

WEIGHING IN ON THE HALLMARKS OF NONPROFIT MARKETIZATION:
ORGANIZATIONAL FACTORS IMPACTING FINANCIAL
PERFORMANCE INDICATORS OF SCALABILITY
AND SUSTAINABILITY

by

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Abstract

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Nonprofit organizations have experienced continued revenue growth despite a decrease in government funding, increase in competition among organizations, and greater accountability to both public and private funders. Influences from both the public and private sectors have led to a “marketized” nonprofit sector, adapting tools from the business world to succeed in a more competitive atmosphere. A nonprofit manager must demonstrate the sustainability and scalability of the organization and effectively communicate organizational goals to engage a wide audience. Concurrently, a field of third-party evaluators has emerged, claiming to identify those nonprofit organizations that provide the greatest social return on investment for so-called social investors.

This study examines the impact of a variety of organizational factors, such as location, revenue composition, governance, and social media branding, on financial performance indicators of scalability and sustainability. Quantitative and qualitative data were collected on 399 organizations listed on the Charity Navigator website as providing other education services. Data included information from each organization’s 990 filing

from 2011, information provided by Charity Navigator, and content analysis from the organization's website and social media accounts. The researcher created a Mission Statement Effectiveness Tool as well as a branding scoring tool adapted from the Brand IDEA Framework developed by Laidler-Kylander & Stenzel (2014). Multiple linear regression analyses were performed to observe the impact of the nine organizational factors on three separate dependent variables: Charity Navigator's Financial Health score, Financial Capacity, and Revenue Growth.

Mission Statement Effectiveness yielded a significant positive relationship to Financial Health. Brand IDEA Effectiveness of online content yielded a significant positive relationship to Financial Capacity and Revenue Growth. The significance of these content analysis tools identifies the impact of effective goal communication strategies on financial performance. The inconsistency observed between Financial Health and Financial Capacity also suggests the need for clarification on the use of financial performance measures as indicators of scalability and sustainability.

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Chapter 1

INTRODUCTION

This study explored the organizational factors that impact financial performance indicators associated with scalability and sustainability in U.S.- based nonprofit organizations (NPO's) providing education services. This dissertation combined quantitative and qualitative measures to capture the complexity of the location, revenue composition, governance, and online branding factors that can impact a nonprofit's ability to produce scalable and sustainable growth as it is measured by a well-known third-party evaluator. Tools for evaluating mission statements and online branding were produced that could be adapted for use in evaluative decision-making processes by nonprofit practitioners and potential donors. This research demonstrates the usefulness of conducting research with multiple measures when studying financial performance.

1.1 Historical Context: The Transformation of the "Third Sector"

The past two decades have heralded change for all organizations, but the nonprofit sector experienced a unique transformation. Technological triumphs and economic decline have created a more competitive landscape marked by fundamental shifts in the way nonprofit managers raise money, decide how to spend it, and how they are held accountable for those decisions. Concurrently, the growth of NPO's has led to a need for a formal understanding of these organizations as a unique sector. Hammack (2001) adopted the term "transformation" to describe the shift in the nonprofit sector. Although happening more rapidly in recent years, these changes have been taking place since the beginning of voluntary organizations. To understand the transformation of the nonprofit sector, it is important to examine how the NPO's have been shaped by influences from both the public and private spheres.

The relationship between the public sector and nonprofit organizations began as informal volunteerism- an extension of service toward civil society. Since its inception, the United States has relied on nonprofit organizations to support the provision of public goods and services. Almost two centuries ago, Alexis de Tocqueville remarked on the ability of “Americans of all ages, conditions, and dispositions [to] constantly unite together... [and] the endless skill with which the inhabitants of the United States manage to set a common aim to the efforts of a great number of men and persuade them to pursue it voluntarily.” (2003, p. 596) Beginning with the Tariff Act of 1894, the American government has rewarded the role charitable organizations play in civil society by way of tax exemption (Arnsberger, Ludlum, & Stanton, 2008). The “tax exempt” status formalized the role of voluntary charitable organizations to deliver public goods and services while maintaining some degree of autonomy from both the public and for-profit sectors.

Salamon (1999) describes five roles that nonprofit organizations have played. Historically, nonprofit organizations have been able to close the gap when there is a public need that had not yet been addressed by American infrastructure. Nonprofit organizations also fill voids left by either market failure (when a collective public good cannot be made profitable) or government failure (such as the recurrent cultural resistance to “big government” solutions). Serving as “laboratories of democratic citizenship”, NPO’s have initiated many major social and political reforms. (Alexander, Nank, & Stivers, 1999). Finally, voluntary associations provide an opportunity for citizen solidarity, to unite around a common cause (L. M. Salamon, 1999; Tocqueville, 2003).

In the past decade, the United States has seen growth and market force development in its domestic nonprofit sector in spite of economic downturn spiked by threats to national security. From 2000 to 2006, the number of registered 501(c)(3) public

charities grew over 30 percent, with those operating within the education subsector reporting \$188.2 billion in revenue in 2005 (United States. Government Accountability Office & United States. Congress. House. Committee on the Budget, 2009). With the growth of nonprofit organizations, efforts have been made to establish and formalize distinctive operational practices and theoretical approaches within the field (Smith, 2010).

Concurrent with the well-documented growth and increasing legitimacy of the nonprofit sector has been an increasing degree of collaboration between NPO's and for-profit organizations. However, the existence of a relationship between nonprofit organizations and business is not new. Anheier (2014) asserts that the American commitment to capitalism and free enterprise have impacted the development of the nonprofit sector from the beginning. Furthermore, practitioners in nonprofit management have historically adapted concepts from the business world. Recently, for-profit business owners are taking a more active role in shaping the operational practices.

With the decrease of government grants and the surge of independent wealth generated by technological innovators and venture capitalists in the 1990's, the concepts of the "social entrepreneur" and "strategic philanthropy" began to take shape. Wealthy individual donors and grantmakers have emerged to support effective nonprofit organizations that produced measurable impact (Brest & Harvey, 2008). The influence of the private sector has informed the transformation of the nonprofit sector in several ways, such as extending financial performance measures beyond administrative costs to allow for the establishment of stronger organizational capacity (Light, 2004).

A refined system of accountability has emerged for the nonprofit sector, complete with new legislation and the rise of a third-party sector of "charity watchdogs" posing to hold NPO's accountable for the funding they receive. New tools and research have emerged to support nonprofit managers as they navigate this new world. As competition

has shifted from government grants to individual donors, nonprofit managers are developing a unique understanding of marketing their causes and organizations driven by the cost effective tools afforded by technology. Finally, corporations are extending beyond financial support to participating in strategic nonprofit partnerships to generate good will from the public.

Similar trends in marketization have been observed in the global nonprofit sector. In the past decade, scholars have recognized that broad, top-down solutions are both ineffective and inefficient (Easterly, 2001). By understanding the unique nature of the market forces at work in developing countries, non-governmental agencies (NGO's) have been able to develop innovative solutions to the challenges of global poverty while contributing to an understanding of how to design programs that are both sustainable and scalable (Banerjee & Duflo, 2011). The influx of grants from private foundations, such as the Bill and Melinda Gates Foundation, and forums, such as the Clinton Global Initiative, have contributed to this new wave of sustainable social innovation. Furthermore, governments from countries in all stages of development have formally recognized the role on NPO's and NGO's by designing legislative infrastructure and rules to guide, support, and govern these organizations (Cutt & Murray, 2000; Smith, 2010).

Some have used the term "independent sector" to describe the nonprofit world, but given the nature of its development, this term does not seem appropriate. Many refer to the nonprofit sector as the "third sector" to reflect the elaborate web of organizational relationships influenced by public and private sector forces (Brandsen, Ven de Donk, & Putters, 2005). The cross-sector convergence of purposes, roles, and responsibilities have shaped the ongoing transformation of the third sector in recent years.

Nonprofit organizations are posited in a competitive landscape with more tools (such as social media) to deliver mission-focused communication with stakeholders. This

makes comprehensive studies of nonprofit organizations both necessary and difficult. Nonprofit administrators need guidance to effectively navigate the tools and practices taking shape in the marketized nonprofit sector. Donors want information to guide charitable giving decisions in this competitive landscape. Researchers engaged in the problem of evaluating nonprofits require more understanding on the impact of developing operational practices and tools on financial performance measures.

1.2 Researcher Context

As an administrator in the nonprofit sector, my dissertation topic is rooted in the notion of praxis. Through the convergence of theory and practice, a critical understanding of one's circumstances can be developed and applied to produce more effective communication and autonomy (Denhardt, 2008). The genesis of this project comes from my experience as an active practitioner in the nonprofit sector. I serve as the Program Director for ConnecTeach, Inc., a 501(c)3 organization founded two years ago "to connect teachers worldwide in the spirit of service learning and collaboration." Simply stated, we are a couple of teachers who form partnerships with schools and education organizations in underserved communities to provide teachers with world-class training and research-based instructional practices. We are developing innovative ways to partner with schools and education organizations to improve the quality of education, ranging from on-site training to online modules and resource development for teachers and administrators.

When sharing our mission and the results of our fledgling organization, people express enthusiasm and remark on the uniqueness of our approach. Teachers, schools, and other NPO's seek us out to form partnerships. In spite of the eagerness with which ConnecTeach was received, funding has been difficult to secure with grantmakers, such as the Ashoka Foundation and the Dell Corporation. Often cited in grant denials is our

organization's lack of demonstrated financial capacity- we have not proven that our program is scalable or sustainable. Additionally, when courting individual donors, we have been urged to be listed and rated on the website Charity Navigator.

There are many tools and resources available for nonprofit administrators to build financial capacity- social networking, seminars, charity rating organizations, and program evaluation assessments. The problem is that, with little time and few resources, the availability of these tools can be overwhelming. In designing this study, I wanted to understand more about the factors that predict financial capacity in organizations, so that I could be more effective in building a sustainable and scalable organization.

1.3 Research Questions

Market forces and business influences have shaped the development of the third sector. Although there is no profit motive, nonprofit organizations are not exempt from the use of financial measures as a means of evaluation. What organizational factors predict financial indicators of sustainability and scalability in U.S.-based public charities? Does the impact of these factors change based on how financial indicators of scalability and sustainability are measured?

This primary research question will also inform some more specific secondary questions: Does the development of a variety of revenue sources lead to financial indicators of scalability and sustainability? How does the effectiveness of a mission statement impact financial performance measures? How does the use of social media impact the financial outcomes of NPO's?

1.4 Statement of the Problem

Nonprofit organizations are operating in a climate of marketization. Increased competition and technological advances have allowed NPO's to interface more directly with individual donors and grantmaking organizations. Strategic media management has

become a necessary skill for nonprofit administrators. Meanwhile, the transformation of the third sector has produced a shift in the application of financial indicators. Traditionally, a nonprofit organization was deemed worthy of charitable donations by demonstrating efficient stewardship of financial resources by keeping administrative fundraising costs low and devoting a large percentage of the budget to direct programming costs (Pallotta, 2008). However, the influence of business practitioners has led to a measuring a successful NPO by the degree to which it provides scalable and sustainable impact (Bell, Masaoka, & Zimmerman, 2010).

Organizations that produce lasting impact and possess the ability to grow must have adequate and stable financial resources to ensure consistent delivery of programs and services (Hansen-Turton & Torres, 2014). To ensure financial stability, a nonprofit must create ongoing and long-term financial commitments from funding sources. Geographic location in high income areas can produce greater incomes from nonprofit organizations (Harrison, 2008). A well-crafted mission statement or a well-designed social media campaign effectively can result in better funding results (Michel & Rieunier, 2012; Barman, 2002). Practices for effective accountability and transparency evoke greater confidence in a nonprofit organization (Mead, 2008) but do not always impact donor decision-making (Szper & Prakesh, 2011).

To engage in strategic decision-making, nonprofit administrators must know how to manage the several factors that can impact the financial performance measures linked to scalability and sustainability. However, the research has produced several financial performance measures that are linked to an organization's potential to be sustained and grow. Building on previous research, this study reviewed the performance of a variety of organizational factors linked to financial performance linked to scalability and sustainability as it measured with three different indicators. The research results provide

strategic decision-making guidance for nonprofit administrators, tools for donors to inform charitable-giving decisions, and a potential link between nonprofit communication strategies and financial performance to guide future research in this area.

1.5 Marketization of the Third Sector

This research assessed the impact of organizational factors on financial indicators of scalability and sustainability in nonprofit organizations. The landscape of NPO's has been shaped over time by influences in both the public and private sectors. What began as a loosely-related group of voluntary organizations is developing into a formalized sector with emerging theories and practices to buttress an understanding of the unique characteristics and functions of the nonprofit organization . This section will establish the unique characteristics of the nonprofit organizations, identify the unique characteristics of the third sector, and describe the marketization of the third sector using concepts from Blau's analysis of macrostructure.

1.5.1 Characteristics of the Nonprofit Organization

Nonprofit organizations serve many purposes and enjoy a range of collaborative arrangements with organizations in both the public and private sphere. Given this ambiguous disposition, it is important to clearly define the population of nonprofit organizations as they will be examined here. While all of the organizations identified in this study are identified primarily based on having tax-exempt status as a 501(c)(3) organization, I will draw on the theoretical definition of a nonprofit organization to supplement this status.

Nonprofit organizations can encompass public charities, which receive a substantial proportion from the general public or the government, as well as private foundations that primarily provide funding for other nonprofit social projects. For the

purpose of this study, reference to “nonprofit organizations” will signal a discussion of public charities that are granted tax-exempt status under the 501(c)(3) provision.

To qualify for a 501(c)(3), organizations must pass an organizational test demonstrating a statement of purpose which fulfills one of the eight qualifying purposes listed (charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, or preventing cruelty to children or animals) (Ardoin, 2004). Qualifying 501(c)(3) organizations must also pass an operational test, which demonstrates that its primary activities must directly serve its stated tax-exempt purpose and that distribution of earnings must return to serving its purpose. In other words, 501(c)(3) organizations are allowed to engage in profit-making activities to generate revenue to serve its stated purpose as long as these activities do not represent a majority of what the organization does and that profits return to the stated purpose (as opposed to allowing individuals in the organizations to engage in profit-sharing.) (Ott, 2001b)

While an organization's tax-exempt status provides an easy way to identify the population of qualifying 501(c)(3) public charities, it is necessary to expand on this distinction in a way that signals some assumptions about the nature of nonprofit organizations. To this end, Salamon (2001) highlights six defining characteristics that all American nonprofit organizations operating with a 501(c)(3) status theoretically have: they are formal (or institutionalized), private entities (separate from the government), that are non-profit-distributing, self-governing, voluntary organizations of public benefit. Nonprofit organizations in this study are limited to 501(c)(3) organizations, which are assumed to have Salamon's six defining characteristics.

The scope of the nonprofit organizational world can encompass international organizations and organizations that are classified in other countries as

“nongovernmental” organizations (NGO’s). While this study could provide insight helpful for administrators, donors, and researchers of these organizations (and thus will be incorporated in the examination of the literature), these organizations are not part of the population that is being examined, and will thus be implicitly excluded in discussions of data analysis and conclusion of findings.

The organizational factors explored in this study are assumed to be the result of administrative decision-making, either directly or indirectly. Thus “leadership” as a part of the organizational decision-making process needs to be clarified. References to nonprofit leadership in the literature are sometimes parsed out by organizational roles, delineating between managers and administrators. In the context of public administration, the term “management” can refer to the complex organizational process of accomplishing organizational goals as well as the individuals responsible for implementing the processes (Shafritz, Russell, & Borick, 2007). Although managers and administrators may not always be the same individuals and may not perform the same function in an organization, the differences are subtle enough to equivocate as part of the same organizational process, given that the unit of study is organizations and not individuals.

Nonprofit organizations can receive funding from a variety of sources- government grants, grantmaking organizations, and individuals. Individual donors and grantmaking institutions may possess some distinctions in other studies (Wagner, 2002). At times, a distinction is drawn between “charity” and “philanthropy” and between “donation” and “contribution” (Dietlin, 2010). Studies have also used the term “public support” to capture this large category (Kristofferson et al., 2014). On the IRS 990-form, individual contributions and private grants are combined under the same category. For this reason, the term “funders” and “donors” will be used interchangeably to describe individuals and private organizations contributing to nonprofit organizations. Furthermore,

no distinction between “charitable giving”, “donation”, and “contribution” is necessary in this study.

Governance is “the board’s legal authority to exercise power and authority over an organization.” (BoardSource, 2010, p. 15) In that governance is defined as group action within an organization, the construct of governance in this study will consist of indicators of the nature of an organization’s governance- accountability, transparency, and the mission statement adopted by the board. When discussing governance, I will assume that indicators of governance are the result of the leadership team, but with an understanding that individual leaders have the potential to impact an organization.

1.5.2 Defining the “Third Sector”

In the following section, I will define the nonprofit sector as one that has aspects of both public and private organizations. Thus, I must first define “public” and “private” sectors. For ease of discussion, organizations in the “public” sector or sphere will refer to governmental organizations, serving a public good and doing so through public funding. Organizations in the private sector will refer to organizations with a profit motive that are active in the private market, where “separate economic decision making by individual consumers and producers” (Fisher, 1996). References to the “private sector” will be synonymous with the for-profit business world.

The nonprofit sector has been referred to as the voluntary sector, civil society, the independent sector, and the “third sector” (Brandsen et al., 2005; Hodgkinson & Wetizman, 2001). References to the “third sector” or the “independent sector” indicate the inherent paradox that nonprofit organizations are private organizations serving the public good. This paradox has grown in complexity with the dynamic involvement of both public governmental entities as well as private for-profit organizations, philanthropic foundations, and individuals. Thus, examination of how nonprofit organizations operate

cannot and should not be studied in a context-free vacuum. To this end, I will adopt the term “third sector” rather than the “independent sector” when referencing the nonprofit world to highlight this point, as suggested by Ott (2001a).

1.5.3 Marketization in the Third Sector

There is a well-documented shift that has taken place in the discussion of nonprofits in the past two decades. The term transformation will be used here to recognize that the nonprofit sector continues to be in a period of change and that the nature of those changes go beyond recent history or the influence of business. By referring to the larger shift in the nonprofit sector as transformation, marketization can be understood as a distinct trend within this shift.

There is wide agreement that the private for-profit sector has increased its influence over nonprofit organizations, as demonstrated by the increase in private funding of nonprofit organizations, increase in competition among nonprofits, and adoption of performance measures positing social impact as the capital of success. This development is often referred to as the “commercialization” or the “marketization” of nonprofits. While some have cast doubts on the reality and significance of this phenomenon (Child, 2010), others not only accept the existence of this trend, but also decry it as the erosion of the ethical purity of the nonprofit sector (Eikenberry & Kluver, 2004). This research adopted a perspective of value-neutral marketization, which assumes that market forces have led to greater competition, specialization, and cooperation among nonprofits. However, the current climate of competition and innovation that exists in the nonprofit sector will be presented without placing value judgments on how this shift positively or negatively impacts the nature of the nonprofit sector.

To describe the complex development of marketization in the third sector, Blau's description of macrostructures is useful. In his theory of social exchange, macrostructures emerge from a system of interdependent relationships between organizations driven by shared values, exchange of rewards, and competition of resources which leads to differentiation and specialization (Turner & Turner, 1998).

Nonprofit organizations share values that are complementary to both public and for-profit organizations. As they are studied here, NPOs provide a service of public benefit and often arise out of a need for a public service that the government, private for-profit organizations, or both have failed to address. Because nonprofits provide a public good or service without a profit motive, they share a common set of values with the public sector (Hayes, 1996). However, nonprofits have historically enjoyed less bureaucracy and greater autonomy, which have allowed these organizations to be more innovative than public organizations (Ferris, 2001). Competition for funding both from public and private sources has further injected business-oriented practices and policies into nonprofit organizations, such as marketing, customer service, and performance measures (Letts, Ryan, & Grossman, 1999; Ralser, 2007).

Although the most obvious aspect of reward exchange between nonprofits and other organizations is financial (funding, tax exemptions, and resources), it is not the only exchange. Government agencies are able to rely on the innovation afforded by nonprofit sector to improve the effectiveness of service delivery of public organizations (Alexander et al., 1999). Corporate partnerships with nonprofit organizations can build a positive public image and could lead to the development of a for-profit market (Andreasen, 1999).

Interactions between the public, private, and nonprofit sectors consist of both competitive tension and cooperation. The increase in interactions across sectors has led to a refining of the nonprofit sector as a distinctive entity with its own set of values,

principles, and practices that have been adapted from both the public and private sector (Weisbrod, 2001). In order to develop and define the nonprofit sector effectively, one must first recognize that nonprofit organizations serve the public good while mediating between competition and cooperation with other organizations both within the nonprofit sector and across the public and private sectors. The intangible nature of services provided by nonprofit organizations make these interactions even more difficult to understand (Hayes, 1996).

Applying Blau's description of macrostructures, the development of nonprofit marketization has emerged from the shared values, exchange of rewards, and competition with the public and private sectors. The challenges of marketization are shaping the organizational landscape. One of the tasks to be addressed in the transformation of the third sector is developing a system of outcome-based performance measures that take the place of actual profit as currency in instances of competition and collaboration among organizations (Ralser, 2007).

1.6 Nonprofit Evaluation and Performance

"Evaluation" isn't just a word or concept; it is a universe of inquiry in nonprofit management. It encompasses both reporting what programs and services are delivered (performance measures) and systematically analyzing the effectiveness of those programs and services to improve organizational outcomes (program evaluation). This dichotomy is not made to be an "either/or" proposition, but rather an initiation into the investigation of the fundamental questions of "how" and "why" evaluation is being done.

This dissertation focuses on the impact of organizational factors on financial performance measures. Mission statements and social media are analyzed for the effectiveness with which this content communicates organizational goals. However, these

measures do not demonstrate the effectiveness of the actual programs and services being delivered by these organizations.

1.6.1 Efficiency Versus Effectiveness

While evaluation can serve many purposes, this study focuses on financial performance data that are produced and made accessible to individual donors to inform funding decisions. A logic model demonstrates how a program works, serving as a framework for evaluation. In the traditional logic model, people gave money to charities under the assumption that the activities funded would make a positive impact- financial inputs produce nonprofit outputs, which bring about positive outcomes (Raiser, 2007). Using this model, charities were assessed by financial efficiency, such as the degree to which administrative costs were kept low in relationship to the programming costs.

With the transformation of the third sector, however, new logic models emerged. Nonprofit organizations are seen as investments in social impact. To this end, NPO's must demonstrate more than the number of people served by a program, but the extent to which program has made a difference in the lives of clients (Brest & Harvey, 2008). This emphasis on impact as the driver of evaluation can be in direct contrast to the traditional use of financial indicators. Short-term emphasis on financial efficiency can limit the potential for an organization's long-term ability to produce effective results (Liket & Maas, 2013). "We must internalize this simple truth: when we are told what percentage of donations a charity spends on programs, we have a useless piece of information... Bad information leads to bad outcomes" (Pallotta, 2008, p.170).

Charity evaluation websites evaluate charities on either effectiveness or efficiency but rarely attempt to do both. Charity Navigator and the Better Business Bureau's Wise Giving Alliance use largely quantitative financial performance measures, such as fundraising efficiency. Other websites, such as Great Nonprofits and Give Well,

rely on qualitative data to measure effectiveness, such as reviews from volunteers and clients. Quantitative measures allow for more organizations to be evaluated, but these data do not necessarily provide an accurate picture of organizational impact.

In a competitive landscape, efficiency and effectiveness can play a role in evaluating nonprofit organizations. While these constructs are not directly contradictory to one another, an overemphasis on efficiency in solving problems can diminish effectiveness with which the problem gets solved (Shafritz et al., 2007).

1.6.2 Scalability, Sustainability, and Financial Performance

Scalability and sustainability are two constructs that have emerged from the expansion of the logic model and the influence of business. Scalability is the extent to which an organization or program can expand its impact or be replicated. Although there are many strategies in which organizations can scale up, the ability to grow does not guarantee that effectiveness is maintained (Hartman & Linn, 2008). Sustainability can be defined broadly as the “institutional and functional durability” of an organization (Cloete, 2003, p. 279). An organization’s financial resources contribute to this concept of sustainability- it is a necessary but not sufficient condition. While scalability and sustainability can describe more than the financial performance necessary to achieve the organizational ability to grow and endure, this research will employ financial performance measures to approximate these constructs.

Financial performance indicators are used demonstrate how efficiently nonprofit organizations manage revenues and expenses and have been defined differently in a variety of studies. Siciliano (1997) defined financial performance as the ratio of revenue to expenses. In addition to this measure of financial performance, Ritchie and Kolodinsky (2003) identified fundraising efficiency (revenue divided by fundraising expenses) and the

proportion of revenue funded by public support (as opposed to government grants or other sources of funding) as valid indicators of nonprofit financial performance.

Financial capacity and financial health are composite measures of financial performance that are related to scalability and sustainability. Mosley (2010) operationalized financial capacity as the size of organizational expenditures. Bowman (2011) expanded this concept of capacity to include any resources that allow an organization to absorb risk, connecting it to financial sustainability as the ability to maintain financial capacity over time. Tuckman and Chang (1991) created a financial health construct, which included administrative costs, the amount of debt and equity, operating margins, and revenue concentration. Charity Navigator compiles seven performance metrics to produce a financial health score. Financial capacity and financial health are closely related terms, both capturing indicators of growth (scalability) and sustainability. For the purpose of this study, “financial capacity” will refer to the composite dependent variable that combines revenue growth, expense growth, and working capital ratio, and “financial health” will refer to the performance metric compiled by Charity Navigator, which includes program expenses, administrative expenses, fundraising expenses, fundraising efficiency, program revenue growth, program expense growth, and working capital ratio.

1.7 Evaluative Decision-Making and *Administrative Behavior*

There are many factors that can contribute to the financial performance of an organization- marketing, organizational culture, and efficiency to name a few (Lewis, 2003). The organization serves as the unit of analysis in this study. However, the decision-making patterns of individual donors and nonprofit administrators also significantly impact nonprofit financial performance (Frumkin & Kim, 2001). Therefore, the impact of organizational factors on financial performance is the cumulative result of

individual decision-making by funders and nonprofit administrations. Funders select organizations to support, and nonprofit administrators engage in strategic organizational decision-making to develop and maintain funding sources. The term “evaluative decision-making” will refer to this interactive decision-making process between funders and nonprofit administrators.

Simon’s (1997) study of administrative behavior provides insight into administrative decision-making processes. “A great deal of behavior, particularly the behavior of individuals within administrative organizations, is purposive- oriented toward goals or objectives” (p.3). Decision-making processes are based on the dimensions of value and fact. Value judgments are executed as a means toward the end goal, while factual judgments are executed toward the implementation of goals. Although Simon (1997) makes this distinction to explain the decision-making process, a decision can incorporate both value and factual judgments. Finally, decisions are made in the context of “bounded rationality”- an assumption that while individual decision-making is purposive and based on information, individuals may act purposively toward individual goals that are in contrast to organizational goals and act only on the limitation of the information that is available.

“When we speak of people behaving irrationally what we generally mean is that their goals are not our goals, or that they are acting on the basis of invalid or incomplete information, or that they are ignoring future consequences of their actions, or that their emotions are clouding their judgments or focusing their attention on momentary objectives.” (p.88)

Simon's description of irrational behavior established the tension between individual decision-making and fulfilling organizational goals. Building on this theoretical construct, Schneider and Ingram (2005) uses the theory of degenerative policy-making to explain how the social construction of target populations shapes policy decisions. The decision-making process contains an "evaluative component that makes them [target groups] positive or negative...[as a result of] social and political processes" (p. 3). The influence of social constructionism in decision-making means that individuals make decisions not only based on information, but how the information is framed and the extent to which framing is consistent with individual beliefs and goals. Information that does not align with individual goals and beliefs will be rejected. This is why Szper and Prakesh (2011) found that donor funding patterns were not significantly impacted by changes in an organization's Charity Navigator Accountability and Transparency score.

Contributions by individual donors account for seventy-two percent of nonprofit revenues (National Center for Charitable Statistics, 2013). Third-party evaluators have developed to inform the decision-making of these donors. Although the extent to which third-party evaluation ratings actually impact charitable giving decision-making is unclear, nonprofit administrators are participating in these websites in response to a perceived demand by donors (Magaw, 2013). Third-party evaluators, especially those using financial performance measures, lack the capacity to contribute to the larger goal of developing comprehensive evaluation measures (Pallotta, 2008). Information available from third-party evaluators comes from the ratings assigned in an incomplete system.

According to Simon's (1997) view of administrative behavior, goal alignment between individuals and organizations drives rational decision-making. Observations from the social constructionist view of policy-making further suggest that information can be framed to influence decision-making. While information presented by third-party

evaluators contains many limitations, very few of these websites focus on the effectiveness of how the organization communicates its mission and impact. By understanding the extent to which organizational goal communication impacts financial performance, nonprofit administrators, researchers, and funders can participate more effectively in the evaluative decision-making process.

1.8 Significance of the Study

The nonprofit sector has experienced a transformation, which allowed NPO's to survive and thrive despite recent periods of economic decline. Nonprofit organizations engage in many strategies to maintain financial performance in a more competitive climate. While technology has given nonprofit administrators more direct access to funding sources, third-party evaluators have shaped donor perceptions through the presentation and proliferation of financial performance measures. This research examined the impact of organizational factors on financial performance to inform nonprofit administrators, potential donors, and nonprofit researchers.

Nonprofit administrators cannot afford to ignore the current landscape of third-party evaluators. While participation in these websites should not be a primary focus, organizations receiving recognition from third-party evaluators can be an important fundraising tool. By understanding how organizational factors impact some of the performance measures used, administrators can engage in strategic decision-making, such as how to use of social media.

Potential donors engage in evaluative decision-making based on more than available information. Evaluative decision-making suggests that donors engage in purposive action that also considers perceptions and emotion. Rational decision-making occurs when an individual's goals are aligned with those of the organization. The tools produced and used in this study evaluate the degree to which organizations clearly

communicate goals through mission statements and branding. These materials can be adapted for use by donors when making funding decisions to identify organizations with goals that are most closely aligned with their own.

Many researchers are currently engaged in the problem of nonprofit evaluation. While performance measures are a limited evaluative tool, financial indicators continue to be used in the literature due to the ease and availability of the data. By examining the impact of qualitative measures on financial performance indicators, this study expands the extent to which financial performance measures can be valuable.

Chapter 2

LITERATURE REVIEW

Although nonprofit organizations have been serving the public good for centuries, the way NPO's operate has transformed dramatically over the past two decades. Although the reflective discourse on the organizational theory behind nonprofits has only become more deliberate in recent decades, nonprofit organizations have existed in their own right for centuries. The term "marketization" can signal deregulation, privatization, and the introduction of a profit motive- implications which have left scholars and practitioners wary of the injection of business models and methods into the nonprofit sector (Child, 2010). However, this study applies the term marketization merely as a means to describe the phenomenon of increased competition among NPO's and the adoption and application of traditional business management practices.

Central to the marketization of the third sector, indicators of success have been redefined to accommodate demands for greater efficiency, effectiveness, and accountability from both public and private organizations. This has resulted in a new set of expectations for how NPO's should be governed, evaluated, and expanded. New organizational factors (such as marketing and mission statements) that may impact financial performance are developing alongside historic indicators (such as cost analysis). Furthermore, the application of Simon's theory of administrative behavior suggests that goal communication strategies may also influence a nonprofit's financial health, capacity, and revenue growth. Evidence from the literature provides guidance on the selection of variables to represent an array of organizational factors to examine financial performance indicators related to scalability and sustainability.

2.1 Influences Toward Marketization

From the initiation of the voluntary sector in de Tocqueville's time to current practice, the orientation of the nonprofit sector exists in a gray area between the production of public and private goods (Ott, 2001b). The service-based nature of nonprofits makes it difficult to categorize nonprofits as either fully "public" or "private" organizations (Hayes, 1996). Current literature establishes the transformation of the "third sector" as being impacted by both public and private influences.

As government has been pressed to work more effectively and efficiently, these performance expectations have been extended to nonprofit organizations (Mirabella, 2013). Concurrently, an increase in private funding to social causes by both philanthropic groups and for-profit corporations has led to a fundamental shift in the way that nonprofits are evaluated. The convergence of these trends is leading charities to develop organizational strategies for better efficiency, effectiveness, scalability, and sustainability to survive in an increasingly competitive landscape.

2.1.1 The Social Contract and Nonprofit Contractors: The Government and Nonprofits

Nonprofits have changed in fundamental ways; operational practices are adapting to balance the competitive and cooperative forces unique to the third sector. This change is in part due to the complex and dynamic interactions between government entities and nonprofits. Young (2006) suggests that the social contract between the government and citizens to provide social services has changed, and this shift can be understood through an examination of supplementary, complementary, and adversarial interactions between nonprofit organizations and the government.

The supplementary relationship between nonprofits and government can be observed as an extension of values of the recent conservative movement to reduce the role of government in providing public goods and services. Although nonprofit

organizations have been steadily increasing in scope and size since the inception of the country, many scholars point to the 1980's as the time in which the nonprofit sector came to the forefront of American discourse (Ott, 2001a). During the Reagan administration, nonprofit organizations experienced a growth in opportunities and funding, filling the service voids left behind by cuts to federal programs. In his inaugural address, George H. W. Bush further articulated the role of nonprofit organizations in providing public services more explicitly:

“I have spoken of a thousand points of light, of all the community organizations that are spread like stars throughout the Nation, doing good. We will work hand in hand, encouraging, sometimes leading, sometimes being led, rewarding” (Bush, 1989).

Where nonprofit organizations have supplemented the government provision of public goods and services, government funding has supplemented the incomes of these organizations. Hodgkinson and Weitzman (1996) noted that while private contributions to nonprofit organizations declined from 1977 to 1992, government funding of nonprofit activities increased during this time period.

In the supplementary model of nonprofit-government relations, government expenditures and nonprofit activities run parallel to each other. Additionally, the reverse, private funding of public activities, has also been noted to a lesser degree due to the increase in private foundational giving to public organizations (Young, 2006).

Traditionally, 501(c)(3) public charities are organizations that enjoy a favorable “tax exempt” status due to the primary activities in which they are involved. In addition to tax exemptions, state and local governments provide these nonprofits with a range of legal liability protections and benefits. These incentives are provided to 501(c)(3) organizations

because these NPO's are serving the public good and providing a service that the government would otherwise have to provide (Ott, 2001b).

Young (2006) attributed government responsiveness to people's preferences as a supplementary specialization which nonprofits provide to allow governments to address the needs of a heterogeneous society. Specialization of programs and services through the nonprofit sector allows citizens to be involved (either as volunteers or clients) with causes that most closely match their preferences (Van Slyke & Johnson, 2006).

Whereas the supplementary model of nonprofit-government relations is parallel in nature, complementary interactions between the two entities posit nonprofits as more active in the policymaking process. Rather than nonprofit organizations serving as an extension of public policy, NPO's work in partnership with government agencies. A prominent example of complementary values emerges from the discussion of "policy fields". Policy fields are complex locally- or state-developed structures where several organizations interface by sharing resources, practices, and ideas centered around one specific area of policy or program, such as child development (Sandfort, 2010). In policy fields, nonprofit organizations play an active role in shaping policy, rather than simply administering it. This discussion of nonprofits working within policy fields extends the view of nonprofit organizations as "laboratories of democracy," where innovative ways of delivering public goods and services can be explored and possibly expanded by government organizations.

In the complementary model of interactions, government and nonprofit organizations have a contractual relationship that is mutually beneficial. Contracting with nonprofits allows the government to reduce transactional costs while increasing its ability to provide specialized service delivery (Young, 2006). However, the expansion of government contracts with nonprofits does not mean that government's role is reduced to

that of a mere supervisor. Krauskopf and Chen (2010) suggest a dual role of government officials in nonprofit service delivery, holding nonprofit contractors accountable but also allowing them to participate in a larger human services system in which nonprofit organizations and government entities collaborate around common goals and performance measures. This dual system allows greater flexibility and the potential to provide mixed service delivery.

The “Charitable Choice” provision of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 under the Clinton administration and the creation of the Office of Faith-Based and Community Initiatives under the G. W. Bush administration formally recognized the role of faith-based organizations in providing public goods and services. Through the complementary lens, these administrative actions sought to ensure that faith-based organizations were allowed to compete with other organizations for government contracts by establishing a common understanding of service provision separate from religious objectives (Carlson-Thies, 2008; United States Government Accountability Office, 2002).

When interactions between government and nonprofits are adversarial in nature, one entity seeks to influence change in policymaking and service delivery over the other. In 1994, the president of United Way was found to be misusing funds (Corbett, 2011). In response to corporate and accounting scandals, the Sarbanes Oxley Act of 2002 prohibited retaliation against whistleblowers and destruction of documents that could be used in an official investigation. Although these two provisions applied to (but did not specifically target) nonprofit organizations, this piece of legislation is often cited as heralding in an era of greater oversight and accountability of nonprofits (R. Cohen, 2012). This led Senators Chuck Grassley and Max Baucus to create the Panel on the Nonprofit Sector in 2004, which developed the “Principles for Good Governance and Ethical

Practice: A Guide for Charities and Foundations” (Independent Sector, 2007). Most recently, the tax-exempt status of the traditional nonprofit has become more difficult to attain and maintain in this atmosphere of distrust (Hines, Horwitz, & Nichols, 2010).

Nonprofit organizations can also interact with government organizations in an adversarial way. NPO’s often have specialized knowledge and values related to specific target populations, whereas public entities must adopt a broader approach. Nonprofits can serve to advocate for underserved groups in shaping public policy. When nonprofits and public organizations compete directly in service delivery, this competition can lead to competition for funding. An example of this is the development and advocacy for charter schools (Hecht & Ramsey, 2002).

Young (2006) does not propose that only one lens can be applied at a time. Rather, supplementary, complementary, and adversarial interactions address the complexity within which governments and nonprofit organizations currently function. Establishing common goals, sharing best practices, and calls for greater accountability have shaped how nonprofits compete for funding and successfully deliver services.

2.1.2 Engaged Philanthropy: From Donations to Social Investments

Increased competition for funding is not limited to government sources. While private individuals and foundations have traditionally been an important source of funding for NPO’s, the relationship between philanthropic funders and charities has changed—both in who is giving the money and how they are giving it. Nonprofit organizations have become more specialized, and private funders have access to more information about the NPO’s they support. These elements have combined to create a climate of “engaged” or “strategic” philanthropy.

In 2010, private financial contributions accounted for about one-seventh of the revenue reported for public charities (Blackwood, Roeger, & Pettijohn, 2012). Of these

private financial contributions, 72% came from individuals from a variety of backgrounds and income levels (National Center for Charitable Statistics, 2013). Individuals contribute to nonprofit organizations not only with financial donations, but also with time. The link between volunteerism and charitable giving is consistently strong- people tend to donate their time and money to the same organization or cause (Van Slyke & Johnson, 2006).

There are a variety of theories exploring why individuals choose to make charitable contributions. In her survey of donors versus nondonors, Mount (2001) developed a model of five variables that predicted the size of an individual's charitable gift: involvement, predominance, self-interest (such as a tax deduction), means, and past behavior. Donor motivations have also been separated into "pure altruism" (donors receive some utility from contributing to the public good), "warm glow of giving" (donors receive personal utility such as social approval), and "prestige" (donors use charitable giving as a means of displaying economic status) (Garrett & Rhine, 2010; Harbaugh, 1998).

The "who" and "why" of charitable giving is increasingly diverse and responsive to the greater political economy (Van Slyke & Johnson, 2006). Individual donors have access to an increasing amount of information about the causes and organizations they decide to support. Technology has allowed donors to access IRS financial filings, while social media has led to the emergence of "crowdfunding" to allow smaller social projects to gain interest from potential donors.

The literature references the "commercialization" and "marketization" of the nonprofit sector to signal the phenomenon of competition among nonprofit organizations for private funding, the adoption of practices and ideas developed in the for-profit business sector, or both (Child, 2010). Some of the vernacular hallmarks of this shift to marketization are from "charity" to "nonprofit" and from "donations" to "social

investments". The injection of market forces and economic principles has given some scholars cause for alarm (Eikenberry & Kluver, 2004).

The nature of private charitable giving has changed considerably in recent decades for a variety of reasons and in a variety of ways. Adoption of social media strategies can lead to effective goal communication between funders and nonprofit administrators (Campbell, Lambright, & Wells, 2014). Developing an organizational brand has become necessary to promote donor loyalty (Barman, 2002). The market forces at work with increased competition, innovation, and information among nonprofit organizations to attract private donors could be impacting the organizational factors that most greatly predict financial performance indicators.

2.1.3 Corporations for Causes

As nonprofit organizations specialize, innovate, and explore new markets, there is potential for both cooperation and competition with for-profit corporations (Weisbrod, 2001). The relationship between nonprofit organizations and for-profit corporations is different from that of the interactions with private charitable donors. Nonprofit organizations could potentially compete with for-profit corporations (Liu & Weinberg, 2004). Unsuccessful partnerships with corporations can expose NPO's to the possible risks of damage to the brand and degraded relationships with target populations (Andreasen, 1999).

Working in cooperation, for-profit organizations align themselves with a nonprofit organization to support a social cause. In these partnerships, nonprofits can receive not only direct financial contributions, but also access to resources and consumers (Hecht & Ramsey, 2002). As a means of providing resources, both Facebook and YouTube have free marketing tools to help nonprofits maximize their services. These partnerships can lead to innovative fundraising opportunities for the nonprofit organizations, such as the

“check-out-line” charity campaigns, where customers are asked to donate when checking out of a store (Kristofferson, White, & Peloza, 2014).

Such partnerships, however, are encouraged with a degree of caution for nonprofit managers. Nonprofit organizations should be careful to align themselves with corporate partners whose views and values are similar to their own. A mismatched corporate partner can threaten the brand, organizational identity, and integrity of the nonprofit (Tschirhart, Christensen, & Perry, 2005). Additionally, corporate partnerships require the nonprofit to expend time and energy that may or may not result in worthwhile revenue. For-profit corporations, on the other hand, do not assume much of this risk, as any loss of benefit can be chalked up as part of the marketing budget (Andreasen, 1999).

In addition to goodwill marketing, corporations also may have the opportunity to enter into emerging markets, creating the potential for profitmaking ventures, such as in the development of the Microfinance Industry. Again, the risk to nonprofit institutions is the drift away from its social cause by market forces and potential failure to attain the original mission of serving the poor (Datar, Epstein, & Yuthas, 2010).

Competition between nonprofit and for-profit organizations can occur directly within the market by offering competing services or indirectly by working to develop new innovations in an industry (Weisbrod, 2001). Nonprofit charter schools and hospitals can offer the same menu of services as the for-profit competition. Nonprofit research labs may compete with researchers from for-profit corporations to develop new technology or innovative solutions to problems. At times, corporations may decry that nonprofits are unfair competition due to their tax-exempt status, favorable regulatory treatment, and ability to apply for federal funding. Furthermore, it is believed that some people may choose nonprofit services over those provided by a for-profit corporation due to the perception that nonprofits must invest more of their revenue into service quality (Harvard

Law Review, 2001). Liu and Weinberg (2004) found in their analysis of competitive markets that such so-called unfair advantages yield very little actual benefit to nonprofits and, furthermore, such advantages are easily overcome with the tools and resources available to for-profit corporations.

Opportunities for cooperation and competition between nonprofit organizations and for-profit corporations have led to an organizational synergy. Although nonprofit organizations by definition have different motivations and objectives than corporations, nonprofit managers have adopted a common language and organizational practices from the private business sector (Mirabella, 2013). Tools of strategic management and marketing have been adopted to combat the effects of increasing specialization and competition among other nonprofit organizations. While the changing behavior of government agencies and private donors have contributed significantly to the shifting landscape of the nonprofit sector, the influence of for-profit business cannot be denied when investigating organizational factors that impact financial performance. Furthermore, collaborative partnerships between nonprofit organizations and for-profit corporations indicate that effective goal communication strategies can lead to the selection and development of more effective partnerships (Tschirhart et al., 2005).

2.2 Marketizing Nonprofit Operations: The New Rules

Successful nonprofit organizations in the current economy have adopted operational tools, strategies, and concepts that allow them to be competitive. Both public and private funders are demanding greater accountability for how money is collected, how it is spent, and how performance is evaluated. The trends for increased demand for expanded services, greater market orientation by public agencies, increased involvement by private and corporate funders, and policy devolution have created an environment where the nonprofit sector has thrived (Smith, 2010).

Many theorists have presented models with diagrams and acronyms to capture the way nonprofits should operate in this era of marketized nonprofits. Kaplan's "Balanced Scorecard" was developed as a performance management tool that could be adapted to fit any organization and has been commonly applied for use in nonprofit organizations (Kaplan & Norton, 2001; McLeish, 2011; Hecht & Ramsey, 2002). Brothers and Sherman (2012) explored how an understanding of organizational lifecycles can help nonprofit managers develop a core (comprehensively defined as mission, vision, values, and program strategy) that allows the organization to strategically grow and sustain change. Ott (2001a) suggested that voluntary nonprofit organizations can be viewed as an atom, with its service activities as the core, and its constituencies (volunteers, funders, and clients) orbit the core. The Atom Analogy proposes that unlike other organizations, nonprofits are not organized into neat, hierarchical structures.

The proliferation of theories, frameworks, and models addressing nonprofit management indicates that attempts to capture this topic in a comprehensive way has been difficult. Although the nonprofit literature has addressed several key concepts unique to the sector, a comprehensive approach to understanding may be unnecessary. According to Ott (2001a), "there is not, cannot be, and should not be a single theory of nonprofit organization." (p.269)

Nonprofits have changed as a result of the market forces at work. The literature suggests several developments that have emerged from the marketization of nonprofit organizations that could impact financial performance. In reviewing the literature, this study has focused on four shifts: effective representative governance, the role of performance measures in evaluation, the emergence of brand development as a marketing strategy (known as "brandraising"), and the introduction of third-party evaluators into the nonprofit world.

2.2.1 Effective Representative Governance

A voluntary sector with few established guidelines and the financial uncertainty of project-based grants with little consideration for administrative costs led to a wide array of problems, ranging from interruptions in service delivery (Letts et al., 1999) to evidence of unchecked power in the board of directors (Harvard Law Review, 2001). One of the shifts initiated by the marketization of the nonprofit sector is a new emphasis on strong organizational leadership and infrastructure, a recognition deriving from the for-profit business world. This shift was documented in 2007, when the Panel on the Nonprofit Sector released a report entitled “Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations”. This document with thirty-three principles addressed topics of legal compliance and public disclosure, effective governance, responsible fundraising, and strong financial oversight to ensure “that structures of transparency and accountability are core strengths of our nonprofit community” (p. 3) in developing a self-regulated sector.

Boardsource (2010) defines a board as a group of individuals who are “legally responsible for making sure the organization remains true to its mission, safeguards its assets, and operates in the public interest” (p. 7-8). Central to the duties of a nonprofit’s governing board is executing decisions with accountability to stakeholders and transparency. That transparency and accountability lead to organizational effectiveness has been a long-held belief. In 1913, Supreme Court Justice Louis D. Brandeis wrote, “[p]ublicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light is the most efficient policeman.” Although his quote was leveraged against the bankers in the midst of scandal at the time, he also called for a “publicity of service” (Brandeis, 1913). Berman (2006, p.8) asserts “[e]ffective nonprofit sector performance can be assured only if managers and board

members realize that ineffective performance will be found out.” The assumption is that in place of more explicit regulation, operational transparency (the degree of which is chosen by the nonprofit organization) is a means of accountability that can indicate effective organizational governance.

Although the link between transparency and accountability seems intuitive, it is an assumption that cannot be established as absolute fact. Fox (2007) discerns between “opaque” and “clear” transparency as well as “soft” or “hard” accountability. Transparency is a multi-directional construct, which can be “proactive” (initiated by the institution) or “demand-driven” (initiated by stakeholders) and flow “downwards” (disclosing the behavior of governing boards to stakeholders) or “upwards” (disclosing the behavior of clients to governing boards). “Opaque” transparency, then, is the information an organization chooses to disclose, which can be unreliable and may inaccurately represent the actual operational behavior of the organization. Conversely, “clear” transparency is explicit, reliable information about institutional activities revealing “ ‘who does what’ and ‘who gets what’ ” (p. 668). Clear transparency translates directly into a form of “soft” accountability, where institutions answer to stakeholders for their decisions, but does not necessarily lead to “hard” accountability, where institutions are sanctioned or compensated based on effective performance.

Accountability for nonprofits is not limited to financial performance, but also includes mission accountability- ensuring that an organization’s activities are aligned with its mission (Mulligan, 2007). Therefore, a clear and effective mission statement can also signal effective organizational leadership. Drucker (1989) asserted that by having a clear and focused mission, nonprofits effectively manage productivity in the knowledge economy that was emerging at the time. Drucker (2001) expanded the idea of a mission by generating 5 questions that organizations can use to develop an effective mission

statement: 1) What is our mission? 2) Who are our customers? 3) What do our customers value? 4) What is our plan? and 5) What are our results? As CEO of the Girl Scouts, Tamara J. Woodbury (2006) used these five questions to redesign her organization's mission statement that helped to transform her organization's culture. A clear mission statement signals effective leadership (Weiss & Piderit, 1999), quality service delivery (Davis, Ruhe, Lee, & Rajadhyaksha, 2007), and the foundation for organizational stability (Moynihan, Pandey, & Wright, 2011). Furthermore, mission statements serve as a public disclosure indicating organizational culture (Bartkus & Glassman, 2008).

The literature expands on many other factors regarding leadership and organizational culture, which can be related to governance. Charismatic organizational leaders can drive effective performance, motivate stakeholders to be actively involved, and drive innovation (Jaskyte & Riobo, 2004). However, this study focused on organizations, so a discussion of leadership is not relevant. Organizational culture can also play a role in determining the performance of a nonprofit organization (Lewis, 2003). However, this study focused only on indicators of governance (accountability and transparency, CEO compensation, and effective mission statements) that can be measured from outside the organization. While qualitative content analysis of effective goal communication is included, these data were not used as a means to make further implications about the organizational culture of the organizations studied.

2.2.2 Financial Performance: A New View on the Numbers

A nonprofit organization can be evaluated by the extent to which it produces effective and efficient service delivery. Traditionally, the evaluation of nonprofit organizational performance was tied to activities (what the organization does) and how much it costs to do it. Today, nonprofit performance evaluation is more comprehensive, focused on both short-term outcomes and long-term impact on the problems the

organization seeks to solve, positing donors as investors in social causes (Brest & Harvey, 2008). This movement from focusing on inputs and outputs to investments and outcomes was not unexpected, given the performance-based “reinventing government” movement in the 1990’s and the growing involvement of business in the nonprofit sector (Durst & Newell, 2001). Although this transition from outputs to outcomes is still taking place, it has impacted the role that financial performance plays in the evaluation of nonprofits and how it is measured.

One of the traditional ways a nonprofit was deemed as “worthy” was by being good stewards of the funding they received by maintaining low administrative costs. Given the voluntary nature of the sector, it seemed difficult to either justify a large paid staff on one hand or impose performance expectations on volunteers on the other (Light, 2004). In this landscape, most nonprofits could not build the organizational capacity necessary to sustain and expand quality service delivery. As a result of the market forces at work in today’s nonprofits, the neglect of organizational infrastructure to reduce costs is no longer an effective way to attract funders (Frumkin & Kim, 2001).

The trend toward marketization has transformed donors from contributing to a good cause to maximizing the funding impact through evaluative decision-making. The goal of modern funders is to produce the greatest impact on a cause for the funding provided. The application of the business term return on investment (ROI) or social return on investment (SROI) to nonprofit organizations has become a measure geared to appeal to the increasingly business-oriented funders (Brest & Harvey, 2008). When funding a nonprofit is viewed as an investment, there is an expectation for long-term performance and greater involvement by the investor (Ralser, 2007). Funders and nonprofit personnel may enter into a program “venture” together as “social entrepreneurs” (Light, 2005; Brinckerhoff, 2000).

The increased influence of business in the nonprofit sector continues to be received with some degree of skepticism. However, the trend of marketization and the influence of business-oriented funders are shifting the discussion of financial performance from measures of efficiency to measures of capacity. Nonprofit administrators are being encouraged to invest in organizational infrastructure rather than solely seeking to minimize administrative costs at the expense of effectiveness and organizational capacity (Anheier, 2014). Due to the immense range of services and sectors, there is no consensus on the competitiveness of nonprofit wages for paid staff (Light, 2004). However, nonprofit managers are learning to include more of their administrative and infrastructure costs into grants and other requests for funding, because social investors are increasingly evaluating programs in terms of scalability and sustainability (Dietlin, 2010).

In 2009, President Obama addressed increasing the scalability of NPO's in his remarks on the Community Solutions Agenda: "[i]nstead of wasting taxpayer money on programs that are obsolete or ineffective, government should be seeking out creative, results-oriented programs like the ones here today and helping them replicate their efforts across America" . Scalability, however, for nonprofit programs is a far more complex concept than simply replicating what works. Hartmann and Linn (2008) offer a broader definition of scalability as "how the impact of successfully applied policies, programs, and projects can be increased to reach a larger number of beneficiaries" (p. 5). In the marketized nonprofit sector, organizations must be able to expand the breadth and depth of service delivery to serve their mission with increasing impact. Bloom and Skloot (2010) have tested a model of seven variables of organizational capacity found to significantly predict scalability: staffing, communicating, alliance building, lobbying, earnings-generation, replicating, and stimulating market forces. If funders are seeking projects with

high potential for scalability, the organizational infrastructure must exist to support growth.

Intertwined with scalability is the idea of sustainability. Much like scalability, sustainability is a multi-dimensional concept. Bell et al. (2010) separated the concept into “financial sustainability (the ability to generate resources to meet the needs of the present without compromising the future) and programmatic sustainability (the ability to develop, mature, and cycle out program to be responsive to constituencies over time)”. York (2009) suggests a “Sustainability Formula,” which includes adaptability in both programming and financial resources, leadership with accountability and strong mission focus, and program capacity including staff with knowledge and experience. In short, where scalability refers to an organization’s ability to grow, sustainability refers to the organization’s capacity to support continuous growth and development.

The concept of financial performance has grown increasingly complex in the marketized nonprofit sector. Relationship building with stakeholders (funders, volunteers, and clients) has replaced the traditional short-term, transactional approach (Hassay & Pelozo, 2009). Although efficiency and effectiveness remain the two great pillars of performance evaluation, their definition has been shaped to incorporate a need to support continued and future impact, rather than just delivering services in a cost efficient way. Long-term strategies to improve organizational effectiveness and sustainability may come at the price of short-term efficiencies (Frumkin & Kim, 2001). Therefore, financial performance indicators must capture the degree to which an organization possesses the financial resources to implement activities to achieve long-term goals.

The challenge that emerges from this shift is how to capture scalability and sustainability most of the available data come from financial performance indicators reported on organizations’ IRS 990 filings (Lampkin & Boris, 2002). Tuckman & Chang

(1991) suggested that the stability of financial resources, such as working capital ratio, could indicate organizational sustainability. Factors such as revenue and expense growth over time can indicate the extent of organizational growth (Balsam & Harris, 2014).

2.2.3 The Invention of "Brandraising"

The shift from large government grants to individual funders combined with increased competition among organizations provided a natural entry of marketing tools and strategies into the nonprofit sector (Wymer & Mottner, 2009). Technology has given donors greater access to information on nonprofit organizations while increasing donor access for nonprofits, including innovative fundraising methods, such as crowdsourcing and filmraising. However, large campaigns calling for a token initial act (such as dumping ice water on one's head or donating a dollar at a checkout line) does not always translate into a long-term source of funding necessary to support organizational capacity (Kristofferson et al., 2014).

To ensure scalability and sustainability, NPO's must evoke long-term loyalty among funders, volunteers, and clients. Choosing to fund a nonprofit becomes an exercise of commitment to the mission and trust in the organization to effectively serve that mission (Michel & Rieunier, 2012). With nonprofits becoming increasingly visible in online media, nonprofit administrators must effectively communicate the organizational goals in a way that sets them apart from other NPO's (Barman, 2002). Nonprofits need a means by which the organization can be displayed as both credible and innovative to the business community. Given the task of balancing loyalty and credibility with innovation and uniqueness, nonprofit managers have become engaged in the discussion of branding their organizations.

As the business-oriented world of marketing becomes integrated into the practices of the nonprofit sector, there seems to be an initial consensus that branding

must be consistent with an organization's larger strategic plan. Nonprofit branding must be displayed with thought to the modes of communication, and it must be managed in ongoing way (McLeish, 2011; Blackett, 2009).

"Brandraising" is a term that describes the effective promotion of an organization's message with clear and consistent communications across all operations- fundraising, programming, and advocacy (Durham, 2010). In this study, brandraising will refer to the marketing and branding activities performed by nonprofit organizations not only to raise funds but also to raise awareness for the organization's mission. Brandraising captures the importance of consistency across all stakeholders, and the recognition that although funders, volunteers, and clients may play different roles in a nonprofit, branding comes from the consistent messaging which occurs across these three audiences.

2.2.4 Third-party Evaluators for the Third Sector

The American nonprofit sector currently boasts more than 1.6 million organizations, all of which exist in an environment of collaboration and competition (Blackwood et al., 2012). NPO's in the 21st Century must manage a consistent brand across a variety of modes of communications. Technology has facilitated an increase in transparency and accountability, as well as providing a means to communicate organizational messages directly tailored to donors. Involvement from the business sector and developments in government agencies has led to a call for better measures of efficiency and effectiveness. All the while, nonprofit administrators must manage a brand that engages all stakeholders through a variety of online sources. Third-party organizations and services have emerged alongside the organizational trend toward marketization.

Nonprofit organizations have received the development and expansion of these evaluation websites with mixed reviews. On one hand, nonprofit managers are resistant to these methods of evaluation because of the sheer diversity with which they operate. They argue that the reviews and ratings are one-dimensional and cannot capture the true impact they make (T. Cohen, 2010). On the other hand, these evaluation websites make it easier for nonprofit managers to gain a better grasp of their competition (Barman, 2002). In an effort to improve their own methodologies, evaluators are developing innovative ways of measuring program effectiveness, tools which can then be used by nonprofits to improve their programs. Finally, the three largest nonprofit evaluators (BBB Wise Giving Alliance, GuideStar, and Charity Navigator) have launched a campaign to dispel the “Overhead Myth” that administrative expenses should be a measure of performance (Nichols, 2013).

The National Resource Directory (2014) lists eighteen nonprofit and charity evaluators. Although this list includes the five most popular websites (Better Business Bureau Wise Giving Alliance, Charity Watch, GuideStar, GreatNonprofits.org, Charity Navigator, and Give Well), this list is far from exhaustive. Modes and methods of evaluation are currently being explored by these organizations in a variety of ways. The degree to which data are available also varies greatly. Data collected includes IRS tax filings, website evaluation, independent audits, and funder reviews. Confounding this nebulous world, participation requirements in these nonprofit evaluation sites (often nonprofits themselves) vary greatly, and sometimes nonprofits are charged to be listed.

Third-party evaluators provide performance measures that are easily accessible to the general public, but these websites offer little in terms of comprehensive evaluation. By contrast, the academic community provides program evaluation services through a variety of partnerships and programs. Colleges and universities have engaged nonprofit

organizations in partnerships that include program evaluation services (Bright, Bright, & Haley, 2007). These partnerships have produced both academic and practical contributions, which have strengthened the effectiveness and accuracy of program evaluation (Williams & Taylor, 2013).

The field of third-party evaluation websites is growing exponentially while the empirical evidence as to their impact on the nonprofit sector remains scarce (Szper & Prakesh, 2010). Lack of research does not nullify the potential for these organizations to improve the organizational infrastructure of nonprofits, both through their visible demand for accountability and transparency as well as their advocacy for the strengthening of nonprofit organizational capacity. Charity Navigator, for example, has announced the implementation of new metrics to evaluate program effectiveness. However, this potential has yet to be realized, and third-party evaluators remain limited in their scope. With limited funding and human resources, nonprofit administrators must prioritize the extent to which strategic participation in these websites is worth the time and energy that could also be spent on social media and other marketing strategies.

2.3 Selection of Organizational Factors

Public, private, and corporate influences have led to a marketization of the nonprofit sector, creating new challenges and opportunities for these organizations. Increased public access to information has led to greater accountability and transparency. The application of business practices to the nonprofit world has led to a call for stronger organizational capacity to promote scalability and sustainability. Social media has created a new means for marketing and donor development, but more research needs to investigate how the adoption of online brandraising translates into financial performance for nonprofit organizations (Voeth & Herbst, 2008).

This research investigated the impact of a variety of organizational factors on financial performance measures. Appendix A illustrates the three models used in regression analysis- each model measuring the impact of nine organizational factors (Standard Metropolitan Statistical Area, State, Revenue Diversity, Public Support, Accountability and Transparency, CEO Compensation, Mission Statement Effectiveness, Social Media Presence, and Brand IDEA Effectiveness) on each of three financial performance measures (Financial Health, Financial Capacity, or Revenue Growth).

There are a great many factors that have traditionally been related to nonprofit success to some degree. For example, Hayes (1996) identified a variety of key factors that influences the nature of nonprofit management, including service provision, governance, staffing patterns, geographical spread, size of client base, organizational practice, sources of funding, and accountability practices. Programmatic factors (such as target population and type of service delivery) have been connected to financial performance in the literature. However, these factors were excluded in the model, as the organizations studied came from the same subcategory and would yield little variance.

The purpose of this study is to assess the impact of a variety of organizational factors on financial indicators of scalability and sustainability. The nine organizational factors were selected from the literature as demonstrating an impact on financial performance measures and could be used to inform evaluative decision-making by donors and nonprofit administrators.

2.3.1 Location: SMSA and State

The location of an organization's headquarters could impact financial indicators of sustainability and scalability. If a nonprofit is located in a large metropolitan area, access to funders and opportunities for organizational development is better than what it would be in a rural community. Judge (1994) observed this phenomenon as the impact of

environmental scarcity on financial performance. Harrison (2008) observed that nonprofit location was positively correlated to states and counties with higher individual tax rates. The Standard Metropolitan Statistical Area (SMSA) has been used to identify locations as being more or less competitive for nonprofits in specific sectors (Feigenbaum, 1987). When investigating nonprofit organizations providing education services, an SMSA with a stronger public education system may not require as many nonprofit services. It is also possible that being located in an area with fewer nonprofits could translate into less competition for resources and more direct access to the public and private funders (Windes, 2014). As location will be measured as two categorical variables (State and SMSA), the relationship between these factors and the financial performance measures will be assessed for the degree to which location impacts the dependent variable but will not be interpreted as a positive or negative relationship.

2.3.2 Revenue Composition: Diversity and Public Support

The literature supports the idea that a nonprofit organization's funding patterns determines to some degree how that money is spent and how services are delivered. Some scholars and practitioners point to revenue diversification (getting funding from a variety of public and private sources) as a strategy for sustainability and organizational capacity (Brothers & Sherman, 2012; Bell et al., 2010; Child, 2010). In their longitudinal analysis of more than 25,000 501(c)(3) organizations over twelve years, Carroll and Stater (2008) found that over time, revenue diversification significantly contributed to organizational longevity for nonprofits.

Another factor associated with financial performance is the degree to which nonprofit revenues come from public support. While income from private funders and individual donors accounts for an increasing portion of nonprofit incomes, this revenue source is potentially less stable (Kristofferson et al., 2014). Lampkin and Raghavan

(2008) found that the percentage of revenue coming from public support in faith-based social service organizations was negatively correlated to days cash-on-hand, but public support positively impact the savings ratio of smaller organizations.

2.3.3 Governance: Accountability and Transparency, CEO Compensation, and Mission Statement Effectiveness

Indicators of governance have been selected to assess the ability of an organization's governing board to effectively execute a well-crafted mission with transparency and accountability. Accountability, transparency, and mission statements are interrelated constructs that provide insight into the effective functionality of a leadership team (Bartkus & Glassman, 2008).

The lack of information does influence donor decision-making (Yetman & Yetman, 2013), but a decrease in an organization's Charity Navigator Accountability and Transparency score does not always lead to a decrease or halt in funding (Szper & Prakesh, 2010). The "Accountability and Transparency" score on Charity Navigator is designed to produce a positive relationship with all financial performance indicators. However, the effect size of this relationship is unclear from the literature.

Accountability and transparency are complex and intertwined concepts that will be captured using data from the third-party evaluator Charity Navigator (CN). CN defines accountability as "an obligation or willingness by a charity to explain its actions to its stakeholders," and transparency is defined as "an obligation or willingness by a charity to publish and make available critical data about the organization." At this time, CN evaluates seventeen items in an organization using data from the most recent IRS Form 990 filing and the organization's website. The 12 items culled from the organization's 990 form are: the presence of an independent board, no diversion of assets, financials audited by an independent accountant, no loans to related parties, availability of board

meeting minutes, provided copy of form 990 in advance of filing, posted conflict of interest policy, posted, whistleblower policy, posted records retention and destruction policy, CEO listed with salary, posted process for determining CEO compensation, and board members listed and not compensated. The five additional items taken from the organization's website are listing of board members, listing of key staff, availability of audited financials, availability of form 990 on the website, and donor privacy policy. Each organization evaluated by CN starts with a score of 70 points, with an assigned number of points deducted based on deficits on any of the items assessed.

The impact of CEO Compensation on financial performance indicators varies greatly, depending on the way in which financial performance is measured. CEO Compensation has been shown to influence donor decision-making, with larger CEO Compensation negatively impacts revenue growth (Balsam & Harris, 2014). However, CEO Compensation is positively associated with measures of efficiency, such as reducing unit cost on programs and services (Reiter et al., 2009).

Because it is determined and should be periodically reviewed by the board, an effective mission statement is an indicator of effective governance (Weiss & Piderit, 1999). An organization must disclose its mission statement as part of its form 990 tax filing. Drucker (2008, 2001) identified the characteristics of an effective mission statement- clear concise language which identifies what the organization does, why, how, and for whom the work is done, and is broad enough to withstand minor changes within the organization. A clear mission statement with a focused target group has been linked to a lower overhead ratio (Kirk & Nolan, 2010). While a broad link between overall mission statement quality and financial performance was not observed, Bartkus et al. (2005) found three principles to have a positive effect on business mission statements: concern for employees, social responsibility, and emphasis on the value provided by the

business. The link between strong, clear mission statements and long-term financial performance has been drawn through studies on the positive impact observed of effective mission statements on overall organizational effectiveness. In a comparative study of more effective and less effective organizations, Herman & Renz (1998) found that more effective organizations had clearly constructed mission statements while less effective organizations often had vague or unclear mission statements. Liket & Maas (2013) also found that an effective mission statement was positively correlated with long-term organizational stability.

The accountability and transparency score, CEO compensation, and the effectiveness of the organization's mission statement will serve as indicators of effective governance. Although these indicators will serve as an implicit approximation of strong leadership, it is important to note that governance will not include an assessment of individual leaders because the unit of analysis is at the organizational level.

2.3.4 Online Brandraising: Social Media Presence and Brand IDEA Framework Effectiveness

The emergence of social media over the past decade has shaped the way in which the nonprofit sector has developed in this marketized state. NPO's have created an online presence complete with message delivery systems designed to engage large audiences. Nonprofit managers are using these media not only to engage funders, but rather adopting a broader understanding of communication which incorporates all stakeholders in a more cohesive way (Durham, 2010). Consistent and comprehensive activity on social media positively impacts financial performance (Witman, 2013).

The approach to nonprofit marketing requires a fundamentally different approach from what is used in the for-profit world because of the service nature of the field and the removal of the profit motive (Wymer & Mottner, 2009). Nathalie Laidler-Kylander

developed the Nonprofit Brand IDEA Framework along with Julia Stenzel (2014) to guide nonprofits in the ongoing process of branding. Laidler-Kylander and Stenzel argue that nonprofit must develop a brand that addresses all stakeholders (clients, volunteers, staff, and funders) that is driven by mission and social impact. Whereas for-profit businesses use brand to establish competitive advantage, nonprofit branding clarifies an organization's position in such a way that makes it unique but also allows for collaborative partnerships.

The three components to the IDEA framework are Integrity, Democracy and Affinity. Integrity is "defined as the structural alignment between identity, mission, strategy and values" (Laidler-Kylander & Stenzel, 2014). Brand Integrity captures a consistency in the way that mission and strategy are communicated, both internally in the organization's identity and externally in the image the organization portrays. Brand Democracy is having a "participatory process of internal and external stakeholder engagement to both define and communicate the brand" (Laidler-Kylander & Stenzel, 2014). Brand Democracy is a unique construct that integrates the importance of unified stakeholder engagement and the notion that, largely due to the rise of social media, organizations cannot fully control their own brand image. This means that nonprofit managers must guide the process by empowering "brand ambassadors" to represent on behalf of the organization. Finally, Brand Affinity is the degree to which an NPO engages other nonprofit organizations both in the promotion of common social objectives and entering into joint ventures. Brand Affinity captures the tension between collaboration and competition which exists in the nonprofit sector.

Equipped with the constructs of the Brand IDEA framework, it becomes possible to examine how nonprofit organizations present themselves online, not just in terms of strict social media presence, but also how the organizational brand is presented.

Nonprofit branding in the IDEA framework goes beyond how the organization's image is projected; a nonprofit brand is recognized as a dynamic and flexible construct managed by and designed to engage a diverse range of stakeholders.

Effective and consistent branding of a nonprofit can produce continued public support from individuals by creating a sense of community (Hassay & Peloza, 2009). In a competitive climate, brand identity can make a nonprofit organization stand out, promoting supporter loyalty (Voeth & Herbst, 2008). Effective communication of goals should positively impact the financial performance indicators linked to scalability and sustainability.

The concept of nonprofit branding remains a relatively new concept, so its effect on financial performance has yet to be examined. However, evidence from the literature suggests the importance of the quality and effectiveness of social media content over the quantitative measure of the number of "followers" or "likes" an organization has. Waters et al. (2009) proposed that the content of social media messaging impacts stakeholder relationship-building more than just visibility. By observing how the two constructs of Social Media Presence and the Brand IDEA Effectiveness in the same model, it was possible to test this assertion.

2.4 Selection of Financial Performance Indicators of Scalability and Sustainability

Financial performance has been measured in a variety of ways. Most studies of nonprofit financial performance use indicators that can be taken from IRS 990 forms, due to the ease of availability and accessibility (Lampkin & Boris, 2002). Financial health has been used to refer to a broad composition of financial performance indicators. Although financial health has been measured in a variety of ways, this measurement is often designed to capture long-term financial performance and indicators of ethical financial practices (Kircher et al., 2007). Charity Navigator measures financial health using seven

components. Four metrics are used to measure financial efficiency: programming expenses, administrative expenses, fundraising expenses, and fundraising efficiency. Three additional metrics are used to assess financial capacity: revenue growth, expense growth, and working capital ratio.

Measures of financial efficiency have historically been used as performance indicators, but the new emphasis on effective programming and producing impact that is scalable and sustainable has informed a shift on the application of financial performance measures. When foundations allow for administrative expenses, the allowance for a charity to build organizational capacity does not detract from effective operations (Stewart & Faulk, 2014). Steinberg (2003) argues that fundraising expenses provide added value for an organization because the leadership and core personnel can focus more directly on program effectiveness. Yi's (2010) economic analysis of the impact of fundraising efficiency supports this claim, and also finds that organizational size is significantly linked to fundraising efficiency. Fundraising efficiency can be significantly impacted by effective communication strategies to donors (Water, 2011).

Financial capacity is studied as a composition of financial indicators used to assess nonprofit organization's ability to achieve scalability and sustainability. Factors associated with financial capacity can be related to the financial ability to maintain current programs over time or the growth potential to expand programs and services in the long-term (Bowman, 2011). Revenue growth was isolated as a factor of financial capacity that is significantly positively impacted by revenue concentration strategies (Neely & Chikoto, 2014).

When assessing financial performance, the literature emphasizes the use of multiple measures. Tuckman and Chang (1991) demonstrated that different measures of financial performance may be impacted by organizational factors differently, impressing

the importance of using multiple measures when evaluating financial performance.

Glassman and Spahn (2012) further document the lack of shared understanding between stakeholders when interpreting financial performance measures. Due to the literature's demonstrated lack of agreement on one set of financial performance measures, three performance measures (Financial Health, Financial Capacity, and Revenue Growth) were selected as financial indicators of scalability and sustainability. These indicators demonstrate the extent to which an organization possesses the financial resources necessary to produce scalable and sustainable programs and services.

2.5 Organizational Factors Impacting Financial Indicators of Scalability and Sustainability

Nine organizational factors were selected from the literature as exhibiting the potential to impact nonprofit financial performance. Table 2.1 summarizes the rationale for inclusion of each organizational factor from the literature and the expected impact on the dependent variables of financial performance.

The dependent variables of Charity Navigator's Financial Health score, Financial Capacity, and Revenue Growth have not been combined in the same study in any of the previous literature. Charity Navigator's Financial Health score contains the two subgroups of Financial Efficiency and Financial Capacity. The predicted impact of the organizational factors on financial performance was adjusted if evidence from the literature suggested that a variation in models might be observed. For example, if the literature has suggested that an organizational variable will impact financial efficiency and financial capacity differently, the expected impact was predicted to impact Financial Health more than Financial Capacity and Revenue Growth.

Table 2.1 Expected Impact of Organizational Factors on Financial Performance

Organizational Factor	Rationale for Inclusion	Expected Impact
State	Environmental scarcity leads to greater competition for fewer resources (Judge, 1994). Higher tax rates lead to larger incomes for NPO's (Harrison, 2008)	State and SMSA are both measured as categorical variables. They should significantly impact financial performance, but not in a way that can be observed as positive or negative.
SMSA	SMSA determines the extent of competition among nonprofits (Feigenbaum, 1987)	
Revenue Diversity	Variety of revenue sources creates long-term financial stability (Carroll & Slater, 2008).	Positive relationship between number of revenue sources and measures of long-term stability (such as working capital ratio, included in Financial Capacity). Revenue Diversity may impact Financial Capacity more than Financial Health or Revenue Growth.
Public Support	Larger amount of public support has a negative impact on long-term financial stability (Kristofferson et al., 2014; Lampkin & Raghavan, 2008)	The percentage of public support should negatively impact measure of long-term stability (such as working capital ratio, included in Financial Capacity). Public Support may impact Financial Capacity and Revenue Growth more significantly than Financial Health.
Accountability and Transparency	As a theoretical construct, higher accountability and transparency will positively impact financial performance (Yetman & Yetman, 2013). However, a lower Charity Navigator Accountability and Transparency score did not lower revenue growth (Szper & Prakesh, 2010)	An organization's Accountability and Transparency score should positively impact financial performance measures. However, since the literature cites no impact on revenue growth, these scores may impact Financial Health more significantly than Financial Capacity and Revenue Growth.
CEO Compensation	CEO salary in dollars has a negative influence on donor behavior (Balsam & Harris, 2014). However, when salaries are compared across NPO's, higher-paid CEO's produce more organizational efficiency (Reiter et al., 2009).	CEO salary as a percentage of expenditures should negatively impact financial performance, but especially efficiency. Therefore, this effect should be more significant in Financial Health.
Mission Statement Effectiveness	Mission statement has been linked to lower overhead ratio (Kirk & Nolan, 2010) and organizational effectiveness (Liket & Maas, 2013; Herman & Renz, 1998).	Mission Statement Effectiveness should positively impact financial performance measures. Since the literature is tied more directly to lower overhead ratio (measure of efficiency), the impact on Financial Health may be more significant.
Social Media Presence	Social media presence positively impacts financial performance (Witman, 2013).	Although both of these variables should positively impact financial performance, Brand IDEA Effectiveness may have a greater impact.
Brand IDEA Framework	Strategic messaging on social media is more important than the quantity of messaging (Water et al., 2009).	

Chapter 3

RESEARCH METHODOLOGY

This study examined how nine organizational factors (State, SMSA, Revenue Diversity, Public Support, CEO Compensation, Accountability and Transparency, Mission Statement Effectiveness, Social Media Presence, and Brand IDEA Effectiveness) impacted three financial performance measures (financial health, financial capacity, and revenue growth). Cross-sectional data was collected on 399 nonprofit organizations listed on the Charity Navigator third-party evaluation site. Data included quantitative factors collected from the 2012 IRS form 990 filing, metrics employed on the Charity Navigator website, and qualitative content analysis from the organization's website and popular social media sites. Multiple linear regression analysis was performed on each of three models using the same independent variables to observe if the independent variables impacted each of the three financial performance measures in the same way.

3.1 Unit of Analysis and Selection

Charity Navigator (CN) is a well-established nonprofit evaluator of charities founded in 2001, and lists more than 7,000 rated charities. Among charity evaluators, it provides some of the most detailed information on the organizations it lists without charging a listing or membership fee. Although a great deal of the information comes directly from the NPO's IRS 990 form, this information is supplemented by website evaluations and audits where available. Because of the combination of size, availability of data, and free access for nonprofits, Charity Navigator was selected as the source of sample organizations.

By using organizations listed on the Charity Navigator website, selection criteria has already been determined from the population of nonprofit organizations. In order to

be listed on CN, an organization must be registered 501(c) 3 with seven years of 990 forms on file with the IRS that report \$1,000,000 of revenue with at least 50% of revenue coming from individual donors.

Nonprofit organizations provide a variety of services, and opportunities for funding, collaboration, and competition vary greatly across policy fields. In selecting organizations providing education services, there is enough room for programmatic variety within the field while having a common core market. In the US, there are approximately 100,000 nonprofit organizations listed as providing “Education Services and Other”. Of these, there are 399 nonprofit organizations listed as providing education services on the Charity Navigator website that were able to be included in this research, creating a significant although selective sample size.

3.2 Research Design

A multi-unit mixed-methods case study examined how a variety of organizational factors impacted financial performance indicators of scalability and sustainability for 399 nonprofit organizations providing education services. Data was collected from each organization’s 2012 IRS 990 filing, the Charity Navigator website, the organization’s website, and social media. Multiple linear regression analysis was performed on three models, each applying the same nine independent variables to a different measure of financial performance. An exploration of these trends will be used to inform both academic discourse and practitioners in nonprofit management. Appendix A illustrates the three regression models.

3.3 Data Collection

Data was collected on 399 nonprofit organizations providing education services from a variety of sources accessed online using the Charity Navigator website, the National Center for Charitable Statistics (NCCS) website, official organizational websites,

and the three most popular social media sites (Facebook, Twitter, and LinkedIn). These data will include quantitative measures as well as content analysis data, which will be coded quantitatively. Of the nine independent variables used in the regression models, four were collected from the charity's IRS 990 form filed in 2011. A sample IRS 990 form is provided in Appendix B.

3.3.1 Operationalization of State and SMSA

Evidence from the literature suggests that the location of an organization's headquarters can significantly impact an NPO's organizational performance. If a nonprofit is located in a state or county with higher income tax rates, revenues are likely to be higher. If a nonprofit is located in a Standard Metropolitan Statistical Area with a great deal of competition from other charities, revenue potential is limited. The location of the organization's headquarters in box C (State and SMSA) were entered as categorical variables. The state was coded using the numeric state code used by the U. S. Census Bureau, which assigns a numeric code based on the alphabetic order of the state name (Alabama is coded as "01", Alaska as "02", etc.). The SMSA code was the nine-digit numeric Federal Information Processing Standards (FIPS) code that corresponds to the SMSA, State, and County. Because these variables are categorical, the relationship will not be represented as positive or negative, but location should impact financial performance to some degree.

3.3.2 Operationalization of Revenue Diversity and Public Support

Two variables were used to understand how revenue composition impacts financial performance measures- revenue diversity and public support. The IRS categorizes revenue sources into six different categories (federated campaigns, membership dues, fundraising events, related organizations, government grants, and all other contributions, gifts, and grants) as reported (Appendix B, Part VIII, Box 1).

Revenue Diversity is the degree to which a nonprofit organization receives funding from a variety of sources. The literature demonstrates that by diversifying revenue sources, an organization can achieve greater financial stability (Brothers & Sherman, 2012; Carroll & Slater, 2008). The number of different sources reported from the six categories was collected to represent Revenue Diversity, and a greater number of revenue sources should be associated with higher performance on measures tied to financial stability (such as Working Capital Ratio, which is included in the Financial Capital variable and, to a lesser degree, the Financial Health variable).

Public Support is the extent to which an organization's income comes from individuals and private funders (as opposed to funding for government or related organizations). With one exception, all organizations reported some portion of their income as generated by "all other contributions, gifts, and grants". This category captures income from individual donors, a source that is notably on the rise and currently accounts for almost three-fourths of all nonprofit revenue (National Philanthropic Trust, 2014). Given the importance of this category, the percentage of total revenue reported from "all other contributions, gifts, and grants" was included in the model. Evidence from the literature suggests that Public Support is negatively associated with Working Capital Ratio (Kristofferson et al., 2014; Lampkin & Raghavan, 2008).

3.3.3 Operationalization of Accountability and Transparency

As theoretical constructs, accountability and transparency involve the availability of information, promoting an organizational image of trustworthiness. Operating with accountability and transparency should result in goodwill from donors Yetman & Yetman, 2013). However, empirical research has not captured the connection between an organization's Accountability and Transparency score and financial performance (Szper & Prakesh, 2010). Each organization listed on Charity Navigator is given an overall score

out of 100 points and a number of stars on a four-star rating system. The overall score is an average of two component scores: “Financial Health” and “Accountability and Transparency”. To assess “Accountability and Transparency”, Charity Navigator evaluates each organization on 17 different performance metrics taken from the organization’s most recent IRS 990 form and its website (see Appendix C). Since most of the metrics are based on information or practices that are expected from all organizations, all charities start with a score of 100 points and point deductions are taken for a practice that would be unexpected (such as giving loans to officers) or a policy or practice that is not in place (such as not reporting CEO compensation). In this study, each organization’s Accountability and Transparency score was collected as it was reported on the website. The relationship between Accountability and Transparency and financial performance is expected to be positive, but the significance of this relationship is unclear.

3.3.4 Operationalization of CEO Compensation

According to the literature, CEO compensation dollars negatively influences donor behavior (Balsam & Harris, 2014), but higher paid CEO’s are positively correlated to higher financial efficiency (Reiter et al., 2009). Charity Navigator (CN) reports the current salary of the CEO in dollars as well as the percentage of overall expenses that is represented by the CEO compensation. Additionally, CN is able to report if the CEO receives additional income from affiliate organizations. During data collection, a few organizations paid little to no salary, but the CEO received a large salary from an affiliate organization. One such organization, the Alliance for School Choice, advertised its ability to keep “administrative costs” low. Although donors have historically examined CEO compensation as an indication of “worthiness” (the less, the better), it is unclear how much this factor actually determines an organization’s financial performance. CEO salary

as a percentage is expected to be negatively connected to financial performance, specifically Financial Health, as it includes measures of financial efficiency.

3.3.5 Operationalization of Mission Statement Effectiveness

The mission statement is a critical driving force behind the success of nonprofit organizations. Mission statements communicate the reason for an organization's existence. Effective mission statements have been positively linked to financial performance through lower overhead ratios (Kirk & Nolan, 2010) and organizational effectiveness (Liket & Maas, 2013; Herman & Renz, 1998).

There are several mission statement assessment tools that are available to nonprofit managers, including one developed by Drucker (2008) building off the five questions originally posed in 2001 (What is our mission? ; Who are our customers?; What do our customers value?; What is our plan? and What are our results?). The Point K Learning Center has also provided a tool to further clarify the criteria for evaluating mission statements. These tools were developed for nonprofit managers to use in practice but lack the clarity and conciseness necessary for use in large-scale content analysis of mission statements.

A Mission Statement Effectiveness Tool was developed (Figure 3.1) to assess how effectively an organization's mission statement communicates its work. The tool addresses the original five questions raised by Drucker (2001) and incorporates the three foundational pieces of a theory of change- target population, outcomes, and programs/service elements (Hunter, 2006). It assesses the degree to which it is "a clear mission that articulates the domain within which it will work and the results it wants to achieve and why" (Hansen-Turton & Torres, 2014, p. 32).

<i>Our mission statement:</i>	<i>Y</i>	<i>S</i>	<i>N</i>
1. Is short, concise, and easily understood by lay people outside the organization (active voice, little to no jargon)			
2. Who benefits from this work (target population)?			
3. What does the organization do for the target population (broad explanation of programs/ services)?			
4. How does this impact the target population (outcomes= y, outputs =s)?			
5. Why is this work important (benefit to broader population-connecting the impact of target population to greater society)?			
SUBTOTAL	X2	X1	X0
TOTAL SCORE			

Figure 3.1 Mission Statement Effectiveness Tool

Point values were assigned to produce a quantitative “Mission Statement Effectiveness” score. For each of the five questions, two points were awarded for “yes” and one point for “somewhat”, resulting in a possible total score of ten points. Question 1 was assessed by analyzing the word choice in each mission statement. For example, a sentence such as “We provide tuition assistance for students.” is more active than “We work to help support students.” In identifying the target population (Question 2), the mission statement should provide insight into the specific set of individuals who qualified for programs or services. In defining the programs and services (Question 3), the mission statement should be concrete and specific enough for outside observers to understand what the organization does but also broad enough to withstand changes within service delivery. In defining how the organization’s programs and services provide value, an emphasis on educational outputs was awarded 1 point for somewhat while an extension to outcomes was awarded 2 points. For example, an educational organization describing the desired goal for the target population as “college education” or “reducing dropout rates” was assigned 1 point. By contrast, an organization that described a long-term goal for the target population, such as “building productive citizens”, was awarded 2 points. A

higher Mission Statement Effectiveness score should positively impact financial performance measure, especially Financial Health because it includes financial efficiency metrics similar to the overhead cost ratios used by Kirk & Nolan (2010).

3.3.6 Operationalization of Social Media Presence and Brand IDEA Effectiveness

Evidence from the literature suggests that engaging in social media impacts financial performance (Witman, 2013). However, the effectiveness messaging of the content may be more important than the mere level of activity (Water et al., 2009). This study measured the impact of Social Media Presence as a quantitative factor and Brand IDEA Effectiveness as a qualitative factor. Data for both factors was collected from the three most popular social networking sites as of March 2014- Facebook, Twitter, and Linked In. Additional branding data was collected from the organization's website.

Quantitative data collected to capture social media presence will include overall favorability and the frequency of posting. For each of these websites, the public can indicate approval or membership of an organization in some way. Facebook users can "like" an organization, while Linked In and Twitter users can "follow" an organization. Facebook was the most popular social media site, with the number of likes ranging from zero to over five hundred thousand. Fifty organizations did not participate in Twitter, and the organization with the most Twitter followers reached 188,000 people. Fifty-three organizations did not participate in LinkedIn, and the organization with the most followers reached 48,442 members. Given the wide range of likes and the difference in the favorability scores for each website were numerically ranked so that the fewer likes or followers resulted in a lower score. Frequency of posting on Facebook and Twitter was observed over a period of the past seven months- October 2013 to April 2014 (Linked In does not have a posting mechanism that is accessible to public view). This time frame captured the rise and fall of the donor season, which typically occurs over the holidays.

Frequency scores from Facebook and Twitter were also ranked, with the less active organizations receiving a lower score. The favorability and frequency rankings were averaged to create one social media presence score, which produced higher scores for more active organizations and lower scores for less active organizations.

In addition to the quantitative social media presence score, adherence to the Brand IDEA Framework was measured with a content analysis scoring tool (figure 3.2) to evaluate the organization's website as well as social media content. The Brand IDEA Framework (Laidler-Kylander & Stenzel, 2014) is a tool to build and manage nonprofit branding strategies. The IDEA Framework is based on three components: Integrity, Democracy, and Affinity. As in the application of the mission statement scoring tool, the scoring rubric produced a quantitative score by coding a series of seven questions and assigning 2 points for "yes" and 1 point for "somewhat" for a potential total score of fourteen points.

INTEGRITY	Supports theory of change and mission	Yes (Outcomes)	Somewhat (Outputs)	No
	Images			
	Words			
DEMOCRACY	Allows stakeholders to engage in participatory process	Yes	Somewhat	No
	Shares stories			
	Provides a call to action, not just donations			
	Supports brand ambassadors			
AFFINITY	Collaborates with other NPO's	Yes	Somewhat	No
	Promotion of other nonprofit organizations			
	Evidence of partnerships with other nonprofit organizations			

Figure 3.2 Brand IDEA Effectiveness Scoring Tool

Brand integrity is aligning branding activities to the organization's mission and theory of change. While internal brand integrity cannot be assessed through online content analysis, external brand integrity was observed through the analysis of images and words posted on the organization's website and social media pages. A distinction was made between images and words that reflected outputs (such as pictures of books being donated) versus outcomes (such as success stories).

Brand democracy involves the decentralization of communicating the activities of the organization to brand ambassadors. Democracy includes the degree to which the organization shares stories of people involved with the organization (such as highlighting volunteers and clients), engaging new ambassadors by providing a call to action (for example, having a website that highlights concrete ways to get involved other than just donations), and supporting brand ambassadors by providing well-managed online platforms. For example, an organization that supports brand ambassadors connects the website to social media platforms and allows for participants to post reviews and participate in forums, such as discussion boards. Sometimes, this would include a strategy such as asking a relevant question on Facebook, such as "What is your favorite part of being a volunteer?"

Brand affinity is the promotion of collaboration and shared goals with other nonprofit organizations. Two strategies for collaboration were observed. First, the organization could actively promote the work or message of other organizations with shared values. This could range from a mutual "liking" of other nonprofit Facebook pages and posts to the active promotion of the work other nonprofit organizations do. Second, nonprofit organizations could demonstrate affinity by actively working in partnerships with other organizations.

Online brandraising was captured with the quantitative factor of Social Media Presence and the qualitative measure of Brand IDEA Effectiveness using data from the organization's website and social media pages. While both factors were expected to impact financial performance measures positively, Brand IDEA Effectiveness may have a greater impact.

3.4 Financial Performance Indicators of Scalability and Sustainability

When studying financial performance in nonprofit organizations, using multiple measures is important because different metrics may be impacted differently (Tuckman & Chang, 1991). Three measures of financial performance were identified that could be tied to organizational scalability and sustainability: Financial Health, Financial Capacity, and Revenue Growth. All of the financial performance measures were taken from data provided by Charity Navigator. Financial Health contains measures of financial capacity and efficiency, so factors more directly linked to efficiency (such as the negative relationship to CEO Compensation) may impact Financial Health without impacting Financial Capacity or Revenue Growth.

Charity Navigator produces a composite "Financial Health" score that is presented on a scale of 0 to 100. This score is the result of a performance average on seven metrics. Four metrics assess financial efficiency: programming expenses, administrative expenses, fundraising expenses, and fundraising efficiency. Three metrics are compiled to assess financial capacity: primary revenue growth, program expense growth, and working capital ratio. A nonprofit organization's performance on each of these metrics is analyzed then compared to the performance of other charities operating in the same field (arts, education, human services, etc.) and then converted into a score ranging from zero to ten. Each of the performance metric scores are combined and

divided out of a possible total of seventy points to produce a percentage, which is converted to a score out of 100.

A “Financial Capacity” scale was produced using the data from the three performance metrics used by Charity Navigator to approximate financial capacity: primary revenue growth, program expenses growth, and working capital ratio. Primary revenue growth and program expense growth are analyzed over the course of four years (if the first year analyzed is the organization’s inaugural year and it is unstable, it is dropped from the data set and a growth period of the next three years is analyzed). As these two metrics observe growth, they provide an approximate measure of scalability, or the ability to grow. Working capital ratio, meanwhile, captures an approximation of organizational sustainability. Dividing an organization’s working capital by its current program expenses to determine how long an organization could sustain its current projects without generating any new revenue produces this metric. Performance on each metric was ranked such that a higher ranking indicates better performance. For example, an organization that is ranked as 325th in revenue growth has more revenue growth than an organization that is ranked 23rd. These rankings were averaged to produce a Financial Capacity scale score.

Primary Revenue Growth was collected directly from the Charity Navigator website. This is the percentage of increase in revenue over the four most recent years as reported on IRS 990 filings.

Three multiple linear regression models were performed, each using a different financial performance measure as the dependent variable: Financial Health, Financial Capacity, and Primary Revenue Growth. The impact of the nine organizational factors in each regression model was observed separately and differences between the models were analyzed for patterns.

3.5 Scale Reliability

Three scales were developed for this model: Social Media Presence, Brand IDEA Effectiveness, and Financial Capacity. Prior to the performing the multiple linear regression analysis, the scales that were created to capture the multi-faceted constructs of Social Media Presence, Online Branding, and Financial Capacity.

The purpose of creating the Social Media Presence (SMP) score was to assess if sheer visibility on social media without consideration for content impacted financial performance. This scale was created by ranking the Favorability scores of Facebook, Twitter, and Linked In, and the frequency scores of Facebook and Twitter. The rankings were averaged together to create the SMP score. The constructs of this scale were analyzed for reliability in SPSS and received a Standardized Cronbach's Alpha score of .818, proving to be an acceptably reliable scale. Furthermore, no single measure would cause the Cronbach's Alpha score to go below .7 or above .9, demonstrating that the components of the score did not include any outstandingly weak or strong factors.

The purpose of the Brand IDEA scale was to measure the effectiveness of social media and website content in achieving the constructs from the Brand IDEA framework. The Brand IDEA Effectiveness scale is the total from the scores of each component of the rubric (Integrity, Democracy, and Affinity). When analyzed for reliability, the constructs in this scale received a Standardized Cronbach's Alpha of .868, indicating that it is also a reliable scale score. Furthermore, none of the three factors would impact this score significantly if deleted.

The Financial Capacity score was created to capture the performance measures of revenue growth, expense growth, and working capital ratio as a combined indicator of financial scalability and sustainability. The combination of these factors produced a

Cronbach's Alpha score of .768, indicating an acceptable level of reliability. Only revenue growth showed to produce a Cronbach's Alpha below .7 when deleted (.621).

3.6 Study Limitations

The generalizable scope of the research design was limited in three ways. First, the data collected were limited to organizations listed as providing "Other Education Services" on Charity Navigator. Second, the data collected were cross-sectional. Third, only financial performance indicators were used as dependent variables.

To be listed on Charity Navigator, a nonprofit must be a 501(c)(3) organization that files the IRS Form 990 with public support revenues of at least \$500,000 and total revenue more than \$1,000,000. An organization must also have a history of 7 years of IRS 990 filings that are based in the U.S. Charities that list fundraising expenses as \$0 are also excluded. This study further limited the number of organizations by studying only organizations that were listed as providing "Other Education Programs and Services". Sampling organizations from many different categories would have been problematic, as operational and financial practices within different categories of nonprofits vary greatly (Blackwood et al., 2012).

The use of cross-sectional data to understand dynamic organizations limits the impact of organizational factors on financial performance. According to the life cycle model of organizational change, organizations experience a natural trajectory of growth and decline (Demers, 2007). Using revenue growth as a dependent variable captures organization change over a period of four years. Small amounts of organizational change were observed during the content analysis of social media posts over time. However, the models examined do not account for organizational change in any significant way.

By study financial performance indicators, it is not possible to draw conclusions about the effectiveness of the organizations studied. While financial performance can

capture efficiency, there are no evaluative measures to capture how well the nonprofit organizations achieve their missions. Furthermore, the financial performance data were either directly taken from the organization's 990 form or from the Charity Navigator website, which had also culled the information from the 990 form. One must assume that the revenue and expenses on the IRS 990 form were accurately reported. Krishan, Yetman, & Yetman (2006) found that charities reporting zero fundraising expenses were inaccurately recording expenses. Because Charity Navigator excludes organizations that report zero fundraising expenses, the selection process mitigates this limitation.

Chapter 4

RESULTS AND ANALYSIS

A theoretical model was constructed to capture the impact of a variety of factors on organizational capacity in nonprofit organizations. Qualitative and quantitative data were collected on organizations listed as providing education programs and services other than private schools, universities, and colleges on the Charity Navigator website. Out of the 425 organizations listed at the time of data collection, 5 were omitted to being given a “Donor Advisory” by Charity Navigator, 1 organization had closed since its listing, and 20 had no website or social media presence to perform content analysis. Data from the remaining 399 organizations were collected from the Charity Navigator website, the organization’s website, social media (Facebook, Twitter, and Linked In), and the IRS 990 filing from two years prior to 2014.

The purpose of this study was to identify organizational factors that predict financial performance indicators associated with scalability and sustainability. After ensuring that scales included in the model were reliable and ensuring that valid indicators of theoretical constructs were selected, a regression analysis was performed on three separate models, each capturing a different dependent variable- Financial Health, Financial Capacity, and Revenue Growth. Each model included nine independent variables- Standard Metropolitan Statistical Area, State, Revenue Diversity, Public Support, Accountability and Transparency, CEO Compensation, Mission Statement Effectiveness, Social Media Presence, and Brand IDEA Effectiveness. Table 4.1 shows the results of the multiple linear regression analysis. These results will be used to answer the research questions posed in Chapter 1.

Table 4.1 How Organizational Factors Impact Financial Performance

	Financial Health	Financial Capacity	Revenue Growth
SMSA	-.054	-.031	.018
State	-.007	-.004	.013
Revenue Diversity	-.018	-.071*	-.091**
Public Support	-.025	.039	.046
Accountability & Transparency	.097**	-.062	-.041
CEO Compensation	-.172***	-.018	.025
Mission Statement Effectiveness	.443***	-.021	.024
Social Media Presence	.050	.033	.070*
Brand IDEA Effectiveness	-.026	.315***	.294***
R-Squared	.374	.111	.109
Adjusted R-Squared	.359	.091	.088

*, **, *** indicates significance at the 90%, 95%, and 99% level respectively.

4.1 What organizational factors predict financial indicators of sustainability and scalability in U.S.-based public charities? Does the impact of these factors change based on how financial indicators of scalability and sustainability are measured?

Nine organizational factors were selected as impacting some measure of financial performance in previous studies. Three metrics of financial performance were selected, each linked to long-term financial stability or growth. These two research questions were presented together because the literature establishes that the impact of financial performance on organizational factors depends in part on how financial performance is defined. The Charity Navigator Financial Health Score includes four measures of financial efficiency (programming expenses, administrative expenses, fundraising expenses, and fundraising efficiency) and three measures of financial capacity (revenue growth, expense growth, and working capital ratio). The Financial

Capacity score used in the model was the average performance on each of the three metrics (revenue growth, expense growth, and working capital ratio). Revenue Growth is the average revenue growth over the four most recent years of an organization as reported by Charity Navigator.

4.1.1 Impact of Organizational Factors on Financial Health

Financial efficiency can be seen as a short-term goal and financial capacity describes the extent to which an organization demonstrates financial growth and stability. Due to the inclusion of the financial efficiency measures, three organizational factors were expected to perform more strongly in the Financial Health model: Accountability and Transparency, CEO Compensation, and Mission Statement Effectiveness. Accountability and Transparency as a theoretical construct was positively linked to financial performance (Yetman & Yetman, 2013), but Szper & Prakesh (2010) found that the Accountability and Transparency score from Charity Navigator did not impact revenue growth. CEO Compensation as a percentage of expenditures was expected to negatively impact financial performance, but especially Financial Health, as it includes financial efficiency metrics that can be directly impacted by CEO Compensation.

In the model using Financial Health as the dependent variable, the nine organizational variables accounted for 36% of the variance. As expected based on the literature, Accountability and Transparency score was positively (although weakly) correlated with Financial Health. Mission Statement Effectiveness produced a strong significant positive correlation to Financial Health. This relationship is expected from the literature, which draws a significant link between mission statement quality and lower overhead ratio (Kirk & Nolan, 2010). CEO Compensation as a percentage of expenditures was significantly negatively correlated to Financial Health, which could be a direct function of the way this

construct negatively impacts financial efficiency. The other six organizational variables produced no significant relationships to Financial Health.

4.1.2 Impact of Organizational Factors on Financial Capacity

Financial Capacity consists of three metrics tied to long-term growth and stability (revenue growth, expense growth, and working capital ratio). The literature suggests that revenue diversity should have a greater positive effect on Financial Capacity than on Financial Health, as this variable has been linked more directly to measures of long-term stability, such as working capital ratio (Carroll & Slater, 2008). Public Support was also expected to yield a more significant negative impact on Financial Capacity, as this revenue source is less stable (Kristofferson et al., 2014; Lampkin & Raghavan, 2008). The model using the Financial Capacity scale scores as the dependent variable yielded a much lower adjusted R-square, with the nine organizational factors only accounting for 9% of the total variance. Revenue Diversity yielded a weak but significant negative correlation to Financial Capacity, which contradicts the expected trend- the greater the number of revenue sources reported on an organization's 990 form, the lower its Financial Capacity score. Revenue Diversity was operationalized as the number of different sources reported on the IRS 990 form. It is possible the category of "All Other Contributions, Gifts, and Grants" can include many different ways of generating revenue, such as social media campaigns, making this construct difficult to capture using IRS 990 data.

The Brand IDEA Effectiveness scale yielded a strong, positive correlation to Financial Capacity while Social Media Presence yielded no significant impact. This lends some support to the assertion that social media content is more important than simply boosting Social Media Presence (Water et al., 2009). It is also interesting to note that while Mission Statement Effectiveness made a strong, positive correlation to Financial Health,

this factor produced no measurable impact on Financial Capacity. Likewise, Brand IDEA Effectiveness yielded a strong positive relationship to Financial Capacity and Revenue Growth, but made no impact on Financial Health

4.1.3 Impact of Organizational Factors on Revenue Growth

Given the inclusion of Revenue Growth in the Financial Capacity scale, it was expected that this model would produce similar relationships to the organizational factors as were produced by Financial Capacity with one exception. Revenue Diversity was expected to produce a less significant impact on Revenue Growth than on Financial Capacity. The literature on the impact of revenue diversity was tied directly to working capital ratio, which is a component of the Financial Capacity scale, but not measured in the Revenue Growth variable.

The model using Revenue Growth as the dependent variable yielded the smallest adjusted R-square, accounting for only 8.8% of the total variance. The significant positive correlation with Brand IDEA Effectiveness was maintained, as was a weak but significant negative relationship to Revenue Diversity. Additionally, Revenue Growth as a separate construct was weakly but positively correlated with Social Media Presence. By engaging a larger audience of potential donors with an increased social media presence, nonprofit organizations can effectively increase revenue (Witman, 2013).

4.2 Does the development of a variety of revenue sources lead to financial indicators of scalability and sustainability?

The research on the impact of revenue diversification on financial performance has been mixed. Using a variety of revenue generation strategies can be seen as a means to creating stability by minimizing organizational risk- if one funding source is terminated, the nonprofit can maintain stability if there are other sources of income from which to draw (Bell et al., 2010). Technology offers many ways for nonprofit organizations to

interact with potential donors and participate in revenue generating platforms such as Giving Tuesday and crowdsourcing (Kristofferson et al., 2014). However, revenue diversity as it is measured in this study does not capture the wide range of revenue generation strategies that can be included in the “All Other Contributions, Gifts, and Grants” line of the IRS 990 form.

Revenue Diversity made no significant impact on the overall Financial Health score in the organizations studied. However, Revenue Diversity held small significant negative relationship to Financial Capacity. This significant negative relationship increased slightly when Revenue Growth was isolated as the dependent variable. The inconsistency in the performance of the Revenue Diversity variable may indicate that measuring Revenue Diversity by using data from the IRS 990 form does not effectively measure the diversification of revenue sources. For example, an organization is required to report revenue from a fundraising event separately from “all other contributions, gifts, and grants”. Although guidelines exist, income from a crowdfunding campaign or a telemarketing campaign may not be consistently reported in the correct category (Takagi, 2014; Parsons & Keating, 2008).

4.3 How does the effectiveness of a mission statement impact financial performance?

The effectiveness of a mission statement has been positively linked to financial performance in the literature, but the results have been limited to specific factors, such as clear target population (Kirk & Nolan, 2010) and statement of value (Michel & Rieunier, 2012). Mission Statement Effectiveness was significantly and positively linked to Financial Health, but not Financial Capacity or Revenue Growth. Given that Financial Health includes efficiency measures, mission statement effectiveness could be more related to indicators of financial efficiency than financial capacity.

It is also important to note that in the data collection, there were two large franchises of organizations- Junior Achievement (JA) and Communities in Schools (CIS). JA has 22 separate offices listed, and CIS has 8 separate offices listed, both including a central national office. Within these franchises, several organizations had adopted the mission statement of the central national office. The recycling of mission statements could explain part of the inconsistent performance on financial measures.

4.4 How does the use of social media impact the financial outcomes of NPO's?

With low to zero cost and ease of accessibility to reach a wide audience, nonprofit organizations have been using social media to promote awareness and raise funds in a variety of ways. Waters et al. (2009) observed the strategic use of social media in the nonprofit sector as moving beyond the mere creation and management of a social media site to focusing on content quality. While Brand IDEA Effectiveness yielded a positive significant relationship to Financial Capacity and Revenue Growth, Social Media Presence yielded only a weak slightly significant relationship to Revenue Growth. The performance of the Brand IDEA Effectiveness Tool in this model reinforces the importance of the strategic use of social media.

4.5 Summary of Findings

Using data from IRS 990 filings, Charity Navigator, and organizational online content, this dissertation examined the impact of nine organizational factors on financial performance indicators associated with scalability and sustainability. The Financial Health model yielded a significant and strong positive correlation to Mission Statement Effectiveness, a significant negative correlation to CEO Compensation, and a weak but significant positive relationship with the Accountability and Transparency score. The Financial Capacity model yielded a significant and strong positive correlation to Brand IDEA Effectiveness and a weak but significant negative correlation to Revenue Diversity. The Revenue

Growth model also yielded a significant and strong positive correlation to Brand IDEA Effectiveness and a weak but significant negative link to Revenue Diversity, but also yielded a weak yet significant positive relationship with Social Media Presence. The positive impact of effective goal communication strategies (as observed with Mission Effectiveness and Brand IDEA effectiveness) on financial performance emerges as a recurring theme across the three models. With the differences observed between models, the value of using multiple measures of financial performance is also seen.

Chapter 5

DISCUSSION AND CONCLUSION

This study examined how a variety of organizational factors impacted financial indicators of scalability and sustainability and yielded two major conclusions. The two most significant factors from the models- Mission Statement Effectiveness and Brand IDEA Effectiveness- indicated the potential importance of effective goal communication in producing financial performance. The impact of the organizational factors changed depending on how financial performance was measured, indicating the importance of using multiple measures when evaluating financial indicators of scalability and sustainability. Implications for future research are proposed based on these two conclusions. This dissertation will conclude with an anecdotal analysis of the research process from the author, serving both as researcher and practitioner during the execution of this study.

5.1 Effective Goal Communication Strategies for Evaluative Decision-Making

Administrative behavior is the result of purposive decision-making that includes value and factual judgments (Simon, 1997). Social constructions of recipient groups can influence the decision-making process of individuals when deciding who deserves entitlements (Schneider & Ingram, 2005). While donors make charitable giving decisions on a range of factors, evaluative decision-making is also impacted by the effectiveness of organizational goal communication strategies. Root Cause (2013) reported that while donors are interested in information about an organization's fundraising and overhead costs, they also review an organization's website for information about how programs and services impact the target population.

By developing an effective mission statement, nonprofit administrators can clearly communicate organizational goals to donors as well as clients, volunteers, and all other stakeholders. While actual program effectiveness is difficult to assess from a website, donors can also use mission statement effectiveness to assess the clarity with which the organization communicates its mission.

The Brand IDEA Effectiveness Tool was developed from the Brand IDEA Framework proposed by Laidler-Kylander and Stenzel (2014). The positive significant relationship between Brand IDEA Effectiveness and two of the financial indicators (Financial Capacity and Revenue Growth) indicates that this framework captures nonprofit online branding in an important way. Nonprofit administrators can use the Brand IDEA Framework to evaluate online content and to create a strategic plan for use of social media. Donors can also use the Brand IDEA Framework to observe the clarity with which organizations communicate the implementation of their goals, such as the degree to which the organization collaborates with other nonprofits.

5.2 Shifting Conceptualizations of Financial Performance

Financial performance measures derived from the IRS 990 form are common data tools due to the ease and availability of these data (Lampkin & Boris, 2002). The nine organizational factors impacted Financial Health, Financial Capacity, and Revenue Growth differently. Whereas Mission Statement Effectiveness held a strong, positive relationship with Financial Health, there was no observable impact on Financial Capacity or Revenue Growth. Conversely, Brand IDEA Effectiveness yielded a strong, positive correlation to Financial Capacity and Revenue Growth, but there was no relationship to Financial Health.

Financial performance measures are used as indicators of scalability and sustainability. However, there are many different ways in which these indicators have

been studied. Bell et al. (2010), for example, stresses the importance of building working capital as a primary financial goal for a sustainable nonprofit. York (2009) includes efficient use of financial resources as a component of organizational sustainability. Bowman (2011) differentiated between financial indicators for short-term sustainability and long-term sustainability.

Life cycle models of organizational change suggest that organizations experience predictable patterns of development. The needs and resources available at each stage may be different, so methods of evaluation and analysis should be different (Demers, 2007). When Revenue Growth was isolated as a financial performance indicator, the organizational factors in the model impacted financial performance differently than the model used Financial Health (with its included measures of financial efficiency) as a dependent variable.

Nonprofit administrators competing in the marketized third sector must demonstrate the scalability and sustainability of their organizations, but this is more difficult than identifying one or two financial performance measures. This study demonstrated the value of using multiple measures to indicate financial performance and the limitations of using cross-sectional data to assess organizations that may be in various stages of growth and decline. However, the inconsistent performance of the models indicated the need for additional research on the selection of financial performance measures.

5.3 Implications for Future Research

This study examined the impact of a variety of organizational factors on financial performance indicators of scalability and sustainability. Mission Statement Effectiveness and Brand IDEA Effectiveness made positive significant impacts on financial

performance. Organizational factors impacted Financial Health, Financial Capacity, and Revenue Growth in different ways.

Mission Statement Effectiveness and Brand IDEA Effectiveness are tools that measure how clearly an organization communicates its mission. A small-scale qualitative study comparing the Mission Statement and Brand IDEA Effectiveness to program effectiveness could give insight to the potential future use of these tools by donors in identifying effective organizations. Given the literature linking mission statement to financial performance and the availability of other mission statement evaluation tools, the Mission Statement Effectiveness Tool developed in this study could be useful in direct application in future studies. Conversely, the Brand IDEA Framework is a new theoretical framework. While the results of this research indicate the value of the Brand IDEA Framework, further research can be done to develop tools that may capture adherence to the theoretical framework more effectively than the content analysis tool developed for this study.

Donor behavior is impacted by a variety of information. Financial performance measures, such as overhead costs and CEO compensation, can influence the evaluative decision-making process of charitable giving (Root Cause, 2013; Pallotta, 2008). However, Szper & Prakesh (2010) found that changes in Accountability and Transparency ratings on Charity Navigator did not significantly change individual donor behavior. Donors make charitable giving decisions based on more than available information, such as feelings of connectedness to the organization or the cause (Root Cause, 2013; Van Slyke & Johnson, 2006). A qualitative study examining how Mission Statement Effectiveness and Brand IDEA Effectiveness impact donor behavior could give more insight on the evaluative decision-making process of charitable giving.

Financial performance measures do not provide an indication of the effectiveness with which an organization performs its mission. Large scale evaluation of program effectiveness can be difficult to measure, costly to perform, and may not be particularly significant in impacting donor behavior (Null, 2011). Nonprofit administrators want to gain insight into the decision-making process of donors, and donors would like to access information that will aid in charitable-giving decision-making (Root Cause, 2008).

Financial Capacity and Revenue Growth were impacted by the organizational factors in the model differently than Financial Health. Charity Navigator's Financial Health score contains two subsets of data: Financial Capacity and Financial Efficiency. If the components of Financial Efficiency were disaggregated from Financial Health and applied as a dependent variable in the model (as was done with Financial Capacity), the regression analysis could provide insight into why the organizational factors related differently to Financial Health, Financial Capacity, and Revenue Growth.

The constructs of scalability and sustainability involve growth and durability, suggesting the need to include a component of change over time. When considering the life cycle model of organizational change, a longitudinal study of these regression models could give insight into the way the impact of organizational factors on financial performance may change over time. A multi-dimensional approach to comparing data involving more than one third-party evaluator would also provide insight into the reliability and validity of such rating systems.

The purpose of this study was to examine the impact of organizational factors on financial performance indicators of scalability and sustainability. Tools to assess Mission Statement Effectiveness and Brand IDEA Effectiveness produced significant relationships to financial performance. Insight was gained on the value of using a multi-dimensional approach to financial performance when using cross-sectional data. Future research

should continue to examine the positive link between effective goal communication strategies and financial performance.

5.3 Researcher's Reflective Conclusion

To quote Singer (1961)¹, as cited in Smith and Frederickson (2003):

Science is not a substitute for insight, and methodological rigor is not a substitute for wisdom. Research that is merely rigorous may well be routine, mechanical, trivial, and of little theoretical or policy value. (p. 10)

As a practitioner, my original goal was to understand the organizational factors that I might be able to evaluate later in my own organization. In addition to the academic findings, this dissertation has contributed to my own understanding of the nonprofit world, and the lessons from my research process will guide my development as a nonprofit administrator for years to come.

When I was forming the proposed model, I had the distinct pleasure of being granted a phone conversation with Dr. Nathalie Laidler-Kylander, esteemed professor from the Harvard Kennedy School and co-creator of the Brand IDEA Framework. She spoke very passionately about the development of this framework and the recognition it gave to nonprofits that effectively communicated their mission and impact. When I mentioned the title of my dissertation and the model I created, she urged me to review the program evaluation literature. This really stuck with me, especially when Dr. Bezboruah, SUPA's resident expert on nonprofits, echoed the exact same sentiment. I knew then that the journey of collecting and analyzing data would result in something very different than my original research question sought.

¹ The citation provided was Singer, David J. (1961). "The level of analysis problem in international relations." *The International System: Theoretical Essays*, edited by Klaus Knorr and Sidney Verba, Princeton University Press. I was able to locate this source, but I did not find the quote in the essay.

Through the extensive data collection process, I have been able to gain a unique insight into the landscape of nonprofit organizations that would otherwise not be afforded to a fledgling practitioner like myself. My practical goal for this research was to develop a common understanding through which fellow nonprofit administrators can navigate the unique balance between competition and collaboration. Furthermore, I was hoping to gain guidance on how to utilize my limited time and resources to maximize the impact we are able to make.

To expand on the significance of the Brand IDEA framework, it has become clear that it is not enough to be present online. Rather, the content of your posting is much more important. During data collection, I realized that nonprofit organizations deliver an effective message by knowing their audience and crafting a strategic media plan to engage them. For example, there were some very strong organizations with solid financial capacity that had abandoned Twitter because it did not seem to produce the return on organizational goals as expected.

This phenomenon resonates with the notion of what Hansen-Turton and Torres (2014) refer to as “Next Gen” nonprofits. These are organizations that have developed out of the digital age and the marketized climate of the new nonprofit sector. Although NextGen nonprofits must do some level of strategic planning, it is done in such a way that programs and activities can quickly be revised and adapted as the organization and economic climate change. Messaging is tailored to reach target audiences. Strategies that do not yield effective results (whether it is fundraising or programming) are identified and replaced.

The literature review process gave me a tremendous amount of background knowledge on nonprofit administration, an area of immediate importance to me but one that I had not had the opportunity to study in-depth before. The data collection process

allowed me to observe a wide scope of the online lives of nonprofit organizations (an opportunity few practitioners have the time or ability to do). However, something deeper happened, and now I understand why I was directed back to the program evaluation literature.

Researchers use IRS 990 data to study nonprofit organizations. The simplicity and ease of assessment proliferate the use of these measures, and to some extent, valuable research can be conducted using these data. However, the potential of nonprofit organizations cannot be captured by crude financial measures that have no bearing on the actual impact they make. As a researcher, I must maintain the clear distinctions of effectiveness and efficiency, of performance measures and program evaluation. As a practitioner, I must evaluate the activities in my organization, not by the number of teachers it trains or the percentage of funding spent on programming, but by the lasting impact and value our programs and services have added to the lives of teachers, students, and communities.

Appendix A

Three Regression Models to Examine the Impact of Organizational Factors on Financial Performance Measures

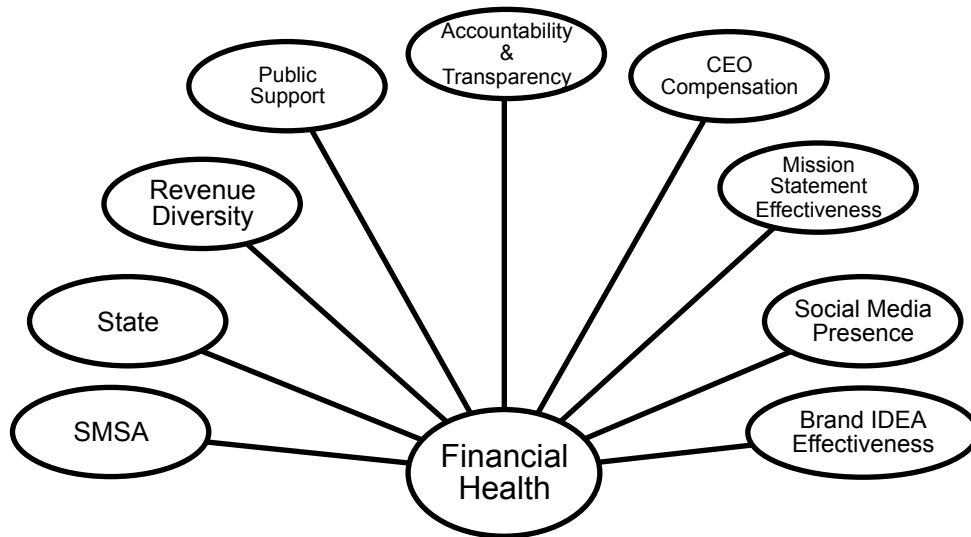


Figure A.1 Model of Organizational Factors to Predict Financial Health

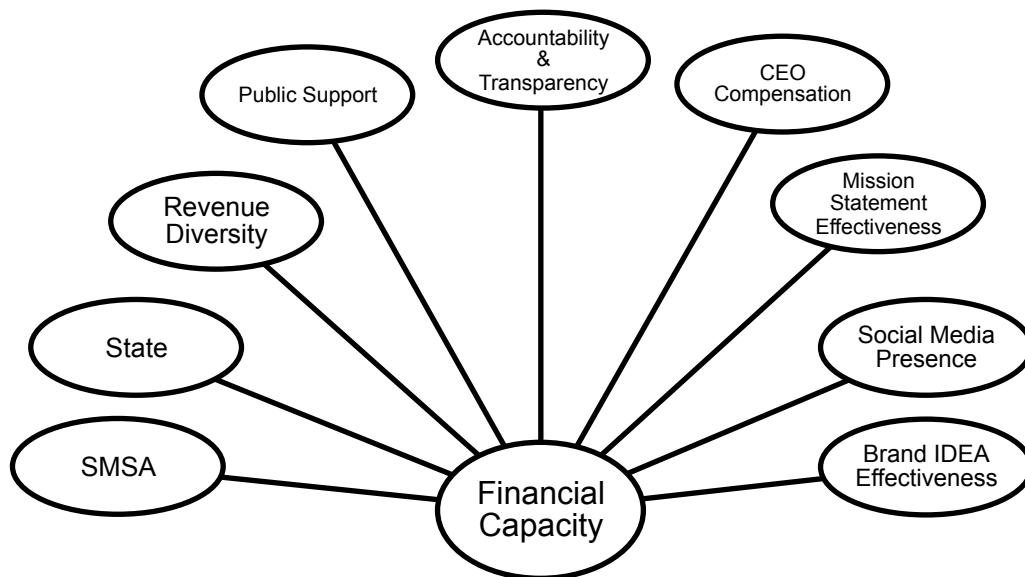


Figure A.2 Model of Organizational Factors to Predict Financial Capacity

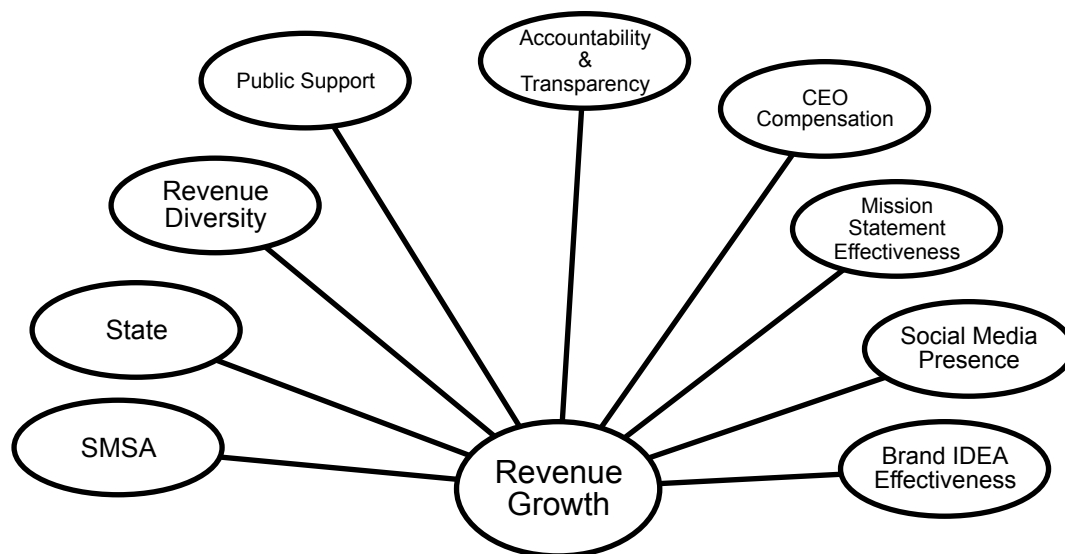


Figure A.3 Model of Organizational Factors to Predict Revenue Growth

Appendix B
IRS 990 form

Form **990****Return of Organization Exempt From Income Tax**

OMB No. 1545-0047

Department of the Treasury
Internal Revenue Service**Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)**

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

2011**Open to Public Inspection**

A For the 2011 calendar year, or tax year beginning , 2011, and ending , 20	
B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Doing Business As Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or country, and ZIP + 4 F Name and address of principal officer:
D Employer identification number	
E Telephone number	
G Gross receipts \$	
H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions) H(c) Group exemption number ▶	
I Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527	
J Website: ▶	
K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶	
L Year of formation: M State of legal domicile:	

Part I Summary

Activities & Governance	1 Briefly describe the organization's mission or most significant activities:		
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.		
	3 Number of voting members of the governing body (Part VI, line 1a)	3	
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	
	5 Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	
Revenue	6 Total number of volunteers (estimate if necessary)	6	
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	
	b Net unrelated business taxable income from Form 990-T, line 34	7b	
	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year
	9 Program service revenue (Part VIII, line 2g)		
Expenses	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)		
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	14 Benefits paid to or for members (Part IX, column (A), line 4)		
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a Professional fundraising fees (Part IX, column (A), line 11e)		
	b Total fundraising expenses (Part IX, column (D), line 25) ▶		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)		
	18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)		
Net Assets or Fund Balances	19 Revenue less expenses. Subtract line 18 from line 12		
	20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year
	21 Total liabilities (Part X, line 26)		
	22 Net assets or fund balances. Subtract line 21 from line 20		

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here	Signature of officer	Date			
	Type or print name and title				
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			
	May the IRS discuss this return with the preparer shown above? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No				

For Paperwork Reduction Act Notice, see the separate instructions.

Cat. No. 11282Y

Form **990** (2011)

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a				
	b	Membership dues	1b				
	c	Fundraising events	1c				
	d	Related organizations	1d				
	e	Government grants (contributions)	1e				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f				
	g	Noncash contributions included in lines 1a-1f: \$					
	h	Total. Add lines 1a-1f ▶					
Program Service Revenue				Business Code			
	2a						
	b						
	c						
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f ▶					
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) ▶					
	4	Income from investment of tax-exempt bond proceeds ▶					
	5	Royalties ▶					
		(i) Real	(ii) Personal				
	6a	Gross rents					
	b	Less: rental expenses					
	c	Rental income or (loss)					
	d	Net rental income or (loss) ▶					
	7a	(i) Securities	(ii) Other				
	b	Gross amount from sales of assets other than inventory					
	c	Less: cost or other basis and sales expenses					
	d	Gain or (loss)					
	e	Net gain or (loss) ▶					
	8a	Gross income from fundraising events (not including \$ of contributions reported on line 1c). See Part IV, line 18 a					
	b	Less: direct expenses b					
	c	Net income or (loss) from fundraising events ▶					
	9a	Gross income from gaming activities. See Part IV, line 19 a					
	b	Less: direct expenses b					
	c	Net income or (loss) from gaming activities ▶					
	10a	Gross sales of inventory, less returns and allowances a					
b	Less: cost of goods sold b						
c	Net income or (loss) from sales of inventory ▶						
Miscellaneous Revenue			Business Code				
11a							
b							
c							
d	All other revenue						
e	Total. Add lines 11a-11d ▶						
12	Total revenue. See instructions. ▶						

Appendix C

Charity Navigator Accountability and Transparency Scoring Guide

Data culled from Form 990	
Performance Metric	Score Deductions
Less than 5 independent voting members of the board; or independent members do not constitute a voting majority.	15 points
Material diversion of assets within the last two years, without a satisfactory explanation	15 points
Material diversion of Assets within the last two years, with a satisfactory explanation	7 points
Audited financial statements are not prepared or reviewed by an independent accountant	15 points
Audited financial statements are prepared or reviewed by an independent accountant, but that accountant is not selected and overseen by an internal committee.	7 points
Loans to or from officers or other interested parties	4 points
Organization does not keep board meeting minutes	4 points
Forms 990 not distributed to the board before filing	4 points
No Conflict of Interest policy	4 points
No Whistleblower policy	4 points
No Records retention and destruction policy	4 points
Does not properly report CEO compensation on form 990	4 points
Does not have a process for reviewing and updating CEO compensation	4 points
Fails to report board members and compensation fully on the form 990, or reports that board members are compensated for their participation	4 points
A Review of the Charity's Website	
Performance Metric	Deductions from Score
Does not publish board members on website	4 points
Does not publish senior staff on website	3 points
Does not publish latest Audited Financial Statements on website	4 points
Does not publish latest form 990 on website	3 points
No donor privacy policy	4 points
Opt-out donor privacy policy	3 points

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Biographical Information

Amy Merk was born and raised in Southern Indiana. She is a graduate of the Indiana Academy of Science, Mathematics, and Humanities, a residential magnet high school for high-achieving juniors and seniors. She received a Bachelor's of Arts from the University of Portland, Oregon in Sociology. She holds a Master's of Arts in Sociology from the University of Houston.

In 2003, Amy began her career in education as a Resource teacher in the Spring Branch Independent School District. In the fall of 2006, Amy began her work as a Ph. D. student in Public Administration at the University of Texas at Arlington. Her passion for teaching and professional development led to several unique opportunities. In 2008, she was a fellow in the Japan Fulbright Memorial Fund Teacher Program and spent three weeks meeting educators and observing school programs in Tokyo and Okinawa. In 2011, she participated in a Fulbright-Hays Group Project Abroad to India with seventeen other educators from the Dallas-Fort Worth area. Inspired during the trip, the project's curriculum director, Bhavani Parpia, decided to establish ConnecTeach, a nonprofit to improve education quality in underserved areas and invited Amy to be a part of the organization's foundation. Today, Amy serves as Program Director for ConnecTeach, enthusiastically using the skills and expertise gain from her Ph.D. pursuits to growing and sustaining the organization so that every child's potential is realized through access to quality education.