DETERMINANTS OF FINANCIAL PERFORMANCE OF NON-PROFIT ORGANIZATIONS

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ABSTRACT

Financial performance can be seen as a determinant of organizational sustainability. Although non-profit organizations do not present as their main objective of obtaining profit but rather the fulfilment of a mission, this logic should not be very different for these organizations. Nevertheless, given this specificity, it is important to understand which major areas in managing these organizations effectively influence their financial performance. Thus, for the present study, and using a quantitative methodology, we analyzed strategic management, governance, human resource management and management of social services, promoted by the Holy Houses of Mercy, a non-profit organization with a stronger presence in portuguese society. It was possible to verify that, among these areas, only human resource management positively influences the financial performance of these institutions, that strategic management presents a negative influence and that governance and social responses do not present a direct relationship with financial performance.

Keywords: Financial Management, Strategic Management, Human Resource Management, Social Services, Governance, Non-Profit Organizations

INTRODUCTION

In the current context of social and economic instability, where the consequences of the COVID-19 pandemic crisis lead us to organizational scenarios characterized by unpredictability, non-profit associations (NPOs) are increasingly challenged to provide social responses, following their missions, given that the public and private sectors are unable to perform with the diligence desired by society. Studies that allow us to understand the performance and dynamics of these organizations become increasingly relevant (Oliveira et al., 2021) since, for a long time, the management of this type of organization has not attached great importance to the factors that can influence their management, without jeopardizing the fulfilment of their missions and the values under which they are governed (Hudson, 2017). In this context, the financial performance of these associations is increasingly decisive since it should be the guarantor of the continuity of action of these institutions. In this sense, this study aimed to verify how different management perspectives of these institutions, such as strategic management, governance, human resource management, and social responses, can affect their financial performance. Therefore, this research aims to increase knowledge about the influentials of financial performance in NPOs to understand which organizational factors can effectively contribute to their management and sustainability.

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Thus, this study focuses on Portuguese NPOs, in the specific case of Holy Houses of Mercies in Portugal, aims to verify the influence of financial management and governance practices in social services promoted by the Holy Houses of Mercy in Portugal.

LITERATURE REVIEW

After the 2007/8 financial crisis, the economic slowdown brought a greater demand for services provided by NPOs (Cronley & Kim, 2014; Hackler & Saxton, 2007). In some cases, demand arises from regular customers who request additional or different services than those traditionally provided by the organization (Akingbola, 2006; Crittenden, 2000), for which there is simply not enough supply. Others report demand from underserved populations but often face challenges in acquiring the resources or assets needed to expand existing coverage (Pietroburgo & Wernet, 2004). Based on organizational effectiveness (Schneider, 2009; Schnurbein, 2014), NPOs are important agents in the creation of social value (Wollebæk & Selle, 2007), playing an important key in promoting democratic stability and economic growth, considering the norms they are based, trust and share (von Schnurbein, Perez, & Gehringer, 2018) and principles, such as solidarity, cooperation and equity, they cultivate, and that is legally established (Enes, 2013; Law of the Bases of Social Economic, Law 30/2013). NPOs are usually raised in social movements, promoting civic empowerment and democratic values (Anheier & Seibel, 2013), and they are usually associated with the social well-being, integrating institutions that promote the charity, the humanism and the scientific and educational values (Oliveira, Sousa, Silva, & Santos, 2021).

Nowadays, these organizations face the challenge of fulfilling their social mission, guaranteeing economic and financial sustainability (Dall'Agnol, Tondolo, Tondolo, & Sarquis, 2017). This complex challenge implies defining strategies and practices that permit to maintain and/or improve the efficiency of the resources and, also, to provide better existing and new services to their beneficiaries (Bryce, 2017; Lee, 2010; Santos, Laureano & Machado, 2014; Santos & Soeiro De Carvalho, 2018; Su, Nuryyev, Aimable & others, 2014).

Strategic Management

NPOs are highly dependent on their external environment and vulnerable to factors such as financial shocks, rapid technological changes and pressure from stack stakeholders (Bryson, 2018; Froelich, 1999; Miller, 2018). Strategic management can help non-profit organizations not only to manage and respond to environmental change, promoting an improvement in the organization's interaction with the outside (Hafsi & Thomas, 2005), but also to improve organizational decision making, allowing a better performance (Black, Hinrichs, & Fabian, 2007; Mara, 2000; Osterwalder & Pigneur, 2010). According to Miller (2018), the use of strategic formulation in NPOs is positively associated with higher performance levels, reflected in the organization's growth, financial reporting, resource acquisition, efficiency and customer service. An aspect still little studied and used in the strategic management of NPOs is the cooperation between organizations, which may result in the improvement of the financial performance of those involved. Working in cooperation, these organizations will be able to obtain numerous advantages, among which the capacity to obtain subsidies, to obtain high volume contracts that they would have difficulty reaching in isolation, to acquire new clients/users and to carry out joint campaigns in the media (Basinger & Peterson, 2008).

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Governance

The governance of NPOs is a complex task as their leaders should guarantee the organization's social mission, promote its sufficiency and sustainability, and ensure transparency and accountability for stakeholders (Woerrlein & Scheck, 2016). In fact, to promote their sustainability, NPOs have adopted managerial procedures similar to practices and values related to private organizations (Cornforth, 2014; Eikenberry & Kluver, 2004). In this sense, they have been subject to "marketization" and have adopted "some approaches, such as commercial revenue generation, contract competition, or social entrepreneurship" (von Schnurbein et al., 2018).

Several authors (Bukhari, Jabeen, & Jadoon, 2014; Cabral De Ávila & Bertero, 2016; Cruz, Quandt, Martins, & da Silva, 2010; da Silveira & Borba, 2010; Garcia, 2016; Saltaji, 2013; Taylor, 2015) reveal that governance assumes a great deal of influence in the fulfilment of the social mission to which the organization proposes itself, pointing out that in order to ensure good governance the organization's Strategy must be aligned with the organization's mission and objectives. The adoption of governance practices will allow NPOs to improve their financial capacity, capturing customers, partners, and financiers more efficiently while guaranteeing the fulfillment of their objectives and facing the multiple challenges they are subjected to daily.

Framed in attracting funding sources, the study by (Miller, 2018) concludes that financiers/investors attach high importance to the organization's performance indicators when making decisions for selecting projects or institutions to support. On the other hand, the research carried out by (Greiling & Stötzer, 2015) reveals that NPOs understand the relevance of responsibility for performance in protecting financial resources. In a study applied to hospitals, (Marlin, Geiger, & Ritchie, 2013) note that these institutions understand the importance of the "strategic imperative" (p. 427) for philanthropic donations. Still, some authors (Larsen & Brockington, 2018; Smith, Binns & Tushman, 2010; Weerawardena, McDonald, & Mort, 2010) argue that NPOs leaders sometimes neglect the social mission for which the institutions were created in favour of their medium and long-term financial sustainability.

Human Resources Management

The determinants of NPOs management have evolved beyond the eminently financial perspective, including aspects related to the external environment, the professionalization of HR and the ability to adapt to customer needs (Miller, 2018).

Concerning the management of NPOs Human Resources, some evidence suggests that the efforts and performance of employees specifically lead to an increase in the organisation's financial performance (Brown & Iverson, 2004) and the successful implementation of the Strategy (Sheehan Jr, 1999). In this sense, it is necessary to empower NPOs leaders and managers with resources and skills that allow them to rationally assess the organization's financial sources and prepare rigorous financial projections that allow NPOs to review needs and provide the necessary resources in greater detail and as few deviations as possible (Crittenden, 2000).

A particular characteristic associated with NPOs is the free or low level of wags, below the market value (Collins, 2005), and high volunteering presence (Payne, Mize Smith, Everson, & Newman Iv, 2019). Even so, several authors have been defending the need for more significant investment in the training, qualification and marketing of volunteering, framing it in the human resources management policies of the NPOs (Amaro, Quintela & others, 2002; Pimenta, 2011; Serapioni, Ferreira & Lima, 2013).

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Social Service Practices

The financial sustainability of NPOs is directly related to their ability to carry out their mission. According to (Su et al., 2014), organizations with better financial and sustainable performance will be able to assist a greater number of people and achieve their goals.

However, customer/beneficiaries' preferences should not be neglected. We found studies like that of (Stone, Bigelow & Crittenden, 1999), which refer to the strong emphasis on management and financing, leaving the needs of the customer/beneficiaries relegated to second place.

Therefore, NPOs leaders and managers must use management tools to successfully interact with and in the environment in which they are integrated and have internal conditions to fulfill their missions.

HYPOTHESIS

Hypothesis 1 (H1): Strategic management influences positively the financial management of non-profit organizations.
Hypothesis 2 (H2): The governance influences positively the financial management of non-profit organizations.
Hypothesis 3 (H3): Human resources management influences positively the financial management of non-profit organizations.
Hypothesis 4 (H4): The social service practices influence the financial management of non-profit organizations positively.

METHODOLOGY

Sample

In order to achieve the objective proposed in this article, an exploratory, quantitative research using a questionnaire survey instrument to understand and analyse the influence of Human Resources Management (HRM), Strategy (STR), Social Responses (SOC) and Governance Practices (GOV) can influence the Financial Management (FIN) of NPOs. The instrument survey consisted of 45 items, distributed into five dimensions, corresponding 6 variables to HRM, 6 to STR, 10 variables to SOC, 15 to GOV and 8 to FIN.

We analysed 242 Holy Houses of Mercy, which corresponds to 62.5% of the universe of 387 Holy Houses of Mercy currently in Portugal's operation.

The data were collected in person, between November 2018 and December 2019, through the application of questionnaires, within the scope of audits carried out through the program "Misericórdias - Gestão Sustentável" of the Union of Portuguese Mercies. For this purpose, managers, technicians and workers from these institutions were surveyed. The data were collected through a questionnaire survey and allowed an investigation of a quantitative nature by estimating a structural model using the SPSS/SEM-AMOS 27 data analysis technique.

As in previous studies (Oliveira et al., 2021), this questionnaire and its dimensions had already been validated in Exploratory Factorial Analysis (EFA). We directly applied Confirmatory Factorial Analysis (CFA) to test the formulated research hypotheses.

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RESULTS

Confirmatory Factorial Analysis

The Confirmatory Factorial Analysis is an appropriate technique because it enables us to confirm or reject a preconceived measurement Theory (Hair Jr, Page, & Brunsveld, 2019).

To measure the reliability of the proposed measurement model, we use Cronbach's alpha (α), Composite Reliability (CR) and Average Variance Extracted (AVE) (Byrne, 2010; Hair Jr et al., 2019; Taber, 2018). To be acceptable, items must be greater than 0.7 on Cronbach's Alpha and Composite Reliability. The Average Variance Extracted must be greater than 0.5 (Marôco, 2010).

In Table 1 we can see that the values obtained for these three indicators are within the required parameters concerning CR and α; however, with regard to AVE, the Governance Practices and Social Service Practices dimensions present values below 0.5. This does not call into question the structural model but affects its explanatory capacity (Byrne, 2010).

Table 1
VALIDITY AND RELIABILITY OF CONSTRUCTS

Constructs	Composite Reliability (>0.7)	Average Variance Extracted (>0.5)	Cronbach Alpha (>0.7)
Strategic Management	0.924	0.671	0.924
Governance Practices	0.927	0.430	0.896
Human Resources Management	0.864	0.680	0.912
Social Service Practices	0.898	0.348	0.893
Financial Management	0.937	0.899	0.973

We performed a CFA using SPSS/SEM-AMOS 27 data analysis techniques to estimate the five dimensions' validity and reliability. The structural model tested shows a statistically significant relationship between the latent variables. The results of goodness-of-fit indices indicated irrefutable evidence of an adequate model fit to the data.

Hypothesis Testing Results

After verifying the model fit, this study examined the direct effects among the study variables. To analyse the final value of the model, we calculate the β coefficients. The β shows the influence between the various constructs. It was shown that the dimensions Strategic Management, Governance Practices, Human Resources Management and Social Service Practices influence financial management of non-profit organizations. We found that hypotheses H1 and H3 were statistically validated, but H2 and H4 were not statistically significant. Concerning H1, it should also be noted that the literature shows a positive influence of STR on FIN. However, this result did not occur even though the result was statistically significant.

This final research model allowed to validate that STR influences negatively FIN (β=-.164; $p<0.05$), GOV have a direct and positive influence in HRM with (β=.046; $p>0.05$), SOC have a direct and negative influence in HRM with (β=-.007; $p>0.05$) and SOC influences positively FIN (β=.046; $p>0.05$) . Considering these statistical results, the hypotheses H1 and H3 formulated were valid. However, H2 and H4 were not validated in the final model.

In Table 2, it is possible to see a summary of the hypotheses that were tested.

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Table 2
RESEARCH HYPOTHESES AND STATISTICAL RESULTS

Hypothesis	Relation	Regression Coefficient	Standard Error	t	p-value	Result
H1	STR→FIN	-.164	.056	2.504	**	Supported
H2	GOV→FIN	.046	.079	.634	0.526	Not Supported
H3	HRM→FIN	.184	.056	2.504	**	Supported
H4	SOC→FIN	-.007	.067	-0.070	0.944	Not Supported

The structural model results (Figure 2) indicate that the STR and HRM dimensions directly impact FIN with a statistically significant influence, supporting the research hypotheses formulated (H1 and H3). Regarding H2, GOV had a positive impact on FIN but with no statistical validity. Concerning H4, SOC had a negative impact on FIN but with no statistical validity.

DISCUSSION

Analyzing the influence of the STR, GOV, HRM and SOC dimensions on FIN, finding a significant disparity of results is possible. First, there are two dimensions directly influencing FIN performance (STR and HRM), and these dimensions point in opposite directions. While STR has a negative influence, HRM has a positive influence. The other two variables under study (GOV and SOC), on the other hand, do not influence FIN's performance. These findings allow us to support H1 and H3 and not to support H2 and H4.

Thus, we first proceed to the analysis of the confirmation of H1. We proceeded with the study under the assumption that there would be a positive influence of STR on the FIN performance of the institutions under study. We were able to find that all the sub-dimensions that make up STR (strategy formulation, choices and implementation, identification, measurement and disclosure of externalities) have statistical relevance on FIN performance, but it is a negative influence. These findings contradict the contributions of Black, Hinrichs, & Fabian (2007), Mara (2000), and Osterwalder & Pigneur (2010), since the present study finds that the strategic decisions of these organizations negatively influence financial performance. Associated with this finding is the need for these institutions to fulfil their missions, which may be humanitarian, social or communal, but always without the goal of obtaining profit. This logic does not verify the contributions of Miller (2018), who points out that higher levels of performance in strategic management are reflected in the organisation's growth as a whole, in financial reporting, in the acquisition of resources, and the efficiency and customer service. Thus, strategic decisions in this type of organization, unlike in the private sector, negatively influence financial performance due to the need to fulfil their missions, which do not involve profit but rather the fulfilment of a social mission.

Moving on to the analysis of H2, which tells us that governance positively influences the financial management of non-profit organizations, it was possible to ascertain that, in these organizations, this meaningful relationship does not occur. The subdimensions that makeup governance (ethics and social responsibility, action with the community, performance impacts, quality system, relationship networks, communication plan, marketing and community involvement) show not to be determinants for a better financial performance in these institutions, which is not in line with the contributions of Bukhari, Jabeen, & Jadoon, 2014; Cabral De Ávila & Bertero, 2016; Cruz, Quandt, Martins, & da Silva, 2010; da Silveira & Borba, 2010; Garcia, 2016; Saltaji, 2013; Taylor, 2015. These authors tell us that adopting governance practices will allow NPOs to improve their financial capacity, capture customers, partners, and financiers more efficiently while guaranteeing the fulfillment of their objectives and facing the multiple challenges they are subjected to daily. However, for the organizations under study, this relationship does not

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seem to be relevant, as it is possible to perceive that the revenue structure of these organizations is based on sources that are not very vulnerable to the indicators studied here and that fall within the sphere of influence of governance.

Concerning H3, it was possible to find a significant and positive influence of HRM on the financial performance of the organizations under study. This means that the sub-dimensions identified by this study and which comprise the human resources dimension (motivation, performance, practices, training support instruments and volunteering), contribute decisively to the financial performance of non-profit organizations. The contributions of Brown & Iverson (2004), Collins (2005), Payne, Mize Smith, Everson, & Newman (2019), Amaro, Quintela, et al., (2002), Pimenta (2011) and Serapioni, Ferreira, & Lima (2013) correspond to this finding, telling us that efforts to improve the performance of these subdimensions under analysis will translate into better financial performance by these institutions. Effectively, in this study, it was possible to witness this relationship. Thus, the financial performance of these institutions, taking into account the specificity of the fact that profit is not the main objective, but rather the fulfilment of a social, community or humanitarian mission, clearly seems to benefit when a good human resources management is implemented. These indicators are verified either by the increase in revenue or the reduction in expenses since the sub-dimensions under analysis included indicators of both types.

Finally, concerning H4, it was not possible to ascertain a relationship of the influence of the social services provided by these organizations on their financial performance. The subdimensions of social services (front office facilities, front office equipment, human resources (technical staff), human resources (non-technical personnel), human resource management practices, users, quality, back office facilities and back-office equipment), intended to help understand whether, according to Su et al. (2014) and Stone, Bigelow, & Crittenden (1999), this dimension of the management of these organizations, composed of the social responses that it promotes to its target audience, influence the financial performance. The absence of this influence indicates that the quantity and quality with which these organizations provide social services does not influence financial performance.

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

In the wake of the results ascertained, one may conclude that, at the non-profit organizations targeted by this study, and contrary to what the literature points to for private sector organizations, strategic decisions negatively influence financial performance under the need to comply with their missions that do not involve the obtaining of profit but rather the fulfilment of a social mission. There is no influencing relationship between the governance of these institutions and their financial performance. It is possible to see that the revenue structure of these organizations is based on sources that are not very vulnerable to the indicators studied in this management dimension. Considering the specificity that the achievement of profit is not the main objective but the fulfilment of a social, communitarian or humanitarian mission, the financial performance of these institutions clearly benefits when good human resources management is implemented. Whether by increasing revenues or reducing expenses, a good HRM corresponds to the good financial performance of the institution. The supply of social services, whether by its diversity of typology, quality or quantity, does not influence the financial performance, which shows us that the revenue structure on which these social responses are supported, consisting of subsidies and state contributions, reveals itself as solid bases that provide stability to the financial performance level.

This study focuses on one type of NPO, so the traditional limitations of this type of study apply, such as the possibility of generalizing the results to other types of associations or sectors of activity. It is important to emphasize the need and provide complementary studies to confirm some of the main activities carried out in this study. Determining the influence of the variables under

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study on human resources in these associations does not invalidate the fact that there are no other management dimensions that may also be relevant. The collection, processing and analysis of the data occurred in a context before and during the pandemic crisis of COVID-19. In this case, it presents itself as a limitation since the organizational reality in the final crisis may be radically different. Finally, this type of study should be extended to other third sector associations, such as cooperatives, mutual societies, philanthropic and local development entities.

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