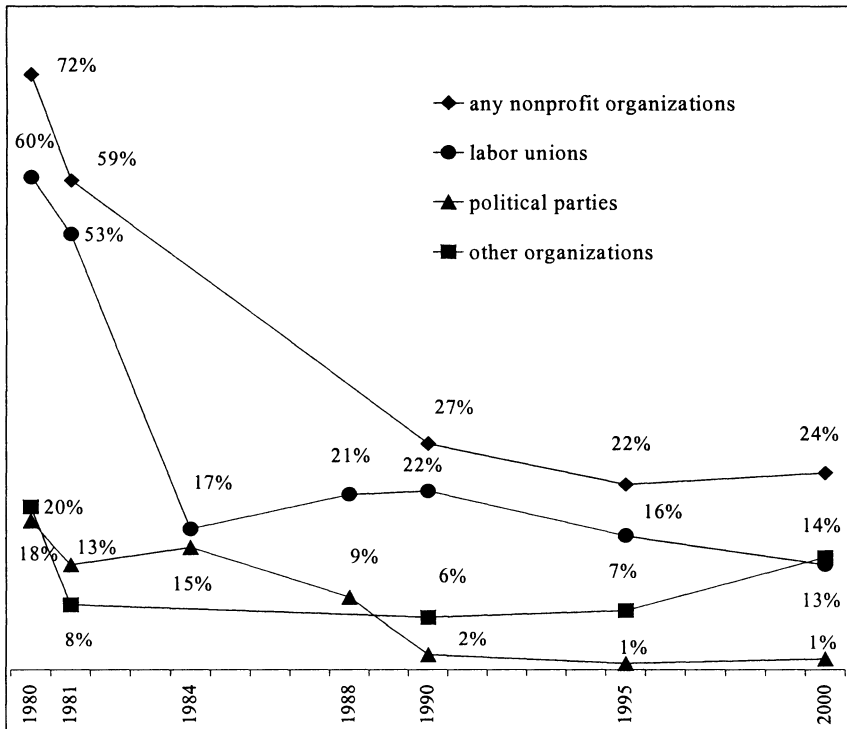
The development of the charitable and educational infrastructure of the Catholic Church, meanwhile, was rooted in the gradual restitution of Church assets that had been nationalized by the communist authorities as well as in the enactment of legal regulations conducive to social activity on the part of Church-sponsored facilities and organizations. At present, well-nigh half of the nonprofit sector's combined potential in the area of social services and humanitarian aid is accounted for by the Church, with Church-affiliated entities also making their mark in such areas as culture, education, and healthcare.

Foreign organizations and institutions also contributed materially to the reconstruction of civic self-governance in Poland. They served in an important complementary capacity in that, as Poland's reforms got underway, foreign aid was significantly reoriented from assisting needy individuals to building up the infrastructure of civil society. Unfortunately, come the mid-1990s, foreign donors began to scale back their support to the nonprofit sector in Poland. For many of them, moves to this effect amounted to a vote of confidence, a laudation; by opting for such a policy, they were making the point that Poland is a fully-fledged democracy no longer in need of lifelines from abroad.

Yet during the first years of the Third Polish Republic,³ the overall social base relied upon by the nonprofit sector was actually contracting, the snowballing of newly registered NGOs notwithstanding. This was a corollary of sorts of the gradual withdrawal of the population from social and political organizations manifesting itself during the final years of the Polish People's Republic. In 1980, no less than 72% of Polish adults were involved in trade unions, political parties, or other nonprofit organizations; this figure fell to 59% in 1981, to 27% in 1990, and to 22% in 1995 (Nałęcz, 2003b).

3 The term Third Polish Republic employed to designate Poland after the year 1989 indicates the continuity of Polish statehood with the inter-war period (the Second Polish Republic, 1918-1939) as well as emphasising the political break with the Polish People's Republic of communist times.

Graph 1. Membership in Assorted Organizations, including Trade Unions and Political Parties, 1980-2000



Source: Series of surveys "Sprawy Polaków" carried out by Adamski, W. et al. (2001), In: Pełczyńska-Nałęcz, K.: *Od Solidarności do wolności. Dynamika aktywności politycznej w okresie zmiany systemowej*, typescript. Warsaw: Institute of Philosophy and Sociology, Polish Academy of Sciences (IFiS-PAN).

Graph 1 illustrates the restructuring of the nonprofit sector's membership base occurring across the last decade of the Polish People's Republic (the 1980s) and the first half of the 1990s. The general tendency was one of declining membership in trade unions, political parties, and similar large-scale social organizations originating during communist times, coupled with increased enrollment in nonprofit organizations established after the commencement of reforms.⁴

4 After the martial law period, a marked decline of social engagement in state-controlled organizations ensued (as the reader will recall, all others had been banned), a phenomenon reflected in the falling enrollment in these institutions after the 1980s. The reduced

Given the increasing involvement of the citizenry in nonprofit activity, one can speak of an arrest, or even reversal, of the downward trend in organized activity as of the mid-1990s (the uppermost line in Graph 1). Public opinion studies carried out by the Center for Public Opinion Research (Polish acronym CBOS), meanwhile, indicate that, by the late 1990s, the proportion of the adult population active in various organizations had stabilized at approximately 25%.

This restructuring of the membership base of nonprofit organizations was accompanied by a qualitative shift in the character of involvement in organizations: from mass-scale, not necessarily willing, and most often passive membership to a more elitist, deliberate, and active commitment animated by inner desire and free will. The research indicates that members of organizations contribute community service four times as often as other respondents (37% of organization members included in the surveys) and are twice as likely to donate financial contributions to organizations (79% of organization members).⁵

If one considers, however, that only one in four adult Poles declared membership in an organization of some sort and that one in six has assisted some organization with unpaid work at least once a year, the conclusion can be drawn that the social base of the nonprofit sector in Poland is considerably more narrow than in the EU's northern or central countries. On the other hand, European Value Survey data on membership and volunteering in Poland and in countries such as Hungary, Romania and Bulgaria suggest that, taken together, the level of involvement in social organizations across Central Europe is similar to that observed in Poland, lending credence to arguments about a "heritage of real socialism."⁶ The perfunctory, facade-like nature of the social organizations functioning in communist times has led to a depreciation of social organizations and of the institutions of membership and social work. As a result, the overall level of civic membership in nonprofit organizations, as compared with that seen in developed countries, is currently low, and concepts such as social work or social organizations, at any rate in their positive meanings, have fallen from quotidian discourse.

membership in trade unions during the 1990s, meanwhile, was associated with the privatization of large, state-owned enterprises. After 1989, membership counts in other mass organizations were likewise on the decline. To cite some examples (all of them referring to the figures presented by the organizations concerned), the Polish Red Cross saw its membership fall by 261,000 people over the period 1990-1997; the Polish Association for Tourism and Sightseeing, by almost 395,000; and assorted sports organizations and clubs, in excess of 3,335,000 members (Nałęcz, 2003a: 37-38).

5 Data obtained in a public opinion survey carried out by OBOP in mid-1998, comprising a randomly selected, representative group of 1153 inhabitants of Poland on instructions from the International Nonprofit Sector Research Team in Poland - see S. Nałęcz (2003a).

6 The Czech Republic and Slovakia have much higher rates of membership and volunteering than the other CEE countries including Poland - see Bratkowski/Nałęcz (2002).

The involvement of Poles in social activity is not limited to membership in nonprofit organizations, with the latter form finding a significant complement in various activities related to religion, most importantly to the Catholic Church.

The breakdown of membership in organizations of an association character has been set out in Table 1 below. In September 2002 the KLON/JAWOR Association conducted a very detailed survey on NGOs in Poland based on extensive face-to-face interviews of a representative, stratified sample of approximately 1000 NGOs.⁷ According to the results of this survey, more than half of the NGOs have fifty members or less. Organizations with mass membership (in excess of 1500 members) account for a mere 3.1% of the total; in what is a telling fact, most of these are older organizations, in existence for twenty years or more. With these data in hand, one can speak of a progression from mass-membership organizations to ones focusing their activities on the mass recipient; state-of-the-art marketing tools are more likely to be used in obtaining revenue than in soliciting new members.

Table 1. Membership Structure in Associations

Number of Members	% of Organizations
Up to 50	56.0%
51 to 150	28.3%
151 to 500	10.1%
Up to 1500	2.5%
Over 1500	3.1%
Total	100.0%

Source: Research conducted by KLON/JAWOR Association, 2002 (unpublished)

According to the criteria formulated by researchers participating in the Johns Hopkins Comparative Nonprofit Sector Project (Salamon, et al., 1999), membership in the nonprofit sector requires that the entity in question fulfill five requirements, namely: (i) existence of an organizational structure, (ii) structural independence from public authorities, (iii) not-for-profit profile of operations, (iv) organizational sovereignty and self-governance, and (v) voluntary nature of membership. Organizations that meet this definition are comparatively plentiful in Poland; Table 2 below summarizes the information about them.

7 Most of the data from the KLON/JAWOR Association 2002 research presented in this profile have not been published yet. See Dąbrowska/Gumkowska/Wygnariski (2002); Dąbrowska/Gumkowska (2002).

Table 2. Organizations Operating Under Different Legal Forms (as per the REGON statistical system)

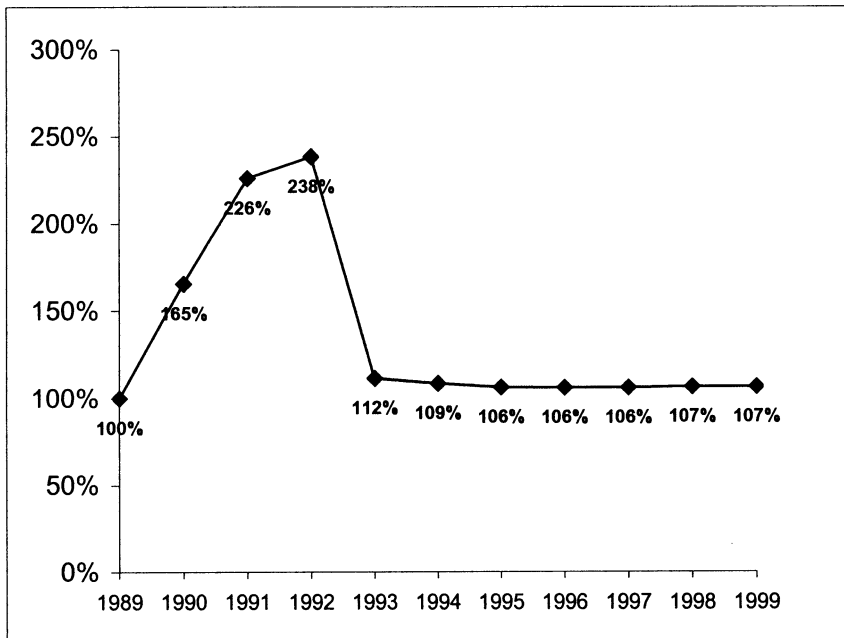
Legal Form	Estimated percentage pursuing active operations⁸	Number of registered organizations, 2000
Foundations	66%	5,020
Political parties	28%	397
Associations	76%	40,871
Social organizations – other secular social associations operating on the basis of other regulations, including hunting clubs, The National Defense League, the Polish Red Cross, Parent Councils, and social committees (e.g., community bodies charged with road or plumbing network construction)	68%	11,493
Trade unions	89%	13,979
Employers' unions	93%	156
Business and professional self-government bodies (other than organizations in which membership is obligatory for all practitioners, e.g., Physicians' Chambers or Attorneys' Councils); guilds, commercial and trade chambers, agricultural clubs, and rural housewives' clubs.	70%	2,954
Churches and their social institutions, i.e., affiliates of churches and religious associations carrying on secular activity, including membership organizations (e.g., the Catholic Action, the Brotherhood of Orthodox Christian Youth), social institutions of churches (e.g., schools, care centers, Caritas, editorial and publishing operations)		16,198
Total		93,068

Source: Central Statistical Office of Poland (2000)

8 Estimates based on research carried out by the Central Statistical Office of Poland (1997). The percentages given in this column indicate the proportion of organizations responding to the questionnaire out of all entities registered in the given group as of 1997. Clearly, then, these figures ought to be regarded in terms of "not less than," since, surely, there are some perfectly active organizations that did not reply to the questionnaire.

It should be borne in mind that the last column of Table 2 sets out the number of registered organizations; the number of active organizations in any given category is invariably lower, being between one-third and two-thirds less than the number of registered entities (depending on the definition of “active” opted for, the type of entity, and the source of the information). The patterns of change in the number of nonprofits of various types have been set out in Graph 2.

Graph 2. Changes in the Number of Selected Types of NGOs in %: 1989-2000



Source: Data furnished by the Ministry of Justice.

4. Condition of the Polish Nonprofit Sector in the Year 2002

Recent research efforts conducted by the KLON/JAWOR Association, operator of the Data Bank on Nongovernmental Organizations in Poland, and by researchers at the Institute of Political Studies, Polish Academy of

Science, among others, shed new light on the dimensions of the Polish nonprofit sector and its various parts. In many cases, these measures can be seen in comparison with the nonprofit sectors of other countries.

Employment and Expenditures

The Polish nonprofit sector proves to be a modest economic force. It generates an equivalent of 123,000 full-time jobs; this figure corresponds to roughly 1.2% of nationwide employment outside agriculture (including work contracts as well as other types of hired employment) (Leś/Nałęcz, 2001). The employment index (i.e., the proportion of third sector jobs in the overall employment figure for the country) is approximately ten times smaller than in the Netherlands or in Ireland and six times less than in the United States; at the same time, the Polish index matches the average for Central and Eastern Europe.

Nonprofit sector expenditure indicators are at approximately the same level as the above employment figures and show a similarly modest share relative to the country's GDP (1.3%). Although the inclusion of volunteers and institutionalized religion (churches) with its volunteers raises this share to 1.5% and 1.9%, respectively, of Polish nonagricultural employment, still the position of the nonprofit sector in the Polish economy is weak and shows that the sector is underdeveloped when compared to the situation in Western Europe or in other developed countries: the share of the Polish nonprofit sector's employment in the country's economy is 5 times lower than in the case of EU or other developed countries.

Table 3. Structure of employment in associations and foundations

Number of employees	% of organizations
0	54.9%
1 to 5	32.2%
6 to 15	8.7%
16 to 50	3.6%
51 to 150	0.4%
Up to 500	0.19%
Over 500	0.01%
Total	100.00%

Source: Research conducted by KLON/JAWOR Association, 2002 (unpublished)

The economic potential is very unevenly distributed within the nonprofit sector. The overall employment and expenditure indicators do not reflect the

bleak situation of the majority of nonprofit organizations in Poland. Although the division of the sector's employment by the number of organizations would suggest that the average organization should employ the equivalent of 2.6 full-time employees,⁹ still only 45.1% of Polish associations and foundations have any paid personnel (see Table 3.). The same skewed structure of economic potential distribution is reflected in expenditures, where 9% of organizations account for two-thirds of all operating expenditures, and one in ten organizations had virtually no cash expenditures (Nałęcz, 2003b).

When legal forms are concerned, the most important type of nonprofit organization is associations, which account for more than half of the economic potential of the nonprofit sector in Poland. Foundations take second place with one-sixth of the nonprofit paid labor force potential and one-fifth of the sector's financial assets. The third but still important component is church-affiliated organizations. They employ 18% of the sector's work-contract employees but use only 6% of the sector's financial capacities. The low salaries paid to the monks, nuns and priests often employed in these charities explain the difference between employment and spending. In sum, these three types of nonprofits, usually called NGOs, constitute the main part of the nonprofit sector in Poland. These NGOs account for four-fifths of the sector's paid employment and financial base and engage two-thirds of the volunteer work (see Table 4 below).

The strong impact of the Roman Catholic Church on the development of nonprofit sector services is not only a historical consideration, but it is also reflected in the present shape of the Polish nonprofit sector. The church-based nonprofit institutions account for nearly half of nonprofit sector employment in social services (47.4%) and have sizeable shares in arts and culture (18.9%) and in education (14.7%). Altogether socially-oriented church institutions and organizations represent a significant part (13.8%) of the economic potential of the nonprofit sector in Poland.¹⁰ As shown in Graph 3 below, exclusion of the church-based nonprofits would reduce the size of nonprofit employment in the social services field and increase the share in the "sports and recreation" field. This shift would make the Polish nonprofit sector look more like the typical communist model in which sports and recreation activities are more significant than social service provision in economic terms.

9 Including other-than-work-contract-based employment, the average equivalent of the workforce in a nonprofit organization amounts to an average of 3.7 full-time equivalent employees.

10 If only a work-contract-based employment indicator is used, then the church-based nonprofits hold larger shares of nonprofit sector employment: 49.7% in social services, 27.3% in arts and culture, and 20.3% in education and account for 18.4% of the overall sector manpower.

Table 4. The nonprofit sector economic potential by legal form

	No. of Organizations	Work- contract employ- ment	Other paid employ- ment	Paid employ- ment	Volun- teer work	Opera- ting expendi- tures
NONPROFIT SECTOR (in absolute numbers) =>	33,297 organizations	86,819 FTE jobs	36,125 FTE jobs	122,944 FTE jobs	36,126 FTE jobs	\$1.9 billion
NONPROFIT SECTOR (in percents of its potentials) =>	No. of entities in % of the sector	Work- contract employ- ment in % of the sector's potential	Other employ- ment in % of the sector's potential	Total paid employ- ment in % of the sector's potential	Volunteer work in % of the sector's potential	Operating expendi- tures in % of the sector's potential
Associations (incl. Physical Culture Ass. and voluntary fire brigades)	50.5%	47.8%	69.9%	54.3%	56.8%	54.5%
Foundations	9.3%	15.1%	18.5%	16.1%	4.7%	23.1%
Church-affiliated organizations and social institutions (e.g., Caritas)	3.0%	18.4%	2.8%	13.8%	7.4%	5.9%
NGOs ¹¹	62.7%	81.3%	91.2%	84.2%	68.9%	83.5%
Labor unions	24.3%	5.8%	3.7%	5.2%	6.4%	5.7%
Business and professional organizations (excl. obligatory professional chambers)	6.0%	6.5%	3.1%	5.5%	1.2%	6.8%
Other social organizations (mainly hunters' clubs)	6.4%	5.6%	1.5%	4.4%	22.9%	3.1%
Political parties	0.3%	0.7%	0.3%	0.6%	0.5%	0.7%
Employers' organizations	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%
NONPROFIT SECTOR	100%	100%	100%	100%	100%	100%

Source: Nałęcz (2003a)

The small scale of employment in the Polish nonprofit sector could be explained, first of all, as a result of the communist legacy so visible in the

11 NGOs are aggregated in table 4 according to the draft of the Law on Public Benefit Activity and Volunteering, which defines NGOs as associations, foundations and organizations of church-affiliated legal status performing public benefit activity.

large size of the public sector, which in 1997 still accounted for nearly half of hired employment in Poland. Therefore the employment of all the nonprofit organizations as a proportion of public sector employment in Poland (2.5%) is 13 times lower than that in countries of Western Europe (31.9%) (Nałęcz, 2003a).

The yawning chasm between employment in the third sector and the public sector must be a source of some disquiet. Absent effective mechanisms for entrusting nonprofits with services from the public sphere, nonprofit organizations operating in Poland stand precious little chance of sustained development. Paradoxically enough, the crisis of public finances that affected Poland in 2001 may actually precipitate greater interest in the nonprofit sector on the part of the national administration. As noted in this chapter's introduction, a new mechanism for relations between nonprofits and public administration will be hopefully introduced in 2003 in form of Law on Public Benefit Activity and Volunteering.¹²

Volunteers

According to KLON/JAWOR Association research, 43% of Polish nongovernmental organizations use the labor of volunteers (who are not members of the organization). Of these, the majority employ 15 volunteers or less (see Table 5).

*Table 5. Volunteers – Frequency of Their Involvement in the Work of Organizations*¹³

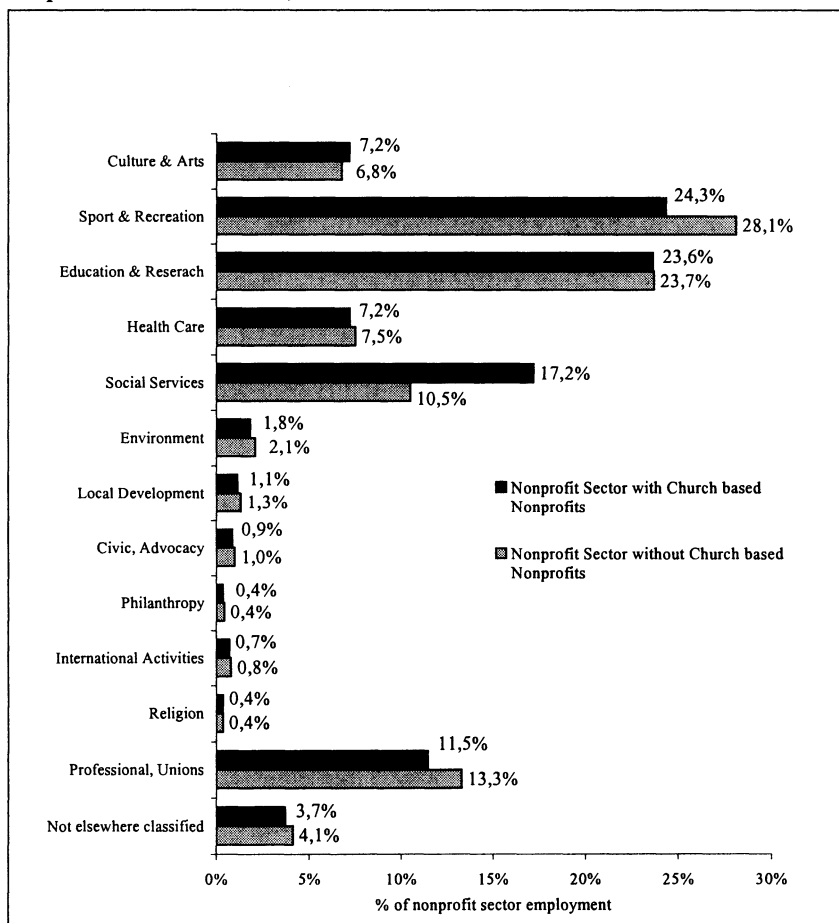
How many volunteers (not members) worked in organization last year	% of organizations involving volunteers
1-15	52.8%
16-50	31.2%
51-150	12.0%
151-500	2.2%
Over 500	1.8%
Total	100.0%

Source: Research conducted by KLON/JAWOR Association, 2002 (unpublished)

¹² See point 6 of the profile.

¹³ When analyzing these data, it should be borne in mind that they are reported by the organizations themselves.

Graph 3. Impact of the church-based nonprofits on the structure of the nonprofit sector in Poland, 1997



Source: S. Nałęcz/Wygnafski (2000)

According to a KLON survey of a representative sample of adult Poles in 2002, 58% gave money or time to either an individual or an institution (both secular and religious). By far, the more popular form of contributing to important issues is donating money (see "Financial Resources" below). 50% of adult Poles gave cash for charitable purposes in the year 2002. Volunteerism is much less frequent. Moreover, among those who volunteer, the most popular form of involvement is informal, i.e., individuals directly

helping other individuals. In the year 2002 29% of Poles were involved in this kind of activity (support provided to individuals other than members of family and friends).¹⁴ All in all, the information available on this subject offers little ground for optimism. The institutional form of involvement is even more rare. Only 11% of adult Poles were involved as volunteers within institutions and organizations. While the dearth of up-to-date, dependable statistics from other countries makes any exercise in comparison difficult, the Polish figure is certainly a rather modest one in relation to, for example, the United States (49%), Ireland (33%), or Slovakia (19%). The low level of "institutional" voluntary involvement might be partially explained by a lack of well-organized volunteer recruitment campaigns. In fact, 66% of those who did not volunteer felt that they were not asked to become volunteers.

In recent time however, some hopeful developments were observed in the area of volunteer work. The network of volunteer centers experienced brisk growth. Another positive tendency has been demonstrated in the growing recognition of volunteer work and its importance on the part of public officials, as expressed by the proposals for legislative regulation in this area. This last trend is related to the deteriorating situation in Poland's job market. As proven by experiences in other countries, volunteer work, while incapable of substituting for sound economic growth as the basic force for labor market improvement, does have the potential of serving as an important instrument in softening the hardship brought by unemployment. Another interesting initiative to establish an Open University for volunteers has been fielded by J. Owsiak's Great Orchestra of Holiday Aid, an organization whose own seasonal charity drives have been known to mobilize as many as 90,000 young volunteers across the country.

NGO Activity

As KLON/JAWOR research shows, more than one-third of NGOs report "sport" as their primary focus of activity. In fact nearly 15,000 sports associations constitute an almost separate subsector of Polish NGOs. As previously mentioned, the "surplus" of sports organizations is a legacy of the old regime, when a large number of sports organizations were in practice quasi-governmental organizations. This situation is quite common also in other postcommunist countries. To a certain extent, sports organizations still remain dependent on the state (a separate state agency established to promote

14 Results derived from a joint study carried out by the KLON/JAWOR Association, the Volunteer Centre Association, and SMG/KRC in October of 2002. The survey reached a randomly selected, representative group of 1000 adult Poles; it centered on their willingness to proffer selfless assistance, material (donations of cash, supplies, etc.) as well as personal (time devoted to community service).

and support sports organizations, very good access to public funding including almost exclusive access to resources generated by the National Lottery).

As shown in Table 6, no less than 48% of the nongovernmental organizations responding to KLON/JAWOR's survey engage in activities somehow relating to education. The popularity of educational activity stems from the fact that, for many organizations, "education" is simply a method rather than an objective in itself. Some 17% of organizations specialize in social aid, and one-third are engaged in healthcare and rehabilitation. In some areas of social service, such as care for the homeless and for the physically and mentally disabled, the role played by nongovernmental organizations has been nothing less than critical. Approximately every tenth organization surveyed lists culture and the arts as its most important activity. Other areas in which the involvement of NGOs has been rather modest include transport and communications and public safety.

Table 6. Principal Areas of Organizations' Activity (% of replies)

Field of activity	% Named the most important	% Named as one of three most important
	field	fields
Education	12,2	48,4
Social assistance, social welfare	4,3	17,2
Sports, recreation, tourism	35,0	59,3
Health	11,1	32,6
Regional and local development	3,8	16,3
Arts, culture	9,5	27,4
Hobbies	2,0	6,9
Ecology	2,6	13,3
Human rights	1,0	4,0
Sciences	0,9	3,8
Mass media	0,8	2,6
Professional groups	2,3	7,1
Problems of rural areas, agriculture	1,5	6,7
State, law, politics	0,2	1,5
Economy, finance, social economy	2,3	11,7
Religion, denominations	1,0	4,3
Housing	0,8	3,3
Transportation, communication	1,2	6,0
Public safety	0,8	1,7
Support for other civic organizations and initiatives	0,3	1,7
International cooperation	2,0	6,9
Others	4,4	17,2
Total	100	

Source: Klon/Jawor Association, 2002 (see Dąbrowska/Gumkowska/Wygnański, 2002)

The types of activity most often undertaken by nongovernmental organizations are social education and shaping of public opinion (39% of organizations report engaging in these activities) as well as provision of services to members and recipients (65%). One quarter of the NGOs covered by the study hold seminars and conferences. Every third engages in some form of advocacy work on behalf of its members, recipients, and charges. Approximately 16% of the organizations publish bulletins and periodicals dealing with their operations; 18% engage in cooperation at the international level. To continue these figures, 12% of the organizations polled extend financial and in-kind assistance to individuals and 5% provide financial support to other organizations.

Financial Resources

Analysis of the revenue patterns of Poland's nonprofit organizations reveals that policies toward the nonprofit sector have included the continuation of communist policy in selected fields, such as sport and recreation where public finance accounts for 35.6% of all revenues – far more than the share of state support for the entire nonprofit sector (24.1%).¹⁵ The share of public support within the revenues of “culture, sport and recreation” nonprofits is the highest among all fields of nonprofit sector activity in Poland. Even nonprofits in the fields of social services (29%), health (24%) and education (21%) receive far less public sector support than those in the field of culture, sport and recreation. This lopsided pattern of public sector support for the various fields of nonprofit activity – a unique phenomenon among the countries involved in the Johns Hopkins Comparative Nonprofit Sector Project (Salamon et al., 1999) – does not help in the development of welfare services within the Polish nonprofit sector.

As previously noted, the modest size of Poland's nonprofit sector is predominantly the heritage of communism. Nevertheless, after 1989 public officials did not move to support the recently founded and registered nonprofits. At the same time, the mass social organizations previously subsidized by the communist regime experienced major cuts in the state support they used to receive. These laissez-faire policies towards the nonprofit sector are well reflected in the structure of nonprofit sector revenues. In Poland the public sector share of nonprofit revenues (24.1%) is half the average public sector support in 12 EU countries (50.4%) and is much below even the Central European average (31.5%) (Nałęcz, 2003a).

Considerable differences persist among the various organizations as

15 A more detailed look inside the “culture, sport and recreation” category reveals that the subfield of “sport and recreation” alone has even higher support (37.3%) while the “culture and arts” subgroup receives less support (27.1%).

regards the financial resources at their disposal (for the annual revenues of NGOs in Poland, please see Table 7 below). Within the NGO subgroup, more than 40% of organizations have annual budgets of less than 10,000 PLN (approx. 2,500 US\$). This could be one of the reasons why 9 out of 10 organizations name the lack of funds as a significant problem inhibiting their activities.

Table 7. Annual Revenues of Polish NGOs

Annual budget of NGOs in PLN	% NGOs by yearly budget
Up to 1000 pln	15.3%
Up to 10,000 pln	26.6%
Up to 100,000 pln	35.6%
Up to 1 million pln	17.5%
Up to 10 million pln	4.6%
Over 10 million pln	0.4%
Total	100.0%

Source: Research conducted by KLON/JAWOR Association, 2002 (unpublished)

According to the results of a KLON/JAWOR survey regarding the relative importance of various sources of financing in their operations (see Graph 4 below),¹⁶ nongovernmental organizations attach the greatest importance to access to public sector resources (this factor has been pointed to by almost 80% of the respondents). However, such fragmentary data as is available at the central administrative level¹⁷ indicate that, in the year 2000, the various units of the central administration devoted only 0.18% of their overall budgets to programs being pursued by nongovernmental organizations. The meager amounts in the public budget reflect the complications encountered in fostering partnership and cooperation between the public and nonprofit sectors.

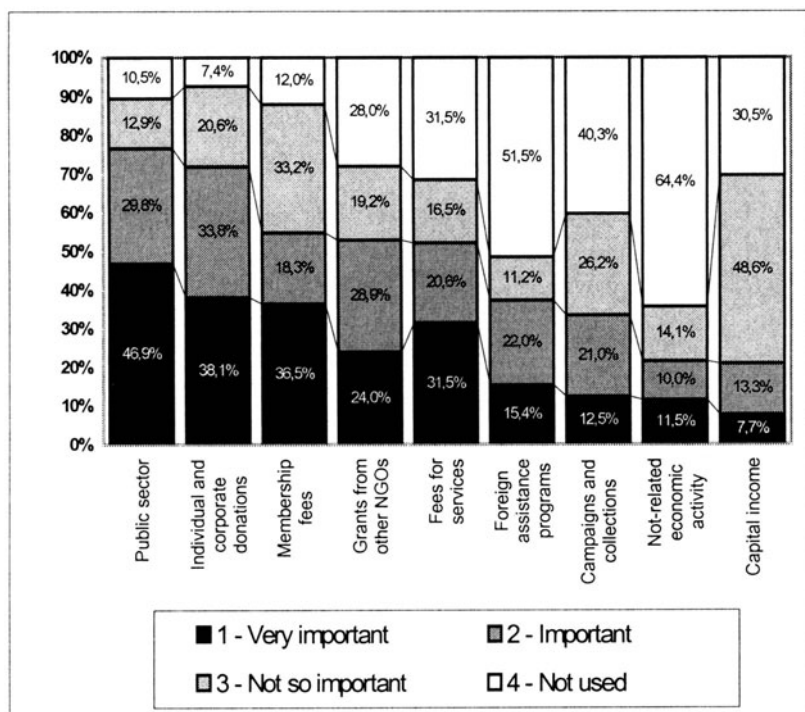
The material contributions made by business entities and by private individuals are also important, as indicated by 72% of the nongovernmental organizations covered by the study. In actual practice, an estimated 20-25% of the revenue of NGOs is derived from private philanthropy.

According to a survey carried out in 2002,¹⁸ approx. 50% of Poles had

- 16 It should be emphasized, however, that the indices in Graph 4 have been calculated on the basis of statements proffered by the respondents concerning the perceived importance of each financing source rather than on the actual budgets of the respondent organizations.
- 17 Obtaining reliable data from the public administration is fraught with much practical difficulty, especially given that individual administrative units working at the local level can follow their own procedures in this respect.
- 18 A study concerning charitable donations carried out in 2002 by the KLON/JAWOR Association working together with SMG/KRC, utilizing questions drawn up by the

made a financial contribution to a secular or religious organization during the previous year. Of the gifts made to institutions and organizations in the previous year, 63% amounted to 100 PLN or less. In 73% of the cases, cash was donated during a street collection; in 23% of the cases, the donors purchased items in order to generate proceeds that would be passed on to charity. Another 7% of donors paid in their contributions at the post office, and 4.3% gave through the Audiotele system, which enables viewers' votes and opinions to be recorded or by sending an SMS message. It is a point worth noting that only 4.1% of donors availed themselves of the possibility of deducting the amount of their gift from their taxable income.

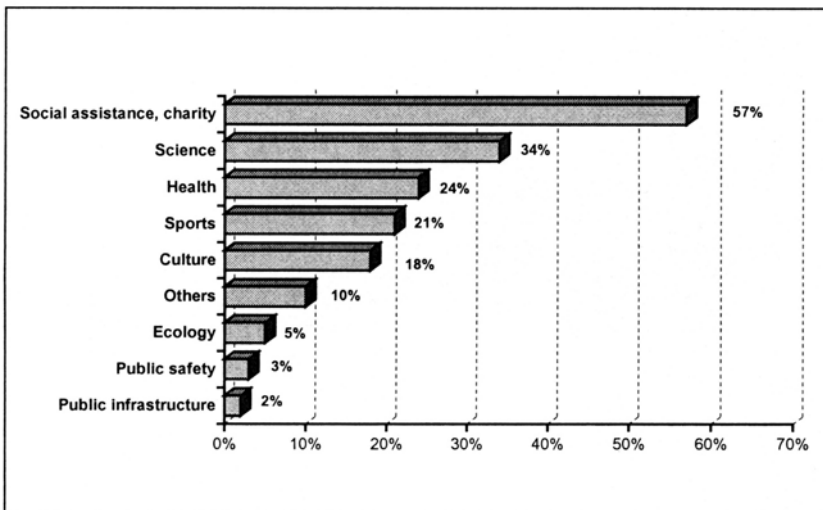
Graph 4: Declared Importance of Particular Sources of Finance



Source: Klon/Jawor Association (2001)

Unfortunately, no dependable information is to be had regarding the scale of support provided to organizations by the business community. This prevailing vagueness is compounded by the fact that, in practice, the institutions of philanthropy and of sponsoring (which, in its essence, constitutes an exchange of services) are confused. The only category where somewhat less equivocal information is available is that of small and medium-sized enterprises (SME). In the year 2000, 18% of entities in the SME sector made charitable gifts of any description. These gifts corresponded to anywhere between 1% and 50% of the donor company's earnings, with the average grant standing at 5.03% of the company's pre-tax profit. As shown in Graph 5, the main purpose for which SME's charitable contributions were earmarked was social assistance (57% of SMEs donated).

Graph 5: Objectives for which SME Donations were earmarked



Source: Own Graph based on results of a Gallup poll carried out in 2001 on instructions from the Polish Agency for Enterprise Development, covering a random sample of privately owned business entities employing 250 people or less operating across Poland.

5. Basic Organizational and Legal Forms of Nongovernmental Organizations

Activity for socially beneficial ends assumes a variety of organizational forms, depending on the exact nature and scope of the undertaking in question. The foundation and the association are the dominant forms among NGOs operating in Poland, although there are also volunteer fire brigades, trade unions, guilds, commercial and trade chambers, agricultural clubs and rural housewives' clubs, commercial and professional self-government bodies, parent councils, social committees, and organizations with religious affiliations (Leś/Nałęcz/Wyngański/Toepler/Salamon, 2000).

Under the pertinent Polish laws, social organizations can acquire legal personality by registering with the courts as associations or as foundations.¹⁹ In this way, the Polish law follows the traditional division into bodies of a corporate nature whose essence lies in the association of persons (associations) and into bodies with a formally instituted capital (foundations), as encountered in legal systems across continental Europe (Wiśniewski, 1999).

Associations account for the most numerous group of nonprofit entities operating in Poland. The legal basis for the establishment and operation of associations is provided in the general Associations Law, in statutory instruments regulating relations between the Polish state and a given church or religious body, and in specific legislative acts.

The great majority of the organizations have been established on the basis of the Associations Law of 1989, enacted to replace the ordinance on this subject promulgated by the President of the Polish Republic between the two World Wars (and subjected to numerous rounds of amendment under post-war communist rule, leaving it with a decidedly restrictive character). Such associations as operated in the People's Republic of Poland were quasi-state structures, receiving funds from the state budget, pursuing objectives formulated by the government, and remaining under the control of the state apparatus and the party elite. This state of affairs persisted until the enactment, in 1989, of the new Associations Law; the freedom of association enshrined therein has since been corroborated in the new Constitution of the Republic of Poland, adopted in 1997.

The Associations Law provides for the existence of two types of association - the ordinary association and the registered association. In the case of undertakings on a smaller scale, likewise of ones launched on an ad hoc basis in order to address specific issues (e.g., to construct a water supply system), the ordinary association is the optimum legal form. This legal

19 See an analysis of legal regulations in Rybka/Rymsza (2002). See also the text on legal forms in Poland by I. Rybka in the bonus section of the CD.

formula is a simplified one that does not require much in the way of organizational commitment; it does not, however, entail legal personality, and there are limitations concerning the acts in law that the association may engage in. Ordinary associations are established through notification rather than registration; all that is needed is for three people to make the establishment of the association known, in writing, to the appropriate organizational entity of the local government (i.e., the county office, the body charged with supervising both types of associations).

In the case of long-term activity pursued on a large scale, meanwhile, an association must be registered in court, a fact by virtue of which it becomes a fully-fledged legal entity, which may participate in civil law dealings. The vast majority of associations presently operating in Poland are registered ones. As a point of difference from ordinary associations, registered associations may establish field branches, join association unions, admit legal entities as members, engage in business activity, accept grants, inheritances, and bequests, receive subsidies, and benefit from donations made by the general public.

The Associations Law also lays out a legal framework for creating unions of associations and international associations.

The various religious organizations that bring together people belonging to a certain church or religious group constitute a separate category of nonprofit organization with a corporate character. These do not have legal personality; rather, the law regards them as part and parcel of the ecclesiastic legal entities that brought them into being on the basis of laws defining relations between the given church and the state. This general rule notwithstanding, Catholic associations – whose activity is regulated by the Associations Law as well as by the legislative act regarding the state's position relative to the Catholic Church – may enjoy rights and assume obligations in their own name.

There are some types of association that acquire legal personality and operate on the basis of specific legislation. In such cases, the general Associations Law will apply only in such aspects as are not addressed by the special rules. This class of organization includes the Polish Red Cross, the Polish Association of the Blind, the Society of Friends of Children, and the Polish Committee for Social Aid.

The other basic legal form for nongovernmental organizations is the foundation. The legal possibility for establishing foundations was reinstated only in 1984, with the promulgation of the legislative act regarding foundations. This legislative instrument superseded the ordinance in force since 1952 under which all Polish-based foundations were liquidated and their assets taken over by the state. During the first years in which the 1984

legislative act²⁰ regarding foundations was on the statute books, entry in the foundations register had a declarative character in that the courts could proceed to register a foundation only after the appropriate minister had endorsed its charter (Izdebski, 1994). This – as it were – licensing system was abolished by the act's amendment in 1991, with all supervisory functions with regard to foundations vested in the courts. Since the beginning of 2001, foundations (as well as associations) are entered in the National Court Register, a nationwide register maintained by the district courts of twenty cities.

Unfortunately, the new procedural requirements concerning registration of associations and foundations are difficult to satisfy (for instance as regards the requirement of operating an office or the high treasury fees), and they do not necessarily encourage the establishment of new entities. The duty of re-registering extant organizations in the new National Court Register, meanwhile, translates into a considerable impediment for the organizations' core activities, being especially hard on small organizations or ones operating outside the major centers (KLON/JAWOR, 2001). According to KLON/JAWOR research, by the end of August 2002 over half of NGOs had done this. This shows that the procedure of registering did not pose significant problems as was previously feared; however, organizations complain about such barriers as the lack of the official instructions concerning applications, judges' refusal of assistance, and inconsistent court decisions (KLON/JAWOR, 2002).

There exist a few foundations that were established by way of separate statutes; these include the Ossoliński National Institute and the Centre for Public Opinion Research (Polish acronym CBOS). Most of them are foundations established with the use of public funds. Initially, such state-funded institutions would be established on authority of the general act regarding foundations; one example would be the Foundation for Polish Science, established upon transformation of the Central Fund for Development of Science and Technology. Between 1996 and 1998, however, foundations established by the State Treasury were subjected to a separate legal regime, and they can now be founded on the basis of specific legislative acts only.

Another type of foundation is those that are established by churches and religious associations with a view to the furthering of religious objectives or in relation to the functioning of the founding church as an institutional entity.

20 The executive branch retained ultimate authority to allow or disallow the registration of an association; refusal could be justified in terms of failure to meet public utility criteria (which had never been formulated by anything which would approximate official channels). Any decision handed down in this respect remained exempt from judicial control.

Such church-related foundations are established on the basis of statutes regulating relations between the church concerned and the Polish state, which constitute *lex specialis* with regard to the general laws concerning foundations and, as such, take precedence over them (Izdebski, 2000).

Foundations, the essence of their legal operation lying as it does on their capital, must be invested with legal personality and, as a point of difference from associations, they cannot operate in any simplified form. The idea has recently been making the rounds whereby the Polish law should provide for a de-formalized organizational form for nonprofit activity that would refer to the material, rather than the personal, element, analogous to the trust known in Anglo-Saxon law or to the *Treuhand* of Germany (Wiśniewski, 1999).

Foundations in Poland are required to submit annual reports and financial statements to the ministries relevant to the area of their activity, and in 2000 only one-third of them did so (KLON/JAWOR, 2002). There are no such requirements for associations.

6. Legal Basis and Scope for Cooperation Between Nonprofit Organizations and the Public Sector

Cooperation between the public and the nonprofit sectors consists – according to the pertinent legal provisions – in joint undertakings, exchange of information and consultation regarding decisions relating to local communities, and provision of access to infrastructure and to other resources (Rybka/Rymsza, 2002). A separate form of cooperation comprises provision by the public administration of resources from the state and/or communal budgets towards the execution of specific tasks contracted out to NGOs or towards the NGOs' core activities.

The legal basis for cooperation between the public sector and social organizations is provided in the Polish Constitution of 1997, whose preamble defines the means by which public authority is exercised with regard to the citizenry at large, the emphasis being on social dialogue and on the principle of subsidiarity whereby authority is delegated to citizens and their associations. The specific statutes regulating operation of local government in Poland lay down a duty of cooperating with nongovernmental organizations.

The financial aspects of cooperation between the nonprofit and public sectors, meanwhile, are regulated by the legislative act regarding public finance; this statute institutes a general principle of equality among all entities in terms of access to funds earmarked for public benefit goals. Entities disbursing public funds are authorized to execute contracts with corporate bodies not included in the public finance sector, most notably with

foundations and with associations. Such contracts can provide grounds for the paying out to such bodies of grants towards the execution of specified tasks.

Irrespective of the commissioning of specific tasks to NGOs, local government bodies may also subsidize the day-to-day operation of such organizations. Legal authority for such grants, known as "object subsidies," is provided not in the legislative act regarding public finance but, rather, in pertinent provisions of local law (e.g., resolutions of communal or county councils).²¹ Again, the making available of funds must be preceded by the execution of a contract. This basic similarity notwithstanding, the earmarked grant and the object subsidy constitute two distinct forms of cooperation. The earmarked grant has the legal status of an equivalent pecuniary benefit, extended in consideration of a specific service that must be provided in compliance with such guidelines and requirements as the party providing the funds sees fit to formulate. Resort to this form of cooperation may gradually bring about a curtailment of the organizations' independence in that they may succumb to the temptation to adapt their activities to the expectations of the public authorities rather than to the needs of the local community. Object subsidies, meanwhile, are a less intrusive form of financial support to nongovernmental organizations in that the recipients retain freedom of choice concerning the ways and means in which they go about their work; in this way, they are better placed to devise alternative proposals for the satisfaction of social needs and are more receptive to grassroots initiatives.

The legal provisions concerning cooperation between local government bodies and nongovernmental organizations in various areas of the public sphere have been incorporated in the individual sector statutes. The most comprehensive treatment of related issues was incorporated into the legislative act regarding social aid (from 1990) and in the 2000 Ordinance of the Minister of Labor and Social Policy referring to it.²² Obviously enough, NGOs can make no mean contribution towards most areas of social aid other than the outright paying out of financial, including, among others, encouraging involvement in social causes, attending to the basic material needs of individuals and entire families through recourse to the potential of the local community, participation in the process of identifying social needs, and counteracting the social marginalization of disadvantaged and vulnerable groups.

The statute authorizes public administrative bodies to commission social assistance tasks to NGOs, the Catholic Church as well as other churches and

21 Such resolutions should describe in all detail the procedure followed in awarding the grant, the means of settlement, and the ways in which execution of the assigned tasks will be monitored. See also Buczek/Jasiukiewicz/Taracha (2000).

22 The Ordinance concerns detailed principles and forms of cooperation of the public administration with other entities and the standard forms for offers, contracts, and social aid task execution reports.

religious organizations, foundations, associations, employers, and private individuals as well as legal entities.

In spite of the existence of legal provisions conducive to cooperation between the public and nongovernmental sectors, the actual scope of such collaboration has been limited. Such cooperation as has been taking place mostly concerned the provision of information about rights and entitlements, the organization of specialized advisory services, and tasks in the area of social and professional rehabilitation of disabled persons. Also, the institutionalization of such cooperation has been rather modest; in most cases, cooperation proceeds on an informal basis, and the public funds earmarked for the discharge of public duties by NGOs account for but a small portion of the social aid budget and, most of the time, are paid out as grants rather than on the basis of contractual provisions.²³

The second important area of cooperation between the public administration and the nonprofit sector is healthcare. As far as the commissioning of tasks resting within the ambit of local government bodies relative to mental and emotional health is concerned, the legislative act regarding social aid is applicable. Participation by NGOs in the discharge of public tasks concerning rehabilitation of disabled persons and the provision of health services, meanwhile, is regulated by legislation dealing specifically with these areas. But while the position of NGOs is quite strong with regard to rehabilitation of disabled persons – they have the same rights concerning execution of tasks and access to public funds as do public institutions, and they enjoy priority over commercial entities – the legislature has not created favorable conditions for their work as regards healthcare and, in practice, the mechanisms of commercialization have led to their exclusion from this area.

Another field in which the nonprofit sector plays an important role in the discharge of duties nominally attaching to the public administration is that of education. Here, the 1991 legislative act regarding the educational system applies. NGOs possessing legal personality may establish and maintain schools and other educational facilities. Also, nonpublic schools and educational facilities may receive the rights of a public school upon fulfillment of the conditions laid down by the statute. In the case of elementary schools and secondary schools of the *gymnasium* type, this is no less than an imperative given their role in the execution of the general schooling duty. Institutions to which the status of public school has been accorded enjoy a guarantee of public funding. As for nonpublic schools at which the general schooling duty is discharged, they receive a grant for every student that is no less than that paid out for every public school pupil; grants of this sort are disbursed out of the education portion of the general subsidy

23 As indicated by the research carried out by Janelle Krelin in 2000, covering 200 public social welfare agencies - see 'Pomoc społeczna po reformie administracyjnej', *Polityka Społeczna*, 2000, no 8, (report on the Conference of the Polish Ass. of Social Workers).

received by the territorial self-government body. The remaining nonpublic schools with public school status receive grants corresponding to at least half the amount earmarked within the communal/county budget for the analogous public school. This legal solution is a favorable one as regards the development of schools managed by nongovernmental organizations, especially of small schools that fulfill compulsory general schooling duties in rural areas and are managed by the associations created by pupils' parents.

The 1991 legislative act regarding the organization and carrying on of cultural activities bestows upon nongovernmental organizations rights in the areas of creative activity, propagating culture, and safeguarding the cultural heritage as well as the right to receive grants towards execution of tasks resting within the responsibility of the state. The Minister of Culture and National Heritage as well as local government bodies may also provide organizations with financial support for work associated with implementing the cultural policy of the state.

7. Public Benefit Activities of the Nonprofit Sector in Light of Legal Regulations

Currently in Preparation

Until now any collaboration between local government bodies and nongovernmental organizations is of a purely facultative character, depending in every instance on the interest of the parties concerned (Nowakowska/Marciniak, 2000). Thus, the practical extent of any cooperation depends on the policy followed by individual local governments and, ultimately, the potential of the nonprofit sector is utilized to a modest degree only.

Some chance for overcoming the lingering stagnation in development of Poland's nonprofit sector is presented in the structural inclusion of nonprofit organizations in the system for paid provision of services financed from public resources. There certainly is no dearth of consensus on this general point, among experts and politicians alike (Office of Chairman of the Council of Ministers 1998);²⁴ differences begin to arise, however, when it comes to the nitty-gritty of devising mechanisms through which public duties could be assigned to the nonprofit sector. Some of the decision makers are wont to view this task as the final step in a process of decentralizing the social policies of the state, as a practical implementation of the subsidiarity

24 See also Memorandum w sprawie kompleksowego uregulowania prawnych warunków funkcjonowania organizacji pozarządowych i wolontariatu w Polsce, Warsaw, December 1998 (typescript).

principle; others tend to regard it in terms of infusing the public sphere with a free market element by ending the state monopoly and introducing competition among providers of the services in question (Rymsza, 1998).

The general principle of subsidiarity set out in the Constitution of the Republic of Poland (adopted in 1997) requires implementation at the level of ordinary legislation. As far as the mutual relationships between public administrative bodies, this task has already been carried out. The legislation has cited the principle of subsidiarity to justify the precedence of local governmental bodies *vis a vis* the central administration as regards the carrying out of public duties. The better part of these duties have already been relegated to the lower levels of the administrative apparatus – to the communes [*gmina*] in 1990 and to the counties [*powiat*] and the district [*województwo*] governments in 1999. If, however, the principle of subsidiarity were to be taken in its literal meaning, i.e., in keeping with the formulation incorporated in Pope Pius XI's *Quadragesimo anno* encyclical from 1931, it also entails precedence of social organizations over local government bodies. It is this definition that was adopted by the Office of the Prime Minister of the Polish Republic in its documents drawn up in 1998 (Office of Chairman of the Council of Ministers).

At its core, the relegation of public duties to nongovernmental organizations in keeping with the spirit of subsidiarity is about infusing the state with a social element and about regarding society as a fully-fledged partner rather than a hapless mass. In a certain way, however, this process can also lead to practices of bureaucratization of the nonprofit sector or introducing mercantile mechanisms in the sector.²⁵

When the bureaucratic model begins to assert itself, NGOs become a link in the system for “top-down” assignment of public duties, likewise of the funds for their execution. Working through its selection systems and exercising supervision over institutions receiving grants, the public administration can, at least to some degree, enforce the adoption of certain characteristics associated with the classic public administration body, be it in terms of the scope of operation or of the guises that these operations assume. “Public benefit organizations” may well be most vulnerable to this process.

Advantages to the nonprofit sector entailed in the bureaucratic approach include a stabilization of income and a professionalization of activities (resulting from the new-found capability of retaining qualified personnel, e.g., social workers, on a permanent basis). The according of special “public benefit” status to selected NGOs, meanwhile, carries certain risks in that it may lead to excessive stratification within the nonprofit sector and to the hogging of financial support by those entities at which bureaucratic development is the most advanced. The network of public benefit

25 See an analysis of both scenarios in Rymsza (2001).

organizations cobbled together in this way, their activities tailored to the scope of work recommended by the public administration, facilitates the “functional privatization” of the social sphere, yet somewhere along the line distorts the idea of civil society’s development in that social utility is brought down to taking over tasks that, theoretically, rest within the ambit of the state’s administrative structures.

The implementation of market principles in the nonprofit sector proceeds through introduction of competition between providers of social services while maintaining their equality. Local government entities select the providers of services by way of a tendering process, and nonprofit organizations do not enjoy any priority status or privileges as regards funding by the state. Thus, nonprofit organizations competing for access to public funds in keeping with market principles assume many of the traits of business entities, progressing from the formula “nonprofit” to “not-for-profit” – they do seek to turn a profit, yet that profit is then plowed back into its core activities.

The advantages brought by introduction of market principles to the nonprofit sector lie in increased efficiency and flexibility of nonprofits. The risk, meanwhile, is that nonprofit organizations will undergo excessive commercialization, with the distinction between nonprofit work and business activity becoming blurred.

By way of recapitulation, the risks associated with structural inclusion of nongovernmental organizations in the public sector are that NGOs may become overly bureaucratized and they may become commercialized. To a certain extent, however, these two risk factors cancel each other out – competition between providers of social services limits excessive bureaucracy within the nonprofit sector, and elements of state control serve to counter excessive commercialization. In this way, the legislature is faced with an opportunity to make its mark, but also with the need to find a workable compromise.

The work pursued in Poland between 1996 and 2002 relating to legal regulation of nonprofit activity within the sphere of public interest tasks constituted just that – searching for a compromise. The legislative proposal (Draft Law on Public Benefit Organization and Volunteering) was six years in drafting, with the preparatory work spanning the tenures of three successive governments. At the beginning of 2001, the draft statute was submitted for consideration by Poland’s Parliament (Sejm, 2002), and there remains a real chance that it can be finally passed during the Spring 2003.

The draft statute sanctions a “division of labor” between the public administration and nongovernmental organizations; if enacted in its present form, it would strengthen the hand of the NGOs in their dealings with the state apparatus, be it with regard to advocacy (especially to the benefit of disadvantaged groups) or to the provision of social services. The draft

actually lays down new principles for the latter's delivery: while nonprofit organizations would receive priority over commercial institutions in the assignment of socially beneficial tasks, the basic rule of competition among social service providers would remain in place. In their capacity as such providers, NGOs would basically be placed on a par with public institutions. This, as it appears, constitutes a prerequisite for sustained development of the nongovernmental sector; otherwise, its role would be reduced to that of a "younger sibling" to the public administration, taking up such jobs as the latter shuns or neglects. Already at present the disproportion between the two sectors provides grounds for disquiet.

Under the draft legislation, NGOs complying with the appropriate conditions relating to their activities and the forms of control employed by them will be eligible for "public benefit organization" status. In addition to substantial tax benefits, organizations that received this designation would be eligible to receive funds collected by the State Treasury from individuals who voluntarily devote 1% of their income tax to charitable causes. Some difficulty in extending "public benefit" status arose, but both sides (the government and the Church) were able to reach a consensus.²⁶ The proposal whereby, in addition to the traditional pro-charity incentives, citizens are allowed to allocate 1% of their income tax to publicly beneficial organizations of their choice has met with widespread support in the NGO community; according to KLON research from 2002, some 71% of Polish taxpayers would be willing to consider such a move. The legislative draft also addresses the issue of volunteer work. Its text is clear on the point that volunteer work does not constitute a form of employment falling under the ambit of the Labor Code (i.e., one which would also be available to hirers from the business community). Rather, it is a form of community service intended for organizations working towards the public good.

8. Management of Nonprofit Organizations in Poland

There can be no dispute that financial assistance from abroad presented an important factor conducive to the professionalization of the nonprofit sector

26 In the first draft of the mentioned act the government gave an opportunity to receive the "public benefit" status only to those church-related nonprofits that decided to undergo a secularization process. This solution was unacceptable for the Catholic Church. But the agreement was reached and the government sent to the Parliament in June 2002 an amendment to the draft. According to it church-related organizations may apply for public benefit status if they perform public benefit activity and are able to split functionally delivering social services etc. and activities directly connected with their strictly religious mission.

in Poland.²⁷ Funds derived from these sources were put to use in building up the infrastructure of the nonprofit sector, including the SPLOT network of regional support centers and an information, consulting and training system (the KLON/JAWOR Association and the Mutual Information Association play leading roles here). Foreign aid was also devoted to increasing the program and project management skills of nonprofit organization personnel.

Efforts geared at federalization of the nonprofit sector are encountering certain distinct difficulties, with the establishment of joint representation progressing rather slowly. There have been some endeavors at convening pacts within the sector, to mention the example of the WRZOS agreement of social organizations. The Association for the Forum on Non-governmental Initiatives, for its part, is working to further the creation of local and regional agreements, and it has been seeking to convene an organized group of NGOs at the national level. All things considered, however, the federalization of nonprofit organizations in Poland continues to be quite low.

A very important role in the operation of nonprofit organizations goes to their leaders, with the charisma of the individual in question amounting to quite a significant factor. The scope of corporate governance functions is oftentimes limited to the bare minimum stipulated by statute. Most of the time, the organizational structures of nonprofits do not include a separate post of executive director, with the duties associated with this position attended to by the chairman of the given organization's board, usually on a free-of-charge basis or, occasionally, in consideration for additional remuneration. As for the boards, they do not seem to meet very often; again, the frequency and timing of their sessions suggests that they are called mainly to satisfy the statutory requirements. The board of directors of the average NGO in Poland has few members. According to 2002 KLON research, the mean size of board membership is 6.

The charters of nongovernmental organizations, meanwhile, are often drafted with a mind to covering all possible contingencies, leaving them with excessively broad formulations of objectives and operating areas. With many foundations, the limited efficiency of collegiate bodies translates into reduced social control over their operation.

The problems with human resource management endemic at Polish nonprofit organizations are caused by a number of factors. Firstly, the expense entailed in creating new workplaces is very steep; also, Poland's

27 Particularly noteworthy are the aid programmes of PHARE, USAID, the Know-How Fund, and Matra as well as the activities of foreign organizations such as the Rockefeller Foundation, the Mott Foundation, the Polish-German Cooperation Foundations, and Cooperation Dutch Foundations; there is also the aid provided by George Soros through the intermediation of the Stefan Batory Foundation. The most important institutional donor currently supporting the operation of the nonprofit sector in Poland is the Polish-American Freedom Foundation.

Labor Code seems to make little allowance for the distinct character of nongovernmental organizations. Accordingly, permanent, salaried employment tends to be low,²⁸ and the precarious financial situation of many NGOs leads to lack of respect for employee rights. The absence of legal provisions governing volunteer work and the poor preparation of NGO leaders for managing volunteers complete the rather bleak picture. The generally poor condition of the third sector perpetuates the feeling that those who remain in it face little prospect for professional growth and development. Furthermore, there is an absence of academic courses focusing on nonprofit organizations and their management, although certain universities have been formulating hopeful initiatives in this area.

The failure of pertinent regulations to accommodate the unique nature of the nonprofit sector, combined with staffing problems and insufficient funds, results in a situation where the majority of nonprofits do not meet even the basic standards regarding financial accountability. The large, well-known organizations are by no means immune to difficulties of this nature. Many nonprofit organizations entrust the keeping of their books to staff members who lack the complex substantive skills necessary for managing the finances of legal entities.²⁹ The year 2002 saw the enactment of new accounting regulations that require nonprofits to retain professional accountants; most of them, however, cannot afford to do so.

9. Development Stages and Tendencies of the Nonprofit Sector in Present-Day Poland

Three distinguishable periods mark the recent development of the nonprofit sector in Poland, coinciding with the years 1989-1995, 1996-1998, and 1999-2002. The first of these periods featured a high level of activity on the part of NGOs (principally by their leaders) and comparatively informal procedures for operation and for soliciting funds. The scope and pressure of unsatisfied social needs as well as the limited competition among service providers led to a vigorous proliferation of new nonprofits. The typical organization during this period had a small staff and a volunteer pool to match, concentrated its efforts on members more than on customers, and had scant – if any – contacts with the public sector, the business community, and other nonprofits.

28 KŁON research estimated in 2002 the average salary in nonprofit sector as approx. 1000 pln (gross) compared with 2239 pln (gross) in the private corporate sector. As mentioned above, more than 50% of NGOs do not employ even a single person.

29 According to 2002 KŁON research, 55% of NGOs do not have any person responsible for accounting or this work is conducted by a volunteer.

During the second period, spanning the years 1996 to 1998, the financial difficulties confronting the nonprofit sector began to mount. This led the nonprofit organizations to begin exploring possibilities for taking over duties incumbent on the public sector in return for payment, with advocacy work relegated to a position of lesser importance. Two-thirds of the NGOs operating in Poland went about their work on a self-help basis, i.e., without hiring staff, and well nigh 90% had no financial base to speak of. This notwithstanding, some changes for the better began to manifest themselves with regard to the operating strategies of nonprofits, with greater attention devoted to the quality of the work being carried out. The first pacts and agreements assembling organizations working in the same field as well as in the same geographic region began to arise, developing the capacity to support their members and to represent their interests. The infrastructure of the third sector - as understood in terms of training, consulting, information, and research centers - began to coalesce.

During the third period, from 1999 to the present, the nonprofit sector community has begun to arrive at the understanding that development of the sector is not an end in and of itself, that the idea is to deliver tangible benefits to local communities within, and for, which they work. What is more, the nonprofit sector has embarked on a re-evaluation of its relationship to the state administration, seeking means for creative cooperation. Programs devised to foster contacts between the nonprofit and business sectors are also being pursued. More organizations are developing the desire and the skills to share their experiences beyond Poland's borders. Finally, there is the hope that activities conducive to the interests of society at large as well as volunteer work will become the object of legal regulation.

The organizational structure of civil society in Poland currently corresponds to approximately a fifth of that existing within the European Union and in other developed countries. At the same time, clear similarities in the scale of nonprofit sector development can be observed when one compares Poland to other postcommunist countries; these similarities result from the policy pursued by the communist authorities of stifling independent civic organizations and undermining their economic potential.

The economic standing of nonprofit organizations in Poland - weaker than in developed countries - represents first and foremost the legacy of liquidation of all social service structures operating outside of state control, as effected under the Polish People's Republic. To some extent, however, the authorities of the newly democratic Poland share in responsibility for this state of affairs in that, across the decade following the fall of communism, they did not devise or pursue anything close to a consistent social policy with regard to social utility organizations. These were treated, variously, as belonging to the non-public sector or to the private sector, or even as profit-oriented business entities; in many respects, this unsteady course is pursued

even today. As a result, nonprofit entities do not receive systematic support towards their socially beneficial activities. If the present tendency on the part of the state to disregard nonprofits as an alternative, unique provider of these services continues, the third sector may find it hard to make any sort of impact noticeable to society at large. Given their present economic potential (or lack thereof), nonprofit organizations can pursue their service-provision activities on any meaningful scale only in certain niches that remain undeveloped by the state and the private sector alike, for instance, services for the homeless or hospices. Absent a propitious legal and financial environment, it will be very difficult to provide services on a nonprofit, state-independent basis, especially in those areas where competition with the public sector (social services) or the private sector (education) is strong.

The prospects for development of a social base for the nonprofit sector in Poland would be associated with recognizing the role of nongovernmental organizations as providers of social services paid for out of public funds, with the strengthening of the financial infrastructure, as well as with increased openness towards volunteer work. This is because the single most important incentive that may potentially move Poles to greater community work is presented in showing them examples of specific organizations that provide real benefits to real people – and welcome those who volunteer to help them towards this end.³⁰ Comparative research also points to a strong link between the potential of salaried labor and the potential of community service contributed to nonprofit organizations; in other words, the recruitment and retention of volunteers requires adequately qualified personnel employed on a paid basis (Salamon/Sokołowski, 2001). Given this, one should expect that the potential expansion of the social base of Poland's nonprofit sector will also depend on the increase of its financial possibilities as well as on whether its current personnel will be willing, and able, to allow for volunteer contributions.

30 The study centering on factors conducive to community involvement was carried out by the GfK Polonia Institute on instructions from the Nonprofit Organisations Research Office at the Political Studies Institute of the Polish Academy of Sciences. The poll covered a random, representative group of 1,049 Polish residents aged 14 and above; it was carried out over the period of July 13-18, 2001.

References

- Bogucka, T. (2001): Po co nam organizacje społeczne? *Gazeta Wyborcza*
- Bratkowski, J./Nałęcz, S. (2002): Social and Economic Potentials of the Civil Society. Organisations in CCE after 1989. Paper presented at the conference Building Civil Society and Democracy East of Elbe. Warsaw
- Buczek, K./Jasiukiewicz, K./Taracha, P. (2000): Aspekty prawne finansowania działalności trzeciego sektora w Polsce. In: Granat, M. (Ed.), *Organizacje pozarządowe w Polsce. Podstawy prawno-finansowe*. Warsaw
- CIRIEC (International Center of Research and Information on the Public and Cooperative Economy) (2000): *The Enterprises and Organizations. A Strategic Challenge for Employment*. Liege
- Dąbrowska, J./Gumkowska M. (2002): *Wolontariat i filantropia w Polsce – raport z badań 2002*. Warsaw
- Dąbrowska, J./Gumkowska, M./Wygnański, J. (2002): *Podstawowe fakty o organizacjach pozarządowych – raport z badania 2002*. Warsaw
- Firlit, E. (1991): Działalność charytatywna Kościoła. In: Adamczuk, L./Zdaniewicz, W. (eds.): *Kościół katolicki w Polsce 1918-1990, Rocznik statystyczny*. Warsaw
- Izdebski, H. (2000): *Fundacje i stowarzyszenia. Komentarz, orzecznictwo, skorowidz*. Warsaw
- Izdebski, H. (1994): *Fundacje i stowarzyszenia*. Warsaw
- KLON/JAWOR: Non-governmental sector in Poland – Basic Statistical Information. The Data Bank on Nongovernmental Organizations: www.klon.org.pl/stat/stateng/stateng.htm
- KLON/JAWOR (2001): *Sustainability of the Polish Third Sector*, typescript. Warsaw
- KLON/JAWOR (2002): *Sustainability of the Polish Third Sector*, typescript. Warsaw
- Leś, E. (2002): Tradycje i perspektywy organizacji nonprofit w Polsce. In: Juros, A. (ed.): *Organizacje pozarządowe w społeczeństwie obywatelskim – wyzwanie dla środowisk akademickich*. Lublin
- Leś, E. (2001): *Zarys historii dobroczynności i filantropii w Polsce*. Warsaw
- Leś, E. (1985): Świadczenia społeczne na rzecz osób żyjących w niedostatku. In: Supińska, J./Piekara, A. (eds.), *Polityka społeczna w okresie przemian*. Warsaw
- Leś, E./Piekara, A. (1988): *Wybrane formy podmiotowości społecznej a rozwój*. Warsaw
- Leś, E./Nałęcz, S. (2001): *Sektor nonprofit. Nowe dane i nowe spojrzenie na społeczeństwo obywatelskie w Polsce*. Warsaw
- Leś, E./Nałęcz, S./Wygnański, J. (2000): *The Nonprofit Sector in Poland*, typescript prepared for the Johns Hopkins Comparative Nonprofit Sector Project. Warsaw
- Leś, E./Nałęcz, S./Wygnański, J./Toepler, S./Salamon, L.M. (1999): Poland: A Partial View. In: Salamon, L. et al (eds.): *Global Civil Society: Dimensions of the Nonprofit Sector*. Baltimore
- Leś, E., et al. (2000): *Sektor nonprofit w Polsce. Szkic do portretu – wynik badań dotyczących trzeciego sektora w Polsce*. Warsaw
- Memorandum w sprawie kompleksowego uregulowania prawnych warunków funkcjonowania organizacji pozarządowych i wolontariatu w Polsce. Warsaw, December 1998 (typescript)

- Nałęcz, S. (2002): Tendencje rozwojowe sektora nonprofit w III RP. In: Juros A. (ed.): *Organizacje pozarządowe w społeczeństwie obywatelskim – wyzwanie dla środowisk akademickich*. Lublin
- Nałęcz, S. (2003a): Organizacje społeczeństwa obywatelskiego w III RP. In: Jackiewicz, I. (ed.): *W poszukiwaniu modelu. Zmiany instytucjonalne w latach 1989-2001*. Warsaw
- Nałęcz, S. (2003b): Społeczne znaczenie sektora nonprofit w III RP. Typescript of Ph.D. dissertation. Warsaw
- Non-governmental Sector in Poland – Basic Statistical Information. Warsaw: The Data Bank on Non-governmental Organisations KLON/JAWOR: www.klon.org.pl/stat/stateng/stateng.htm
- Nowakowska A./Marciniak, P. (2000): *Samorząd wojewódzki a organizacje pozarządowe*. Warsaw
- Office of Chairman of the Council of Ministers (1998): *Współpraca administracji rządowej z organizacjami pozarządowymi*. Warsaw: Office of Chairman of the Council of Ministers
- Pelczyńska-Nałęcz, K. (2001): *Od Solidarności do wolności. Dynamika aktywności politycznej w okresie zmiany systemowej*. Typescript. Warsaw
- Pańków, W. (1999): Funkcje związków zawodowych w zakładach pracy. In: Gardawski, J./Gąciarz, B./Mokrzyzewski, A./Pańków, W.: *Rozpad bastionu? Związki zawodowe w gospodarce prywatyzowanej*. Warsaw
- ‘Pomoc społeczna po reformie administracyjnej’, *Polityka Społeczna*, 2000, No. 8, (report on the Conference of the Polish Association of Social Workers)
- Projekt ustawy o działalności pożytku publicznego i o wolontariacie [Draft legislative Act on Public Benefit Activity and Volunteering], draft No. 263, Warsaw, 5th February 2002: Sejm of the Republic of Poland
- Regulska, J. (1999): NGOs and their Vulnerabilities during the Time of Transition. In: Anheier, H.K./Kendall, J. (eds.): *Third Sector Policy at the Crossroads*. London
- Rybka, I./Rymśa, M. (2002): Polityka państwa wobec organizacji pozarządowych w Polsce. In: Juros, A. (ed.): *Organizacje pozarządowe w społeczeństwie obywatelskim – wyzwanie dla środowisk akademickich*. Lublin
- Rymśa, M. (2001): Rola organizacji pozarządowych w realizacji lokalnej polityki społecznej samorządu. In: *Lokalna polityka społeczna*. Warsaw
- Rymśa, M. (1998): Kontraktowanie usług społecznych z podmiotami pozarządowymi – decentralizacja czy urynkowanie sfery publicznej? *Rocznik no 4 (O kulturze kontraktu)*. Warsaw
- Salamon, L./Anheier, H. et al. (1999): *Global Civil Society: Dimensions of the Nonprofit Sector*. Baltimore
- Salamon, L.M./Sokołowski, W. (2001): *Volunteering in a Cross-National Perspective: Evidence From 24 Countries*. Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project. Baltimore
- Sejm of the Republic of Poland (2002): Projekt ustawy o działalności pożytku publicznego i o wolontariacie [Draft legislative Act on Public Benefit Activity and Volunteering], draft no 263, Warsaw, 5th February 2002
- Sustainability of the Polish Third Sector(2002): Typescript. Warsaw: KLON/JAWOR Association

- Sustainability of the Polish Third Sector (2001): Typescript. Warsaw: KLON/JAWOR Association
- The 2001 NGO Sustainability Index for Central and Eastern Europe and Euroasia. USAID, March 2002
- The Enterprises and Organizations (2000): A Strategic Challenge for Employment, Liege: CIRIEC (International Center of Research and Information on the Public and Cooperative Economy)
- Wciórka, B. (2000): Społeczeństwo obywatelskie ? Między aktywnością społeczną a biernością, a public opinion survey summary. Warsaw
- Wiśniewski, C. (1999): Granice wolności tworzenia i funkcjonowania organizacji pozarządowych ze względu na formy prawno-organizacyjne. In: Wyrzykowski, M. (ed.): Podstawy prawne funkcjonowania organizacji pozarządowych. Warsaw
- Współpraca administracji rządowej z organizacjami pozarządowymi. Warsaw: Bureau of the Plenipotentiary for Co-operating with Non-Governmental Organisations, Office of the Chairman of the Council of Ministers, Warsaw, October 1998
- Wygnański, J. (2002): Kondycja organizacji pozarządowych w Polsce – rok 2002. In: Juros, A. (ed.), Organizacje pozarządowe w społeczeństwie obywatelskim – wyzwanie dla środowisk akademickich”. Lublin
- Wygnański, J. (1998): Elementy budowania i uczestnictwa w programach współpracy organizacji pozarządowych z administracją publiczną. Rocznik no 4 (O kulturze kontraktu). Warsaw

Small Development Within the Bureaucracy Interests: The Nonprofit Sector in the Czech Republic

1. Preliminary Remarks

In the Czech republic, the concept of civil society was introduced to public consciousness after 1989, when the Communist Party's monopoly of power was abolished. This historical event left indelible traces also on the meanings in which the term "civil society" appears in the public usage. In the beginning the mass media expounded the circumstance that it had been the civil society in the form of dissident organizations that had a decisive share in the downfall of Communist totalitarianism. Civil society was understood to be organized defiance towards an unjust government and undemocratic conditions. The new political leaders presented the organizations of civil society as the authentic expression of the will of the people. When the euphoria from gaining freedom subsided, questions of political stability and smooth functioning of democratic institutions started to dominate. Under the influence of the authority of R. Dahrendorf, the idea began to spread that civil society is not mature enough to fulfill the role of guardian of stability of the political situation, and that it will take several decades until this can materialize. This way the idea gained ground that civil society is some kind of a generator of political culture among the population, a culture that shall be the guarantee of a truly democratic and peaceful development of society (Frič/Deverová/Pajas/Šilhánová, 1998: 14f.).

There is no doubt about that after the abolishment of the Communist Party's monopoly of power, the nonprofit sector in the Czech Republic experiencing the period of its new boom. On the other hand the nonprofit sector is a relatively new phenomena for the Czech society. In recent years, however, the concepts of "nonprofit organizations" and "civil society" have increasingly found their way into high level political discourse in the Czech Republic, popularized by the conflicting views of Czech president Václav Havel and former Prime Minister Václav Klaus on their relative importance. While Havel conceives civil society as an important part of political culture encompassing a variety of citizen activities that are undirected by the state and that provide a counterweight to the state bureaucracy and state centralism, Klaus rejected the concept of civil society as unclear to the public and that

everybody may understand it the way he chooses. Havel considers nonprofit sector as an “indispensable part of a mature civil society, even as an indicator of its maturity” (Havel, 1994). Klaus connect nonprofit organizations with collectivist ideology and presumes that pluralistic democracy of parliament type and market economy are the arrangements based on maximally suppressed collectiveness of all types (Klaus, 1997). He perceives enforcement of collectivist ideology in society as a threat of democracy as such.

Despite the prominence of the civil society debate, the term “nonprofit sector” remains new and unfamiliar to the public at large and conceptions on which organizations are included in the nonprofit sector and what they should do vary greatly. Moreover, there is no general awareness yet those diverse varieties of nonprofit organizations form a sector of their own. Even among scholars and experts there is several others names for the sector still in wide usage (“nongovernmental sector”, “voluntary sector”, “civil sector”, “nonstate-nonprofit sector”). What this indicates is that the Czech nonprofit sector is still in a period of self-identification and that there are no precisely set boundaries delineating the scope of this activity.

2. Third Sector Development in Historical Perspective

Beginnings – Middle Ages

History of organized philanthropy in the Czech Republic began in Middle Ages. Its beginnings were connected with the church, i.e. with the institution, whose mission is to take care of the others. Therefore it is possible to divide the philanthropic agenda of Middle Ages and early modern period “basically into two big areas – common humanitarian philanthropy and philanthropy with spiritual content” (Tůma/Vaněk/Dostál, 2001).

The activities of the first type were done mainly through establishing foundations and shelter homes. The range of activities was very wide - from the care for the poor, the elderly, socially - (widows, orphans) or medically (the blind, the deaf, etc.) handicapped persons. The other kind of philanthropic activity primarily resulted in the founding of various churches, monasteries and cloisters, giving subsidy to build and maintain an altar, a chapel and also Mass ceremony foundations were very frequent. Donators used to be largely the members of the aristocracy, but also burghers. Another, and very frequent type of foundations were educational ones intended to help poor students study (Tůma/Vaněk/Dostál, 2001).

Church monopoly to the organized philanthropy continuously decreased

because fortune and pompous life of the church officials was not equal to their charitable doings. Hussite revolution reacted to this fact and it brought, amongst others, first significant impairment of the church position in philanthropic field. It also strengthened the influence of the burghers and gave important impulses to secularization of charitable activities. Dominant position of the church was in the form of "re-catholization" recovered after 1620 with support of the Habsburg state. Its influence was especially strong in the area of education. Under the influence of Renaissance and Humanism, the state was continuously strengthening its power over the church and started to expel it from the area of philanthropy. The social care was centralized in the hands of the state in the period of Absolutist Enlightenment, during the reign of Joseph II. Many monasteries and monkish communities were abolished; their property was confiscated and given to the impropriety charity and foundations established for charitable purposes (Tůma/Vaněk/Dostál, 2001).

First Czechoslovak Republic

This trend was emphasized more in the period of the first independent Czechoslovakian Republic.

"In 1930s the State Statistic Office carried out a wide-range research, which also mapped the charitable private societies and their institutions in the area of social care and care of the poor. Work of charitable societies (altogether 5140) was mainly focused on building and management of various institutions (alms-houses, sanatoriums, facilities for ill people, shelters for the students, nurseries, guidances for mothers, vacation camps etc.). According to the statistics, most of institutions were owned by the municipalities (60%), less by societies (16%), state bodies, churches, individuals etc owned other facilities. Voluntary and private social care made 26% of all expenses spent on the social care and that even without state subsidies." (Tůma/Vaněk/Dostál, 2001)

New impulse for the development of civil initiatives was brought by the period of "National Revival", following the process of common modernization and liberalization of the public life in the era of the late Absolutism. The period of national patriotism prevalence (since 1830) also brought unusual growth of various civic associations, foundations and societies, which supported the development of national culture, art, science and education. There were also firemen societies, gymnastic societies, chorales etc., which significantly contributed to the civil structuralization of the society then. "In 1870s there were already over 3 000 various societies, in 1890s over 10 000, and there number was growing." (Tůma/Vaněk/Dostál, 2001) Social life was significantly influenced by patriotic emancipation efforts, which were important in other areas than philanthropy and non-profit activities. Majority of these activities were done "on two separate national

lines – Czech and German” (Tůma/Vaněk/Dostál, 2001).

Modernization (industrialization, urbanization) and beginning of the civil society lead to further decrease in churches share in organized philanthropy. Church was not able to solve huge and complicated social problems, which were brought by these processes.

”However the church was still active in hospitals, orphanages, alms-houses and social services, there was a strong effort to solve the social problems systematically with responsibility of the municipalities and the state.” (Tůma/Vaněk/Dostál, 2001)

Second World War

Hopeful development of philanthropy was soon interrupted with the German occupation in 1938 and the Second World War. Occupation regime abolished many non-profit organizations. Others, which were kept for the purposes of the regime, were re-organized to the strict centralized, hierarchic institutions serving to the state regime. After the war, together with the common revitalization of democracy, there was a short period of recovery of civil associations and organized philanthropy. Strained interruption of the tradition was immediately restored (over 10 000 societies) and non-profit organizations gained the important social position again (Tůma/Vaněk/ Dostál, 2001).

Era of Socialism

During the communist era, all permitted socio-political activities were associated within the National Front. In addition to political and trade union organizations, so-called "voluntary social organizations" were also represented here. However, these organizations did not involve free, spontaneous activity. They served as yet another instrument of state control over the citizen and his social and private life. All organizations, including common interest, sports and cultural groups, were structured according to the principle of so-called democratic centralism, and a "politically reliable" leadership stood at the top of the hierarchy. Although participation in some politically oriented organizations was merely formal (payment of membership fees, attendance at meetings), it was valued, however, when making decisions about acceptance to higher education or an employment position, and was considered an expression of loyalty to the state. Non-participation in youth organizations, for example, which were almost one hundred percent state organized, was seen as resistance to the regime, and effectively meant exclusion from further advancement in life (Šilhánová, 1995: 11).

The high degree of organized public life is reflected in data in the statistical records of the National Front's Central Committee from 1972, which shows a figure of 19 million National Front (NF) members.¹ Besides clearly political organizations, such as the League of Czechoslovak-Soviet Friendship (Svaz Československo-sovětského přátelství) and the Czechoslovak Peace Committee (Československý mírový sbor), there were also groups like the Czechoslovak Women's League (Československý svaz Žen) or the Czechoslovak Union of Journalists (Čs. svaz novinářů). Special interest and physical education leagues were also represented in the NF (The League of Czech Philatelists, of Bee Keepers, of Fishermen, of Physical Education Clubs, and others). The centralized system of state power thus autocratically intervened in areas of private interests or citizen needs and did not permit other alternative forms of association, which could develop their activities independently of the National Front. The organizations of the National Front were subsidized by the state budget, which further increased their dependence on the state (Frič/Deverová/Pajas/Šilhánová, 1998: 4).

Interested in keeping the population satisfied and preoccupied, the Communists also lavished state support on organizations in the area of culture, sports and recreation, including a wide range of hobby clubs, from chess players to beekeepers. At the same time, groups focused on issues of human rights (such as Charta 77) or otherwise critical of the regime were forced underground. Many other groups, including chapters of the officially approved Czech Union of Nature Conservationists and some youth groups, existed in a grey area – officially tolerated and funded as long as they did not second guess state policies or question the legitimacy of the Communist Party. With the state responsible for all spheres of life, from cradle to grave, virtually no independent organizations existed to address social or educational concerns.

Opposition groups arose sporadically during the period of normalization in the form of petitioning civic initiatives, which were persecuted by the state. Such organizations included Charter 77, the Committee for the Defence of the Unjustly Persecuted, the Czechoslovak Helsinki Committee, and others. These organizations, besides standing up for civic freedoms, also addressed questions of a social nature (publishing reports, organizing support for political prisoners and their families, etc.) (Kolektiv, 1993: 301ff.). During the 1980s the situation in the area of social association began to relax slightly. A number of young people became involved in newly forming environmental movements, and new educational and scientific groups appeared, as well as societies and self-help cooperatives. The activities of officially permitted and "tolerated" organizations gradually started to develop outside state control, and their initiators ignored state directives with increasing audacity. A

1 The number of NF members thus reach over the number of the inhabitants. Czechoslovakia has 14,5 millions inhabitants at that time.

number of current organizations began their activities informally back in the late 1980s.

The activity of civic initiatives culminated in 1989. In 1990, Civil Code was passed, which deals with the activity of civic associations, and thus the existence of new entities independent of the state was made possible. Several organizations worked towards providing social and health care services, particularly those that had been ignored by the state for so long. The former leagues broke up, and their place was taken by a network of organizations specializing in the problems and needs of individual target groups, including those formerly treated as taboo (drug addicts, the mentally ill, homosexuals, AIDS victims, the homeless, etc.) (Šilhánová, 1995: 12).

3. Major Types of Organizations

The term “non-profit sector” used in this chapter embraces all the non-profit organizations in a country, which conform to the „structural-operational“ definition of nonprofit organizations, formulated by Salamon and Anheier.² But the Czech legal code does not use the concept of “nonprofit organization” and each legal form of these organizations is established and regulated by a special act or by Civil Code. From a legal point of view, NPOs in the Czech Republic include citizens’ associations, foundations, funds, public benefit corporations and churches.

Civil Association

Civil Associations form the bulk of the nonprofit sector in the Czech Republic. They represent an expression of the constitutional right to assembly. Civil associations bear various labels: alliance, society, club, association, etc. A civil association is an organization of people, bound by a common interest, who, in order to pursue this interest, have found it appropriate, purposeful and practical to associate their activity and possibly (though not necessarily) also property.

-
- 2 According to them, NPO’s must be:
institutionalised: ie. they possess at least the rudimentary elements of formal organization,
private: ie. they are institutionally separate from the state,
non-profit: ie. they do not transfer any profit they may make to their owners or administrators,
self-governing: ie. they are able to administer themselves,
voluntary: ie. within reasonable limits they make use of voluntary participation either in the execution of their activities or in their administration. (Salamon/Anheier, 1992).

Churches and Church-Related Organizations

Legal treatment Churches is based on the freedom of speech and the freedom to disseminate religion or faith. A church may apply for registration if it has a minimum of 10,000 members of age who are permanent residents of the Czech Republic or at least 500 persons of age who are permanent residents of the Czech Republic who profess their support to them, and the church or religious community is a member of the World Council of Churches. Because the churches receive state subsidies, separation of the church from the state has not been completed yet in the Czech Republic (Frič/Deverová/Pajas/Šilhánová, 1998: 6f.). Church-related organizations that means mainly charitable organizations as Česká katolická charita (Czech Catholic Charity) or Diakonie (the protestant equivalent) were established and are still tightly connected and governed by the churches. Presently, the new legislation is being introduced into practice, which should enable real organizational separation of the churches and their related organizations.

Foundations and Funds

In contrast to a civil association, a Foundations and Funds are defined as a two types of nonprofit legal entities, which represent collections of property set aside by the founders or otherwise collected during the existence of the legal entity and used solely for certain specified public benefit purposes. Foundations has been endowed and maintains an endowment, which must be registered and may consist of monetary equity kept in a special bank account, as well as of real estate or other assets and rights that generate regular income. Endowment assets, which may never become less than half a million Czech Crowns of value may not be sold nor used as a lien. Moreover, only the income generated from, but not the endowment assets themselves, may be used for the foundation's purposes. Foundations may hold additional assets beyond the required minimum endowment, which need not be registered. On the contrary, to a foundation, a fund is not required and even may not form and maintain any endowment. All the assets of funds are treated and taxed like non-endowment assets of a foundation (Frič/Deverová/Pajas/Šilhánová, 1998: 7f.).

Public Benefit Corporation

The public benefit corporation is a new and complementary type of a non-membership nonprofit civic organization providing public benefit services, to which all citizens should have equal access. It also is not excluded from

making a profit from its activities, but any such profit should in the first instance be assigned to a reserve fund to cover any future losses, and in the second instance may be used for the extension of the services for which the public benefit corporation was established (Galičková, 1996). A public benefit corporation is set up on behest of the founders by its articles of association, or its founding charter respectively. Any natural person or legal entity, including the state, may be such founder.

4. Basic Characteristics of the Czech Non-Profit Sector

The nonprofit sector in the Czech Republic consists of a considerable number of organizations. At present, there are 46 151 civil associations with 29 449 organizational units established as legal subjects. There are 328 foundations, 786 foundations funds, 707 public benefit corporations and 4 810 churches and church related organizations (Grantis, 2002). In the last twelve years the nonprofit sector in the Czech Republic has experienced rapid growth in the number of its organization sand has undeniably become the most dynamically expanding sector of Czech society. The number of civil associations, for example, increased by over forty times during the first three years of free development (see Table 1).

Table 1. The growth in the number of civil associations and their organizational units in the last twelve years

	1989*	1993*	1996*	1999**	2001**
Civil associations	537	21 659	28 461	38 096	46 151
Organizational units	1 451	9 488	13 869	25 578	29 449

* Source: Czech Statistics Office

** Source: Ministry of the Interior

*** The table shows only data for legal persons.

Although the contribution of the non-profit sector to GDP is relatively small (1.6%), the sector has gained an important position in the economy and society. The nonprofit sector has become an important employer. In 1995 it employed 1.7% of the Czech workforce, a larger share than any single commercial company. It employed 3.4% of the workforce engaged in the service sector (Frič/Goulli et al., 2001). In 1995 there were 44 378 non-profit organizations³ with a total of 6 660 000 members, giving an average membership of 150 per organization. The largest numbers of members were

3 That means: Civil Associations, Foundations, Public Benefit Corporations, Churches and Church Related Organizations.

found in the following fields: 1. Trade unions and professional associations, 2. Culture, sport and leisure, 3. Community development and housing, 4. Churches and religious bodies, 5. Environmental organizations etc. (Frič/Goulli, et al., 2001). The nonprofit sector is also important from a social and economic point of view because it provides an opportunity for voluntary work. Expressed in terms of full time equivalent, the sector (in the year 1995) employed 40 900 people on a voluntary basis (If they are included in the total number of employees, the non-profit sector's share of the workforce rises to 2.7%) (Frič/Goulli et al., 2001). At the same time the 89% of non-profit organizations make use of voluntary workers. However, these are most frequently engaged in recreation, sport, social services and culture (Frič, 1998: 13). In view of the constant growth in the number of NPOs, we can assume that the non-profit sector will become an even bigger employer in the future. The nonprofit sector has also strengthened its position in society by successfully creating its own sources of finance. Indeed, the earned income of nonprofit organizations, together with members' contributions, makes up (in the year 1995) the largest single element of the sector's financial resources, with 47% of the total. In addition, 14% of the total income of NPOs comes from private donations. That means that public funding of the sector covers only 39% of the total. (see Table No. 2) A recent success in the financing of the non-profit sector was the distribution of the resources of the Foundation Investment Fund set up by the government, something for which the foundations had been campaigning.

Table 2: Share of the three basic sources of finance for the separate areas of the nonprofit sector in the Czech Republic

(N=1052, data for 1995, in %)	Income from the donors	Income from the state	Income from the own activities
MAINLY INCOME FROM ACTIVITIES			
Trade unions, professional and business groups	2,9	2,3	94,8
Community development and housing	9,3	33,9	56,8
Culture, arts, recreation and sport	13,1	41,6	45,3
Education and research	12,6	43,4	44,1
Environment	22,5	33,5	44,1
MAINLY INCOME FROM STATE			
Social services	19,0	50,5	30,6
Civic and legal, protection of rights	24,4	50,8	24,9
Health	14,5	56,6	29,0
MAINLY INCOME FROM DONORS			
International activity	52,2	36,9	10,9
Charity	47,6	30,0	22,4

Source: Global Civil Society (1999)

On an international scale, the relative size of the nonprofit sector in the Czech Republic is below average. On the other hand, in comparison with the other countries of Central Europe the Czech Republic's nonprofit sector is by far the most developed. As far as the different fields of activity are concerned, the profile of the sector in the Czech Republic mirrors that of the other countries of the region – most NPOs are involved in culture, sport and leisure. A far smaller number are involved in education, health and social services. This anomaly arose during the Communist era, when, for political reasons, the regime supported sports and leisure organizations and nationalized NPOs in the fields of education, health and social services, bringing them under its direct control. Another feature typical of all the post-Communist countries of Central Europe is the low proportion of volunteers in the total workforce. However, even in that respect, the nonprofit sector of the Czech Republic is in a significantly better position than the other countries of the region (Frič/Goulli et al., 2001).

Table 3. Share of the nonprofit sector of total number of workers, not including agriculture (according to the method of the Johns Hopkins University Comparative Project)

(Data for 1995, in %)	Paid workers	Workers and volunteers
Czech Republic	1,8	2,9
Hungary	1,6	-
Slovakia	1,0	1,4
Romania	0,6	1,4

Source: Global Civil Society (1999)

5. Development Trends

The non-profit sector includes the state and non-state non-profit sector. Basic economic indicators of this sector are: number of registered subjects (natural and legal), the number of internal and external employees and estimated number of volunteers, overheads, output and its use and means of financing. The economic analysis is performed concurrently within the non-state non-profit sector (NNS)⁴ framework and in the wider definition of the non-profit sector. It relates to the results of the 1995 analysis in the John Hopkins Project (See Goulli/Vyskočilová, 1999). Some of the data from that project was revised or elaborated.

The share of the non-state non-profit sector, which is recorded in the

4 In our contribution NNS means private non-profit institutions predominantly serving the households (NPISH).

system of national accounts as NNS, was only 0.5% of total output and 0.4% of GDP in 1995. According to our estimate, the share of the non-state non-profit sector was 0.9 – 1.2 % of output and 0.7–1.1 % of GDP in the Hopkins Project.

The socio-economic transformation and structural changes, which have occurred since 1995, have significantly influenced the basic economic indicators of the non-profit sector and relations between state and non-state non-profit organizations.⁵

Tables 1 to 3 of the Appendix record the rise in the number of registered non-profit organizations⁶ in the 1995 – 2000 period and their structure according to activity and region.

The number of organizations registered in this period in the public sector significantly fell - almost 50 % for public corporations in Legal Entities Register and 21 % for organizations in the BR (see Table 1 in Appendix). This drop is an expression of the privatization process and transformation of the socio-economic environment.

In the state non-profit sector there have been basic changes.⁷ We can distinguish two tendencies: on the one hand the number of organizations has slightly dropped, and on the other, this number has dropped by 24% in the governmental central sector, as a result of decentralization. The fall was more significant for budgetary organizations (30 %), which have been transformed or taken over by the local government sector. Reforms in state administration, which began in 2001, are strengthening the process of transformation of state non-profit organizations into public utility companies, or further legal forms,

5 In the CR all organizations which pursue certain economic activities are registered in the Business Register (BR). This register is created and maintained by the Czech Statistical Office pursuant to Act No. 89/1995 Coll. Furthermore, there exists a register of natural and legal persons according to the legal form. Both state and non-state non-profit organizations are registered in both these registers, though data acquired from the BR is more complete, as a range of non-state non-profit organizations are not registered in the register according to legal form.

6 This statistics includes also further type of economic subject in the non-state non-profit sector the "natural persons" with permits for activities pursuant to Act No. 513/1991 Coll., § 56 and Act No 105/1990 Coll., the Trades Licensing Act), as well as, since 1992, natural persons with business permits. This group includes various associations without legal subjectivity and persons which pursue mixed management, and which to various degrees participate in grants provided by foundations and projects of public and mutual utility. These groups of persons are active in healthcare, education and research, in social services, in culture, sport and free-time activities. The tally of these groups is very complicated. According to estimates their number rose by 25% in the period in question. The number of these natural persons is expressed for practical purposes in the total tally of employees in the non-state non-profit sector.

7 A reduction of the state's power is taking place under the conditions of transformation due to the existence of non-profit organizations especially compared to the role of the omnipotent state (under socialism). Thus non-profit organizations might play a lead in decentralizing power.

which are closer to the forms of organization in the non-state non-profit sector. The number of district and regional non-profit organizations will rise further at the expense of the number of organizations in the governmental central sector.

From 1. 1995 – 2000 the registration of the number of organizations in the non-state non-profit sector was highly dynamic. The number of NNS rose by 88 %. The number of foundations and endowment funds significantly dropped as the result of new legislative amendments (see Notes to Table 3 in Appendix). The number of church organizations (according to the new act on religious orders they are purpose-built facilities of religious orders) grew from 2,630 in 1995 to 4,810 in 2001. Amongst the numbers of subjects registered by a given date and actually active subjects there is a difference. Therefore CZSO divided the number of non-profit organizations into two groups: active units and non-active units. Table 2 in Appendix gives an overview of structures and the share of the units from each of these groups for the year 1999. The share of active units in the total number of registered organizations in that year was 83.3 %.⁸ Table 3 in Appendix shows the main forms of non-profit organizations structured according to the 14 newly established CZ regions. The highest number of non-state organizations is in the Prague and Central Bohemian Regions.

The number of employees in the non-state non-profit sector grew in the period 1995–2000 by 6.7 %, whilst in the state non-profit sector the number fell by 4.7 %. The share of NNS employees in the total number of employees in the national economy in 1995 was 1.6 % and in 2000 1.8 %. The state non-profit sector had a share of 12.1% and 12.3% of the total number of employees in these years, whilst the total number of employees in the national economy dropped by 4.7 %.

The basic indicators for output structure and sources of financing for the NNS sector are summarized in Table 4. of Appendix. The estimate of NNS output for NNS is in the range of 1.1–1.4 % of GDP, in the wider NNS interpretation in the range of 1.8–2.2 % GDP. Comprehension of the inputted values of the work of volunteers fluctuates in a range of 2.0–2.7 %.⁹

-
- 8 In the last few years the CZSO has, during the setting out of national accounts, been working with the number of active organizations in the NNS sector and in further institutional sectors. For example, the basic economic indicators in 1999 were related to 63,229 NNS organizations and 444 organizations from the non-financial institutions sector and 8 organizations from the financial institutions (ancillary) sector. The majority of public healthcare and educational organizations remain included in the non-financial institutions sector.
 - 9 Data gained from the selected statistical findings is more focused on the activities of non-profit institutions serving households and selected branches. Data on the output of non-profit institutions serving producers and financial institutions are given as a supplementary source from secondary commercial (taxable) activities. It is, however, a problem to focus the integral overview of the main economic indicators both according to type of activity (taxable, non-taxable), and for the non-state non-profit sector serving households, business

The Socio-Economic Environment in View of Joining the European Union

The socio-economic environment in the CR was marked by a negative growth in GDP from 1. 1995 – 1999, high inflation (9.1 % in 1995 and 10.7 % in 1998) and particularly by the significant rise in unemployment (from 3 % in 1995 to 9.4 % in 1999). This situation significantly afflicted the non-profit sector, above all, in the non-state non-profit sector, where there was a drop in effectiveness or stagnation. As a result of the greater influx of foreign investment and economic policy aimed at a growth in the monetary transfer of the population, at support of commerce and at a growth in income in the public sector, economic activity is reviving.

There has been a large growth in organizations functioning on a non-profit principle. This particularly concerns public utility companies, into which various budgetary and subsidized and private schools were transformed. A significant factor for the activities of religious orders was the restitution of property, which enabled a sharp rise in the number of purpose-built church facilities and a revival of activities in the areas of social and healthcare and education.

The significant changes and trends, which have occurred in the non-profit sector, can be summarized as follows:

- The process of changes and transformation in the state non-profit sector, which is gradually partially blending with the non-state non-profit sector. In this sense a non-profit or third sector is being created.
- The process of specification of the public and non-profit character of the activities of private organizations. This concerns private schooling (mainly primary and special schools, secondary and higher vocational schools) healthcare and social services.
- Co-operatives (production and housing) and co-operative financial assistance institutions are awaiting a specification of legislation and rules for their activities to continue being part of the non-profit sector, as is the case in EU countries.
- Central and district organs of state administration will radically sort out legislation and rules for the non-profit sector, in order to be compatible with the legislative and fiscal environment of EU countries.

and financial institutions. These problems complicate the economic analysis and, as a result, output in the non-profit sector and its significance for the economy is very underestimated. This is most apparent in the international comparison of the non-profit sector in developed countries.

Since 1990 the CR has been transforming into a standard democratic society with a standard mixed economy, where a strong private profit sector is established alongside the receding state sector and the newly formed non-profit sector. We can expect that in the future this will attain greater transparency and will make up a significant component of the national economy. The perspectives for further fortification and development are tied up with the creation of a civic society.

6. Nonprofit Sector Financing

A critical problem for the future sustainability and development of the Czech Nonprofit Sector is funding. The lion's share of support for Czech nonprofits comes from the State, with organizations working in the areas of health, social care, and education and research receiving the greatest share of their funding from state coffers (60%, 59% and 55%, respectively) (Frič, 1998). Unfortunately, despite the dramatic transformation of the nonprofit sector since 1989, state funding for nonprofit activities has remained essentially unchanged since Communist times.

State Support

The system of state financing for nonprofit activities remains very centralized, with less than one sixth of funds allocated via regional and local bodies and the remainder distributed by central organs in Prague. This is to the disadvantage of regional and local nonprofits, which are unable to lobby the central authorities. Space for lobbying unfortunately is still considerable, as no unified system for distributing state support exists. Although guidelines recommend that a competitive system be used, a number of ministries essentially leave selection of grants to the discretion of individual officials. In some cases, selected NPOs receive funding automatically, and the amount of funding depends solely on the number of members the organization has – the case, for instance, of fishing and hunting associations that are funded by the Ministry of Agriculture. Both representatives of nonprofit organizations and officials themselves lament the fact that there is also not enough administrative support to assure that applications are objectively assessed and that selected projects are effectively monitored (Frič/Silhánová, 1997). The state funding that is awarded does not provide nonprofit organizations with much stability, since it is awarded on an annual basis and often does not actually come through until well into the year, leaving only months to complete projects.

Another special problem relates to state-established and supported organizations, which offer similar services as NPOs. The anomaly with respect to such organizations is their sheer number - a holdover from Communist period - when everything was in the hands of the state. In addition to organizations like schools and hospitals that one would normally expect to be the responsibility of the state, most organizations like old age homes, orphanages, institutes, galleries, or museums continue to be directly controlled by the state. This is despite the fact that the services could be purchased more effectively and efficiently from independent nonprofit organizations. Though policymakers and state authorities have recognized the problem, efforts to transform some of the state organizations into independent nonprofit organizations recently have become stalled.

The manner in which resources are allocated to the nonprofit sector still corresponds to the Communist structure of social and voluntary organizations federated in the former National Front. Save for a shift in support from sports to social and health care, and despite the dramatic changes within the nonprofit sector, both the absolute amount and the profile of state support remain unchanged since 1989. A key problem is the lack of distinction between organizations that work for the benefit of society as a whole and those that exist to serve only their own members. Charities, for examples, are treated the same as sports clubs and associations, which in fact swallow the greatest share of state resources available on a competitive basis to nonprofit organizations – a persisting reflection of the priority that the former Communist regime gave to paramilitary sports and recreational organizations.

Private Support

Donations from individuals and private businesses, which are a mainstay of many Western nonprofits, have so far not made up for the inadequacies of state funding. A culture of giving is still developing in the country, though successful fundraising programs like Konto Bariéry give considerable reason for hope. The ongoing economic recession and stagnating standard of living have also made money in short supply. Even Czech banks, long the most established domestic donors, have slashed their budgets for philanthropy as their commercial fortunes have sagged. Businesses only contribute to charities occasionally, and usually give one-off donations of under 3,000 Czech Crowns (80 USD) to children's and health charities (Frič et al., 2001). Where corporate philanthropy is established, it is usually unsystematic and relatively ineffective in responding to real needs. Sponsorship is generally preferred by companies over philanthropy, since it allows them to declare the gift as a cost incurred within their marketing budget. But such support is limited to sports clubs and larger NPOs that can organize events such as film

and music festivals. Support from Czech foundations is also minimal, limited to 4% of total funding available to the nonprofit sector (Frič, 1998).

Certainly a cardinal reason for the lack of private support lies with nonprofits themselves, many of whom lack a strong capacity or even appreciation for fundraising – indeed, a culture of giving must be led by a culture of receiving. Two in five NPOs complain of lack of experience in gathering financial resources. The lack of fundraising skills is especially serious in the areas of social services, health, and culture. Czech NPOs are generally ambivalent to the possibilities for self-financing, fearing that engaging in commercial activities could undermine their identity and distract them from their mission. Indeed, 12% of nonprofit representatives feel that their organizations increasingly resemble commercial enterprises, and a full third believe that the best approach is to avoid business activities altogether (Frič, 1998).

Foreign Support

Though a relatively insignificant source for the Czech nonprofit sector as a whole, foreign support is essential to organizations involved in human rights, the environment, and social services. In the year 1997 over 33% of human rights organizations, 23% of environmental NPOs, and 11% of those working in social services rely on foreign sources for over a quarter of their budgets (Frič, 1998). In addition, several of the most important Czech foundations, which are also important funders in these three areas, are „re-granting“ foundations that obtain most of their resources from foreign donors. Thus, the real dependence of Czech nonprofits on foreign support, particularly in the areas of human rights, environment, and social services, is much greater than it at first appears. Virtually all of the resources presently available for development of the nonprofit sector in general – including for example support for nonprofit information centers, various kinds of training, promoting philanthropy, and developing community foundations – come from abroad, either directly or through domestic re-granting foundations.

Re-granting foundations cannot be considered a sustainable and independent source of support. Like many other NPOs, they exist from one year or grant to the next, and must shape their grant-making to meet the demands of their foreign donors – it is difficult, for example, for them to persuade a foreign donor to support not only NPOs programs, but also operating costs. Recent experience has also shown the potential instability of foreign assistance. The flood of Roma refugees that started reaching Western countries in 1998-99 for instance prompted the European Union completely

change funding priorities for the grants it provides to Czech NPOs through the Foundation for the Development of a Civil Society (NROS). The result was a sudden and dramatic drop in funding for environmental and other activities.

7. Problems within the Nonprofit Sector¹⁰

The dramatic development that has marked the Czech nonprofit sector over the past decade has taken place in spite of a range of negative factors and unfavorable circumstances. Thanks to bureaucratic conservatism and an unfavorable political environment, the explosive growth in nonprofit organizations was not accompanied by adequate changes in the system of state support for the sector, passage of appropriate legislation, nor any fundamental change in relations between the State and the nonprofit sector. While the commercial and public sectors have enjoyed considerable attention and significant financial support from all sectors of society during the transformation process, the nonprofit sector has been given little consideration and its development has been severely under-financed.

At the same time, the Communist heritage lingers in public attitudes and understanding of the nonprofit sector. Much of the general public continues to be passive, detached from civic life, and regards nonprofit organizations with suspicion. There is still little awareness of the value of a vibrant civil society. In fact, most people on the streets do not know that the sport club or hobby group they belong to is actually part of the nonprofit sector, and would be hard pressed to name a single NPO.

Anomalies of a decade ago also persist within the nonprofit sector itself. Rivalries cut through the sector, and a huge gulf continues to yawn between the „old“ organizations that have survived from Communist times and the „new“ groups that have sprung up since 1989. Czech nonprofits have been unable to organize themselves effectively. As a result, they have not been able to assert their common interests, and leadership of the sector has fallen to the initiative of a number of well-connected individuals.

Much of the responsibility for the difficulties presently facing the nonprofit sector rests squarely on the shoulders of NPOs themselves. Despite ten years of development, the sector still has much room for improvement. Though the vast majority of organizations are serious, a number of cases of abuse have done much damage to the reputation of the sector as a whole. Only relatively recently have NPOs begun considering self-regulation. Foundations have led the way by developing a code of ethics for themselves.

10 Problems of the Czech nonprofit sector see in details Frič et al. (2000).

Separation of administration and governance would certainly help prevent abuses and inspire public confidence in the nonprofit sector, but only forty-three percent of Czech nonprofits actually have boards of directors – and in many cases, they exist to meet formal requirements rather than play a substantive role in governing the organization.

Many NPOs do not fully appreciate the importance of organizational development, education and training. NPOs leaders all too often take the line that a lack of professionalism can be compensated for by good intentions and strong will power. In many cases where professionalism is required, the amateurism of NPOs in fact damages the reputation of the sector as a whole. The lack of volunteers that many organizations complain of is not only a reflection of public attitudes to volunteer work and the Nonprofit sector, but also the organizations' own lack of skills to attract and effectively manage volunteers. The same holds for fundraising, which many NPOs still approach unsystematically, or public relations, which is still undervalued by many organizations.

Professionalism is key to the effectiveness and long-term survival of a growing part of the nonprofit sector. Nonprofits' ability to attract support, deliver quality services, and contribute to policymaking increasingly depends on having professional employees. Yet retaining experienced staff is made difficult by the instability and low pay that is a general feature of nonprofit employment. NPOs involved in social and health care, large organizations as well as organizations based in Prague report the greatest difficulty in retaining staff due to low salaries.

„Old“ versus „New“ NPOs

The whole basis on which NPOs function within society is undermined by destructive rivalry between some organizations over funding, prestige, and influence within the nonprofit sector. The split can be seen most clearly along the dividing line between „old“ nonprofit organizations that have survived from the Communist period, and „new“ NPOs that have been established since 1989, particularly in areas where the two kinds of organizations exist parallel to one another. Public attention has recently focused, for example, on the struggle between the newly established Federation of Representatives of Organizations for the Disabled and the successor organization to the former Federation of Invalids; between the old Czech Union of Nature Conservationists and newer environmental organizations; or between the former Women's Federation and newer women's groups.

The two kinds of organizations exist in different worlds, have very different cultures and modes of operation, and even different understandings of their role in society or the very nature of civil society. „Old“ organizations,

which actually make up the bulk of the sector, are concentrated in sports, recreation and leisure, while the „new“ NPOs dominate in areas such as human rights, environment, and social services. The „old“ organizations generally rely on state funding much more than new ones, which in some areas are particularly dependent on foreign support. „New“ groups take an active approach to civic engagement, while the „old“ ones base their new collective identity largely on traditional values, which existed before the Communist era.

Table 4. When was your organization founded?

(N=1052)	%
under 1918	3,1
1919-1947	4,3
1948-1989	18,7
since 1990	73,9

Source: Institute of sociological studies, FSV UK (1998)

It is not much of an exaggeration to speak of a „cold war“ between old and new NPOs over resources and influence within the sector. The „new“ NPOs accuse the old ones of benefiting from favoritism when resources are distributed by the state and of fostering paternalistic relationships within the nonprofit sector. „New“ NPOs tend to look down on „old“ organizations with a feeling of moral superiority and are made uneasy by inclusion of older organizations such as sports clubs, horticultural and breeders associations, housing cooperatives, volunteer firemen and hunting associations in the nonprofit sector. The „old“ organizations make no public comment on the current situation, distance themselves from their Communist era identity, make no attempt to represent the nonprofit sector to the public, and take no part in the internal life of the sector. They concentrate instead on lobbying the state administration, parliament and government.

8. Relations with Government and State Administration

Many of the challenges facing the nonprofit sector, including funding, legislation, taxation, and relations with government and state administration, can only be addressed at the level of the government and state. Nonprofits have not created an effective umbrella organization with a mandate to represent the sector (or at least a significant part of it), which could deal with government and state administration as an equal partner. Many

representatives of NPOs have viewed past efforts to establish such a body as an attempt to create a dangerous nonprofit oligarchy. At the last national NPOS conference,¹¹ the supreme organ of nonprofit organizations, the so-called „Permanent Commission of the Conference“, lost its mandate over accusations that it had abused its power. A „Council of Nonprofit Organizations“ (RANO)¹² was established in its place as a loose forum in which bodies with a short-term mandate and a specific task can be established on an ad hoc basis.

Government and state administration are finally showing some signs of responsiveness to the nonprofit sector, yet the sector has no representation to negotiate with them. Mediation between the sector and the state has become the preserve of a limited group of people who, thanks to their contacts and positions in important NPOs, have the greatest access to information, influence, and resources.¹³

Greater integration in other parts of the sector – also not without its critics – has increased the effectiveness of nonprofit organizations and helped many NPOs to overcome their destructive rivalries. In the last four or five years, there has been a process of integration among nonprofits at the regional level as well as within specific fields such as environment, youth, women, and social services. As a result, there are now several effective umbrella organizations for example in the areas of environment, disabled people, youth and social services, foundations¹⁴ as well as seven community coalitions throughout the country.

The ambivalence of Czech policymakers and state officials toward the role of the Third Sector has kept nonprofits at the margins of political interest and has largely conserved the financial, legal, and administrative framework in which nonprofits have been operating for the past decade. There was a brief period of post-revolutionary euphoria during which NPOs worked

11 The effort to integrate nonprofit organizations, to ensure that they are mutually informed about one other and adopt a common way in enforcing the role of the nonprofit sector was with smaller or greater success formulated in the course of several years at the national conferences of nonprofit organizations: a) in Stupava (1992) in Slovakia, b) in Vyškov (1993), c) in Karlovy Vary (1994), d) in Benešov (1995), e) in Prague (1996).

12 RANO is not membership organization and has only very poor institutional bases and up to now do not work according to the original ideas.

13 Since 1992, the Government Council for Foundations later renamed as Government Council for NPOs (RNNO) has been working on the national government level. Its intention is to comment on new legislation and political measures concerning NPOs, help in distribution of finances from the NIF (Foundation Investment Fund) and provide information on the non-profit sector. Unfortunately, the RNNO does not fulfil its mission adequately and its success and effectiveness depend on the members of the Council (which are representatives of government and greatest NPOs) at any given time.

14 For example: Green Circle, Czech Union of Youth, Union of Women, Association of people with health disabilities, SKOK (Standing Committee of the Organizations in the field of Health and Social Care), Donors' Forum.

closely with the state administration and played an important role in determining basic approaches and priorities for the development of Czech society. In this first period, for example, the Ministry of Environment worked in close cooperation with environmental NPOs, and the government made sustainable development a key feature of its program.

The honeymoon of civil society came to an abrupt end in mid 1992 with the formation of a new government by Václav Klaus and the Civic Democratic Party. Klaus, who dominated the political scene throughout his five years as prime minister, strongly opposed the Nonprofit sector, which he said lacked democratic control and the legitimacy enjoyed by elected bodies. Relations between the government and nonprofit organizations remained strained throughout Klaus' tenure in office, and no headway was made in reforming the conditions in which NPOs operate.

The situation has been improving gradually since Klaus was forced from office in 1997. A number of political parties have incorporated development of a civil society in their programs. The government's council on NPOs has been resurrected and has become active. The first 500 million Czech Crowns of the Foundation Investment Fund, which was established in 1992 with 1% of proceeds from privatization for the purpose of strengthening the nonprofit sector, have finally been distributed as endowments to foundations. New legislation has put the foundation sector on a firmer footing, and representatives of some state organs have indicated a willingness to consider reforms in the way they support nonprofit activities. Government support for writing of *Strategy for the Development of Non-Profit Sector* is another indication of change (Frič et al., 2000). Despite these positive signs, most Czech politicians and state officials have yet to appreciate fully the importance of the nonprofit sector in the ongoing process of social transformation. Beside President Havel, who has been a faithful advocate of a strong nonprofit sector and a vital civil society, there is no record of any public statement by a Czech prime minister defending the nonprofit sector or mentioning its achievements. While the ruling Social Democrats have made some overtures to the nonprofit sector, they have done little to make decision-making truly open and transparent. Contrary to the EU's „partnership principle“, which gives NPOs an integral role next to government and business in the development of a new Europe, Czech politicians generally are unwilling to acknowledge a political role for NPOs. Despite constitutional and legal guarantees, such as the Right to Know law that came into effect in 1998, they consistently resist NPOS involvement in decision-making and are still loath to provide information on public matters.

A good case in point is the ongoing process of drafting regional development plans, which in future should form the basis for distributing billions of Euros from EU Structural Funds. Despite specific calls by the European Union for NPOS involvement, only a handful of nonprofit

organizations have been represented on the committees – and only in areas where NPOs have been well organized and have been able to force their inclusion.

9. NPO's Opportunities to Influence Public Policy

The lack of legally established opportunities for NPOs to participate in public affairs has made the process of policy forming opaque and difficult to influence. Nonprofit organizations receive information late in the process, when it is either too late to change anything or they do not have enough time to form an informed opinion on the issue. As a result, many groups have turned increasingly to informal personal contacts with people in state and administrative bodies, to cases before the court, or have resorted to enlisting the help of the public by organizing petitions and demonstrations.

The situation is somewhat better in a few areas where, in the period of post-revolutionary euphoria, NPOs managed to get their access to decision-making recognized by law as for example in law 114/92 Sb on nature conservation, which gives NPOs the right to attend administrative proceedings. Representatives of NPOs complain (Frič/Šilhánová, 1997) of a pervasive conservatism among state officials and organs, which are unwilling to adapt to the new, pluralistic conditions of a democratic society. The nonprofits point out, for example, that in handing out grants state officials routinely favor state-funded organizations over independent NPOs. „The state refuses to take on the role of an investor and continues to cling on tooth and nail to the role of supplier of services – even though there is no demand for it to do so,“ remarks Member of Parliament Pavel Dušek (Frič/Šilhánová, 1997).

The dominant element in relations between the public service and nonprofit sector is primarily the relation of cooperation. The conflict is quite rare and plays marginal role. Experiences from cooperation are mainly positive on both sides, even though the NPOs feel to be beggars more than partners in the relation with public offices. The cooperation is quite intensive and we could say that the nonprofit sector massively cooperates with public offices on all their levels. The important aspect of this cooperation is the absence of formal rules, which make the cooperation inadequately dependent on characters of specific personalities, who hold functions in public offices. The absence of rules opens the civil servants big space for hidden maneuvers and support of clientelism. Unclear rules for financing the NPOs organizations in the end lead to the situation when the state siphons off financial means from the nonprofit sector in order to realize its own programs. The most ideal model seems to be the model of cooperation of

NPOs and the municipality in the small towns, mainly thanks to the phenomenon of “personal growing through”. The only problem still remains the permanent lack of financial means. From that reason the possibility to support the NPOs also financially is low. The civil servant at the higher levels of public offices has mainly the image of unapproachable, conservative technocrat, who is “pampered” and incompetent. According to the opinion of NPOs representatives there are some “enlighten” exemptions among the higher civil servants (Frič, 2000). The evaluation of the NPOs representatives by the civil servants varies from the positive picture of the young expert to the negative picture of the self-oriented incompetent person or a cheat. It means that the civil servants and NPOs representatives still do not like each other and the adopted stereotypes of the other side slow down the development of mutual cooperation.

The NPOs representatives, politicians and the civil servants differ in opinions at evaluating the opportunities of the NPOs to influence the public policy. Even though the civil servants claim that there are a sufficient number of opportunities and that they are open, the NPOs representatives feel that the civil servants manipulate such opportunities, hide them in front of the NPOs and refuse to implement them into the rules of mutual cooperation. The politicians and civil servants on the other hand refer to the fact that NPOs have e.g. direct approach to the Prime Minister and ministers (through their participation in the advisory bodies of the government), which offers them bigger influence than they should adequately have. The NPOs representatives rather appreciate the opportunities to intervene into the administrative procedure set by the law and they express worries that the politicians and civil servants could deprive them of such opportunities. They also complain that using the existing opportunities to intervene into the decision procedures always runs up against their insufficient capacity and limited financial sources. This is also the reason why they are criticized from the other side that they are not able to handle the situation. Politicians and civil servants do not object anything to making the pressure to the institutions of public services from “below”. But according to them it must not grow into political activities, which they consider to be for example using rather radical forms of influence like various methods of public mobilization etc. But the NPOs mainly avoid these forms of influencing the public policy. They rather limit their requirements beforehand so that there is almost no conflict with public offices. Out of the common forms of influencing, lobbying is the most popular among NPOs and they try to move it to a professionalized level (Frič, 2000). In spite of the popularity of lobbying we cannot say that the NPOs agreed upon using the model of “pressure groups” as a basic strategy of influencing the public policy. From their opinions resulted that both the cooperative as well

as the hybrid model of the “middle course” is still at stake.¹⁵ Even though the need to join forces is generally felt in the NPOs sector, it still does not result into any consensual organizational model. The joining process in the nonprofit sector is negatively influenced by concerns of the NPOs representatives about the “Prague centralism” and harmful rivalry between new and old NPOs, who obviously prefer the corporative model of influencing the public policy. The nonprofit sector hardly deals with two extremes of “joint” i.e. the syndrome of the National Front and the requirement of representativity. First of all there is an apprehension, that the organizational structure created altogether, could change into some authoritative formal structure burdened with clientelism. On the other hand at building informal structures there arises necessity to face the strong pressure for their representability i.e. legitimacy in the eyes of all the NPOs. The solution is seen in refusing the validity of requiring the representability for the NPOs sector and in the legitimacy of the spontaneous “joining” initiatives from below.

10. Nonprofit Organizations in Public Eyes

Representative research results show that the Czech public still has many constraints in this respect. 30% of respondents don't know a lot of – even have not ever heard of – any non-profit organization (Frič, et al., 2001). This information shows that the majority of the population doesn't know what the NPOs actually are (e.g. doesn't know that most of the football clubs, firemen troops, hunters societies, churches, trade unions etc. belong there), and even they usually meet their members and their activities.

Czech citizens mostly know the public collections organizers. It is certainly connected with promotion in the mass media and also with their personal experience with giving to these collections. NPOs collections became the most important information channel about the non-profit sector for the public. This discovery also partly gives answers to question why the old (traditional) nonprofit organizations are not by the public included into the NPOs sector – they are not visible through collections. The public thinks that public collections and NPOs belong together. Organizing philanthropy, i.e. individual giving, is by the Czech public apprehended as the basic attribute of the NPOs work (Frič et al., 2000).

It seems that the Czech population lacks the basic knowledge of legal forms of organizations, which they otherwise know well. Many people are not

15 See three models of partnership between state and nonprofit sector done by Lester Salamon and Helmut Anheier (Salamon/Anheier, 1994: 104).

able to match the consistent legal form of the old NPOs to organization. It is important for understanding the information about the membership in the civic associations. It is different with membership in other forms of NPOs. Membership in church-related organization was confirmed by 10% of respondents, the same percentage of respondents claimed to be members of trade unions and 3% answered to be a member of the political party. Altogether, 29% of Czech citizens are members of any NPOs (Frič et al., 2001).

NPOs members are mainly active in organizations providing sports and recreation (their members make together 41% of all NPOs members). 39% are members of organizations providing charitable activities, 38% of the social care services organizations, 38% of organizations providing culture and arts, 34% of health care organizations and 33% provide work in religious organizations (Frič et al., 2001). Besides providing charitable activities and services, NPOs also represent interests of various groups of people and provide space for the public participation of citizens beyond political parties and parliamentary and communal elections. NPOs' effort to represent interests of citizens is accepted mainly in positive way – 62% of respondents think that NPOs are capable to advocate real interests of citizens and 51% of them even think that some NPOs represent also their own interests. Compared to political parties, citizens consider NPOs to be significantly more trustworthy (75% respondents). This also gives the explicit answer to the question of legitimacy of NPOs role in the area of public policy, which is often made doubtful by some Czech politicians. We can say that, in the eyes of the Czech public, the positive aspects of NPOs image prevailing over the negative ones (Frič et al., 2001).

11. Giving and Volunteering

The extent of monetary giving has gone through dramatic development in the Czech Republic over the last ten years. In the first half of 1990s, the philanthropy started to gain its legitimacy, which had disappeared during socialism. Extent of monetary giving did not exceed 16% of the adult population. The main turnover came with the year 1997 with the flood catastrophe in Moravia and the Eastern Bohemia. It brought a big increase in monetary giving. According to the research results, every third citizen of the Czech Republic contributed with monetary gift to charitable purposes. Proportion of monetary donors became twice as big during one year (Frič et al., 2001).

The era of socialism was marked with the ideologised type of the "volunteer work". Everybody had to, at least once in time, obligatory work

for the benefit of socialism without any request for money. The volunteer work was, in their eyes of the usual people, either work under the political pressure or "cringe toward the regime" with the interest to build his or her own career. The basic feature of the so-called "volunteer work" was the non-authenticity. Newspapers and TV published huge numbers of "hours of volunteer work", but nobody believed it. It was not only because of the juggle with numbers but also for the non-authenticity of the declared motivation of volunteers. Various "brigades of socialistic work"¹⁶ mostly had no economic function and their only meaning was to demonstrate loyalty to the regime. It is not surprising that the majority of people do not stand for this "hours of voluntary work" as being the voluntary. Only 22% of respondents said to work as volunteers for some organizations before 1989. This fact also confirms that voluntary work during socialism was considered to be more like a work for the regime than for the voluntary organizations (Frič et al., 2001).

The year 1989 logically meant big decrease in the extent of volunteer work. Research results show that after 1989 only 16% of the Czech inhabitants worked as volunteers. Out of those, who confirmed to work as volunteers during socialism, only around 1/2 continued in volunteer work after 1989. Only 6% of the population became new volunteers after 1989. Altogether only 8% of Czech people were involved in the volunteer work in 1999 (Frič et al., 2001).

In 1997, the wave of charitable enthusiasm culminated and from that moment it has been decreasing continuously. The decrease of number of donors is not dramatic and it is obvious that the ethos of solidarity with people who experienced a hard life deal became rooted in the Czech society more than it was in the beginning of 1990s. At the end of 1990s, the share of monetary donors was higher by one third compared to the first half of 1990s. Decrease in number of donors, after the dramatic flood situation was over, was completely natural and understandable. This decrease is obvious and continuous but it is rather gradual than rapid. Will of donors to give money for charitable purposes again is still going down. It was confirmed also by opinions of donors, because 2/5 (41%) declared that their readiness to give monetary donations has decreased since the beginning of 1990s. Only 14% of donors declared increased willingness. The rest (45%) thinks that their readiness to give monetary donations remains the same (Frič et al., 2001).

The Czech citizens' attitudes towards volunteering and its possibilities are very skeptical. There are still vestiges visible at the Czech people attitudes towards volunteering. They were left over by the state paternalism and ideologization of the philanthropy of the socialistic regime. Most of the people think that volunteering is a poor substitution for the failing state interventionism or for incapable public services. According to 70% of

16 "Voluntary" groups of workers who oblige themselves to do something more for their factory or for "socialism" than were their duty.

respondents, there would be no need for volunteers if the state fulfilled its duties. 3/4 of respondents (76%) agreed with the opinion that volunteers couldn't do much and that the state offices should solve problems of towns and villages. The service role of the NPOs and their volunteers is not understood as non-substitutable segment of the society life.

12. Perspectives

The NPOs representatives prefer the cooperative model of influencing the public policy, which does not have strictly set rules, suffers with clientelism and lack of key opportunities to enter the decision procedures. Until now there have been no important efforts of the NPOs to change such a model, i.e. to set its program basis. The NPOs representatives have not even been able to clearly articulate, which model of partnership with the public institutions is suitable for them and which one they would like to struggle for. Thanks to the spontaneous development in the sphere, in which mostly old NPOs are active, the corporative model still exists but the new NPOs doubt it. Nevertheless, the new NPOs cannot agree on whether it is better to follow the way of building the model of "interest groups", or the compromise middle course of building the central roof organization for the whole nonprofit sector. The development today, up to small exemptions, is positive for those politicians and civil servants that like to see the NPOs working, but being tame and not very strong. It is a strategy of keeping the asymmetric relation between the public offices and the NPOs with a help of unimportant tiny appeasement policy, which is e.g. will to communicate and cooperate at finding solutions to certain problems everywhere, where the accord of goals exists beforehand already. The NPOs representatives appreciate even this small development within the bureaucratic interests – they are not any longer considered to be eccentrics with no value and importance in the life of society. At least the small improvement in the attitude towards the NPOs from the representatives of public offices is signalized from all the sides and levels of the nonprofit sector (Frič, 2000).

Despite this the NPOs mainly keep the optimism to the future. They are more worried about bad results of the national economy, which according to them primarily tie up the development of the NPOS sector, than about the model of building the partnership with public offices. Even though many NPOs are not enthusiastic about the situation today in influencing the public policy, it seems that the mentioned small improvement gives them sufficient satisfaction so that they better do not deal with the risks of the conflict relations with institutions of the public services. It is sufficient that "*things move slowly forward*", therefore there is no reason to be hopeless. The NPOs

in the Czech Republic are convinced that the results of their work will slowly but certainly persuade the public, civil servants and politicians about the importance of their role in the society. Hard work and time (*"both sides are learning"*) are essential for the improvement of the NPOs situation. The results must come. Nobody knows so far, how long it will be necessary to wait before things "grow mature naturally". In order to improve its position toward the state, the NPOS sector in the Czech Republic does not feel any urgent and generally shared need to mobilize its powers.

References

- Bergerová, M. (1999): In a PR Campaign in 1999 the Regions Tried to Present the Civic Sector to the Public as a Relatively United and Compact Entity. In: *Měsíčník pro neziskový sektor*, Vol. VII, No. 7/8
- Deverová, L./Pajas, P./Petrliková, E. et al. (1996): *Průvodce neziskovým právem II.* (Guide across the Nonprofit Law), ICN, Prague and ICNL Washington, DC
- zainteresovaných aktérů), Nadace rozvoje občanské společnosti. Prague
- Frič, P. (2000): *Neziskové organizace a ovlivňování veřejné politiky*. Prague
- Frič, P. (1998): *Activities and Needs of Non-Profit Organizations*. Prague
- Frič, P. et al. (2001): *Dárcovství a dobrovolnictví v ČR*. Prague
- Frič, P./Deverová, L./Pajas, P./Šilhánová, H. (1998): *Defining the Nonprofit Sector: The Czech Republic*. The Johns Hopkins Comparative Nonprofit Sector Project, Institute for Policy Studies, JHU, Working Paper Number 27, May, 1998
- Frič, P./Šilhánová, H. (1997): *Rozhovory o neziskovém sektoru (Sonda do duše Frič, P. et al. (2000): Strategy for Development of the Non-Profit Sector*. Czech Donors Forum. Prague
- Galíčková, A. (1996): *Obecně prospěšné společnosti ve smyslu zákona č.248/1995 Sb.* (Public benefit corporations under the Act No.248/1995 Coll.), *Obchodní právo* 2, 1996
- Goulli, R./Vyskočilová, O. (1999): *The Czech Nonprofit Sector: An Overview*. Baltimore
- Měsíčník pro neziskový sektor*. In: *Grants*, No. 1, Vol. 10 (2002)
- Havel, V. (1994): *New Year's address of January 1*
- Kendrick, J.W. (1996): *The New System of National Accounts*. Boston
- Klaus, V. (1997): *Nová kapitola několikaletého dramatu (The New Chapter of the Several Years Lasting Drama)*. In: *Lidové noviny*, July 4, 1997
- Kolektiv autorů (1993): *Dějiny zemí koruny české II*. Paseka. Prague
- Lemaire, M. (1987): *Satellite Accounting: A Relevant Framework for Analysis In Social Fields*. In: *Review of Income and Wealth*, 33
- Lemaire, M./Weber, J.L. (1983): *L'expérience française d'extension des Comptes Nationaux*. Institut international de Statistiques, 44. Session. Madrid
- Pelej, J. (1993/2): *Některé zkušenosti se zaváděním národního účetnictví*. *Statistika* 1993/2

- Salamon, L.M. (1999): *Global Civil Society: Dimensions of the Nonprofit Sector*. Baltimore
- Salamon, L.M./Anheier, H.K. (1994): *The Emerging Sector. The Nonprofit Sector in Comparative Perspective – An Overview*. Baltimore
- Salamon, L.M./Anheier, H.K. (1992): *In Search of the Non-Profit Sector: The Question of Definitions*. In: *Voluntas*, Vol. 3, No. 2
- Šilhánová, H. (1995): *Stav neziskového sektoru, in Nevládni neziskový sektor 1995: Materiály ze IV. konference nevládních neziskových organizací v České republice*, ICN. Prague
- Šilhánová, H. et al. (1996): *Základní informace o neziskovém sektoru v ČR" (Druhé rozšířené vydání)*. Prague
- Tůma, O./Vaněk, M./Dostál, P. (2001): *Historical Development*. In: Frič, P./Goulli, R. (eds.): *Neziskový sektor v České republice*. Prague

Appendix

Table 1. The number of registered businesses in non-profit sector and in national economy by national accounts system, 1995–2000

	1995	1997	1998	1999	2000	Index 1995- 2000
A. Non-profit organizations						
1. State non-profit organizations in Business Register (BR)	15 587	15 640	15 526	14 734	15256	0,98
1.1 Central government	4 782	4 552	3 954	3 375	3646	0,76
1.2 Local government	10 778	11 065	11 551	11 339	11591	1,08
1.3 Social security funds	27	23	21	20	19	0,70
2. State non-profit organizations in Legal entities Register	9 487	9 450	9 256	9 057	9 478	1,00
2.1 Budgetary organizations	1 217	1 061	982	967	857	0,70
2.2 Subsidized organizations	2 973	2 938	3 006	2 981	3100	1,04
2.3 Schools, educational organizations and sanitations	5 297	5 451	5 268	5 109	5521	1,04
3. NPISH– association of natural and legal persons	50 454	68 116	78 216	84 415	90 620	1,80
3.1 Foundations	4 351	5 352	5 135	4 234	5 360*	1,23
3.2 Churches' purposed institutions	2 630		3 587	4 288	4 810	1,83
3.2 Association of natural and legal persons	43 473	62 764	69 494	75 893	80 450	1,85
4. Active persons in ICNPO Household sector	34 486	37 708	41 270	43 709	42 941	1,25
B. Profit organizations						
1a. Public corporations in BR	3 811	2 902	2 571	3 197	3 004	0,79
1b. Public corporations in Legal entities Register	2 270	1 621	1 312	1 214	1 117	0,49
2. National private corporations	116 946	146 517	161 921	178 443	183 240	1,57
3. Foreign controlled private corporations	26 777	41 170	56093	81 547	94 845	3,54
C. Other persons registered in Household sector	1 075 459	1 315 420	1 429 176	1 562 446	1 621 308	1,51
D. Total number of registered businesses in national economy	1 321 096	1 627 626	1 781 334	1 963 319	2 050 770	1,55

*The number of foundation registered by Czech Statistical Office includes foundations in liquidation by the Act No. 227/97, Coll., on Foundations and Endowment funds

Source: Statistical yearbook of the Czech republic CZSO 1996 – 2001

Table 2. Number of organizations NPISH: Structure and proportions by branches in 1999

	Total units registered in BR ¹⁾	Active units	Proportion of the units registered in BR	Proportion of active units
1. Culture, sport and recreation	16 479	14 190	21,7	22,4
– culture organizations and associations	961	754	1,3	1,2
– sport and recreation organization, associations, clubs	15 528	13 436	20,4	21,2
2. Education	861	629	1,1	1,0
3. Health and social work	991	740	1,3	1,2
4. Fire protection, rescue service	3 578	3 290	4,7	5,2
5. Cooperative housing	1 152	794	1,5	1,3
6. Associations in agriculture and hunting	4 572	3 752	6,0	5,9
7. Industrial, business and transport organizations	135	95	0,2	0,2
8. Membership organizations	48 260	39 854	63,6	63,0
– syndicate organizations	8 355	6 879	11,0	10,9
– professional associations	635	507	0,9	0,8
– church organizations	4 288	3 752	5,7	5,9
– membership organizations, associations, clubs	33 867	28 334	44,6	44,8
Total NPISH	75 893	63 222	100,0	100,0

Organizations or units registered in Business register (BR), which CZSO made and correct according to the Act No. č. 89/1995 Col., on state statistical service.

Table 3. Structure of the Czech non-profit sector obtained by regions till October 15th 2001

Regions	Foundation	Endow- ment funds	Public benefit corpo- rations	Churches' purposed insti- tutions	Civic Asso- ciations	Organizatio nal unions	Total
Hl. m. Praha	1057	201	175	298	7191	2201	11117
Středočeský	197	26	41	585	6234	2922	10005
Jihočeský	42	70	59	366	2892	3060	6489
Plzeňský	112	23	26	378	2206	2511	5256
Karlovarský	49	14	11	167	1228	797	2266
Ústecký	156	20	51	389	3733	1775	6124
Liberecký	106	14	26	210	1818	1274	3448
Králové- hradecký	104	57	25	292	2514	1906	4898
Pardubický	86	37	34	261	2305	1942	4665
Vysočina	43	37	18	279	2605	2103	5085
Jihomo- ravský	244	90	108	433	4551	3192	8618
Zlínský	60	72	28	250	2232	1613	4255
Olomoucký	80	55	46	362	2598	1906	5047
Moravs- koslezský	112	70	59	540	4044	2247	7071
Total	2441*	786	707	4810	46151	29449	84344

* In Companies Register of Register-courts there were 328 foundations registered by the Act No. 227/97, Coll. on Foundations and Endowment funds. The other 2113 organizations, which are registered by Czech Statistical Office, are foundations de iure, they don't fill the conditions of transformation process by Act No.227/1997 Col., and their liquidation belongs to county office competency.

Table 4. Total production (expenditure) and resources (uses) NPISH, 1995-2000 (CZK million)

	1995	1997	1999	2000
1. Total production (expenditure)	15 729	20 347	27 781	-
current expenditure	14 429	18 949	23 798	-
includes compensation of employees	4 378	5 841	5 133	-
fixed capital consumption	1 314	1 021	1 197	-
2. Total resources	16 900	19 694	27 048	-
total current revenue	16 487	18 918	25 930	-
includes revenue from own activities	4 459	3 997	9 619	-
contributions of state institutions	3 409	5 164	6 112	6 840
other current transfers	8 619	9 757	10 199	-
3. Individual consumption expenditure	9 564	11 936	11 470	13 195

Source: Own Table

Watchdog of Political and Economic Power: The Nonprofit Sector in the Slovak Republic

1. History of the Third Sector in Slovakia

Nongovernmental voluntary activities in Slovakia have a long tradition, even though they have been affected by the communist system. Their forms, functions, and relations with the state and the civil society have undergone change throughout the centuries.

The Third Sector Before 1989

Voluntarism, the principles of which today's NGOs also hold, noted the biggest growth in Slovakia at the turn of the 19th and the 20th centuries. Various clubs and associations dealt with problems that were not of interest to the government. The establishment of the first third sector organizations in Slovakia is connected with the operations of the church (in the fields of social welfare, healthcare, and education) and the formation of towns and the bourgeoisie. The oldest examples of nonprofit organizations (although they do not reflect all the characteristics of today's organizations) are charities, social-health institutions for the poor, so-called "field hospitals", xenodochia and spitals¹. The first form of voluntary association in Slovakia is represented by corporations of religious character, so-called brotherhoods. Their mission was self-help, protection of social rights, and education. The oldest known is the Brotherhood of 24 Priests based in Levoca in the 12th century.

The first break in the development of voluntarism occurred in the post-revolutionary years of 1848/49. During this period, most associations and educational establishments ceased to exist.

It was not until the establishment of democratic Czechoslovakia (1998) that the nonprofit sector was given an opportunity for uninterrupted progress. All the conditions for the development of a civic society were created. Economic growth and political circumstances allowed the creation of a middle class. This part of Slovakia's history may be called the "period of

1 Originally used latin names for social establishments.

associating". The number of volunteer organizations in Slovakia expanded to 16,000 associations. Religious, professional, social, health, and educational foundations and clubs enjoyed a strong position.

World War II and the establishment of the Slovak state required that the work of voluntary organizations take on a strictly nationalist focus, leading to the suppression of civic activities.

The next restriction of civic activities was the result of the arrival of the communist regime within which were accepted only associations of the National Front, which supported the communist ideology. Discontinuity occurred in the period 1939 to 1945, and subsequently in the years 1951, 1968, and 1989. All the associations and volunteer organizations that were "not helpful to building socialism" were dissolved. A law passed in 1951 (n. 61/1951) set the course of the development of nonprofit sector for the next more than 35 years. In essence, the nonprofit sector became part of the state system. Not only were terms such as "association" and "the right to associate" deleted, but also the fundamental bases of voluntary membership and internal democracy themselves were abolished. Despite all this, many centers of citizen protest were established.

The Development of the Third Sector After 1989

Sudden political change in 1989 established a democratic system with the proper conditions for the formation and development of civic society. In Slovakia this meant the rapid growth of the third sector. Of the nonprofit organizations in existence prior to the 1989 changes, only a small number remained active. The most important were the Slovak Red Cross, the Academy of Education, and women clubs (e.g., Živena), whose main features were institutional stability, a nationwide network of affiliates, and ongoing programs. By 1993, however, there were almost 6000 new nonprofit organizations registered in Slovakia. A year later, the number of organizations grew to 9800, and by the beginning of 1996, there were more than 12,000 third sector organizations.

After the "Velvet Revolution" of November 1989, Slovakia experienced a boom of civic activities initiated mainly by dissidents and the younger generation. The third sector's development was dramatic, yet contradictory. The "third sector" issue was being discussed more frequently than ever before, but the sector's everyday life was becoming more and more complicated.

The coalition government – combining a strongly centralist movement with smaller parties of extreme left and extreme right – did not have a global concept about the operations of the third sector. Most government officials approached civic activities with fear and hostility. During this period the

Parliament passed several restrictive laws, thus complicating the life of third sector organizations through administrative regulations and limitations.

Paradoxically, the third sector became more unified and increased its level of organization. The result was the "Third Sector SOS" campaign as a reaction to a new law concerning foundations, which became one of the most disputed legal regulations in the history of Slovak legislation. According to the critics of this act, it was a complete liquidation of independent civic activities. In fact, since the bill passed in 1997, 1800 Slovak foundations have been dissolved. The same situation applied to the laws dealing with non-investment funds and nonprofit public benefit organizations (see "Typology and legal environment of nonprofit organizations in Slovakia," below).

After the 1998 elections, a new coalition gained power. This brought hope for a liberalization of current regulations regarding the third sector and new prospects for enhancing the third sector's profile and its organizational structure.

Mechanisms of Cooperation Among NGOs

Currently the third sector in Slovakia continues the strengthening, diversification, and regional decentralization of its infrastructure. Supporting infrastructures are created not just for the whole sector, but also for various professional and volunteer activities.

Among the most important infrastructure organizations is the Gremium of the Third Sector (G3S hereafter), an informal group representing the interests of the third sector in Slovakia. Members are representatives of NGOs, who, since 1994, are elected at the annual conference of NGOs. Their mission is to defend and assert the interests of NGOs in their relations with state representatives, local governments, private businesses, trade unions, and national and international nongovernmental organizations; to develop cooperation and solidarity within the third sector; and to explain and popularize the role of the third sector in Slovakia and abroad.

In 1996, G3S members initiated the establishment of regional third sector gremiums (R-G3S), which operate independently of G3S. The regional structure reflects the administrative divisions of Slovakia. Since the establishment of the first Regional Gremium of the Third Sector in April 1997, a total of seven regional gremiums have been founded (Banska/Bystrica/Nitra/Prešov/Trenčín/Trnava and Žilina).

Members of these Gremiums as well as other Slovak NGOs now meet annually at the so-called "Stupava Conference of the Third Sector." In an event that has become a tradition, nonprofits have an opportunity to discuss problems and forms of cooperation within the sector, as well as cooperation with the government, the private sector, and foreign entities.

In 2000, a number of NGO representatives took the initiative to establish

the Country Parliament of Slovak Republic, the focus of which is complex regional development issues such as regional politics, public administration reform, and legislative initiatives. Representatives of the Country Parliament as well as other NGO bodies (e.g., The Forum of Donors and Ekoforum) are members of the Council of the Government of the Slovak Republic for NGOs. Chaired by the Deputy Premier for Human and Minority Rights and Regional Development, it advises the Government of the Slovak Republic (SR) regarding support for NGO activities.

Evaluation of Third Sector Development

It might be too early for a qualified historical evaluation of third sector trends in Slovakia. However, a first attempt has been made by the research team of the Public Issues Institute. According to sociologist M. Vašečka (Bútorová/Bútorá, 1996), the third sector has gone through five phases of development since 1989:

Diversification: Between 1989 and 1992, newly established organizations defined their interests. A great number of organizations were founded out of the remnants of the National Front and redefined their status.

Consolidation and professionalization: In this period (1992-93), there was an increase of professional development on the part of employees and volunteers of the third sector, aided by a boom of training programs and the possibility to travel abroad for study visits. NGOs start to differentiate with regard to organisational development and level of professionalisation.

Becoming conscious: This period is marked by the consequences of the 1994 election, after which the relationship between the third sector and the authoritarian government worsened. This period was made famous because of the already mentioned "Third Sector SOS" campaign against the proposed law on foundations.

NGO Mobilization: During this period, which started after 1997, the third sector scored its first success, proving its ability to influence and mobilize citizens during the election campaign OK'98. It was the first time that the third sector was perceived as an equal partner of political parties, trade unions and the media. The confidence of the third sector grew.

Stabilization: This period is considered to have begun in 1998, when a new government embarked on a path of democratic development in Slovakia. A number of new laws were passed that created a better basis for the operations of NGOs.

The third sector in Slovakia may be evaluated according to crucial milestones in its development during the post-revolutionary years 1989 – 2000:

Collapse of the communist system: November 1989 brought about the loss of the monopolistic power of one party. A chance for the citizen and the

civil society emerges.

The law on citizen association: In 1990 the legislature passed a law establishing the right of citizens to associate without the state's permission.

Transformation of so-called social organizations: Older organizations, formerly included in the National Front, very quickly adjusted and transformed into new legal forms. They inherited properties, experience, equipment, and contacts from the past.

The legislation approved for NGOs: This legislation created favorable financial conditions for NGO operations and provided them tax relief.

The first Stupava Conference of NGOs: As noted above, Slovakia's NGOs established a tradition of annual meetings, during which they evaluate the sector's development, determine aims, and elect the representatives of the "Gremium of the Third Sector."

Partition of CSFR and establishment of independent SR: After the 1993 agreement, many federal-level organizations separated. The Slovak and Czech Republics took different paths in their political development.

*Establishment and functioning of SAIA (later SAIA/SCTS):*² The Slovak Academic Information Agency (SAIA) was established in 1990 to provide services, such as information and training, for the third sector. Since its establishment, the SCTS³ systematically provides services for the Gremium for the Third Sector.

Establishment of the Gremium of the Third Sector (G3S): As noted above, the aim of G3S is to represent the common interests of the third sector in its relations with the government, local self-governments, trade unions, and foreign NGOs and to ensure a smooth flow of information within the third sector.

Mass arrival of foreign grant programs: Various grant programs operated by embassies – mainly American, British, German, and Dutch – have been active in Slovakia since 1990.

Media attacks against the third sector: In 1995 and 1996, pro-government press began to publish attacks launched by government politicians against foreign foundations. These culminated⁴ before the 1998 election.

The law on foundations: Following the May 1996 passage of this regulation, which required foundations to re-register, only 357 out of the original 2634 foundations did so. The others transformed into a different legal form or announced their liquidation.

Establishment of Changenet: This Internet platform facilitates intensive communication and networking among third sector organizations.

Campaigns organized by the third sector: Nonprofit organizations in

2 Slovak Academic Information Agency/Service Centre for Third Sector.

3 SAIA/SCTS worked nationwide, provided services also for other NGOs.

4 Especially the newspaper "Slovenská republika", Slovak Television, Slovak Radio.

Slovakia demonstrated their increasing strength by mobilizing for two influential campaigns, "Third Sector SOS" and "OK'98," which have been described previously.

"One percent" law: This legislation, passed in 1999, allows citizens to dedicate 1% of their tax to an NGO of their choice.

Government council for NGOs: As a result of discussions between representatives of the government and the third sector, this council was established as an advisory body of the government.

Development of local foundation programs: A number of local foundations and philanthropic programs have been organized with the aim to secure funding for third sector development.

Over the last ten years of civil society activity in the Slovak Republic, it has become clear that, in addition to the state and the market, there is also an invisible hand active—the hand of nongovernmental organizations. Yet these nongovernmental organizations have been undergoing a process of clarification and differentiation of roles. A number of factors facilitating the third sector's development can be identified, as well as others limiting its activities.

Elements contributing to the development of the third sector are as follows:

- Legal establishment of nongovernmental subjects
- Development of NGO theory
- Definition/coining of new terms (terminology)
- Demonstrated ability to contact foreign organizations
- Support from abroad – both moral and financial
- Development of a partnership principle
- Development of volunteerism
- Passing of laws for the third sector
- Public administration reform
- Acceptance of the third sector by government
- Acceptance of the third sector by the general public
- Elements restricting the development of the third sector:
 - Ad hoc government policies towards the third sector (irregular, not transparent, non-qualified)
 - Legislation (incomplete, shattered)
 - Few tax initiatives to assist donors/limited tax advantages for the third sector

- Discrimination of the third sector in comparison to the state
- Low professionalism of NGO managers
- Absence of educational systems, research and publications in the third sector

2. The Third Sector as a Partner of the State and the Private Sector

The nonprofit sector is a very important factor in the process of transformation in the SR: It influences public policies, strengthens civil society, and offers alternative services. It actively participates in the transformation of the society and the economy. The third sector as a whole and individual NGOs became partners for the government. They firmly stand between the government and the business sector, in other words, between state and market. They supplement the activities of state in many areas (mainly in social, charitable and educational activities).

The Slovak economy is gradually turning away from the classical “two-sector economy” model. Every democratic society includes, in addition to the governmental and business sectors, also the so-called “third sector”. This third sector is formed by nongovernmental nonprofit organizations. Their existence is determined, in part, by the fact that neither the government or governmental organizations and institutions nor the market is able or willing to solve various local or global problems in the fields of social welfare, healthcare, environment, education, religion, and culture. Nonprofit organizations are said to take on issues that are uninteresting for the business and governmental sectors from a financial point of view.

It is commonly understood that the task of the individual sectors should complement each other. For instance, the state sector should coordinate legislation and provide necessary statutory services to the public. On the basis of the principles of the market, the private sector should provide services for which the public is willing to pay. The third sector then should fill any remaining gaps in unconventional services for specific groups. Support in the form of legislative and financial regulations coming from the state and, at the same time, support in the form of financial resources coming from the private sector thus should create sufficient space for establishing new organizations, i.e., nonprofit organizations.

Nonprofit organizations are said to represent the link between the private and the public sectors. They provide a wide range of services not required by either of the other two sectors. Nonprofit organizations relieve the burden of the government by providing services that would otherwise have to be

provided by the state. Because they tend to be unprofitable, these services are uninteresting for the private sector. Nonprofit organizations enable legal entities to participate in fulfilling a public benefit purpose in the fields of charity, social welfare, and working with the youth, children, elderly and disabled people, as well as in the areas of education, culture, environment, and human rights.

3. Typology and Legal Environment of Nonprofit Organizations in Slovakia

The nonprofit sector can be divided into the “governmental” nonprofit sector and the “nongovernmental” nonprofit sector. Here the focus is on the following legal forms associating natural persons and juridical persons: (Hrubala, 1999)

- Civic associations
- Foundations
- Non-investment funds
- Public benefit organizations (a nonprofit organization providing public interest services)

Civic Associations

Civic associations are juridical persons organized by citizens or juridical persons in order to represent their common interests. The registration of a civic association is approved by the Home Office. A minimum deposit is not required. There is no legal limit to the amount of administrative expenses connected with the activities of an organization. A civic association is not forbidden to undertake enterprises. Its activities are regulated according to Act n.83/1996 D.O.L. dealing with the right of citizens to associate.

Foundations

Establishment, formation, liquidation, dissolution, finances, and control of foundations are regulated by Act n.34/2002 D.O.L. on foundations. A foundation is considered to be a purpose-oriented association of goods, funds, stocks, or other assets (the property of a foundation) used by the founder(s) for the purposes of common interest. The allowed purposes for establishing a foundation are development of spiritual values, protection of human rights or

other humanitarian aims, environment, preservation of natural and cultural assets, and support for health and education. As with associations, the registration of a foundation is approved by the Home Office. However, a minimum deposit of 10,000 Sk is required at the time of establishment, and within six months, the total must reach 100,000 Sk. Furthermore, foundations must not undertake business activities. The exceptions to this rule are renting its own facilities or property, engaging in public fund-raising, lotteries and similar games, and organizing cultural, sport, educational or social events, provided that these activities are a more effective way of using its resources. Administrative expenses can reach a maximum of 15% of the foundation's total costs. A foundation is obliged to report donors to the tax office if the total sum of the donor's gift exceeds 5000 Sk. A foundation must also submit an annual report to the Home Office.

Non-Investment Funds

Non-investment funds are regulated by Act n. 147/1997 D.O.L. A non-investment fund is a nonprofit juridical person accumulating funds for the purpose of pursuing some common interest. A purpose of common interest is considered to be:

- development and protection of spiritual values;
- protection of the environment;
- preservation of natural and cultural values;
- giving support to health and education;
- provision of social services.

The activities of non-investment funds are approved by a local council office. A minimum deposit of 2000 Sk is compulsory at the time of registration. Like foundations, administrative costs cannot exceed 15% of total expenses. Similarly, the non-investment fund's resources cannot be used to engage in business activities in general. However, non-investment funds can organize public fundraisers, lotteries, and sport, cultural and educational events and sell their own publications, thus supporting the purpose of the fund. Unlike in the case of foundations, the anonymity of donors is preserved. Non-investment funds submit an annual report to the regional council office together with an enclosed list of gifts and donations.

Public Benefit Organizations

A public benefit organization is a juridical person whose aim is to provide the following services:

- Development and protection of spiritual and cultural values;
- Creating and preserving the environment;
- Humanitarian assistance;
- Education of children and youth;
- Providing social services

Registration of a public benefit organization is approved by a regional council office. Activities of this kind of organization are regulated by Act n. 213/1997 D.O.L.

The founder of a public benefit organization can be a natural person or a juridical person. The law contains a clause according to which the founding document must indicate the extent of financial or non-financial deposits the founders put into a public benefit organization. However, the law does not determine a fixed amount or the way it should be deposited. It is therefore left upon the founders to decide how much and in what form a deposit should be (Act n.213/1997 D.O.L. § 6 par.1). The official bodies of public benefit organizations are the board of directors, the board of trustees or a controller, and other bodies according to the by-laws or statutes.

The law permits public benefit organizations to carry out commercial activities under two conditions: that the additional activity does not threaten the quality, extent and accessibility of the organization's services and that this enterprise will help to achieve a more effective use of its property. Any profit gained from such an activity must not be used in favor of the organization's founders, board members, or employees. The profit must be used solely to provide public welfare services (Act n. 213/1997 § 30).

A public benefit organization must keep separate records of the revenues and expenses connected with providing welfare services, those connected with commercial activities, and those connected with the organization's administration. According to the law, administrative costs must not exceed 4% of the organization's total revenue (Beňáková /Kalináčová, 2000).

Hannagan (1996) has proposed the following classification of nonprofit organizations in general divided according to:

The financial resources depending on whether:

- these resources are from government subventions
- the resources are voluntary gifts
- other resources are available B. The kind of product or service depending on whether:
- they produce a concrete product or a real service

- they try to change people's behavior
- C. Organizational form, which can be:
 - based on donations: the income of an organization is generated mainly from gifts
 - commercial: an organization requires payments from the users
 - mutual: an organization is managed by its users
 - entrepreneurial: an organization is managed by professional managers.

4. Statistical Profile and Financial Resources

As of July 2001, 17,844 nongovernmental organizations were registered at the Ministry of Interior of the Slovak Republic (SPACE, 2001). These include civic associations, foundations, non-investment funds, and public benefit organizations. Some 20,000 full-time employees work in Slovakia's third sector, and some 150,000 volunteers actively participate in third sector activities. The nongovernmental sector accounts for only 1% of GDP, yet its potential has been increasing. In fact, in terms of employment growth, this sector has been the most dynamic in the Slovak economy.

Other official statistics regarding the third sector are from 1998. By March 1998, there were 12,599 civic associations, foundations, non-investment funds and public benefit organizations registered in Slovakia. (See Table 1.)

Table 1: Number of nonprofit organizations in Slovakia by type (1998)

Type of NPO		
Civic associations (clubs, associations, unions, movements, international NGOs)	12,000	95.3 %
Foundations	422	3.3 %
Non-investment funds	161	1.3 %
Public benefit organizations	16	0.1 %
Total	12,599	100.0 %

Source: Business bulletin, The Home Office of SR (Praca 17.3.1998)

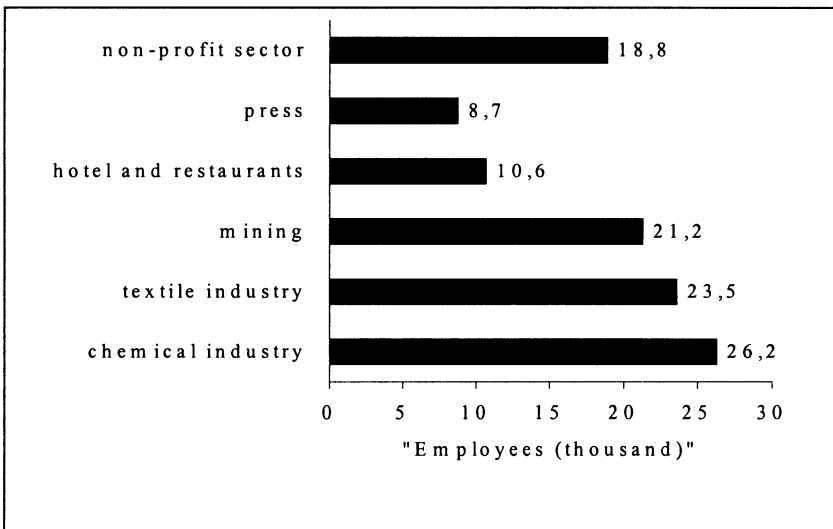
The international comparative research on the nonprofit sector carried out by the Johns Hopkins University team in cooperation with researchers in Slovakia and in more than 20 other countries brought out a number of interesting figures concerning the extent, structure, financing, and role of Slovakia's nonprofit sector (Salamon et al., 1999; Wolekova et al., 2000).

In terms of its economic strength, the nonprofit sector was an industry with operating expenditures of 7.7 billion Sk in 1996 (not including religious

associations and churches). These expenditures represented the equivalent of 1.3% of Slovakia's GDP that year, a relatively modest but still significant amount.

The Slovak nonprofit sector also plays the role of an employer. In 1996, nonprofit organizations in Slovakia employed 16,000 full-time equivalent (FTE) paid workers. This represents 0.9% of all the workers employed in Slovakia in nonagricultural industries, 1.4% of service employees, and 2% of employees in all levels of public administration – national, regional and local (see Figure 1). Furthermore, the nonprofit sector as an industry employed more workers in 1996 than the press and the hotel and catering industry, and was quickly catching up to the mining and textile industries.

Figure 1: Nonprofit employment (headcount) in Slovakia compared to other industries



Source: Woleková/Petrášová/Toepler/Salamon (1999)

These figures do not reflect the full extent of the nonprofit sector in Slovakia, which also attracts the participation of volunteers. In fact, volunteers represent another 7000 FTE workers engaged in nonprofit activities. Thus the total number of FTE paid and volunteer employees in nonprofit organizations in Slovakia rises to 23,000, or 1.2% of all nonagricultural employment in the country (see Table 2).

Figure 2: The nonprofit sector in Slovakia (1996)

Sector	Employees, %	Volunteers, %
Public sector employment		
With religion	2,4	0,9
Without religion	2,0	0,9
Service sector employment		
With religion	1,7	0,6
Without religion	1,4	0,6
Total non-agricultural employment		
With religion	1,0	0,4
Without religion	0,9	0,3
GDP		
With religion	1,4	0,1
Without religion	1,3	0,1

Source: Woleková/Petrášová/Toepler/Salamon (1999)

The church and religious associations are very important in Slovakia. If religious activities other than those services already included are also considered, the number of FTE employees in the nonprofit sector increases by 2700. Thus, total paid employment in the sector amounts to 1% of nonagricultural employment, and total paid plus volunteer employment rises to 1.4%. Such religious activities also represent approximately 590 million Sk in operating costs, thus making the overall costs of the sector almost 8.2 billion Sk, the equivalent of 1.4% of GDP (excluding the value of volunteers).

The Slovak nonprofit sector is relatively small compared to other countries of Central Europe when size is measured by the sector's share of a country's nonagricultural employment. The international study led by the Johns Hopkins University team found that, for the 22 countries covered, the nonprofit sector employed, on average, 5% of nonagricultural employment. Slovakia's nonprofit sector, employing 0.9% of nonagricultural FTE workers, falls significantly below the international average but not far behind other Central European countries, for example, Hungary (1.3%) and the Czech Republic (1.7%).

Culture and leisure activities account for the largest share of employment in Slovakia's third sector. Table 3 shows that culture and leisure organizations absorb 36.7% of all nonprofit employment in Slovakia, a pattern comparable to other Central and Eastern European countries (34.9%) but different from the 22-country average (14.4%).

Education – in particular, primary and secondary schools – account for the next largest share of nonprofit employment in Slovakia (28.5%). Health and social services together represent just over 7%.

Table 3 : The structure of the nonprofit sector

Field of Activity	Slovakia, 1996	Central Europe	22-country average
Other	6,6%	2,2%	4,0%
Development	9,7%	3,1%	6,1%
Culture	1,1%	5,8%	6,3%
Health care	1,0%	6,5%	10,6%
Defence, advocacy	36,7%	14,4%	34,9%
Professional associations, trade unions	5,2%	18,3%	12,0%
Social services	1,9%	19,6%	8,3%
Education	28,5%	30,2%	17,7%

Source: Woleková/Petrášová/Toepler/Salamon (1999)

Advocacy of citizen interests and environmental protection are very closely related activities. Together they account for almost 10% of nonprofit employment in Slovakia. This share is higher than the Central European average and nearly three times the international average.

In contrast, the share of nonprofit employment in economic development and housing activities in Slovakia (1.1%) is only a fraction of the international average (5.8%) as well as the Central and Eastern European average (6.3%). The remaining 7% of nonprofit employment falls into other categories, such as international activities and philanthropy.

Financial resources for the third sector in the SR have the same characteristics and problems as in other transitional countries of Central Europe. For example, NGOs are still strongly dependent on foreign revenue sources (less than 10% of foundations registered in the SR offer grants to other organizations or individuals). Community foundations are expanding noticeably in both quality and quantity.

With regard to revenue, the study by Wolekova et al. (1999) showed that, consistent with its orientation toward culture and leisure activities, the Slovak nonprofit sector does not generate the majority of its income from private donors or government sources, but rather from fees charged for services. As shown in Table 4, the largest share of nonprofit revenue (almost 55%) in Slovakia is derived from fees and charges for services provided. By contrast, private philanthropic gifts—from individuals, businesses, and foundations—represent just over 23% of total revenue, and public sector payments account for approximately 22%. This model of financing is generally comparable to the pattern in other Central and Eastern European nonprofit sectors.

Fees and charges are the dominant sources of income in six fields of nonprofit activity: professional associations and trade unions (93% of all revenues), economic development and housing (78%), environmental protection (74%), culture and recreation (58%), international activities (57%),

and social services (54%). The public sector plays the major role in financing three areas of nonprofit activity in Slovakia: education, healthcare, and advocacy. In education, public sector support constitutes nearly three-quarters (73%) of the income of private nonprofit schools, which are well integrated into the education finance system. In healthcare, the public sector accounts for less than half (48%) of the revenue of the very few health service providers in Slovakia. (The Slovak Red Cross, partially supported by the state, is the only influential nonprofit organization dealing with healthcare.) Public sector support is also the largest revenue source (40%) of many civic, legal service, and political organizations. Private donations, however, make up the majority of revenue for only one type of nonprofit organization: philanthropic intermediaries.

Table 4: The sources of income of the nonprofit sector in Slovakia, 1996

Division	Percentage
Public sector	22%
Charity	23%
Fees and charges	55%

Source: Woleková/Petrášová/Toepler/Salamon (1999)

As this statistical profile indicates, the Slovak nonprofit sector seems less developed from an economic point of view than its neighbors in Hungary and the Czech Republic. This is a consequence of the policy of post-communist governments trying to maintain centralized state control, which basically was an obstacle preventing the nonprofit sector from providing key services (in Slovakia even more than in other countries of the region). However, it does not mean that the Slovak nonprofit sector is not vigorous enough to survive. On the contrary, as shown throughout this chapter, Slovak nonprofit organizations have become flexible, unified, trustworthy and highly effective mechanisms for citizen education and participation and have significantly contributed to the country's democratic development.

5. Present Situation of Slovakia's Third Sector

During the last decade, the Eastern and Central European countries experienced an exceptional increase of citizen participation, most vivid in the activities of nongovernmental organizations. Apart from engaging in traditional charitable activities, representatives of NGOs enter the public policy arena and become partners and watchdogs of the representatives of political and economic power. Within Central and Eastern Europe as well as the broader international community, the Slovak third sector enjoys a good

reputation. It has a firmly built infrastructure: information and educational organizations, a network of active community organizations, the capacity to circulate its ideas through the system, the Stupava Conference, the gremium of the Third Sector, the regional gremiums, and other regional organizations and platforms. Slovakia's third sector has achieved a level of development in the field of advocacy that is higher than that of other Central European countries.

Nongovernmental organizations are gradually becoming more and more accepted within the Slovak society. This is a result of their charitable character and their work in the public interest, in fighting for justice, in asserting democratic values, and in activating citizens. To a great extent, the representatives of NGOs become partners of the public administration at the local and national levels, and they play an important role in cross-border cooperation and the efforts of Slovakia to achieve integration into the European Union (EU) and the North Atlantic Treaty Organization (NATO).

According to the results of a survey conducted in March 2001 by the FOCUS agency (Source: SAIA/SCTS) a positive appreciation of NGO activities prevails among the general public. The most respected NGOs appear to be those working in the fields of healthcare, social services and education. The lowest ratings were given to the NGOs working in the area of democracy development. Forty-one percent of the respondents expressed a positive appreciation of NGO activities, 36% had a negative view, and 23% were unable to take a position on the issue. In this survey of public confidence, NGOs took fourth place behind the church, the President of the SR and local self-governments and ahead of the police, trade unions, the courts, and the Parliament.

This relatively positive attitude toward NGOs is reflected by the number of people involved in the third sector. As noted above, it is estimated that the third sector employs 1% of the total number of employees in the Slovak economy. Quite a large number of people work in the third sector as short-term part-time employees or as self-employed persons. Volunteers participate as well in the activities of the third sector. According to the research of the FOCUS agency (Kollar/Mesežnikov, 2002), approximately 16% of the Slovak population are members of volunteer civic organizations, and 13% have worked as volunteers for a NGO. Nevertheless, sociological surveys prove that the interest in volunteer work or membership in a NGO has fallen despite NGO efforts to encourage volunteering.

The fact that the economic and political situation in Slovakia is still very difficult obviously affects the financing of NGOs. Many of them are still heavily dependent on foreign financial resources, the provision of which will likely slow in the near future despite the announcement in September 2000 of the creation of a new grant mechanism, the Trust for Civil Society in Central and Eastern Europe, financed by five private American foundations.

Therefore the issue of financial sustainability of the third sector becomes more and more urgent.

Well-known grant-making foundations and organizations, which play an important role in the third sector in Slovakia, are mainly re-distributors of funds received from abroad. For example, the Open Society Foundation financed by American philanthropist George Soros and the Foundation for Supporting Civic Activities financed by EU PHARE funds have been the main financial resources for Slovak NGOs for a long time. With few exceptions, Slovak grant-making organizations do not have endowments producing interest or other income that could be used to finance projects. In fact, there are only three grant-making foundations in Slovakia that report own reserve funds of at least 10 million Sk (Kollár/Mesežnikov, 2002).

Yet, there are other means for supporting nonprofit activities. For instance, donations have become quite common in Slovakia. In January 2001, 40% of respondents claimed that either they or their relatives gave donations in the form of money or clothes to NGOs. Material, non-financial gifts were given by 21% of the respondents, and 30% of the people donated cash (Kollar/Mesežnikov, 2002).

The new income tax law is one of the most important recent changes affecting the third sector and its finances (§48 act n. 366/1999 D.O.L.). This law enables taxpayers to use 1% of their income tax for a public welfare purpose in support of any juridical person of their choice. This legislation was passed at the end of 1999 and came into practice in January 2002.

Commercial activities are another potential source of revenue. However, hardly any legal regulation deals with the enterprises of nonprofit organizations. This is a very undeveloped, but important, field. For NGOs, the trend of self-financing brings forward new ethical questions as well as demands for professionalism and transparency.

6. Perspectives

Currently, the third sector in Slovakia is becoming an accepted partner of the public and private sectors. This position is strengthened by the prospects of Slovakia entering the EU structure. The most significant NGOs are already involved in the creation of strategic plans, the preparation and realization of projects for regional development and public administration reform, etc.

The finance structure of NGOs is also undergoing changes, now emphasizing self-financing and effective resource management. The decentralization of public administration has helped to create a new competitive environment, enabling nonprofit organizations to compete with partners from other sectors in providing a wide range of services.

A study of the training and educational needs of NGO managers, carried out by the Education Center for Nonprofit Organizations in cooperation with VSA Consulting (Nonprofit, 2000), outlined the following trends in Slovakia's third sector over the next three years:

- Change of structure and general decrease of financial resources, involving a significant reduction of donor funds (mainly international) and stagnation of public sector financing, as well as the need to undertake income-generating activities;
- Professionalization and specialization of managers and people working in the third sector, entailing the need for investment in education;
- Promising future for bigger, high-profile and professional NGOs, along with the unification of NGOs, an increase in the effectiveness of NGOs, and the dissolution of smaller NGOs;
- Development of civil society at a moderate pace, with the development of cooperation with the private sector and the public administration and a regional orientation;
- Increase in the importance of information technologies (Internet, e-mail, conferences, etc.) in the work of NGOs.

Suggested Readings

- Bútora, M./Fialová, Z. (1995): Nonprofit Sector and Volunteerism in Slovakia. Bratislava
- Comprehensive Report About Slovakia, Public Issues Institute, Bratislava, 1995/96/97/98-9/2000/01
- Dudeková, G. (1998): Volunteer Associating in Slovakia in the Past. Bratislava
- Ondrušek, D./Zemanová, A /Line, M. (1997): Stability of Nonprofit Organizations. Bratislava
- Raimanová, V./Plichotová, J. (1997): The Current State and Perspectives of Gaining Finances for the Third Sector in Slovakia
- Salner, P. (1993): Tolerance and Intolerance in Large Cities of the Central Europe. In: Slovak Ethnography, 41

References

- Beňáková, N./Kalinačová, Z. (2000): How to Establish Nonprofit Organizations
- Bútora, M. (1995): Third Sector and Half -Opened Society. SME
- Bútarová, Z./Bútora, M. (1996): Non-governmental Organizations and Volunteers in Slovakia. SPACE

- Dudeková, G. (1997): Historical Background of the Nonprofit Sector in Slovakia, Study for the Johns Hopkins Comparative Nonprofit Sector Project. Bratislava
- Hannagan, T. (1996): Marketing of Nonprofit Organizations
- Harna, I. (1999): Marketing of Nonprofit Organizations. Brussels
- Hrubala, J. (1999): Law and the Nonprofit Sector in Slovakia
- Kollár, M./Mesežnikov, G. (2002): Slovakia 2001, IVO
- Lengyel, P./Laszlová, V. (1995): Economy of Associations and Other Nonprofit Organizations. Bratislava
- Salamon, L.M. et al. (1999): Global Civil Society: Dimensions of the Nonprofit Sector. Baltimore
- Staneková, E. (1998): Effective Forming of Development within Public Sector and Public Economy of Slovak Republic. Bratislava
- Woleková, H./Petrášová, A./Toepler, S. /Salamon, L.M. (2000): Nonprofit Sctor in Slovakia – Economic Analysis. Bratislava
- Woleková, H./Petrášová, A./Toepler, S./Salamon, L.M. (1999): Slovakia. In: Salamon, L. et al.: Global Civil Society: Dimensions of the Nonprofit Sector. Baltimore

Boom and Consolidation: The Nonprofit Sector in Hungary

1. Preliminary Remarks

Hungarian discussions on the terminology of the voluntary/nonprofit/nongovernmental/third sector and its organizations are dominated by the civil society concept and the much more pragmatic notion of the nonprofit sector. The Hungarian version of the civil society concept has been an intellectual outcome of a long and painful “muddling through”-type (Anheier and Seibel, 1993) transition from communist dictatorship and centrally planned economy to some less centralized, more market-oriented and much milder state-socialist economic and political system. The open society concept that is quite widespread in Eastern Europe (where the political changes were much less motivated by indigenous social movements, thus the collapse of the Soviet empire created a general sensation of opening up) has not had much influence in Hungary. The civil society concept was developed – partly as a political program, partly as a conceptualization of the spontaneous social movements – by the democratic opposition. Though most analysts utilize a slightly different definition, there is a rough, tacit agreement that “the modern civil society is constituted and developed by the various forms of civic initiatives and self-organization and is institutionalized by a legal system (especially the basic citizens’ rights) respecting social diversity” (Arató, 1992: 55). The civil society organizations mediate between the citizen and the state, the citizen and the economic power. They provide means for expressing and actively addressing the varied complex needs of society, promote pluralism and diversity, and establish the mechanisms by which government and the market can be held accountable.

In contrast with the notion of civil society, the concept of the nonprofit sector has been borrowed from the Western market economies. Developed countries and their experience with nonprofit service provision served as a point of orientation for Hungarian policymakers, who were looking for new models for providing welfare services. Coincidentally, a comprehensive set of information was presented about the nonprofit sector in a systematic,

comparative fashion during the early 1990s.¹ The term and definition of the nonprofit sector were easily accepted in Hungary because the nongovernmental character of the newly created voluntary organizations was less problematic than the distinction between the private for-profit and the private nonprofit sectors.

All in all, the terms “nonprofit organization” (NPO) and “civil organization” have become the most frequently used, but “third sector” and “voluntary sector” can also be found among the synonyms. However, only the names of specific forms of NPOs (foundations and voluntary associations) are applicable in the historical analysis of periods when individually existing voluntary organizations did not yet make up an independent sector.

2. History of the Voluntary Sector in Hungary

The very first “benevolent entrepreneur” was the Catholic Church, but it did not remain the dominating force in the initial development of the voluntary sector in Hungary. In medieval times, kings played an active role in founding and supporting charitable institutions, and they granted numerous civic rights and privileges to the citizens in the “free royal cities.” Thus they facilitated the development of a citizenry that was willing and able to create social institutions outside the arena of the Catholic Church. With the strengthening of cities, the guilds, the church, the lay fraternities, the landlords, the king, and the municipalities all took some part in philanthropic activities. They also often jointly maintained charitable institutions.

The tradition of public support for voluntary organizations began as early as the voluntary organizations themselves appeared in Hungary. Both direct and indirect forms of state support were already known in the Middle Ages. Royal donations, statutory transfers and tax exemptions all contributed to financing charities.

After Hungary lost its independence in the 16th century (first came the Turks, then the Habsburgs), fraternities, guilds, and societies became crucial vehicles for preserving national identity. The first voluntary associations that can be qualified as civil society organizations in the modern sense of the word

1 The Johns Hopkins Comparative Nonprofit Sector Project and several trainings, internships, fellowships, and train-the-trainer projects financed by Western donors and organized by mainly American universities and development agencies have efficiently promoted the concept of the nonprofit sector. The structural-operational definition (Salamon/Anheier, 1995) of the sector has become widely known and generally accepted. According to this definition the nonprofit sector embraces organizations which are organized, private, non-profit-distributing, self-governing, and voluntary.

appeared in Hungary in the last decades of the 18th century and were regarded (and persecuted) by the Habsburg emperors as the “emissaries” of the Enlightenment. Most of these voluntary associations strove for political, economic and cultural independence either in a direct or in an indirect way. Besides their cultural and charitable activities, they also acted as representatives of civil society: they claimed their right to influence social and economic policy. As a consequence of their oppositional spirit, the majority of civil society organizations were abolished after the failure of the 1848–1849 revolution and war of independence. During the period called “the age of despotism and absolutism,” voluntary movements were not tolerated at all by the Austrian governors.

The development of voluntary organizations accelerated again after the “Compromise of 1867”² between Hungary and the Habsburg emperor. Almost all social classes and professional, religious and age groups formed their own voluntary organizations. Even the workers’ and peasants’ movements and other politically unacceptable groups found a way to create “tolerable” voluntary associations with mainly social and cultural aims. Both governments and churches tried to gain some influence over civil society organizations, but none of them could dominate the voluntary sector as a whole.

Two characteristics of the 1867–1945 period are important to note. First, there was a mild but clear political control over the voluntary associations. Their registration was subject to the approval of relevant authorities. Second, the system was penetrated by a kind of corporatism: a symbiosis of state and private initiatives prevailed. A significant part of foundation support went to state-run educational or health institutions. On the other hand, voluntary service providers enjoyed several types of state support.

Voluntary associations played very important cultural, political and advocacy roles. Their service-providing role was much less prominent, at least in quantitative terms. In terms of quality and innovation, this role was enormous and essential. The first kindergartens and comprehensive schools, the first institutions of adult education and women’s education, the first museums, libraries and exhibition halls, the first children’s hospitals, orphanages and tuberculosis hospitals, and the first employment agencies were all established by voluntary associations or foundations. The establishment of these “pioneer” organizations was not just an act of charity, but also a vehicle for advocacy. Nongovernmental organizations were quite successful in persuading successive governments to take the responsibility for

2 This compromise between the Habsburgs and the Hungarian political elite created a dualistic political system and granted Hungary far-reaching independence from the Austrian Crown, except in financial, military and foreign affairs.

providing health and social services. Some voluntary groups also started to develop their umbrella associations and federations in order to improve their advocacy work and to increase the level of their activity.

The communist regime that took over Hungary in 1947 and reigned more than 40 years brutally stopped the development of the voluntary sector and destroyed and vilified civil society. The government banned most voluntary associations. What remained of the voluntary sector was nationalized and brought under state control. The right of association was entirely denied, and there was no way to establish a foundation either. It is interesting to note that communist authorities followed a very cynical approach in erasing the civic sector. Nothing was publicly documented, no laws were publicly amended. On paper, the communist regime had the loftiest declarations concerning the right of association, for instance. However, in practice, any application of those declarations and written laws would have been inconceivable.

The 1956 revolution revealed that communist governments had been able to dissolve most of the voluntary organizations, but they could not completely eradicate citizens' autonomy, solidarity and private initiatives. The failed revolution was followed by a tacit compromise: a more flexible version of state socialism was developed. Gradual reforms were introduced into the economy; more freedom was granted to people in their private life. Reforms, gradual changes, and awareness of the poor performance of state delivery systems, all led to a more tolerant government attitude towards civic initiatives. From the 1980s, this change accelerated, and after the mid-1980s, it became obvious that the crisis of the system was so fundamental that any fine-tuning would have been useless. There was a need for a major overhaul.

This gradual process of reforms explains the fact that rehabilitation of civil society was long underway before the final collapse of the communist system in Hungary. While citizens pretended to form politically neutral voluntary organizations, intellectual leaders of the democratic opposition (János Kis in Hungary, Michnik in Poland, and Havel in Czechoslovakia) developed the ideology of a civil society, the "small circles of freedom" (Bibó, 1986) that can coexist with the state-socialist regime. The actual activities of these civil society organizations did not challenge the political system, but their mood was clearly oppositional. The government was worried, but did not dare to ban them.

By the time the breakdown of the Soviet bloc made fundamental political changes feasible in 1989, civil society organizations were numerous, developed and widespread enough to become important actors in the systemic change. Since then, they have developed together with other institutions of the economy and society trying to find appropriate answers to the challenges created by the transition process.

3. Organizational and Legal Forms, Legal and Economic Regulation of Nonprofit Organizations

Roughly speaking, five different periods of recent legal and economic regulation of NPOs in Hungary can be identified (Kuti, 1998: 64f.). These are as follows:

- the period of “opening up” between 1987 and 1990;
- general restrictions on tax advantages between 1991 and 1994;
- selective restrictions and preferential treatment for state-controlled NPOs in 1995–1996;
- selective restrictions combined with an enlargement of indirect state support in 1997;
- a “paradigm shift” in 1998: the public benefit status becomes the single most important condition for preferential tax treatment.

The period of “opening up” started in 1987 when legal provisions pertaining to foundations reappeared in the Civil Code. Two years later the Law on Association guaranteed the freedom of association, opinion and religion. It stated that every citizen and any groups or organizations of citizens had the right to create voluntary associations for any purpose that does not explicitly contradict fundamental human values and does not endanger the democratic political order. Further deregulation of the registration of foundations and generous tax advantages marked the most important stages in building a favorable regulatory framework for the development of civil society.

A series of restrictions were imposed on all nonprofit organizations between 1991 and 1994. First the tax deductibility of in-kind donations was abolished, and then the tax laws limited both the tax exemption of NPOs’ income from unrelated business activities and the tax deductibility of individual and corporate donations to foundations.

The restrictions became more selective after the amendment of the Civil Code in 1994 that introduced (among other new nonprofit forms) the public law foundation. In the following year the tax deductibility of donations to private foundations was cut again, at the same time as the first privileges for public law foundations were introduced. While these selective restrictions remained in force, a dramatically different tendency also appeared in 1997, when the tax law authorized taxpayers to transfer one percent of their personal income tax to nonprofit organizations. Although its introduction only slightly increased nonprofit sector revenues, it more than doubled the number of voluntary organizations that received support from the central budget. As a result, the system of government funding became slightly more equitable and significantly more democratic.

Since 1998 the “nonprofit law”³ has changed the very basis of direct and indirect public sector support to NPOs. The registration of nonprofit organizations is completed by a public benefit test and only those having received the public benefit status are eligible for tax advantages.

Citizens’ organizations can have five legal forms.⁴ The actual activities of these different kinds of nonprofit organizations are not necessarily different, but they significantly differ in their organizational structure, nature and legal regulation.

- Foundations are organizations governed by a voluntary board (mostly named by the founders). They must have an endowment and cannot have members. They can be grant-making bodies, grant-seeking, fund-raising organizations, and also service-providing, operating foundations.
- Public law foundations are foundations established to take over selected government tasks, i.e., tasks that are defined in law as government responsibilities (e.g., education, healthcare, public safety, etc.). Their founders can only be the Parliament, the government administration, and the municipalities. (These organizations are not allowed to create private foundations.) Public law foundations are held financially accountable by the State Comptroller’s Office. The founders can initiate the dissolution of a public law foundation if they think its function can be more efficiently fulfilled by another type of organization. The property of the dissolved public law foundation reverts to its founder. Apart from the above special provisions, the basic legal regulation of private foundations applies to public law foundations as well.
- Voluntary associations are membership organizations with officers elected by their members. They can be both member-serving and public-serving organizations; lobbying and advocacy are also among their usual activities.
- Public law associations are self-governing membership organizations which can be created only by the Parliament by passage of a specific law on their establishment. The Academy of Sciences, the chambers of commerce, and the chambers of some professions (e.g., doctors, lawyers, architects, etc.) have been transformed into public law associations since the creation of this legal form. The government may let public law associations exercise some authority over their members (e.g., official registration, quality control, the issue of

3 Law CLVI/1997 on public benefit organizations.

4 Cooperatives and mutual insurance funds are not regarded as nonprofit organizations in Hungary because they can return profit to their members and owners, thus they do not meet the non-distribution criterion of the Johns Hopkins definition.

licenses, etc.). Otherwise the legal regulation of voluntary associations applies to them. Public law associations are obviously “borderline cases”: while several of them (e.g., the chambers of commerce) meet the Johns Hopkins definition of NPOs, some others (e.g., the chambers of professions in which membership is not voluntary) do not.

- Public benefit companies are not-for-profit organizations established in order to produce public goods and to meet public needs. The profit of their occasional unrelated business activities must also be used to pursue their public purposes. They are not allowed to distribute profit to their owners. They can be established by either private persons or organizations. In addition to the non-distribution constraint imposed by the Civil Code, it is the basic economic regulation of the for-profit limited liability companies that applies to the public benefit companies.

All kinds of foundations and voluntary associations are registered by the court, while public benefit companies must register with the Registry Court. In accordance with the “nonprofit law,” the registration of nonprofit organizations is completed by a public benefit test. NPOs can receive the public benefit status if they

- are engaged in health, social services, research, education and training, culture, sports, emergency relief, rehabilitating employment, promotion of Euro-Atlantic integration, protection of children and youth, environment, human and civic rights, public safety, or services for public benefit organizations;
- serve the general public and not only their own members;
- pursue business activities only in order to raise funds for their public benefit services, without endangering them;
- do not distribute profit to their members or owners;
- do not carry on directly political activities and do not support political parties.

In order to acquire the “eminently public benefit” legal status, nonprofit organizations must also meet two additional requirements. They

- have to deliver services which otherwise should be provided by public institutions; and
- are obliged to publish information on their activities and financial accounts in the local or national press

The public benefit status can be achieved by voluntary associations involved in activities listed in the “nonprofit law” and by most of the foundations supporting the provision of welfare services. Nonprofit schools, theaters,

residential homes for the elderly or disabled, etc. can also acquire the “eminently public benefit” status. Most of the hobby circles, recreation clubs, employers’ and employees’ associations, political movements, and foundations specialized in supporting economic and community development are likely to fail the test.

NPOs qualified as “public benefit” or “eminently public benefit” organizations are entitled to more public sector support and much more favorable tax treatment (including tax exemptions, tax deductibility of donations, and eligibility for other tax advantages) than the “ordinary” nonprofit organizations that do not directly serve a public benefit purpose.

To summarize, the recent history of the NPOs’ legal and economic regulation is a series of more or less contradictory laws and government decrees developed by different legislative and government bodies. Neither the government’s intentions nor the actual measures themselves are consistent. A thorough analysis of the legal debate on nonprofit regulation can detect divergent political approaches, conflicting interests, different governmental efforts, and even competing expert groups in the background. However, nonprofit regulation moved in the direction of retrenchment in the 1990s, although some measures (e.g., the “1% Law”) went against the stream. By the end of the 1990s the government managed to develop a legal framework that allows it to differentiate between nonprofit organizations directly serving public benefit (thus eligible for public support) and all other NPOs. It is to be seen how the system will work in practice, how interested parties will react, and how these changes will influence the overall development of the nonprofit sector.

4. Portrait of the Nonprofit Sector in Hungary

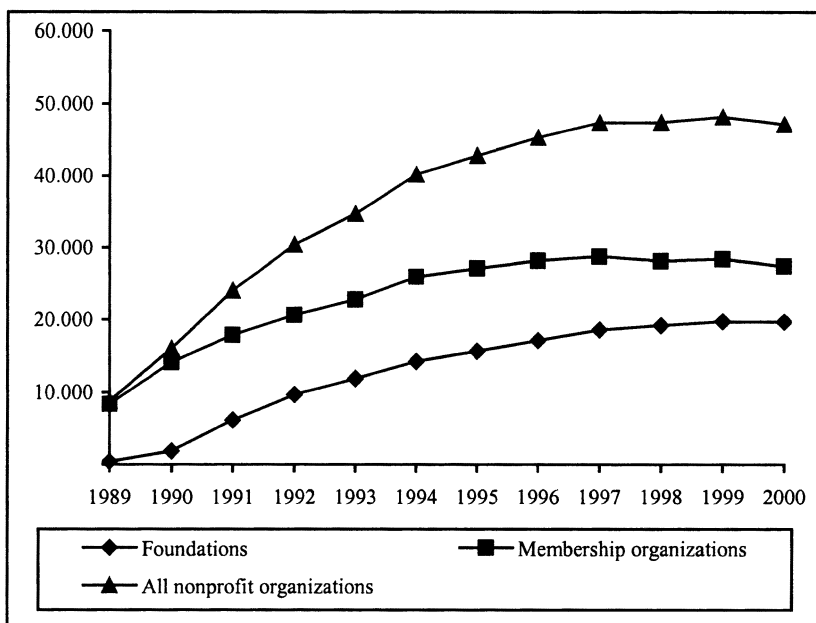
A striking upsurge has taken place in voluntary activity in Hungary since 1989. Nonprofit organizations mushroomed, their social importance and economic strength soared, and the amount of charitable donations multiplied in the first half of the 1990s.

In 1990, at the beginning of its renaissance, the Hungarian third sector was much smaller than that of the developed countries, but its size was still significant. Since the relatively liberal Hungarian version of state socialism had let “politically innocent” voluntary associations exist, the development of the politically free third sector did not start from zero. Nevertheless, its rapid growth was unexpected and resulted in important structural changes.

Starting from an absolute dominance of membership organizations in 1990, only 58 percent of NPOs are voluntary associations in 2000 (see Figure 1). The relatively high share of foundations is mainly explained by the special

tax treatment of foundations in the first half of the 1990s. Only donations to foundations enjoyed tax deductibility; donations to voluntary associations (or public institutions) were not eligible for similar tax advantages. Consequently, the newly created organizations preferred the foundation form. It also happened that the already existing voluntary associations established foundations (as did public schools, hospitals, libraries, etc.). These “satellite foundations” (e.g., foundations of pensioner clubs, youth organizations, trade unions, etc.) were supposed to raise funds for their mother organizations.

Figure 1. Number of nonprofit organizations in Hungary, 1989-2000



Source: Bocz et al. (2002)

Although most of the foundations and more than half of the voluntary associations have been created since 1989, the structure of the sector is still marked by the heritage of the state-socialist period. However, the differences between the composition of the partly old voluntary associations and the structure of the completely new foundation sector herald significant changes in the composition of the nonprofit sector as a whole. The fields that were underdeveloped in Hungary compared to the developed, democratic countries (education and research, health, social services, development and housing) represent much higher shares in the foundation sector than among voluntary

associations. This can be interpreted as a sign that the structural changes of the Hungarian third sector began to diminish the differences between the Hungarian and the Western European nonprofit sectors.

Table 1. Some indicators of changes in the nonprofit sector in Hungary between 1990 and 2000

	1990	2000	2000 as % of 1990
Size of the sector			
Number of nonprofit organizations	15,945	47,144	295.7
Revenues at current prices, billion HUF	31.4	495.6	1578.3
Revenues at constant (1990) prices, billion HUF	31.4	79.2	252.2
Full-time equivalent employment	32,738	62,522	191.0
Structure of the sector, %			
The share of foundations	11.7	41.8	357.3
Foundations' share of nonprofit revenues	20.4	37.9	185.8
The share of public benefit companies	–	1.9	–
Public benefit companies' share of nonprofit revenues	–	25.4	–
The share of NPOs involved in sports and recreation	41.0	29.1	71.0
Sports and recreation NPOs' share of revenues	38.4	12.1	31.5
The share of NPOs involved in education and research	6.3	16.8	266.7
Education and research NPOs' share of revenues	7.0	16.5	235.7
The share of NPOs involved in development and housing	4.0	7.0	175.0
Development and housing NPOs' share of revenues	2.4	22.0	916.7

Sources: Bocz et al. (2002); Kuti (1996)

The most striking of these differences is the relatively low share of the Hungarian voluntary organizations in welfare services, which are the most important fields of voluntary activities in the developed countries. This difference is explained by the state monopoly of education, social services and healthcare under state socialism. While voluntary organizations as service providers were tolerated in culture and even promoted in sports, recreation and emergency prevention, they were not allowed to establish schools or hospitals. Though the shortage of capital has been a major impediment to the development of nonprofit welfare institutions in Hungary in the 1990s, the growth reflected in the statistical indicators is still impressive.

Similarly, the state monopoly of housing and urban services prevented Hungarian NPOs from playing a more active role in development and housing before 1989, and thus contributed to keeping their share relatively low in this field compared to other countries. Since this monopoly was broken, voluntary organizations have gained ground considerably, which also means that they have more direct influence on policy decisions.

Table 2. Number of nonprofit organizations by types of municipalities and fields of activity in 2000

Field of activity	Capital	County towns	Other towns	Villages	Total
"Classical" service provision					
Social services	1,266	1,053	1,133	685	4,137
Healthcare	802	651	517	141	2,111
Education	1,701	1,771	2,064	1,330	6,866
Research	782	183	65	27	1,057
Identity-building, communication					
Culture	1,656	1,126	1,269	891	4,942
Religion (churches not included)	364	243	337	351	1,295
International activities	312	149	134	42	637
Recreational activities					
Sports	1,161	1,390	1,748	2,170	6,469
Recreation	1,328	1,618	2,201	2,199	7,346
Local community-based activities					
Environment	239	219	302	259	1,019
Emergency relief	35	44	166	647	892
Community development & housing	271	327	605	1,198	2,401
Crime prevention & public safety	159	171	331	747	1,408
Advocacy					
Human rights	196	109	93	163	561
Nonprofit umbrella organizations	297	264	87	25	673
Political activities (parties not included)	193	63	64	29	349
Economic advocacy	1,268	958	969	893	4,088
Economic development & employment	264	236	230	148	878
Non-specialized grant-making	15	—	—	—	15
Total	12,309	10,575	12,315	11,945	47,144

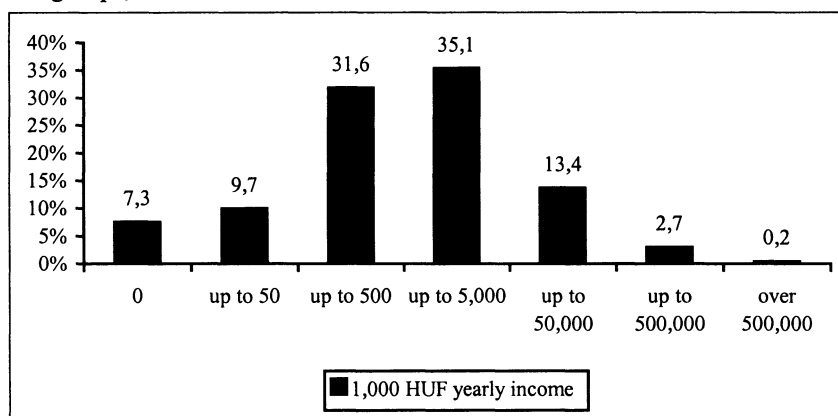
Source: Bocz et al., (2002)

The financial indicators suggest that the economic importance of the Hungarian nonprofit sector is definitely larger than it is generally presumed to be, though still modest in terms of its share in GDP. The service-providing role of NPOs deserves far more attention than it attracted in the first years of the transition period. The third sector's contribution to total output is 19 percent in the field of culture and recreation, 5 percent in education, and 3 percent in health and in social services (Bocz et al., 2002). The newly emerging nonprofit organizations represent the society's response to the new challenges. Their large-scale entry into welfare services expresses the citizens' intention to increase the supply and quality of services that were previously monopolized by the almighty state. Still, the relatively low employment figures show that nonprofit employment did not expand with the general development of the sector. Very few voluntary organizations have well-trained and well-paid employees; therefore, the need for professiona-

lization is an important challenge for Hungarian NPOs.

Promising as it is, the development of the third sector is not at all balanced. As shown in Table 2, about one-quarter of the nonprofit organizations are located in Budapest, the capital, but these NPOs account for more than 60 percent of the total income of the sector. The smaller a community is, the scarcer and poorer are its voluntary organizations, which also means that their problem-solving capacity is probably much smaller in the less developed regions.

Figure 2. Breakdown of nonprofit organizations in Hungary by income groups, 2000



Source: Bocz et al. (2002)

Another characteristic feature of the Hungarian nonprofit sector is that there exists a large range of income sizes—from zero up to billions of HUF—along which the organizations are situated in a very unbalanced way (see Figure 2). One-sixth of nonprofit organizations exist without any income or with a very minimal income, and two-thirds of them have a very small amount at their disposal (between 50,000 and 5 million HUF; € 200 – € 20,000). A mere 3 percent of the nonprofit organizations reach the level of 50 million HUF annual income (= € 200,000). Only one-third of the organizations earn 94 percent of the sector's total revenue.

5. Specification of the Typical Functions of Nonprofit Organizations in Hungary

Since the challenges to be met are manifold, nonprofit organizations play various roles. They are as follows:

- democracy building, strengthening pluralism and citizen action;
- public policy formation;
- service provision, economic restructuring;
- redistribution of wealth;
- socio-psychological role.

Democracy building, strengthening pluralism and citizen action. Civil society organizations not only mediate between the citizen and the state, the citizen and the economic power, they also establish mechanisms by which government and the market can be held accountable by the public, and encourage individuals to act as citizens in all aspects of society rather than bowing to or depending on state power and beneficence. In addition, NPOs provide means for expressing and actively addressing the varied complex needs of society. In short, they strengthen pluralism and diversity.

One of the crucial roles of Hungarian voluntary organizations has been to fulfill these “democracy-building” functions during the transition period. The motivation behind the establishment of numerous NPOs in the early 1990s was mainly the citizens’ desire to actively influence the development of the new economic and political system, to participate in the decision-making process, to ensure some autonomy, to strengthen local identity, to control and influence the local authorities, to promote cultural, ethnic, religious, and linguistic diversity, to develop local information networks, to educate citizens, and to encourage them to behave as citizens.

Public policy formation. Nonprofit organizations have played important roles in introducing, shaping and implementing policies for the last decade. At least three approaches and methods have been used by NPOs when they actively participate in policy dialogue without encroaching on the sphere of political parties. They are as follows:

- Problem-solving approach: provision of alternative and innovative or simply missing services; prosaic, everyday advocacy;
- Responsive, ensuing approach: feedback on government proposals; defensive, protective advocacy;
- Dynamic, creative approach: challenging, original initiatives; farsighted, provident advocacy.

Authoritarian regimes of past centuries left little room for open policy advocacy. The conclusion Hungarian citizens have drawn from the history of welfare services is that practical achievements are more convincing than

petitions, demonstrations or theoretical arguments. The provision of services is frequently started by NPOs if initiators are aware that philanthropic sources will not be sufficient. One of the purposes is indeed to solve the problem at least partially; the other is to make needs explicit. When founders of charitable organizations face the government with a *fait accompli*, they know that it is a possible method of advocacy. Governments find it much more difficult to let a service-providing voluntary organization go bankrupt and thus stop the provision of an already existing service than to not start delivering new services. Consequently, service-providing voluntary organizations can act as alternative policymakers if they are able to smartly combine lobbying and service provision. An abundance of examples (nonprofit psychiatric hospital for children, shelters for homeless and for victims of family abuse, school for drop-out children, "job-exchange" for unemployed people, etc.) show that this "step-by-step" procedure of attracting government support is often workable when direct lobbying proves to be futile.

In short, one of the methods of participation in introducing, shaping and implementing policies most frequently used by Hungarian NPOs is to act as "alternative policymakers," without paying much attention to the difficulties to be overcome. This "problem-solving" approach can be quite fruitful, can efficiently influence the decisions of the "professional policymakers," and can result in some kind of social control of the changes in the welfare mix, but it can hardly produce a balanced financial situation in the short run.

Nonprofit organizations as alternative policymakers naturally cannot substitute for voluntary organizations that are trying to control and influence the government policy in a more direct way. This direct civil control of government action is of crucial importance. NPOs engage in this kind of advocacy quite frequently. Numerous protests are organized by voluntary organizations, trade unions, interest groups, and sometimes even by the business community against additional taxes, industrial-technological projects, pollution, discriminatory government measures, etc.

Despite the numerous examples of this defensive, protective advocacy, there is a general feeling among NPOs that they are not well-informed enough, not organized enough, not prepared enough to be really successful in controlling government actions. The service-oriented, multipurpose character of most Hungarian voluntary organizations is becoming an obstacle to professional advocacy work in some cases. Even the responsive, ensuing approach to shaping government policy is very demanding, time- and money-consuming. If nonprofit organizations want to influence government policy, they must follow the political debates, get access to the different proposals, be knowledgeable about the relationships, keep contacts with politicians, government officials and other NPOs, and be prepared to analyze the newly emerging issues and to start action at any moment when it is necessary.

Some NPO leaders also argue that responsive, ensuing advocacy should be supplemented by a more dynamic, more creative approach. They think that the voluntary organizations should not wait for government initiatives in the fields where they can develop their own concepts and policy proposals. As the institutions of a developing civil society, voluntary organizations have their right not only to criticize and control government programs, but also to raise questions and suggest solutions and strategies. If they want to be accepted as partners by the government, they cannot afford to confine themselves to playing a passive, inferior role. They have to take the initiative in many fields where their members and supporters are knowledgeable enough and the citizens are likely to support the NPO proposals.

This approach is only feasible if nonprofit organizations are able to increase the professional level of their activities. Another necessary condition is more stable and more efficient communication and cooperation within the voluntary sector. Though there are some examples of this dynamic, creative approach in Hungary, their number is significantly smaller than that of the problem-solving or defensive actions.

Service provision, economic restructuring. The “one-sector economy” (Marschall, 1990) failed in every field, including the provision of welfare services. In accordance with Weisbrod’s (1986) theory, the government was not able to provide the discrete groups (such as minorities, disabled people, etc.) with the services they would have needed. The dominance of the state-run welfare institutions proved to be also harmful for the public as a whole. Neither the quantity nor the quality of their services was adjusted either to the limited available resources or to the consumer demand. Their functioning was far from efficient and flexible. The distribution of the welfare services they provided was perceived as unequal and unjust (Manchin/Szelényi, 1986). These problems made changes inevitable.

Hungarians constantly have tried to enlarge the market of welfare services (for lack of better opportunities, mostly toward the second economy and the gray market). Since nonprofit service provision and the establishment of foundations were legalized, several NPOs have been created in order to meet the unsatisfied demand or at least to alleviate the shortage. Until recently, it has been quite rare for private entrepreneurs to establish service-providing nonprofit organizations in Hungary. The initiators have been either the potential clients (e.g., unemployed people, parents of handicapped children, etc.) or enthusiastic professionals (e.g., teachers, librarians, social workers, artists, etc.) – both lacking managerial skills and sufficient money to invest. The future development of the existing service-providing NPOs and the establishment of new ones depend heavily on government policy, including regulation, direct and indirect support, and contracting-out arrangements. The resources that are available cannot be dramatically increased, but the social control of their use seems to be feasible. The

emergence of the nonprofit and for-profit service providers is clearly a step toward the institutionalization of this consumer control. Public authorities are well aware of the necessity to modernize and restructure the provision of welfare services and of the need for a new partnership between public, nonprofit and for-profit organizations. The intensive government participation in the establishment of nonprofit service providers (mainly public benefit companies and public law foundations) and the indirect support to the third sector through tax regulations are based on an ideology that regards nonprofit organizations as constituent parts of the modern three-sector economy.

Redistribution of wealth. As an answer to the economic and structural problems of the Hungarian welfare system, a number of NPOs have been created in order to facilitate and institutionalize the voluntary redistribution of wealth. Though among these NPOs one can find several charitable foundations of the "classical" type (e.g., poverty relief funds, organizations helping the disabled, homeless, refugees, etc.), the majority of them raise donations for public welfare institutions. Very few Hungarian consumers have enough capital to start new welfare institutions if they are not satisfied with the quality and quantity of services delivered by the state-run organizations. However, most of them are ready to support "voluntarily" the improvement of these services. The majority of the Hungarian public hospitals, clinics, universities, colleges, and many schools, kindergartens, libraries, and other cultural institutions have set up foundations in order to urge and facilitate this voluntary contribution. Their establishment was practically forced by the circumstances in the early 1990s. Because there were severe cuts in the budget of public services, public institutions had to look for additional resources if they wanted to survive. The founders of these grant-seeking foundations can be the clients or the institutions themselves, but representatives of the clients and other supporters can nearly always be found among the board members. Consequently, the emergence of these "satellite foundations" not only improves the financial position of the public service providers, but also imposes some consumer control on their professional activities, which may bridge or at least decrease the gap between the supply and demand for welfare services. Similarly, social control over the redistribution process has been intensified through the creation of large grant-making foundations distributing government money. These (mainly public law) foundations represent the first attempt to introduce the "arm's length model" and thus promote a less centralized and more participatory way of public grant-making in Hungary. Large public law foundations are also supposed to play an important role in the denationalization process and contribute to the implementation of government policies. Some of them can be appropriate means of assuring that the main flows of redistribution are consistent with policy objectives and that the actual grant-making procedure remains free from politicization.

Socio-psychological role. The political transition has brought about fundamental changes in all parts of the society and economy. Wealth, political power and economic positions are being redistributed. Government officials, artists, professionals, and private entrepreneurs are all fighting for survival under the new conditions. They are eager to take all opportunities including those that are offered by nonprofit organizations. Their personal motives range from the most respectable to that of pure profit. The nonprofit institutional forms and the additional resources (donations, government support, and tax advantages) available through them serve as a life jacket for several individuals and organizations endangered by the recent political and economic changes. While individuals and whole social layers are exposed to various dangers, many exceptional opportunities are also open to some of them. A small group of the old political elite, the old manager elite and some new entrepreneurs is on its way to becoming extremely rich, while another group of the intelligentsia has come to occupy dominant political positions (Konrád/Szelényi, 1991). Whether they want to protect themselves or seize these opportunities, Hungarians must form alliances, action groups and advocacy organizations. The present mushrooming of advocacy groups is only the initial phase of an evolutionary process, which is probably a necessary condition for the selection of viable organizations. People changing their social and economic positions often feel that they have to leave their old organizations and find new ones where they can meet the members of their new class. This "need for belonging" (Scitovsky, 1990) cannot be easily satisfied when the social changes are too quick or the social mobility is too intensive. The newcomers are not always welcomed by the already existing groups; it happens very frequently that they have to establish their own organizations, which compete with the more traditional ones. Voluntary organizations play an important role in the process of social restructuring. Membership in voluntary associations, participation and volunteering are essential elements of status-seeking behavior (Douglas, 1987; Collins/Hickman, 1991) even if their integrating effect is weaker than it could be under a relatively stable social order.

6. Relations with Other Sectors

As reflected in the wide range of its functions and activities, the Hungarian nonprofit sector has close relations with a broad range of other actors. It cooperates with them in the solution of social problems, provides them with services, and solicits their support.

Table 3: Nonprofit sector income by revenue sources, 2000

Revenue source	Revenue million HUF	As % of the total
Support from the central government	112,520.8	22.7
Support from the local governments	28,396.6	5.7
<i>Government support</i>	<i>140,917.4</i>	<i>28.4</i>
Corporate donations	25,207.5	5.1
Individual donations	11,168.7	2.3
Foreign donations	31,578.2	6.3
Donations from nonprofit organizations	12,038.6	2.4
<i>Private donations</i>	<i>79,993.0</i>	<i>16.1</i>
Membership fees from private individuals	11,341.6	2.3
Membership fees from organizations	17,763.2	3.6
Sales and dues related to the charitable activities	154,000.7	31.1
<i>Revenues from the basic activities</i>	<i>183,105.5</i>	<i>37.0</i>
Investment income	22,330.1	4.5
Unrelated business income	65,228.	13.2
<i>Revenues from for-profit activities</i>	<i>87,558.4</i>	<i>17.7</i>
Other	3,933.7	0.8
Total	495,508.0	100.0

Source: Bocz et al. (2002)

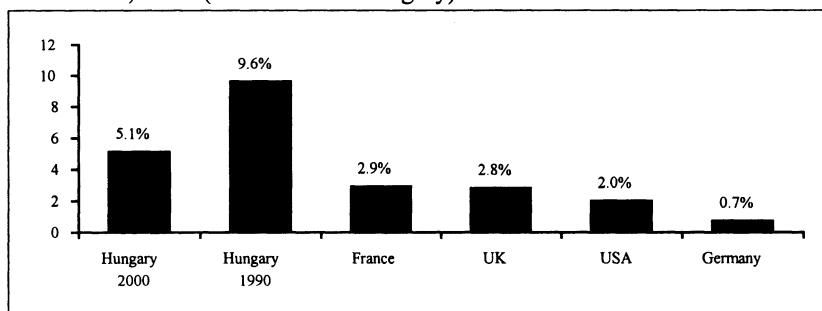
The revenue structure of the Hungarian nonprofit sector suggests that the sector's relationships with different kinds of donors are different from those in the developed countries. As shown in Table 3, direct government support to nonprofit organizations is rather parsimonious in Hungary. Its share (28 percent of total nonprofit income in 2000) is still much lower than it was in Western Europe in 1995 (Salamon/Anheier, 1998)⁵. The relatively low level of government support is not completely consistent with official ideology, however. What politicians say about the importance of civil society and the possible role of voluntary organizations in the denationalization and decentralization of service provision does not correspond with their actual decisions on direct and indirect state support to the nonprofit sector.

Government support being meager, Hungarian nonprofit organizations must rely on service income and membership fees. This means that they are probably more dependent on their clients and on private donors than their counterparts in the more developed countries. As the majority of nonprofit organizations work inside one community, their prominent partner is obviously the local government. About one-third of NPOs are financially supported by municipalities (Sebestény, 2002). In addition, several types of in-kind donations from local governments facilitate voluntary activities. In many cases these free services (office space, transport, communication, and

5 All figures for Western Europe that we use in this paper are based on data for 1995 (the base year of the Johns Hopkins Comparative Nonprofit Sector Project).

administrative help) are vitally important for the sustainability of nonprofit organizations. The income from private charitable giving (including gifts from individuals, corporations, foreign donors, churches, unions, foundations, and other voluntary organizations) accounted for about 16 percent of total nonprofit income in 2000, which is much higher than the average share of private donations in the revenue mix of the nonprofit sector in Western Europe. At first glance, this difference does not look conceivable, but on closer examination this strange phenomenon can be explained. No doubt, private giving operates from a much smaller domestic base in Hungary than in the developed countries. On the other hand, Hungarian charities attract more foreign donations than their Western European or American counterparts, though the amount of foreign contributions only slightly exceeds the sum of corporate donations. Corporate philanthropy in Hungary has a long tradition, which was not broken in communist times. Quite the opposite, for state-run Hungarian companies it was almost obligatory to develop a corporate welfare policy. They had to put some part of their profit into a “welfare fund,” which was a source of financing for corporate welfare services. Several companies had their own nurseries, kindergartens, recreation homes, sports facilities, clubs, libraries, and houses of culture; most of them regularly supported their retirees and employees in need. This tradition of corporate welfare did not completely vanish after privatization. Many firms converted their “welfare funds” into foundations, and several corporate welfare institutions were passed on to these foundations before or during the privatization process. These kinds of donations were extremely beneficial for the early development of foundations and produced an unusually high share of corporate donations in 1990 (see Figure 3).

Figure 3. Corporate donations as a percentage of total nonprofit sector income, 1990 (and 2000 for Hungary)



Sources: Salamon/Anheier (1995); Bocz et al. (2002)

The share of corporate support to the nonprofit sector has decreased somewhat since then, but it is still much higher than in the developed countries. This suggests, on the one hand, that there are many firms that have not stopped subsidizing welfare services provided by “their” foundations. In addition to charitable motivations, economic reasoning also accounts for this willingness to support foundations. The tax and social insurance burden of salaries is so big that many employers prefer covering the relatively lower costs of in-kind welfare services, which employees consider to be part of their remuneration. On the other hand, multinational firms (e.g., Shell, Levi Strauss, etc.) have started to work in Hungary over the last few years, thus the Western culture of corporate philanthropy has also appeared.

Relationships between nonprofits and the media, academic institutions, private think tanks, churches, and political parties are not very different from those between nonprofits and the business sector. Foundations are important satellite institutions of radio, television, newspapers, and research institutes, and they can be found quite frequently around the churches and political parties, as well. Their main role is raising tax-deductible donations for either the general activities or the special projects of these institutions. It also happens that voluntary associations (e.g., readers’ and spectators’ clubs, scientific societies, youth associations of parties and churches, etc.) work in close connection with the above institutions. In these cases the associations and their “mother institutions” mutually support each other.

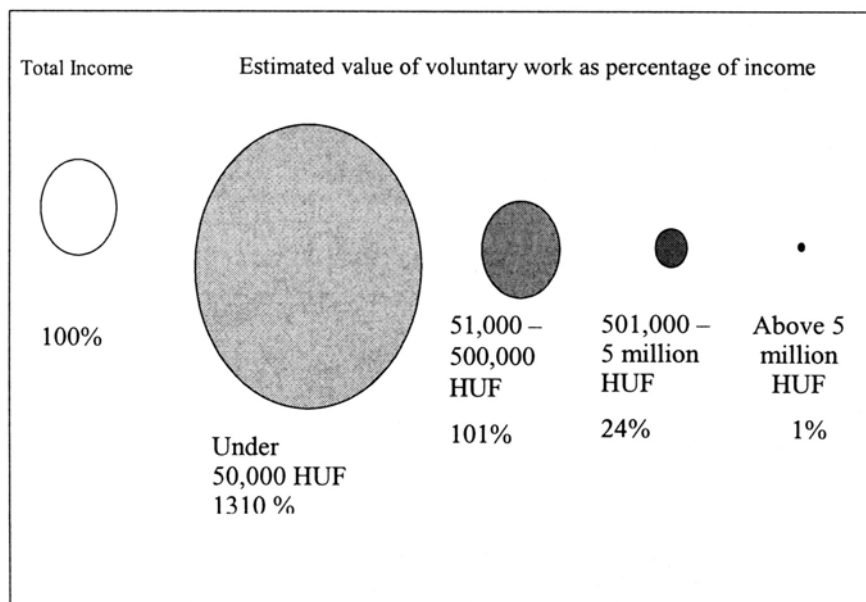
Trade unions, professional associations and employers’ organizations are given the same nonprofit status that the voluntary associations have in Hungary, thus they are part of the nonprofit sector. (Trade unions are even privileged because the membership fees they collect are tax deductible while voluntary associations do not have the same kind of tax deductibility.) Nevertheless, many of them have established foundations mainly for fund-raising and grant-giving purposes. More recently, the creation of public benefit nonprofit companies providing training and assistance has also become common among trade unions and employers’ associations.

The relationships between nonprofit organizations and private individuals are characterized by mutual dependence. The membership of voluntary associations exceeds 3.2 million; trade unions and professional associations have about 1.7 million members (Bocz et al., 2002: 47).⁶ Under the circumstances of denationalization and shrinking public services, Hungarians can be sure that their problems will not be solved by the government. As such, they need to create voluntary organizations and must contribute both work and money if they want to increase the consumption of collective goods. In fact, a representative survey of giving and volunteering carried out in 1994 (Czakó et al., 1995) confirmed that almost two-thirds of the adult population

6 The number of inhabitants of the country is about 10 million.

voluntarily helped other people or charitable organizations, or contributed to the solution of social problems emerging at either a local or national level. Direct individual financial support to foundations, voluntary associations, churches, and public institutions reached about 0.3 percent of total disposable income. The answers to the questions about the motivations of donations and voluntary work seem to suggest that solidarity is a basic value of the Hungarian society. While citizens feel obliged to take part in the solution of social problems, they think that the government also has a responsibility. Trust in the supported organization and clarity of the organizational aims to be achieved play important roles in the selection of recipients. Private contributions and voluntary work are especially important for the relatively small organizations. These NPOs (mainly voluntary organizations operating in villages and small towns and foundations supporting local schools, kindergartens) are closely connected to the local communities, thus the help they can get from local volunteers is the major guarantee of their existence.

Figure 4. Estimated value of voluntary work as a percentage of the income of nonprofit organizations with revenues of different sizes, 2000



Source: Own Figure (HUF = Hungarian Forint)

In sum, Hungarian NPOs try to rely on several different types of donors, and their efforts to exercise some control over social processes, decision-making and the provision of welfare services are actually supported by a wide range of social actors. However, this new sector has to face a series of challenges if it wants to stabilize its position and meet the expectations of its clients and supporters.

7. Major Issues and Perspectives

The issue of identity: As Leé (1997: 146) has stated:

“Despite an enormous upsurge of voluntary organizations after the breakthrough of 1989 and their growing capacity as service providers, formally they are still not conceptualized in terms of a separate and independent sector, similar to the public and private sectors.”

Numerous and influential as they are, NPOs can hardly claim that they would really work or identify themselves as a community representing civil society. An institutional field can gain collective identity if its members tend to move in concert. The lack of coordinated movements is one of the most difficult problems in the Hungarian voluntary sector. The different roles nonprofit organizations play create some “natural” divisions between them. Advocacy groups frequently resent the pragmatism and opportunism of service providers, while the latter think that their activities are much more important and useful than the ones other NPOs are engaged in. Recreation clubs and membership organizations feel neglected and discriminated against. In addition, there is a deep political conflict between the old-fashioned, formerly government-controlled voluntary associations and the new institutions of civil society. The new “aristocracy” of the nonprofit sector (the relatively well-trained and well-paid leaders of the large grant-making foundations) lives in their ivory tower and pays little attention (if any) to the problems of the small groups or the sector as a whole. Even within this “aristocracy” there is some tension between different political groups and also between the heads of government-funded and foreign-funded organizations. Very few activists of the small organizations seem to understand that their organizations belong to a sector and their problems could probably be solved only in cooperation with their counterparts. Developing identity and sector-wide cooperation is clearly a challenge that should be met in the very short run because a nonprofit community driven by rivalry will not be able to represent civil society and cope with fiscal, economic and legitimacy problems.

Fiscal, economic and sustainability issues: The politically motivated renaissance of the voluntary sector can hardly be followed and consolidated

by steady growth without significant development of nonprofit service provision. As a consequence of Hungarian norms and values, NPOs confining themselves to criticism and protest and not even trying to solve problems they have identified are not really respected and trusted. Most nonprofit organizations are aware of the need for action, and they make efforts to expand their services. The main obstacle to this kind of development is a chronic shortage of resources. Understandably enough, private donors prefer to support spectacular events and highly visible projects. The population is much too poor to buy the services at a market price, or to finance their nonprofit provision through private giving. The government wants to transform the state-socialist welfare system into a mixed economy, thus welcomes nonprofit service providers, but is not so eager to support them. There is not a clear agreement concerning financing obligations and techniques; the practice tends to be chaotic and contradictory. The tax system is under "reconstruction," and rules for tax exemptions and tax deductibility change much too frequently, thus – in the short run – voluntary organizations cannot firmly rely on these forms of government support. As far as direct state support is concerned, the situation is not much clearer or better. Competitive tenders are extremely rare. The arm's-length and subsidiarity principles are not rooted in Hungarian political culture. They are "imported"; they represent an attractive element of the recently developed vocabulary that, in the best case, fits in the ideology, but not in the behavioral patterns of the government. *Effectiveness and legitimacy issues:* As Kramer (1992: 50) states:

"Using NPOs as service providers offers welfare states ... an acceptable way of dealing with the decline in the legitimacy ascribed to government, and the decreased confidence in its capacity to provide economic, equitable and effective public services."

If this is true in the developed welfare states, this is even more relevant in a post-socialist country that has much more and more serious problems to be solved. The question must be raised as to whether the NPOs engaging in service provision will not face the very same decline in legitimacy and confidence that the government as a service provider is suffering from. The responsibility of NPOs is enormous. After the rather chaotic period of extensive growth, they should organize themselves, develop their own rules of ethical behavior, establish their umbrella organizations, improve cooperation and information exchange within the sector, and significantly increase the professional quality of their activities. The need for professionalization is a very important challenge, and this is the point where the weakness of the sector is the most obvious. In short, after a flying start, the further development of the nonprofit sector in Hungary depends on its ability to cope with the difficulties of consolidation and professionalization. To stabilize, to institutionalize the nonprofit mechanisms of problem-solving, to develop cooperation with government and businesses, and to still preserve the

independence of the voluntary sector – these are the key issues facing the Hungarian civil society and all its (foreign or domestic) supporters in the years immediately ahead.

Suggested Readings

Kuti, É. (1996): *The Nonprofit Sector In Hungary*. Manchester

References

- Anheier, H.K./Seibel, W. (1993): A nonprofit szektor és a társadalmi átalakulás (The Nonprofit Sector and the Transformation of Societies). Európa Fórum, 3
- Arató, A. (1992): Civil társadalom Lengyelországban és Magyarországon (Civil Society in Poland and Hungary). Politikatudományi Szemle, 2
- Bibó, I. (1986): Válogatott tanulmányok (Selected Essays). Budapest
- Bocz, J. et. al. (2002): Nonprofit szervezetek Magyarországon, 2000 (Nonprofit Organizations in Hungary, 2000). Központi Statisztikai Hivatal. Budapest
- Collins, R./Hickman, N. (1991): Altruism and Culture as Social Products. In: *Voluntas*, Vol. 2, No. 2
- Czakó, Á. et al. (1995): Individual Giving and Volunteering in Hungary. Központi Statisztikai Hivatal and Nonprofit Kutatócsoport. Budapest
- Douglas, J. (1987): The Political Theories of the Nonprofit Sector. In: Powell, W. (ed.): *The Nonprofit Sector: A Research Handbook*. New Haven
- Jenkins, R.M. (1995): Politics and the Development of the Hungarian Non-Profit Sector. In: *Voluntas*, Volume 6, No. 2
- Konrád, G./Szelényi, I. (1991): Intellectuals and Dominance in Post-Communist Societies. In: Bourdieu, P./Coleman, J. (eds.): *Social Theory in a Changing Society*. Westview Press
- Kramer, R.M. (1992): The Roles of Voluntary Social Service Organizations in Four European States: Policies and Trends in England, The Netherlands, Italy and Norway. In: Kuhnle, S./Selle, P. (eds.): *Government and Voluntary Organizations. A Relational Perspective*. Brookfield
- Kuti, É. (1996): *The Nonprofit Sector in Hungary*. Manchester
- Kuti, É. (1998): Hívjuk talán nonprofitnak... (Let's call it nonprofit...), Nonprofit Kutatócsoport. Budapest
- Leś, E. (1994): *The Voluntary Sector in Post-Communist East Central Europe*. Washington
- Manchin, R./Szelényi, I. (1986) Gazdasági és jóléti redistribúció az államszocializmusban (Economic and welfare redistribution under state socialism). *Medvetánc*, 3–4

- Marschall, M. (1990): The Non-Profit Sector in a Centrally Planned Economy. In: Anheier, H.K./Seibel, W. (eds.): The Third Sector: Comparative Studies of Nonprofit Organizations. New York
- Salamon, L.M./Anheier, H.K. (1994): The Emerging Sector. The Nonprofit Sector in Comparative Perspective – An Overview. Baltimore
- Salamon, L.M./Anheier, H.K. (1998): The Emerging Sector Revisited. A Summary. Baltimore
- Scitovsky, T. (1990): Az örömtelen gazdaság (The joyless economy), Közgazdasági és Jogi Könyvkiadó. Budapest.
- Sebestény, I. (1998): Az önkormányzatok és a nonprofit szervezetek kapcsolata, 1996 (Relationships Between the Local Governments and Nonprofit Organizations, 1996). Budapest
- Sebestény I. (2002): A nonprofit szervezetek önkormányzati támogatása 2000-ben (Local Government Support to Nonprofit Organizations in 2000). Budapest
- Weisbrod, B. (1986): Toward a Theory of the Voluntary Nonprofit Sector in a Three Sector Economy. In: Rose-Ackerman, S. (ed.): The Economics of Nonprofit Institutions: Studies in Structure and Policy. New York
- 1%. "Forint votes" for civil society organizations (2000), Nonprofit Kutatócsoport. Budapest

*Annette Zimmer, Janne Gärtner, Eckhard Priller, Peter Rawert,
Christoph Sachße, Rupert Graf Strachwitz, Rainer Walz*

The Legacy of Subsidiarity: The Nonprofit Sector in Germany

1. Preliminary Remarks

The concept of a third sector embedded in society and apart from government has not yet developed into an “island of identity” in Germany. The reasons why the idea of a third sector as a part of civil society has not yet been accepted are manifold. Firstly, German society still exhibits remnants of a polarized, even pillarized political culture. The cleavage structures dating back to the 19th century are still somewhat in place, integrating German society vertically along specific religious or ideological lines that are closely linked to the German political parties acting as interfaces between society and politics. Secondly, norms and values play a prominent role in day-to-day political culture. In political theory and discourse the individual citizen, not nonprofit organizations (NPOs) or the third sector as such, represents the target of civic engagement or societal improvement. Finally, in accordance with the specific German tradition of governance, nonprofit organizations operate in a public/societal sphere primarily defined by the state. Therefore, nonprofit organizations providing the infrastructure for leisure and sports activities are by law treated differently from those NPOs that are acting as functional equivalents of public entities and are engaged in, for example, the provision of healthcare and social services. In sum, the German tradition of citizenship combined with the vertical integration of social groups into politics translates into a fragmented third sector, which until now has not developed a self-consciousness that sets it apart from the state.

The fragmentation of the sector is reflected by the German terminology used for third sector organizations. Whereas leisure and sports activities take place in voluntary organizations (*Vereine*), social services and healthcare are provided by welfare associations (*Wohlfahrtsverbände*). Member organizations of these welfare associations are increasingly characterized as NPOs. Mutuals and cooperatives are by self-definition and by law not part of the nonprofit sector in Germany¹ Nonprofits working internationally and

1 Legal stipulations for cooperatives were for the first time established in 1889. Cooperatives

active in foreign aid and disaster relief are called nongovernmental organizations (NGOs). NGOs are very popular in political science discourse, while foundations are a favorite topic for politicians because of their ability to attract private funds.

Currently as an outcome of the Parliament's Study Commission² on the "Future of Civic Engagement," the idea of the third sector as part of civil society seems to gain momentum in Germany. There are good reasons to believe that civil society – as an encompassing concept closely affiliated with ideas of "strong democracy" and including the whole variety of nongovernmental and nonprofit organizations – will develop into the most important and frequently used term for nonprofit activities (Enquete-Kommission, 2002).

Due to reasons of practicability, nonprofit and third sector organizations are used as synonyms in the following chapter. NPO is defined in accordance with the operational definition of the Johns Hopkins Comparative Nonprofit Sector Project.

2. Historical Overview

Early Beginnings

As in most European countries, nonprofit organizations and civic engagement in Germany look back upon a long history. The earliest traces of nonprofit organizations to be found in German history are undoubtedly foundations, the tradition of which dates back to the early Middle Ages. When the church as such became a legal person, it became common to entrust the church with the function of a trustee. Among the oldest third sector organizations in Germany are therefore many church-affiliated operating foundations active in healthcare and social service delivery; some of them are supposed to date

aim at enhancing the economic undertakings of their members, such as small business owners, craftspeople or farmers (Neuhoff, 1997: 120). In Germany, the cooperative movement was originally promoted by social activists such as Raiffeisen, Schultze-Delitzsch and Lassalle, who were working towards an economy based on solidarity, thus providing an alternative to capitalism (Zimmer, 1996: 45; Anheier/Seibel, 2001: 16). Cooperatives still play a significant role in Germany's economy. However, they have lost their nonprofit character, perceiving themselves as an integral part of Germany's market economy. As such they no longer qualify for public benefit status.

- 2 A study commission is an institutionalized advisory body of the German Parliament, in which members work together with external experts on topics specified by the Bundestag. Its basic task is to gather as much relevant information as possible on the subject in question, thereby providing lawmakers with a basis for decision-making on complex and important issues.

back to the 10th century (Strachwitz, 2001: 133).

It should not be forgotten that in medieval times the church was very much intertwined with the political system all over Europe. In some parts of Germany, church dignitaries were at the same time political rulers as well as spiritual leaders. When the struggle between the modern state and traditional authorities (whether sovereign church dignitaries or counts and princes) came to the fore in Europe, this political and societal conflict was not resolved in Germany by safeguarding the superiority of a centralized and secular modern state. Unlike in France or England, there has never been a clear-cut division between state and society. Instead, nonprofit organizations have always been used by state authorities for societal integration, political steering and conflict resolution.

Thus, Germany's contemporary nonprofit sector is grounded in a long history of compromises between social, ideological and political forces (Anheier/Seibel, 2001: 31). On that score, 17th century German history is of particular importance due to the development during the period of the foundation of what later became neocorporatism (Lehmbruch, 1996) as a specific style of policy-making and political steering primarily based on elite consensus stabilizing the political and societal status quo. While in England and France the struggle between the modernizing state and traditional authorities was resolved in favor of a centralized, secular modern state, the peace treaty of Westphalia reified the ruling elite in their territories, thus establishing a highly fragmented political entity in which landed nobility remained in charge of regional and local affairs (Anheier/Seibel, 2001: 32). In contrast to centralized absolutism, which – as in France – did not tolerate any associational life, German monarchs based their modernizing strategies on traditional guilds and associations as well as on new voluntary organizations that were acknowledged as legal entities by the end of the 18th century. In Prussia, the largest German state at that time, in 1794 private societies (associations) became legal under the condition that they served the common weal and did not undermine public order (Anheier/Seibel, 2001: 34). At the end of the 18th century enlightened civil servants, members of the nobility and local entrepreneurs met in “salons” and “clubs” of freemasons and freethinkers in order to modernize political and social life in Germany. However, it was a modernization from above that was also characterized by ambiguity: while associations were considered to be useful political instruments, there was the danger of their easy escape from political control (Anheier/Seibel, 2001: 36).

Legacy of the 19th Century

There are many reasons why from a historical perspective the 19th century might be characterized as the most important period for Germany's nonprofit sector. From a legal point of view, the German Empire (1870/71-1919) was of fundamental significance because the legal stipulations that are today the main organizational forms for nonprofit activities in Germany – Stiftungen (foundations), Vereine (voluntary associations) and GmbHs (limited liability companies) – were legally codified and for the first time laid down in the Civil Law Code (Bürgerliches Gesetzbuch) of 1900 and the Limited Liability Companies Act (GmbH-Gesetz) of 1892, respectively.

With respect to political philosophy, the early 19th century was of fundamental importance. Hegel's conceptualization of civil society as a public sphere that is independent from the state – albeit not on equal footing with state authorities – influences German political debate and theorization about the sector still today. At the beginning of the 19th century, in accordance with Hegelian thinking, German political theory maintained that while society is entitled to form legal entities for public as well as private ends, the state is inherently superior and thus legitimized to exercise control including supervision by police force. Although nonprofit organizations no longer suffer from rigid state control, founding a nonprofit organization is even today not easy in Germany. Furthermore, not societal bodies but state authorities are still in charge of determining what is legally considered to be socially beneficial serving the common weal.

To mention a third aspect, the specific form of German governance in which nonprofit organizations – be they traditional guilds, church-affiliated entities or of civic origin – work in close cooperation, on equal footing with or even in place of public institutions is also an outcome of political and societal developments of the 19th century. A very early and interesting example is the voluntary fire brigades, the first of which was formed in 1846. The interest of local governments to provide this public service and of citizens to make use of any chance to legally congregate resulted in the phenomenon of government organizing and funding voluntary bodies. Later this very specific form of governance in which nonprofit organizations act on behalf of the state became well known in Germany as the principle of subsidiarity (Sachße, 1994; Anheier, 1992: 33; Zimmer, 1999).³

3 As a doctrine the principle of subsidiarity was introduced in the 1891 papal encyclical, which laid down the principle as a prime approach to solving social problems. Under the doctrine, the social unit that is closest to the needs of a person including family, friends, the church and nonprofit organizations has to step in helping those in need. Only in the case that the aforementioned entities are unable to support the needy should government take over responsibility.

The Principle of Subsidiarity and Welfare Provision

The principle of subsidiarity gained momentum in Germany particularly in the area of welfare provision. As in other industrializing countries in the second half of the 19th century, hundreds of local welfare organizations (*Wohltätigkeitsvereine*) were established to tackle the so-called “social question”. In Germany, step by step the local *Vereinskultur* developed into the system of the five welfare associations, of which the two largest and most important – the church-affiliated Caritas (Catholic) and Diakonie⁴ (Protestant) – were founded during the German Empire. Still today the welfare associations are organized along religious, ideological or party lines. In addition to Caritas (*Deutscher Caritasverband*) and Diakonie (*Diakonisches Werk*), there are the German Red Cross (*Deutsches Rotes Kreuz*), the *Arbeiterwohlfahrt*, which maintains close ties to the German Social Democratic Party, and the Parity (*Deutscher Paritätischer Wohlfahrtsverband*), which is nonpartisan rejecting any ideological identification.

The Weimar Republic was the pinnacle of nonprofit organization concentration and formation in particular in the field of social welfare. Fostered by the Imperial Ministry of Labor, the welfare associations were reorganized and strengthened, thus becoming legitimate partners in social welfare planning and service delivery. The Ministry was also responsible for the new welfare legislation of the 1920s incorporating the German welfare associations into public social administration according to its interpretation of the Catholic principle of subsidiarity. The associations were granted privileged legal status and privileged funding. The features of neocorporatism also began to shape the social welfare sector and continue doing so up to the present (Sachße, 1995).

After the Second World War, more specifically in the 1960s, the privileged position of the welfare associations in social service delivery was incorporated into the social and welfare laws of the country. According to this very narrow interpretation of the principle of subsidiarity, state authorities have to give preference to member organizations of the welfare associations over public and commercial providers in the core welfare fields, thus guaranteeing the financing without jeopardizing the organizational autonomy of the welfare associations. Along with the growth of the German welfare state, the welfare associations developed into important providers of social and health services employing more than one million full-time employees (Anheier, 1992: 39; Zimmer, 1999).

It has to be mentioned that this narrow interpretation of the principle of subsidiarity is restricted to the areas of healthcare and social services. In other policy fields, such as sports, education, arts and culture, local governments

4 Diakonie had a predecessor with the title Innere Mission.

are also working closely together with nonprofit organizations. However, these NPOs are not by law in the position to expect guaranteed public funding. Whereas funding of social services is compulsory in Germany and regulated by federal law, support of sports, cultural or hobby activities is an *ex gratia* payment by local governments (Zimmer, 1999:41).

German Vereinskultur

Finally, a flourishing *Vereinskultur* consisting of thousands of locally active voluntary associations, such as choirs, gardening societies, and sports clubs, traces its origins also back to the 19th century, and particularly to the time of the German Empire (Zimmer, 1996). With the legal stipulations regulating the *Idealverein* in the Civil Law Code of the German Empire, an enabling legal framework was established for organizing membership-based activities. The creation boom of voluntary associations in the 19th and early 20th centuries was undoubtedly a strong indicator of the modernization and pluralization of German society. *Vereine* were started by traditional craftsmen, entrepreneurs and local businessmen, by the members of the so-called cultural elite (*Bildungsbürgertum*) of civil servants and university professors, as well as by members of the upper strata of the working class, miners and skilled workers. As a result of the foundation of the German Empire with its centralized political structures, nonprofit organizations also underwent a process of centralization. Throughout the nation operating associations were founded. A new type of association was created by reform-minded professionals and scholars on the liberal side of the political spectrum, while on the other side, the conservative and nationalistic (*vaterländische*) organizations of the political right made themselves increasingly heard. Industrial and agrarian interest organizations as well began to intensify their lobbying activities.

However, this associational boom did not take place in a democratic and open society. Particularly under Chancellor Bismarck, major groups of German society, precisely Catholics and Social Democrats, were by law excluded from any participation in politics. Under Bismarck's restrictive regulations, Catholics and Social Democrats used voluntary associations as a vehicle to keep in touch with politics by sticking together as homogenous societal groups. The closed-shop character of the voluntary associations of that time had the far-reaching effect of stabilizing particular social milieus. Under the authoritarian rule of the Empire, German society became highly politicized and segmented in various distinct social and political milieus or pillars. Activities that today are perceived as purely leisure, such as sports or hiking, were at that time organized along ideological or religious lines. Voluntary associations and more precisely their umbrella organizations (*Dachverbände*) developed into bridgeheads of interest associations, among

those trade unions and business associations, as well as political parties. Textbook examples were the already-mentioned welfare associations. Caritas, affiliated at that time with the politically suppressed Catholic Church, was the so-called societal apron (*Vorfeldorganisation*) of the *Zentrum*, the German Catholic party. Also leisure and sports activities were rigidly organized along party lines that represented distinct ideological camps. In addition to the sports umbrella organization *Turn-und-Sportbund* as an offspring of the German Social Democratic Party, there were the *Rote Sporteinheit*, affiliated with the German Communist Party, the *Eichenkreuz*, a side organization of the Protestant Church, the *Jugend-Kraft* (for men) and the *Reichsverband für das Frauenturnen* (for women), which were heavily embedded in the Catholic milieu, and finally the *Deutsche Turnerschaft*, which with more than 1.5 million members was the largest sports association and at that time thoroughly belonging to the camp of Germany's conservative as well as nationalistic liberal party (Eisenberg, 1993).

It is worthwhile mentioning that very much in contrast to the Hegelian idea of an independent civil society, German *Vereinskultur* developed into a politicized societal sphere where, due to stiff ideological segregation, it was hard to achieve a compromise bridging the different points of view. Against this background it might be easier to understand why the breakdown of the Weimar Republic, the first democratic regime in Germany, was achieved by the party of Adolf Hitler, who was simultaneously head of the NSDAP, the National Socialist Party, and leader of the highly ideological national socialist movement with its numerous organizations and associations. According to Anheier and Seibel (2001: 59), in the Weimar Republic, "associational life undoubtedly worked as a structural transmitter of Nazism in German society". With respect to the Nazi regime the authors point to the so-called dark side of civil society. In their point of view, associational life was highly used by the regime to stabilize its control and to produce broad-based loyalty to Nazi rule through membership and service provision (Anheier/Seibel, 2001: 61).

Post-War German Society

In the long run however, the Hitler regime had, without being cynical, the positive effect on German society that the sharp demarcation lines between the various societal groups were significantly reduced. After the Second World War local associational life – German *Vereinskultur* – became an integrated part and indeed an independent societal sphere of the country's *Lebenswelt*. A textbook example for the fact that vertical segmentation of society along ideological lines is no longer strongly in place is the German Sports Association. The Association builds on the various ideological traditions of sports associations in Germany, albeit consolidating those in the

Deutsche Sportbund as just a single umbrella organization. However, there is one exception from this general rule: the German welfare associations that were re-established in the Federal Republic of Germany in accordance with their ideological heritage. There is no doubt that in the early years of the Federal Republic of Germany the church-affiliated associations, Caritas and Diakonie, were very successful in maintaining their societal power and influence on welfare politics by codifying the principle of subsidiarity in the very narrow sense described above. As a consequence, Germany's third sector still today is fragmented in two major parts, with a less privileged spectrum of organizations providing the infrastructure for sports and leisure activities coexisting with organizations affiliated with the German welfare associations, which are providing health and social services, enjoying substantial legal and financial privileges, and thus being outposts of public social administration.

Today, however, the welfare associations are suffering significantly from the break-up of the German traditional social milieus, such as the Catholic, the Social Democratic and to a lesser extent also the Protestant milieu. Currently the welfare associations are having a difficult time clarifying their organizational identity. As mentioned earlier, due to a very narrow and specific interpretation of the principle of subsidiarity, the welfare associations developed into the most important social service providers in Germany. After the crumbling of the Berlin Wall, the specific configuration of the German welfare state, including the strong position of the welfare associations, particularly of the church-affiliated Caritas and Diakonie, was by law transferred to the new East German states, even though with less than a third of the population being a member of a church in the early 1990s, East Germany (GDR) was one of the most secular countries in the world. It could be argued that due to the legacy of communist history today the nonprofit sector in East Germany is even more civic than its West German counterpart.

In accordance with the approach of the Nazi regime towards nonprofit activities, the rulers of the former GDR forced every voluntary association to join one of the so-called mass societies, which were thoroughly controlled by the ruling SED party. The effects of this policy were twofold. In the early years of the GDR, traditional ideological differences were suppressed and finally wiped out. Later on, similar to other Eastern European countries, the cultural dominance of the SED-ruled mass organizations translated into a rebuilding of civil society organizations working under cover and in opposition to the regime. To put it differently, although the organizations were officially following the policy of the umbrella organizations, they nevertheless started to have a life of their own (Anheier/Priller, 1991; Priller, 1997). Summarizing this overview, there are several features that might be characterized as the historical legacy influencing Germany's third sector today:

- There is a specific form of German etatism that resulted in a very special governance structure or public-private partnership with nonprofit organizations, both traditional guilds and modern voluntary associations, working on equal footing or even replacing government entities in service provision. However, as accepted partners, the associations are thoroughly incorporated into the state-controlled government sphere, thus losing their civicness.
- Despite numerous regime changes, the churches were able to safeguard considerable societal influence in Germany by using the welfare associations, particularly Caritas and Diakonie which are predominantly active in social service provision. The narrow interpretation of the principle of subsidiarity, which was codified in Germany's social laws, provides a textbook example for the success of the churches in securing their societal influence even in the post-war and democratic Federal Republic of Germany.
- The sector stands out for its lack of civil society consciousness. The concept of a third sector being an integral part of civil society has not yet been accepted. Instead, third sector organizations are by and large vertically integrated according to their fields of activity. This lack of civicness is probably the most important feature of Germany's third sector, which is without any doubt a result of its historical development. The vertical integration of the sector dates back to the 19th and early 20th century when the various segments of the sector were also linked up with ideological, religious and party lines.

To conclude, Germany's third sector is highly integrated into the country's administrative set-up. With the exception of very small Vereine that are primarily membership-based organizations and as such part of the German Lebenswelt, nonprofit organizations are cooperating closely with state entities at every level of government, thereby forming a part of the German state rather than being an independent and critical part of civil society.

3. Regulatory Environment

Legal Forms

According to the judgment of historians, legislation and particularly the Civil Law and Penal Codes unified the German Empire (1870/71-1918), which incorporated the German states that at that time held very different legal traditions. In the second part of the 19th century Germany developed into a

modern organizational society where business associations, large corporations and to a certain extent also trade unions and political parties gradually gained societal and political power. Legal stipulations and organizational forms providing the framework for today's nonprofit activities trace their origins back to this era of German history. At that time, legal stipulations were introduced in order to provide vehicles for organizing societal activities, thus constituting a public sphere regulated by law in which citizens pursue their business interests, practice their profession or indulge in leisure activities. In accordance with Hegelian thinking, these legal forms are expressions of private interests and therefore serve the needs of citizens, while government is responsible for the common weal. The German approach to regulating the public sphere combines the tradition of a civil law country expressing a high degree of state control with the heritage of community self-governance particularly at the local level. A "public sphere" is welcomed and protected by law; however, government via registration procedures and explicit regulation closely defines purposes, functions and activities of the organizations constituting the public sphere. A dynamic public sphere with numerous organizations, which are nevertheless "under the thumb of state regulation" and thus primarily serving government needs, is the outcome of this particular regulatory environment. The most important organizational and legal forms for organizing nonprofit activities, all of which date back to the time of the German Empire, are:

- registered association (*eingetragener Verein*),
- cooperative (*Genossenschaft*)⁵,
- private limited company (*GmbH*), and
- private law foundation (*Stiftung des Privatrechts*).

Drawing on both the distinction between member-based and non-member-based organizations and on the divide between commercial and noncommercial activities, a categorization of the organizational forms translates into the following typology:

	Member-based	Non-member-based
Noncommercial	Registered Association (<i>Eingetragener Verein</i>)	Private Law Foundation (<i>Stiftung des Privatrecht</i>)
Commercial	Cooperative (<i>Genossenschaft</i>)	Private Limited Company (<i>Gemeinschaft mit beschränkter Haftung</i>)

Source: Own Figure

5 In the 19th century cooperatives were considered constituting an integral part of the nonprofit-sector. Although this is no longer the case (see footnote 1) in Germany for the sake of completeness the typology covers this legal stipulation.

Registered Association/Eingetragener Verein

From a quantitative point of view, the registered association is the most important legal form for organizing nonprofit activities in Germany. Laid down for the first time in the Civil Law Code of 1872, the registered association was designed as a member-based organization expressing a high degree of reciprocity. It is defined as a voluntary alliance, which has been set up autonomously for a certain period of time, of at least seven individual or juridical persons who jointly want to accomplish a certain goal or purpose. The association becomes a legal entity via registration in the Association Register (*Vereinsregister*) maintained locally at county courts (*Amtsgerichte*). In order to be eligible for registration, associations must pursue noncommercial activities. They need, however, not necessarily qualify for public benefit status (*Gemeinnützigkeit*).

Registration procedures open the doors to state supervision, control and interference. Whereas today authorities are interpreting registration requirements liberally, they were widely misused in the 19th century and during the Nazi regime.

In sharp contrast to the registration process, there is hardly any control of internal governance, asset management or purpose-related activities of registered associations in Germany. Designed as a membership organization, there is no capital requirement to start a *Verein*. The association is not obliged to publish its accounts. Liability is limited to its assets. With respect to internal governance, *Vereine* enjoy freedom to establish any kind of advisory boards or other organizational sub-units. Due to its flexible governance structure, limited liability and foundation procedures that do not require start-up capital, the *Verein* developed into the most popular vehicle for organizing any kind of nonprofit activity in Germany.

Private Law Foundation/Stiftung des Privatrechts

According to German law, foundations are legal entities based on an endowment. While federal law regulates some aspects of foundation activities, the granting of legal personality⁶ to and supervision of foundations are a matter of *Länder* legislation. Establishment of a foundation requires the consent of the respective government authority (*Stiftungsbehörde*). The state government, thus, grants the foundation the right to establish itself for a set purpose, which must be in accordance with the law and must not “endanger the common weal” (*keine Gemeinwohlgefährdung*). Liability of a foundation

6 A large number of foundations, however, is established by a trust deed (*Vertrag*) between a donor and usually a sole trustee. Those foundations are termed *nicht rechtsfähige Stiftung* in order to distinguish them from the other type (*rechtsfähige Stiftung*). Government supervision is restricted to the latter type.

is limited to the extent of its assets. With respect to internal governance, foundations are very similar to associations and are thus very flexible regarding their organizational structures.

Private Limited Company/*Gesellschaft mit beschränkter Haftung*

Legal stipulations for the private limited corporation were laid down for the first time in 1892. The private limited company (*GmbH*) is regulated by commercial law and primarily designed for organizing business activities. The company is a corporation of members based on capital (minimum 25,000 Euro) or shares. The company is a legal personality facing only minimal registration requirements and limited public oversight. Attaining legal capacity upon registration at the Register of Companies, the company may be established for any lawful purpose. In order to be awarded tax-exempt status, thus qualifying as a nonprofit organization, the company must pursue noncommercial activities and act in accordance with the requirements linked to public benefit status. Apart from official financial monitoring for taxation purposes, there is no state supervision of limited companies.

No Specific Form for Nonprofit Activities.

German legislation does not provide any specific legal form for those activities that generally are connected with the notion of a third or nonprofit sector, namely operating as a nonprofit enterprise and providing services for the general public (Rawert, 2002). With *Vereine* being the most popular organizational form in Germany, the sector consists primarily of membership organizations whose prime rationale is reciprocity and voluntary engagement. The importance of voluntarism is reflected by the results of the German study of the Johns Hopkins Project showing that voluntary activity constitutes a major asset of the sector's revenue structure (see Table 6 below). The furtherance of voluntarism is therefore an important topic in Germany where political rhetoric is almost exclusively centered on voluntary or civic engagement and not on the nonprofit or third sector as such.

In sum, none of the aforementioned organizational forms is noncommercial as such. Cooperatives and private limited companies are commercial in the sense that they are furthering the business interests of their members or stockholders. If they are fulfilling special requirements laid out in tax law, they are awarded public benefit status. Associations become vehicles for organizing nonprofit activities, if they qualify for registration. Again this is linked to the stipulations of tax law and the German fiscal code that predominantly shapes the regulatory environment of the German nonprofit sector.

Tax Laws and Tax Incentives

In Germany, as in other countries, tax-exempt status and tax preferences are not connected with a specific organizational or legal form. Qualifying for tax exemption or tax preferences is closely linked to tax regulations specifying the requirements organizations have to fulfill in order to be eligible for such privileges. In Germany, these requirements are twofold:

- First, organizations have to meet the nonprofit constraint, which puts them on a different footing from business corporations.
- Second, activities of the organization have to be linked to the common weal, thus qualifying the organization for public benefit status (*Gemeinnützigkeit*).

Indeed, whether tax privileges are granted or not depends primarily on the rationale of the organization's activities and purposes. The German Fiscal Code (*Abgabenordnung*) provides a detailed list of organizational functions and purposes that qualify for tax exemption and preferences (Anheier/Seibel, 2000: 17). Compliance with these requirements is checked by the local revenue service, which is also responsible for awarding tax privileges. In sum, stipulations of the *Abgabenordnung* are to a large extent either closely linked to the government's needs to hand over responsibilities and public duties to civil society organization, or the result of lobbying activities of specific societal groups or organizations such as gardening societies or sports clubs.

In Germany like elsewhere, (full or partial) tax exemption (income and real estate tax) is related to the organization, while tax preferences are linked to donations made by individuals and corporations. Income tax regulations provide a fine indicator for assessing how close nonprofits are allowed to engage in business activities. In Germany there is a comparatively strict divide between the two sectors, nonprofit and forprofit. While income derived from activities in furtherance of the nonprofit purpose is tax exempt, "unrelated business income" enjoys tax-exempt status only up to the limit of about € 30,000, which is far too low to be considered an important source of revenue. Under certain circumstances however there is the possibility to qualify for tax exemption if the organization meets specific requirements declaring the business activities as being related to the organization's purpose (*Zweckbetrieb*). The dividing line is sometimes very difficult to draw. Congruent with its civil law tradition, German legislation tends to formulate extensive catalogues of special cases for tax exemption with the effect that tax regulations are becoming more and more complicated.

With respect to tax preferences, German law favors income tax deductions reducing the amount of income subject to tax, thus providing an incentive for wealthy donors to give. For good reasons there are limits to deductibility. However, again there is no general rule. How much a donor

might deduct from his or her taxable income depends on the organization's purpose, activity and legal form. For example, donations to foundations enjoy a more favorable deductibility treatment than those to voluntary associations. As a general rule membership dues are not considered eligible for deduction. Again, however, there is an extensive catalogue of exceptions, which turns German tax law into a puzzling subject.

Not surprisingly, complexity, lack of transparency and out-datedness are central topics of tax law critique in Germany. First of all it is argued that the catalogue specifying activities and purposes that qualify for favorable tax treatment primarily serves the needs of government and not those of modern civil society. According to the judgment of tax law experts, the current catalogue reflects two kinds of deficiencies:

- A significant part of the enumeration is clearly derived from traditional governmental public policy supporting traditional etatism as well as ethical and religious principles (Braun, 2000: 238).
- Another part of the list covering small garden allotments and carnival, folklore and sports activities is not in compliance with the logic of altruism. Incorporation of these activities into the catalogue was effected by successful lobbying of local and regional politicians who wanted to sports and carnival associations to be tax privileged (Walz, 2001).

A further issue is compliance with European Union (EU) regulations. This relates to the privileged status of income derived from business activities of certain service-providing organizations. The German welfare associations in particular argue in favor of maintaining the special status which up until recently has been safeguarded by the specific interpretation of the principle of subsidiarity (Rometsch, 2000).

Furthermore, current tax regulations are not in compliance with modern finance management. In Germany, tax-exempt NPOs are bound to disburse financial resources for statutory purposes in a timely manner, which means presently, consecutively and continuously (§§ 55 – 58 *Abgabenordnung*, General Tax Statute). Thus, without jeopardizing the tax-privileged status of the organization, German tax law does not allow accumulation of earnings over time (Braun, 2000: 221). It is evident that the combined rules of nondistribution, timely disbursement, and accumulation and expenditure restrictions seriously impede credit financing and therefore pose significant obstacles to modern financial management.

Finally, until now recipients of donations outside of Germany do not qualify for deductible donations. Against the background of European integration this tax law requirement is a very strange regulation. In sum, the regulatory environment of German nonprofit organizations is in urgent need of modernization, which will require:

- firstly, a simplification of the catalogue of goals and purposes that qualify an organization for public benefit status,
- secondly, a modification of those legal stipulations that guarantee tax exemption for “unrelated business income” that are not in accordance with the furtherance of the common weal, and
- thirdly, the introduction of flexible gradual sanctions where tax prerogatives have not been obeyed instead of the inappropriate heavy sanctions which are currently in place, the enlargement of the area of tax neutral restructuring for nonprofit organizations, and the development of rules of accounting suitable for tax control of timely income disbursement, maintenance of foundations’ capital and public accountability to donors.

4. Portrait of the Nonprofit Sector in Germany

Organizational Forms

Germany’s nonprofit sector consists of a wide variety of organizations largely differing in form, function, and purpose. As for their organizational form, nonprofit organizations can be categorized as membership organizations, interest organizations, service organizations, or support organizations.

Membership organizations are shaped by the voluntary activities of their members. Reciprocal activities of the members themselves are the key element of this type of organization. Examples are hiking, sports or bowling clubs, which – among many other kinds of clubs – are very popular in Germany. They practice socially useful virtues and attitudes just through the particular organizational form of their activities, independent of the specific aims and purposes they pursue. They provide important mechanisms for the creation of what Robert Putnam has named “social capital”. Thus, their social usefulness is a result not so much of *what* they are doing but rather of *how* they do it.

Interest organizations represent and promote the interests and values of either particular groups, such as minorities, or society as a whole. Traditional examples of this type of organization are the German trade unions and the numerous professional associations that are working exclusively for the furtherance of the interests of their members. In contrast to these more traditional organizations, there are also numerous small and large organizations active in Germany that are acting as nongovernmental organizations (NGOs). They seek to protect nature and the environment; they promote health, culture, and religion or science and education through

articulation and lobbying activities – sometimes more spectacular, sometimes less. Greenpeace is a textbook example for this type of nontraditional organization.

Service organizations provide services either for their members or for a broader spectrum of clients. They run kindergartens for pre-school children, homes for the elderly, hospitals and shelters. They rescue people in peril in the mountains or at sea. The German welfare associations, which account for the majority of social services in Germany as well as rescue services of all kinds, may serve as examples here.

Support organizations provide the financial, human, or technical resources to assist the needy or to facilitate certain activities or projects. They finance research. They financially support the poor. They promote education and culture by contributing to schools, universities, opera houses and symphony orchestras. The big philanthropic, scientific, and cultural foundations, such as the Robert Bosch Foundation or the Volkswagen Foundation, constitute good examples of this type of nonprofit organization.

This typology of nonprofit organizations in Germany's third sector provides an analytical differentiation, not an empirical description of the sector. In fact, "pure type" organizations will be rare exceptions. Nonprofit organizations typically are "mixed type" organizations. Membership organizations provide services for their members or even larger strata of the population. Service organizations promote member interests and values. Interest organizations organize membership activities. The German welfare associations are a good example for the organizational mix typical for the nonprofit sector: They are prominent providers of social services and, at the same time, represent the interests of their clients and – at least some of them – organize social activities for their members.

Furthermore, the distinction among different nonprofit organizations contains a differentiation of organizational, not of legal forms. The association (*Verein*) is the typical legal form of a membership organization. However, not all associations are membership organizations, nor are all membership organizations necessarily associations. The *Allgemeiner Deutscher Automobilclub* (ADAC), for example, is legally an association, but organizationally more a service than a membership organization in the sense stated above. By contrast, organizations that are legally foundations can nevertheless come close to be membership organizations, with the community foundation being an example of the latter type. While the foundation is a typical legal form for support organizations, they can also take the legal form of an association (*Verein*), as numerous support associations, particularly in the area of education and culture, demonstrate.

Finally, the form of a nonprofit organization can also change over time. The German youth associations, which are affiliated with the welfare associations, are a good example. In their late 19th century beginnings they

focused exclusively on self-organized hiking and camping as well as the promotion of a romantic youth culture in what they saw as an ever more technical society. By the end of the 20th century they had become predominantly professionally run travel agencies for young people. From membership and interest organizations they had converted into service organizations without ever completely losing their character as membership organizations (Schefold, 1995).

In sum Germany's nonprofit sector represents a difficult, albeit very interesting topic of study. For analytical purposes and in order to provide an overview of the size and composition of the sector the following section refers to the results of the German study of the Johns Hopkins Comparative Nonprofit Sector Project.

Statistical Profile of the Sector

Successful Growth Story

For the self-awareness of Germany's nonprofit sector, the results of the Johns Hopkins Project were of utmost importance, since for the very first time the sector was portrayed as an important economic actor. As clearly shown by the findings of the German part of the study, Germany's third sector represents a major economic force, which in the 1990s saw a significant growth rate.

Table 1: Germany's Nonprofit Sector – Employment and Expenditures, 1990 (only West Germany) and 1995 (East and West Germany)

	1990	1995
Nonprofit Sector Expenditures	93,417	135,400
(in DM million and % of GDP)	3.9	3.9
Nonprofit Sector	1,017,945	1,440,850
Full-time Employee Equivalent		
Nonprofit Sector as % of total Employment	3.74	4.93

Data Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany

Compared to the industrial sector, nonprofit organizations have until recently been perceived to be of minor importance. The results of the Johns Hopkins Project illustrate that the significance of the sector as a terrain of gainful employment has been largely underestimated. In the long view the German nonprofit sector looks back upon a success story of growing importance with regard to gainful employment, especially in comparison to the commercial and public sectors. Since the 1960s, the nonprofit sector has developed into a stable segment of the German economy, thus surpassing by far the growth rate of the commercial sector and the public sector (Priller et al., 1999).

Table 2: Employment Figures and Growth Percentage, 1960 - 1995 (West Germany only)

	Forprofit Sector		Public Sector		Nonprofit Sector (Employees in Nonprofit Organizations)	
	Employees (in 1000)	Change compared to 1960 in %	Employees (in 1000)	Change compared to 1960 in %	Employees (in 1000)	Change compared to 1960 in %
1960	23,201	100	2,098	100	383	100
1970	22,937	99	2,978	142	529	138
1980	22,126	95	3,929	187	925	242
1990	22,864	99	4,303	205	1,256	328
1995	22,754	98	4,225	201	1,430	373

Data Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany

However, the sector's growth rate in the early 1990s has been triggered in large part by the formation and rebuilding of nonprofit organizations in East Germany (Priller/Zimmer, 2001: 205-209). Furthermore, compared to other countries within the Johns Hopkins Project, the labor market performance of Germany's nonprofit sector is less impressive. The 22-countries comparison of the Johns Hopkins Project shows that in Germany nonprofit employment as a share of total employment ranks considerably below the Western European and other developed countries' average. Whereas the Western European average is 7%, Germany's nonprofit labor force amounts to 4.9% of total employment. This is due to the fact that, in Germany, the labor intensive and fast growing areas of education and research (schools, universities, research institutes) are dominated by public institutions (Salamon et al., 1999: 14).

Unfortunately for the second half of the 1990s there are no data available that are as comprehensive and encompassing as the material of the Johns Hopkins Project. Nevertheless, information from selected data sources indicates that the German nonprofit sector has continued to grow particularly with respect to employment. According to the statistics of the German welfare associations (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, 2001: 8), their member organizations experienced an employment growth rate of about 4% between 1996 and 2000 (44,355 employees). In 2000 more than 1.1 million employees were working for nonprofit organizations affiliated with the welfare associations. The approximately 4% growth rate of the German nonprofit labor force during the second half of the 1990s is also confirmed by results of a study conducted as a secondary statistical analysis of labor market statistics (Bellman/Dathe/Kistler, 2002). In addition to employment, increasing demand for nonprofit services provides a further indicator of the expansion of the sector during this particular decade.

It is a specific feature of the German nonprofit sector that, in terms of size, nonprofit organizations active in the areas of education and culture are

of far less economic importance than those in the fields of health and social services. Only 5% of German students (primary and secondary levels) attend nonprofit schools. Nearly all German universities are public institutions. The same holds true for the country's research infrastructure. In sharp contrast, already at the beginning of the 1990s, nonprofit organizations provided 60% of all places in homes for the elderly and 35% of all places in kindergartens. By far the majority of nonprofit health and social service organizations are affiliated with the German welfare associations. According to their own statistics (Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, 2001), the number of health and social service institutions providing help and support for young people, families, elderly people, and particularly the disabled increased from 52,500 in 1970 to 93,600 in 2000. During the same time the number of beds and places in these institutions went up from 2,151,600 to 3,270,500.

However, the impressive expansion of the sector was by no means restricted to nonprofits active in service provision. As clearly indicated by Table 3, sports, arts and culture, and leisure are the prime fields of activity of German nonprofits. In 2001, 544,701 voluntary associations (*eingetragene Vereine*) were registered in Germany. Of these, sports clubs had the largest share (40%); leisure clubs ranked second with a share of about 18%.

Table 3: Registered Voluntary Associations in Germany, 2001

	Number	Share (%)
Sports	215,439	39.55
Leisure Activities	95,044	17.45
Welfare	72,530	13.32
Arts and Culture	61,983	11.38
Professional Associations	51,581	9.47
Interest Groups	42,510	7.80
Ecology	5,614	1.03
Total	544,701	100

Data Source: V&M Service GmbH, Konstanz

Composition of the Sector

As already indicated with respect to employment, the sector is dominated by nonprofits active in the core welfare fields: healthcare and social services. These two fields represent the strongholds of the German nonprofit labor force. About 70% of the sector's workforce is employed within these two fields. The combined share of all other fields of nonprofit activity (except education) amounts to less than 20% of the total nonprofit employment in Germany.

Table 4: Nonprofit Employment 1990 (only West Germany) and 1995 (East and West Germany) (Full-time Equivalents)

Area of Activity	1990		1995		Change Rate Employees 90-95 in %
	Employees	% of Nonprofit Employment	Em- ployees	% of Nonprofit Employment	
Culture and Recreation	64,350	6.3	77,350	5.4	20.2
Education and Research	131,450	12.9	168,000	11.7	27.8
Health	364,100	35.8	441,000	30.6	21.3
Social Services	328,700	32.3	559,500	38.8	70.2
Ecology/Environment	2,500	0.2	12,000	0.8	387.4
Development/Housing	60,600	5.9	87,850	6.1	45.0
Civic and Advocacy	13,700	1.3	23,700	1.6	73.3
Philanthropy/Foundations	2,700	0.3	5,400	0.4	101.0
International Activities	5,100	0.5	9,750	0.7	89.8
Business/Professional Associations, Unions	44,800	4.4	55,800	3.9	24.5
Total	1,018,000	100	1,440,350	100	41.5

Data Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany

There is a story behind the specific composition of Germany's nonprofit sector. German nonprofit organizations in the core welfare areas represent functional equivalents of public organizations. Nonprofit organizations that are active in these two fields are deeply embedded in the German welfare state. The prominent position of health and social services within the German nonprofit sector reflects a long-standing tradition that is incorporated in the "principle of subsidiarity", discussed previously in this chapter. The specific interpretation of this principle in German law gives preference to nonprofit over public and commercial provision of core social services. The majority of nonprofit organizations operating in welfare-related fields are affiliated with the German welfare associations, which are quite unique in terms of their history and closeness to the state. To put it differently, the welfare associations represent an organizational "repository" for the outcome of previous societal conflicts, the most important of which was the struggle between the modern German state and the church (Anheier, 1990: 314; Schmid, 1996). This significant cleavage of the German society was brought to peace as early as in the Weimar Republic, when the German government accepted the church-related associations as partners in public policy. In the Federal Republic of Germany, this arrangement was re-established and incorporated into the social economy approach (Zimmer, 1997: 1999). After the crumbling of the Berlin Wall, the specific type of public-private partnership was transferred to East Germany, where the German welfare associations developed into the largest and from an economic point of view most powerful organizations of the nonprofit sector (Anheier et al., 2001).

However, with respect to employment, health is no longer the fastest growing segment of the German nonprofit sector. In the 1990s, the most spectacular labor growth rates were achieved by nonprofits operating in the area of ecology/environmental issues and international activities. This development is directly related to social policy changes in Germany. In accordance with welfare state reform in other countries, the provision of social services and healthcare is being increasingly transformed into a market economy in Germany as well. Government grants and insurance allowances are more and more being awarded on a competitive basis without taking into consideration whether the service is provided by a commercial enterprise or by a nonprofit organization. In other words, the privileges guaranteed by the principle of subsidiarity that served for years as the bedrock of the impressive growth rate of nonprofits in the core welfare areas are no longer that strongly in place. Indeed, the privileged status of nonprofit organizations in Germany safeguarded by the principle is gradually being replaced by the logic of the market. Against this background nonprofit service providers currently are reassessing their organizational status and legal form. German tax regulations are not in accordance with modern financial management because they do not allow nonprofits to accumulate earnings over time without jeopardizing their tax privileges, thus impeding any credit financing of nonprofits. Since many service providers, however, need to upgrade their facilities, enlarging or renovating their buildings, the nonprofit status might no longer be perceived as an organizational advantage but – on the contrary – as a significant handicap. Therefore, it is very likely that healthcare and social service nonprofits will leave the sector by changing their legal/organizational form. This development will have an important impact on the size and composition of the German nonprofit sector (Zimmer/Priller, 2000: 217).

Volunteer Input and Societal Embeddedness

To put it differently, those German nonprofit organizations that – from a narrow economic point of view – have been of less importance until now might develop into the core areas of nonprofit activity and eventually become the heart of the sector. Such organizations are predominantly operating in the areas of ecology, environmental protection, international affairs, and advocacy. Since nonprofit organizations that are doing business in these fields are less state-oriented and not as heavily subsidized by public money as nonprofit organizations that are operating in the core welfare fields, the characteristics of the German sector might change significantly in the near future.

Table 5: Revenue of German Nonprofit Organizations, 1990 (West Germany) and 1995 (East and West Germany)

Field of Activity	Public Monies in %		Private Giving in %		Fees, Charges in %	
	1990	1995	1990	1995	1990	1995
Culture and Recreation	16.8	20.4	9.4	13.4	73.8	66.2
Education and Research	69.9	75.4	2.0	1.9	28.1	22.6
Health	83.9	93.8	2.6	0.1	13.4	6.1
Social Services	82.6	65.5	7.3	4.7	10.1	29.8
Ecology/Environment	23.2	22.3	3.7	15.6	73.1	62.1
Development/Housing	57.2	0.9	0.0	0.5	42.7	98.6
Civic and Advocacy	41.9	57.6	4.5	6.6	53.6	35.8
Philanthropy/Foundations	14.8	10.4	0.5	3.4	84.7	86.2
International Activities	76.9	51.3	16.8	40.9	6.2	7.8
Business and Professional/ Unions	5.5	2.0	0.3	0.8	94.3	97.2
Entire Nonprofit Sector	68.2	64.3	3.9	3.4	27.9	32.3

Data Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany

Like elsewhere, German politicians are reducing public support for welfare activities. This trend is reflected by the revenue structure of Germany's nonprofit sector. It is important to remember that establishing a nonprofit sector in East Germany was a key issue on the political agenda, and nonprofit organizations were given preference over commercial providers. Without the financial support to set up a nonprofit sector in East Germany, there would have been a more drastic reduction of public sector financing for nonprofit activities.

That notwithstanding, public sector money is no longer the prime source of employment growth in the sector. As was shown previously in Table 4, organizations working in environmental protection achieved a remarkable increase of their workforce, whereas organizations in the health sector did not enlarge their professional staff considerably. In fact, those fields that managed to diversify their revenue structure in the 1990s, thus becoming less dependent on public financing, were able to enlarge their workforce. Correspondingly, those areas that became even more dependent on public grants were not very successful with respect to job creation (Zimmer/Priller, 2000: 217f.).

Generally speaking, for nonprofit organizations there are two main ways to reduce their dependency on public sector funding: either to engage in commercial activities, thus increasing the share of revenues from fees and charges, or to attract private giving and volunteer input. Since German law significantly restricts the possibilities for commercialization and successful engagement in market activities for nonprofits, volunteer input has always

been a very important source of financing for German nonprofit organizations (Priller/Zimmer, 2001a: 209f.).

Table 6: Revenue Structure of Germany's Nonprofit Sector without and with Volunteer Input, as percent of total revenue, 1995

Source of Income	Germany		19-countries average	
	Without volunteer input	Volunteer input included	Without volunteer input	Volunteer input included
Public Money	64.3	42.5	40.1	32.1
Private Giving	3.4	36.2	10.5	26.5
Fees and Charges	32.3	21.3	49.4	41.4

Data Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany

The revenue structure of Germany's nonprofit sector clearly reflects its state dependency. As shown in Table 6, more than 64% of its revenues are public grants and insurance allowances, whereas compared to other countries within the Johns Hopkins Project, the sector's market income, i.e., fees and charges, is of less importance, and private giving is almost insignificant. However, if volunteer input is taken into account and considered as a source of income for nonprofits, the composition of the revenue structure of Germany's nonprofit sector changes remarkably. Public grants and state-regulated contributions, such as insurance allowances, still rank first; however, private giving also accounts for a significant share, thus surpassing by far the importance of market income (fees and charges). This contrasts with the average of 19 countries participating in the Johns Hopkins Project: When volunteer input is included, private giving's share of total revenue increases, but still lags behind fees and charges and public funds (Priller/Zimmer, 2001: 210). This links to another feature of the German nonprofit sector: the importance of volunteer input for the well-being of the sector and its societal embeddedness.

German nonprofit organizations are not exclusively functioning as equivalents or replacements of public entities. Particularly in the area of culture and recreation the sector represents a prime domain of societal engagement expressing a high degree of civicness. Volunteering provides an excellent example of the importance of the non-economic side of the sector (Anheier et al., 2000). In Germany, hours invested in volunteering add up to the equivalent of more than one million full-time jobs. More than 83,000 sports clubs predominantly run by volunteers are active in Germany. Furthermore, there are many self-help groups and small organized initiatives in almost any field of nonprofit activity.

Table 7: Organizations, Members and Volunteering

Area of Activity	Organizations 1997* (in 1000)	Members 1997 ¹ (in 1000)	Volunteers 1996 ² (in 1000)	Hours volunteered ² (in 1000)
Culture and Recreation	160.1	15,729	5,866	738,182
Education and Research	10.0	661	330	27,025
Health	3.6	2,974	1,318	156,869
Social Services	130.0	1,586	1,187	181,530
Environment	30.0	2,710	857	102,827
Development/Housing	1.5	264	132	36,121
Civic and Advocacy	40.0	1,190	725	192,234
Philanthropy/Foundations	6.0	132	198	36,385
International Activities	0.4	264	396	52,600
Religion	30.0	2,313	3,098	430,623
Business/Professional Associations, Unions	5.0	11,963	593	86,019
Others	30.0	3,767	5,076	715,376
Total	417.6	41,240	16,678	2,325,168

¹ Social Economic Panel 1997 (without double memberships)

² Social Economic Panel 1996

Source: Johns Hopkins Comparative Nonprofit Sector Project, Germany; WWU-Münster/WZB Organizational Survey/Data Gathering: Figures were mentioned by peak associations and regional associations

Throughout the past two decades Germany has witnessed a boom in the creation of voluntary associations - particularly in the areas of environment, international activities and advocacy. This translates into an embeddedness of the sector in Germany that is quite distinct from the American model. In the United States the sector partly represents a societal response to the combined failures of both the market and the state to produce public goods in sufficient numbers and of good quality. In Germany, the sector has emerged predominantly from social movements and civic activities. Still today, therefore, the sector is segmented and, particularly in the area of welfare provision, divided along ideological lines and traditions (Zimmer, 1996). At the same time, the sector has always provided terrain for social integration, incorporating new groups and initiatives into the larger society (Zimmer, 1998: 105f.). A prime example for the capacity of the sector to integrate new organizations and movements into the established civic order are the self-help groups in the area of healthcare. In the 1980s, these groups were lobbying against the established power of the welfare associations. Today, many self-help groups have developed into an integrated and accepted segment of community-based healthcare facilities. In fact, the majority of self-help groups are by now operating under the umbrella of one of the German welfare associations (Zimmer, 1998: 109).

Fragility of the Sector in East Germany

The Federal Government of Germany played a significant role in the establishment of the nonprofit sector in the new *Länder*. First and foremost an encompassing institution transfer (Zimmer et al., 1997) achieved the rebuilding of the sector. With a few exceptions, the legal and institutional system of the Federal Republic – including the principle of subsidiarity – was transferred to the former GDR. Moreover, the Federal Government provided seed money as well as institutional support to set up an infrastructure for nonprofit organizations in the new *Länder*. Programs earmarked for the support of specific fields of nonprofit activity such as arts and culture, recreation and sports were set up. Labor market policies such as the so-called ABM-programs were specifically geared towards East Germany.⁷ Finally, some nonprofit organizations, among them the German welfare associations, received special funds that were earmarked for the institutional build-up of these organizations in East Germany. Due to this massive support and institutional transfer, the sector has gained significant momentum in East Germany compared to other postcommunist countries. There are two main indicators for its remarkable success: first, the boom of newly established nonprofit organizations at the local level and second, the importance of the sector for East Germany's labor market.

As clearly indicated in Table 8, in less than a decade, there has been a significant growth of “new entries”. Today, there are between 80,000 and 100,000 nonprofit organizations – predominantly registered voluntary associations (*Vereine*) – operating in East Germany. To put it differently: Calculated per capita, there are as many *eingetragene Vereine* operating in East Germany as in West Germany (Anheier et al., 2001).

The majority of the associations in East Germany are newly founded organizations that were set up after unification by citizens who were eager to take the opportunity for self-organization and civic engagement. There are, however, some organizations that were already in operation during the existence of the former GDR. In some cases, these organizations managed to survive the historic period of the GDR because they were organized under the umbrella of one of the former so-called mass organizations such as the *Kulturbund*. Set free from the surveillance of state authorities, numerous theater groups, sports clubs and hobby singing groups were reestablished, thus revitalizing their traditional roots, which sometimes date back to the 19th century or the Weimar Republic. In addition to these traditional organizations, there are some nonprofits that were founded during the GDR era and managed to adjust to the new legal and organizational environment.

7 ABM programs provide government-subsidized jobs, which primarily are funded in those

Table 8: New Entries in Selected Registers of Associations 1990-1998

Register of Associations (Location of County Court)	1990	1992	1994	1996	1998
<i>A. Länder Capitals</i>					
Berlin	509	1,566	1,122	867	911**
Dresden	1,237	209	495	195	213
Erfurt	536	141	155	127	103
Magdeburg	554	139	146	91	88
Potsdam	469	248	220	138	n/a
Schwerin	287	178	76	85	68
<i>B. Other (1 industrial region, 2 rural areas):</i>					
Görlitz	284	21	44	25	n/a
Malchin	81	22	29	10	n/a
Teterow	54	8	15	13	7

*Includes some West Berlin-based associations; ** 1997

Source: Register of Associations 1990 - 1998.

Among those, the *Volkssolidarität* represents the most prominent example of a genuine former GDR organization that today is heavily engaged in providing services particularly for senior citizens and that is very successful in attracting volunteers (Angerhausen, 2003).

As stated earlier, the German nonprofit sector represents an important segment of the country's labor force. This is particularly the case in East Germany where the economy is still suffering from the communist era and has been on the decline even though the SED regime has been overcome. In East Germany, there has been no growth industry with respect to employment except the nonprofit sector. In 1995, between 350,000 and 400,000 full-time equivalent employees were working in East German nonprofit organizations, representing close to 5% of the East German labor force (Priller/Zimmer, 2001: 206). In other words, with respect to nonprofit employment, there are no differences between East and West Germany. Compared to other postcommunist countries, East Germany's nonprofit sector is almost twice the size of the sector of the Czech Republic, and it is almost four times larger than the sector in Hungary or Slovakia. However, the majority of the East German nonprofit jobs are heavily subsidized by the Federal Employment Agency, which after 1990 under the umbrella of ABM programs set up special labor market initiatives supporting the establishment of primarily service-providing nonprofit organizations in East Germany such as the local institutions of the welfare associations.

Therefore, although the rebuilding of the sector in East Germany represents a success story when seen against the background of other

fields of activity that are not competing with market enterprises.

postcommunist countries, the sector exhibits a lack of financial stability and societal embeddedness when compared to its West German counterpart. With respect to selected features such as membership size, finances, and most significantly dependence on government grants, the results of the organizational survey that was conducted within the framework of the German study of the Johns Hopkins Project (Zimmer/Priller, 2003) show remarkable differences between East and West German nonprofit organizations.

Table 9: Comparison of Nonprofit Organizations in East and West Germany

	East German NPOs in %	West German NPOs in %
Age		
Year of Foundation after 1989	75	11
Membership		
less than 100 members	56	40
more than 10,000 members	3	10
Finances		
Total Income 1996		
up to 100,000 DM	44	36
between 500,000 DM and 2 Mio	38	41
more than 2 Mio DM	17	22
Financed by Public Grants		
zero or below 10 %	44	59
more than 80 %	21	8
Having financial problems during recent years	49	35

Data Source: WWU Münster /WZB – Organizational Survey 1998 (n=2,240)

Compared to their West German counterparts, East German nonprofit organizations are younger, they do not have as many members, they are smaller in economic terms, and they are heavily dependent on public sector grants (see Table 9). By and large they have been more often confronted with financial problems during recent years. Taking into consideration that giving is less developed in East Germany due to high rates of unemployment and civic engagement has not yet reached the West German level, the East German nonprofit sector has still a long way to go in order to achieve sustainability (Priller/Zimmer, 2001: 222).

5. Problems, Trends and Perspectives

Financial problems, however, are not restricted to nonprofits operating in East Germany. Due to the traditional embeddedness of Germany's nonprofit organizations, which operate in significant numbers as functional equivalents

of state entities (particularly in the fields of healthcare and social services), the current crisis of public financing increasingly jeopardizes the further development and well-being of the sector. This is especially the case for the German welfare associations engaged in core welfare state activities. Confronted with increasing economic pressure, the German welfare associations are trying to optimize their management structures. Due to the complicated tax regulations under which nonprofits have to operate in Germany, nonprofits active in healthcare in particular are choosing to change their legal/organizational form in the direction of a forprofit enterprise.

As clearly shown in Table 10, which presents more of the results of the above-mentioned organizational survey conducted in 1998, the government orientation of the German nonprofit sector has turned into a significant burden for the well-being of its organizations. According to the results of the survey, insufficiency of public sector financial support and a pronounced dependency on public funds are the most pressing problems of German nonprofits. Indeed, against the background of reduced government funding, the results of the German portion of the Johns Hopkins Project show that those nonprofits that managed to diversify their funding structure were economically in a much better position than those nonprofits exclusively financed by government grants (Priller/Zimmer, 2001). Whereas nonprofits in the traditional fields of NPO activity, i.e., healthcare and social services, were far less successful in diversifying their funding structure, those nonprofits engaged in international activities, ecology and civic issues did very well with respect to attracting private monies as well as with respect to selling services on the market.

However, Germany's etatism, which translates into financial dependency at the level of the individual organizations but into a pronounced lack of civicness at the sector level, is not yet on the retreat. German politicians, the general public and the media do not perceive the sector as a societal sphere independent from the state. Reflecting the tradition of the principle of subsidiarity, partnership and cooperation are therefore still the catchwords of civil society discourse in Germany. There is a flipside of this historical legacy: The sector is not acknowledged as an independent societal force as such. Against this background German nonprofits rightly complain about pronounced state regulation, strong restriction of fundraising activities, lacking tax incentives for giving, and above all a decisive lack of political concepts vis-à-vis the sector (Strachwitz, 1998).

Indeed, in sharp contrast to other European countries such as the U.K., France and Italy, German politicians are rather reluctant to acknowledge the importance of the sector for modern societies and for the furtherance of democracy. While in Anglo-Saxon countries traditional liberal as well as labor parties are very much in favor of the idea of civil society, the German liberal party is backing a neoliberal approach. Whereas during the 1980s

there was a tendency to revive and modernize the idea of subsidiarity among Germany's Christian Democrats, today's Christian Democracy strongly believes that the market solves societal problems best.

Table 10: Major Problems with which German nonprofits are confronted (% of respondents)

	highly agree	strongly agree
Lack of public sector money	29	30
Strong dependency on public sector money	19	20
Too many legal obligations	18	24
Lack of political concepts for the nonprofit sector	16	20
Lack of donations	13	29
Lack of public attractiveness	7	24
Lack of experience with respect to fundraising	7	22
Low payment for employees	6	11
Displaced public image	5	16
Commercial competition	4	11
Unmotivated employees	1	6

Data Source: WWU Münster/WZB – Organizational Survey 1998 (n=2,240)

Finally, the topic of the further development of Germany's civil society ranked very high on Chancellor Schröder's agenda at the beginning of his first term of office (Schröder, 2000). However, in the meantime the topic of civil society and the third sector has turned into a non-issue in political Berlin. Whereas in the late 1990s German Social Democracy started to follow the way paved by Tony Blair and Anthony Giddens, today neither politicians nor VIPs of the public or private sectors are promoting the idea of a lively civil society as a dynamic force working in favor of innovation and modernization in Germany.

As mentioned at the beginning of this chapter, early in its administration, Schröder's Red-Green coalition government set up a special Study Commission of the Parliament to research the future of civic engagement in Germany. Among other results, the Commission learned that civic engagement is on the increase in Germany despite the fact that the legal and economic environment for civic engagement and particularly the embeddedness of nonprofit organizations are not keeping with the times and therefore are partly hindering the further development of civil society in Germany. Originally the outcome of the Study Commission – a catalogue of numerous recommendations – was to be put into practice during the term of session after the re-election of the Red-Green coalition government. However, despite the declaration of intent, the topic of civil society lost its

priority after the federal elections in 2002, even though there is an urgent need for a programmatic backing of current policy reforms that seek to reduce public funding significantly and that therefore will not receive a warm welcome by the German public.

References

- Angerhausen, S. (2003): *Radikaler Organisationswandel*. Opladen
- Anheier, H.K. (1992): *An Elaborate Network: Profiling the Third Sector in Germany*. In: Gidron, B./Kramer, R.M./Salamon, L. (eds.): *Government and Third Sector*. San Francisco, pp. 31-56
- Anheier, H.K. (1990): *The Third Sector in West Germany*. In: Anheier, H.K./Seibel, W. (eds.): *The Third Sector. Comparative Studies of Nonprofit Organizations*. Berlin/New York, pp. 313-331
- Anheier, H.K./Seibel, W. (2001): *The Nonprofit Sector in Germany. Between State, Economy and Society*. Manchester/New York
- Anheier, H./Priller, E. (1991): *The Non-Profit Sector in East Germany: Before and After Unification*. In: *Voluntas* 2, 1, pp. 78-94
- Anheier, H./Priller, E./Zimmer, A. (2001): *Civil Society in Transition: The East German Third Sector Ten Years After Unification*. In: *Eastern European Politics and Societies* 15, 1, pp. 139-156
- Anheier, H./Priller, E./Zimmer, A. (2000): *Zur zivilgesellschaftlichen Dimension des Dritten Sektors*. In: Klingemann, H.-D./Neidhardt, F. (eds.): *Die Zukunft der Demokratie*. (WZB-Jahrbuch), Berlin, pp. 71-98
- Bellmann, L./Dathe, D./Kistler, E. (2002): *Der "Dritte Sektor". Beschäftigungspotenziale zwischen Markt und Staat*. IAB-Kurzbericht 18, Nürnberg
- Braun, F. (2000): *Die steuerpflichtige und gemeinnützige Stiftung aus der Betrachtung zweier Rechtsordnungen*. Basel
- Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege (2001): *Gesamtstatistik der Einrichtungen und Dienste der Freien Wohlfahrtspflege*. Berlin
- Eisenberg, C. (1993): *Massensport in der Weimarer Republik. Ein statistischer Überblick*. In: *Archiv für Sozialgeschichte*, Band 33, pp. 31-48
- Enquete-Kommission "Zukunft des Bürgerschaftlichen Engagements" Deutscher Bundestag (ed.) (2002): *Bürgerschaftliches Engagement und Zivilgesellschaft*. Opladen
- Lehmbruch, G. (1996): *Der Beitrag der Korporatismusforschung zur Entwicklung der Steuerungstheorie*. In: *Politische Vierteljahresschrift* 4, pp. 735-751
- Neuhoff, K. (1997): *Germany*. In: Salamon, L.M. (ed.): *The International Guide to Nonprofit Law*. New York, pp. 118-129
- Priller, E. (1997): *Der Dritte Sektor in den neuen Bundesländern*. In: Anheier, H./Priller, E./Seibel, W./Zimmer, A. (eds.): *Der Dritte Sektor in Deutschland*. Berlin, pp. 99-125

- Priller, E./Zimmer, A. (2001): Wachstum und Wandel des Dritten Sektors in Deutschland. In: Priller, E. /Zimmer, A. (eds.): *Der Dritte Sektor international: Mehr Markt – weniger Staat?* Berlin, pp. 199-228
- Priller, E./Zimmer, A./Anheier, H. (1999): Der Dritte Sektor in Deutschland. Entwicklungen, Potentiale, Erwartungen. In: *Aus Politik und Zeitgeschichte*, B9/99, pp. 2-21
- Rometsch, D. (2000): Der Dritte Sektor als Gegenstand europäischer Politik. In: *Maccenata Aktuell*, Nr. 20, pp. 2- 15
- Sachße, C. (1995): Verein, Verband und Wohlfahrtsstaat. Entstehung und Entwicklung der dualen Wohlfahrtspflege. In: Rauschenbach, T./Sachße, C./Olk, T. (eds.): *Von der Wertgemeinschaft zum Dienstleistungsunternehmen*. Frankfurt, pp. 123-149
- Sachße, C. (1994): Subsidiarität: Zur Karriere eines sozialpolitischen Ordnungsbegriffs. In: *Zeitschrift für Sozialreform*, 40, 11, pp. 717-738
- Salamon, L.M./Anheier, H.K. et al. (1999): Civil Society in Comparative Perspective. In: Salamon, L.M. et al. (eds.): *Global Civil Society. Dimensions of the Nonprofit Sector*. Baltimore, pp. 3-39
- Schefold, W. (1995): Das schwierige Erbe der Einheitsjungend: Jugendverbände zwischen Aufbruch und Organisationsmüdigkeit. In: Rauschenbach, T./Sachße, C./Olk, T. (eds.): *Von der Wertgemeinschaft zum Dienstleistungsunternehmen*. Frankfurt, pp. 404-427
- Schmid, J. (1996): Wohlfahrtsverbände in modernen Wohlfahrtsstaaten. Opladen
- Schröder, G. (2000): Die zivile Bürgergesellschaft. Zur Neubestimmung der Aufgaben von Staat und Gesellschaft. In: *Die Neue Gesellschaft/Frankfurter Hefte* 47, 4, pp. 200-207
- Strachwitz, R. Graf (2001): Germany. In: Schlüter, A./Then, V./Walkenhorst, P. (eds.): *Foundations in Europe*. Gütersloh, pp. 133-144
- V&M Service GmbH, Konstanz (2001): *Vereinsregisterhebung 2001*. [www.vm-marketing.de]
- Walz, R.W. (2001): Stiftungsreform in Deutschland – Stiftungssteuerrecht. In: Hopt, K.J. (eds.): *Stiftungsrecht in Europa* (Schriftenreihe des Instituts für Stiftungsrecht/Bucerius Law School). Köln, pp. 197-218
- Zimmer, A. (1999): Corporatism Revisited - The Legacy of History and the German Nonprofit Sector. In: *Voluntas*, 10,1, pp. 37-49
- Zimmer, A. (1998): Der Verein in Gesellschaft und Politik. In: Strachwitz, R. Graf (ed.): *Dritter Sektor – Dritte Kraft*. Düsseldorf, pp. 93-125
- Zimmer, A. (1997): Public-Private-Partnerships: Staat und Nonprofit-Sektor in Deutschland. In: Anheier, H./Seibel, W./Priller, E./Zimmer, A. (eds.): *Der Dritte Sektor in Deutschland*. Berlin, pp. 75-98
- Zimmer, A. (1996): Vereine – Basiselement der Demokratie. Opladen
- Zimmer, A./Priller, E. (2003): *Gemeinnützige Organisationen im gesellschaftlichen Wandel*. Opladen
- Zimmer, A./Priller, E. (2001): Der Dritte Sektor in Deutschland: Wachstum und Wandel. In: *Gegenwartskunde*, Vol. 50, Nr. 1, pp. 121-147
- Zimmer, A./Priller, E. (2000): The Third Sector and Labour Market Policy in Germany. In: *German Policy Studies*, Vol. 1, Nr. 2, pp. 209-238

From Corporatist Security to Civil Society Creativity: The Nonprofit Sector in Austria

1. Introduction

Nonprofit organizations (NPOs) play an important role in Austrian society and in the economy. Nonetheless, nonprofit sector research in this country – and in continental Europe in general – is a relatively new academic discipline (Badelt, 2002a).¹ This is contrary to many Anglo-American countries, where – based on the work of de Tocqueville (Tocqueville, 1978) – communitarian concepts like Etzioni's have a long tradition (Etzioni, 1973). There, NPOs were mainly established to compete with for-profit organizations, and – in the context of neo-liberal movements – were analyzed in terms of this competition. In Europe, NPOs were rather viewed in reference to the development of the welfare state, and thus with regard to their relationship to the state. Indeed, many NPOs in Austria were and are highly entangled with the public sector. The theoretical interest was therefore based on questions of the legitimacy of private NPOs that fulfilled public agendas and on potential dangers with regard to the sovereignty of the state (Seibel, 1992: 34). However, alongside the crisis of the welfare state in the 1980s, the role of the nonprofit sector in continental Europe has changed, and NPOs are faced with high expectations. Governments have begun to reduce their budget deficits, and NPOs have been expected to alleviate public expenditure cuts by expanding their service provision. Moreover, NPOs are increasingly regarded as vital to the process of democratization, change and integration in a number of socio-political concepts (Simsa, 2001a; 2001b; Dahrendorf, 1992). In Austria, for example, leading politicians stress the merits of civil society and introduce concepts that highlight the significance of voluntary work and NPOs (Khol, 1998; Einem, 1999).

As the significance of NPOs in social discourse grows, their number as well as the sector's economic power increases (Badelt, 2002a: 73ff). Consequently, nonprofit management topics are also gaining attention in literature and practice (e.g., Horak/Heimerl, 2002). For a long time, business

1 This only refers to research on the sector as an institutional form. Parts of the sector, mainly certain groups of organizations, e.g., associations, or certain organizations of different groups, e.g., social services, have often been in the focus of research.

administration tools and methods, which have been developed for for-profit organizations, have been applied in a rather undifferentiated fashion to NPOs (Mayrhofer/Scheuch, 2002). Now many nonprofit practitioners are aware that they belong to a distinct institutional sector. They view their organizations as “different,” and often refer to these differences when describing their organizations. Consequently, there is a need to explore the characteristics of these types of organizations and to develop adequate managerial tools and practices.

What follows is a short overview of the nonprofit sector and nonprofit organizations in Austria. This is necessarily simplistic because the NPO sector in Austria is very heterogeneous, consisting of organizations that differ in sizes, tasks and visions, legal forms, and relations to other institutional sectors. The first section offers comments on the historical development of the sector and discusses the legal framework that is relevant for this type of organization. Next, statistical information on the Austrian nonprofit sector, as well as some of its activity fields, is presented. The following section describes guiding principles that, to some extent, explain the heterogeneity of NPOs both across and within activity fields, and then discusses various NPO typologies. Finally, the focus turns to expectations and challenges facing NPOs in Austria and their likely impact on the development of the nonprofit sector.

2. Historical Development

The nonprofit sector in Austria has a long historical tradition, with many NPOs having their origins in the 19th century. Nevertheless, because of the heterogeneity of the sector and the novelty of the concept of different types of NPOs as a single sector, no comprehensive overview of the history of the sector as a whole exists. However, the Austrian nonprofit sector shares common roots and traditions with the nonprofit sectors in Central European countries, such as Hungary, Slovakia and the Czech Republic, which were part of the Austro-Hungarian empire. A number of factors have influenced the development and characteristics of the sector in Austria.

Before the two World Wars, the Austrian bourgeoisie was comparatively weak, while the aristocracy, military and church had an enormous influence on society. As these groups had strong links to the state, their joint interest led to a strong etatism and a dominant role for civil servants in Austria. This background had a strong influence on the size, shape and characteristics of the sector and resulted in close links many NPOs still have with the state.

At the same time, however, third sector organizations have also been founded in relation to the labor movement. Thus, many forerunners of today's

large and established NPOs, such as unions or big NPOs providing social services, were originally radical alternatives to the dominant state and church. Many associations were established at the beginning of the 20th century by either the social-democratic movement, the conservative Christian-Democrats or the church to bind their clients to their ideology in various fields. Various forms of self-help initiatives and private charities emerging from either religious or conservative traditions or the labor movement can be considered forerunners of today's NPOs. For these ideological groups, it was critical that their members stick to their party or their own institutions – members were protected and served “from the cradle to the grave.” Within these political *Lager*, exchanges hardly took place: members of the Social Democrats, for example, were even forbidden to join sports clubs that were linked to the conservative Christian-Democrats or the church.

In the 1930s the civil society was split in two parts. Many NPOs were proscribed by the Nazi regime and either ceased to exist or had to operate underground. On the other hand, many NPOs were co-opted by the regime to carry out political tasks. Membership in these organizations was partly obligatory, and they contributed significantly to the dissemination of Nazi culture and politics.

After 1945 the old traditions of the sector were taken up again, though slightly modified and democratized. Social partnership, or *Sozialpartnerschaft*, began to play an important role in Austrian society. Furthermore, social partnership, which was built up by the representatives of both the two political *Lager* and thus institutionalized the neocorporatist policies, helped to bridge the gap between the left and right wings of the NPO sector. The two ideological movements were no longer separated in such a strict way as before World War II. Nonetheless, their power was enormous, and many associations have been used as *Vorfeldorganisationen* (front organizations) for one of the political parties or the church. This has led to the widespread opinion that nothing can be achieved in Austria without the support of one of the major political parties. With the exception of labor movement organizations, nonprofit institutions thus have always been a part of the establishment; nevertheless, they have maintained their potential for inducing social change.

Only much later, beginning with the 1980s, and in the wake of new social movements, new NPOs, which were linked neither to established political parties nor to the church, have arisen. These organizations have been mainly active in the fields of women's liberation, ecological or human rights, development aid, and international relations. They have been very important for Austria's civil society, shaping culture and influencing attitudes, but due to their distance from the establishment, they have not enjoyed much public funding and thus their importance is not reflected in statistical data on the NPO sector. Moreover, this segment of the sector still is very unstable.

3. Legal Framework

There is no specific legislation for NPOs in Austria. Austrian laws do not even recognize the notion “nonprofit organization.” Consequently, it is not possible to achieve or maintain a legal nonprofit status. However, some stipulations in the Austrian tax laws are relevant for not-for-profit organizations, as well as organizations within specific policy fields. Empirical data also provide evidence that most NPOs are incorporated in a few legal forms, which are discussed below (Ettel/Nowotny, 2002).

Legal Forms for NPOs

A nonprofit organization could theoretically choose any legal form for incorporation, except those that require profit making [i.e., general partnership (OHG) or limited partnership (KG)]. However, most Austrian NPOs, including culture and sports organizations, interest groups, political parties and self-help groups, are incorporated as associations. This is so mainly because, until recently (see below), this form did not require much administrative effort with regard to its incorporation, nor did it entail strict requirements with regard to annual reporting or accounting. Indeed, the associational movement is an important foundation of the Austrian nonprofit sector. In 1867, the constitutional right to gather in associations was granted and has been used widely since. Currently, more than 100,000 associations exist in Austria – and almost all of them qualify as nonprofit organizations. In July 2002, however, the law on associations was revised for the first time since 1952, leading to tighter regulations for large associations, e.g., concerning stricter accounting rules and enhanced liability of members of the association. It remains to be seen whether and how this new law will affect incorporation and management of nonprofit organizations.

In addition to associations, NPOs are sometimes incorporated as foundations, e.g., operating or grant-making organizations in the fields of social services, health, education, and research. However, the legal form of foundation has not been very popular in Austria, at least in part because private foundations could be established only since 1993, after the introduction of the Private Foundation Act. Currently, some 2850 public and private foundations exist in Austria; most, however, do not qualify as nonprofit organizations.

NPOs could also be established as cooperatives, of which currently some 2000 exist in Austria. However, the role of cooperatives has changed over time, with many of them pursuing profit-making purposes nowadays – and thus not being nonprofit anymore. However, parts of the cooperative sector (e.g., housing cooperatives) could still be justified as belonging to the

nonprofit sector. Other legal forms, such as the corporation with limited liabilities (GesmbH) or the public limited company (AG), are hardly used by nonprofit organizations. Table 1 provides an overview of the types of organizations NPOs are likely to be incorporated in and the number of organizations corresponding to each type.

Table 1: Types and Number of Organizations that could belong to the Nonprofit Sector in Austria – 2000/01

Legal form	Number in 2000/01
Associations	104,203
Private Foundations	2,200
Public Foundations	648
Cooperatives	1,999

Sources: Badelt (2002a: 74); Statistik Austria (2001: 159ff.).

Legal Stipulations that Might be Relevant for NPOs

Some other legal stipulations concern NPOs along with other organizations. For example, to establish an association, proponents must present to the authority by-laws, including the purpose of the organization, its activities, the rights and duties of its members, etc. Similarly, the establishment of private foundations starts with a formal declaration at the authority. Organizations that have a primarily religious, charitable or public benefit purpose can qualify for a public benefit status (Gemeinnützigkeitsstatus), which allows for tax alleviation (§§ 34-38 Bundesabgabenordnung, BAO). To qualify for this status, the by-laws of the entity must express the public benefit purpose of the organization (§ 41 BAO), and the actual behavior of the organization is examined on a yearly basis by the appropriate tax office (§§ 42 and 43 BAO). Tax-exempt stipulations mainly apply to profit, inheritance and gift taxes, but not for property transfer taxes (Kohler, et al., 1996).

A public benefit organization may generate profits even though this may not be its primary aim. Profits must, however, remain within the organization and may not be distributed to members, shareholders or owners of the company. Moreover, the tax-exempt status is only guaranteed if the “public benefit” is actually directed towards the general public (*Allgemeinheit*). This means that nonprofit organizations serving their members only do not qualify as public benefit organizations, and thus a large part of the Austrian nonprofit sector, including many sports clubs and professional interest groups, does not have tax-exempt status (Badelt, 2002a: 71). Foundations are an exemption to this rule. The new law on foundations introduced in 1993 does not distinguish between public and private benefit organizations.

Another stipulation which becomes relevant for specific types of nonprofit organizations is derived from the income tax law (*Einkommenssteuergesetz, EStG*), according to which private giving to organizations engaging in research activities can be tax-deductible under certain conditions (§ 4 and § 18 EStG). Currently, discussions are underway to include in the upcoming tax reforms amendments that would extend this law to cover also private giving to charities.

4. Statistical Profile

Along with a heightened interest in nonprofit organizations, empirical studies on NPOs have mushroomed in Austria (Badelt, 1985; 1995; Badelt/Hollerweger, 2001; Heitzmann, 2001; Simsa, 2001c, etc.). A recent survey includes relevant statistical information on the Austrian nonprofit sector for the year 1997 (Heitzmann, 2001). In this study, nonprofits are defined according to the structural-operational definition² and classified by the ICNPO3 of the Johns Hopkins Comparative Nonprofit Sector Project (see Anheier/Salamon, 1992; Salamon/Anheier, 1996; 1999).

In 1997, the Austrian nonprofit sector consisted of some 94,000 organizations and employed around 190,000 people, or 6.2% of all Austrian employees. The estimated wage costs for nonprofit employees amounted to at least € 3.2 billion. Apart from paid workers, another 903,000 volunteers were engaged in nonprofit organizations,⁴ which corresponds to a full-time equivalent of 117,000 employees and another € 2.8 billion that did not result in wage costs. The annual expenses of NPOs in Austria amounted to around € 5.7 billion. If unpaid laborers were to be paid, the expenses would increase by approximately 50%.

Many NPOs, such as sports clubs and labor unions, rely heavily on membership. While a total figure for members in NPOs does not exist, evidence suggests high numbers. For example, in 2000 more than 3.2 million people in Austria were members of one of the three large Austrian nonprofit sports organizations (Statistik Austria, 2001: 160).

More than half of the income of nonprofit organizations was derived from

-
- 2 To qualify as an NPO, an organization has to fulfill five criteria: It must be organized, private, non-profit-distributing, and self-governing, and must incorporate some type of voluntarism (see Salamon/Anheier, 1992).
 - 3 The International Classification of Nonprofit Organizations (ICNPO) categorizes NPOs according to activity fields (see Salamon/Anheier, 1996).
 - 4 According to a recent study, more than half of the total population in Austria aged 15+ was engaged in voluntary work in 2000. 62% of these conduct voluntary work in an organization (Hollerweger, 2001).

private sources (e.g., private giving, membership fees, etc.). This is much more than commonly believed – with the assumption that nonprofits are subsidized even more by the public sector. Nonprofit organizations have contributed about € 4.2 billion to the standard GDP, i.e., 2.3% of the GDP. If voluntary work was also included, the total nonprofit sector would have contributed about € 7.3 billion to an alternative GDP in 1997 (see Table 2).

Table 2: Economic Dimensions of the Austrian Nonprofit Sector – 1997

Economic dimensions	Data for the Austrian nonprofit sector
Number of organizations	94,261
Number of paid employees	189,131
Number of volunteers	903,160
full-time equivalent	116,549
Expenses	€ 5.7 billion
% for personnel expenses	56%
Revenues	€ 5.0 billion
% public sources	46.7%
% private sources	53.3%
Value added	
-imputed value added (incl. volunteer labor)	€ 4.2 billion € 7.3 billion

Source: Heitzmann (2001: 223ff.)

Empirical data thus provide evidence of the impressive economic significance of the nonprofit sector in Austria. Focusing on policy fields rather than the total sector, however, the concentration of nonprofits within various fields varies by a large degree – and by the indicator chosen (see Table 3).

For example, while almost two-thirds of all Austrian nonprofit organizations are engaged in the fields of culture and sports, only 8% of (paid) employees, 6% of total expenses, and 17% of value added (including an imputed value for volunteer labor) are accounted for by this activity field. By contrast, social service organizations employ the majority of all nonprofit employees (53%) and contribute about a third of the total value added (32%) by the nonprofit sector, while “only” some 14% of all organizations were engaged in this field.

Roughly 29% of all expenses in the sector can be attributed to health organizations, as well as 14% of the value added, although only 0.3% of all nonprofits were health organizations. Nonprofits engaged in international activities generate almost a fifth of the total value added – due to the high amount of volunteer labor – although only 1% of all nonprofit organizations and nonprofit employees belong to this policy field (Heitzmann, 2000).

Table 3: Concentration of Nonprofits across Industries in Austria – 1997

INDICATORS ACTIVITY FIELDS	Number of organiza- tions	Number of employees	Total Expenses	Value Added (incl. imputed volunteer labor)
Culture and Sports	65.6 %	7.6 %	5.5 %	17.0 %
Education and Research	7.1 %	19.1 %	6.9 %	8.2 %
Health	0.3 %	10.5 %	28.8 %	14.1 %
Social Services	14.3 %	53.1 %	43.3 %	32.3 %
Environment	0.1 %	0.4 %	0.7 %	0.6 %
Civic and Advocacy	2.0 %	3.7 %	4.1 %	2.1 %
Philanthropy	0.6 %	-----	-----	-----
International Activities	0.7 %	0.6 %	0.5 %	19.1 %
Religious Congregations	4.3 %	3.8 %	6.8 %	5.1 %
Business / Professional, Unions	5.1 %	1.1 %	3.3 %	1.3 %
Total (100%)	94,261	189,131	5,731 Mio. €	7,338 Mio. €

Source: Heitzmann (2000)

These differences across sectors can also be seen with regard to the financial dependency of NPOs on the public sector – with varying degrees of revenues derived from the state in different activity fields (see Table 4). While organizations in the fields of education, research, health, and civic and advocacy activities have been funded predominantly by the public sector, organizations in the fields of culture, sports, international activities, and business or professional unions have relied primarily on payments or private contributions, such as private giving and sponsoring. Organizations in social services and environmental conservation have been funded rather equally by both private and public sources.

Comparisons of nonprofit organizations with governmental and private commercial organizations provide additional insights with regard to the economic potential of NPOs in Austria. Such comparisons allow the identification of the market share of nonprofit organizations within a given activity field and an analysis of the degree of domination by nonprofits (see Table 5).

For example, three-quarters of all seats in theaters and almost two-thirds of all museums are accounted for by nonprofits in Austria, as well as more than a third of all libraries. A fifth of all Austrian hospitals and more than a quarter of all nursing homes are nonprofits. Almost all environmental organizations, organizations engaging in international activities, political groups and religious congregations are nonprofits. These results impressively emphasize the social and economic role of third sector organizations within different policy fields in the Austrian society.

Table 4: Share of Revenue from the Public Sector in Nonprofit Activity Fields in Austria – 1997

ACTIVITY FIELDS	Public Sector	Private Sector (excluding volunteer labor)
Culture and Sports	36.6 %	64.4 %
Education and Research	72.9 %	27.1 %
Health	74.8 %	25.2 %
Social Services	44.3 %	55.7 %
Environment	47.6 %	52.4 %
Civic and Advocacy	79.7 %	20.3 %
International Activities	25.3 %	74.7 %
Religious Congregations	9.3 %	90.7 %
Business / Professional, Unions	9.3 %	90.6 %
Total Sector	46.7 %	53.3 %

Source: Heitzmann (2000: Table 3)

4. Guiding Principles and Typologies of Nonprofit Organizations

The Austrian nonprofit sector is not only rather large in an economic sense, it is also very heterogeneous. Some aspects of this heterogeneity have already been illustrated. NPOs differ with regard to the legal form they are incorporated in, the activity field they belong to, their financial composition, their employment structure (i.e., whether they rely primarily on paid employment or on voluntary work), etc. Differences also occur with regard to the size of the organizations. On the one hand, there are many small NPOs of local or regional importance, including most of the nonprofit associations. In these organizations, citizens are able to formulate their (mutual) ideas and participate actively in the decision-making process, which thus manifests part of the Austrian civil society (Badelt, 2002a). On the other hand, the Austrian nonprofit sector also consists of many large and rather centralized *Verbände*, which play a crucial role within the Austrian political decision-making process (e.g., within the social partnership or *Sozialpartnerschaft*).

Table 5: Market Share of Austrian Nonprofit Organizations in Selected Activity Fields – 1997

SELECTED BRANCHES	IN % OF THE TOTAL OFFER IN AUSTRIA
Culture and Sports	35% of all libraries 75% of all seats in theaters 62% of all museums 87% of all members in sports clubs almost 100% of all leisure clubs
Education and Research	7% of all 1 st and 2 nd level schools 6% of all 1 st and 2 nd level classes 2% of all research institutions
Health	21% of all hospitals 20% of all hospital beds provided 26% of all nursing homes
Social Services	24% of all childcare facilities 25% of all groups/classes in childcare facilities 93% of all fire brigades
Environment	almost 100% of all environmental organizations almost 100% of org. for the protection of animals
Civic and Advocacy	100% of all political parties almost all of the nonprofessional interest groups
Philanthropy	44% of all foundations in Austria
International Activities	96% of organizations providing development aid
Religious Congregations	100% of religious congregations
Business / Professional, Unions	All except the chambers (i.e., part of the public sector)

Source: Heitzmann (2000)

Guiding Principles

One explanation for the heterogeneity of the Austrian nonprofit sector are the many principles that have influenced NPOs over the last century and have had repercussions on their development (Badelt, 2002a: 64ff.). One of the principles that strongly affect the Austrian nonprofit sector as well as the relations between NPOs, the public sector, and for-profit institutions, is the principle of federalism and self-government. Austria is divided into nine federal provinces, which all have been granted substantial political autonomy and power. This federalist ideology is reflected in the Austrian nonprofit sector. There are many small and locally based NPOs that are autonomous and independent from the central government. Some of them have a long history, while others have been founded rather recently. Moreover, NPOs in Austria often establish umbrella organizations, which, however, are not based

on a national level, but rather on a federal province's level – a consequence of Austrian federalism.

Another important principle of Austrian society is corporatism, above all the strong political influence of professional associations. Many of these associations, e.g., the unions, are part of the nonprofit sector themselves. Consequently, some of the large Austrian NPOs have unusually strong political power. Moreover, many large NPOs have close links to public institutions. This often leads to an implicit division of labor: the public sector finances services that nonprofit organizations provide. This contracting-out mechanism is a specific characteristic within the policy fields of social services and health (Badelt, 2002a: 84). However, recent developments show strong attempts of privatization also in other policy fields. The future will show if this will lead to marginalization or to emancipation of the sector.

Austria's tradition of cooperatives and the social economy is another significant influence on its nonprofit sector. Although historically part of the nonprofit sector, these institutions are nowadays rather big for-profit or governmental organizations (see above). The basic idea of self-organization has, however, influenced the nonprofit sector in Austria, and many of the recently founded nonprofit self-help groups are characterized by these principles.

Concerning their ideological background, many nonprofit organizations have a close link to political parties or other ideological groups, mainly the Catholic Church. This is not only because political parties and religious groups are NPOs themselves, but also because many NPOs have their roots in the workers' movement and its Christian-Catholic counterpart at the end of the 19th century. The parties and the church have built up their own organizations to bind their members to their ideological ideas. Still today, there exist "right" and "left" organizations side-by-side in Austria delivering the same services, e.g., within the personal social services, but also within sports, culture, professional associations, adult education, and the like. It is very difficult for independent organizations to survive within this climate, except for the many rather small organizations and local associations. They are able to stay independent of any political or state influence, as long as they can operate with their own resources.

Businesses are increasingly becoming competitors of nonprofit organizations in Austria. At the moment, however, NPO interaction with commercial business firms is not yet very intense. For many civic organizations, businesses are still more important as a funding source than as a competitor, e.g., in the fields of sports and culture through sponsorships. Because private and corporate giving is not yet eligible for tax-alleviation in Austria, except for specific research activities (see above), giving by corporations is rather scarce. However, commercial companies often operate as agents for nonprofit organizations by fund-raising on commission.

Typologies of Nonprofit Organizations

In what follows, three ways of classifying the heterogeneous nonprofit sector are presented. First, organizations are differentiated by the beneficiaries of the services provided: NPOs that provide services to their members only and those that are customer-oriented. Second, based on their links to other institutional sectors, NPOs are distinguished according to their links to the public sector, the private market sector, or informal grassroots groups. Third, NPOs are classified by their strategies in terms of influencing society, i.e., parallel provision of services, cooperation, confrontation, and damage control. These typologies are not mutually exclusive. Thus, one organization could belong to two or more types at the same time.

Member-oriented Versus Customer-oriented NPOs

A common typology of NPOs in Austria focuses on the beneficiaries of the services provided (Badelt, 2002a: 71; Wagner, 2002). Member-oriented NPOs (*Eigenleistungs-NPOs*) supply services primarily for the benefit of their members. Examples are many cooperatives, unions, and the representatives of employees or specific industries. Other organizations of this type are self-help groups, local civil society initiatives, sports clubs, and scientific associations. In contrast, many nonprofit organizations supply services predominantly for their clients or consumers who are not members of the organization (*Fremdleistungs-NPOs*). Among these are public benefit organizations (see above). According to data on service production, the latter type makes up the largest part of the Austrian nonprofit sector. In addition to very large nonprofit organizations with a long tradition in the activity field of social services, such as the Austrian Red Cross and several hospitals, a considerable number of small and locally operating organizations also belong to this group.

NPOs Between Public Administration, the Private Market and Grassroots Movements

Another useful typology differentiates NPOs according to their links to different systems of society. The relevance of these systems for the organization, i.e., for its modes of operation, its decision-making criteria or its organizational culture, is decisive in this model. The most relevant societal systems for NPOs can be described by a “tripolar field” of the economic system, the political system and a third field which can be described as grassroots-oriented, client-oriented, or civil society. Following this concept, three types of NPOs can be distinguished: business-oriented, public administration-oriented and grassroots-oriented NPOs (see Zauner, 2002:

158ff).

In Austria, as well as in all German-speaking countries, NPOs are oriented towards the state rather than the for-profit sector, much more so than in Anglo-Saxon or Anglo-American countries. Thus, there is a large group of NPOs with close links to public administration. They are usually financed by the public sector to a large extent and fulfill tasks that are considered to be part of the public agenda. As a consequence, they are very similar to public sector organizations with respect to their internal cultures and decision-making processes. Thus, they are hybrid or borderline cases between the state and the nonprofit sector.

Examples of such organizations are manifold. This is partly the result of the perceived dichotomy of the society: Only for-profit firms have been distinguished from the public sector; all other organizations, including nonprofits, have for a long time been viewed as being public. Thus, hybrid cases are often organizations that are private in a legal sense, but that are not entirely independent from the government. Good examples are the Austrian public broadcasting station (ORF) or the Austrian labor market service (AMS), both of which are private institutions, but actually under tight political control. This is also true for a large part of the professional interest groups, namely the so-called chambers or *Kammern*. As part of the Austrian *Sozialpartnerschaft*, which gives evidence of the strong corporate structure of the society, the *Kammern* not only play an important political role, but also fulfill various public tasks on behalf of the state.

Business-oriented NPOs follow to a high degree the logic of the economic system, and often the only difference with profit-oriented organizations is their legal status. In some cases, these are hybrid organizations between the for-profit and the nonprofit sectors. Examples include various NPOs providing occupational welfare. Frequently, large commercial companies establish nonprofit schools, kindergartens, and similar services for their employees or their relatives. In addition, services like a company-owned fire brigade can be organized as a nonprofit organization. Although these organizations have a nonprofit status, they could be interpreted as part of the company itself, and thus as part of the commercial for-profit sector.

Many cooperatives and insurance companies (mutual societies) in Austria are also examples of business-oriented NPOs. While they were historically NPOs, their purposes have changed from broad support of their members towards a primarily material kind of support (above all the *Erwerbs-* and *Wirtschaftsgenossenschaften*). Thus, dividends or profits often are re-distributed to the members or owners of many co-ops and mutual societies, so that many of these organizations no longer qualify as not-for-profit organizations but rather as commercial organizations (see Badelt, 2002a: 68).

Grassroots-oriented NPOs are closely linked to the social movements or

civil society groups from which they have emerged. The logic of the market and the public sector is comparatively less important. Solidarity, ideologies and values are influencing the activities and structures of these organizations. Examples are nongovernmental organizations in the fields of human rights, ecology and development, as well as a number of small self-help organizations and NPOs in the field of culture and recreation. Work in these organizations is usually conducted to a large extent by volunteers.

A large number of nonprofit organizations cannot be categorized exclusively as one of these types. Often, NPOs are situated between different systems and must combine different, and indeed contradictory, logics and demands. In these cases, however, the typologies presented can help to understand the internal conflicts in many NPOs and to analyze changes in the life cycle of NPOs. An example of the latter is a particular psychiatric hospital, which was established in the 1970s as a highly public administration-oriented organization. At that time, it was characterized by a culture similar to the public sector; patients were mainly “administered.” In the wake of the reform of psychiatry in the 1980s, the grassroots- or client-orientation gained in importance. Patient advocates, the media and public discussions greatly influenced the hospital’s operations. As a result of financial pressures in the 1990s, finally, requirements for enhanced effectiveness and efficiency made the organization become more commercially oriented.

5. Different Influence Strategies of NPOs

Most NPOs wish to fulfill crucial social functions and to exert an influence on social developments. Thus, they can be classified according to the strategies they follow: confrontation, cooperation, damage limitation, and parallel provision of services (Simsa, 2001b; 2002). As with other typologies, overlaps between different influence strategies are possible and common.

The economically most important part of the nonprofit sector in Austria is NPOs that provide services parallel to – and sometimes in competition with – for-profit or public organizations. Examples are activities in the social services, education and culture. There are, for instance, nursing homes or hospitals that are operated by public, for-profit or nonprofit organizations. Public universities are confronted with a growing competition from privately run institutions. Social services, which have mainly been provided by public and nonprofit organizations, are increasingly offered by for-profit entities as well. Often, there are significant similarities between nonprofit, for-profit and public organizations providing similar services (Horak/Heimerl, 2002), even though there are also substantial differences concerning the quality and

innovative potential of service provision (Badelt, 1999).

A very large part of the Austrian nonprofit sector engages in intensive cooperation with organizations of other institutional sectors, most notably with public organizations. Examples are nonprofit participation in negotiations, neo-corporatist arrangements concerning the provision of social services, and joint product development with industrial corporations. Especially in the social services and in education, public institutions often rely on private NPOs to provide services.

Another field in which public institutions frequently need to cooperate with NPOs is the development and implementation of political strategies. These strategies imply a certain compatibility of goals and cultures between the cooperating organizations. Expertise, connections with different environments, and the gradual re-definition of issues are the key factors NPOs bring to bear. The challenge for these NPOs lies in maintaining a sufficient distance and a diversity of social perspectives; too much similarity with the partner entails the risk of ineffectiveness or of identity problems, i.e., the loss of the specific characteristics and culture of a nonprofit organization.

The central focus of NPOs that follow strategies of damage limitation is the alleviation of the negative effects of the working modes of other systems. Examples are humanitarian organizations, social service organizations, and relief organizations. The main challenge these organizations face is the continual battle against suffering, frequently without finding solutions and achieving their goals. The innovative potential of such organizations lies in their significant influence on living conditions and the maintenance of welfare. As a change of causative contexts is not a priority, and negative effects of other factors are made more "bearable," development or transformation of systems may be more difficult.

NPOs that apply strategies of confrontation exert influence through criticism and protest. Examples are consumer boycotts, strikes, and protest campaigns. Human rights organizations mainly belong to this group, but also environmental NPOs and other politically oriented organizations. In quantitative terms, this group of NPOs is rather small in Austria, even though it has a high innovative potential. Confrontational orientations have an impact on internal relations and the organizational culture. They often lead to a high propensity for conflicts and a struggle against internal norms and structures (Patak/Simsa, 1993).

6. Current Challenges and Perspectives

The aforementioned principles and traditions of Austrian society all have had a strong influence on the Austrian nonprofit sector, leading to a sector that is

very heterogeneous in terms of its organizational structure, its various activity fields, and its links with other institutional sectors. As a result, changes and new trends often do not influence the sector as a whole, but rather parts of it. What is true for the whole sector, however, is that people in Austria are gradually becoming aware of its existence. Within the last decade or so, academic research has started to focus on the third sector, politicians have recognized the potential of NPOs in delivering services, and the practitioners of the nonprofit sector itself started to realize that they do belong to a distinct sector.

The emergence of the nonprofit sector is the result of various societal and political trends. First, the political and ideological ideas of liberalism, subsidiarity, solidarity, and civil society, as well as the trend towards deregulation and decentralization, are becoming more and more important throughout Europe, and also enhance the relevance of nonprofit organizations as nongovernmental institutions in Austria. Second, according to both demographic trends and growing demands concerning the quality of life, the demand for services provided by NPOs is increasing and will continue to do so in the future.

At the same time, the internal structure of NPOs is being challenged. The Austrian government has been cutting expenditures to balance its budget. Beyond this, the government has applied a dual strategy towards social service organizations in recent years (Badelt, 2001): The government began to expect more from NPOs concerning their services, while providing less and less financing. NPOs that have depended on public money (see Table 4) are consequently influenced by this governmental policy. Furthermore, the lump sum subsidies that many organizations have received from the state are being replaced gradually by performance related payments. NPOs are thus increasingly preoccupied with restructuring their finances.

Another challenge for nonprofit organizations is caused by private for-profit companies. Businesses, in an effort to realize competitive advantages, are gradually expanding their fields of activity, moving into areas that have so far been "reserved" for nonprofit organizations. Thus, NPOs increasingly have to cope with the fact that they are in competition with profit-making organizations.

The main message that Austrian NPOs could take from these changes is, therefore, that they should operate more like a commercial company than like a governmental entity, i.e., they should implement management tools and strategies to survive in a more competitive market. As NPOs in Austria operate almost exclusively within the service industry, one important aspect within this new challenge is improving quality management. NPOs will be confronted by growing demands from public and private donors to improve and document their performance and to use their resources more efficiently and effectively.

As a consequence, questions relating to the management of NPOs will gain in importance. Again, due to the sector's heterogeneity, this is not true for the whole sector, but rather for large parts of it. Empirical information provides ample evidence that the transposition of a business performance logic to NPOs can lead to inadequate results. Thus, together with organizational professionalization, the development of adequate tools and methods of nonprofit management is a key challenge for NPOs and for nonprofit sector research.

Another challenge for many NPOs concerns strategic decisions that impact their role in society. To put it crudely, their role might be more limited if they choose to pursue strategies of either damage limitation or political activism (see above).

In the Austrian discussion, the renaissance of civil society and nonprofit organizations is sometimes considered concomitant with neo-liberal tendencies and the growing pressure for deregulation. According to this view, the main function of NPOs would be to moderate and handle the "release" of the state from its functions of guaranteeing and organizing welfare (e.g., Sommers, 1998: 492). Another perspective places more emphasis on trends towards political pluralization, characterizing NPOs as a driving force of social renewal and as an expression and engine of democratization (e.g., Princen/Finger, 1994). The issue of appropriate nonprofit functions can probably not be solved along the lines of this one-dimensional "either-or" approach (Dekker/van den Broek, 1998; Bauer, 1997; Lauth/Merkel, 1997; Seibel, 1992). Even though there is evidence suggesting the outsourcing of state functions to NPOs, data illustrating the high share of government funding for NPOs bring into question the hypothesis of their general "functionalization" by neo-liberal policies (Salamon/Anheier, 1999). What might indeed be a trend is the growing polarization between social service organizations and alternative civil society organizations.

Nevertheless, in the context of political developments in Austria, decisions will have to be made concerning the relationship between the nonprofit sector and the state. Austria's nonprofit sector is to a rather high degree financially dependent on the state. In light of decreasing public expenditures, alternative financing schemes, such as sponsorships and fund-raising, will have to be found and enhanced. Furthermore, the current trend towards clear contracts between NPOs and public organizations with respect to expected services and financial resources must be extended. In the future, the identity and the self-confidence of NPOs, as well as their strategies of confrontation with the state, will become increasingly important. Thus, nonprofit organizations must emphasize their role as service providers rather than as mere petitioners for resources.

References

- Anheier, H.K./Salamon, L.M. (1992): In Search of the Nonprofit Sector I. The Question of Definitions. Working Paper Nr. 2. Baltimore
- Badelt, Ch. (2002a): Der Nonprofit Sektor in Österreich. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organization. Strukturen und Management. 3rd edition. Stuttgart
- Badelt, Ch. (ed.) (2002b): Handbuch der Nonprofit Organization. Strukturen und Management. 3rd ed. Stuttgart
- Badelt, Ch. (2001): Die Rolle von NPOs im Rahmen der sozialen Sicherung. In: Simsa, R. (ed.): Management der Nonprofit Organisation. Gesellschaftliche Herausforderungen und organisationale Antworten. Stuttgart
- Badelt, Ch. (1999): The Role of NPOs in Policies to Combat Social Exclusion. Social Protection Discussion Paper. Nr. 9912. Washington, D.C.
- Badelt, Ch. (1995): NPO-Forschung in Österreich. Eine sozialwissenschaftliche Perspektive. In: Schauer, R. et al. (eds.): Nonprofit Organisationen (NPO) – dritte Kraft zwischen Markt und Staat? Linz
- Badelt, Ch. (1985): Politische Ökonomie der Freiwilligenarbeit. Theoretische Grundlegung und Anwendungen in der Sozialpolitik. Frankfurt/New York
- Badelt, Ch./Hollerweger, E. (2001): Das Volumen ehrenamtlicher Arbeit in Österreich. Working Paper Nr. 6. Vienna
- Bauer, R. (1997): Zivilgesellschaftliche Gestaltung in der Bundesrepublik. Möglichkeiten oder Grenzen? Skeptische Anmerkungen aus Sicht der Nonprofit-Forschung. In: Schmahls, K.M./Heinelt, H.: Zivile Gesellschaft. Entwicklung, Defizite, Potentiale. Opladen
- Dahrendorf, R. (1992): Der moderne soziale Konflikt. Stuttgart
- Dekker, P./van den Broek, A. (1998): Civil Society in Comparative Perspective. Involvement in Voluntary Associations in North America and Western Europe. In: Voluntas, Nr. 9 /1, pp.11-38
- Einem, C. (1999): Politik auf verlorenen Posten? In: Krainz, E.E./Simsa, R.: Die Zukunft kommt – wohin geht die Wirtschaft? Gesellschaftliche Herausforderung für Management- und Organisationsberatung. Wiesbaden
- Ettel, M./Nowotny, C. (2002): Rechtliche Gestaltungsformen für NPOs. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Strukturen und Management. 3rd ed. Stuttgart
- Etzioni, A. (1973): The Third Sector and Domestic Missions. In: Public Administration Review, Nr. 33, pp.314-323
- Heitzmann, K. (2001): Dimensionen, Strukturen und Bedeutung des Nonprofit Sektors. Eine theoretisch-konzeptionelle und empirische Analyse für Österreich. Vienna
- Heitzmann, K. (2000): The Role of Third Sector Organizations in Specific Policy Fields: Contrasting Nonprofit Theory and Empirical Findings – The Case of Austria. Conference Working Papers Volume. ISTR Dublin
- Hollerweger, E. (2001): Die Rolle von Ehrenamtlicher Arbeit und Spenden in Österreich. Working Paper Nr. 8. Vienna

- Horak, C./Heimerl, P. (2002): Management von NPOs. Eine Einführung. In: Badelt, C. (ed.): Handbuch der Nonprofit Organization. Strukturen und Management. 3rd ed. Stuttgart
- Khol, A. (1998): Mein politisches Credo: Aufbruch zur Bürgersolidarität. Wien
- Kohler, G. et al. (1996): Die Besteuerung der Vereine. Handbuch für die Praxis. 6th ed. Vienna
- Lauth H.-J./Merkel, W. (1997): Zivilgesellschaft und Transformation. Ein Diskussionsbeitrag in revisionistischer Absicht. In: Forschungsjournal Neue Soziale Bewegungen, Nr. 10, pp.12-34
- Mayrhofer, W./Scheuch, F. (2002): Zwischen Nützlichkeit und Gewinn. Nonprofit-Organisationen aus betriebswirtschaftlicher Sicht. In: Badelt, Ch. (ed.): Handbuch der Non-Profit-Organisation. 3rd ed. Stuttgart
- Patak, M./Simsa, R. (1993): Paradoxien in Nonprofit-Organisationen. In: Heitger, B. et al. (eds.): Managerie. 2. Jahrbuch. Systemisches Denken und Handeln im Management. Heidelberg
- Princen, T./Finger, M. (1994): Environmental NGOs in World Politics. London
- Salamon, L.M./Anheier, H.K. (1996): The International Classification of Nonprofit Organizations: ICNPO-Revision 1, 1996. The Johns Hopkins Comparative Nonprofit Sector Project. Working Paper Nr. 19. Baltimore
- Salamon, L.M./Anheier, H.K. (1999): The Emerging Sector Revisited – A Summary: Revised Estimates. Baltimore
- Schauer, R. et al. (eds.) (1995): Nonprofit Organisationen (NPO) – Dritte Kraft zwischen Markt und Staat? Linz
- Seibel, W. (1992): Funktionaler Dilettantismus. Erfolgreich scheiternde Organisationen im „Dritten Sektor“ zwischen Markt und Staat. Baden-Baden
- Simsa, R. (2002): Fighting Heroes, Repair-workers or Collaborators?: Functions and Forms of NPO-Influence. In: International Public Management Journal
- Simsa, R. (2001a): Die Zivilgesellschaft als Hoffnungsträger zur Lösung gesellschaftlicher Probleme? Zwischen Demokratisierung und Instrumentalisierung gesellschaftlichen Engagements. In: Institut für Sozialpädagogik (ed.): Europäische Integration als Herausforderung: Rolle und Reform der sozialen Dienste in Deutschland. Frankfurt: Schriftenreihe des Observatoriums für soziale Dienste, pp.23-41
- Simsa, R. (2001b): Gesellschaftliche Funktionen und Einflussformen von Nonprofit-Organisationen. Eine systemtheoretische Analyse. Frankfurt/M et al.
- Simsa, R. (2001c): Management der Zivilgesellschaft. Gesellschaftliche Herausforderungen und organisationale Antworten. Stuttgart
- Sommers, M.R. (1998): „Citizenship“ zwischen Staat und Markt. Das Konzept der Zivilgesellschaft und das Problem der „dritten Sphäre“. In: Berliner Journal für Soziologie
- Statistik Austria (ed.) (2001): Statistisches Jahrbuch Österreich – 2002. Vienna
- Tocqueville, A. de (1978): Über die Demokratie in Amerika. München
- Wagner, A. (2002): Der Nonprofit Sektor in der Schweiz. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Strukturen und Management. 3rd ed. Stuttgart
- Zauner, A. (2002): Über Solidarität zu Wissen. Ein systemtheoretischer Zugang zu Nonprofit Organisationen. In: Badelt, Ch. (ed.): Handbuch der Nonprofit Organisation. Strukturen und Management. 3rd ed. Stuttgart

About the Authors

For more detailed information about the authors and contact details see participants section on focs CD.

Dr. Helmut K. Anheier, Director of the Center for Civil Society and Professor at the School of Public Policy and Social Research, University of California, UCLA, Los Angeles

Anja Appel, M.A., Marie Curie Fellow, Vienna University of Economics and Business Administration

Dr. Meinolf Arens, Research Fellow at the Hungarian Institute, Munich

Daniel Bein, Ph.D. Student, University of Münster

Julia Brandl, Master of Business and Public Administration, Research Assistant at the Department of Human Resource Management, Vienna University of Economics and Business Administration

Justyna Dąbrowska, Research Assistant at KLON/JAWOR, Warsaw

Dr. Dudo von Eckardstein, Professor of Business and Administration and Director of the Department of Human Resource Management at the Vienna University of Economics and Business Administration

Matthias Freise, M.A. Project Assistant, Institute of Political Science at the University of Münster

Dr. Pavol Frič, Research Director, Center for Social and Economic Strategies, Charles University, Prague

Dr. Dr. Karl Gabriel, Professor of Christian Social Sciences at the University of Münster

Janne Gärtner, Lawyer, Bucerius Law School, Hamburg

Ing. Rochdi Goulli, Csc., Head of the Research Department of the Institute of Health Policy and Economics in Kostelec nad Černými lesy

- Dr. Dorothea Greiling, Associated Researcher at a Chair for Public and Non-profit Management at the Faculty of Business Administration, University of Mannheim
- Dr. Herrmann-Josef Große-Kracht, Theologian and Lecturer at the Institute for Christian Social Sciences at the University of Münster
- Dr. Marita Haibach, Independent Consultant for Organization Development and Fundraising, Wiesbaden
- Robert Harauer, M.A., Director of MEDIACULT - International Research Institute for Media, Communication and Cultural Development, Vienna
- Dr. Karin Heitzmann, University Assistant at the Vienna University of Economics and Business Administration, Institute of Economics, Department of Social Policy
- Mgr. Danica Hullová, Director of the Education Center for Non-profit Organisations, Banská Bystrica
- Dr. Andrzej Juros, University Teacher, Department of Social Policy/Catholic Social Science, Catholic University of Lublin
- Dr. Thomas Kreuzer, Managing Director of the Fundraising Academy, Frankfurt/Main
- Dr. Eva Kuti, Head of the Section on Voluntary Sector Statistics in the Central Statistical Office in Hungary
- Dr. Helena Kuviková, Professor and Head of the Department of Public Economy of the Economic Faculty at Matej Bel University in Banská Bystrica
- Dr. Ewa Leś, Senior Researcher at the Polish Academy of Sciences, Institute for Economic Research and University Teacher at the Institute for Social Policy, University Warsaw
- Dr. Zdenka Mansfeldová, Senior Research Fellow and Scientific Secretary of the Institute of Sociology, Academy of Sciences of the Czech Republic
- Dr. Ronald Nagy, Contrast Management-Consulting GmbH, Vienna
- Dr. Jana Nagyová, Professor at the Prague School of Economics

Śławomir Nałęcz, University Assistant at the Institute for Social Policy,
University Warsaw

Ing. Petr Pajas, Executive Manager of First Consulting pbc, Prague

Dr. Eckart Pankoke, Professor of Sociology at Essen University

Dr. Eckhard Priller, Senior Research Fellow at the Social Science Research
Center, Berlin

Dr. Peter Rawert, Professor at the Bucerius Law School, Hamburg

Dr. Christoph Reichard, Professor of Public Management and Director of the
Institute of Local Government Studies at the University of Potsdam

Dr. Sven Reichardt, Junior Professor for History at the University of
Konstanz

Elke Rusteberg, Dipl.-Soz., Head of Division at Kindernothilfe e.V.,
Duisburg

Izabela Rybka, Stefan Batory Foundation, Warsaw

Dr. Marek Rymśa, Research Fellow, Warsaw University, Institute of
Applied Social Sciences

Dr. John Sacco, Associated Professor in George Mason University's
Department of Public and International Affairs, Fairfax, VA

Dr. Christoph Sachße, Professor for the History and Theory of Social Work at
the University of Kassel

Dr. Lester M. Salamon, Professor of Political Science and Director of the
Center for Civil Society, Johns Hopkins University

Dr. Istvan Sebestény, Senior Researcher in the Social Statistical Department
of the Hungarian Central Statistical Office

Patricia Siebart, Dipl. Kffr., Research Assistant at the Chair for Public
Management, University of Potsdam

Dr. Karla Simon, Professor at the Catholic University of America, School of
Law, Washington, D.C.

Dr. Ruth Simsa, Professor at the Institute for Sociology at the Vienna
University of Economics and Business Administration in Vienna

Dr. Olga Sozanská, President and Director of the Hestia National Volunteer
Center, Prague

- Rupert Graf Strachwitz, M.A., Director of the Maecenata Institute for Philanthropy and Civil Society, Berlin
- Dr. Máté Szabó, Professor of Political Science and Head of the Department of Political Science, University Eötvös Loránd, Faculty of State and Law
- Dr. Stefan Toepler, Assistant Professor of Nonprofit Studies in the Dept. of Public and International Affairs of George Mason University, Fairfax, VA
- Dr. Jiří Tošner, Program Director at the Hestia National Volunteer Center, Prague
- Michael Vilain, Master of Business Administration, Research Fellow at the Institute of Political Science at the University of Münster
- Dr. Olga Vyskočilová, Researcher at the Institute of Health Policy and Economics in Kostelec nad Černými lesy
- Dr. Rainer Walz, Professor of Law at the Law Faculty of the University of Hamburg
- Dr. Jan Jakub Wygnański, Yale World Fellow at Yale University and Researcher at KLON/JAWOR, Warsaw
- Dr. Annette Zimmer, Professor of Social Policy and Comparative Politics at the Institute of Political Science at the University of Münster

The Robert Bosch Foundation

The Robert Bosch Foundation was set up in 1964 and is one of the great private foundations in Germany. It carries out the will of the entrepreneur and donor Robert Bosch (1861-1942) in contemporary form. Principal areas of promotion are public health, education, and international understanding. Following the stipulations of its charter, the Foundation sets content-related focal points, develops innovative programs, and supports practice-oriented individual projects of limited duration which have the potential of becoming models for other projects of this kind. The international activities of the Foundation are concentrated on France, the USA, and the countries of Central and Eastern Europe. Between the years 1964 and 2002, the Robert Bosch Foundation made over 580 million euros available for such programs, projects, and activities. Some 44.7 m euros were granted in the year 2002 alone.

Demonstrating commitment, developing projects, accepting responsibility – numerous activities of the Robert Bosch Foundation encourage and strengthen honorary and voluntary work. The promotion of programs and projects is designed to help consolidate the awareness that a community characterized by democracy and solidarity can only flourish if its citizens in their own surroundings willingly take on responsibility for themselves and others. This holds for Germany, but perhaps even more so for the countries of Central and Eastern Europe. For this reason, the Robert Bosch Foundation in its program “Civic Initiatives in Europe” promoted over a hundred cooperative projects among non-governmental organizations in Germany and in Central and Eastern Europe between 1999 and 2002. Since 2002, civil initiatives for projects in the framework of German-Polish and German-Czech community partnerships can qualify with their project concepts for the promotional competition “Community partnership – citizen partnership.” Since the year 2000, a promotional prize has been awarded for outstanding projects in the field of non-governmental German-Russian cooperation. With its “Theodor-Heuss-Kolleg,” the Foundation offers young people – future leaders – from Central and Eastern Europe the opportunity to participate in international seminars in order to further develop their own project ideas. With the implementation of these ideas, the participants in this program gain practical experience in democratic responsibility and public involvement. Apart from these initiatives, since 1999 the Foundation has organized over 900 opportunities for volunteer work in Central and Eastern Europe and for young people from these countries in Germany. The promotion of the project “Future of Civil Society (focs)” and of the publication you hold in your hands complements the above-mentioned programs of the Foundation for the support of a civic society in Europe.