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**FINANCIAL STABILITY IN NOT-FOR-PROFIT
ORGANIZATIONS: A CASE STUDY**

Honors Thesis

**Presented in Partial Fulfillment of the Requirements
For the Degree of Bachelor of Science in Business Administration**

In the Bertolon School of Business
at Salem State University

By

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Abstract

A nonprofit organization (NPO), is defined as a business “not conducted or maintained for the purpose of making a profit” (merriamwebster.com). However, to pursue the goal of benefiting society, a nonprofit must have enough funds in order to further their mission. Nonprofits rely heavily on government funding, outside donations, and fundraising to get what they need, but the amount received by an organization fluctuates year to year which makes budgeting and accounting difficult.

This thesis will work to evaluate the financial and business processes of the not-for-profit organization called Partners in Development located in Ipswich Massachusetts. Partners in Development is a recognized 501(c)(3) organization that sends teams of volunteers to Haiti, Guatemala, Peru, and the Mississippi Delta to build homes, and provide medical care and clean water to those in need. Based off of extensive research in the not-for-profit sector as well as an interview with the organization’s President; this thesis will identify and explain the business and financial practices of this organization that result in its success, and serve as an example for those wishing to pursue their lifelong dream of helping others.

Introduction

Sustainability is one of the biggest challenges that not-for-profit organizations face. Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs and focuses on three pillars: economic, environmental, and social (Kenton). This paper will mainly focus on financial (economic) sustainability; however, the other two pillars are heavily involved as they are just as important. It is extremely difficult for nonprofits to stay afloat as their incomes oscillate due to the willingness of donors, fluctuations in the economy, and government regulations. Income is never guaranteed, which affects the ability of an organization to fulfill its mission.

According to data from the National Center on Charitable Statistics, on all 501(c)(3)'s (an organization or firm that is exempt from federal tax) that filed a tax return between 1989 and 2003, they found that 12 percent of these nonprofits exited from the data within five years, and 17 percent exited within 17 years (Asset Panda). This uncertainty of income makes it increasingly difficult for accounting and finance professionals to accurately determine budgets for an organization, and without precise numbers it is hard for leaders to determine what may or may not be

possible for an organization to complete within a given year. Also, a lack of funding makes difficult for an organization to spread the message of its mission because they are not able to invest in advertising, employees, or even events that support the organizations goals. To alleviate financial burdens and related issues, an NPO should prioritize retaining both large and small donors alike. Overall, falling behind financially is the largest struggle for NPO's and many fail, but there are success stories that should be highlighted. Therefore, this thesis will work to provide information on how to avoid financial issues by examining a successful not-for-profit organization, Partners in Development.

It is no secret that different parts of the world suffer from extreme poverty. Approximately 10% of the world is living on less than \$1.90 a day in 2015, which is down from 36% in 1990 (Overview). If the population of the world is currently about 7.7 billion the number living in extreme poverty is 770,000,000. In an attempt to decrease the number of those living in extreme poverty, Gale and James Hull of Ipswich Massachusetts started a not-for-profit organization in 1990 called Partners in Development. Partners in Development (also referred to as PID) has been “committed to education and economic advancement in the developing world” (Partners in Development). To make this dream a reality PID started sponsoring about a dozen children in Guatemala in 1987, and has developed their

organization into one that helps not only children, but entire families with their Whole Life Transformation Model that gives families access to education, housing, and healthcare. Partners in Development is an extraordinary organization that changes the lives of those that it helps. However, it takes extensive financial resources to make these dreams come true and starting a not-for-profit organization from the ground up is a daunting task, but the founders of PID have been successful for almost 30 years now.

Literature Review

In 2012, Lisa M. Sontag-Padilla, Lynette Staplefoote, and Kristy Gonzalez Morganti published a research report titled *Financial Sustainability for NonProfit Organizations*. In this report, the team of authors examined what kinds of issues nonprofits face, and successful financial and business strategies organizations should focus on. For the purpose of this paper, the second chapter of this book called *Challenges and Promising Practices of Financial Sustainability in Nonprofit Organizations* will be reviewed as it directly relates to this case study. In this chapter, the authors focus on five main practices that organizations should be focusing on to address the issues that they face. These five practices are:

1. Reliance on external funding.
2. The nonprofit “brand”.
3. External expectations of partnerships.
4. Expectations of value and accountability.
5. Community engagement and leadership.

This paper will specifically focus on reliance on external funding, the nonprofit “brand”, and community engagement and leadership as they most closely relate to Partners in Development.

One of the main issues that nonprofits face is reliance on external funding. A nonprofit makes its money from at least four different sources: the federal government and state and local government agencies, financial institutions, foundations, and other philanthropic organizations (Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012). With each of these sources comes their own set of challenges. Funding from federal, state, and local governments can be tricky, and it is even a source that nonprofits tend to stay away from as there can be restrictions on what the money can be used for. Also, the state of the economy is a large factor in the trends of donations as well as funding from the government and other financial institutions. When the economy is suffering, the willingness of donors decreases as well as available funding. The article states that “in a survey of 800 nonprofits at the end of 2008, 75 percent reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding” (Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012).. To combat these issues, the authors go into detail about several practices nonprofits can follow to avoid becoming reliant on one source of funding, and one of these practices is developing a coherent fundraising plan. This may seem obvious, but creating a plan that works for the

organization is tricky. As mentioned previously, when the economy is doing well nonprofits tend to do better as donors have more of an ability to donate, and when it is hurting their ability decreases. Therefore, it is imperative that organizations have strategies for both economic environments while still being able to support their mission.

The second practice is the nonprofit “brand”. The nonprofit “brand” is created through marketing and branding efforts to help promote and sustain their programs and services (Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012). Going back to funding, there can be competition between organizations for donations, so it is crucial that an organization uses its resources wisely in order to create their “brand” and clearly and consistently establishes the mission and differentiates itself from other organizations. It is common to think that a nonprofit organization is not a business because it doesn’t sell a product, or collect sales revenue, but like a business it must create a brand for itself. The authors go into detail about this describing how a strong mission statement can create a brand image, and thus can help eliminate competition, and assist the organizations leaders and employees on focusing on a mission that is obtainable. A mission that lacks focus can be much too much to extravagant, thus leading to the inability to reach it. The article states that an organization’s “mission should be made as clear and fundamental as possible and stated in such a way as to motivate employees

who read it”(Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012). It is important for an organization to revisit the mission frequently as it ensures that the work they are doing useful, so that they aren’t biting off more than they can chew. It is easy to get wrapped in the big picture and trying to take on too many things at one time makes the work ineffective, therefore leading to a smaller impact. A strong brand image is crucial in portraying what it is the organization is trying to accomplish. With a strong brand image, donors, the government, and even volunteers will be more likely to give what they have to the organization in an order to see it be successful. A brand image is what connects the donors to the organization, so it is crucial that it is clear and tangible.

The last important practice is community engagement and leadership. Engaging the community is essentially one of the most important practices a nonprofit can use. Typically, nonprofits reside within the community they serve, so it is essential that they organization collaborate with community members to promote their mission, and increase financial sustainability (Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012). In the nonprofit sector, a board of directors and volunteers are two ways that’s organizations involve the community. The board of directors is the group that essentially leads the organization, sets its goals, and watches over the finances. The trouble with a board of directors is finding individuals who are willing to dedicate their time and be committed to the

organization. The board of directors has to be one cohesive group as it sets the tone for how the organization is run. If the board is disorganized, and doesn't manage their time wisely their efforts will be ineffective. Research has found that "frequency of board meetings is not associated with any measure of board performance; rather, perceived organizational performance as well as increased board member occupational diversity is positively associated with greater social performance, fundraising, and overall board performance" (Sontag-Padilla, Staplefoote, Gonzalez Morganti, 2012). It is imperative that the board of directors have these characteristics in order to hold the organization together. Without a dedicated board, the organizations performance and effectiveness will decline. Second, volunteers are those that give up their time to help serve the organization, typically without any monetary compensation the work.

Additionally, volunteer participation is a key strategy to addressing issues of financial sustainability and promoting community involvement. Volunteers offer a wide array of skills, knowledge, and passion that may not exist within the current staff. Volunteers are typically drawn to an organization because its mission connects to them, thus highlighting again why it is crucial for an organization to have a strong brand image. Just like the board of directors, volunteers must be committed and dedicated as frequent volunteer turnover has negative effects on both organizational and financial performance due to marketing and training

expenses. Promoting volunteer retention should be an aspect that the board heavily focuses on. The research states that “creating a strategic volunteer plan that utilizes volunteers in a variety of roles” is important in creating different assignments for those who wish to volunteer, so that there are jobs that apply a wide array of individuals with varying interests and talents. The authors have listed the following recommendations regarding volunteers:

- Matching volunteers’ skills with appropriate assignments.
- Recognizing the contribution of volunteers.
- Measuring the impact of volunteers annually.
- Providing volunteers with training and professional development.
- Training paid staff to work with volunteers.

Implementing these recommendations will ensure that volunteers are being accurately placed into jobs, feeling reassured that what they are doing is making a difference, feeling prepared for their assignment, and lastly that they are getting the guidance they need from either the board of directors or other paid staff.

Volunteers are essential to the promotion of the organization as they are individuals who are passionate about the mission and are willing to spread the word about what the given mission is. It is important to make them feel that they are needed, valuable, and making a difference as a strong group of consistent volunteers can make or break an organization.

This research article is important as it highlights specific practices that can benefit a nonprofit organization. The authors highlighted several practices that have been extensively researched and have been successful for other organizations. Now that the reliance on external funding, brand image, and community involvement and engagement have been examined in detail, this paper will next apply these practices to the nonprofit organization Partners in Development in order to analyze how well the organization implements these strategies as well as what could be improved based off of the interview with the organizations President, Gale Hull.

Methodology and Overview of Organization

In order to get an accurate understanding of the business and financial aspects of Partners in Development an interview was conducted with the organization's president Gale Hull. This nonprofit was chosen because of the personal connection I have to it. This nonprofit was founded and continues to operate in my hometown, and I am familiar with their work as many friends and peers have volunteered for them over the years.

Partners in Development, Ipswich MA

Partners in Development is a nonprofit organization founded in Ipswich Massachusetts in 1990 as an organization that focuses on developing third world countries through access to medical care, clean water and food, educational and employment opportunities, and even shelter. Partners in Development calls this their "Whole Life Transformation Model". This model intends to change the lives of those that they help by addressing the three aspects of life listed above that they

would otherwise not be able to have. To do this, Partners In Development started sponsoring a dozen children in Haiti in 1987 by providing them with funds in order to attend school. After interacting with these children and their families, PID realized that the parents of these children did not have access to employment opportunities or formal banking, so being able to keep a livable income was next to impossible. Since this realization, PID then offered these individuals a micro-loan program which will be described later. The next aspect of the whole life transformation model that was created was the housing program. PID offers individuals with clean, affordable, and safe homes. Lastly, preventative and primary health care was offered. The four aspects: education, employment opportunities, housing, and healthcare are the backbone of PID's efforts. The model has been adapted in Haiti, Guatemala, Peru, and the Mississippi Delta. PID has proven time and time again that their model is most definitely life changing. Stopping the cycle of poverty for families allows them to rise about their economic situation and gives their future generations hope.

Mission Statement

We partner with individuals and communities living in extreme poverty in The Caribbean, Latin America and the United States, using the Whole Life Transformation Model (education, income generation, housing, and health care) for addressing the multiple challenges of their economic situations.

Vision Statement

We visualize a world in which all people have the basic material resources that enable them to flourish as individuals and communities.

Results

After interviewing Gale, substantial information on the business and financial practices of Partners in Development was gathered. Gale responded to a total of 37 questions related to the origins of the organization, how she grew it into what it is today, and how she maintains financial stability.

The first question for her related to the difficulties of starting a nonprofit. She then explained how Partners in Development originally began by sponsoring children in Haiti. At first, no one was paid as it was purely volunteer based and it didn't cost much to run the organization, but as they started to grow and sponsor more children the necessity for consistent help was needed. The hardest part for Gale was going from all volunteers to having to hire someone to help out with paperwork, organizing, and other duties. This was the most difficult part because there was a commitment and responsibility to have enough funds in order to pay this person that she did not have before. This situation is a big transition for nonprofits as generating income is a necessity in order to be able to continue operations and pursue the mission.

Building support for the organization happened slowly but surely. The organization started off very small; sponsoring just about a dozen kids. Gale was a smart businesswoman in realizing that she should never go beyond what she had, and to not make promises she couldn't keep related to the organization's finances. In the year 2000, PID sent several volunteer teams to Haiti, and because of this the organization gained substantial credibility. Volunteers, their families, and those in the community were able to see and hear the effects of PID on Haiti and the individuals they helped. Gale explained how the more people went on trips, the more they and others wanted to continue to help out. One of the best aspects of PID is that an individual can sponsor a child and donate money to their education, health, and well-being. Over time, the donor gets a photo of their sponsored child as well as an update on them and their life. This personalization is what sets PID apart and garners the support of others. Being able to see the changes in a child or family because of your donation is a feeling unlike any other. Knowing that you made a difference in a child's life and in some cases, even saved it, is a large aspect in why the community is so supportive of this organization and why donors continue to donate over the years.

After several years of gaining support, mission trips, and many donors, PID had become an established nonprofit organization that needed to be financially stable in order to continue its mission. In addition to Haiti- the organization began

sending trips to Guatemala, Peru, and Mississippi. To do this, a yearly budget needed to be created and approved. The budget is drafted by the organization's president Gale, and then approved by the entire Board of Directors. The organization also has an accountant for bookkeeping and auditing.

To stay financially stable, the organization must raise funds. In 2005, a donor offered Gale a salary, and in 2006 she quit her job and dedicated all of her time to PID. With that, there is more time to work on marketing plans, fundraising strategies, and actually going on trips. The trips themselves are funded by the volunteers that wish to go on them. The price of a trip varies by location, but is typically \$800 plus airfare for 7 days and 6 nights. This includes transportation to and from the destination's airport, lodging, clean water, three meals a day, medical travel insurance, and a 1-day cultural excursion (Partners in Development). The individual can pay for themselves to go on a trip, or others can donate to a trip through the organization's website.

Like every business, nonprofits have expenses that must be dealt with. PID have several expenses that come from various places. First of all, the salary and wages expense must be paid every two weeks. Employees include those located in Ipswich MA as well as those who work in Haiti, Guatemala, Peru, and Haiti. In regards to being able to pay the employees, these funds come out of a general fund that consists of mostly donated funds. PID hires local individuals in the selected

countries in order to consistently maintain operations. Whether this be with medical care, home building, or other work, these individuals are given an opportunity for employment that they would otherwise not have had. Salaries for those in the other countries are equal to that country, so it is less expensive to maintain employees outside of the US, but those individuals are getting a livable wage that allows them to provide for their families. Most organizations that pay individuals in other countries attempt to pay them a US salary which typically bankrupts them, so PID has made a successful decision in paying a fair wage to those in other countries, and has created the ability to pay them without fail.

Other expenses include those relating to the Whole Life Transformation Model discussed previously. PID must have enough funds to provide medical care to thousands of people. In 2010, the medical program began in Haiti after the earthquake, and the medical clinics saw and treated over 50,000 people. Supplies, salaries, and maintenance are the largest for the medical program, and this expense is consistent with all 4 locations. Building homes is also a program that PID provides. Recently, they built a home in Mississippi for a cost of \$40,000 dollars. This home provided shelter for a family that desperately needed it. Building entire homes is a large scale and costly project, but Gale explained how she never takes on a project unless the funds are already secured.

An aspect that was discussed and proved to be interesting was the concept of donors. Donors are what make the work of PID possible. Gale was asked whether she prefers many small donations, or one large ones. She then explained how she has seen other organizations get large grants and spend them incorrectly and have to shut down their organization. In the case of a large grant, PID uses small parts of the grant for many projects and saves the rest. Again, a large project is not decided on until the funds are available. As previously stated, income variability is a struggle that nonprofits face. In the face a financial issue where there may be less income being made for whatever reason, PID keeps a secure account with 3 months' worth of funding. This account keeps peace of mind in the event that something goes wrong, there is 3 months to fix it. Another aspect of how organizations generate income is through funding through the government. However, Gale explained how PID tries to stay away from governmental funding as there can be some serious restrictions when it comes to dealing with governmental funds. For example, government funds could potentially end up being more expensive because of formalities and restrictions. Also, relying on the government would not be a smart business idea because if the economy takes a turn, the government will not be allocating funds towards nonprofit organizations. The economy again plays a large factor in what sort of funding and donors an organization may receive. Gale elaborated extensively on the fact that she has

noticed a trend in donors since the economy, as well as social norms have changed. What she explained was that she has noticed that most of the donations received comes from older generations, and donations from younger generations are little to none. It seems that donating to charities and nonprofits does not seem to be a part of younger generations' thought processes, which is critical because as older donors lose the ability to donate it is unknown how those funds will be made up if younger generations don't start donating. Therefore, a long term goal for the organization is how to gain the support and donations of younger generations.

A large part of financial stability for an organization stems from setting goals. Having an objective to work towards keeps motivation for all of those involved, and ensures that work is actually being done. There is always room for improvement, so the organization has several goals for the future in regards to improving financial processes. For some background information, for the homes built in Guatemala and Haiti; PID carries the mortgage. So, a future goal for the organization is to steer away from them holding the mortgages, and shift to a credit union holding them. Also, one of the main goals is to have affordable housing for those in the Mississippi Delta. As previously mentioned, building a house for a family costs around \$40,000. The houses will allow families living in section housing (apartments) to relocate to a new home that is equal in price, and owning a home will also give the family some established wealth.

The following is a general estimate of income from donations and expenses monthly for Partners in Development.

- Income/month from teams and sponsorships: \$108,000
- Expenses (payroll, medical expenses, food, shelter supplies): \$91,600
- Gifts and kind \$8,000

Conclusion

After analyzing research on what practices make a successful nonprofit organization, as well as examining Partners in Development, it is clear to see that this organization is thriving because of its ability to sustain its finances while being dedicated to pursuing their mission. The business practices described earlier (reliance on funding, brand image, and community engagement and leadership) are three strategies that Partners in Development successfully employ.

Reliance on funding is nothing new to nonprofit organizations as it is what makes the organization possible in the first place. PID's donors are loyal, dedicated, and truly believe on the mission. This is what propels individuals to donate in the first place. PID has never lost a donor due to traumatic events or a mistake, so this aids in keeping their legitimacy intact.

As explained earlier, governmental funding can be a tricky source because of its restrictions. For this reason, PID stays away from governmental funding unless there is a real need for it. Costs relating to formalities, paperwork, and actually receiving the money tend to deter organizations from getting it. Also, since funding from the government can be scarce due to economic downturn, PID feels it is safer to avoid it all together in the event that it could become unreliable.

With regards to fundraising, it is something that all nonprofits must do successfully, or there is no organization. PID has many forms/sources of fundraising. First, the trips that individuals take are paid for by themselves. As previously stated, the cost is around \$800 not including airfare. This amount covers what is necessary for the individual to have on the trip, and some goes back to fund the organization. Second, there is a platform on their website that allows for donations, or for people to donate to upcoming trips. Something interesting that was brought up was the fact that some individuals have put PID in their wills, so that when they die a part of their monetary assets gets donated. This was one of the more interesting ways of fundraising and donating that were discovered in this process. In fact, it is quite common for people to do so. Finally, towards the end of the year there is an annual benefit for the organization. The benefit consists of a silent auction where incredible items are auctioned off. This year's biggest item was an African Safari (bidding began at \$2,500), and there were about 20-30 other

smaller items ranging from \$5-\$2,000. The event continues with a meal, and then concludes with an inspirational speech from the organization's president, Gale.

This event brings the year to a close, and raises an extraordinary amount of money for the organization. This year, over \$65,000 was raised from the benefit alone! It is really incredible to see what how the dedication of a few individuals can inspire others to donate to an incredible cause, and help to make the world a better place.

Out of all the practices that were discussed in the literature, brand image may be the last thing people think of with regards to a nonprofit, but it may be the most important aspect of all. When we think of brands like Nike, Amazon, Walmart, Target, Toyota etc, there are certain connotations that come to mind. For example, some may see Amazon in a negative light as it has essentially taken over the world, holds an enormous amount of market share, and emits a large amount of toxins into the environment from operations. The same concept applies to nonprofits as it is crucial that society has a positive view of it, and that it is known for doing good for the world rather than doing something to harm it. PID has a very successful brand image, especially in the town of Ipswich. A large part of that is the president herself. She is actively involved in the community and works tirelessly for her organization, and because of this the community has an immense respect for her and her work. Whenever anyone hears the name Gale Hull, they automatically

think positively, therefore, this view reflects onto the organization itself. Through this thesis, it is clear that one of the strongest factors of brand image is determined by the person or persons who run it. With a strong leader who is actively engaged with the community and is passionate about their work, an organization will thrive.

Lastly, community engagement and leadership is a crucial practice for nonprofit. PID centers around involvement from the community because it is with help from them that makes the difference. Without the community, mission trips would not be possible, awareness would not be spread, and lives would not be changed. As mentioned previously, volunteers and the board of directors are two main ways that organizations promote involvement with the community.

Volunteers are a crucial part of PID as they are not paid, so there is no cost to the organization. The willingness of others is what makes the organization work, so when the community is not involved it limits the potential impact the organization can have on the world. Specifically, for PID, the community that supports PID is invited to the annual benefit where a large amount of money is fundraised.

Without their support, the event would not be worthwhile; and could potentially become a useless expense. The Board of Directors of PID are again, passionate and motivated leaders. They design the programs for each country, determine and

vote on the budget, and overall run the organization. The board is essentially the decision-making team of the organization, so they are the ones who are actively determining how and what information gets communicated to the community. Community engagement and leadership is essential to the survival of nonprofit organizations. Without it, there would essentially be no organization. Involving the community and connecting with them to create an emotional attachment to the organization is what will enable the organization to remain sustainable.

Overall, Partners in Development is an amazing organization run by an amazing group of people. That being said, it has also proven to have business and financial practices that allow it to continue to prosper year after year. Funding, image, and community involvement are three of the most important practices a nonprofit can use to be successful. It is clear that Partners in Development excels in all three, and if they didn't; they would most likely not be as successful. There is plenty of opportunities for PID to grow in this world. Poverty is a crisis that affects much more of the world than a small nonprofit can handle. With that, it is essential that the leaders of PID continue to find new ways to promote their mission as they have the potential to change lives all around the world.

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Interview Questions

1. What would you say was the most challenging aspect of starting this nonprofit?
2. How easy or difficult was it to gain the support of others regarding the mission of your organization?
3. Who is the person/persons that manage the finances for your organization?
4. What goals do you have for the future in regards to improving your financial processes?
5. What is your mission statement?
6. How do you raise funds?
7. Have you changed your processes in managing finances since the beginning of the organization?
8. Do you rely on the support of the government in any way? Are there any restrictions?
9. How are your employees compensated? Why do your employees accept this form over other options?
10. Why do you think some donors donate for the long-term while others donate less frequently/or occasionally?
11. Would you rather have a one-time large donation or a more consistent small donation?

12. How does the economy affect your income?
13. In what ways does your organization cut costs?
14. In what ways do you gain/maintain trust of the community?
15. What is the average monthly income of your organization? What percentage comes from donors/fundraisers?