

Differentiate Between “For Profit” and “Not for Profit” Organizations

IN THE MOVIE *Wall Street*, the main actor said, “Greed is good.” He certainly was not running a “not for profit” organization. The main goal of a “for profit” business is to make a profit with no apologies. A “not for profit” organization, on the other hand, is in business to support a cause.



Objective:



Describe the characteristics of a “for profit” and a “not for profit” organization.

Key Terms:



“for profit” organization
“not for profit” organization
profit
shareholders
tax deductible

“For Profit” and “Not for Profit” Organizations

You probably have heard of the Salvation Army, Red Cross, Boy Scouts, Make-a-Wish Foundation, the Ronald McDonald House, and other similar organizations. You may have supported these “not for profit” organizations by making a contribution or by purchasing one of their products at a fundraising event. But did your small contribution really give them enough money to stay in business? What motivated you to support them? How many other people support these organizations? What other funding sources are there? Do the “for profit” corporations also have fundraising events? Are Boeing, Nike, Monsanto, Edward Jones, and Macy’s in business to support a cause, or is big business all about the profits?

CHARACTERISTICS OF A “FOR PROFIT” ORGANIZATION

A **“for profit” organization** is an organization that exists to generate a **profit** (the positive gain from an investment or business operation after subtracting all expenses) or revenues above and beyond the costs. “For profit” organizations make money for all stakeholders involved, including employees, **shareholders** (people who own stock shares in a corporation or mutual fund), and the organization. The main goal of the business is to make a profit.

Key characteristics of a “for profit” organization:

- ◆ Shareholders can increase their wealth as the organization becomes successful.
- ◆ As the organization becomes more successful and profits increase, employees’ salaries tend to increase.
- ◆ Successful “for profit” organizations tend to employ more workers.

Most U.S. businesses are categorized as “for profit” organizations. Some big names are Boeing, McDonald’s, Microsoft, Apple, Verizon, and Comcast.



FIGURE 1. Successful “for profit” organizations tend to employ more workers.

CHARACTERISTICS OF A “NOT FOR PROFIT” ORGANIZATION

There is no mistaking a “for profit” organization for a “not for profit” organization. Their missions are very different, but their processes may be similar.

Definition

A **“not for profit” organization** is a group, institution, or corporation formed for the purpose of providing goods and services under a policy where no individual (e.g., stockholder or trustee) will share in any profits or losses of the organization; this type of organization is not seeking or producing a profit. This type of organization often supports causes, such as feeding young children, assisting in disaster relief, preserving wildlife, or helping single mothers find work.

Tax-Exempt Status

A “not for profit” organization is usually given tax-exempt status. Most have been granted exemption from federal taxes by the Internal Revenue Service. Many of these organizations

refer to themselves according to the IRS Code section under which they receive exempt status: 501(c)(3) organizations. This identification lets donors know that their contributions to these organizations may be deductible for income-tax purposes.

Revenue

Revenue for a “not for profit” organization is generated through gifts and donations. Profit is not the primary goal of nonprofit entities but may develop under a different name (e.g., surplus or increase in fund balance). Assets are typically provided by sources that do not expect repayment or economic return.

Characteristics

Characteristics of “not for profit” organizations:

- ◆ “Not for profit” organizations may not pay taxes on income generated.
- ◆ Donations are **tax deductible** (an item or expense subtracted from adjusted gross income to reduce the amount of income subject to tax).
- ◆ These organizations assist worthy causes.



DIGGING DEEPER...

UNCOVERING ADDITIONAL FACTS: Researching a “Not for Profit” Organization

The best way to learn more about the “not for profit” world is to analyze some real examples. Select a “not for profit” organization in your area. There should be many from which to choose. Use the Internet to help you complete the answers to the following items. Keep track of your answers on a separate sheet.

- Define the mission of the “not for profit” organization.
- List ways to support the “not for profit” organization.
- Where is the organization located?
- What geographic area does this organization serve?
- Who are the “clients” of this “not for profit” organization?
- List ways individuals and groups may support the “not for profit” organization.
- How does this organization raise revenue?
- Are there other funding sources?
- What is/are the biggest fundraising activity the organization conducts?
- When making a donation, who is the payee? Where are donations mailed (address)?
- How does the organization document or share its successes with the community?

Examples

There are many examples of “not for profit” organizations: governments, charities, universities, religious institutions, and some hospitals. Some specific examples by category of service can be found below:



FIGURE 2. Some “not for profit” organizations are environmental in nature.

- ◆ Environmental (e.g., Greenpeace and Sierra Club)
- ◆ Humanitarian (e.g., Red Cross, UNICEF, Salvation Army, Goodwill, and Habitat for Humanity)
- ◆ Animal protection and animal rights (e.g., American Society for the Prevention of Cruelty to Animals and The Humane Society)
- ◆ Educational (e.g., schools and universities)
- ◆ Religious (e.g., religious orders and churches)
- ◆ Health-related (e.g., Red Cross)
- ◆ Political (e.g., local and national)

Summary:



There are two types of business organizations: “not for profits” and “for profits.” “For profit” organizations are those organizations that exist to generate profits or revenues above and beyond the costs. “For profit” organizations make money for all stakeholders involved, including employees, shareholders, and the organization itself. The main goal is to make a profit.

“Not for profit” organizations are groups, institutions, or corporations formed for the purpose of providing goods and services under a policy where no individual will share in any profits or losses of the organization. This type of organization is not seeking or producing a profit. These organizations often support causes. “Not for profit” organizations are usually given tax-exempt status.

Checking Your Knowledge:



1. List two characteristics of a “not for profit” organization.
2. List two characteristics of a “for profit” organization.

3. Define the term “tax deductible.”
4. List four “not for profit” service categories and a specific example for each category.
5. List five “for profit” organizations.

Expanding Your Knowledge:



Refer to the “not for profit” organization you may have researched above in the “Digging Deeper” sidebar. Consider donating some of your time, money, and expertise to their “not for profit” cause. You may also determine what help is available to assess whether or not additional “not for profit” organizations are needed to fill gaps in your location.

Web Links:



List of the Wealthiest Charitable Foundations

http://en.wikipedia.org/wiki/List_of_wealthiest_foundations

200 Largest U.S. Charities

http://www.forbes.com/lists/2005/14/Revenue_1.html

Quick Facts About Nonprofits

<http://nccs.urban.org/statistics/quickfacts.cfm>

Fortune 100 Companies List

<http://www.docstoc.com/docs/8459550/Fortune-100-Companies-List-2009>