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RESEARCH REPORT

Financial Sustainability for Nonprofit Organizations

A Review of the Literature

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Summary

Financial sustainability for nonprofit organizations (nonprofits) has long been of interest to nonprofit organization leaders, current and potential funders, and the communities that nonprofits serve. However, nonprofits face a myriad of challenges in establishing and maintaining financial sustainability. In an effort to improve the sustainability and performance of its less-resourced branches that serve high-need communities, the YMCA of Greater Pittsburgh asked the RAND Corporation, a nonprofit institution that helps improve policy and decisionmaking through research and analysis, to conduct a strategic assessment of the Homewood-Brushton YMCA branch, one of several urban, lesser-resourced YMCA branches in the greater Pittsburgh area. This document presents the literature review that was conducted as part of the strategic assessment effort.

The literature review was designed to inform financial sustainability in nonprofit organizations, identify major challenges of financial sustainability that are common among nonprofits, and discuss the implications for nonprofits that serve higher-need communities. We identify and discuss major challenges of financial sustainability for nonprofits and synthesize key lessons learned and promising practices to overcome these challenges. This literature review is not intended to provide an exhaustive overview of the literature but, rather, to identify and discuss key themes and findings that may inform operations and decisionmaking related to improving sustainability in nonprofit organizations, like the YMCA of Greater Pittsburgh, that serve communities with higher needs.

Balancing financial sustainability with organizational mission is a core challenge for most nonprofits. Evaluating activities and operations based on profitability and mission impact, as well as the interaction between these two dimensions, may allow nonprofits to develop strategic plans to manage short-term financial challenges while maintaining long-term mission goals. Below, we highlight key challenges and promising practices of financial sustainability for nonprofit organizations:

- **Risk of reliance on external funding sources and streams.** In contrast to for-profit organizations, nonprofits in the United States depend on diverse sets of funding sources and streams of funding to sustain their operations. Most nonprofits receive funds from multiple sources (e.g., government, foundations, private donors) and streams (e.g., grants, contracts, membership fees). Substantial cutbacks in both government and foundational funds suggest that nonprofits should develop or revisit their fundraising plans to support financial sustainability. Additionally, nonprofits may wish to consider innovative fundraising techniques, such as giving circles and fostering relationships with investors, to address financial challenges.
- **Creating a nonprofit "brand."** Much like for-profit organizations, nonprofit organizations depend on marketing and branding efforts to help promote and sustain their

programs and services. However, branding considerations are often overlooked in the nonprofit sector. Defining and developing the organizational or social mission, identifying and addressing mission drift, and developing a clear marketing plan will help communicate a nonprofit's social mission to funders and the community in which it resides. A brand that clearly and consistently communicates a nonprofit's social mission may build trust between the nonprofit organization and its constituents, and may ultimately insulate it from competition from other organizations (Renz et al., 2010).

- **External expectations of partnerships.** Due to changes in the funding climate and the financial challenges faced by many nonprofit organizations during these turbulent economic times, nonprofits have begun to consider formalized collaborations as a way to respond to the changing resource environment and minimize competition for funding sources (Connolly and York, 2002; Renz et al., 2010). This is occurring as nonprofit leaders are seeking each other out to explore potential partnerships, and also through funders themselves that are trying to maximize impact with limited resources (Renz et al., 2010).
- **Demonstrating value and accountability to funders.** Foundations and other donors increasingly want access to up-to-date information about an organization's operations and finances as a way of ensuring return on their investment (Bray, 2010). Engaging in evaluation activities that outline financial and programmatic outcomes as a result of funding support demonstrates the value of a nonprofit's operations and helps determine mission impact. Additionally, clearly and consistently communicating evaluation efforts and findings to funders and investors demonstrates accountability.
- **Promoting community engagement and leadership.** Nonprofits often reside within the communities that they serve, creating a unique challenge of promoting ownership and collaboration among community members while maintaining programmatic and mission integrity. Establishing and engaging community board leadership and a system of community volunteers provides nonprofits a resource of varied experiences and expertise while bringing a sense of ownership to the communities that they serve.

Sustainability is a challenge that most nonprofit organizations must address: managing financial viability in an evolving funding landscape, contending with "competing" nonprofit organizations while establishing collaborative partnerships, demonstrating value and accountability to funders and supporters, and maximizing the contribution of leadership within the community. However, these challenges become exacerbated, if not overshadowed, by other factors for nonprofits serving those communities that are most in need. Nonprofit organizations serving high-need or low-income, and sometimes minority, populations are faced with balancing multiple community challenges that reach far beyond the mission of the organization (e.g., economic challenges, poor education, poor health, crime or safety issues, housing concerns, lack of business or community development). Understanding the interaction between the economic and cultural contexts of low-income communities and the sustainability challenges that nonprofit organizations face is necessary to maximize strategies to address financial sustainability challenges and ultimately improve nonprofit services for communities of the greatest need.

One of the primary challenges faced by nonprofit organizations serving low-income communities is the struggle to raise funds for operations, as few community members have the means to contribute financial support to nonprofits. Fostering a culture of giving by encouraging community members to donate, even if it is a small amount, and involving community members in fundraising efforts can help address the “willingness to give” gap and may address fundraising challenges in communities where many residents have very limited resources to spare. Nonprofits in low-income communities are also tasked with striking a balance between (1) meeting the expectations of mainstream funders and/or governing bodies and (2) staying connected to the local community and being perceived as genuine. Utilizing technology and developing a marketing strategy that clearly defines the nonprofit’s social mission will help reach new audiences and build a reputation within the community. In an environment flooded with many nonprofits seeking to serve the same community, nonprofits can address financial constraints to operations and limit competition by establishing high-impact partnerships with organizations that have similar strategic goals. Collaborations may also benefit nonprofits in low-resourced areas by building capacity to perform formal evaluations and demonstrate the value of their operations. Finally, strategically engaging volunteers through community outreach can help promote the sustainability of nonprofits and foster support from the community.

Our synthesis of the existing literature on financial sustainability uncovered a host of implications and associated recommendations for nonprofits serving low-income and high-need populations. Establishing financial sustainability should be viewed by nonprofits as a dynamic and continual process. Creating a clear strategic plan that defines the social mission and builds programs, community support, and collaborative partnerships that closely align with the mission may help nonprofits overcome the challenge of establishing sustainability in the short and long term. Our hope is that this review will enhance the limited literature on financial sustainability in low-income or high-need communities and will contribute to an evidence base for promising practices, providing leaders of and investors in nonprofits the ability to support and promote growth among organizations serving those most in need.