“FINANCIAL SUSTAINABILITY: A MODEL TO GOVERN THE NON-PROFIT ORGANIZATION”

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Abstract
This paper examines the financial sustainability in Nonprofit Organization. It seeks to understand the mission and vision of financial responsibility. The mission of an NPO is usually expressed as the vital role which plays in the segment of society within which it serves. Once mission is determined, an NPO often finds that it is unable to withdraw. And also examines how the need for building a sustainable organization has impacted on the strategy focus of the nonprofit organization. So, with the increased in the scope and size of the third sector, have come calls for the need for increased financial sustainability. Within this mind, achieving financial sustainability becomes a real challenge. The underlying objective of this study was to assess and study some of the strategies and models to the financial sustainability with a focus on their sources and uses of funds. Other variables like leadership, governance, community practices and management were also incorporated in this study but only as they related to the NPO financial viability.

A further recommendation was proposed to appraisal for the sustainability of NPOs in conjunction with the recommendations mentioned is considered as a framework for NPO managers and interested parties, to sustain their financial resource. This study recommend models to determining the financial health of an NPO by analyzing operational criteria, it also make a significant contribution to nonprofit research by providing an analytical means of investigating a single organization’s financial sustainability and suggesting specific measures that can be undertaken to its financial sustain.

Key Words: Nonprofit Organization, Financial Sustainability, Governance.

INTRODUCTION
Nonprofit organizations (NPOs) contribute to society through their social value creation. They operate in an increasingly turbulent context where building sustainable organizations has emerged as a critical need. It is challenging because the paper speaks against much of the conventional wisdom of standard management books on non-profit organisations; and accepting the major thrust of the argument presented here would ultimately call for a reappraisal of how we think about non-profit organisations and their management.

SUSTAINABILITY
Broadly, sustainability refers to the ability of administrators to maintain an organization over the long term. Sustainability is a measure of an organization’s ability to fulfil its mission and serve its stakeholders over time. This manual is designed for health care service delivery organizations, for which improved sustainability means broader sources of funding and an enhanced ability to deliver vital services to target populations.

Sustainability is a process, not an end. It involves all the elements and functions of an organization and every major decision made within the organization. This manual seeks to provide users with the fundamental tools required to enhance the sustainability of their organizations. These tools can be tailored to fit the needs of various organizations, but they are effective only when the users are committed to the process of sustainability, begin the journey with an open mind, and remain willing to look hard at their organizations. This commitment to the process must involve all levels of the organization, from the board of directors through senior management and the entire staff.

The value of the manual lies in the desired outcome: sustainability in delivering vital services to populations in need. This will be achievable for many, aggressive for some, and lofty for others. The most important task is to adopt a sense of urgency in promoting operational sustainability.

The Types of Organizational Sustainability:
1. Financial sustainability.
2. Programmatic sustainability.
3. Institutional capacity (good standard of governance, management knowledge and skills).
Sustainable NPOs have the ability to survive over a long period of time. They have a good standard of organizational performance, financial viability and capacity. Their focus is on maintaining this standard in a changing world with new demands coming from stakeholders and the general public.

**Factors influencing Potential NPO Success through sustainability:** To compete in the changing health care environment, an NPO should have the following characteristics:

1. A strategic plan and ability to implement the plan;
2. A manageable human resource development plan and management information systems plus other institutional management systems;
3. A marketing strategy based on analysis of its potential to offer or sell services to specific clientele;
4. A customer oriented and participatory philosophy;
5. Ability to combine goal of serving poor with schemes to serve wealthier customers for cross-subsidization;
6. A strategy enabling transition from existing donor relationships into other approaches of generating income; and Capacity to generate funds from a variety of sources.

**FINANCIAL SUSTAINABILITY**

In recent years, despite the vast difference among the world’s NPO’s, most share a common dilemma: lack of funds limits the quantity and/or quality of the important activities they carry out. The notion of financial sustainability is something of a holy grail in the nonprofit sector these days. Virtually all nonprofit board members and executives today face financial situations that at best constrain their ability to grow or at worst threaten their very survival. The absence of strategic frameworks to help structure nonprofit leaders’ thinking and planning for sustainability certainly hasn’t helped. Much as 21st-century corporations are integrating social responsibility and sustainability practices in their business models, 21st-century nonprofits must integrate financial considerations with their social impact priorities as well. It’s all reflective of the movement toward a broader perspective of organizational performance and the idea of “blended value”:

1. It is a state in which an institution has a reasonable expectation of covering its costs for the foreseeable future through a combination of donor funding and locally generated income. When donor funding declines, an organization may work to return to financial sustainability through some combination of cost control and income generation.
2. It can be considered a state in which a program can cover its costs by some combination of revenue generated from service charges as well as dependable long-term support to cover routine costs. Thus, a program need not necessarily be self-sustaining if sufficient long-term funding is available from other sources.

**According to Bowman (2011),**

An organization sustainable in the long term but unsustainable in the short term will be chronically short of cash. Conversely, an organization sustainable in the short term but not in the long term may have adequate cash but inflation will cause the value of its assets to erode over time. This, in turn, will cause the quantity and quality of services to diminish unless capital campaigns periodically bring infusions of new assets.

The six essential requirements for achieving financial sustainability in an organization are:

1. Long-term Commitment.
2. Leadership.
3. Investment of Time and Money.
4. Business Plan
5. Effective Management Team.
6. Team Work.

The financial sustainability of the third sector is of major concern because it is
1. Very large and has been growing rapidly.
2. A substantial employer.
3. The provider of services which fill gaps in government services;
4. An alternative delivery mode for public services, a rich source of diverse ideas and an avenue through which
   minority demands for public goods can be channeled.
5. An important expression of the pluralistic approach that underlies Western democracies.

THE MODEL AND FOUR PILLARS FOR FINANCIAL SUSTAINABILITY IN NPO

**Figure: 02: A model to Measure the Financial Health of an NPO**

The Model defined:

1. **Equity Balances**
   Equity balances are base for any organization to carry its activities. Since organization equity is equal to its available net
   assets, or the amount remaining after its liabilities are subtracted from its assets.

   However equity balance is obtain from its operating income so an organization has to maintain sufficient equity balances, it
   may be held in from of liquid or fixed assets form. So it’s very essential for the NPO’s financial system because if they keep
   fixed form it can be used as investment by keeping mortgage. If they held in liquid form it can be used for the finance or to
   investment for working capital need for the carrying of NPO’s projects. Since NPO will receive contribution intended for
   capital purpose, it wouldn’t considered as operating capital but considered as equity capital which also denotes operating
   capital being an unrestricted fund and equity capital being a restricted fund.

2. **Revenue Concentration**
   The higher the concentration level, the less diversified the revenue stream.

3. **Administration Costs**
   High administration costs can erode financial sustainability.

4. **Operating Margins**
   Substantial margins are necessary to ensure financial resilience.

**Importance of Equity balances to the financial health of an NPO because**
- if they are held in non-liquid forms, they can be used to free up funds, by refinancing an existing property or
  obtaining a mortgage on a property that was previously debt free;
- if they are held in unrestricted liquid forms, they can be used to finance the working capital needs associated with a
  growth in services or to replace temporarily lost revenues during a deficit period;
- if the NPO experiences a series of deficit periods, unrestricted non-current assets can be sold off and used to offset
  these losses so that the organization can continue to operate;
• if management needs flexibility to meet and respond to changing resourcing and financial requirements during the implementation of a program or project, non-restricted equity balances can be used, and
• if the NPO has significant restricted equity balances in liquid form, it may alter its mix of services so as undertake activities which are permitted from the restricted funds, thus freeing unrestricted funds for other uses.

The financial health model uses a relative measure, the ratio of equity to revenue, to operationalize the potential that an NPO has to find replacement revenues. This measure is generally accepted as an indicator of long-term stability.

2. Revenue Concentration
There are two components of revenue concentration: diversity and distribution. First, diversification of revenue sources increases financial sustainability because of the probability that all sources will not be affected by the same economic shock (Bryce, 1992). Conversely, the fewer an organization’s revenue funds, the more financially vulnerable it is to revenue downturns (Trussel et al, 2002; Tuckman, 1991). Secondly, an NPO with equal distributions of income from various revenue sources will be more financially sustainable, than one which receives most of its income from a single source. Therefore, the larger the number of revenue sources and the more equally these sources contribute to total revenue, the more financially sustainable the organization.

3. Administrative Costs
In simple terms, there are two ways of improving a financial position, or balancing a budget: either revenues must be increased or expenditure must be decreased. Therefore, if an organization is unable to raise additional revenue, or if revenues decline, it must look to reducing its expenses. In order to continue to provide services, an NPO will not at first consider cutting the direct costs involved in the provision of these services, but will be more likely to reduce indirect expenditure, such as administrative costs. All NPOs have administrative costs, but the size and composition of those costs vary depending on a number of factors including the nature of the organization, its size, the length of time it has been established and its growth rate. Administrative costs often include expenditures for resources that do not produce immediate results, such as training, planning, consultation and fund-raising functions. There are various viewpoints in regard to differing interests and claims on budget allocations of direct (program) and indirect (administrative) costs (Haller, 1982) with the need for administrative support being viewed differently by

• a donor (who wants to see their contribution going towards direct service provision);
• a member of the governing board (who sees the need to be responsive to donor and the member and believes that too much money may be “wasted” on administrative salaries and other costs), and
• a member of staff (who wants an increase in salary - just to keep up with inflation – and who cannot carry out all the assigned roles because there are just not enough hours in the day).

If an NPO has relatively high administrative costs, then it is more likely to be able to reduce expenditures without seriously affecting service delivery. However, an organization with low administrative costs would be expected to have few opportunities to reduce expenditure before it impacts on its provision of services. Consequently, an NPO with lower administrative costs has less room for cost reduction before service provision is affected, and is more likely to be financially vulnerable to declines in revenue, than one with higher administrative costs. The financial health model operationalises administrative costs by considering a relative measure, administrative costs as a percentage of total costs.

4. Operating Margins
An NPO’s financial sustainability is related to its operating results. Although a comparison over time may indicate a trend in deficits or surpluses, it is difficult to compare individual results because of the change in the value of money over time and change in activities. Therefore, the financial health model uses a relative gauge, the operating margin ratio, to measure and compare operating results over time. The operating margin ratio is expressed as the percentage that the organization’s net operating result (income less expenditure) represents of its total income. The operating margin is related to equity balances in that a large operating margin provides the organization with funds that can be saved to build operational equity. If an organization has a low or negative operating margin, then it will have little or no cash surplus upon which the organization can draw before having to cut services. Consequently, an NPO with a high, or at least positive, operating margin will be financially sustainable.

CONCLUSION
Achieving financial sustainability is a long-term goal that requires the concerted efforts of the entire organization. While access to grants or preferential conditions is a competitive advantage enjoyed by non-profit organizations, we cannot rely exclusively on such privileges to reach our goal. If we were to do so, we would be allowing luck to determine our fate. We
must understand that achieving financial sustainability is an ongoing process that has to become part of our organization’s day-to-day management: in strategic planning, in administration and finances, in fundraising policies, and in the planning and implementation of strategies that enable us to generate our own income. The above model defines and makes understanding financial sustainability is way to achieve financial health by managers.

We also must recall that creativity alone is not enough to achieve financial sustainability; it is essential that we adopt the most advanced strategies, models and methods within our grasp to maximize our potential for success. Achieving financial sustainability should no longer be an impossible dream. Achieving this goal is both a necessity and an obligation for non-profit organizations since it ensures our ability to accomplish our respective missions.

Many institutions seek donors that will allow them to set up a trust fund or income-generating opportunities that yield a profit margin above market conditions. The ingenuity and creativity of non-profit organizations has led to the development of many innovative mechanisms. This ability to dream and to persuade others to realize these dreams is one of this sector’s principal strengths.

Although, the NPO’s has some financial flexibility in that it has access to equity balances and relatively high administrative costs. However, NPO’s has few revenue sources and very low operating margins. So, flexibility is such that in the short term it can survive financial shocks, remain financially sustainable and continue to offer the same level of services to members. If the situation continued, the organizations would need to consider the sale of non-current assets in order to have cash available to meet operating expenses. Financial sustainability and accountability are ever-present issues for NPOs as they seek to balance their mission with financial responsibility. This financial health model provides the framework for investigating the financial sustainability of an NPO by considering changes in financial position over time. It illustrates the formulation of operational criteria, analysis and conclusions with respect to a particular organization. This model can, in turn, be applied to other NPOs to diagnose their financial health.

REFERENCES