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“NON FOR PROFIT ORGANIZATIONS AND INSTITUTIONS EFFECTIVE
MANAGEMENT”

INTRODUCTION

The idea of effective management of non for profit organizations and institutions (NFPOI) is arising question in the modern world. Although there is not a certain definition what NFPOI are, we'll use the following classification:

NFP organization (NFPO) is establishment which main purpose is improvement of the life of the community it serves.

NFP institution(NFPI) is establishment, which usually is a governmental body, which main purpose is providing services to the community it serves.

The former would usually include different NGO-s, and the later institutions such as: hospitals, colleges, theaters, but also different governmental bodies such: Central banks, Food and drug administration and the Government departments or different ministries as well.

Although, this is a broad definition, which accounts for a quite large number of institutions, they all have the same purpose, i.e. to serve the community. Therefore the responsibility of their managers, no matter how they are named (ministers, secretaries, governors,) to make the effective use of the resources – Why? Because the resources they are entitled to, usually include the power as an ultimate resource, power to create regulations, or to control the behavior of different ventures in the society.

But, besides, the broad, “Grande” definition of institution, which refers to the power thy might have, we are still talking about a typical organization, with its daily operations, which includes, but is not limited to:

- human resource management

- motivation
- planning, and of course
- effective use of material, financial and human resources to achieve maximum outputs.

Under one of the above mentioned, we can also include different privately owned institutions or organizations, but with a public licensing and authority, such as notary's, arbiters etc. They have different time of legal settings, but the idea of differentiation is public licensing or authority they have gained.

And now, the bottom line of every organization, nevertheless of the type of the establishment:

Every organization needs to make profits;

Success breaths, success even for organizations which are not set up to collect the fruits of their work, in financial terms

The main difference, between profit and non for profit organizations, is that at the end of the year, a common profit organization will probably use some portion of the profits to pay out the dividends; NFPOI will never use the profits to pay dividends to the founders. Profits will be used to enlarge and support the current activities of the organization. Thus, NFPOI are very much interested in enlarging their profit base.

I. Importance of Non For Profit Organizations

As noted before, NFPO are in most of the cases NGO-s. This means that they receive no public funding, or at least, it is not their primary source of financing.

Michael Porter names these organizations as” agents of human change”¹. Besides emphasizing the importance of application of modern managerial techniques into these ventures, he is also stressing out their importance as watchdogs and creators of “community America”.

The importance of NGO-s is even more important in the Emerging markets, as we’d like to call the democracies in Eastern Europe.

Why? Because they’re bringing the new civic society into action. They’re the living proof, that there is something else besides the Government and the political parties, something that might change the way that people are living their ordinary life, and even more, something that can make the life better or more considerable.

This was probably the reason why international donors have strongly supported or even established and raised NGO-s such as: Soros Institute Open Society, or branches of international organizations such as: Habitat, and Opportunity International, in the New Democracies, and of course in the Republic of Macedonia.

¹ Michael Porter:”

II NGO-s Market Position

The basic approach we are developing is that nevertheless an organization is set as a profit or a non profit; it has to generate sufficient earnings to maintain its operations and to provide viable sustainability.

However, this would include their capability to conquer and maintain a certain market share. For the purposes of this analysis, market share refers to the donors funding as a primary funding resource. We have analyzed the total assets to measure the total market and NGO)-s participation.

For the purposes of analysis of their operations performance we have analyzed the balance sheets of ten NGO –s established in the Republic of Macedonia, including: Macedonian Enterprise Development Fund (MCDF), Soros International Open Society, Civic, Association for Democratic Initiative, Women Association, Polio Plus, children Embassy Megjasi, Democratic Association DEM and Youth Cultural centre from Bitola (MKC BT).

II.1 NGO Market Structure

The assets size of the organizations gives as the following conclusions:

Two NGO –s with Total assets below One million denars, account for less than 0.63% of the total assets of the Ngo sector.

Five NGO-s with Total Assets from 1 to 10 million denars account for 2, 37% of the total assets of the NGO – Sector.

Three NGO-s with Total Assets above 10 million denars account for 97% of the total assets. We'll call them the "Big 3" since it is obvious that they create the vast portion of the market.

Table 1 Structure of the NGO Sector in republic of Macedonia according to the Total Assets

The Big 3	97%
Others	3%

II.2 Financial Performance

One of the ways to measure the efficiency of the performance is the financial results. However, the NGO –s in The Republic of Macedonia have proved this statement.

Further research of their financial data has been performed and the results are shown in the following table:

Table 1: Financial results of the NGO sector in the Republic of Macedonia ²

Structure	MRFP	SOROS	MCIC	Civic	ADI
ROE	7	7	9	40	82
ROA	7	2	7	35	13
Profitability	58	1	7	18	4
Main activity costs/Total costs	67	49	68	72	42
Administrative costs/Total costs	33	60	32	28	16
Main activity costs/Total income	20	48	64	59	40
Administrative costs/Total income	14	60	30	23	15
Leverage	1.01	3.34	1.23	1.15	6.37
Liquidity ratio	2.37	1.14	4.32	7.86	1
Total assets	577378	220392	124911	7548	6569
Market share	61%	23%	13%	0.80%	0.69%

² According to audited statements

Structure	Women	Polio+	Megjasi	DEM	MKC BT
ROE	381	54	-74	0	0
ROA	74	50	-73	0	0
Profitability	23	14	-14	18	0
Main activity costs/Total costs	100	100	100	44	89
Administrative costs/Total costs	0	0	0	56	11
Main activity costs/Total income	77	86	114	36	89
Administrative costs/Total income	9	0	0	46	11
Leverage	5.14	1.07	1.01	0	0
Liquidity ratio	1	10.88	2.82	0	0.3
Total assets	4693	3704	1398	0	468
Market share	0.496%	0.39%	0.00000		0.0000

Further analysis leads to the following conclusions:

1. Almost every NGO (except one) has performed positively
2. The largest NGO –s have a significant ROE. (Some smaller NGO –s have extremely high ROE –s which can not be considered sustainable on the long term basis.)
3. The liquidity of the biggest NGO –s is excellent, i.e. the ratio is at average 2,61³

The average ratios for the NGO sector are as follows:

³ Computed as an arithmetic median of the three biggest organizations

Table 2: Average ratios of the NGO sector in Macedonia

ROE	50, 6 %
ROA	12, 9 %
Profitability	12, 9 %
Main activity costs/Total costs	71, 9%
Administrative costs/Total costs	23, 6%
Main activity costs/Total income	63, 3%
Administrative costs/Total income	20, 8%
Leverage	2, 032
Liquidity ratio	3, 169
Total assets	50, 6 millions of denars

If we take into account the Big 3, then the results are as follows:

Table 3 Financial data of the Big 3 NGO –s in the Republic of Macedonia

Structure	MRFP	SOROS	MCIC	
ROE	7	7	9	8%
ROA	7	2	7	5%
Profitability	58	1	7	22%
Main activity costs/Total costs	48	49	68	55%
Administrative costs/Total costs	33	60	32	42%
Main activity costs/Total income	20	48	64	44%
Administrative costs/Total income	14	60	30	35%
Leverage	1.01	3.34	1.23	2
Liquidity ratio	2.37	1.14	4.32	3
Total assets	577378	220392	124911	50.6

We believe that this analysis is even more accurate since it does not take into account the extreme data which are performed by some smaller NGO –s, and which are rather an accident than a regular situation.

III. Banks or NGO -s

Banking sector in the Republic of Macedonia has been one of the most dynamic in the last years.

However, one of its features is that it has almost the same structure with 3 Big Banks (Stopanska, Komercijalna and Tutunska Banka) which account for the largest market share.

Besides this it's one the most profitable and most transparent industry in this country

This has lead us to the idea to compare the banking sector performance with one of the NGO –s.

Besides this we have compared their financial performance, and the results are interesting. Basically they point out that NGO –s have an excellent financial performance. The results are as follows⁴

Table 4 Comparative Market Share Banking Vs. NGO

	NGO s	Banks
Big 3 market share	97%	66,1%
ROE	8%	10,4%
ROA	5%	1,1%

. This supports out thesis that "no meter the type of the business profit or non for profit, it has to create revenues in order to be sustainable, and the only difference is in the profit distribution (profits) or retention for growth 9 non for profits)

⁴ According to Audited statements for year ending 31.12.2005

CONCLUSIONS

Organizations which primary goal is not to create and disburse profits are known as non for profit organizations. We have divided them into two groups:

(NFPO) -NFP organization is establishment which main purpose is improvement of the life of the community it serves.

Every organization, nevertheless of the type of the establishment n needs to make profits. Success breaths, success even for organizations which are not set up to collect the fruits of their work, in financial terms

NGO sector in Macedonia is dominated by three large organizations, which we name as the 3 Big. They have market share of 97% and excellent financial results.

To prove out statement that every organization has to make profits we have compared the 3 Big with the banking sector.

The results are supporting of our thesis since the financial indicators and market positioning are even better in the Ngo sector then in the banking industry.

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