

CIVIC ORGANIZATIONS – AN APPROACH OF DIVERSE UNDERSTANDINGS

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ABSTRACT

There have been considerable changes in the civic sphere lately, especially as pertains to the promotion and regulation of civil organizations. Until 2011, the picture of civil organizations was, at best, confused. The new Act on Civic Organizations intended to clarify the state of affairs regarding the sphere and determined what groups may be legally recognized as being civic organizations. Among the recently defined options, only two of them might gain wider acceptance in practice, since civic society, while it has fewer obligations, is also now ineligible for state funding. When discussing civic organizations in general, we recognize how diverse their forms are internationally. In making an international comparison of their forms, we use a comparison of the models existing in Hungary and the United States.

1. Introduction

There have been considerable changes in the civic sphere lately, especially as pertains to the promotion and regulation of civil organizations. Until 2011, the picture of civil organizations was, at best, confused. The new Act on Civic Organizations intended to clarify the state of affairs regarding the sphere and determined what groups may be legally recognized as being civic organizations. Among the recently defined options, only two of them might gain wider acceptance in practice, since civic society, while it now has fewer obligations, is also now ineligible for state funding. When discussing civic organizations in general, we recognize how diverse their forms are internationally. In making an international comparison of their forms, we use a comparison of the models existing in Hungary and the United States. Within this examination, we first explore the issues surrounding the notion of social responsibility.

According to Williams (2011: 139), social responsibility is a “business’s obligation to pursue policies, make decisions and take actions that benefit society. Companies need to be socially responsible as they conduct their businesses. Social responsibility has its own diverse levels:

- Economic responsibility. This means responsibility to the owners in the terms of financials, i.e. profit.
- Legal responsibility. A communal responsibility to meet a society's laws and regulations.
- Ethical responsibility. It is the behavior and conduct of the company of not committing anything which is considered as wrong by the majority of people (sometimes declared in the forms of principles).
- Discretionary responsibility. The social roles that a company fulfills beyond its economic, legal and ethical responsibilities.

According to the author, "most Fortune 500 companies have corporate foundations that support non-profit organizations. But even corporate leaders cannot agree on what causes or non-profit organizations should be supported." Gough et al (2009: 145) "claimed that companies explored the meaning of social responsibility and employee welfare in the twentieth century of United States. A company may represent his responsibility to owner stakeholders and non-owner stakeholders, as well". In their understanding, "social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law". CSR needs "organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups". The "good for all" approach is often represented in the activity of related or connected non profit organizations, since they "supply services that good for the community as a whole or for specific community members" (Gough et al. 2009: 619).

Geszti (n.d.: 2) believes that "the most tangible concept is the non-profit itself." The term of third sector is widely used, distinguishing it from the business and institutional spheres. The phrase "civic organization" is not unequivocal, since it is associated with different contents by country. Unger (2005: 19) claims that "we hardly find a universal, widely accepted term for the civic organizations, since a kind of pluralism may be experienced of that. They definitely are formal interest validating leverages of the civic society".

We may also conclude that, even within a country, there may be different approaches to civic organizations. First, we try to approach the subject from the point of view of countries. The first approach is the Hungarian; the second is the United States model.

2. The World of Civic Organizations in Hungary

There was some up to 2011 regarding the sphere of civic organizations. Today, we distinguish between associations (and its several, specific forms, e.g. an alliance), private foundations and civic societies.

Figure 1: Basic types of civic organizations

Non-profit organizations			
Civic organizations by the new Act			Other non-profits
Classic civil organizations		Civil society	
Associations	Foundations		

Source: Private examinations, 2013.

In 2011, there were 65.5 thousand non-profit organizations in Hungary, one third (23.2 thousand) in the form of foundations and an additional 42.3 thousand registered as associations (latest statistics: I1). These two forms are also referred to as classic non-profit organizations. It seems that these two forms make up the majority of non-profit organizations in Hungary (88%). Regarding their economic importance, the amount of incomes exceeded 1,238 billion Ft, which represents a decrease in real values. It seems that the ratio of not well-off civic organizations (less than 500 thousand Fts) is about half of the sphere. Regarding the human capacity, including the contributions of volunteers, labor measured as the working hours of a full time employee totals to somewhat more than that of 50 thousand workers. Oláh (2008) came to the point that existence and future of civic organizations also depends on whether they can meet clients' and citizens' expectations on high level and quality. In this respects some civic organizations were able to show significant results, such as in the filed of transit employment (Vámosi 2011: 177).

The law declares that a civic organization may only be an organization which is considered to be such by law. There is a strong connection between the definition in the law and its auxiliary regulations. One of the most important issues is the dependence of civic organizations on financial support. Regarding all non-profits, 57% of incomes come from support, of which 42% is state support. Vántus-Oláh (2012: 184) confirmed that supports played a vital role in the life of for profit organizations, so a similar tendency seems to be valid for nonprofit organizations, as well. For some forms of non-profits, this may total up to 53%. Regarding the classic civic organizations, the ratio of state support is less, but it is still almost one third (31%). This obviously means a strong dependence – first on state support and second on private support, i.e. donations. Since a public society which is considered to be a civic organization – yet ineligible to receive state support – may be considered as a civic organization, it is still doubtful what they will represent in the practice.

The question of public benefits may also arise with the currently planned changes for the immediate future. The new act introduced the issues and duties of both social capital and financial capital. Public benefit civic organizations will have to take up public tasks and will have to meet public benefit requirements by May 2014, or their titles will be revoked. No one knows the direct benefits of being a public benefit civic organization in the future. In the past, only public benefit

entitled organizations were eligible to apply for specific professional funds, but this is no longer the case.

Civic organizations may also be eligible for a minor proportion of an individual's filed personal income tax return, but only after two years' operation. Civic organizations may be claimed as a tax benefit/discount for organizations when filing their corporate taxes, thereby decreasing their declared pre-taxation profits. Such tax breaks may be an important issue for the "civic organizations" of some corporations (e.g. McDonalds, COOP), but it does not seem to be vital for the majority of organizations* and there is a strong polarization between the organizations of the sector. (In this respect, it may be reassuring that managers show sensitivity towards social capital in environmental changes (Bácsné, 2012: 73).)

3. The World of Civic Organizations in the United States

According to Gough et al (2009:619), non-profit organizations are such organizations in the United States that "qualify for tax-exempt status under the U.S. Internal Revenue Code. Approximately half are public charities, to which donors can deduct contributions from their taxes. Private foundations also are charitable organizations, but they are not public charities. They exist primarily to fund charities or individuals. Other types of tax exempt organizations include social welfare, labor, or agricultural organizations, business leagues, and fraternal beneficiary societies".

Figure 2: Non-profits in the United States

Non-profit organizations		
Charitable non-profits		
Public charities	Private foundations	Other non-profits

Source: Private examinations, 2013.

According to the National Center for Charitable Statistics (NCCS), more than 1.5 million non-profit organizations are registered in the U.S. According to NCCS and the IRS Statistics of Income, nearly 27% of income tax returns filed for 2007 included itemized charitable contributions. On average, Americans made \$1,237 in charitable contributions per tax return filed, accounting for an average 2.2% of their adjusted gross income. In fact, non-profit institutions serving households (largely charities) constituted more than 5% of US GDP in 2008. (Internet 2) *Figures 3 and 4* provide a sector overview from the latest available published statistics-based research from the United States:

* The ratio of organizations with less than 5 million Ft revenue is 80,9%, organizations with more than 50 million Ft revenue (4,3%) bears 83,8% of the sectors' revenue.

Figure 3: Nonprofit sector overview

Tax-Exempt Organizations	Registered with IRS (over \$5,000 in gross receipts)	Filing Annual IRS Report (over \$25,000 in gross receipts)
Under 501(c)(3)	1,117,219	609,935
Private Foundations	7,211	1,777
Charitable Nonprofits	1,110,008	608,158
Under Other 501(c) Subsections	446,691	275,426
501(c)(4) (social welfare)	101,791	61,417
501(c)(6) (chambers of commerce)	75,242	37,471
501(c)(10) (fraternal & veterans)	72,742	51,131
501(c)(other)	296,916	125,407

Note: 501(c)(3) does not include religious organizations. Data from 01/2010. Bar chart: Master File and may not match other figures on this page.

Source: NCCS Data Web, National Center for Charitable Statistics, 2009.

Figure 4: The nonprofit sector-by Subsector

Subsector	Number of Nonprofits		Expenditures		Assets	
Arts, Culture and Humanities	37,929	11.00%	\$27,177,293,452	2.10%	\$102,061,308,640	3.90%
Community Improvement, Public/Societal Benefit	38,387	11.20%	\$49,650,496,739	3.90%	\$261,226,211,064	10.00%
Education	62,126	18.10%	\$209,495,694,502	16.50%	\$843,494,635,359	32.20%
Environment, Animal Related	14,571	4.20%	\$10,855,419,397	0.90%	\$32,395,720,513	1.20%
Health Care, Mental Health	43,012	12.50%	\$747,636,462,550	59.00%	\$1,011,339,758,001	38.60%
Human Services	115,542	33.90%	\$165,656,107,552	13.10%	\$268,343,929,772	10.30%
Religion Related, Spiritual Development	21,537	6.30%	\$10,775,713,513	0.90%	\$27,496,309,331	1.10%
Research, Science, Technology, Social Science	2,966	0.90%	\$17,652,853,552	1.40%	\$23,829,463,571	0.90%
All Others	7,947	2.30%	\$28,339,852,144	2.20%	\$47,299,530,691	1.80%
Total	343,987	100.00%	\$1,267,042,122,701	100.00%	\$2,617,596,866,932	100.00%

Source: NCCS Data Web, National Center for Charitable Statistics, 2009.

As the figures illustrate, the total number of non-profit organizations in the United States includes public charities, private foundations, and other types of nonprofit organizations, including chambers of commerce, fraternal organizations and civic leagues. In the United States, civic organizations are based on the notion of *community participation* or, in cases where politics are involved, *community action*. However, there is a difference between community organization and community organizing. A *community organization* is in reality a broader, community-based group of local citizens, working together to fulfill a common goal or to serve a common need. This structural orientation will look at the number and variety of already existing organizations in its community, as well as how they work together

or not, before 'staking' its own niche of activities and services in the community. More often than not, community organizations are non-profit in structure. This is almost always the case for what are also termed service agencies, i.e. organizations that are located in and providing a specific range of services to their own neighborhoods and communities. The most commonly seen American examples of community organizations include: parent-teacher organizations, sports clubs, religious groups of all kinds, 'block' or neighborhood associations and FFA or 4-H clubs. Some of these are (in)directly linked to local schools. *Community organizing* is usually a spontaneous movement in a community, which may be linked to a larger concern. Most commonly, such entities are spontaneous in nature and aimed at creating change, in answer to a perceived threat to or suddenly identified need in a community. Community organizing may occur when a small number of 'concerned citizens' founds a leadership group and begins to canvass the local community to build support or by building a local, community power base for a collective cause, together with other affected communities in the area, region or state. Community organizing practically always seeks to empower the 'little people', both as a process and an outcome. Community organizing, as a process, is of course also practiced in more formal community organizations, although it is equally the case that not all community organizations practice community organizing. Still, many community organizations whose main function is to provide services have already expanded the services they provide to include community organizing activities. Although a distinction is usually made between the terms community organization and community organizing, the two terms are occasionally used interchangeably. Community organizations on the whole look back on a long history in America, arising from the incredible needs appearing suddenly as a result of the terrible tolls on communities throughout the country after the American Civil War ended in 1865. These organizations initially took the form of charitable agencies, spawned to life in order to give immediate and enduring assistance to the countless displaced and wounded by the war, as well as those left without sources of income. (Friedman *et al.*, 2002) Together with all the other great social impacts the 1960s had on American society, this period also transformed how Americans viewed their communities, as well as the role of the individual within them. Americans began to recognize the widespread inability of the nation's welfare bureaucracy to properly – or even adequately – address the everyday needs of the poor. Later, during the 1980s and 1990s, community organizations also came to be referred to as movements, mainly due to their size and popularity. Many such movements, which started spontaneously in the form of community organizing activities, soon expanded into formally established community organizations. Yet, even as the community-based focus grew in support, individuals participating actively in such organizations realized that true power to bring change was to be found in regions, nations and – through the birth of the notion of Corporate Social Responsibility (CSR) – especially in international corporations. (Stoecker – Stall, 1996) Formally

categorizing community organizations is difficult: such organizations may include voluntary organizations, professional service agencies and even more informal groups. Community organizations may also include churches, unions, schools, health care agencies, social-service groups, fraternities, sororities and any number of types of clubs. Community organizations are chiefly non-profit, but broader notions of community sometimes mean the inclusion of all organizations, including for-profit ones. Moreover, service agencies are recurrently known as community-based agencies. This determination is made because their services have shifted from centralized – even national level – institutional headquarters to decentralized locations throughout the country, in order for such organizations to be able to provide greater access to local communities. The driving force behind such decisions is measurable local impact. Associations are not unknown in the United States. In addition to what is known as a foundation, there are two kinds of associations: associations with full legal rights and associations with limited legal rights. For the former, the statutes are recorded in a notarial act. In short, the first kind is bound to more regulations than the other, but using the second kind (an association with limited legal rights), a board member can be personally held responsible for failure and debts. Also, problems can arise when applying for a subsidy at a national institution. Subsidy granting institutions often require that the association to be subsidized has full legal rights. The most profound difference between an association and a foundation are the members. An association is obliged to regularly call for a general meeting; a foundation does not have any members and therefore does not have any organizational obligations.

In general, there is a prohibition for all legal forms mentioned above to pursue making a profit. They are not prohibited from making a profit or paying salaries and wages, but they must devote any surplus to the organization. A possible surplus has to benefit a shared cause. It is prohibited to distribute profit to the members or the board itself. Furthermore, associations that have full legal rights and foundations are required to be registered at the Chamber of Commerce. This is, however, also recommended for associations with limited legal rights. This has to do with the issue of liability. Associations that have limited legal rights can reduce their liability by registering at the Chamber of Commerce. If this is not done, the board members of the association are personally responsible for any debts. The establishment of an association with full legal rights and a foundation is done by the way of a notarial act. You need to record the statutes and possibly the rules and regulations at a notary public. An association with limited legal rights can be established by hole-and-corner arrangements or a verbal agreement between two people. Except for the prohibition to pursue profit-making activities, there are no limitations or descriptions concerning the purpose of the association with legal rights and the establishment of a legal form. However, it may not go against civil peace and order, good manners or the law.

Finally, there are some rules for the statutes of a foundation or an association with full legal rights. The statutes of an association that has full legal rights need to include: the association's name and place of establishment, the purpose, the obligations of the members, the way of calling a general meeting, the way of appointing and discharging board members and the allocation of a surplus, in case of dissolution. Foundations need to record: the purpose, the way of appointing and discharging board members and the allocation of the surplus in case of dissolution.

Charities and foundations are both considered non-profit organizations by the Internal Revenue Service, but there are some slight differences that set them apart. All non-profits are not created equal: homeless shelters, religious organizations, animal rights groups, scientific organizations and other services that rely on volunteers are prime examples. Despite some fundamental differences, these groups all struggle to solve the same questions: Where do we get funding, and how do we get the most from it? The terms non-profit, charity and foundation are often used interchangeably and inaccurately. Non-profit describes the entity's purpose: It is a business that is not operating to earn money for its owners or shareholders. Charities and foundations, also known as 501©(3)s, are granted federal tax exemption by the Internal Revenue Service (IRS) based on its recognition of charitable programs. According to Gough et al 2009: 620) it is difficult to get an accurate count of non-profits, because only organizations with more than \$5,000 in annual gross receipts must register with the IRS and only those with receipts in excess of \$25,000 must file with the IRS. Organizations are neither typically well off in the United States, costs are small. The United States Non-profit Sector 2003 notes that 44 percent of such organizations have less than \$100,000 in assets. Only 5 percent have more than \$10 million.

Although charities and foundations are non-profits, not all tax-exempt organizations are charities. Some examples that qualify for tax-exempt status under other 501© categories are social clubs, veterans' organizations and trade associations (see and compare Foundation Group sources). Public charities account for more than half of all 501©(3) organizations; as of May 2009, the IRS had records of 948,954 charities (see and compare McRay sources). The IRS loosely defines public charities as non-profits that are not private foundations. Private foundations, another type of 501©(3), generally support the work of public charities through grants instead of administering their own programs. This type of 501©(3) increased 54 percent between 1998 and 2009, with 108,594 on the books as of May 2009 (McRay).

4. Consequences

As we see, there are considerable differences between civic organizations of the examined countries. One, if not the most important issue, is that of funds. In Hungary, civic organizations, i.e. primarily the classic forms of such organizations, must be registered as specific forms, in order to be eligible to obtain state and private funds, but we truly believe that tax exemptions are not as major and dominant factors here, as in the United States. In Hungary, good management of organizations may obtain funds for an organization. The role of forms is therefore important, since some forms of sources are only available to civic –namely, the classic form of civic – organizations.

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