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**NON-PROFIT ORGANIZATION MANAGEMENT PRINCIPLES:**  
**MECHANICS AND SPECIFICITIES**

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***Abstract***

The article covers classifications of management principles for non-profit organizations (NPOs) and updates the most important principles that require consolidation and a complex approach to implement them in practice in the context of private, social and state interaction of all interested parties. Authors draw attention to the relevant problem of protecting certain principles of activities of NPOs from excessive imperative state intervention, as well as to debates about the degree of state regulation of NPOs in the academic community, and consider various ways to formalize standards of activities of non-profit organizations in legislation both at the national and international levels. In particular, authors suggest to solve the regulation by standardization of codes of ethics regulating certain areas and connecting international standards and Russian national legislation. Researchers present codes of ethics as a tool for solving a multitude of problems – from a simple declaration of principles and values of certain organizations to the transition to strict self-regulation in some areas of activity of non-profit organizations. Authors emphasize the flexibility and variability of this approach, which allows adapting codes of ethics to NPOs operating in different areas of interest, where they address various issues of different levels of complexity, while some of these issues belong to the legal framework, and some of them – to the ethical framework.

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## **1. Introduction**

Non-profit organization management principles can be considered a problematic issue: despite a high degree of theoretical development of the problem and stable interest it strikes in researchers, it can't be said that theoretical studies are embodied in practice. It's a rare thing to see something uncommon or innovative in field of NPO management.

Partially it is connected with heavy regulations of NPOs by the state, which undoubtedly causes concern of representatives of non-profit organizations and deters them from any uncommon approaches to management.

## **2. Problem Statement**

For the foregoing reasons it can be concluded that society already strives to identify new ways for non-profit organizations to implement existing management principles in practice.

Selection criteria for the implementation will include, first of all, a lack of necessity for global changes in the legislation, and, second, versatility and flexibility, since areas of activities of NPOs are extremely diverse.

## **3. Research Questions**

**3.1. Which existing classification of non-profit organization management principles does correspond to research objectives to the fullest extent possible?**

**3.2. How extensive and deep should the state control over activities of NPOs be?**

**3.3. Is there an opportunity to lower a level of state control over activities of NPOs without creating any grounds for excessive use of the NPO status?**

## **4. Purpose of the Study**

A purpose of the study is to work out a concept to lower a level of state interference in regulation activities of NPOs without creating any grounds for excessive use of the status of a non-profit organization.

## **5. Research Methods**

Analysis of research papers on the subject for subsequent synthesis of the most illustrative classification is used as a method to research non-profit organization management principles.

A level of the state control over activities of NPOs is established through analysis of legislation and legal precedents in this area.

The concept of lowering the state control is worked out based on synthesis of existing academic studies on the subject of self-governing communities and novel ideas suggested by authors of the research.

## 6. Findings

A non-profit organization is one not having profit-making as the main objective of its activity and not distributing the earned profit among the participants.

Non-profit organizations may be created for achieving social, charitable, cultural, educational, scientific and managerial goals, for the purposes of protecting the health of citizens, developing the physical culture and sports, satisfying the spiritual and other nonmaterial requirements of citizens, protecting the rights and legitimate interests of citizens and organizations, settling disputes and conflicts, rendering legal aid, and also for any other purposes directed towards the achievement of public weal. (Federal Law No. 7-FZ of January 12, 1996 On Non-Profit Organizations of the Russian Federation, NOS).

Management principles are fundamental bases of management for any structure. Management principles are intended to be a link between the fundamental of the theory of management – administration acts – and practice of management (Rathi & Given, 2017).

There is no unified approach to the classification of management principles in the academic literature (Kupreyeva, 2009).

We will choose the approach based on classification of management entities that presents demonstration purposes of this work to the fullest extent possible. It is embodied below (Popova & Pryakhin, 2014).

All existing management principles can be divided into three groups:

- The first group includes universal management principles that can be applied both to NPOs and to any other organizations, for example, business entities.
- The second group includes management principles applied for certain elements of NPOs, such as specificities of legal support or accounting in NPOs.
- The third group includes principles that are typical for addressing challenges of NPOs and not common for other areas of activity.
- The following principles stand out in the first group (main principles):
  - A principle of scientific validity of management: application of the integrated approach to solve management problems and a pointed choice of solutions.
  - A principle of the system approach: representation of an organization as a combination of systems that solve problems in various fields and dimensions, while acting in order to achieve common goals.
  - A principle of optimality of management implies that any organization operates in a resource-constrained environment, whether it be materials or time, therefore, it has to look for the best methods to solve its problems.
  - The principle of optimality triggers a principle of flexible management: the optimal decision often needs applying new methods and approaches, a paradigm shift.

The second group includes management principles for certain components of NPOs, for example, finances (Grishchenko, 2014):

- External funding (membership fees, donations, grants, beneficent aid, budgetary appropriations, fees to form endowment);
- Expenditure of monetary resources has a purposive character;
- A lack of profit and payback;
- Transparency of funding and social control;
- Accountability to the source of funding.

The third group includes management principles that are typical for certain NPOs. This group does not have clear-cut boundaries because of an extremely wide scope of potential work. It includes, for example, a principle of gratuitousness, or too low prices of services provided for social organizations (compared with the market ones), or principles of voluntarism and mutual aid (Foundation for Promotion of Goodwill Projects (NOS), 2013).

It is the purpose of identifying principles of operation of any social system, analyzing and compartmentalizing them to prove that some of these principles have a positive impact on the system, while others – a negative one, using empirical methods. That is why positive practices should be promoted to become approved methods and principles.

However, the analysis of the abovementioned principles shows that some of them contradict one another.

For example, it should be noted that principles of a NPO might come into conflict with interests of its participants: according to VCIOM, factors that form the motivational basis of volunteering activities in Russia are allocated the following way (Engagement of the Russians in Social Activities (NOS), 2017):

- A desire to live a more interesting and active life – 48%
- A desire to feel useful – 37%
- A desire to realize one's potential and initiatives – 32%
- A desire to gain additional skills or knowledge – 31%
- An opportunity to solve one's own problems and problems of other people – 26%
- A desire to realize one's convictions and values – 17%
- A desire to gain professional experience – 18%
- An opportunity to make useful acquaintanceship – 15%
- A desire to be encouraged (invitations to events, trips, etc.) – 14%
- A desire to make friends – 14%.

Not all abovementioned motivations can be satisfied through mechanics of a NPO. It is a priority of non-profit organizations to realize the potential of participants through the opportunity to solve shared problems, to realize their initiatives and to convey their convictions and values.

Obviously, limitedness of resources of any organization makes some dimensions a greater priority, which in its turn will raise the profile of some principles of this NPO in the eyes of its participants.

From the economic point of view, according to some researchers, any NPO is a priori un-profitable due to limited ways of profit extraction, so it cannot exist without external financial support (Benevolenskiy & Shmulevich, 2013).

Such a system can be called only nominally “optimal”, since it is not in equilibrium and very vulnerable to external factors.

On the other hand, in order to make this system more or less viable, the state as the main regulator strives to support NPOs because of their social value. Tax advantages and various grants-in-aid, for example, can serve as mechanisms of this support.

A privileged position of NPOs is attractive, so it causes a controversial case of “business optimization”: aside from doctrinal and moral interpretations of non-profit organizations, there is an opportunity to disguise business activities as activities of non-profit organizations through providing public services, using charitable foundations to reduce the tax burden of business and so on. Some researches even identify “genuine” NPOs – those that really fulfill socially useful objectives, and “non-genuine” – those that use the NPO status with malicious intent to receive certain privileges.

Through the lens of it, it seems logical that principles of activities of NPOs are controlled, and there are regulation mechanisms to ensure compliance. Regulations can be facultative or imperative. Facultative regulations include non-mandatory registration process of a NPO, while imperative ones include a requirement for NPOs to file accounts.

Imperative regulations have a clear aim: law maintenance through sanction regulation. They divide “genuine” and “non-genuine” NPOs applying sanctions to the latter ones (Popova & Pryakhin, 2014; Chell, Spence, Perrini, & Harris, 2016).

The main problem of the imperative approach is that it can help identify “non-genuine” organizations but cannot create “genuine” ones. Another noticeable problem is lawful pressure and even moral coercion used by imperative methods of management. For example, inspections of various government agencies are hardly considered something but a sword of Damocles hanging over the organization. It triggers another problem – mutual corruption expressed in both bribes organizations give and solicitation of inspectors.

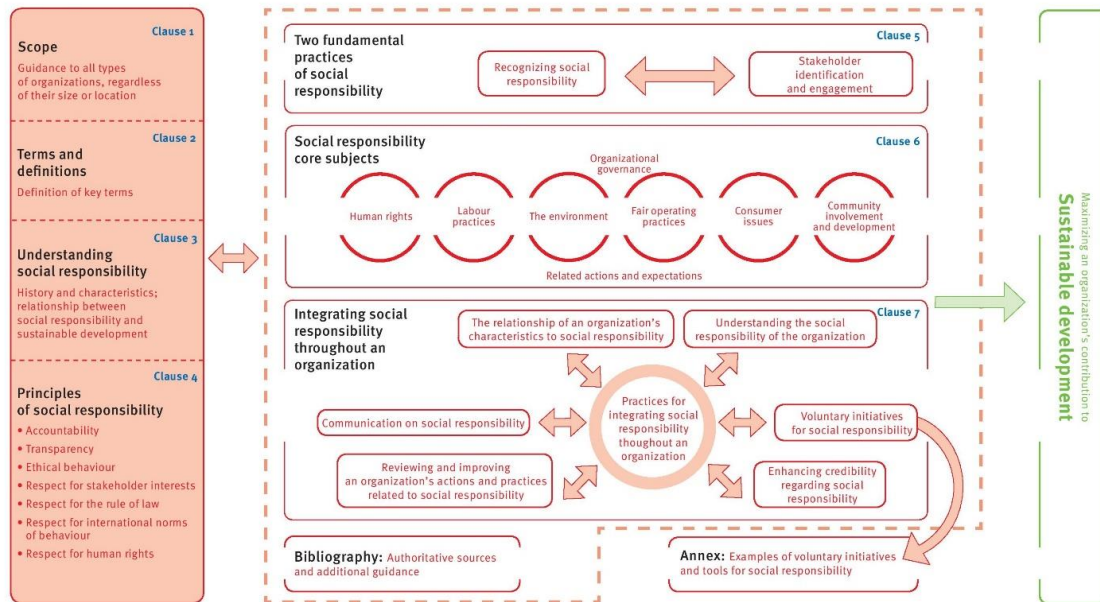
In accordance with this principle, both Russian and global laws concerning NPOs clearly tend to facultative methods of regulation (Petrov, 2016).

A facultative mechanism is much more complicated: using a method of permissibility instead of a method of prohibition it creates favorable functioning environment. Undoubtedly, this method cannot be overstated in the context of work with social institutions: good will and a desire to help are the only genuine sources of creation to establish, for example, charitable organizations.

Here we come to an important question. Quite how important are certain principles of operation of a NPO? To what extent should this sphere be strictly regulated? What methods are appropriate for operation of NPOs? These questions are to be answered not on the level of the government only; facultative regulation can be also performed by the society itself, since it is undoubtedly influenced by NPOs. But what are the tools of this regulation?

There are several studied and elaborated approaches to this issue.

Social accountability international standards such as SA 8000 and ISO 26000 serve as the best-known and the most widely used tools (Social Accountability 8000 International Standard, n.d.; Guidance on social responsibility, 2010). See Figure 01.



**Figure 01.** ISO 26000: core principles

Their main goal is to regulate relationships between employees and business entities, but they also contain universal principles that suit any form of organizations and associations, i.e. serve as guidelines on social and ethical management (Bromley & Orchard, 2015).

ISO 26000 particularly highlights the following core principles of operation of organizations:

- accountability;
- transparency;
- ethical behavior;
- respect for stakeholder interests;
- respect for the rule of law;
- respect for international norms of behavior;
- respect for human rights.

Another tool that is often based on abovementioned standards is a Code of Ethics. A Code of Ethics contains moral principles formalized as a set of rules to support a certain society (Irkhin, 2011; Bromley & Orchard, 2015).

Codes of Ethics are not new for Russia. There are Codes of Ethics for many professions in our country, such as advocates, notary officers and doctors. (Professional Advocate Ethics Code, Doctors' Code of Ethics of the Russian Federation, the Code of Professional Ethics of Notaries of the Russian Federation) Unfortunately, at the moment there is no Code of Ethics for NPOs used in

practice, though a few versions have been designed in theory already (Code of Ethics for NPOs (NOS), 2015). However, in our opinion, it's really appropriate to regulate some principles and methods of the third sector with these Codes, since activities of these organizations are connected with a plenty of moral dilemmas. It is particularly relevant for issues of fund raising organized by various foundations for charitable purposes (Irkhin, 2011).

A vivid example of such a situation is a story about fund raising for Johnny Bobbitt, a homeless man from the USA. When a couple that had initiated the campaign raised \$400,000 to help a kind-hearted person, who found himself in a difficult situation, they faced a dilemma of completely moral nature (Boyer, 2018).

- What to do, if more money is raised, than it was expected? May a donation intended for a certain person be redirected to those “who need it more”?
- What to do, if a person who has received donation uses it to do themselves a disservice? Is it allowed to stop providing donations raised for him/her specifically?
- Where is the line between covering expenditures of volunteers and unauthorized use of donated money on oneself?

In our opinion, these questions should not be regulated by legislation. It is society itself to regulate them using Codes of Ethics as an efficient tool to address emerging conflicts in a consistent and straightforward manner.

This approach has the following benefits.

1) It does not need to change the legal framework – all conditions for the use of Codes of Ethics are created already.

2) A special kind of Codes may be created for every type of activities of NPOs, so that they could be flexible enough.

3) Codes of Ethics add to the role of NPOs in the process of improving society: they raise moral issues to be discussed and increase people's awareness of moral and ethical problems.

4) This approach also meets the demands of the abovementioned statistics by VCIOM for community-minded participants to convey their positions.

Moreover, if ethical norms of certain communities are not formalized, it does not mean they can't be established informally. Hence, it is fair to say that a set of moral principles and special culture will be created in any sphere, but they can be influenced and corrected to create conditions for greater moral responsibility and enlightenment of both certain members of society and society in general.

Based on abovementioned examples of standards and codes we can identify the following points that could be potentially included in the Code of Ethics of Non-Profit Organizations of the Novgorod Region:

1. Goals and objectives posed as a challenge for this Code
2. Core terminology and concepts
3. Mission and ethical principles of NPOs of the Novgorod Region
4. Conflict of interest policy

5. Non-disclosure policy
6. Health, safety and the environment policy
7. Sanctions for non-compliance with this Code and responsibility of organizations
  - 7.1. Forced exclusion from the Agreement on compliance with this Code
8. Positive reinforcement of honest organizations using this Code
  - 8.1. Distinguishing Mark ‘Honest Organization’
9. Organizations that joined the Agreement on compliance with this Code
  - 9.1. A list of organizations that joined this Code
  - 9.2. Regulations for joining the Agreement on compliance with this Code
  - 9.3. Order of withdrawal from the Agreement on compliance with this Code
10. Scope of application of the Code
  - 10.1 Adoption of Codes for certain forms of non-profit organizations.
11. Concluding provision

Point 8.1 deserves special attention. In our opinion, promotion of some abovementioned principles, paradigms and positive practices can be much more effective when a certain encouragement is provided, for example, a Distinguishing Mark to demonstrate. Such an approach uses three important mechanics at once (Rathi & Given, 2017):

1) It provides a balance between sanction regulation and regulation through encouragement: the alliance of organizations that adopted the Code of Ethics is not considered another reason for supervision and punishment.

2) The element of gamification appears when member organizations start to compete. These methods create one more layer of motivation for both leaders and employees of the organization.

3) A new evaluation system of services in this area is established. It is alternative to the state system and the state does not strive to regulate this area strictly. Thus, something similar to the Distinguishing Mark ‘Honest Organization’ can become an indicator of quality for users of services of the NPO, which is particularly important in the social sphere, which depends on mutual trust greatly.

Flexibility of Codes of Ethics makes it possible to move beyond the example given above: some organizations can set principles and values that are important for them in particular.

## **7. Conclusion**

In conclusion it should be noted that general principles of organization and operation of NPOs are well-known and thoroughly studied.

On the other hand, every NPO in its activity becomes a sort of a ‘pioneer’, and its management principles of NPOs in certain areas that require greater in-depth analysis and consequent formalization of principles and rules.

Therefore, it is needed to create mechanisms that, on the one hand, can deter NPOs from misguided practice, and, on the other hand, will never restrain them in the process of making uncommon decisions. In our opinion, it is the Code of Ethics of NPOs that can become such a mechanism.



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