

**THEORETICAL SUPPORTING POINTS
REGARDING THE PERFORMANCE ASSESSMENT
OF BULGARIAN NON-PROFIT ORGANIZATIONS
IN THE PROCESS OF EUROINTEGRATION**

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Roumiana Pojarevska

UNWE, Department "Accounting and analysis", Sofia, Bulgaria

Abstract. *The development of the Bulgarian non-profit organizations during the recent years, and the considerable amount of resources they mobilize, put the necessity of their performance assessment on the agenda. The study of the opportunities for assessment is motivated by the necessity also to attract and involve greater social donors – national and international. The investments the governments and private sponsors are expected to make in the organizations will depend on their social return and profitability potential. In the process of investigation of the practices of the Bulgarian non-profit organizations, it was found that such an assessment is usually not performed and, if performed, it is quite limited. Taking into account that it would be difficult to apply a single methodology to organizations of different legal status, scope of activity and purposes, we are going to try and outline the assessment guidelines relying on the achievements of the countries characterized by a developed and efficient non-profit sector. The issues relating to the performance assessment of non-profit sector are not a national phenomenon only. The dispute among experts exists in many directions: regarding the "profitability" of activity; regarding measurement of social resonance of the functioning of the sector; regarding the place and significance of financial indicators in the assessment process, but the most controversial issue is the possibility to apply traditional methods of assessment to non-profit organizations. The greater part of specialists agree in this respect that, on the macro-social level, the sector offers a model of a new organizational form where the cooperation and cohesion contribute to overcome separation between different economy sectors. The system of non-profit organizations, in their point of view, could be considered to form a part of the new public management method in which governments are more and more dependant on the organizations for solving the social problems. Thus, non-profit structures turn out to be a local development instrument and a new source of dynamics based on innovative approaches. Ideal purpose organizations could offer new services that the market economy is unable to offer or has no capacity for that. The development and expansion of the scope of activity of the "third system" is explained exactly by the inability of the public sector to meet the new requirements and to bring satisfying responses for the existing ones.*

Key Words: *ideal purpose organization, social purpose enterprise, accounting, financial report, accounting balance sheet, income statement, cash flow statement, statement of shareholder's equity, accounting policy and other explanatory notes, chart of accounts.*

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The literary sources treating the issues of performance assessment of non-profit organizations accentuate on the fundamental problem, namely the essence of "added value" generated in this sector of economy, and the aspect in which it could be analyzed and assessed – financial, social or application of a combined approach. Experts agree about one thing, and that is the fact that regardless of the variety of mobilized resources and activities they perform, the search of income (profit) appears to be a quite limited criterion. Without delving into details and any pretence to comprehensiveness, we are going to treat some conceptions aiming to present the difficulties related to performance assessment of non-profit organizations and to substantiate the necessity of using a system of indicators.

According to Xavier Greffe¹, the assessment should be made with respect to "added value"² and the innovations introduced in the sector, and he recommends making an economic interpretation of the differences from the other sectors, as well as of the socio-demographic characteristics. Investigating the nature, the scope and structure of the "third system", Xavier Greffe is trying to determine the significance of its potential for innovations both on a macroeconomic and on an organizational level. In Greffe's view, the factors affecting innovation are: the appropriate legal conditions; availability of proper financing mechanisms; supporting structures. His efforts are directed towards the method-

¹ Greffe Xavier, *Innovation, valeur ajoutée et évaluation dans le troisième système: une perspective européenne*, Services des Publications de l'OCDE, Paris, 2003

² We could not find a definition of "added value" realized by non-profit organizations in the sources of study. The term is generally used in the context of an activity's social effect.

ology of measuring the innovative effect of non-profit organization activity. One of the possibilities he suggests is to use the "similarity indicator" in order to compare the activities and the services rendered by the organizations with analogous activities and services offered by the private or public sector. The second possible, in his opinion, assessment instrument is the "productivity indicator" by means of which it will become possible to measure the innovative initiatives distribution (dispersion) capacity. "Productivity" in the context of non-profit organizations means, from his point of view, the degree of programs successfulness and services accessibility, as well as the price for them to be achieved.

Nancy Neamtan³ considers that the contribution of non-profit organizations for the economic development is undervalued and that the effect of their activity should be searched for along this direction. She makes an emphasis on the "social added value" which the "third system" contributes to the local economic development. In her opinion, the analysis should not be satisfied only with the measurement of "production" and the social standpoint but it should also include such indicators as the impact on the local development model. This is the first effort for multi-sector measurement of the effect of nonprofit organization activity. Nancy Neamtan believes that social efficiency should be evaluated regarding civil activity, individual or collective initiatives, quality of community life improvement, as well as regarding the contribution of the sector to the democratic development. Apart from the purely social indicators, she thinks that, as with any other sector of economy, social efficiency here could be measured taking into account the number of the jobs created and the employment rate. In the treatment of the questions relating to performance assessment of nonprofit organizations, Nancy Neamtan lists a number of elements that appear to be an impediment for the assessment. Among the most significant is the absence of a clear vision regarding the scope and the span of activity of non-profit organizations, as well as their legal status.

Wolfgang Bielefeld⁴, considers that the possibilities for performance assessment of non-profit organizations should be defined on the basis of the interrelation which exists between them and the other sectors of economy. He underlines that the effect of the activity of the non-profit sector could be searched both in collection and cooperation of people and in the overcoming of contemporary communities' individualism. In his point of view, the term "assessment" is problematic since it involves diverse values. From the standpoint of methodology, he assumes that it is necessary to cover and measure: the inputs⁵ (such as money and labour), the generating outputs⁶ (the volume of services performed and production supplied) and the results (change in the status of organizations or in the status of participants in the programs), as well as to give account of the most significant contribution of each of them.

³ Neamtan Nancy, Secteur a but non lucratif et evaluation: etat du dossier au Quebec, Services des Publications de l'OCDE, Paris,2003

⁴ Bielefeld Wolfgang, Evaluation de l'impact du secteur a but non lucratif: le point de vue des Etats – Unis, Services des Publications de l'OCDE, Paris,2003

⁵ les intrants (fr.); inputs (eng.)

⁶ или произвеждащи, les extrants (fr.); outputs (eng.)

Kenneth Land⁷ and P.DiMaggio⁸ adopt the thesis concerning the necessity of performance assessment of non-profit organizations taking into consideration that the effects could be looked for at the level of clients, programs, organizations, community. They consider that measurement at higher levels would be more difficult as far as grouping of the organizations is an actually existing problem arising from the specificity of their activities and from the diversity of the fields of functioning.

On the grounds of the concepts laid out herein, we think that the development of indicators for performance assessment of Bulgarian non-profit organizations and the achievement of best possible supply of information for them under the conditions of market economy should be coordinated both with the action of its rules and with the leading social drive in their functioning. In author's point of view, the research on application of "Balanced Scorecard"⁹ to the activity of non-profit organizations could unify what has been achieved so far with the effect sought. The balanced scorecards are directed towards two basic keys of management – responsibility and trust. The balanced system of financial and non-financial indicators developed by R. Kaplan and D. Norton is applicable to non-profit organizations since, in the authors' view, the need of such scorecards is "obvious for those organizations *for which profit does not appear to be a main purpose of activity*"¹⁰. Interesting from the standpoint of the research is the model of balanced scorecards of L. Maisel¹¹. The model as a whole does not differ from the one of R. Kaplan and D. Norton. The interesting and new feature in it is that L. Maisel differentiates human capital indicators backing them with the arguments that management must pay greatest attention to, and be able to evaluate the efficiency of the activity both of the entire organization and of its employees. The second valuable feature of this model is the interrelation reflected between the organization's strategy and objectives, and between the information for the users and the financial indicators. The indicators suggested by L. Maisel are intended for a business enterprise (profitability, economic growth rate and equity). Our efforts are directed towards establishing proper indicators for performance assessment of non-profit organizations that might be included in the balanced scorecards of any organization regardless of its immediate objectives.

In connection with the definition of the key aspects, it has to be explicitly emphasized that they are targeted to the groups of public influence on the organization, and the aim is to assure a balance between the formulated perspectives (with respect to finance, consumers, processes, training and development) and the indicators included in them within different periods of time.

⁷ Land, Kenneth, Social indicators for Assessing the Impact of the Independent Not-for-profit Social Sector of Society, in Flynn, P. et Hodgkison, V.A.(dir.pub.), Measuring the Impact of the Non-profit Sector. Kluwer Academic/ Plenum Publishers, New York,2001

⁸ DiMaggio, P., Measuring the Impact of the Non-profit Sector on Society is Probably Impossible but Possibly Useful: A Sociological Perspective, in P. Flynn et V.A. Hodgkinson (dir.pub.), Measuring the Impact of the Non-profit Sector. Kluwer Academic/ Plenum Publishers, New York,2001

⁹ Ольве, Н.Г. и др., Оценка эффективности деятельности компании. Практическое руководство по использованию сбалансированной системы показателей / Нильс-Горан Ольве, Жан Рой, Магнус Веттер/, Издательский дом "Вильямс", Москва-Санкт-Петербург-Киев, 2003, с.21

¹⁰ Пак там ,с 22

¹¹ Пак там, с.38

• **Finance perspective.** The analysis of indicators within the framework of the perspective treated constitutes a basis for investigation of the efficiency of the strategy introduced. Proper indicators pertaining to this group are: total amount of assets, operating capital, cash flows, return on investment, liquidity. Taking into consideration the specifics of organizations performing non-profit activities in the environment of market economy, and the necessity of collecting specific information for analysis and financial budgeting, the financial characteristics sought might be grouped around the following subjects:

Structure indicators, measured on the basis of asset-related information – enables us to characterize the content of corporate resources and to establish the economic and legal influence on them. For example, the indicator of average financial investment. It will have lower values for organizations not implementing investment activities.

Structure indicators, measured on the basis of liabilities-related information – determine the financing structure of non-profit organizations; highlight the degree of independence and reliability. They, on their part, could be divided into two main groups: indicators determining the financing reliability (equity to total liabilities; current liabilities to total liabilities) and indicators determining the financial leverage (non-current liabilities to constant capital).

Indicators characterizing turnover. They are determined while comparing the information from the balance sheet and the cash flows typical for the activity, and make it possible to determine turnover speed and time. Taking into account the specifics of non-profit organizations, the applicable indicators would be those determining the general turnover (income from regulated activities to total assets; income from regulated activities to equity capital). By doing this, we will get a picture to what extent and within what terms the accumulated and own resources are used for the purposes of achievement of the immediate aims.

Synthetic indicators juxtaposing the elements of assets and elements of liabilities and enabling us to define the factors and conditions for increase in performance efficiency. The indicators applicable to non-profit organizations are: a/ general liquidity ratio (current assets to current liabilities). It has a wider scope and gives account of all elements contributing to the financial equilibrium of the entity; b/ immediate liquidity ratio (cash to current liabilities) enables us to determine the portion of the current liabilities that might immediately be paid out.

Indicators calculated on the basis of cash-flow related information. They have a number of advantages in performance assessment of non-profit organizations because they characterize their financial potential and the possibilities for self-financing. Such indicators could be: a/ self-financing potential (total investments to cash flow); b/ dynamic factor of financial indebtedness (financial indebtedness to cash flow); c/ cash flow profitability (cash flow to income from regulated activities).

• **Customer-related perspective.** The principal duty of an organization, in the process of its long-term development and aims achievement, is creation of value for the consumers and meeting their needs regarding time, quality, and assortment of services offered. Therefore, from the standpoint of this perspective, indicators such as customer satisfaction, customer loyalty, image, market share by consumer groups, number of new clients, social efficiency, are a powerful drive for development. Various methods could be used for that purpose: customer questionnaires, sociological researches.

• **Processes-related perspective.** Solving of issues related to consumers requires from the organization to constantly improve the processes in it. This means effective disbursement of resources, on the one part, and serious attention for those key processes that significantly contribute to the satisfaction of customer needs or to the achievement of corporate aims, on the other. The indicators intended for performance assessment in this third perspective are the operating expenses, the "technological time", the relationships with suppliers and grantors, utilization of available resources.

• **Training and development perspective.** The more complete satisfaction of customer needs is connected with the incessant strive of the organization and its associates for improvement, training and change. Along with this, the emphasis within the studied perspective is put on the need of investment in the future – primarily in the field of qualification enhancement, information technologies and systems. The appropriate indicators in this direction are personnel skills, their satisfaction and motivation, loyalty to the organization, the ruling norms and values, the abilities of the information system of the organization. In contrast with the other three perspectives, there is a considerable variedness in formulating the fourth one. Most comprehensive definition is given by Horvath – "a perspective related to organization's potential" including the entire necessary infrastructure for strategic development: personnel, expertise, innovation and innovative power, creativity, technologies, information and information systems. The main characteristics of the perspective are: satisfaction of human resources (determined on the basis of questionnaire research methods), employee costs, number of employees included in qualification enhancement courses, sickness leaves, etc.¹²

In the author's opinion, another specific indicator could be introduced in performance assessment of non-profit organizations, an indicator describing the absorption rate of received and respectively provided grants. The motivation to define such an indicator could be sought in two directions. The first one is the necessity to determine the potential of absorbing the resources obtained by any organization. The second is connected with the provision of grants by third-party organizations. According to the Bulgarian legislation, the grants provided on behalf of Bulgarian organizations are immediately expensed and that burdens the control on the accomplishment of undertaken engagements by the consumers. Organizations could introduce the following indicator for the purpose of analysis of absorption rate of received and provided grants:

$$\text{Absorption ratio} = \frac{\text{Amount of funds absorbed}}{\text{Total amount of funds}}$$

The information sources for this indicator are Cash Flow Statements, Income Statements, and Notes to Financial Statements. The maximum value of the ratio is equal to one. Any value below one would give information about non-fulfillment of engagements undertaken and would presume implementation of analysis with respect to the reasons for

¹² Horvath & Partner (Hrsg.). *Balanced Scorecard umsetzen*, 1. Aufl. Schäffer Poeschel Verlag, 2000, S.23
Цит. по Кузманова, М., Възможности на балансираната карта за оценка на резултатите като инструмент за управление на стратегическото развитие на стопанската организация, доклад пред Научна конференция 03.11.2004

that non-fulfillment. The indicator could be calculated for the entire period and for separate programs, projects, as well as for any individual grant.

The suggestions for performance assessment of non-profit organizations at this stage of development helped to mark only the tendencies where the research work should be aimed at, in the author's point of view. This assessment could not be one-sided. It has to be complex and not implemented only in one direction. The ultimate aim is to provide information about the financial standing, performance results and cash flows of organizations, which is helpful for a wide range of decision-making consumers. We should not undervalue the fact that such an assessment would give consumers the confidence that the results and financial standing of organizations are given faithful presentation and that it reflects the economic essence of events and transactions rather than only their legal form.

TEORETSKE TAČKE PODRŠKE KOJE SE TIČU PROCENE POREZA U BUGARSKIM NEPROFITNIM ORGANIZACIJAMA U PROCESU EVROINTEGRACIJA

Roumiana Pojarevska

Razvoj bugarskih neprofitnih organizacija tokom poslednjih godina, i značajan iznos resursa koji oni mobilisu, dovode do neophodnosti oporezivanja njihovog delovanja. Analiza mogućnosti oporezivanja motivisana je neophodnošću da privuče i uključi važnije društvene donatore - nacionalne i međunarodne. U procesu istraživanja prakse bugarskih neprofitnih organizacija, utvrđeno je da procene uglavnom nisu izvođene, i da su, ukoliko jesu, prilično limitirane. Uzevši u obzir da bi bilo teško primeniti istu metodologiju na organizacije različitog pravnog statusa, obima aktivnosti i svrhe, mi ćemo pokušati da damo preporuke u skladu sa dostignućima u zemljama koje karakteriše razvijen i efikasan neprofitni sektor.

Ključne reči: računovodstvo, finansijski izveštaj, računovodstveni završni izveštaj, izveštaj tokova gotovine, računovodstvena politika.