

# **The Importance of Non-Profit Organization in Globalized World: International Comparison of American and European Continent**

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# Abstract

Paper main aim is the highlighted the importance of non-profit sector under the conditions of globalization with the emphasis on the international comparison of American and European point of view.

Grant No. 1/0544/19 Formation of the methodological platform to measure and assess the effectiveness and financial status of non-profit organizations in the Slovak Republic.

# Introduction

- ▶ In developed countries, we see a significant increase in the importance of non-profit organizations thanks to public initiative. The primary objective is to improve the quality of life in society.
- ▶ Cooperation between private, public and non-profit sectors creates synergy effects. Non-profit organizations are active mainly in social care and education.
- ▶ Moreover, in the US, the education costs are relatively high.
- ▶ The boom of non-profit organizations is influenced by the external environment in the form of development agencies and state support.
- ▶ Nowadays, many businesses are aware not only of economic roles but also of moral responsibility. These attributes affect business goodwill.

# Methodology

- ▶ The origin of non-profit organizations is explained by many economic theories, namely *theory of governmental and market failures (theory of public goods)*, *contract failure theory*, *welfare state theory*, *interdependence theory* and *social origins theory*.
- ▶ *Theory of governmental and market failures (theory of public goods)* is based on the theory of heterogeneity (supply side theory), which is related to the market failure theory and government failure theory in the provision of public services.
- ▶ *Contract failure theory* according to this theory, the consumer does not have much information for assessment of the quality and availability of goods and services.
- ▶ *Welfare state theory* assumes that the importance of non-profit organizations will diminish in the future due to the improvement of the market mechanism and the strengthening of the state's responsibility
- ▶ *Interdependence theory* the non-profit public sector and the non-profit private sector are interdependent.
- ▶ *Social origins theory* is considered significant because researchers compared the non-profit sector in various countries.

# Results

- ▶ *United States of America.* In 2013, the total income of US non-profit organizations reached more than 2.26 billion USD and the total assets amounted to more than 5.17 billion USD. Most of non-profit organizations consist of public charities with more than 30 types of non-profit organizations exempt from income tax. Public charities are made up of artistic, cultural, humanitarian, educational, health organizations and organizations to protect human services. Specifically, in 2013, public charities represented more than 950,000 organizations, representing 67.5% of non-profit organizations. The number of registered public charities grew faster than other non-profit organizations, while private foundations declining by 8.3%. Most of public charity revenue is generated by fees for services and goods from private sources, which is almost 47.5%. Another significant revenue is government revenue (24.5%). Furthermore, private charitable donations account for 13.3% of total revenues and state subsidies represent 8%.

# Results

- ▶ *Canada*. National Survey of Nonprofit and Voluntary Organizations (2005) states that in 2003, approximately 161,000 Canadian non-profit and voluntary organizations have employed more than 2 million workers. In addition, more than 19 million volunteers. Interestingly, many non-profit organizations rely heavily on volunteers. It is confirmed by the fact that 54% of non-profit organizations do not employ any paid employee. [14] Imagine Canada (2017) indicates Canada's non-profit sector is the second largest in the world, on the first place is Netherlands. There are approximately 170,000 Canadian non-profit organizations where volunteers represent a significant group of workers. In addition, the Canadian non-profit sector contributes 8.1% to GDP, representing a larger share than the automotive or manufacturing industry.

# Results

- ▶ *United Kingdom.* Association of Charitable Foundations (ACF) brings together more than 300 foundations and charitable funds in connection with grants. Pharoah, Jenkins, Goddard and Walker (2016) claim in the publication "Foundation Giving Trends 2016" that independent charitable foundations provide an effective, transparent and yet deliberate way of irreversible transformation of private wealth into a publicly beneficial character. Many foundations help volunteer sector, but foundations are not limited to funding registered charities, social enterprises, universities, individuals and public and private sector bodies. They estimate that funding through charitable foundations accounts for 15% of the total revenues. Interestingly, in 2015, the total was down to 17.8 billion GBP from 19 billion GBP in previous year. This decline is probably associated with a decline in public confidence in non-profit organizations.

# Results

- ▶ *Czech Republic.* Neziskovsky.cz (2017) states that non-profit organizations are non-profit-making organizations for redistribution between owners, trustees or founders. It means that profit is used to develop the organization and fulfil the mission of non-profit organization. Since the beginning of 2014, the recodification of private law regulating non-profit organizations has entered into force in the Czech Republic. Later, the name of the civic associations was changed to the societies. Furthermore, foundations and endowment funds concentrate on collecting assets for given purpose.



# Discussion and Conclusion

- ▶ The origin of non-profit organizations is explained by various economic theories, such as government and market failures theory, information asymmetry theory, welfare state theory, interdependence theory and sector coexistence model. In our opinion, the theory of government and market failures best explains the origin of the non-profit sector.
- ▶ As has been mentioned, the number of non-profit organizations is constantly rising in several developed countries. For the primary reason, we consider the inability of market players and government institutions to respond flexibly to public demands. This is confirmed by the fact that non-profit organizations occur mainly in neglected areas such as health, education, environmental protection, etc. On the other hand, we do not agree with the ideas of the welfare state theory, according to which the number of non-profit organizations will decrease with strengthening the responsibility of states. The reason is that many state institutions rely solely on non-profit organizations and ultimately replace the state in fulfilling their elementary obligations.