

GCPMED 2018
**International Scientific Conference "Global Challenges and
Prospects of the Modern Economic Development"**

**FEATURES OF FINANCE OF CORPORATE NON-PROFIT
ORGANIZATIONS IN MODERN ECONOMY**

T.Yu. Kiseleva (a)*, M.V. Dubrova (b)

*Corresponding author

(a) Financial University, Leningradsky Prospect, 49, Moscow, Russian Federation, TKiseleva@fa.ru, +7 (495) 625-6626

(b) Financial University, Leningradsky Prospect, 49, Moscow, Russian Federation, MDubrova@fa.ru, +7 (495) 625-2926

Abstract

There are various companies in the modern economy. They differ in the nature of their activities, in the terms of their organizational and legal form, the conditions for the formation and distribution of financial resources in the course of their economic activity. The traditional division of companies into commercial and non-commercial does not reflect the diversity of financial relations. The article discusses the financial mechanism of a special form of non-profit organizations - corporate non-profit legal entities. The purpose of the article is to determine the specifics of the finances of such organizations, their place in the financial system of the national economy. Based on the analysis, the financial mechanism of these companies is formed; the features that are characteristic of non-profit organizations' finances, the features that make them financially similar to commercial organizations and the features that give corporate finance to these companies are highlighted. The modern economy transforms the finances of traditional market subjects. It concerns the appearance of corporate non-profit organizations. This phenomenon in the Russian economy is rather new and little studied. The mechanism of attracting financial resources of a corporate non-profit organization combines the features of a non-profit organization, a commercial organization and a corporate form of business activity.

© 2019 Published by Future Academy www.FutureAcademy.org.UK

Keywords: Corporate non-profit organization, financial resources, equity participation, membership fees, donations, income.



1. Introduction

In 2014 the concept of “corporate legal entities” appeared in the Russian Civil Code. The peculiarity of this term lies in the fact that it is applicable both to the part of commercial organizations and to the part of non-commercial organizations. The characteristic “corporate” shows the peculiarity of the position of non-profit organizations (hereafter referred to as NPO) and, accordingly, the peculiarity of the formation of financial resources for activities.

The peculiarity of such companies is that the purpose of their activity in a profit-oriented market economy is not to make a profit. All the services that they initially provide, carrying out statutory activities, are offered to consumers free of charge. It turns out that in a market economy there are companies that can work for the benefit of the whole society, a part of the society (both private individuals and companies, state and local governments), not pursuing the goal of making a profit.

Their number is large enough. In modern Russia their number, according to the Ministry of Justice, exceeds 200 thousand. At the beginning of November 2017 there are more than 223 thousand registered NPOs in the register of the Ministry of Justice of Russia. Nevertheless, there has been a tendency to reduce NPOs in recent years. In 2016 there were 4 thousand more NPOs.

NPOs differ from each other in terms of their organizational and legal form, lines of business, opportunities to conduct income-generating activities, taxation, etc.

A certain step forward was made in the arrangement of the types of non-profit organizations with the introduction of the characteristic "corporate".

Organizations attributable to corporate NPOs occupy a significant share in the total number of NPOs, and the public goods that they produce are becoming increasingly diverse. All subjects of the economy impose the demand for them. The largest share is among the public associations. By the end of 2017 their number in the country was 95,204 or 42.7% of the total number of NPOs. The structure of corporate NPOs and the share of individual types are shown in Table 01.

Table 01. Quantity of public associations, political parties and non-profit organizations, registered in the Russian Federation

Types of corporate NPOs	Total	Including registered in 2017
Public associations - total	95204	4841
Including:		
Public organizations	55771	3874
Social movements	1442	118
Public funds	3531	25
Public institutions	681	9
Other types of public associations	33607	813
Of them:		
Trade unions	22241	207
Political parties	70	1
Other non-profit organizations	90852	8854
Branches and representative offices of foreign non-profit non-governmental organizations	127	2

There is no such thing as corporate non-profit organizations in foreign countries. Though, there are similar organizations among non-profit ones, for example, associations, trade unions, partnerships, the financial basis of which is created through membership fees (Smith, Stebbins, & Grotz, 2016).

2. Problem Statement

The aim of this research in the article is to estimate how a corporate character affects the ability to attract various instruments of financing NPO activities.

We need to assess the place of corporate NGOs in modern organizations.

3. Research Questions

The following aspects of corporate NPO finances were analysed in the course of the research:

- Determination of the conditions for including into the corporate legal entities both commercial and non-commercial organizations from the point of view of forming the financial basis for carrying out activities
- Correspondence of the mechanism for attracting financial resources of corporate NPOs to the nature and purpose of NPOs' activities
- Characteristics of the financial instruments attracted by corporate NPOs on the terms of gratuitousness and irrevocability
- Evaluation of the ability of corporate NPOs to be engaged into income-generating activities and the impact of these revenues on the financial position of these companies

Impact of the digital economy on corporate NCO financing.

4. Purpose of the Study

The purpose of the research is to conduct a comprehensive analysis of the financing structure of corporate NPO.

The purpose of the research is to show the mixed nature of the funding of corporate NGOs

Please replace this text with context of your paper. To show the advantages and disadvantages of the corporate form for NCO financing.

5. Research Methods

Methods of logical and statistical analysis, synthesis, comparison and generalization were used in the course of the research.

6. Findings

As a result of the study, we have made certain conclusions in accordance with the objectives of the study. The term "corporate" related a part of non-profit organizations to corporate commercial organizations. The emphasis is made on the peculiarities of the formation of the primary financial resources necessary to initiate the company's activities. The same thing was characteristic for NPOs and

for commercial organizations of corporate type: the financial base for future activities was formed by sharing the membership by the members of the future organization. In a commercial organization they are called members, companions and shareholders; in a non-profit organization they are called only members. It does not depend on its organizational and legal form. Members and founders of a commercial corporate organization are entitled to a portion of the profit earned in a company. Members and founders of a corporate NPO do not have the right to participate in the distribution of the part of the profit derived from income-generating activities. But members of a corporate NPO, as well as members and founders of a corporate business organization, have the right to participate in the management of a company. Both legal entities and individuals can be members of corporate NPOs as well as corporate commercial organizations.

The main part of corporate NPOs activities is based on the basic principles characteristic of all non-profit organizations. The peculiarity of all NPOs is that the purpose of their activities in a market economy is not to make a profit. This principle of a non-profit organization is of a general and international pattern. All the services that they provide, carrying out statutory activity, are offered to consumers free of charge. They can work for the benefit of society or a part of society (both individuals and companies, state and local government). Corporate NPO realizes and protects personal interests (by means of trade unions), professional interests of its members (by means of associations), organizes joint activities (by means of partnerships, communities). The most famous defenders of the rights of workers are trade unions, while political parties convey public interests. Business representatives form corporate NPO actively. The Association of Russian Banks protects and lobbies the interests of representatives of Russian banks, the Association of Regional Banks - the interests of banks of constituent entities of the Russian Federation; NAUFOR - interests of companies making up the stock market infrastructure, etc. Associations united by industry principle are widespread. The specific nature of the activities of corporate NPOs, like all NPOs, predetermines the peculiarities of their taxation (Grishchenko, 2016), accounting and financial reporting in a company (Poister, Aristigueta, & Hall, 2014), budgeting (Weikart, Chen, & Sermier, 2013) organization of management system and especially financial management (Zietlow, Hankin, & Seidner, 2018), financial policy (Weikart, Chen, & Sermier, 2013). But the main thing is that the financial basis for the activities of corporate NPOs should be formed through revenues. The revenues are obtained by corporate NPOs on terms of gratuitousness and irrevocability (Kiseleva, 2016). It is obvious that the more revenues, including corporate ones, NPO has, the more financially stable the company is, the more agile the management is and the more services it can provide to consumers (Mersiyanova, 2013). Unlike commercial organizations, corporate NPOs, like any form of NPO, are not required to have a minimum amount of financial resources to initiate business activities. For a corporate NPO there is no such concept as initial capital and its minimum size, only for some NPOs, that are actively engaged in income-generating activities, the formation of initial capital is possible. In this case the size of initial capital of an NPO must be at least 10 thousand rubles like LLC has. For NPOs, including corporate ones, there is no obligation to report to their members about the use of revenues or to publish such reports in the mass media without fail (Dubrova, 2016). Unfortunately, the degree of influence of public financial control on the activities of NPOs is negligible.

All NPOs should have Financial resources received free of charge, but corporate ones have one type of financial resources, which is characteristic only of them — these are financial resources formed by membership fees. Contributions can be made both in monetary and other material or non-material form in the framework of existing national legislation, but preference is given to monetary form (McCarthy, Shelmon, & Mattie, 2012). The property derived from contributions is owned by a corporate NPO according to ownership rights. The return of entrance fees to members of a corporate NPO depends on its organizational and legal form. For example, the return of entry fees is provided for members of a non-profit partnership. However, entry fees are not refundable as a rule. Contributions for corporate NPOs are quite diverse. They can be either one-time or permanent, or they can combine both. Members of public organizations and associations pay membership fees with a certain frequency. The size of membership fees is determined by corporate NPOs themselves. Members of a corporate NPO automatically agree with the size by joining the organization. Traditionally, the payment of membership fees is mandatory, although there are exceptions. The principle of voluntary membership fees exists in some corporate NPOs, for example, in the All-Russian political party "United Russia". There are no clearly defined membership fees in it. The criteria for determining the amount of membership fees are different. They can be set in a fixed amount, depending on income or available financial resources, number of employees or a type of activity (table 02).

Table 02. Size of membership fees NAUFOR

Activities	Own capital (million rubles)	The size of the annual membership fee (rub.)
Dealer and (or) brokerage or only securities management activities	up to 90 million	115 000
	from 90 million to 1 billion	210 000
Securities management activities combined with dealer and (or) brokerage activities	up to 90 million	160 000
	from 90 million to 300 million	185 000

For example, in the Association of Russian Banks the basis for contributions is either the size of the own capital of a credit organization or the number of employees of non-credit organizations. The membership fees of individuals to trade unions are 1% of the salary. Membership fees are regular. This provides corporate NPOs with some financial stability as opposed to non-corporate NPOs. However, membership fees are not enough to cover the costs, and, as a rule, organizations make a decision to get engaged in fundraising, i.e. to seek additional financial resources on gratuitous and irrevocable conditions, as well as to get engaged in income-generating activities. The second form of financial resources for corporate NPOs received on a grant basis is donations. Both individuals and legal entities, including other NPOs, can act as donors. This form is actively used in political parties, associations and unions (McCarthy, Shelmon, & Mattie, 2012). The size of donations to political parties has become so large that it is proposed to make a change in the Federal Law "On Political Parties" by limiting the size of donations to 4.3 million rubles. Participation of corporate NPOs in budget financing is limited. Corporate NPOs can participate in the implementation of budget programs if by the nature of their activities they meet the criteria necessary for obtaining budget subsidies. But budget subsidies involve shared financing of

activities both at the expense of the budget and at the expense of the company. Basically, budgetary institutions and other NPOs in the budgetary sector can count on financing from the budget (Markina, 2014). Corporate NPOs can count on budget support if, by the nature of their activities, they belong to socially oriented NPOs. In this case, they compensate 20% of their expenses from the budget (Grishchenko, 2017). There are no restrictions on their participation in competitions for presidential grants, grants of state authorities and local governments. The system of budget support for NPOs, including corporate ones, is approximately the same for many countries (Guz, 2015). Sponsorship fees for corporate NPOs themselves or for organizing any events are actively involved. Sponsors provide financial assistance to corporate NPOs in exchange for placing advertisements at events held by NPOs, or organizing PR campaigns of the sponsor. For example, the amount of sponsorship contribution provided by VTB to the All-Russian Physical Culture and Sports Society (VFSO) Dynamo for 2017-2019 amounted to 10.62 billion rubles. The VSFO "Dynamo" will provide a significant amount of services to the bank in exchange. Some corporate NPOs sell sponsorship packages that define the list of services that the sponsor will receive in exchange for financial assistance, the amount of which depends on the significance of the corporate NPO, the status of events and the status of the sponsor itself. Although, sponsorship traditionally refers to gratuitous income in theory (McLaughlin, 2016), it turns into an income-generating activity for NPOs in practice. It is obvious in the case of sponsorship packages sale that is becoming popular. Corporate NPOs are to pay value added tax for providing advertising services and calculate the income tax.

Since corporate NPOs are constantly lacking financial resources obtained on a grant and irrevocable basis, the government in many countries allows them to engage in income-generating activities, i.e. to work for profit. As a result, corporate NPOs have two types of financial resources: financial resources received free of charge and financial resources received on the basis of paid relations or income-generating activities. Corporate NPOs can also engage in income-generating activity if it is not prohibited by the law and if this activity does not contradict the statutory activity of the company. Such activity is not limited to the premises renting, as it was in the 90s of the twentieth century. Corporate NPOs can establish various companies, including joint-stock companies to actively engage in operations with securities, including shares, in buying and selling rights (both property and non-property), in buying and selling goods of own production (Kiseleva, 2016). For example, the condition for sponsorship provision by VTB Bank was the purchase of 74.99% of the Dynamo football club shares by the WSFO Dynamo from the bank. Traditionally, corporate NPOs receive revenues from the ticket sale to various events, exhibitions, concerts, literature performances, consulting services, conference organization, etc. Being involved in income-generating activities, corporate NPOs must act according to the rules of the market: estimate the competitive advantages of the chosen activity, the composition and significance of competitors in the market, focus on the needs and preferences of future consumers, estimate the risks that it will face in real and financial markets, take into account pricing features in the market, calculate the tax burden on which they fall and its compensation by various tax and financial benefits, keep financial report according to the rules of commercial organizations (Strydom, 2014). In addition to the real costs that are objectively related to entrepreneurial activity, it is necessary to evaluate transaction costs. Paradoxically, but the search for "free" financial resources forces corporate NPOs to engage in "market" activities -

advertising and marketing. It is possible to force donors to part with their money voluntarily only if NPOs convince them of social expediency of such an act. Corporate NPOs should know who can give money and what motivation should be, etc., they should be constantly in search, form their positive image for potential donors. Nowadays many corporate NPOs do it more intuitively than professionally. And the result of attracting financial resources turns out to be either insignificant or requires a lot of material, labor and informational costs.

Modern financial technologies allow corporate NPOs to search for “free” financial resources quickly and efficiently, to declare themselves to sponsors, donors, investors, and to receive information about their financial situation (Cvetkova & Belyaev, 2016). Creating their own websites, posting information about themselves on the fund raisers sites, receiving instant information about upcoming contests, tenders, grants - all these create conditions for improving the financial base of corporate NPOs, but do not bring any fundamental changes in the types of funds received by corporate NPOs.

7. Conclusion

Modern economy generates certain "hybrid forms" of companies that have features of both commercial and non-profit organizations, corporate and non-corporate legal entities. First of all, it is applied to corporate NPOs.

Corporate NPOs have the features of corporations, since they form their property on the basis of share participation, as well as a joint-stock company, LLC or production cooperatives, and they organize their management similar to corporations. Their financial base is based on accumulating membership fees. It is their main difference from other NPOs.

Firstly, corporate NPOs remain non-profit organizations. Their activities are dedicated to the production of public goods; they do not intend to make a profit. Their financial base is formed on monetary resources received on terms of gratuitousness and irrevocability. Many corporate NPOs exist on donations and budget subsidies, private and state (municipal) grants.

They become similar to commercial organizations via income-generating activities, as in this case their activity is aimed at making a profit. Sponsorship fees are traditionally considered to be gratuitous revenues for corporate NPOs, but in practice, the sale of sponsorship packages is related to income-generating activities.

Thus, corporate NPOs reveal the features of NPOs, commercial organizations and a special type of commercial organization corporation in the mechanism of the formation of financial resources.

References

- Cvetkova, G., & Belyaev, I. (2016). Evolution of fundraising technology. *Economics and business: theory and practice*, 2, 135-138. URL: <https://cyberleninka.ru/article/v/evolyutsiya-tehnologiy-fandrayzinga>.
- Dubrova, M. (2016). Ensuring openness and transparency in financial management of non-profit non-governmental organizations. *Financial life*, 1, 65-69.
- Grishchenko, A. (2016). *Tax regulation of non-profit organizations. Monograph*. Moscow: Finpress.
- Grishchenko, YU. (2017). Socially oriented non-profit organization as a performer of socially useful services. *Non-profit organizations in Russia*, 5, 46-56.

- Guz, N.A. (2015). Government funding of non-profit organizations: foreign experience. In I. Ishina (Ed.), *Theory and practice of finance non-profit organizations* (pp. 59-77). Moscow: Ekonomicheskaya gazeta.
- Kiseleva, T. (2016). Analysis of the formation and use of financial resources of non-profit organizations in modern conditions. *Financial analytics: problems and solutions*, 2 (284), 43-55.
- Markina, E. (2014). The development of the financial mechanism of the functioning budget organizations. *Bulletin of the University of Finance*, 4, 23-32.
- McCarthy, J., Shelmon, N., & Mattie J (2012). *Financial and Accounting Guide for Not-for-Profit Organizations*. Hoboken, N.J.: John Wiley & Sons, Inc.
- McLaughlin, T.A. (2016). *Streetsmart Financial Basics for Nonprofit Managers*. Hoboken, N.J.: John Wiley & Sons, Inc
- Mersiyanova, I. (2013). The impact of funding for Russian NPOs on their work and economic status. *Civil society in Russia and abroad*, 3, 25-31.
- Poister, T., Aristigueta, M., & Hall, J. (2014). *Managing and measuring performance in public and nonprofit organizations: an integrated approach*. Hoboken, N.J.: John Wiley & Sons, Inc
- Smith, D., Stebbins, R., & Grotz, J. (2016) Typologies of associations and volunteering. In D. H. Smith, R. A. Stebbins, J. Grotz. (Eds.) *The Palgrave Handbook of Volunteering, Civic Participation, and Nonprofit Associations* (pp.90-125). London: Palgrave Macmillan.
- Strydom, B. (2014). Financial Management in Non-Profit Organisations. *Mediterranean Journal of Social Sciences*, 5(15), 55-56. <https://dx.doi.org/10.5901/mjss.2014.v5n15p55>.
- Weikart, L., Chen, G., & Sermier, E. (2013) *Budgeting and financial management for nonprofit organizations: using money to drive mission success*. London: SAGE Publications.
- Zietlow, J., Hankin, J., & Seidner A. (2018). *Financial management for nonprofit organizations: policies and practices*. Hoboken, N.J.: John Wiley & Sons, Inc.