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Can Management Practices Make a Difference? Nonprofit Organization Financial Performance during Times of Economic Stress

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Abstract

The economic crisis presented unprecedented challenges to nonprofit organizations to sustain their services. In this study, we examined both financial and management factors that influence the financial performance of nonprofit organizations during times of economic stress. In particular, we investigated whether strategic planning and plan implementation, revenue diversification, and board involvement help nonprofit organizations deal with financial uncertainty and strengthen financial performance. Despite the negative impacts that the economic downturn had on nonprofit organizations, we found that the implementation of strategic plans can help nonprofit organizations reduce financial vulnerability. Our findings call attention to key management factors that influence the financial performance of nonprofit organizations.

Key Words: *Financial Performance; Strategic Planning; Plan Implementation.*

JEL Classification: *L10, L25, L30, H12*.

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1. Introduction

The nonprofit sector has become a crucial provider of human and social services as well as a driving economic force in the United States. During the economic turbulence following the global financial crisis of 2008, the nonprofit sector faced unprecedented challenges of pursuing sustainable development. In this study, we examined factors that influence nonprofit organizations' financial performance in times of economic crisis. Previous research has focused on factors such as funding sources, revenue diversification, board size, board engagement, organizational attributes, and environmental factors (Besel, Williams, & Klak, 2011; Bowman, 2011; Carroll & Stater, 2009; Graddy & Wang, 2009; Hodge & Piccolo, 2005; Ritchie & Kolodinsky, 2003; Trussel, 2002; Tuckman & Chang, 1991). To understand why nonprofit organizations performed better or worse during the economic downturn, we not only included financial factors but also considered the impacts of management factors, such as the use of strategic planning, strategic plan implementation, and board commitment (Boyne & Walker, 2004; Bryson, 2011; Moore, 2000; Mosley, Maronick & Katz, 2012; Poister, Pitts & Edwards, 2010). We addressed two questions in particular: What factors influence financial performance of nonprofit organizations during times of economic stress? Can strategic planning and plan implementation help nonprofit organizations tackle financial uncertainty and strengthen financial performance?

We examined the financial performance of nonprofit organizations in Central Florida during the economic downturn starting in early 2008. Organizational attributes, management data, and financial data were obtained from the Central Florida Foundation (CFF)[1]. Findings from this study can inform both researchers and nonprofit managers about how to apply strategies to enhance financial performance in times of financial uncertainty. Unlike other studies focusing on revenue factors, this study showed that strategic plan implementation may help organizations perform better financially during economic crises. Our findings also call increased attention to management practices that impact the financial performance of nonprofit organizations.

2. Literature Review

Facing financial uncertainty, some nonprofit organizations may demonstrate great financial sustainability, whereas others are relatively less stable financially. This section first discusses the measures of financial performance of nonprofit organizations and then reviews factors that influence financial performance of nonprofit organizations, especially during times of financial stress. These key

[1] Central Florida Foundation. About the Foundation. Retrieved from cffound.org/explore/about_cff/

factors include funding sources and revenue diversification, board size and board involvement, strategic planning and implementation, organization size, and environmental factors.

2.1. Nonprofit Organization Financial Performance

Many means are available for measuring the financial performance of nonprofit organizations are numerous, but few are widely agreed on (Berman, 1998; Martin & Kettner, 2010; Ritchie & Kolodinsky, 2003). Tuckman and Chang (1991) called for research studying *"financial vulnerability"* of nonprofits, defining nonprofits as financially vulnerable if they were likely to reduce service provisions in the face of financial stress. They further proposed four operational criteria to evaluate financial vulnerability: inadequate equity balances, revenue concentration, low administrative costs, and low or negative operating margins (pp.451-453). Greenlee and Trussel (2000) added a time dimension to the definition of financial vulnerability and considered nonprofits organizations to be financially vulnerable if they reduced program expenditures for three consecutive years. Trussel (2002) further redefined financial vulnerability and added that organizations showing a 20% decrease in fund balances over three years are to be considered financial vulnerable, according to such indicators as debt ratio, revenue concentration, and surplus margin. In another study, Trussel, Greenlee, and Brady (2002) proposed a financial vulnerability index based on a regression analysis of five indicators: debt ratio, revenue concentration, surplus margin, administrative cost ratio, and size (natural log of total assets). A financial vulnerability index score higher than 0.2 demonstrates the financial vulnerability of the nonprofit organization (Trussel et al., 2002). In empirical studies of the financial performance of nonprofits, the financial vulnerability index proposed by Trussel et al. has been frequently applied, tested, and revised (e.g., Hodge & Piccolo, 2005).

Different from the index approach, other scholars broke down financial performance measures into different subcategories. For instance, Ritchie and Kolodinsky (2003) interviewed key informants of university foundations and conducted factor analysis of the six financial measures from the IRS form 990. They identified three performance categories: fund-raising efficiency, measured by the ratio of direct public support to fund-raising expenses and the ratio of total revenue to fund-raising expenses; public support, measured by total contributions divided by total revenue and direct public support divided by total assets; and fiscal performance, measured by the ratio of total revenue to total expenses and the ratio of total contributions to total expenses. Their approach recommends

using multiple measures to evaluate various aspects of nonprofit financial performance.

Bowman (2011) critiqued the static view of the financial status of nonprofit organizations and maintained that a time dimension needs to be added to the model measuring financial capacity and financial sustainability. He argued that nonprofits have both the short-term goal of building resilience toward environmental uncertainty and the long-term objective of sustaining or expanding services. Hence, he proposed two sets of measures to evaluate financial capacity and financial sustainability according to those two objectives. With the long-term goal of sustaining or expanding services, financial capacity is measured by equity ratio, and financial sustainability is measured by return on assets. With the short-term goal of developing resilience toward financial stress, financial capacity can be measured by "*Months of Spending (MS) before running out of expendable resources*," and financial sustainability can be measured by "*the change in the numerator of Months of Spending divided by spending on operations*" (p.43).

2.2. Funding Source and Revenue Diversification

Funding sources and diversification of fund sources can influence nonprofit organizations' financial performance. Heavy reliance on government revenue can have adverse effects on service delivery strategies (Besel et al., 2011). Nonprofit organizations that rely mostly on such contributions may be at risk of resource dependency during times of economic stress (Carroll & Stater, 2009; Herman, Head, Jackson & Fogarty, 2004). Hodge and Piccolo (2005) found that privately funded nonprofit agencies were less susceptible to economic shock than nonprofit organizations funded by government or other commercial agencies.

Many nonprofits may not be able to dramatically change the primary source of their revenues; however, they may be able to diversify their portfolios. Greenlee (2002) noted that revenue diversification can reduce net asset loss as well as the likelihood of cutting off programs or services. On the contrary, revenue concentration can increase the risk of revenue decline (Herman et al., 2004; Keating et al., 2005). By diversifying revenue through "*equalizing reliance on earned income, investments, and contributions,*" nonprofit organizations can reduce their revenue volatility (Carroll & Stater, 2009, p. 962). By examining longitudinal data on public charities between 1991 and 2003, Carroll and Stater (2008) found that revenue diversification is an effective strategy to help organizations obtain stable revenues and decrease revenue volatility. This strategy is especially important when nonprofits face financial uncertainty. To measure the level of revenue diversification of nonprofit organizations, we have

adopted the widely used Hirscheman-Herfindal index (Carroll & Stater, 2009). The sources of revenue are grouped into four categories: (1) government grants; (2) donations that include direct and indirect public support and private gifts, as well as gross income from special events; (3) earned income, including program revenue, dues, and other earned income; and (4) investment income, consisting of interest, securities, and other investment income (Calabrese, 2013; Yan, Denison & Butler, 2009). Ri represents the proportion of each category of revenue to the total revenue. This revenue diversification index measures the extent to which nonprofit revenues are evenly distributed among the four categories of revenue sources. The higher the value, the greater level of revenue diversification the nonprofit organization has. Assuming that diverse revenue sources can help nonprofit organizations reduce financial volatility, we hypothesized that revenue diversification can help improve the financial performance of nonprofits.

$$\text{Revenue Diversification Index} = \frac{1-\sum_{i=1}^{4} {R_i}^2}{0.75}$$

Hypothesis 1: Revenue diversification can improve the financial performance of nonprofits during times of economic stress.

2.3. Board Size and Involvement

Managing the financial health of nonprofits is a major part of the board's formal responsibilities (Besel et al., 2011; Bradshaw, Murray & Wolpin, 1992; Zimmerman & Stevens, 2008). Board members can play a prominent role in fund development due to their strong connections with external environments (Brown & Guo, 2010). Board commitment and involvement, board composition and structure, and relationships between executives and boards may influence the strategies that nonprofit organizations use to deal with financial uncertainty and their financial performance. Strong, supportive relationships between the executive and the board tend to produce more effective organizations (Balser & McClusky, 2005). Committed board members were reported to be more involved in the organization and were perceived to be engaged and were valued by the executive director of nonprofit organizations (Preston & Brown, 2004). The increased use of board involvement techniques has been shown to produce lower levels of financial vulnerability (Hodge & Piccolo, 2005). Board commitment can be measured by board meeting attendance at required meetings, participation (e.g., length of service on the board, service on committees, hours donated to the organization), and financial donations (Preston & Brown, 2004). Hence, we hypothesize that there is a positive relationship between board involvement and the financial performance of nonprofit organizations.

Hypothesis 2: Board involvement positively correlates with the financial performance of nonprofits during times of economic stress.

2.4. Strategic Planning and Plan Implementation

Strategic planning can influence the financial performance and vulnerability of nonprofits. According to Bryson (2011), strategic planning is "*a deliberative, disciplined approach to producing fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and why*" (pp.7-8). Strategic planning has potential for advancing both social and financial performance (Siciliano, 2006), and they allow organizations to take proactive measures, explore collaboration opportunities for joint programs, and carry out new programs (Mosley et al., 2012).

Many nonprofits adopt strategic planning in their management practices to increase potential funding opportunities and to satisfy the expectations of potential funders (Crittenden & Crittenden, 2000). Strategic planning may help nonprofits think strategically, diversify revenue sources, and improve decision making and performance (Bryson & Roering, 1988; Jimenez, 2013; McHatton, Bradshaw, Gallagher & Reeves, 2011; Stone, Bigelow & Crittenden, 1999). Facing financial uncertainty, nonprofit organizations can use adaptive or reactive strategies such as adding new programs, cutting off existing programs or staff, building or expanding a joint program through collaboration, increasing earned income, or starting or increasing involvement in advocacy (Mosley et al., 2012).

Yet, the relationship between strategic planning and financial performance of nonprofit organizations is not always straightforward, and research examining the impact of strategic planning on organizational performance remains limited and inconclusive (Poister, Pitts & Edwards, 2010). Nonprofit organizations often utilize formal strategic planning because they are required by funders to do so (Stone et al., 1999). Poister and Streib (2005) found that while nearly 44% of the municipal governments that they surveyed had adopted strategic planning, only 33% of the sample cities had linked their budgets with strategic goals, and only 22% had utilized performance measurement. In a study on the impact of strategic planning on city fiscal performance, Jimenez (2013) did not find significantly positive impacts of strategic planning on city fiscal status. He further noted that some cities may adopt strategic planning as a symbolic action to satisfy key stakeholders. To make strategic planning more useful, he suggested that performance management systems, clear goals and objectives, and guidance are important for implementing strategic plans. Having a strategic plan does not

necessarily lead to improved financial performance of nonprofits; it is the actual plan implementation that may contribute to healthier financial conditions.

Hypothesis 3: Plan implementation may help reduce the financial vulnerability of nonprofits.

2.5. Dependence on External Sources and Organizational Size

The economic crisis of 2008 has exerted great pressure on the growth of nonprofit organizations (Besel et al., 2011; Mosley et al., 2012). Heavy reliance on government grants or external donations may make nonprofit organizations more vulnerable to external financial uncertainty (Besel et al., 2011). In addition, the size of a nonprofit may affect its financial performance and vulnerability, as shown in Figure 1. A study by Mosley et al. (2012) examined structural, managerial, and financial characteristics to see how they were related to adaptive tactics used by nonprofit organizations faced with financial uncertainty. Small nonprofit organizations are limited in how they can proactively respond to financial hardship (Greenlee & Trussel, 2000; Mosley et al., 2012; Siciliano, 2006). Hence, we developed the following two hypotheses.

Hypothesis 4: External financial conditions since 2008 have had a negative impact on the financial performance of nonprofits.

Hypothesis 5: Large organizations are more likely to have better financial performance during times of economic uncertainty.

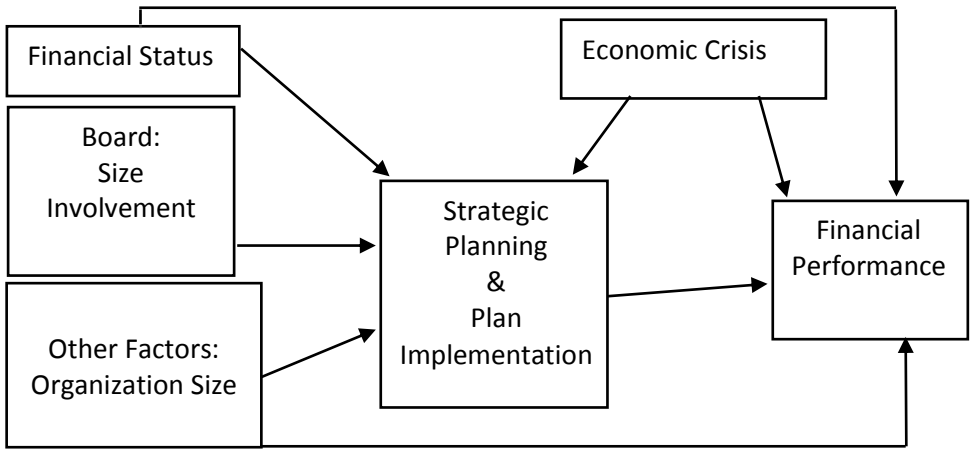

Figure 1. Factors Impacting Nonprofit Financial Performance during Times of Economic Stress

3. Method

Data for this study were provided by the Central Florida Foundation (CFF). The CFF, established in 1994, is a nonprofit foundation that manages and invests *"nearly 400 charitable funds established by generous individuals, families and corporations"* to serve the financial needs of nonprofit organizations in Central Florida[2]. To better understand community issues and to utilize and allocate resources, the CFF built a knowledge database to collect information about nonprofit organizations located in Central Florida. Compared with other large national databases, the CFF knowledge database has its own strengths: The knowledge database has collected rich data about local nonprofits and has updated the data regularly. It includes not only organizational financial data and organizational attributes data, such as age and service area, but also management and governance data. Furthermore, the data, especially financial data, have been carefully reviewed and validated by the professional staff at CFF. Hence, the accuracy and validity of data have been improved than the self-reported survey data. This is different from the National Center for Charitable Statistics data that were collected from the self-reported Internal Revenue Service Form 990 and are mainly financial data (Lampkin & Boris, 2002).

To understand the financial performance of nonprofits during the economic downturn, we compiled the financial data of nonprofits in Central Florida between fiscal year 2008 and fiscal year 2011. Due to the difficulty of collecting financial data from nonprofit organizations—especially from small nonprofit organizations—these data are the most recent financial data available for analysis after the 2008 financial crisis. Management data, organizational attributes, board size, and board involvement data for 2010 were merged with the financial data. The merged dataset included 194 nonprofit organizations. However, because data for certain variables were missing across all 194 organizations, we decided to include 110 nonprofit organizations for the following statistical analysis. As shown in Table 1, the sample includes a wide range of nonprofit organizations with varying sizes, funding structures, and budgets.

[2] Central Florida Foundation. About the Foundation. Retrieved from cffound.org/explore/about_cff/

Table 1. Descriptive Statistics of Organizations

Funding Structure (2010)	**Average percentage of total revenue**
Government Grants	17.1 %
Private Contributions and Donations	55.1 %
Program Revenue	28.9 %
Investment Income	1.6 %
Total Expenses	**Number (Percentage)**
$0 - $100,000	33 (17.6 %)
$100,001 – $500,000	38 (20.2 %)
$500,001 – $1,000,000	26 (13.8 %)
$1,000,001 - $5,000,000	55 (29.3 %)
Over $5,000,000	37 (19.1 %)
Board Size (number of members)	**Number (Percentage)**
5-10	48 (35 %)
11-20	56 (40.9 %)
21-30	15 (10.9 %)
Over 30	18 (13.1 %)
Staff size (# of full-time employees)	**Number (Percentage)**
1-5	46 (41.4 %)
6-15	24 (21.6 %)
16-25	13 (11.7 %)
26-50	14 (12.6 %)
Over 50	14 (12.6 %)
Valid N (Listwise) = 110	

3.1. Key Variables

In this study, we measured the key dependent variable—the financial performance of nonprofits—by calculating the change from 2010 to 2011 in the deficit-to-expenditure ratio. Nonprofit organizations in Central Florida experienced the greatest decreases in total revenues, total assets, and total expenditures between the fiscal years 2010 and 2011. Examining the financial performance of nonprofit organizations within these two years captured a snapshot of how nonprofit organizations reacted to the external financial stress. Moreover, using the ratio difference helped reduce the potential *"serial correlation"* issue. A positive ratio change indicated that the nonprofit organization under consideration had more deficits in relation to its expenditures. In addition, we calculated other financial health indices for each organization, including debt ratio, revenue diversification, administration cost to total revenue

ratio, and margin, as suggested by previous research (Trussel, 2002). In addition, the change in the expenditure-to-revenue ratio from 2008 to 2010 was used as a measure of the past fiscal conditions (Jimenez, 2013). The change in the nonprofits' dependence on government grants and donations from 2008 and 2010 were also included to measure their revenue source change. Total assets in 2008 and 2010 was used as a measure of organization size.

One of the key independent variables is the presence of a formal strategic plan. Nonprofit organizations in Central Florida were expected to conduct strategic planning by potential funders, including the Central Florida Foundation. Another related variable was the plan implementation index, which measures whether performance evaluation was part of the management practice and whether supported plans were developed, such as succession plans, fund-raising plans, and policy procedure plans. Board size was measured by the total number of board members, board engagement was measured by the meeting attendance rate, and board commitment was measured by the percentage of board members who made monetary contributions to the organization.

3.2. Analysis and Two-Stage Least Squares Models

Plan implementation index variables may cause endogenous issues as the plan implementation might also be influenced by fiscal conditions of nonprofits. We applied the two-stage least squares model is to analyze the impact of management and financial factors on the financial performance of nonprofit organizations. In the first stage, the 2010 plan implementation index was the dependent variable; the explanatory variables included the organizations' previous financial conditions, the board variables, and the presence of formal strategic plans.In the second stage, the predicted values of the plan implementation index were used as an instrument to replace the original plan implement index to calculate the exogenous effects of plan implementation on the financial performance of nonprofits.

Stage 1 model. Plan implementation $\text{index}_{2010} = a + b_1 \text{Total assets}_{2008}$ (log) + b_2 (Change in expenditure revenue $\text{ratio}_{2008\text{-}2010}$) + b_3 Formal strategic plan_{2010} + b_4 Board size + b_5 Board meeting attendance rate + b_6 Board contribution rate + b_7 Dependence on government grants + b_8 Dependence on donations + b_9 (Change in dependence on government $\text{grants}_{2008\text{-}2010}$) + b_{10}(Change in dependence on $\text{donations}_{2008\text{-}2010}$).

Stage 2 model. Change in deficit to expenditure $\text{ratio}_{2010\text{-}2011} = a + b_1$ Formal strategic plan_{2010} + b_2 Plan implementation Index (Predicted from model 1) + b_3 Board meeting attendance rate + b_4 Total assets_{2010} (log) + b_5 Administrative cost

to total revenue ratio$_{2010}$ + b_6 (Change in the expenditure to revenue ratio$_{2008\text{-}2010}$) + b_7 (Change in dependence on government grants$_{2008\text{-}2010}$) + b_8 (Change in dependence on donations$_{2008\text{-}2010}$) + b_9 Revenue Diversification$_{2010}$.

4. Findings and Discussion

In the following section, we first present descriptive attributes of the local nonprofit organizations in Central Florida. As Table 2 depicts, approximately half of the organizations in the sample had strategic plans, nearly 40% of the nonprofits in the sample were developing strategic plans, and almost 10% of the nonprofits did not have strategic plans. The average value for the plan implementation index was 2.68. The majority of board members made monetary contributions to the organization. The nonprofit has an average number of 17 board members. The meeting attendance rate is nearly 72 percent.

Table 2. Descriptive Statistics of Key Variables

Financial Measures	**Mean**	**S.D.**
Deficit to total expenditure ratio in 2011	-0.153	0.204
Deficit to total expenditure ration in 2010	-0.070	0.331
Deficit to total expenditure ratio change from 2010 to 2011	0.069	0.389
Program expenditure to total revenue ratio	0.801	0.282
Expenditure to revenue ratio change from 2008 to 2010	-0.031	0.311
Debt ratio	0.066	0.155
Revenue Diversification	0.339	0.341
Margin	0.012	0.288
Administrative Costs Ratio	0.153	0.204
Management Practice		
Formal Strategic Plan		
Yes (%)	56 (50.9%)	
No (%)	54 (49.1%)	
Plan Implementation Index	2.68	1.34
Board Involvement (% of meeting attendance)	71.6%	12.86%
Board Size (number of members)	17.2	15.4
Board Commitment (% of contributions)	75.6%	33.9%
Valid N (Listwise) = 110		

Compared with measures from 2008, when the financial crisis occurred, total revenues, total expenditures and total assets, program expenditures, and fund-raising expenditures have decreased over the past four years (see Figure 2), with

the fiscal year 2010-2011 witnessing the greatest decreases across these measures of financial health.

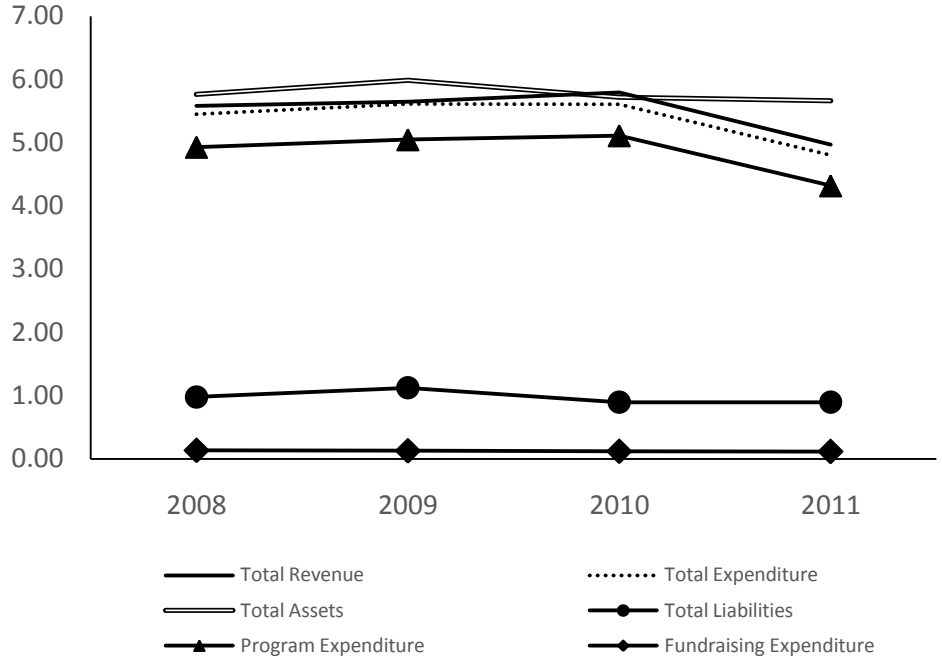

Figure 2. Key Variables between 2008-2011

* All numbers are in millions.

As Table 3 shows, we did not find statistically significant support for the assumed negative relationships between nonprofits' revenue diversification index and deficit ratio change and neither for the negative correlation between nonprofit organizations' board involvement and deficit ratio change from 2010 to 2011. Therefore, hypotheses 1 and 2 were not supported by this study. The coefficients were not statistically significant, and the signs were different from the expected negative signs. The relationship between revenue diversification and the financial performance of nonprofits deserves more research. Recent research on this topic suggests that researchers need to delve into the "*compositional change in the portfolio*" when examining the impact of revenue diversification on financial performance (Mayer et al., 2014, p.374). Or, this positive relationship could have resulted from the proactive measures taken by large risk-taking organizations with active and dedicated board members. Our findings could also have been influenced by the limitation of the dependent variable, which is the deficit ratio

change within two years. The deficit ratio change would be a more robust measure if we could have collected data representing a longer period of time.

Table 3. Two staged Least Square Model

Variables	Coef. (B)	St. Error
Management Variables		
Strategic plan (Yes or no)	0.454	0.258
Plan implementation Index	-0.347*	0.204
Board meeting attendance rate	0.002	0.004
Financial Variables		
Total assets (log) in 2010	0.080	0.056
Administrative cost to total revenue ratio	-0.067	0.727
2008 – 2010 change in the expenditure to revenue ratio	0.552**	0.191
2008 – 2010 change in dependence on government grants	-0.357	0.362
2008 – 2010 change in dependence on donations	-0.042	0.369
Revenue Diversification	0.219	0.329
N	89	
R^2	0.193	
Adjusted R^2	0.102	

Notes: We conducted Durbin-Wu-Hausman (DWH) test to examine whether the assumed endogenous regressor in the model—plan implementation index—is in fact endogenous. The Durbin-Wu-Hausman chi-square (1) is 8.17 and is statistically significant with a p value smaller than .05. Therefore, we reject the null hypothesis that the variable of plan implementation index is exogenous and hold the assumption of endogeneity. Significance at *: 5%, **: 1%.

Hypothesis 3, however, was supported. As shown in Table 3, the plan implementation index was found to be negatively correlated with the deficit ratio change. The higher the implementation index, the smaller the deficit ratio increase, indicating that plan implementation may help nonprofit organizations envision potential opportunities and overcome financial uncertainty by developing and implementing various strategies to sustain or even expand existing programs. Hence, plan implementation may contribute to the overall financial health of nonprofits. Having a strategic plan does not necessarily lead to better financial performance, as many nonprofits decide to formulate a strategic plan simply because of external pressure from donors or other stakeholders. Once they have developed their strategic plans, they may not implement them in their management practice. It is important, therefore, to evaluate whether nonprofit organizations integrate strategic thinking and strategic planning in their

management systems. As previous research (LeRoux & Wright, 2010) suggested, the use of specific measures may improve the implementation of strategies in nonprofit organizations.

Hypothesis 4 was also supported, suggesting that the economic crisis has quickly worsened the financial performance of nonprofits. There is a strong positive relationship between the expenditure-to-revenue ratio change from 2008 to 2010 and the deficit ratio change from 2010 to 2011. Previous years' higher expenditure ratios will further contribute to the deficit ratio accumulatively in the following years. Hypothesis 5 was not supported, which suggests a negative relationship between total assets and the deficit ratio change. In fact, large organizations with higher total assets seemed to have higher deficit ratio changes between 2010 and 2011. The sign between organizational size (measured by total assets) and deficit ratio change is also positive. Organizations that have large assets may decide to take more proactive measures to ensure regular operation despite economic uncertainty.

5. Conclusion

In this study, we examined the financial status of nonprofit organizations in Central Florida and the factors that can influence the financial performance of nonprofit organizations in general. Besides the financial factors that have been extensively examined in existing literature, this study focused on the impact of management practices on financial performance, including strategic plans, plan implementation, and board involvement. This study contributes to exiting research by calling increased scholarly attention to management practices when examining the financial performance of nonprofits.

The financial crisis of 2008 worsened nonprofit organizations' financial conditions. On average, nonprofit organizations in Central Florida have decreased their program and fund-raising expenditures. Total revenue and total assets have also decreased. However, many nonprofit organizations have stayed in a financially sustainable state; so, more attention ought to be directed to finding out why some organizations can still grow in spite of financial stress.

We found that plan implementation, not necessarily the plan itself, can have a positive influence on the financial performance of nonprofit organizations. Many nonprofit organizations may have strategic plans because they need to meet the requirements of existing stakeholders or potential funders. Having a strategic plan, however, does not automatically translate into better financial performance. Both the nonprofit managers and the funding organizations need to track carefully how the plan has been used in their management practices and

whether strategic planning has been closely linked with other management areas, such as budgeting and performance management. We did not find revenue diversification to be a significant predictor of the financial performance of nonprofit organizations. Facing an economic downturn, organizations that are more confident in their revenue sources may take active measures to continue providing their services, and large organizations are more likely to spend more money to sustain existing programs.

This study has some limitations.Here, we examined the financial performance of nonprofit organizations in a local region in Florida, but a larger-scale study may help improve the generalizability of the research findings. Moreover, collecting data on the deficit ratio change for a longer period of time may help improve the robustness of the measure. Future research may consider including qualitative interviews of select nonprofit organizations in the region to further delve into their management practices. In-depth interviews can allow researchers to understand what factors differentiate high-performing nonprofits from low-performing nonprofits not only in their financial management but also in many other management areas.

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