Best practices of financial sustainability in nonprofit organizations

Abstract

The nonprofit sector has become an economic and social force at local, national and international level; the role of these organizations in developed and developing countries is based on the analysis of public administration, suggesting that non-profit entities are effective and efficient suppliers of social services more than governments.

These organizations collaborate with the State in meeting social welfare functions as sensitive as health, food and protection of children and elderly people; the third sector holds a prominent role in the context of participatory democracy, citizen participation, art, technology, environment and general public orientation and it produces positive effects on the progress of a whole society, "Nonprofits cover a gap where the state often cannot get and where many private companies have no interest" (García, 2013).

Due to the transformation and growth of society, nonprofit organizations face more and new needs, increasing the complexity of their leaders to achieve sustainability. There is a tension between the ability to maintain financial viability in the long term and the pursuit of the mission. This research collects promising practices that can be helpful to grow organizations through a scientific literature review and exploratory web content research which identifies best practices, trends and financial sustainability strategies of successful organizations in the world.

Key Words

Nonprofit organizations, financial sustainability, Best financial practices

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Purpose of this Research

Identify promising practices to achieve financial sustainability in nonprofit organizations through a literature review and analysis of web content of successful global organizations to contribute to the administrative management of third sector.

Methodology

The measurement model of financial sustainability for nonprofit organizations designed by Tuckman & Chang (1991) and later supplemented with two criteria by Keating, Fischer, Gordon, & Greenlee (2006) product of a literature review of the theories of Altman (1968) & Ohlson (1980), is the methodology starting point for a search of registers on the database Web of Knowledge with the words "nonprofit" AND "accountability" AND "Revenue concentration", AND "Operating Margins", AND "commercial income" AND "endowment", between 2010 and 2014. Based on the model, we document practices found in 84 items reviewed according to criteria relationship. The second part corresponds to an exploratory web content research performed on five successful organizations worldwide[1], in order to identify promising practices to achieve financial sustainability. The assessment for web sites was designed by Learning by Giving Foundation and University Northeastern of Boston which provides financial parameters to measure sustainability of nonprofit organizations.

Literature Review

Nonprofit organization sustainability should be understood as an ongoing challenge to achieve social mission efficiently and effectively, taking into account the social and environmental impact of activities and compliance of requirements continuously in all aspects that are critical to their survival. Financial sustainability is a key component of organizational sustainability and a decisive factor of social mission scope.

To guarantee the viability of this operation in economic and organizational terms, a nonprofit organization should conduct certain financial practices ensuring low vulnerability to external changes and achievement of greater impact. The criteria defined in the measurement model of financial sustainability for nonprofit organizations, exposed by Tuckman & Chang (1991), are the starting point to identify best practices in the scientific literature. Based on the model the best practices identified through scientific literature review and exploratory web content research are listed below

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[1] Taken from the ranking of top 100 non-profit organizations in the world updated in 2014 [Available from internet]. http://topnonprofits.com/lists/best-nonprofits-on-the-web/ [cited 05/05/2014].

Criterion 1: Equilibrium and accountability. Equilibrium is equivalent to net assets or the residual amount after liabilities, subtracted from assets. Tired of receiving questionable reports, investors and donors wish to access current information about the operations and finances of nonprofit organizations (Bray, 2010). Accountability is both a legal and ethical obligation of organizations that receive funds to continue its charitable mission (Gordon *et al*, 2010). Practices of high impact, clearly tell about organizational development and strategic programs of improvement, focusing efforts on value demonstration; these practices are: a. Maintaining reliable accounting. b. Use an evaluation program to demonstrate value. c. Using annual reports to communicate results.

Criterion 2: Diversification of noncommercial income. Donors and investors income concentration must be held under two key principles of sustainability: diversity and distribution. The diversification of income sources increases financial sustainability due to the likelihood that all sources are not affected by the same economic crisis (Bryce, 1992). In contrast, the less revenue has the organization, it is more economically vulnerable to recessions (Trussel, 2002) (Tuckman & Chang, 1991). Practices include: a. Developing a coherent plan of fund raising. b. Incorporating innovative fundraising techniques. c. Foster relationships with donors.

Criterion 3: Administrative cost. There are two ways to improve finances or balance a budget: increase revenue or reduce costs. If an organization cannot earn additional income, or if revenues decline, it should reduce spending, particularly indirect costs such as administrative expenses (Abraham, 2003). Some promising practices are: a. Include fundraising costs into operating costs. B. Combine fundraising costs with other activities. c. Reduce administrative costs.

Criterion 4: Operating margins. Repeatedly it has been argued that only efficient organizations with high operating margins survive when competition is strong (Machlup, 1967; Giroud & Mueller, 2010). The identified practices focus on: a. Increase revenue. b. Reduce operating costs.

Criterion 5: Commercial revenues. Commercial revenues are taken as the percentage of total revenues that include sales of merchandise, program service fees and charges paid by

customers. An organization is less likely to experience financial difficulties if it is based on commercial income rather than donations or contributions that are not recurrent and sensitive of changes according to economic and political conditions (Keating *et al,* 2005). Promising practices to increase commercial revenues are: a. Undertake commercial activities gradually. b. Separate business from organizations. c. Launch major events.

Criterion 6: Endowment. The endowment is a gift of money or the income produced by a property of a public organization such as a hospital or university, for a specific purpose, for example, research or scholarships. In general, the active endowed remains intact and only the income generated is consumed. Promising practices to achieve sufficiency in capital or endowment are: a. Reinvestment. b. Strengthen relationships with investors.

Exploratory research of web content

The following chart is a collection of good financial practices based on the analysis of web content and the above criteria, the selected successful companies are: Best Friends Animal Society (BFAS), Metropolitan Museum of Art (MET), St. Jude Children's Research Hospital (SJCRH), Human Rights Champaign (HRC) and Greenpeace (GP).

Chart 1. Financial sustainability practices on successful nonprofit organizations

CRITERIA	PARAMETERS	BEST FRIENDS ANIMAL SOCIETY	THE METROPOLITAN MUSEUM OF ART (MET)	ST. JUDE CHILDREN'S RESEARCH HOSPITAL	HUMAN RIGHTS CAMPAIGN (HRC)	GREENPEACE
CRITERIA 1: Equilibrium and accountability	1. The organization provides evidence that accounting and finances are well managed	Displays detailed financial statements, audited, in accordance with the general principles of accounting.	Shows evidence of an organized and well recorded accounting, according to the standards of US accounting and financial management.	The annual report provides the combined financial information of St. Jude and its fundraising organization, ALSAC, annual report ofvexpenditures and features an interactive version of the current Annual Report in mobile applications.	HRC Presents a detailed annual financial report, audited, in accordance with the general principles of American accounting, showing evidence of an organized and well recorded financial management states.	Reports annual results audited by *INGO Accountability Charter*, which is a global initiative to support nonprofits leading to improvements in the presentation of standardized reports that guarantee the credibility of the process of information and provides confidence to stakeholders.
	2. The organization evaluates performance, measures used to evaluate are appropriate and demonstrate that the mission of the organization is achieved and benefits are provided to beneficiaries.	Includes comparison with prior year balances to measure their annual performance, report shows a complete management checklists open to public inspection evaluating each point. Results are mesured with the number of rescued animals by year and veterinary care they receive.	The annual management report is complete and includes comparison with prior year balances to measure their performance. The MET is evaluated by the Presidential Advisory Commission on Holocaust Assets in the United States and The House of the New York City Bar Association.	The St. Jude administrative activities are supervised by the Board of Trustees and Directors. The research work is reviewed annually by the Committee of Scientific Advisors, composed of physicians and scientists of international renown.	Reports results open to public inspection, relating victories achieved by the organization.	Evaluates performance rigorously through INGO who audits its reports regarding: Respect for human rights, independence, transparency, good governance, responsible advocacy, participation, diversity and inclusion, environment, ethics and professional management.
	3. There is a logic relationship between the activities of the organization and the attempted results	Manages the activities of adoption and promotion of animal care take; Programs range from awareness to action of the whole community.	Activities proposed in museum show great reception from the American community , responding in a participatory and agglomerated manner.	Research at St. Jude is aimed to understand chemical, genetic and molecular underpinnings of catastrophic childhood diseases in order to find cures for these diseases and facilitate prevention.	Indeed the actions of HRC and research carried out in their areas of work, empower the LGBT community to demand their rights while facilitating agents, offices and legal entities to achieve its mission.	Gets its activities to change attitudes and behaviors towards the environment
CRITERIA 2: Diversification of noncommercial income	1. The organization has diversified its sources of funding and seems to be viable in the future, it provides enough information to convey the types of funds received	Displays a complete report of all sources of funding, it has recurring donations from various sources	Report a list of donors with sufficient information in numbers, names, services provided, profits. Fiancial sources are featured according to the type of program offered, membership donations, support events, family and children's programs.	The hospital maintains strong and varied relationships with funding sources, making it less vulnerable to economic resecions. It notifies the donations received in the news section where it reports the funding it receives from celebrities, companies and / or individuals; Manages and receive special grants from inheritances that supporters leave to the hospital.	It has recurring donations from various sources . It is planned through monthly and anual donations, club members, volunteers and gifts.	They have a system that ensures sufficient incremental contributions established with high incomes and redirects them to offices in developing regions, they have also implement massive fundraising and trigger messages. They do not accept donations from governments or corporations to maintain their independence; it relies on contributions from individual supporters and foundation grants.
	2. Demonstrates a logic connection between the work they do and how insure money to support that work	Establish networks with companies that may be related to them with some of its activities, connecting invesionists worldwide through online donations.	Presents organized and effective ways of doing their job, achiving funding from multiple sources. This is due to the diversity of its programs, which address different audiences.	Contents of high sensitivity allow people to see the reality of patients, motivating and ensuring donations.	Resources are ensured through a strong network of donations and support of stakeholders and campaigns defending the rights of LGBT community	Global campaigns are carried to afford strategic support, which is provided to national and regional offices and is funded by millions of members worldwide.
	3. Demonstrates to donors that their support is valuable and its able to meet their expectations	Recognizes that donors and partners are crucial to help the organization in its efforts to save all pets. Meets the expectations of donors fulfilling the social mission demonstrating in chiffres and making it visible in the media	Meets both mission objectives and donor expectations by offering compensation benefits translated into free admission and assistance to exclusive events.	The organization informs the purpose of donations and thanked the supporters. The results demonstrate good management of resources, seen in the number of patients and the number of lives saved.	Publicly acknowledge and thank steakholders, vistorias and *momentum* achieved due to the daily work of volunteers, members, employees, board and the millions of individuals who support with donations to the organization, expressing future projects for those who need the continued support.	Thank through a personal email every donation or firm community makes to achieve the objectives for which they fight. His victories for the environment meet the expectations of their community.
CRITERIA 3: Administrative cost	1. Provides enough information to express how money has been spent	Have an official report "Where does your money goes" which describes the percentage of operating expenses and funds	Detailed in the annual reports administrative costs or service delivery and expenses of the collection	In the news section shows the expenses incurred in: each of the processes, materials, events, family support, treatments, etc. The cost of daily maintenance of the hospital is $ 1.7 million, which are mostly covered by public contributions. St. Jude has approximately 3,600 employees.	Reports the percentage of expenditure on total income in the annual report.	Expenses are recorded for periods in an understandable and systematized way. Costs are estimated and compared with the results of the annual report. Board members do not receive salary but their expenses are reimbursed and receive compensation or attendance fee for the time spent on Board activities, meetings and preparation.
	2. The organization combines fundraising expenditures with other promotion activities	Combine the cost of fundraising costs with overall management. Offer downloadable publicity to promote the organization.	Combine the cost of fundraising with verall management.	As a whole, the fundraising costs are combined with promotional activities, highlighting each sensitive content that instill support to patients and the hospital.	Combine the cost of fundraising with overall management.	Combine the cost of fundraising with overall management. They encourage the reproduction and distribution of materials, electronic products and services including name and logo
	3. The annual report shows lower administrative costs than operating and fundraising expenses	Shows lower administrative expenses than operating and fundraising expenses	Shows lower administrative expenses than operating and fundraising expenses	Shows lower administrative expenses than operating and fundraising expenses	Shows lower administrative expenses than operating and fundraising expenses	Shows lower administrative expenses than operating and fundraising expenses
	4. Key Staff including the CEO can be identified on the web page with information about their career	Each of the members of the board of directors and executives within the organization, with their respective biography is dispalyed in the web page	Key stuff is listed, although characteristics of each are not described	Administrative staff is shown with their resumes that highlight the skills and knowledge of each in their specialty area	Each of the members of the board of directors and executives within the organization shown with their respective biography	Each of the members of the board of directors and executives within the organization are shown with their respective biography
CRITERIA 4: Operating Margins	1. Revenue is equal to or greater than costs; the organization is not in deficit. It is necessary to review the annual report	Revenues are greater than expenses as reported by US 848 813 2012	Although the museum reported a deficit of US 4.4 million in 2013 its assets grew by $ 290 million	The revenues are greater than expenses, according to annual report 2013	Revenues are greater than expenses as reported by US 848 813 2013	Reported deficit for 2013 of € 6.8 million
	2. The organization reports waste and activities that did not work during the year to avoid falling into the same unnecessary expenses.	Demonstrate knowledge management, publish a *playbook* with what worked, what did not and what follows for each program, to avoid unnecessary expenses, lecturing and lights in every place where they work.	No reports	No reports	No reports	No reports
CRITERIA 5: Commercial Income	1. The organization has undertaken business activities	Tours on the sanctuary, pet insurance, magazine subscription "best friends" payment for adds and media kit, are commercial activities to earn money	Have business income from multiple sources, cafes, bars, terraces and cafes within the MET are one of them, as well as tours of the garden, summer internship and of course the MET shop where they sell jewelery, watches , bags, books, decorative works; MET also has *KIDS* store, with games, art structures, and children's books.	It has undertaken commercial activities within events and campaigns such as galas and exclusive dinners, also makes golf tournaments, which allow to raise money by selling products and subscriptions	HRC has undertaken business with an application of clothing store, accessories, jewelry, watches, pet supplies, home and office bearing with the HRC brand. Marketed publications, books, guides and educational videos about the LGBT community. Sells an affiliation with a virtual guide that evaluates the index of Corporate social responsibility (created by HRC). Offers the following payment services: debodas Register, dating, shop for marriages. HRC automatically contributes a percentage to the organization card.	It has not undertaken business
	2. Business activities are independent of the missionary activities	They are not entirely independent, pet insurance is an activity that has its own sales page, but fits and supports the mission of the organization.	The business activities of MET are not independent of the mission, because its scope affects the mission objectives of the organization, also operate in the same museum.	Are performed at different facilities and contract staff is independent of staff working for the organization in its daily operations; still no evidence that they are completely independent of the organization.	They have a complete online store dedicated to commercial activity, yet no evidence that it is independent of the orgaización.	Not applicable
	3. The organization launch events where it can earn revenue from subscriptions and sales	National Conference on *Best Friends*, workshops, "Super adoptions" Celebrating anniversaries, some mass participation events that generate a source of income for the organization.	Events and Conferences, Conversations gallery, night parties and gala celebrations are presented in the MET regularly, leaving significant revenue.	Events like glamorous galas, where participants pay for their entry and buy products sold by the organization.	Events are classified into three categories: local, galas and community events, they are run at intervals of two or three a month in different parts of the United States.	It is emphasized that a goal is set in the amount of income to be achieved in each event with their sponsors who pay a registration fee in order to support the organization
CRITERIA 6: Endowment	1. The organization offers a strong value proposition for investors, articulated on an appealing message to the type of investor it is looking for	It offers multiple opportunities to grow the brand through corporate investors, presence within the industry, exposure to passionate donors, volunteers and attendees at events, and web traffic. The message is highly attractive and explicit.	Displays circles in which investors and donors can participate, according to the amount of investment, these circles describe a number of activities and benefits as special events at night when the Museum is closed to the public, Free admission for 1 year for all employees and 1 guest.	The value proposition that the organization offers to investors, is clearly immaterial, the results show that the hospital, with photographic and video evidence is more than sufficient for those making their contribution to the institutionhowever, the Hospital involves investors to events for entertainment purposes.	Addresses an issue forefront in recent years and also has a large community of people affected. The message is communicated through creative, attractive and sensitive campaigns against inequality. HRC created an indicator of social responsibility for companies that develop a strong relationship between the organization and investors.	Stimulates sensitive corporate environmental practices as regulatory mechanism to engage business by environmental concerns and engage strategically, as trusted allies through *green alliances*
	2. Publicity material clearly communicate the information and report to investors in the way they seek to be informed	Report clear and interesting to investors and donors financial statements, figures of rescued pets, photographic evidence, stories and a space that explains where the money goes.	Informs investors and donors the countless benefits for joining, financial statements, photographs in a chronic manner.	Photographic evidence, reports of lives saved and / or treatment, families that tell the story of his son who is being helped by the Hospital, videos, news, research, communicated to all parties of interest, the results of the organization.	Provides rigorous research and analysis *insight* that empowers and streamlines the process of inclusion of the LGBT community on an equal basis in society.The material prepared based on this information is very attractive, comprehensive and high impacting.	The victories, recognition and visibility it has reached, attract investment finding common ecological and commercial interests. Technological and innovative approaches to address environmental problems simultaneously capitalize on the needs of investors and economic objectives.

Conclusions

A nonprofit organization is financially sustainable when it is able to maintain in the short, medium and long term accountability, report information about operations and finances, diversify and distribute revenue, reduce administrative costs, obtain high operating margins, generate revenue and maintain a sufficient endowment.

The good practices listed above can guarantee financially sustainability for a nonprofit organization over time.

The evaluation used for the exploratory research of web content is a tool that provides financial metrics to any nonprofit organization seeking to identify practices and put them in practice to accomplish financial sustainability in the long term.

Nonprofit organizations must develop great strength to provide information to users through the media taking advantage of current reductions in the cost of communication and Internet access, as communication is the key to fundraising and appropriate the community with the mission addressed by the organization.

To give with purpose is not about giving a lot it is about giving something that belong to us, as money, time or other resources that can benefit others. Give purposeful means thinking about how to make effective the process and being creative to help others.

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