

## **CORPORATE SOCIAL RESPONSIBILITY AND THE NONPROFIT SECTOR - AN UNETHICAL MARKETING STRATEGY OR GENUINE CONCERN?**

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### ***ABSTRACT***

*In the transition of political society that we all witness today, an important place is given to civil society, which exists when individuals and groups are free to form organizations that operate independently from the state and citizens. Civil society is the venue for the citizens and alternative groups and organizations (interest groups, NGOs, new social movements) through which citizens put pressure on government agencies to fight for more freedom and autonomy. The provision of sufficient funds, grants, donations, scholarships for activists and users is crucial to the survival of every non-profit organization. Citizens' associations play a special role in societies-in-transition in Central and Eastern Europe, as indeed in all countries, because they act in areas where the government has withdrawn, supplementing an inadequate civil service in helping to improve social and environmental damage. They shore up the gaps in government regulation, and they contribute to the democratization process. They help people in need, they address social problems, and provide a way to organize many groups of citizens. While civil associations perform a wide range of programs that fall into different categories, foundations and corporate donors provide capital for social ventures that support the association's activities. The work raises directly the question of whether for companies of today, Corporate Social Responsibility represents a cleverly designed unethical marketing strategy or genuine concern on the part of the donor.*

Keywords: Corporate Social Responsibility, marketing strategy, civil society, funding

### **NONPROFIT SECTOR**

#### **Basic characteristics and operation of nonprofit sector**

All organizations that are active in society can be divided into government organizations (public sector) and non-governmental organizations (private sector). Non Governmental organizations, founded by the citizens based on their individual initiative, are the civil society organizations. All non-government organizations are shared to the profit (commercial) and non-profit. Profit organizations are those whose aim is making profits and expansion of existing capital (e.g., privately owned enterprises). Unlike them, are non-profit organizations that do not generate profits, or if they make it, they do not re-invest it in a capital increase, but in various other charities and human targets (organizations and associations) (Pannović, 2007). Non-profit organizations are not aimed at increasing equity, even when they realize a profit. The profits are mainly used for their organizations. Nonprofit organizations may be established, in addition to citizens, by a government, so we share the

government (public) and non-governmental (private) non-profit organization. When we talk about society organizations, it is always talking about this second type of non-profit organizations - NGOs. Nongovernmental, nonprofit organizations are autonomous and independent organizations founded by a group of citizens with different motives, interests, goals and needs. These are all non-governmental organizations (that do not belong to the state), even though the state has organizations that deals with similar problems, but with the help of the state apparatus (the control and funding of their activities). Nongovernmental organizations operate differently from the governmental. The essence of their activities makes connecting individuals without the intervention or control by the state in order to achieve some common goal or preferences. They have a legal personality (they are institutionalized), are separated from the government, non-profit, non-commercial and non-political character, based on voluntary work and investment funds.

They emerge as a kind of alternative to solving many problems in various fields of human activity, which fails to resolve or does not resolve satisfactorily the existing state's institutions and organizations. Nongovernmental, nonprofit organizations can be divided into organizations that serve all members of society and those that serve only to members of certain social groups. Organizations that serve all members of society (public service organizations) for example are the following foundations, humanitarian and charitable organizations, advisory organizations, social service provision. Organizations that serve members of specific groups of the various professional and technical associations, clubs, interest groups, political parties, associations. The effect of these organizations can be independently or jointly with other organization, when creating the network of these organizations. Higher forms of association in which they might act as the coordination of the organization, unions, movements. Only with the development and the creation of such a mesh action of many organizations, groups and individuals, there is a civil society.

Dilemmas of the size and structure of the third sector beginning with the problem of the definition of this sector for analytical purposes. Although the authors generally agree that there is a whole complex of institutions outside the state, market and family, the exact nature and contours of this sector is difficult to determine, even in countries with a longer tradition of voluntarism and larger following of the importance and role of the voluntary sector. The main problem comes from defining the absence of systematic evidence on the size, distribution, financial basis and the role of the Organization on the national level, and compliance of the international defining criteria. Only as a result of a competitive research sector leads to relatively uniform definitions relevant to the research sector in different societies. Namely, for organizations to be considered nonprofit, according to the definition of Salamon and Anheirera<sup>1</sup> must meet the following conditions (*Salamon and Anheier, 1994*):

- They must have at least somewhat formal, that is. institutionalized structure, which means that the informal and temporary groups are not part of the

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<sup>1</sup> This is a comparative project of the nonprofit sector in aggregate Institute for Policy Studies at Johns Hopkins University, Baltimore, USA. In making these studies, since 1990. were involved in a number of countries: USA, UK, France, Italy, Germany, Japan, Hungary and some of the underdeveloped countries. The aim was to analyze the scope, structure, financing and the role of the nonprofit sector in different countries.

collected non-profit sector, otherwise, the concept of a non-profit sector would be amorphous and ephemeral.

- They must be institutionally separate from the state and cannot be a part of the government, although they may have a significant assistance from the state.
- They need to realize a non-profit distribution of funds, or that their most important function is not making a profit, which means that if accumulated profits, that the funds are not to be distributed as profits, but returning to the primary mission of the organization.
- They must be self aware in its internal capacity - of control and management.
- They cannot be commercial.
- They cannot be primarily political, which means that they cannot promote functions of political parties and candidates, are not primarily engaged in supporting candidates in elections, although they may be engaged in political activities.
- This involves voluntary participation of citizens and the presence of voluntary efforts and that does not mean that all volunteers are from the organization, or that the total income comes from voluntary funding.

Most non-profit organizations engaged in providing services and profits as a goal does not dominate them, but its goals are to meet the broader needs of man and society. Nonprofit organizations exist to make them available to all citizens (e.g. charities), or only to members (clubs and societies). Any surplus income over expenditure nonprofit organizations retain and reinvest in their future development within a defined mission (*Masžić, 2008*).

### **The role and importance of nonprofit organizations**

Citizens' associations play a special role in societies in transition of Central and Eastern Europe and the Newly Independent States, as is in all countries, so they step in where the government withdrew, as supplement inadequate civil services, which helps to improve social and environmental damage of inadequate government regulations, and they contribute to the democratization process. They help people in need, they help with social problems, and they make way to help many groups of citizens have their voice heard. While civic associations perform a wide range of programs that fall into different categories, foundations and corporate donors provide capital for social ventures, which support activities of the organization or society<sup>2</sup>. Organization of funders that can help to identify and promote sustainable solutions is of equal importance the owners or managers of public organizations, but instead they become a suitable partner to the creation of such organizations (*Seal, 2000*). This will only be conditional funding to enable NGOs to equitably compete with public institutions to create programs and projects, which are publicly funded.

The development of today's modern society has brought a host of new problems and crises in which a modern state cannot respond adequately. Hence the increasing need of citizens to organize themselves and to help themselves, and because of the enormous growth of NGOs in the world speaks of a kind „a

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<sup>2</sup> Although some foundations and corporate donors implement programs by themselves

socialistic revolution.” The reasons for this rapid growth of new forms of citizens, relatively or completely independent from the state, are the manifold, and usually are associated with the crisis of the state’s welfare, the crisis of social development, environmental crisis and the crisis of modern families (Paunović, 2007).

## **CORPORATE SOCIAL RESPONSIBILITY AND FINANCING OF NON-PROFIT ORGANIZATION**

### **Sources of funding non-profit organization**

As a complement to organized non-state funders, associations are funded through individual donors, for economic activity is either passive, as in investment income or rental, or active, such as for-profit companies), and through government grants and subventions (Seal, 2000). Many foundations give grants. Grants are different types of assistance (aid) that is through grants, tax exemptions, incentive loans, machinery and equipment, promotional activities, consulting services, etc., Approved users, based on criteria defined by the institution (the donor) that awarded a grant. Grants are primarily intended for businesses, NGOs, local governments, colleges and schools, municipalities, hospitals, community centers, civic associations and any other institutions or companies and individuals who need an extra source of funding and that the advertiser grant (donor) in the competition itself, noted as potential beneficiaries in the respective grant.

Fundraising is a marketing problem. Specifically, the financial manager is trying to attract cash from various sources to fund various types of assets. Behind these sources are the concrete financiers with different assets, interest and taxes. The function of raising funds is reduced to attract financiers (investors and creditors) to invest or borrow funds in the free enterprise (organization) to ensure sufficient funds (Đuričin et al., 2009). Conditionally speaking, marketing focuses of financial managers is their earning power (ability to generate revenues above the size of assets) and liquidity (ability to pay obligations on time).

Project financing as a way of financing projects is applied today in developed countries but is also applied developing countries, to finance capital-intensive investment projects. It points to its superiority in comparison with direct investment, and other forms of investment, and makes it an attractive form of funding for future projects. Project financing is a way to mobilize funds for financing industrial and infrastructural projects in various industries from both private and public sectors, to improve the quality, efficiency and effectiveness of the investment (Benković, 2008).

When it comes to fundraising for nonprofit organizations, it uses the term „Fund raising. Fund raising is a term that defines the collection of funds used to finance activities of a non-profit organization and design of the funds themselves (Osenik and Ambrož, 1999). it defines fund raising as a marketing approach to designing and raising funds. Fundraising - fund raising (Smith and Bucklin, 2000). Defined as the art and science, and art is concerned to develop and cultivate relationships with people, teaching involves the use of data, research and testing of models, to raising funds for the sole purpose of achieving goals of the organization. To ensure project success and sustainability of nonprofit organizations is a task to

collect fundings (Connors, 2001). First concern of funds collectors is to establish relationships with individuals which that in this case means collecting funds must have a purpose, i.e. identified and quantified need for the funding itself. In this way, we answer the question why the funds are collected. Fundraising and fundraising activities can be viewed as a small business which in order to successfully collect funds for nonprofit organizations have to develop a detailed business plan which must include: generating fundraising ideas, establishing a time frame, reducing start-up costs, planning, delegating tasks.

Another term that refers to the project financing of non-profit organization is a grant. Grant is a financial aspect, which is given to an organization. Grants are often called „free money” but still are not. For a grant is necessary to invest time and effort. There is no interest for a grant and these funds are not usually returnable - when conditions of the grant are fulfilled. Entrepreneurial grants / donations awarded by the government, local government, EU or other organizations that are specifically established for this purpose. Grants normally cover between 15% to 20% of funds. However, some measures (April courses) or recipients (e.g., public institutions, non-profit organizations) can get up to 75-100% of funds. Payment is often defined by a schedule of regular intervals during the project or as a collection of the delivered costs. Grants are normally awarded for specific purposes, e.g. to support exports, or to cover the cost of investment in the company and equipment, training, requalification courses, support of nonprofit organizations, associations, schools. It cannot happen, that the grants be awarded to entrepreneurs who will use them after the other ends. Thus, the grants are intended primarily for businesses, NGOs, local governments, colleges and schools, municipalities, hospitals, community centers, civic associations and any other institutions or companies and individuals who need an extra source of funding, and that they were also noted as potential beneficiaries of the respective grant, by the advertiser grant (donor ) himself. In most cases, the institution which awarded the grant is not conditional on users to give any other assistance during the year in which grants are used. It is often the case that individuals are beneficiaries of grants themselves. Most of the grants are expressed in monetary value, but there is a not so rare example in which grants are presented by either goods or services.

### **Socially responsible business and nonprofit sector**

Just as a reminder, corporate-social responsibilities as a business concept means that the companies voluntarily engage in their own business and in relationships with partners, concerns about social and environmental aspects of their activity. (Declaration of the European Union).

Socially responsible business enterprises reflect the level of development and quality of life in local, but also in the wider community, through active participation in enterprises of solving the problems for its employees, economy, energy and environmental problems at the community level. Environmental protection is one of the primary concerns of their business enterprises on the market itself. Investing in efforts to preserve the natural environment businesses can be reduced to the minimum extent of possible negative impact on the environment.

We might wonder what is the purpose of business organizations. Is it only related to maximizing profits of shareholders or that the company may have a greater responsibility to assist in solving social problems?

Many believe that companies, besides their own, meet the needs and interests of society. They have a responsibility to assist in solving problems in society. This new concept has affected the growth of society's expectations in relations to business organizations.

A new concept of social responsibility means that companies and business people need to have integrity. They have to be honest with their workers and the outside world. Successful companies are very vulnerable in the event when their integrity is brought into question. Their reactions are often severe and extensive media coverage.

Many business people agree with this broader concept of social responsibility. They agree that companies should help in solving social problems even when their company is not causing these problems.

But there are those who are against this approach. Thus, an American economist and Nobel laureate Milton Friedman believes that firms have only one responsibility and that is to „use its resources and energy in activities that aim to increase profits as long as we keep within the rules of the game ... and engage in open and free competition without deception and fraud. „Friedman argues that the social responsibility of companies is to” make as much money for their shareholders. „Another famous person from the business world has a similar attitude. Jan McGregor (Ian Macgregor), former CEO and chairman of the administrative boards of large British companies said that the first priority for companies is to create wealth. Many companies, in his opinion, have the concept of social responsibility which deters them from what is their main task.

*Drucker* (1992) states that non-profit are much more aware of the need and importance of money from businesses, and that they spend most of their time worrying about money because it is difficult to obtain and because there is always less than it should be. However, they do not base their strategy around money, and it is not the center of their plans, as a difference to business. Issues and relations with donors and sponsors are (*Bežovan*, 2004):

- The key problem in management of nonprofit organizations is in the way that donors make their decisions. „The problem with non-profit management lies in the failure of organizations to link financial assistance to the commission.”
- What sponsors and donors often support is charisma; they often confuse leadership with management.
- Donors expect a refund of everything that they have invested, and nonprofit organizations that have a clear vision are more likely to succeed. Convert to those donors who contribute to the means. They need to give more financial resources to feel like participants (*Connors*, 2001).

Therefore, the profit sector is advancing in its interests by upgrading its image in society engagement on some important social issues and expressing in this way a social responsibility. In this way, they seem like a socially responsible company that cares about its customers, and about society as a whole (*Radnović and Ilić*, 2008). Non-profitable way of entering into different forms of cooperation with for-profit

sector provides the much needed finances, creates contacts and expands its network activity and helps ensure faster and more effectively fulfillment of its mission (*Herman et al.*, 1994).

Drucker argued that nonprofit organizations play a key role in giving meaning to a modern society, however, he noted that there are signs that many NGOs are increasingly directing on their financial success rather than to serve others, among other things, just because the donors themselves are used as a socially responsible marketing strategy for marketing and positioning (*Drucker*, 1992). The prevention of unethical abuse of the concept of corporate social responsibility, leaders of companies' donors and corporate culture also plays an important role in this particular question (*Ilić and Radnović*, 2008).

### **Examples of foundations and donors**

For a comparison of how and what donors decide in an undeveloped world, we can use data from the U.S. in 1993. year: 45.3% of donations go to religion, 11.9% for education, 9.9% for humanitarian purposes, 8.6% for health, 7.6% for arts, culture, humanities, 7.6% for advocacy and public policy, 1.5% for foreign affairs and 8.4% other (*Lendova*, 2000).

Bill Gates funded *The Microsoft European Scholars Programme* in order to help the unemployed to retrain and acquire appropriate knowledge. The program was established in Belgium, Denmark, France, Germany, Italy, Ireland, Netherlands, Portugal, Spain, Switzerland and Sweden. In the first five years of service 6,000 people have been trained and it is suspected that 90% have found employment.

Nonprofit sector analysts criticize the fact that an enormous number of foundations have been funded by some progressive groups for some time. This category includes seven of the ten largest foundations in the United States, whose assets exceed 50 billion dollars: Foundation Ford, Robert Wood Johnson, Kellogg, MacArthur, Packard, Pew and Rockefeller. Biodiversity, women's issues, education, health, nuclear proliferation, civil liberties and so on. Today, the Foundation seeks specialization for each one or two of these areas. This impulse is natural, because the foundation executives gain experience, meet the recipients of its grants and learn how to measure results (*Shuman*, 1998).

*Rotary's Foundation* is a nonprofit corporation that supports the efforts of nonprofit sectors around the world in support of international understanding and peace through the international humanitarianism, educational and cultural exchange. Corporation grants are targeted primarily for educational programs that annually provide for about 1,200 users from around the world that are studying abroad. Grants are awarded to university professors, businessmen and cultural workers if their activities in the function of rapprochement between people and social justice. Substantial grants are jurist Rotary Foundation in various programs to eradicate the disease, most notably the Polio Plus program which aims to eradicate the polio in the world by the year 2000.

*Soros Foundations Network* is a network of institutions, non-profit foundations made by a known Hungarian originated American philanthropist George Soros. In the center of the network are autonomous institutions, national foundations operating in 31

countries of Central and Eastern Europe, Asia, Africa, south of Sahara, Central America and the United States. In addition to George Soros national foundations launched a range of programs and actions known as Network Programs with the center of the Open Society Institute with the coordinating focal points in New York (Open Society Institute - New York) and Budapest (Open Society Institute - Budapest). Soros Foundations Network supports diverse scientific, cultural and educational programs aimed at contributing to the construction or consolidation of civil society and democracy, and a variety of humanitarian activities and programs (preschool education, health care, etc.). For NGOs from Central and Eastern Europe, especially for newly created countries in the former Yugoslavia, the Foundation has provided and still provides significant support for the non-profit sector. National foundation for the Federal Republic of Yugoslavia, fond for the Open Society - Yugoslavia made a particularly valuable result, which has played a significant role not only in supporting the development of civil society but also the rehabilitation of numerous humanitarian and other consequences caused by the war in this region.

*Ford Foundation* is a world famous foundation which provides significant funding for grants in the areas of research and action to strengthen democratic values, reduce poverty and social inequality. It is very interesting for NGOs and research institutions around the world as it is not limited to users in the USA. They support a variety of projects of international cooperation between NGOs. This international foundation have particularly important, and innovative measures of support and resolution of long-term social, economic and political problems around the world. Their programs include community development, human rights and civil society, as well as education, media and art.

Ford Foundation was established by the Ford family in 1936 with an initial gift of \$ 25,000 from Edsel Ford, son of Henry Ford, founder of Ford Motor Company. It operated as a local charity in the State of Michigan, after that, expanded its activities in the entire state, and later worldwide. Its main activities are aimed at supporting the development, innovation, new ideas and patents to promote technology in all areas of application in industry, telecommunications to medicine and education in the broadest sense. Ford of the Ford Foundation activities sets apart their 5.8% of its annual investment portfolio. Considering that in the year of 1998. Ford invested his \$ 9.4 billion dolar portfolio which makes the Ford Foundation budget really big. Up to the year 2000. The Ford Foundation has invested in a variety of grants and loans over \$ 9 billion, financing projects with a number of nongovernmental organizations from around the world. The Foundation promotes the following:

- Contribution to world peace and the establishment of rule of law in the struggle for basic principles of freedom and democracy in solving problems and changing society for the better.
- Economic well-being of people around the world and improvement of economic institutions and mechanisms for better realization of democratic goals.
- Advance of the economic well-being of people everywhere and improvement of economic institutions for the expansion and strengthening of educational institutions as well as ways of enabling individuals to achieve their intellectual,



civic and spiritual potential and to promote greater equality of educational opportunity, and to preserve and increase the wealth of knowledge and culture.

- Increasing awareness of the factors that influence and determine human behavior, and the spread of this knowledge to maximally benefit society.

Even today, under the leadership of President Luis Ubiñas the ninth, there have been foundations dedicated to common goals. The foundation is based in New York, and provides grants to more than 50 countries, with 12 regional office support programs around the world. Over the past years users of this foundation came from the United States, Latin America, Africa and Asia, and donations are also reflected in business, government, education, law, non-profit sector and civil society, a wide range of investment and maintenance of business objectives. In two regions where the foundation has no office, there were formed partnerships with organizations whose work coincides with the interests of the foundation. (New Israel Fund and the Fund for Civil Society in Central and Eastern Europe in Sofia, Bulgaria) (<http://www.fordfound.org/>)

## CONCLUSIONS

The reasons for the introduction of corporate social responsibility are of ethical nature (moral standards), sustainability (in the case of use of measures that have economical justification - reducing energy consumption and less waste, but it gets harder for it to be justified in other cases - corruption, transparency), securing of the work permit (it is faced with issues important to the shareholders, to encourage dialogue with the public, legislators, etc.).

As a complement to organized non-state funders, associations are funded through individual donors, for economic activities either passive, as is investment income or rental of, or active, such as for-profit companies), and through government grants and subventions (*Seal, 2000*). Many foundations give grants. Grants are different types of assistance (aid) that is through grants, tax exemptions, incentive loans, machinery and equipment, promotional activities, consulting services, etc. Approved users, based on criteria defined by the institution (the donor) that awarded a grant.

Directly related to the concept of corporate social responsibility is the civil society and nonprofit sector. They provide sufficient funds, grants, donations, scholarships for activists and users, and that is one of the crucial aspects for the survival of every non-profit organization. Sources of funds for the general benefit of society have been granted to non-governmental organizations due to socially responsible companies. Although it is justified that in some cases they may be asked if it comes to altruism and social responsibility, or is purely concerned cleverly devised marketing strategies. However, the answers to this question should not be a dilemma. Access to the marketing strategy of every modern company, and every non-governmental organization, should incorporate social responsibility as one of its pillars for modern business.

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