

6.2: Reading- Making a Profit

For-Profit Businesses

An organization that aims to earn profit through its operations and is concerned with its own interests and not those of the public (non-profit) is known as a for-profit corporation.

Structure

A for-profit cooperation is usually an organization operating in the private sector that sets goals which eventually help the organization itself. This kind of a company often makes shares of ownership available to the general public. The purchasers of those shares then become the company's shareholders; shareholders have bought a portion of ownership of the corporation by giving away a certain amount of money (differentiating from company to company) or assets of a particular value. Such organizations are usually not aided by the government, as they are working for private financial gains, unlike a non-profit organization, which exists to serve a mission. The nature of a for-profit corporation is such that it is required to pay applicable taxes and register with the state. Any donation they receive will also be subject to the tax policies of the concerned country. As these organizations are all corporations and have a separate identity from their owners the owners are not in their personal capacity required to satisfy any debts which the company might owe to anyone.

Aims

Unlike non-profit organizations, the policies of these organizations are usually profit oriented. Managers (corporate employees) here have a profit-oriented mindset and aim at maximizing the revenue of the firm, which in turn contributes to the profits of the shareholders/owners. Their aim can be accompanied by a goal of serving the society; however, that usually happens only in cases of specific corporations (B-corporations, which we'll learn about later).

Non-Profit Businesses

Some organizations are not established solely for the purpose of making and retaining profit; however, they function in much the same way as a business. They establish goals and work to meet them in an effective, efficient manner. Thus, most of the business principles introduced in this text also apply to non-profits. Let's take a look at some of the characteristics of the non-profit organization.

A non-profit business, often referred to as an NPO (non-profit organization), is an organization that uses its surplus revenues to further achieve its purpose or mission, rather than distributing its surplus income to the organization's directors (or equivalents) as profit or dividends. This is known as the distribution constraint. The decision to adopt a non-profit legal structure is one that will often have taxation implications, particularly where the non-profit seeks income tax exemption, charitable status and so on.

Types of NPOs

The non-profit landscape is highly varied, although many people have come to associate NPOs with charitable organizations. Although charities do comprise an often high profile or visible aspect of the sector, there are many other types of non-profits. Overall, they tend to be either member-serving or community-serving. Member-serving organizations include mutual societies, cooperatives, trade unions, credit unions, industry associations, sports clubs, retired serviceman's clubs and peak bodies—organizations that benefit a particular group of people—the members of the organization. Typically, community-serving organizations are focused on providing services to the community in general, either globally or locally: organizations delivering human services programs or projects, aid and development programs, medical research, education and health services, and so on. It could be argued many non-profits sit across both camps, at least in terms of the impact they make. For example, the grassroots support group that provides a lifeline to those with a particular condition or disease could be deemed to be serving both its members (by directly supporting them) and the broader community (through the provision of a helping service for fellow citizens).

Although NPOs are permitted to generate surplus revenues, they must be retained by the organization for its self-preservation, expansion, or plans. NPOs have controlling members or a board of directors. Many have paid staff including management, whereas others employ unpaid volunteers and even executives who work with or without compensation (occasionally nominal). In some countries, where there is a token fee, in general it is used to meet legal requirements for establishing a contract between the executive and the organization.

Designation as a non-profit does not mean that the organization does not intend to make a profit, but rather that the organization has no “owners” and that the funds realized in the operation of the organization will not be used to benefit any owners. The extent to which an NPO can generate surplus revenues may be constrained or use of surplus revenues may be restricted.

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

<https://assessments.lumenlearning.com/assessments/150>

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