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## **The methods of raising philanthropic funds in the management of non-governmental organization; determinants**

### **1. Introduction**

Non-governmental organizations are different from the entities representing public and commercial sectors. Regarding their specificity it is worth noticing, among others, the differences in terms of: objectives, orientation, motivation to act, ways to raise resources. A significant feature of the discussed organizations is their management system, which is characterized by duality. On the one hand it is oriented to inputs, that is obtaining indispensable resources to function from the environment, and on the other – outputs, products in the form of services and transferred support. The organizations in study are in fact institutions intermediating between donors and beneficiaries. They acquire and process private resources to achieve public goals. Their ability to persevere and develop depends on efficiency in obtaining financial, material and human resources (members and volunteers). The economic dimension becomes very crucial for the sustainability of the discussed organizations. The results of the studies conducted in 2010 showed that for

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62% of Polish foundations and associations the material resources become the most important problem (Herbst, Przewłocka 2011, p. 147). Also in the area of training needs, the organizations pointed out the priorities of education about fundraising (57%) and the finances of the organization as well (25%) (Herbst, Przewłocka 2011, p. 152). The resources of these organizations can come from three main reservoirs:

- public (government, local government, the EU, semi EU),
- philanthropic (collections, charities, 1%, donations from business enterprises),
- generated independently with self-financing (e.g. income from business activity, profit activity, sales of rights and licenses, member fees).

The diversification of sources for obtaining financial resources is significant for the management of a non-governmental organization. It becomes the basis of its stability and also independence with respect to the environment. It is also necessary to bear in mind that in the assumption of the conception of resources dependence, obtaining funds from certain sources results in particular structural and process effects. As it has been shown, by, among others, Karen Froelich (1999), it is the result of the fact that donors, representing various sectors, impose organizations the standards of action preferred by them. It is also necessary to add that the studied organizations appreciate certain parameters related to obtaining financial resources from particular reservoirs: size (the amount of money that is possible to raise), flexibility (the level at which the organizations can independently dispose of the obtained financial resources and determine the goals they will be spent on), bureaucratic occupancy (the level of formal regulations concerning the ways of obtaining and accounting for funds). The real availability of resources coming from particular sources is also of great importance. Last but not least, using different financing sources by the third sector organizations can be conditioned by both economic and non-economic functions. The organizations raise financial resources to increase revenues for their budget, but the readiness of absorption of funds from certain sources can result from non-economic motivation as well. For example, running a business activity can be due to statutory objectives, the implementation of a socializing function for the recipients of services, etc. Therefore – non-governmental organizations should consciously and systematically approach the issues associated with obtaining financial resources for their business from different sources.

The paper aims to answer the following questions: how common is to acquire financial resources by non-governmental organizations from philanthropic sources? What are the determinants of these processes? What is the specificity

of 1% donation and the benefits for non-governmental organization? In order to answer such posed questions the authors used the analysis of the subject literature as well as the analysis of secondary data and the results of own research.

## **2. The prevalence of raising philanthropic resources by Polish non-governmental organizations**

Non-governmental organizations can obtain financial resources for their operation from three main sources. One of them is a philanthropic source, which is supported by private, both physical and legal, donors. The organizations can be supplied by, among others, the resources from public collections, charity actions, so called 1%, donations provided by enterprises. As the studies show, the philanthropic resources are the least important part of the income of the entire third sector in Poland. In 2009, they form a total of about 15% of the whole revenues of foundations and associations (Herbst. Przewłocka, 2011, p. 91). In 2011, the analyzed organizations obtained the biggest amount of money from public sources, among of which: 19% of resources came from local government administration, 18% - from central administration, 12% - from the European Union. Public funds were also the most frequently used source of financial supply of non-profit entities. Supporting the organizations by public administration is of great importance for the stability of their operations. It can, however, involve certain risks, e.g. nationalization, therefore, pessimism raises that in 2011 only 30% of organizations used donations from institutions and enterprises, 29% - donations from individuals, 17% - resources from 1% (Przewłocka 2013, p. 9). It is worth noticing that philanthropic resources, in the absence of the organization readiness to self-finance, should become an important addition to budgets constructed with donated resources. The organizations using these resources have great autonomy in spending, not restricted by formalized regulations.

The availability of resources from philanthropic sources is substantially determined by external factors: economic, cultural, legal. The results of conducted research showed that in 2010 only slightly more than half (54%) Poles gave money or material gifts for non-governmental organizations or social initiatives (Przewłocka 2011, p. 30). Moreover, the specificity of Polish philanthropy has its one-time and action character. The problem is also how philanthropy is socially perceived. In 2011, the Homo Domini Research Institute, on behalf of the Foundation for Poland, conducted the analysis of

attitudes of the richest Poles (Filantropia w Polsce 2011, pp. 15-16). The results proved that in these people's opinions the problems are as follows: negative social perception of philanthropists and also suspicion expressed towards donors and the source of their wealth. The interviewees pointed to the limitations connected with unfavourable legal - fiscal regulations, fears of too much publicity, or supporting initiatives, which are negatively associated (with poverty, violence, etc. ). The presented barriers become an important inhibitor of the development of philanthropy, but it is not acceptable to ignore the restrictions caused by non-government organizations themselves, which have difficulties meeting professional standards related to applying for philanthropic resources and managing them. Let us look closer at determinants associated with obtaining and managing philanthropic resources by Polish non-government organizations.

### **2.1. The determinants of obtaining philanthropic resources from individuals and enterprises**

Non-governmental organizations, obtaining philanthropic funds, in the vast majority treat it as a supplement for their budgets, which are constructed with contributions from other reservoirs. In 2009, donations from individuals were the main financing source for 6% of Polish third sector organizations, donations from institutions and enterprises - for 5%, and revenues from 1% of tax - from 4% (Herbst, Przewłocka 2011). Despite the fact that donations were benefitted by one third of the analyzed organizations, the income from it did not usually exceed 10 thousand zloty per year.

Philanthropic resources have for the majority of the analyzed entities a supplementary character. Their advantage is relative flexibility, particularly in comparison to subsidies. The organizations have the ability to decide independently about the allocation of revenues from donations, although some donors, especially enterprises, conclude contracts with organizations, which strictly regulate the manner and purpose of spending the money. Non-profit entities, which operate mainly on the basis of subsidy resources, treat donations as funds that allow stabilizing the organization activity. The majority of the third sector organizations would find it difficult to run the activity only on the basis of income from donations, due to their limited amount. It is possible to formulate a thesis that the entities operating solely on the basis of the revenues from philanthropic resources act in limited

space and have no chances to develop dynamically due to the scarcity of these resources<sup>1</sup>.

The conducted analyses proved the limited potential availability of resources from donations caused by low social commitment of both individual donors and enterprises. Using the support of individual donors by the analyzed organizations often takes the form of occasional small payments made by the people familiar for the organization. Obtaining donations in this form is of a negative nature and does not guarantee the acquisition of high income. The chance would be to appeal to a wider range of donors, however, the organization of public collections and charity actions requires increasing some time and financial resources, and also meeting certain formal requirements defined by law. Large and recognizable companies with strong potential can afford it.

An essential potential source of donations are commercial enterprises. However, the demand of the third sector organizations is disproportionately higher comparing with the capabilities of enterprises, which decide to support social activity. The problem of obtaining resources from donations of enterprises is not only the consequence of limited potential availability, but also the result of low real availability, resulting from the restricted potential of the organization. The „attitude of begging” and placing oneself in the role of an applicant does not help the analyzed organizations establish, satisfactory for both sides, cooperation with companies. A significant barrier is, therefore, the limited capacity of the discussed organizations to build partner relationships with the business sector.

It happens that non-governmental organizations do not have much to offer to entrepreneurs in exchange for their material support. It is due in part to the low attractiveness of the organizations themselves – lack of a recognizable brand as well as the areas they deal with. The problem is also a lack of personnel with the ability to use the tools of modern fundraising. It was confirmed, among others, by the studies of the standards of finance management in non-governmental organizations (Badanie standardów... 2013). They proved that the management staff of the third sector is characterized by a deficit of necessary knowledge and experience within finance management, with a lack of awareness of this fact at the same time.

The identified problems appear to be very bright when comparing the activity of the vast part of non-governmental organizations with the approach and

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1 There are large organizations with a recognizable brand that have a big real ability to obtain donations, for which philanthropic revenues become the basis of budgets. An example is GOCC Foundation. It is more difficult, however, for such examples at regional and local levels.

methodology of obtaining donations by large and professionally managed foundations and associations. The activity of the latter takes a professional, „market” form. It is strategic and planned. Money (material gifts as well) obtained from charity is to stabilize the organization and has a defined purpose – as flexible resources serve certain goals. The method they approach raising philanthropic funds is consistent with their wider vision of activity. Such an approach is related to a clear perception of relationships with both, individual donors and entrepreneurs. Building partner relationships with the business sector is based on a mutual exchange of benefits. It is similar to a market-oriented system. The organizations examine needs as well as the satisfaction of their „customers” (donors). It takes place during direct interactions which help create satisfaction from „services” provided to donors, and as a consequence – create lasting relationships with them. Let us add that an essential element of a professional approach to the cooperation with donors from the business sector is to form in the organizational structure a position of a fundraiser and to appoint an employee responsible for maintaining ongoing contacts with entrepreneurs. The success of building partner relationships with the business sector requires: professional staff prepared to manage non-profit entities, with qualifications to run fundraising; recognizable brand, which exists on the third sector „market”; business profile, which includes socially sensitive areas (the organization that deals with social problems finds it easier to have proper social repercussions).

In conclusion, it is possible to point to some elements, which build a professional market-oriented approach to raising funds from donations. It can be defined as proactive, in contrast to a reactive approach. The comparison of characteristics of both approaches is presented in table 1.

**Table 1. Proactive and reactive approach to raising donations from commercial enterprises.**

Approach to obtaining donations from enterprises	Proactive, „market-oriented”	Reactive
Orientation	Strategic	Operational
General function of donations	Stabilizing the budget, establishing a reserve	Used at hoc, for current needs
Time of relationship lasting	Long-time relationships with donors	Occasional, short-time relationships with donors

Form of relationship	Partnership	Clientelism
Nature of exchange	Mutual exchange	One-side reception
Studying donors' needs	The analysis of the donor's needs and the survey of their satisfaction	Lack of the analysis of donor's needs and satisfaction
Organizational structure	Designated position of a fundraiser	No designated position of a fundraiser

**Source:** own study based on own research

It seems that among a certain part of Polish non-governmental organizations there are no or there are just some elements of proactive fundraising as well as there is no awareness of the need for a strategic approach to obtaining resources from donations and creating an overall conception of building relationships with donors. The managerial staff and personnel of the analyzed organizations lack adequate competencies to shape efficiently and satisfactorily for both sides relationships with entrepreneurs. Indirectly, it is confirmed by the studies that proved a low level of knowledge of the managers of non-governmental organizations within finance management (with high self-esteem at the same time) (Badanie standardów... 2012). Therefore, an important role to play is attributed to the institutions that support the third sector organizations, which provide them with modern patterns of action. Institutional support is extremely significant in enhancing the process of organizational learning, but also in overcoming mentality barriers of the third sector representatives.

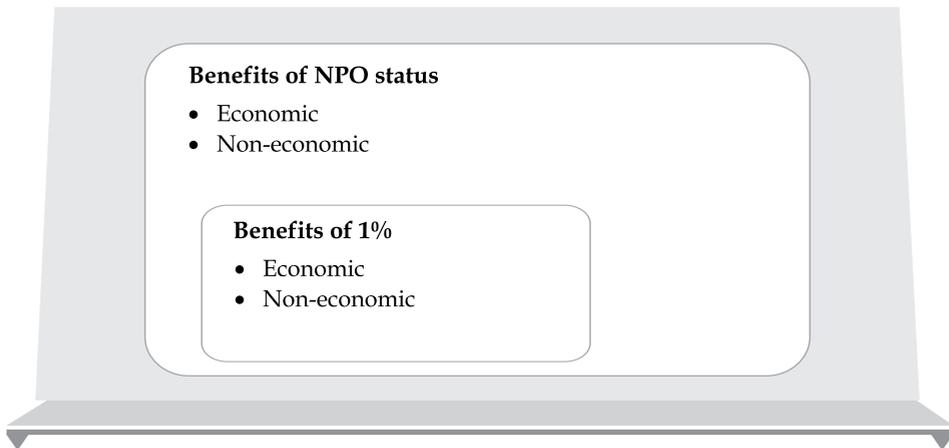
## **2.2. The specificity of „1% donation” and benefits of its use by non-governmental organizations**

An increasingly important source of donations for Polish third sector organizations are the resources from 1% PIT. It is necessary to note that the changes of regulations concerning the method of transferring 1% (the transfer of funds directly by Inland Revenues) increased the potential availability, which also resulted in, as the studied organizations emphasized, the real availability. The information of the Ministry of Finance proves that in 2003, 80.320 of taxpayers provided to NPO the amount of 10.365.000 zł from the write-off of 1% of income tax ([http://www.archbip.mf.gov.pl/bip/\\_files\\_/podatki/statystyki](http://www.archbip.mf.gov.pl/bip/_files_/podatki/statystyki)).

The significant growth of revenues from 1% caused that non-governmental organization started to treat these funds as an alternative for traditional philanthropy.

The specificity of 1% donation results from two basic reasons. Firstly, it can be applied for only by selected third sector organizations, which have a status of non-profit organization (NPO). Secondly, the people giving donations do not transfer additional resources, but only these ones that would be taken by the state anyway (in fact funds are transferred by the state, the citizen just decides: whether and who they should be provided to). Organizations, in order to apply for 1% donation should become NPO and fulfil some administrative requirements, which are the part of bureaucratic occupancy. The third sector organizations treat it in terms of costs, which need to be incurred. As profits, the organizations can include not only additional financial revenues, in the form of 1%, but also, among others, exemptions from taxes and fees as well as non-economic benefits (e.g. NPO status can increase social legitimacy). It is thus possible to distinguish benefits due to NPO status and separately benefits resulting from fundraising of 1% (figure 1).

An important features of 1% funds is their flexibility. It is particularly significant for organizations operating as project, constructing their budgets mainly on the basis of donations. Flexible resources from 1% allow for compensating shortages



**Figure 1. Types of benefits due to NPO status of the third sector organizations**

Source: own study based on own research

resulting from the disposal of money, e.g. from donations. This money, altogether with other donations, can create internal funds, which stabilize the activities of these organizations.

The acquisition of 1% can also have non-economic functions, e.g. creating closer links with donors, building responsibility for local good, etc.

As already mentioned, when the third sector organization wants to apply for funds from 1%, it has to have a NPO status and fulfil legal requirements. A part of Polish non-government organizations, which can apply for the privilege of being NPO, resigns from it, as they claim that financial benefits from 1% do not exceed costs in the form of the necessity to obey bureaucratic rules. It is typical of the organizations that have low real capacity to obtain donations from 1% and do not have any chances to mobilize from this source the funds with appropriate amount. Non-profit entities, in order to be able to obtain the revenues from 1% of significant amount, have to formulate a request for support directed to a wider audience. The foundation to mobilize 1% is the use of informal relation networks, based on using whispered advertising. It allows, however, for small revenues. The guarantee to obtain bigger revenues is to promote „the offer” outside personal friends, which is not always easy for the organization, as it requires incurring some expenses, e.g. for advertising. It is easier for large organizations, recognizable, having access to media, being able to involve well-known persons of public life, and also for those ones, which get engaged in socially sensitive activity. Non-profit entities, which run less „spectacular” activity, are forced to undertake various promotional actions, aiming at convincing potential donors to transfer funds from 1%. The use of marketing instruments is the basis of success in raising funds from the analyzed source. The organizations with NPO status use different instruments for promotion – radio, press, print advertising, banners, actions for filling PITs, various forms of public relations, etc.

The organizations also take steps aiming at establishing a more permanent bond between donors and organizations, e.g. by sending acknowledgements for donations. The representatives of non-governmental organizations criticized the change of regulations concerning the transfer of 1%, which included a direct transfer of resources from Inland Revenues to NPO. It caused that the organizations did not have the information on donors (the protection of personal data), which made it impossible to build lasting relationships with them. The undertaken lobbying campaign brought a positive effect in the form of the improvement of legal regulations facilitating the activities of NPO entities.

### 3. Conclusions

A distinctive feature of non-governmental organizations is the fact that using the social work of volunteers, they can exist and operate without incurring high costs of their activities. Nevertheless, without a proper amount of financial resources, they do not have opportunities to develop, stabilize and realize effectively statutory goals. The analyzed entities can obtain funds from three main sources, each of which has its specificity and is related to certain possibilities and restrictions. Therefore, from the perspective of the discussed organizations, the diversification of the funds' sources seems to be necessary.

In the case of Polish non-governmental organizations, the main reservoir for support are public resources, and their use is connected with the increasing control of activities by state institutions, formalization and bureaucratization. The way to deal with this state of affairs can be the development of other forms of raising financial resources, which give greater freedom of use: business activity (that is related to bigger risk and can be wrongly perceived by donors), paid activity. Non-governmental organizations can also reach for philanthropic support. However, they face in this regard barriers associated with external factors (relatively low availability of these resources), but also with their limitations, such as: human capital deficit, insufficient experience of the managerial staff in managing the organization, little cultural competences that are reflected in reluctance to change. The analyzed organizations have difficulties in building lasting relationships with the business sector, resulting from inability to use modern tools of fundraising. In addition, they lack necessary funds to conduct media promotional campaigns. These problems affect in particular the organizations operating at a local level, therefore, they especially need external essential support.

### Summary

#### **The methods of raising philanthropic funds in the management of non-governmental organization; determinants**

The article discusses the issues of obtaining financial resources by Polish non-governmental organizations, with particular emphasis on the philanthropic funds. The prevalence of the use of philanthropic resources by the analyzed entities was presented, as well as the determinants related to this process.

**Key words:** *non-governmental organization, non-profit organization, philanthropy, fundraising.*

### Streszczenie

#### **Sposoby pozyskiwanie środków filantropijnych w zarządzaniu organizacją pozarządową; uwarunkowania**

W artykule omówiono zagadnienie pozyskiwania środków finansowych przez polskie organizacje pozarządowe, ze szczególnym uwzględnieniem zasobów o charakterze filantropijnym. Przedstawiono powszechność wykorzystania środków filantropijnych przez omawiane podmioty, jak również wskazano na uwarunkowania związane z tym procesem.

### Słowa

**kluczowe:** *organizacja pozarządowa, organizacja non profit, filantropia, fundraising.*

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