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**Diploma Thesis Abstract**

**Not for Profit Organizations in Health Care Sector**

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## **Summary**

The main aim of the diploma thesis is to show financial results of four selected American nonprofits operating in health care, to analyze them and provide suggestions for their improvement. The results are obtained via calculation of several common ratios, used in nonprofit system.

The thesis compounds of two main parts divided to chapters and subchapters. The first part-theoretical contains information about nonprofit organizations in general, their differences between companies, classification, funding and ways of measuring their efficiency. Special emphasis is put on American nonprofit organizations. One chapter of the theoretical part is also dedicated to health care sector in the USA.

The second part- practical focuses on selected nonprofit organizations. Their efficiency is measured through calculation of common ratios. Obtained results are commented and analyzed.

The final part of the thesis summaries the obtained results and provides recommendations which could be useful for the selected organizations, other nonprofit organizations and potential donors.

## **Keywords**

Nonprofit organizations, healthcare, efficiency ratios, USA, horizontal analysis, fundraising.

## **Objectives of the thesis**

The diploma thesis comprises of two main parts. The first part is theoretical and the second part is practical. Both parts are then divided into chapters and subchapters.

The aim of the theoretical part is to provide relevant information about nonprofit organizations (NPOs) in general, to describe their differences between companies and explain the classification of NPOs and ways of their financing. Special emphasis is put on NPOs in the USA and on health care sector there.

The practical part begins with basic information about four selected American NPOs: *CancerCare* (CC), Children's Cancer Recovery Foundation (CCRF), The National Children's Cancer Society (NCCS) and Pancreatic Cancer Action Network (PCAN). Relevant common ratios are calculated and obtained results are analyzed. Additionally, the horizontal analyses of income statements are made. The special emphasis is put on development of fundraising expenses and contributions. The main aim of this part is to prove or reject following hypotheses:

*H1: Selected NPOs operating in the same field will have similar efficiency ratings.*

*H2: Increase in fundraising expenses leads to increase in received contributions and grants.*

The last part of the thesis summarizes and evaluates the obtained results and provides further suggestions for selected NPOs regarding an increase of their efficiency

## **Methodology**

The first part of the diploma thesis comprises of the theoretical basis of the literature study. This part provides an overview on NPOs in general; the difference between for-profits and NPOs is explained. Classification and funding of NPOs and possible ways of measuring of their efficiency are described. Later on, the health care sector of the USA is introduced and the role of NPOs is explained.

The main aim of the practical part is to evaluate financial performance of selected organizations. The practical part begins with selected NPOs, their background and history. Later on the practical part continues with financial analysis of the selected NPOs' fiscal performance by calculation of relevant common ratios: Fundraising Efficiency ratio, Public Support ratio, Fiscal Performance ratio and Program Efficiency ratio. Comparative analysis of obtained data is used and the results are commented and analyzed. Necessary information is obtained from selected NPO's IRS forms 990. In order to see the development of revenues and expenses over time, a horizontal analysis of an income statement is used. Special emphasis is put on a relationship between fundraising expenses and received contributions.

The end of the thesis provides comments and recommendations resulting from the outcomes.

## **Summary of the results**

The table below shows the average values of calculated ratios for selected NPOs in periods 2010-2013.

	<b>CC</b>	<b>CCRF</b>	<b>NCCS</b>	<b>PCAN</b>	<b>overall average</b>
<b>Fundraising efficiency</b>	17.7%	15.9%	15.6%	8.4%	<b>14.4%</b>
<b>Fiscal performance</b>	91.3%	101.6%	98.1%	106.6%	<b>99.4%</b>
<b>Public support</b>	93.0%	99.4%	97.0%	104.5%	<b>98.5%</b>
<b>Program efficiency</b>	79.6%	78.5%	83.0%	83.3%	<b>81.1%</b>

Regarding the fundraising efficiency it is obvious that selected NPOs did not spend that much money to raise the contributions compared to the amount raised. None of the selected NPOs

exceeded the 35% value recommended by general guidelines; the overall average of the NPOs during observed periods is 14.4%.

For the next calculated ratio- fiscal performance, the obtained results were sufficient with the overall average ratio of 99.4%. It shown, that the selected NPOs were able to maintain similar values of their revenues and expenses. That is certainly a good sign; the management of the NPOs should be able not to bring the NPO to a deficit.

Public support ratio shows how much is an NPO dependent on received contributions. For all selected NPOs represented the received contributions and grants the biggest source of their revenues, and the most significant one. All selected NPOs had pretty high values of the ratio during the observed periods- however the obtained results are a good example of the fact that even with a high value of Public support ratio NPOs can operate successfully.

Regarding the program efficiency ratio, the overall average of it is 81.1% - that is a very good result. Each of the selected NPOs managed to keep the ratio on the value of around 80% during the observed periods meaning that their other spending (on fundraising and administration) was around 20%.

The main aim of the thesis was to confirm or reject 2 hypotheses:

- H1: *Selected NPOs operating in the same field will have similar efficiency ratings.*

This hypothesis was confirmed by calculation of chosen efficiency ratios. Among all the obtained results, there was not any that would significantly differ from the others. All selected NPOs had overall good efficiency results.

- H2: *Increase in fundraising expenses leads to increase in received contributions and grants.*

This hypothesis was confirmed in 7 out of 8 observations. The only case where the hypothesis could not be confirmed was in the case of CancerCare however with decrease of 12.9% in total received contributions was the relative value of increase in fundraising expenses only 0.4%. In the other 7 cases there was visible a strong relationship between the values of received contributions and fundraising expenses.

Even though the results of the calculated ratios showed a good performance, there is still room for improvement of the NPO's efficiency, for example by using the following procedures:

- **Higher diversity of income**
- **More fundraising spending**

## Selected resources

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