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GOVERNANCE AND FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS: AN ANALYSIS OF THE NGDOS FROM SPAIN AND THE UNITED KINGDOM

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GOBIERNO Y VULNERABILIDAD FINANCIERA DE LAS ENTIDADES NO LUCRATIVAS: UN ANÁLISIS DE LAS ONGDS DE ESPAÑA Y REINO UNIDO

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A todos mis apoyos del día a día

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“Cuando creíamos que teníamos todas las respuestas,
de pronto, cambiaron todas las preguntas”
Mario Benedetti

INTRODUCCIÓN

La reciente crisis económica y financiera ha enfrentado a empresas, administraciones públicas, organizaciones y sociedad en general a un escenario plagado de dificultades y desafíos. Esta realidad no ha sido ajena al ámbito académico, centrándose los investigadores en los últimos años en analizar, no solo las causas que provocaron esta crisis, sino también sus consecuencias sobre gobiernos, familias y empresas. En este contexto, uno de los *topic* más abordados en la literatura reciente ha sido el estudio de los factores determinantes de las quiebras empresariales (*e.g.*, Darrat, Gray & Wu, 2016; De Maere, Jorissen & Uhlaner 2014; Lins, Volpin & Wagner, 2013; Tinoco & Wilson, 2013). La habitual consideración de la crisis como un shock exógeno en el análisis microeconómico ha permitido testar desde un enfoque positivo la eficiencia en la empresa de factores como la estructura de propiedad, el gobierno corporativo o la estructura de capital. Esta profusión en los estudios sobre empresa contrasta sin embargo con la escasa atención que ha recibido la investigación del efecto que la crisis ha tenido sobre la supervivencia de otras organizaciones relevantes en la sociedad, tales como las entidades no lucrativas (ENLs en adelante). Las ENLs constituyen una parte esencial en la vertebración de la sociedad civil al atender, en muchas ocasiones, necesidades que el sector público no puede cubrir. Y la crisis económica ha puesto a prueba de manera especial la eficiencia de estas organizaciones. Por una parte, porque la demanda de sus servicios se ha incrementado exponencialmente. Y, por otra parte, porque la caída tanto de las subvenciones públicas (debido al déficit que han soportado las arcas públicas) como de las donaciones privadas (como consecuencia de las dificultades económicas que han atravesado muchos hogares familiares durante este periodo) han puesto en peligro la continuidad de las ENLs. De hecho, son numerosas las organizaciones que han cesado su actividad como consecuencia de una inadecuada financiación (como ejemplos, la Fundación Desarrollo Sostenido [FUNDESO[1]], la Confederación de Minusválidos Físicos de Castilla-La Mancha [COCEMFE[2]], o la Asociación Emaús de Altea[3]).

Es precisamente en este contexto en dónde se enmarca la presente tesis doctoral al abordar la interrelación entre la estructura financiera de estas organizaciones, su estructura de gobierno corporativo materializada en el consejo (*board of trustees* en terminología anglosajona) y su probabilidad de quiebra medida a través de su vulnerabilidad financiera. El estudio de los factores que atañen a la quiebra y al *financial distress* de las organizaciones del sector no lucrativo constituye ya un auténtico reto en sí mismo porque, entre otras dificultades, la información sobre las ENLs desaparecidas no se suele transmitir de manera automática a los registros pertinentes (Hager, 2001). Es por ello que la literatura sobre el tercer sector ha optado por el estudio indirecto de la quiebra a través de lo que se ha denominado *vulnerabilidad financiera*, entendida esta como la "probabilidad de que la organización reduzca su oferta de servicios cuando experimente un *shock* financiero" (Tuckman & Chang, 1991: 445). No obstante, aunque existe cierto consenso en la definición del concepto de vulnerabilidad financiera, la manera de materializarlo está aún lejos de ser comúnmente aceptada. Si bien la literatura ha testado diversas medidas hasta el momento, las variables y modelos utilizados tradicionalmente como predictores de la situación de vulnerabilidad financiera de las ENLs no parecen ser muy eficaces (Jegers, 2008). No obstante, la investigación se encuentra aún en ciernes analizándose, entre los mecanismos para evitar la vulnerabilidad financiera (y en última instancia de quiebra), la estructura de gobierno de estas organizaciones. En concreto, cabe destacar el papel del órgano

[1] https://www.facebook.com/fundeso/
[2] http://www.latribunadetoledo.es/noticia/Z3C68B3A9-E360-3732-6A813258351E1A33/20140517/cocemfe/clm/entra/concurso/acreedores/22/millones/deuda
[3] http://www.elmundo.es/comunidad-valenciana/2015/05/29/55682c84268e3e85518b457d.html

de gobierno interno por excelencia, esto es, el consejo. El papel del consejo en las ENLs resulta especialmente relevante dado, no lo olvidemos, el carácter no lucrativo de estas organizaciones. La restricción legal de no distribución de beneficios determina la inexistencia de derechos residuales económicos y, por tanto, de propietarios reales con incentivos a ejercer labores de control y supervisión. En ausencia de propietarios, el consejo se convierte en el órgano central de gobierno de estas organizaciones. Es por ello que uno de los objetivos de la presente tesis doctoral sea analizar el papel del consejo, como principal órgano de gobierno de las ENLs, sobre su grado de vulnerabilidad financiera.

El objeto de nuestra tesis requiere enmarcarla dentro de un contexto, teórico y social. De acuerdo con Holmstrom y Tirole (1989), cualquier planteamiento de un marco económico coherente para explicar una organización, requiere esclarecer por qué existen dichas organizaciones (la teorías o teorías que explican su existencia) y cuál es su ámbito de actuación, esto es, sus límites. Así, en el caso que aquí nos ocupa, antes de profundizar en la relación entre el consejo y la vulnerabilidad financiera de las ENLs, procederemos a describir brevemente las teorías que explican la existencia de estas organizaciones y el papel que este sector ocupa en la sociedad actual.

Con respecto a la existencia del tercer sector en las sociedades modernas son varias las teorías que justifican su existencia. Siguiendo la agrupación realizada por Romero Merino (2007) podemos encontrar dos grandes grupos de teorías, desde el lado de la demanda (considerando las motivaciones de agentes externos, tales como donantes, administraciones públicas, beneficiarios, etc.) y desde el lado de la oferta (teniendo presentes las motivaciones de los agentes internos de la propia organización).

En el lado de la demanda, incluiríamos a la teoría del fallo del gobierno, la teoría del fallo del voluntariado y la teoría del fallo contractual. Según la primera de ellas, las ENLs nacen fruto de la imposibilidad del Estado para garantizar la provisión de todos los bienes colectivos demandados por sus ciudadanos. De esta manera, las ENLs aparecerían para proveer esta clase de bienes (Weisbrod, 1975, 1977). Por su parte, la teoría del fallo del Voluntariado (Salamon, 1987a, 1987b) señala que la aparición de las ENLs es previa a la acción gubernamental, y que estas entidades perviven cuando la realización de las mismas actividades por los poderes públicos es menos eficiente que cuando son efectuadas por las propias ENLs. Finalmente, de acuerdo a la teoría del fallo contractual, la ausencia de información perfecta para todos los partícipes, la racionalidad limitada de los mismos y la imposibilidad de diseñar contratos completos, provocan que la asignación de recursos no sea siempre lo más eficiente posible. En este contexto, la restricción de no distribución de las ENLs (Hansmann, 1980) parecería limitar la aparición de los problemas del oportunismo precontractual (selección adversa) y postcontractual (riesgo moral).

En el lado de la oferta, hemos de referirnos a la teoría del control del consumidor, la teoría del apoyo del Estado, la teoría del emprendedor no lucrativo y la teoría del emprendedor con motivaciones lucrativas. La teoría del control del consumidor comparte la restricción de no distribución apuntada anteriormente, pero añade que la parte menos informada del intercambio (donantes, beneficiarios), debería incorporarse a la ENL para ejercer un control sobre la organización (Ben-Ner & Gui, 1993). La teoría del apoyo del Estado apunta al apoyo recibido por las administraciones públicas (manifestado en subvenciones directas e indirectas, ventajas fiscales, etc.) como pilar en el que se sustenta la creación de las ENLs (Weisbrod, 1998). La teoría del emprendedor no lucrativo (Young, 1981) se basa en la existencia de motivaciones de índole no económica en los individuos a la hora de desarrollar sus iniciativas personales. En esta línea se encuadrarían todas aquellas ENLs surgidas al amparo de las motivaciones religiosas. Por último, de acuerdo con la teoría del emprendedor con ánimo de lucro, no se puede obviar la existencia de ENLs que se han aprovechado de la confianza inspirada por su condición jurídico-formal de carecer de ánimo lucrativo para atraer un mayor volumen de recursos. Así, en estos casos, los dirigentes se han servido de ellas para llevar a cabo una expropiación de los beneficios (Glaeser & Shleifer, 2001), bien de manera formalmente legal, o ilegal (las denominadas "empresas disfrazadas" o "*for-profit in disguise*").

Con respecto a los límites y el ámbito que el sector no lucrativo ocupa en la sociedad actual, es necesario comenzar acotando el concepto de ENL. Basándonos en la caracterización que de estas entidades han realizado numerosos estudios llevados a cabo por la Universidad Johns Hopkins (Anheier & Salamon, 1998; Ruiz Olabuénaga, 2000, 2001), definimos a las ENLs como aquellas entidades jurídicas constituidas legalmente, privadas, sin ánimo de lucro, que poseen una gestión autónoma y que cuentan con un nivel significativo de participación voluntaria. En relación con su papel en las sociedades actuales, contrasta la creciente relevancia del sector con la ausencia de datos concretos que se presenten de manera sistemática. Así, la cuantificación del sector dista mucho de ser unánime. Para el caso concreto de España, en 2002 el número de organizaciones de este sector se elevaba a 362.654, el número de voluntarios era de 4,2 millones de personas, el número de empleos equivalentes a jornada completa ascendía a 692.336, y el gasto total suponía el 4,7% del Producto Interior Bruto (PIB), sin incluir a los voluntarios, o el 6,4% incluyendo a estos últimos (Ruiz Olabuénaga, 2006). Años más tarde, la importancia del tercer sector, considerado en sentido amplio, se eleva hasta el 10% del PIB (Gimeno, 2005). En todo caso, estos estudios coinciden en la creciente importancia económica del sector no lucrativo en conjunto durante las últimas tres décadas.

Es precisamente el incremento del volumen de recursos (humanos y financieros) que gestionan las ENLs lo que ha generado un aumento en la preocupación de la sociedad por la correcta utilización de tales recursos, así como por la búsqueda de mecanismos que aseguren la utilización eficiente de los mismos. Durante años se pensó que las características esenciales de estas entidades –la ausencia del ánimo de lucro, la restricción de no distribución, el apoyo explícito de las administraciones públicas y el carácter voluntario de muchos de sus trabajadores– hacían de estas organizaciones agentes sin riesgo de comportamientos subóptimos u oportunistas. Sin embargo, la realidad ha demostrado que el sector no está exento de estos problemas (ejemplo de ello son algunos de los recientes escándalos en los que se han visto involucradas ENLs como la Fundación Deporte, Cultura e Integración Social[4], Anesvad[5], la Fundación Trías Fargas[6], la Asociación Nadia Nerea[7] o L'Arche de Zoé[8]). Tales escándalos han suscitado inquietud social, lo que ha acentuado la necesidad de revisar los mecanismos de gobierno que existen en estas organizaciones y su capacidad para supervisar y controlar las actuaciones llevadas a cabo por los distintos partícipes de la organización. Precisamente en la búsqueda de mecanismos de gobierno efectivos en estas organizaciones, los autores han puesto su mirada en la literatura del sector lucrativo (*e.g.*, Callen, Klein & Tinkelman, 2010; Cornforth, 2012; Hyndman & McDonell, 2009; Ostrower & Stone, 2010; Wellens & Jegers, 2014). En la mayoría de estos estudios, el consejo se erige como principal protagonista no solo porque legalmente es el responsable último de la organización y tiene la obligación de velar por la continuidad y el buen funcionamiento de la misma sino porque, como ya se ha explicado, la ausencia de propietarios en las ENLs lo convierte en el principal mecanismo de gobierno. Estos estudios se han centrado generalmente en analizar la influencia del consejo sobre medidas de *performance* adaptadas al sector, tales como la eficiencia administrativa, asignativa o en términos de captación de recursos (*performance* financiera) (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2010; Andrés-Alonso, Martín-Cruz, Romero-Merino, 2006; Brown, 2005; Callen & Falk, 1993; Callen, Klein & Tinkelman, 2003). Sin embargo, el consejo no solo ha de tener presente la eficiencia de la organización, sino que ha de velar por evitar la consecuencia última de un funcionamiento inadecuado de la ENL, como es la desaparición de la misma, para permitir así que continúe prestando sus servicios a la sociedad de forma continuada y sostenible. De esta manera, nuestro planteamiento en esta investigación se aparta de la línea tradicional, ya que no analiza la relación entre consejo y eficiencia, sino que se centra, siguiendo el trabajo de Hodge y Piccolo (2005), en el efecto de la composición del consejo sobre la probabilidad de supervivencia financiera de la entidad medida en términos de vulnerabilidad financiera. Para ello, el consejo ha de desempeñar un doble rol: supervisor de las decisiones y conductas de los

[4] http://www.elmundo.es/elmundo/2013/03/25/baleares/1364241024.html
[5] http://sociedad.elpais.com/sociedad/2013/04/22/actualidad/1366628230_788563.html
[6] http://www.abc.es/20121113/espana/abcp-fundacion-financio-donaciones-constructoras-20121113.html
[7] http://elpais.com/elpais/2016/12/04/ciencia/1480885662_129527.html
[8] http://www.elmundo.es/elmundo/2008/01/28/internacional/1201523246.html

directivos al mismo tiempo que asesor, contribuyendo a la elaboración de la estrategia de la organización. Consideramos que un correcto desempeño de tales roles, permite al consejo afrontar con garantías los efectos de un shock económico como el que ha supuesto la reciente crisis financiera y económica para el sector no lucrativo (altamente dependiente de subvenciones públicas y donaciones privadas voluntarias) y evitar situaciones de vulnerabilidad financiera o, en última instancia, de quiebra.

La presente tesis doctoral centra el análisis de la relación entre consejo y vulnerabilidad financiera anteriormente nombrada en un sector concreto de las ENLs. De forma específica, la muestra utilizada en los capítulos segundo al cuarto, está conformada por aquellas ENLs que destinan parte de sus recursos a la cooperación al desarrollo, las denominadas Organizaciones No Gubernamentales para el Desarrollo (ONGDs). La elección de esta muestra se debe a varios motivos. En primer lugar, por la homogeneidad de estas organizaciones en comparación con otros subsectores del entorno no lucrativo. Así, la Coordinadora de ONGDs de España (CONGDE) (2008) establece una definición de ONGDs común al definirla como una organización estable, sin ánimo de lucro, que trabaja activamente en el campo de la Cooperación para el Desarrollo y la solidaridad internacional, con voluntad de cambio o de transformación social, que tiene respaldo y presencia social, que es independiente, con recursos (tanto humanos como económicos), que actúa con mecanismos transparentes y participativos de elección o nombramiento de sus cargos, que es transparente y, finalmente, que se articula en torno a los fines de solidaridad internacional y cooperación. En segundo lugar, porque el sector de las ONGDs ha experimentado un considerable aumento tanto en su importancia social como en el volumen de fondos que gestiona (García Cebrián & Marcuello Servós, 2007; Marcuello Servós, 1999). Según la Plataforma del Voluntariado de España (2016) en 2015 participan como voluntarias en actividades de cooperación internacional 262.000 personas. Asimismo, las ONGDs se han convertido en gestores de una parte importante de la Ayuda Oficial al Desarrollo (AOD en adelante) canalizando cerca del 12% de las subvenciones y ayudas que las administraciones públicas destinan a AOD (Secretaría General de Cooperación Internacional para el Desarrollo, 2016). Una tercera razón para centrar nuestra investigación en estas organizaciones es que, como consecuencia de su papel como actores de la AOD, las ONGDs han padecido de forma especialmente significativa el impacto de la crisis en España. Así, entre 2009 y 2015 la AOD española descendió en torno al 70% de su cuantía, pasando de suponer el 0,46% de la Renta Nacional Bruta al 0,13% (Organización para la Cooperación y el Desarrollo Económicos [OECD], 2016), lejos del objetivo del 0,7%. Por último, en este subsector, cobran gran importancia las coordinadoras nacionales de ONGDs debido a que agrupan a las entidades más importantes, inciden en la divulgación de buenas prácticas y, a nivel práctico, permiten acotar la muestra. A nivel europeo existe una confederación de estas coordinadoras (CONCORDE), que agrupa a las 28 plataformas nacionales. En nuestro caso, a lo largo de la investigación empírica, hemos acudido a la CONGDE y a Bond en Reino Unido. En el caso español, es especialmente relevante la actividad dinamizadora que la CONGDE ha adoptado en los últimos años, promulgando un Código de Conducta de obligado cumplimiento para sus miembros y con el diseño de unos indicadores de transparencia y buen gobierno que inciden en la responsabilidad que estas organizaciones tienen frente a la sociedad, pues sus fondos provienen fundamentalmente de donaciones privadas y de subvenciones públicas. En conjunto, estas herramientas de autorregulación del sector nos han permitido un mejor acceso a datos sobre composición del consejo de las entidades, así como a su información económico-financiera. Todas estas razones justifican, desde nuestro punto de vista, el análisis de las ONGDs en términos de gobierno corporativo y vulnerabilidad financiera.

Para abordar el estudio de la influencia del consejo sobre la vulnerabilidad financiera de las ONGDs, articulamos la presente tesis en cuatro artículos académicos, recogidos en los capítulos del primero al cuarto. Así, comenzaremos nuestro primer capítulo con una revisión teórica de la literatura sobre gobierno en las organizaciones sin ánimo de lucro. En el mismo se presenta un recorrido por el estado del arte de la cuestión, que parte de la literatura prescriptiva, continúa con el enfoque de dependencia de recursos y la teoría de la agencia, y culmina en un modelo ampliado de gobierno basado en un enfoque ecléctico y contingente. En los capítulos segundo y tercero nos centramos de manera exhaustiva en la revisión del concepto de vulnerabilidad financiera en las organizaciones no lucrativas relacionadas con la cooperación al desarrollo. De esta manera, en el capítulo segundo se centra en la adecuación de los predictores clásicos a nuestro contexto (ONGDs de Reino Unido en época de crisis económica). Concretamente, analizamos el poder explicativo y predictivo del índice elaborado por Trussel, Greenlee y Brady (2002), basado en la predicción de la reducción de activos netos en un periodo de tres años a través de cinco variables: la ratio de endeudamiento, el grado de concentración de ingresos, el margen operativo, la ratio de gastos administrativos y el tamaño de la organización. Por su parte, el tercer capítulo se centra en las medidas de vulnerabilidad financiera *per se*, revisando las medidas que han hecho operativa este concepto por las investigaciones de este ámbito. A tal fin, analizamos y mostramos las diferencias existentes entre las principales *proxies* empleadas por la literatura, como son la reducción de activos netos, la reducción de gastos en programas y la reducción de ingresos, para finalmente proponer un modelo multidimensional que recoge, a nuestro juicio, los aspectos más determinantes para cuantificar la vulnerabilidad financiera. En concreto, nuestra propuesta de modelo incluye la variación de activos netos durante un periodo de tiempo (dimensión operativa) y la relación entre el activo y el pasivo, tanto en términos totales (dimensión de apalancamiento) como considerando únicamente el corto plazo (dimensión de liquidez). Por último, en el cuarto capítulo, analizamos, desde una perspectiva ampliada, el efecto que tiene el órgano de gobierno sobre la vulnerabilidad financiera de las ONGDs y, en definitiva, sobre su probabilidad de supervivencia en momentos de carencia de recursos. Por una parte, empleamos el modelo multidimensional propuesto en el capítulo anterior para determinar aquellas ONGDs españolas que son financieramente vulnerables. Por otra parte, el modelo de gobierno considerado se fundamenta en la teoría de la agencia y en el enfoque de dependencia de recursos e incluye tanto las variables tradicionalmente empleadas en este tipo de estudios (tamaño e independencia del consejo, dualidad en los puestos de *Chief Executive Officer* [*CEO*] y presidente del consejo, presencia de fundadores) como otras de índole más cognitivo (educación y experiencia de los consejeros). Finalizaremos la presente tesis doctoral con las conclusiones más relevantes derivadas de la investigación realizada en los cuatro capítulos anteriores, así como las limitaciones de las que adolece y las futuras líneas de investigación a emprender.

INTRODUCTION

> *"When we thought we had all the answers,*
> *suddenly, all the questions changed"*
> *Mario Benedetti*

INTRODUCTION

The recent economic and financial crisis has faced companies, public administrations, organizations and society in general with a scenario riddled with difficulties and challenges. This reality has not been foreign to the academic sphere, as, in recent years, researchers have focused on analyzing not only the causes that provoked this crisis, but also its consequences on governments, families and companies. In this context, the study of the determinants of business failures has been one of the most addressed topics in the literature (*e.g.*, Darrat, Gray & Wu, 2016; De Maere, Jorissen & Uhlaner 2014; Lins, Volpin & Wagner, 2013; Tinoco & Wilson, 2013). The usual consideration of the crisis as an exogenous shock in the microeconomic analysis has allowed to test, from a positive approach, the efficiency that factors such as ownership structure, corporate governance or capital structure have in the company. However, this profusion of company studies contrasts with the scarce attention given to the study of the effect of the crisis on the survival of other relevant organizations in society, such as the nonprofit organizations (NPOs). NPOs constitute an essential part of the structuring of civil society, as they often deal with those needs that the public sector cannot meet. And the economic crisis has especially tested the efficiency of these organizations. On the one hand, because the demand for their services has grown exponentially. And, on the other hand, because the reduction in both public subsidies (due to the deficit of public finances) and private donations (as a result of the economic difficulties experienced by many family households during this period) have jeopardize the continuity of the NPOs. In fact, numerous organizations have ceased their activity as a result of an inadequate funding (as example, Fundación Desarrollo Sostenido [FUNDESO[9]], Confederación de Minusválidos Físicos de Castilla-La Mancha [COCEMFE[10]], or Association Emaús de Altea[11]).

It is precisely in this context where this PhD thesis is framed, as it addresses the interrelationship between the financial structure of these organizations, their corporate governance structure embodied in the board of trustees and their probability of bankruptcy measured through their financial vulnerability. The study of the factors concerning bankruptcy and financial distress of NPOs is already a real challenge in itself because, among other difficulties, information on defunct NPOs is not often automatically transferred to the appropriate registers (Hager, 2001). This is why the literature on the third sector has opted for the indirect study of bankruptcy through what has been called financial vulnerability, understood as "the likelihood that the organization cuts back its service offerings immediately when it experiences a financial shock" (Tuckman & Chang, 1991: 445). Nevertheless, although there is some consensus referring to the concept of financial vulnerability, its operationalization is still far from being commonly accepted. Despite the literature has tested various measures to date, the variables and models traditionally used as predictors of the financial vulnerability of NPOs do not appear to be very effective (Jegers, 2008). However, the research is still in a preliminary stage, as it analyzes, among the mechanisms to avoid the financial vulnerability (and ultimately the bankruptcy), the governance structure of these organizations. In particular, it is important to highlight the role of the internal governing body *par excellence*, that is, the board of trustees. The role of the board in NPOs is especially relevant given (we should not forget it) the nonprofit nature of these organizations. The legal restriction of the non-distribution of profits determines the lack of residual economic rights and, therefore, of real owners with

[9] https://www.facebook.com/fundeso/
[10] http://www.latribunadetoledo.es/noticia/Z3C68B3A9-E360-3732-6A813258351E1A33/20140517/cocemfe/clm/entra/concurso/acreedores/22/millones/deuda
[11] http://www.elmundo.es/comunidad-valenciana/2015/05/29/55682c84268e3e85518b457d.html

incentives to exercise control and supervision. In the absence of owners, the board becomes the central governing body of these organizations. This is why one of the objectives of this doctoral thesis is to analyze the role of the board, as the main governing body of the NPOs, on its level of financial vulnerability.

The object of our thesis requires framing it within a theoretical and social context. According to Holmstrom and Tirole (1989), any approach of a coherent economic framework to explain an organization requires elucidating why these organizations exist (the theory or theories that explain their existence) and their scope of action, that is, their limits. Thus, in our case, before going deeper into the relationship between the board and the financial vulnerability of NPOs, we will briefly describe the theories that explain the existence of these organizations and the role that this sector occupies in the current society.

With regard to the existence of the third sector in modern societies, there are several theories that justify its existence. Following the classification proposed by Romero Merino (2007), we can find two large groups of theories, from the demand side (considering the motivations of external agents, such as donors, public administrations, beneficiaries, etc.) and from the supply side (taking into account the motivations of the internal agents of the organization itself).

From the demand side, we include the theory of government failure, the theory of voluntary failure and the theory of contract failure. According to the first of them, NPOs are born because of the impossibility of the State to guarantee the provision of all the collective goods demanded by its citizens. In this way, NPOs would appear to provide this class of goods (Weisbrod, 1975, 1977). The theory of voluntary failure (Salamon, 1987a, 1987b) notes that the appearance of NPOs is prior to the governmental action, and that these organizations survive when the execution of the same activities by the public bodies is less efficient than the execution of them by the NPOs themselves. Finally, according to the theory of contract failure, the absence of perfect information for all participants, their limited rationality and the inability to design complete contracts, mean that the allocation of resources is not always as efficient as possible. In this context, the non-distribution constraint of NPOs (Hansmann, 1980) would seem to limit the occurrence of the problems of pre-contractual (adverse selection) and post-contractual opportunism (moral hazard).

From the supply side, we include the customer control theory, the theory of government support, the theory of nonprofit entrepreneur, and the theory of the for-profit entrepreneur. Consumer control theory shares the non-distribution constraint noted above, but it adds that the less informed part of the relation (donors, beneficiaries) should join the NPO to exercise control over the organization (Ben-Ner & Gui, 1993). The theory of government support denotes that the support received by public administrations (manifested through direct and indirect subsidies, tax advantages, etc.) is the pillar on which the creation of NPOs is based (Weisbrod, 1998). The nonprofit entrepreneur theory (Young, 1981) is based on the existence of non-economic motivations in individuals when developing their personal initiatives. In this line, this theory would allow to explain the formation of those NPOs that arose from religious motivations. Finally, according to the theory of the for-profit entrepreneur, we cannot ignore the existence of NPOs that have taken advantage of the confidence inspired by its legal-formal status of lacking a lucrative aim to attract a greater volume of resources. Thus, in these cases, their managers have used them to expropriate the profits (Glaeser & Shleifer, 2001), either formally legal or illegal (the so-called "for-profit in disguise").

With respect to the limits and scope that the nonprofit sector occupies in the present society, it is necessary to begin by limiting the concept of NPO. For this purpose, we base on the characterization of these entities developed by researchers from the Johns Hopkins University (Anheier & Salamon, 1998; Ruiz Olabuénaga, 2000, 2001). In this way, we define NPOs as those organizations which are legally constituted, private, without lucrative aim, that also have a self-governing management and a significant level of voluntary participation. In relation to its role in current societies, the growing relevance of the sector contrasts with the lack of regular and concrete data. Thus, the quantification of the sector is far from being unanimous. In the specific case of Spain, the number of

NPOs was 362,654 in 2002, the number of volunteers was 4.2 million, the number of full-time equivalent jobs was 692,336, and the total expenditure represented 4.7% of Gross Domestic Product (GDP), not including volunteers, or 6.4% when including them (Ruiz Olabuénaga, 2006). Some years later, the importance of the third sector, broadly considered, amounts to 10% of GDP (Gimeno, 2005). In any case, these studies agree on the growing economic importance of the nonprofit sector over the last three decades.

This rise in the volume of resources (both human and financial) managed by NPOs has generated an increase in the society's concern for the correct use of such resources, as well as for the search for mechanisms to ensure the efficient use of them. For years, it was thought that the essential characteristics of these organizations –the lack of for-profit aim, the non-distribution constraint, the explicit support of public administrations and the voluntary nature of many of their workers– turned NPOs into agents without risk of suboptimal or opportunistic behavior. However, the reality has shown that the sector is not exempt from these problems (examples of these problems are some of the recent scandals involving NPOs such as Fundación Deporte, Cultura e Integración Social[12], Anesvad[13], Fundación Trías Fargas[14], Asociación Nadia Nerea[15] or L'Arche de Zoé[16]). Such scandals have raised social concerns, which has accentuated the need to examine the governance mechanisms that exist in these organizations and their ability to monitor and control the actions carried out by the different stakeholders of the NPO. Indeed, when searching for effective governance mechanisms in these organizations, the authors have looked at the literature in the for-profit sector (*e.g.*, Callen, Klein & Tinkelman, 2010; Cornforth, 2012; Hyndman & McDonell, 2009; Ostrower & Stone, 2010; Wellens & Jegers, 2014). In most of these studies, the board becomes the main protagonist not only because it is the ultimate legal responsible for the organization and has the obligation to ensure its continuity and proper functioning, but also because, as already explained, the absence of owners

[12] http://www.elmundo.es/elmundo/2013/03/25/baleares/1364241024.html

[13]http://sociedad.elpais.com/sociedad/2013/04/22/actualidad/1366628230_788563.html

[14] http://www.abc.es/20121113/espana/abcp-fundacion-financio-donaciones-constructoras-20121113.html

[15] http://elpais.com/elpais/2016/12/04/ciencia/1480885662_129527.html

[16] http://www.elmundo.es/elmundo/2008/01/28/internacional/1201523246.html

in the NPOs makes it the main governance mechanism. These studies have generally focused on analyzing the influence of the board on organizational performance measures adapted to the sector (*i.e.*, administrative efficiency, allocative efficiency or fundraising efficiency) (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2010; Andrés-Alonso, Martín-Cruz, Romero-Merino, 2006; Brown, 2005; Callen & Falk, 1993; Callen, Klein & Tinkelman, 2003). However, the board should not only keep in mind the efficiency of the organization, but it must also ensure that the ultimate consequence of an inadequate functioning of the NPO (*i.e.*, its disappearance) is avoided, so that it can continue to serve society on a continuous and sustainable basis. In this way, our approach in this research deviates from the traditional line, since it does not analyze the relationship between the board and efficiency, but, following the study of Hodge and Piccolo (2005), it focuses on the effect of the board composition on the probability of financial survival of the NPO measured in terms of financial vulnerability. To do this, the board has to play a double role: monitor of the managers' conduct and decisions, as well as advisor, contributing to develop the organizational strategy. We consider that a correct performance of such roles allows the board to successfully face the effects of an economic shock, such as the recent financial and economic crisis has meant for the nonprofit sector (highly dependent on public subsidies and voluntary private donations), and also to avoid situations of financial vulnerability or, ultimately, the bankruptcy.

This doctoral thesis focuses on the analysis of the relationship between the board and financial vulnerability in a particular subsector of the nonprofit field. Specifically, the sample we use in the second to fourth chapters is composed by those NPOs that allocate part of their resources to the development and international cooperation, the so-called Non-Governmental Development Organizations (NGDOs). We have chosen this sample due to several reasons. First, because of the homogeneity of these organizations compared to other subsectors of the nonprofit scope. Thus, the Spanish platform of NGDOs (CONGDE) (2008) provides a common definition of NGDOs as they are defined as organizations that are stable, without for-profit aim, active in the field of development cooperation and international solidarity, with willingness of social change or transformation, which have social support and presence, they are independent, transparent, with resources (both human and economic), with transparent and participatory mechanisms of election or appointment of their board positions, and, finally, they are articulated around the goals of international solidarity and cooperation. Second, we choose the NGDOs subsector because it has experienced a substantial increase both in its social importance and in the volume of funds it manages (García Cebrián & Marcuello Servós, 2007; Marcuello Servós, 1999). According to the Spanish Volunteer Platform (Plataforma del Voluntariado de España, 2016) 262,000 people participated as volunteers in international cooperation activities in 2015. In addition, NGDOs have become agents of a large part of Official Development Assistance (ODA), because about 12% of the subsidies and aid that public administrations allocate to ODA is channeled through NGDOs (Secretaría General de Cooperación Internacional para el Desarrollo, 2016). A third reason for focusing our research on these organizations is that, as consequence of their role as agents in ODA, NGDOs have significantly suffered the impact of the crisis in Spain. Between 2009 and 2015, Spanish ODA fell by around 70% of its amount, from 0.46% of the Gross National Income to 0.13% (Organization for Economic Cooperation and Development [OECD], 2016), which is far from the target of 0.7%. Finally, national platforms of NGDOs are highly important in this subsector, as they bring together the most important organizations, insist on the dissemination of good practices and, on a practical level, they allow us to delimit the sample. At European level, there is a confederation of these platforms (CONCORDE), which groups the 28 national platforms. In our case we have resorted to CONGDE and to Bond in the United Kingdom (UK) throughout the empirical research. In the Spanish case, it is relevant to note the revitalizing activity that CONGDE has adopted in recent years, as it has promulgated a mandatory Code of Conduct for its members and it has designed transparency and good governance indicators that emphasize the responsibility that these organizations have towards society, since their funds come mainly from private donations and public grants. Together, these self-regulation tools of the subsector have facilitated our access to data on the composition of NGDOs' boards, as well as to their economic and financial information. From our point of view, all these reasons justify the analysis of NGDOs in terms of corporate governance and financial vulnerability.

To approach the study of the influence of the board on the financial vulnerability of NGDOs, we articulate this doctoral thesis in four academic articles, included in the chapters from the first to the fourth. Thus, we will begin our first chapter with a theoretical review of the literature on governance in NPOs. In this chapter, we present a journey through the state of the art of nonprofit governance. This journey leaves from the prescriptive literature, it continues with the resource dependence approach and the agency theory, and it culminates in an extended model of governance based on an eclectic and contingent approach. The second and third chapters focus comprehensively on the review of the concept of financial vulnerability in NPOs related to development cooperation. In this way, the second chapter focuses on the adaptation of classic predictors to our context (NGDOs from the UK in times of economic crisis). Specifically, we analyze the explanatory and predictive power of the index elaborated by Trussel, Greenlee and Brady (2002), which is based on the prediction of the reduction in net assets over three years through five variables: debt ratio, revenue concentration, operating margin, administrative costs ratio and organizational size. Meanwhile, the third chapter focuses on the measures of financial vulnerability *per se*, reviewing the measures that have made operative this concept by prior research on this area. To this end, we analyze and show the differences between the main proxies used by the literature, such as the reduction in net assets, the reduction in program expenses and the reduction in revenues, in order to finally propose a multidimensional model that, in our view, includes the most determining aspects for quantifying the financial vulnerability. Specifically, our multidimensional proposal includes the variation of net assets over a time period (operational dimension) and the ratio of assets to debt, both in total terms (leverage dimension) and considering only the short-term (liquidity dimension). Finally, in the fourth chapter, we analyze, from an extended perspective, the effect that the board has on the financial vulnerability of NGDOs and, ultimately, on their survival probability in times of lack of resources. On the one hand, we utilize the multidimensional model proposed in the previous chapter to determine those Spanish NGDOs that are financially vulnerable. On the other hand, the governance model we consider is based on the agency theory and the resource dependence approach and it includes both the variables traditionally used in this type of studies (size and independence of the board, duality in the positions of Chief Executive Officer [CEO] and chairman of the board, presence of founders) as well as others of a more cognitive nature (directors' education and experience). We will conclude this doctoral dissertation with the most relevant findings derived from the research conducted in the four previous chapters, as well as its limitations and the future lines of research to be undertaken.

CHAPTER 1:

GOOD GOVERNANCE IN PHILANTHROPY AND NONPROFIT ORGANIZATIONS

GOOD GOVERNANCE IN PHILANTHROPY AND NONPROFIT ORGANIZATIONS[17]

Abstract

This chapter reviews the literature on governance of nonprofit organizations. After defining the concepts of governance and governance mechanisms of the nonprofit sector, we review the different approaches and theories that previous literature has used to explain the problem of governance, focusing on both resource dependence and agency theories. In this way, we reach an extended model of governance that combines aspects coming from different approaches. Finally, we present the main lines of future research.

Keywords: *governance, nonprofit organizations, agency theory, resource dependence approach, prescriptive literature*

Resumen

Este capítulo repasa el estado del arte de la literatura sobre gobierno de las entidades no lucrativas. Después de definir los conceptos de gobierno y mecanismos de gobierno en el sector no lucrativo, se realiza un repaso a los diferentes enfoques y teorías que se han empleado para explicar el problema de gobierno, centrándonos en el enfoque de dependencia de recursos y en la teoría de la agencia. De esta manera, se llega a un modelo ampliado de gobierno que combina aspectos provenientes de distintos enfoques. Finalmente, se presentan las principales líneas de investigación futura.

Palabras clave: *gobierno, entidades no lucrativas, teoría de la agencia, enfoque de recursos, literatura prescriptiva*

[17] A version of this chapter is published as "Romero-Merino, M. E. & Garcia-Rodriguez, I. (2016). Good governance in philanthropy and nonprofits. In T. Jung, S. D. Phillips & J. Harrow (eds.), *The Routledge Companion to Philanthropy*. London: Routledge, 395-407".

1. INTRODUCTION

As philanthropy, and the nonprofit sector more generally, has grown in size and importance, questions of governance have become an ever more prominent concern. Various scandals, combined with a realization that "the angelic" sector has a "darker side", explored by Smith, Eng and Albertson (2016), have led to increasing calls for novel perspectives on, and approaches to, governance research and practice within the field (Cornforth & Brown, 2014). Traditionally, work on governance within the nonprofit sector has focused on boards' performance, on their roles in fundraising and their linking to the community. Furthermore, such studies have tended to be descriptive, normative and lacking strong theoretical and empirical foundations (Miller-Millesen, 2003). When attempting to explain the complexities of nonprofit governance systems, and the contexts within which these operate, such an approach seems too narrow. Not only does it overlook the more holistic meaning of the word "governance", from the Greek kybernân, "steering a ship or a chariot", and the broader governing responsibilities derived therefrom, but it also ignores wider aspects of governance mechanisms relevant for philanthropic organizations.

This chapter provides a chronological journey through the most prominent theoretical perspectives relevant to philanthropic organizations' governance; it travels from traditional perspectives, such as the role of board size or independence, to seeking more dynamic and diverse governance mechanisms as key to understanding and increasing the effectiveness, and consequently the performance, of philanthropic organizations. While a number of perspectives have been proposed in relation to nonprofit governance, including signaling theory, which points to information asymmetries between different stakeholders (Marcus & Goodman, 1991; Spence, 1973), or stewardship theory, which focuses on the stewardship roles taken on by directors (Davis, Schoorman & Donaldson, 1997; Donaldson & Davis, 1991; Van Puyvelde, Caers, Du Bois & Jegers, 2012), there are two underlying, fundamental, factors: resource dependency and agency. These two ideas also play a special role in the changing relationship dynamics between grantmakers and grantees that arise from a stronger focus on measuring impact in philanthropy (Schnurbein, 2016).

The most used approach in the early studies on nonprofit governance is the *resource dependence theory*, which is focused on explaining the service role of the board. This approach views boards as a resource absorption mechanism, and the human and social capital of their members as the core of its effectiveness. The other relevant economic approach to corporate governance is the *agency theory*. Although featured in the corporate governance literature in the for-profit field, the agency arguments have been applied, later and more reluctantly, to NPOs. For many years, the altruism and voluntary character of the workers in the nonprofit sector seemed to be enough to protect donors from expropriation, fraud, or opportunistic managerial behavior. Unfortunately, scandals such as United Way[18] or Covenant House[19] drew attention to agency issues, and the monitoring role of the governance systems (not only the board) became common subjects of research in the nonprofit sector. However, despite the progress, none of the theories in isolation seemed to provide valid responses for the optimal configuration of the governance system of nonprofits. To overcome their limitations, recent studies have opted to include arguments from both of the approaches to build a multi-theory and multidisciplinary perspective of nonprofit governance more complete in scope and content. This chapter will therefore concentrate on the issues raised by resource dependency and by agency theory, and how their insights can, and should, be integrated with more recent ideas from cognitive perspectives.

Within the philanthropy arena, governance studies have tended to focus on private, grant-making foundations. The argument has been that these display certain characteristics that make them distinct from other nonprofit organizations (NPOs) and their governance requirements. Such foundations: usually have a single donor and do not need to fundraise from a broader donor base; tend to spend the earnings from their capital investment; and fund other organizations to

[18] https://www.charitywatch.org/charitywatch-articles/charitywatch-hall-of-shame/63
[19] http://www.nytimes.com/1990/04/28/nyregion/after-scandal-revisiting-covenant-house-special-report-reeling-its-own-crisis.html?pagewanted=all

do their work (Stone, 1975). However, as Harrow, Jung and Phillips (2016) and Leat (2016) highlight, private foundations are only one set of players within the wider philanthropic foundation game. As such, it is important to acknowledge that some of the insights provided by the governance literature in general, and the one on nonprofit governance in particular, might not be applicable across the entire foundation field. Simultaneously, though, one should not take too narrow a perspective. With philanthropic foundations reinventing themselves in the social finance and social investment landscape, and some traditional grantmaking foundations reflecting on, and moving towards, fundraising approaches to counteract decreasing capital income and/or increasing social needs, broader nonprofit governance issues suddenly arise in, and become relevant to, this area. Consequently, this chapter takes a broad perspective; it draws on the wider insights that emerge on nonprofit governance and reflects how these relate to the composition of philanthropic foundations' boards.

2. DEFINING NONPROFIT CORPORATE GOVERNANCE AND GOVERNANCE MECHANISMS

Unlike in the private sector, where a variety of different, and at times conflicting, perspectives on corporate governance exist, specific definitions of governance for the nonprofit field have been less prominent (Cornforth, 2012; Ostrower & Stone, 2006). Instead, the focus has frequently been on simply transferring definitions from the corporate to the nonprofit field. This is illustrated in the writings of authors such as Hyndman and McDonell (2009) or Jegers (2009) who follow the corporate finance perspective on governance put forward by Shleifer and Vishny (1997: 741) when stating that "governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Such a direct transfer is, however, problematic. Notwithstanding the increasing discourse on "social return on investment" and the financialization of philanthropy (Thümler, 2016), it is not easy to translate the conceptual underpinnings of investment and financial perspectives to an environment where profit distribution has traditionally not been a priority.

This is not to say that there is no potential for drawing insights from the private sector literature. Charreaux (1997, cited in Charreaux, 2004: 2), for example argues that governance is "the set of organizational and institutional mechanisms that define the powers and influence the managers' decisions, in other words, that 'govern' their conduct and define their discretionary space". In this line, Cornforth and Chambers (2010: 1) cast nonprofit governance as "the systems and processes concerned with ensuring the overall direction, control and accountability of an organization". This definition then follows the etymological roots of the governance concept, by referring to the ways in which the organization (and its managers) is guided and controlled. To do so, governance mechanisms must play a dual role. They must be able to act as both advisors to, and monitors of, the executive team. Governance, thereby, covers what has traditionally been referred to as "service and control tasks" (Zahra & Pearce, 1989). Service tasks are related to the organization's guidance. It includes not only advice and counsel for managers, but also the provision of external legitimacy and networking (Hillman & Dalziel, 2003). The governance mechanisms can thus be considered as an active part, as playing a critical role in guiding management in strategic decision making processes (Andrews, 1980; Minichilli, Zattoni & Zona, 2009). The control or monitoring task, on the other hand, supposes that managers are opportunistic. Consequently, the main task of governance mechanisms is to protect the resource contributors (shareholders in firms, or founders, funders and donors in philanthropic foundations) from managerial misappropriation. To do so, governance mechanisms must control the organization's performance, monitor its activities, and assess the management team or its philanthropic equivalent (Johnson, Daily & Ellstrand, 1996).

As part of this, the place and context of these mechanisms must be clarified. In the bulk of the nonprofit governance literature, this is considered to be the board. While the board is the most important governing part within a NPO, it is by no means the only one. Albeit less researched, other external, governance mechanisms include government, private donors, capital structures and financial disclosure or transparency arrangements of a foundation. As has been highlighted in other parts of this volume, governments are taking an increasingly strong interest, and role, in the foundation world (Healy & Donnelly-Cox, 2016; Phillips & Smith, 2016), a trend that extends to the wider nonprofit field: governments set standards for the configuration of the internal structure of NPOs by encouraging professionalization (Guo, 2007) and by supporting only those organizations that meet codes of good governance requirements (Ostrower, 2007). Furthermore, governments decide the activities or projects they support by setting clear boundaries. This can influence the strategic plans and ambitions of these organizations and serve as an organizational control mechanism (Andrés-Alonso, Martín-Cruz & Romero-Merino, 2006). Within philanthropy, this is prominently reflected, for example, in the case of governmental flow-through funding for community foundations. This directive and control function is likely to increase as governments focus on "impact" philanthropy. Finally, governments also act as regulators for the field through legislation, though the empirical evidence base in how far this translates to good governance warrants further development (Alexander, Young, Weiner & Hearld, 2008; Hyndman & McDonell, 2009; Ostrower, 2007).

Mirroring governments, in the case of philanthropic foundations the founder(s), and/or the individuals or organizations providing the resources can similarly act as a guide and monitoring body. They can influence both the type of activities pursued by a foundation and the composition of its board. In this way, although lacking ownership rights, private donors can also act as a guide and monitoring body, especially when they bring significant money to the NPO. Donors, as investors, act rationally trying to maximize the usefulness of the resources provided to the organization (Manne, 1999). Hence, they hope NPOs behave responsibly (Speckbacher, 2008; Wellens & Jegers, 2014). When a NPO is significantly supported by a private donor, this donor usually plays a role as a governing body in the same way governments do. These donors can influence not only the type of activities the NPOs develop but also the composition of their board (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2009).

As happens in firms, and especially with the wider move to venture philanthropy, social investment, and social finance (Salamon, 2014), capital structure can also act as a governance mechanism in so far as that a higher level of financial resources involved (either to the foundation or from the foundation) is likely to result in increased financial monitoring. Across the wider nonprofit field research on this topic is still in its infancy, but a number of studies have been emerging over the last few years (Jegers, 2011; Jegers & Verschueren, 2006). In addition, foundations can use accounting information and transparency in financial statements to monitor financial performance, especially by using external auditing to reduce uncertainty about the validity of the figures (Jegers, 2002). Thus, transparency and accountability measures can be considered as positive governance mechanisms for NPOs as in many countries these are open to public inspection (Boozang, 2007; Harrow, 2016).

Finally, one should not forget boards of trustees as absolute protagonists in the nonprofit governance literature. Boards of trustees –the nonprofit equivalent of boards of directors– are responsible for protecting the interests of the founders, donors, beneficiaries and society in general by guiding the organization with care, skill and integrity (Andrés-Alonso *et al.*, 2006, 2009). For many years, boards have been perceived in a relative narrow way. They were considered as mere fundraisers, cheerleaders or even as simply rubberstamping bodies. But, as will be seen throughout the rest of this chapter, boards play a far more active role in the nonprofit sector when compared to the corporate world (Coombes, Horris, Allen & Webb, 2011). As nonprofits grew and their internal structure became more complex, the directors absorbed more and more duties and tasks. Currently, theories about nonprofit corporate governance have evolved while the responsibilities of boards are growing and deepening.

3. THE NORMATIVE APPROACH TO NONPROFIT GOVERNANCE

During the 1990s, the majority of studies on nonprofit governance referred to the board as a unique governance mechanism and approached its workings from a predominantly normative viewpoint. Many authors produced manuals and reports with recommendations about the roles that boards should play and the activities that directors had to develop (*e.g.*, Carver, 1990; Chait, Holland & Taylor, 1991; Houle, 1989).

This normative approach is not yet outdated. Not only has this tendency continued (*e.g.*, Cornforth, 2001a; Miller-Millesen, 2003), but the spectrum of expectations has become increasingly wide. The board is expected to cover: strategic planning; selection and evaluation of managers; monitoring programs and services of the organization; managing and controlling financial resources; improving the public image of the organization; and selection and training of new directors. As part of this, a plethora of self-assessment toolkits for board members has been developed by academics, consultants and umbrella organizations. Tools, such as the Board Self-Assessment Questionnaire (BSAQ) (Holland, 1991), the Board Self-Assessment Tool (McKinsey & Company, ND), the Governance Self-Assessment Checklist (GSAC) (Gill, Flynn & Reissing, 2005), the Good Governance Tool Kit (VicSport, 2015), or the Charities Toolkit (Kingston Smith, 2013), are designed to assess the skillset of directors and the degree of compliance of board members with essential tasks.

A number of criticisms have been raised with this approach. First of all, these tools and models frequently lack strong supporting empirical evidence (Hough, 2006; Jackson & Holland, 1998) and their prescriptions are rarely compared, and related, to actual board practices (Herman, Renz & Heimovics, 1997; Ostrower & Stone, 2010; Zimmermann & Stevens, 2008). This lack of contextualization is further problematic in that proposed "best practices" are indiscriminately applied across the wide range and characteristics of NPOs (Miller-Millesen, 2003; Parker, 2007): from small local charities and family trusts to international NPOs and multimillion corporate foundations. Furthermore, by advocating "ideal" board behaviors (*e.g.*, Cornforth, 1996; Hall, 1990; Herman, 1989), the expectations promulgated within these tools might be unrealistic and, when boards fail to live up to these standards, demotivating. The extent to which these guides, or tools, are used is also unknown, as is the case when foundations' groups produce apparently tailored guides for their members (Jenkins, 2012). Finally, as studies give prominence to describing boards, or defining good practice, there is also a notable lack of theoretical underpinnings (Speckbacher, 2008). The next section will therefore outline key theoretical frameworks that can inform our understanding of nonprofit governance and assess the extent to which these perspectives are supported by empirical evidence.

4. THE RESOURCE DEPENDENCY APPROACH TO NONPROFIT CORPORATE GOVERNANCE

For many years, the most influential theory in governance studies was “resource dependency”. This perceives organizations as open systems, constrained by their context. As Pfeffer and Salancik (1978: 1) state, "to understand the behavior of an organization you must understand the context of that behavior –that is, the ecology of the organization–”. To reduce environmental uncertainty and dependency, an organization can accumulate power or control over vital resources (Hillman, Withers & Collins, 2009; Ulrich & Barney, 1984).

Within NPOs, this was understood as a need to develop a strong board, one that includes directors who are in a position to influence the outside world to the NPO’s advantage (Callen, Klein & Tinkelman, 2010). Boards, thereby, are considered to function as resource catalysts: they provide linkages to necessary resources and act as “boundary spanners” (*e.g.*, Brown, 2005; Harlan & Saidel, 1994; Provan, 1980). Such boundary spanning can take various forms and cover numerous activities. Reflecting the notions of treasure, time and talent, these can range from fundraising activities, as for example required by community foundations, to developing a foundation’s relationships with external stakeholders, such as government, public relations, or offering specific advice and counsel.

Within this school of thought, a board’s boundary spanning activities is directly related to organizational performance as these help to reduce dependencies between the organization and external contingencies (Hillman & Dalziel, 2003). This relationship has been widely tested in the nonprofit field. The board’s ability to provide resources is related to board size, linkage (interlocking) and diversity, as well as to individual features of the directors, such as demographic characteristics, knowledge and skills. Early studies concentrated on the ability of the board to accumulate resources (*e.g.*, Green & Griesinger, 1996; Herman & Renz, 2000; Provan, 1980), but soon a growing body of work emerged that recognized the strategic role of the board as a key factor in affecting nonprofit performance (*e.g.*, Green & Griesinger, 1996; Herman *et al.*, 1997).

Thus, all studies from the resource dependence approach were only concerned with obtaining resources for the nNPOs' activities. However, none of them chose to evaluate the proper allocation of financial resources (donations) or the fulfilment of the strategic plan proposed by the board. In the next stage of the development of the literature, various authors proposed to introduce the agency arguments within the nonprofit governance debates.

5. THE AGENCY THEORY APPROACH TO THE NONPROFIT CORPORATE GOVERNANCE

According to agency theory, an organization is a legal fiction, a nexus of contracts that allows individuals to develop an activity together (Jensen & Meckling, 1976). The main concerns of this perspective are the issues that arise between those who act (agents) on behalf of others (principals) while performing some service in the organization. This agency relationship requires that the principals delegate some decision making authority to the agent, who usually has the knowledge and skills to act on behalf of the principal. However, the agent might not always act in line with the principal's expectations (Berle & Means, 1932). The resulting conflict of interests between principal and agent is the "agency cost" and governance mechanisms are aimed at reducing this through monitoring the agent's behavior.

This disciplinary perspective of agency theory is the most widely used theoretical approach for the study of corporate governance (Dalton, Daily, Ellstrand & Johnson, 1998). Similarly to the corporate setting, where differences between shareholders (as principals) and managers (as agents) might arise (Wellens &

Jegers, 2014), the principal-agent argument has wider applicability; it is relevant to relationships between actors of any kind. Within a foundation, for example, the board is responsible for the effective use of resources and the avoidance of their expropriation: the principal is the donor and those administering and running the foundation are the agents (Andrés-Alonso *et al.*, 2006; Fama & Jensen, 1983; Miller, 2002).

Nevertheless, as Harrow and Phillips (2013) contend, there is also ongoing debate within NPOs as to who "owns" them –in the case of foundations, the original funders or their descendants, the business which created them, the multiple donors and contributors in foundations which fundraise, or combinations of these groups, salaried employees and volunteers–. For foundations seeking, or having, a specifically local presence, their community engagement decisions may include expansion of board membership to local "voices", who are not themselves donors, whilst also not beneficiaries (Harrow, 2011).

There is then still some reluctance to apply traditional agency theory to both philanthropic and nonprofit settings, the argument being that without any profit to distribute to those who control these organizations opportunistic behavior by employees or managers is avoided (Brody, 1996; Hansmann, 1980). Although the constraints of nonprofit settings might eliminate the figure of a residual claimant, like a shareholder in firms, it does not reverse the incentives that other insiders could have to misappropriate the organization's resources (Fama & Jensen, 1983). Another argument by those challenging the appropriateness of agency theory for the nonprofit sector point out that it presumes the existence of a goal conflict between the donor and the management team. Miller (2002) shows that NPO's board members do not expect conflict between staff and the purpose for which the organization was created. This, however, only indicates that board members are unaware, not that there is no conflict. As Jensen (1994: 49) notes, "altruism ... does not turn people into perfect agents who do the bidding of others". In fact, there is plenty of opportunity for opportunistic behavior and fraud across philanthropic contexts (Smith *et al.*, 2016) and, therefore, it makes sense to analyze nonprofit governance from a purely disciplinary agency approach.

When studying the optimal board composition from an agency perspective, one usually finds one of the following areas as the central focus of research: the board size, its independence, or the presence of donors among its directors. With respect to size, agency theory considers that smaller boards reduce agency problems because they speed up decision making, reduce potential free rider behaviors, and consequently cut down administrative costs (Jensen, 1993; Yermack, 1996). In the nonprofit field, though, boards are usually larger than their counterparts in for-profit organizations (Forbes & Milliken, 1999; Steane & Christie, 2001). Empirical data as to whether this has any negative effects on their performance is inconclusive (Andrés-Alonso *et al.*, 2006; Callen, Klein & Tinkelman, 2003; Dyl, Frant & Stepphenson, 2000; O'Regan & Oster, 2005). On the subject of board independence, agency theory holds that the presence of outsiders on the board positively affects the performance of the organization (Fama & Jensen, 1983). The assumption is that outsiders provide greater objectivity and independence of perspectives, thus reducing the potential for opportunistic behavior (Andrés-Alonso *et al.*, 2006; Brickley, Van Horn & Wedig, 2010; Callen & Falk, 1993; Dyl *et al.*, 2000; O'Regan & Oster, 2005; Oster, 1995). While boards of trustees are generally composed of a majority of outsiders (Oster, 1995), the effects on NPO's performance are uncertain.

Beyond the board, there are other mechanisms that monitor the managerial team. As mentioned earlier, major donors (public or private), NPO's capital structure, or the organization's transparency can act as governance mechanisms that influence organizational performance. Agency theory also suggests that the involvement of donors or founders on the board enhances a board's effectiveness through increasing its motivation to monitor (Callen *et al.*, 2003; Hough, McGregor-Lowndes & Ryan, 2005; Hyndman & McDonell, 2009; Jegers, 2009). But, again, the empirical evidence-base is inconclusive. Although donors and founders might lack residual rights in some foundations, they do represent the organizational equivalent of a shareholder: they are concerned about the use of the resources they have provided to the organization. As Fama and Jensen (1983) posit, major donors monitor the organization better than donors on board. When the major donor is public (*e.g.*, the case of the Big Lottery Fund in the United Kingdom), that monitoring power appears to be even greater, although the sense of "ownership" will also be diffused. Public donors may have enough power and access to information to become efficient monitors (Herman & Renz, 2000; O'Regan & Oster, 2002) because they usually demand detailed plans, financial budgets and information on each project they finance (Andrés-Alonso *et al.*, 2006; Callen *et al.*, 2003; Frumkin & Kim, 2001).

Finally, capital structure and nonprofit transparency have recently been introduced as governance mechanisms in the nonprofit field. From an agency perspective, debt is considered as an indirect way to limit managerial behavior (Jensen, 1986); managers are curtailed by debt and interest payment obligations and by the continuous screening of their lenders. While traditionally of less relevance to philanthropic foundations than the wider nonprofit sector, this might increase as some foundations recast themselves as foundations banks and social investors (Salamon, 2014). In this line, transparency supposes an increase in the exposure of managerial and board decisions to social screening. Although there is no empirical evidence of the direct effect of these two mechanisms on performance, they might be an effective disciplinary governance mechanism.

Taken together, only major donors, especially public ones, seem to have proven effective in monitoring the managerial team of NPOs. Board features that have traditionally been studied only provide cursory support for shaping an effective governing body; there is not enough evidence of the effect of debt and transparency on NPOs' performance. As these shortcomings are partly attributed to the limitations of trying to apply a private sector theory to the nonprofit field (Brown, 2005; Miller, 2002), there have been increasing calls to complement agency theory with other approaches to adequately capture all the implications for how corporate governance can help NPOs (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2010; Callen *et al.*, 2010; Steinberg, 2010; Van Puyvelde *et al.*, 2012).

6. TOWARDS AN EXTENDED MODEL OF NONPROFIT CORPORATE GOVERNANCE

So far, efforts of building an extended model of governance for the nonprofit field have been geared towards effectively configuring a board of trustees. To this end, it is useful to combine the issues raised by agency theory with the underlying principles of resource dependency (Callen *et al.*, 2010; Hillman & Dalziel, 2003; Miller-Millesen, 2003). To better understand the social processes that guide behaviors on boards, incorporating group/decision theories also seems relevant (Brown, 2005), while a cognitive approach helps to delve deeper into the processes involved in innovation and knowledge creation (Andrés-Alonso *et al.*, 2010). Some of these factors encourage monitoring while discouraging the board's strategic role and vice versa (Callen *et al.*, 2010; Ostrower & Stone, 2010). As such, it is necessary to reflect on the potential challenges and opportunities for bringing these perspectives together to inform research and practice.

The cognitive perspective is rooted in the work of Charreaux (2005). Based on evolutionary economics and organizational learning, it puts special emphasis on knowledge generation as an open and subjective element, resulting from the interpretation of the environment made by the multiple participants within an organization (Treichler, 1995). It points to the importance of directors' diverse characteristics: each has a different set of experiences, knowledge, perceptions, interpretations and actions that partially reflects his or her own cognitive schema. These differences result in "cognitive conflicts" which in turn improve the quality of strategic decision making in uncertain environments through the consideration of more alternatives and evaluating these alternatives more carefully (Forbes & Milliken, 1999). Given board of directors' commitment to strategic planning and effective decision making, this approach seems to be especially suitable for nonprofit contexts (Bradshaw, Murray & Wolpin, 1992; Judge & Zeithmal, 1992) as it supplements the ideas of agency theory. On the one hand, the high level of information asymmetries and uncertainty that characterizes the nonprofit sector increases agency problems, and so the need for effective mechanisms of control; on the other hand, this high level of uncertainty links to the need for critical interactive decision processes to create value, which in turn is relevant to cognitive conflict and strategic decision making (Andrés-Alonso *et al*., 2010).

Relating this to practical questions surrounding board configuration, potential conflicts do, however, arise: board size and independence need to be considered, alongside board capital, board diversity, and the proactive character of the directors and their group dynamics. While agency theory recommends smaller and more independent boards to reduce costs and increase objectivity in the monitoring activity, once the cognitive role of the board is included, the assumptions surrounding board size and board independence on the organization's performance are questioned: more board members, though slower in decision making, would provide more information and cognitive resources (Bantel & Jackson, 1989; Olson, 2000), resulting in a positive effect on NPO's performance (Abzug, DiMaggio, Gray, Useem & Kang, 1993; Aggarwal, Evans & Nanda, 2012; Ostrower, 2002; Ostrower & Stone, 2010). Similarly, outsiders, although potentially more objective in monitoring proceedings, might lack specific knowledge to support innovation and creative decision-making, as well as the commitment and motivation of those more closely related to the cause. While we have not found empirical evidence to support a positive relationship between insiders and NPO's performance, many authors maintain that directors' motivation is a determinant of board effectiveness (Steane & Christie, 2001; Taylor, Chait. & Holland, 1991). Therefore, the influence of board size and independence on the organization's performance must be reconsidered in an extended model of governance.

Closely related to this is the notion of board capital. This combines human capital (expertise, experience and reputation) and relational/social capital (networks and linkages to external constituencies) (Hillman & Dalziel, 2003). Human capital gives directors exposure to making complex managerial and financial decisions (Olson 2000); the board benefits from the accumulation of the different kinds of knowledge and skills that individual board members bring to the table (Ostrower & Stone, 2010; Vidovich & Currie, 2012). Social capital provides political engagement, connections to influential funders and social ties; it is essential for

NPOs to access key networks within their respective organizations and in the communities they serve (King, 2004). Taken together, these factors are also considered as determinant of board performance (Brown, 2007; Brown, Hillman & Okun, 2012; Hillman & Dalziel, 2003; Preston & Brown, 2004) by both being cumulative, but also by offering another important factor: diversity.

Diversity strengthens the creativity of a board (Bantel & Jackson, 1989) and, thus, its strategic role. It relates to both observable attributes, such as ethnicity, age, or gender, and to less visible ones, such as education, technical abilities, functional and socioeconomic background, status, personality characteristics or values (Milliken & Martins, 1996; Tsui, Egan & O'Reilly, 1992). Heterogeneous groups have a greater breadth of perspective to bring to decision-making and, as they can draw on a wider set of expertise, might arrive at more potential solutions to a problem (Hambrick & Mason, 1984; Van der Walt & Ingley, 2003). Diversity thus has a positive effect on board effectiveness and, consequently, on NPO's performance, a view empirically supported by the work of Andrés-Alonso *et al*. (2010). Whether, as part of that, it is more important for board members to be proactive (Andrés-Alonso *et al*., 2010; Brown *et al*., 2012; Coombes *et al*., 2011; Ingley & Van der Walt, 2001) or for boards to act as a team (Nicholson, Newton & McGregor-Lowndes, 2012) is unclear, with further research combining the two needed to examine board effectiveness and NPO's performance.

In sum, by adding agency theory arguments and a cognitive approach, we reach a more complete perspective to understand nonprofit governance. At this juncture, the traditional board features, like size and independence, seem to lose some of their importance while other, new characteristics, like diversity, proactivity or strategic decision-making groups, gain weight in the governance literature. However, the search for an optimal board configuration requires a far more robust empirical support for this assessment before it can be used as guidance for good practice.

7. CONCLUSIONS AND FUTURE LINES OF RESEARCH ON NONPROFIT CORPORATE GOVERNANCE

Although theoretical approaches on nonprofit corporate governance have advanced greatly in recent decades, there is still a long way to go in terms of empirical testing. Especially in relation to “good” governance for foundations and NPOs in general, much more work is required. While this chapter has pointed to some of the key studies, a lot of them are derived from cross-sectional data from the United States (US) nonprofit sector: as Wellens and Jegers (2014) suggest, longitudinal and cross-country research is necessary to draw overall conclusions.

This line of research is difficult to implement, though, given the lack of structured databases of these organizations, especially outside the US. As such, researchers must currently develop their studies on the basis of primary data (surveys, interviews, case study), which makes it challenging to obtain cross-national or longitudinal samples. In addition, the latest theoretical advances introduce variables related to cognitive schemata and group thinking that require very specific information about individuals, reiterating the need for better and more overarching research approaches that can be applied across times and contexts.

Contextual factors are increasingly critical for scholars, as the foundation form itself demonstrates degrees of differentiation as well as similarity, arising from governmental intervention. Developments and decisions pertaining to the rise of the Italian banking foundations, with their governance structures reflecting a particular (legally enshrined) approach to the linkages between strategic and executive functions, and their funding drawn from public savings banks’ assets rather than donations (Leardini, Rossi & Moggi, 2014) is an important case in point. Varying foundation contexts will also create differentiations in the interactions between internal and external governance questions. Steen-Johnson, Eynaud and Wijkström (2011: 556) argue that these two subfields of scholarship, in nonprofit governance generally, are importantly intertwined and need to be studied as such: “The internal governance game shapes the conditions for the organization’s positions and actions in the external government environment and vice versa”. For foundations, this inter-twining will be especially relevant, for example, when they decide to collaborate with governments or fellow foundations.

Furthermore, there are other governance aspects to consider that are beyond the scope of this chapter. For example, the chapter has not given attention to endogeneity problems that may exist among the different kind of mechanisms or between the features (size, age, prestige) of a foundation and its governance requirements. These might relate to the power and influence of donors and funders to shape the selection of board members (Andrés-Alonso *et al*., 2009) or to how transparency expectations lead to boards’ configurations (Saxton, Kuo & Ho, 2012). While these have been touched upon in the nonprofit research literature (Abzug *et al*., 1993; Aggarwal *et al*., 2012; Moore & Whitt, 2000; Ostrower, 2002; Ostrower & Stone, 2010), the relationship between these and other governance factors have not been explored widely. While there is thus still no clear answer to the question of how to best configure an internal governance system, bringing together the insights from diverse theories and perspectives, to critically reflect on their complementarity and differences, as well as to consider the future research trajectories they highlight are important steps towards a more coherent understanding of the complex nonprofit governance landscape.

CHAPTER 2:

THE DANGERS OF ASSESSING THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS USING TRADITIONAL MEASURES: THE CASE OF THE NON-GOVERNMENTAL DEVELOPMENT ORGANIZATIONS IN THE UNITED KINGDOM

THE DANGERS OF ASSESSING THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS USING TRADITIONAL MEASURES: THE CASE OF THE NON-GOVERNMENTAL DEVELOPMENT ORGANIZATIONS IN THE UNITED KINGDOM[20]

Abstract

This chapter analyzes the financial vulnerability of 228 Non-Governmental Development Organizations (NGDOs) from the United Kingdom during the period 2008-2012. To do this, we use the Financial Vulnerability Index developed by Trussel et al. (2002). This index is commonly used in the literature on nonprofit organizations. However, we observe a very poor adaptation of the index to the reality of this industry, at least in predictive terms. The chapter goes deeply into each of the variables that are used to calculate this index, and we offer explanations of their inadequacy to this subsector of nonprofit organizations.

Keywords: *financial vulnerability, nonprofit organization, development cooperation, United Kingdom*

Resumen

Este capítulo analiza la vulnerabilidad financiera de 228 Organizaciones No Gubernamentales para el Desarrollo (ONGDs) de Reino Unido durante el periodo 2008-2012. Para ello, empleamos el Índice de Vulnerabilidad Financiera desarrollado por Trussel et al. (2002). Este índice es comúnmente usado en la literatura sobre entidades no lucrativas. Sn embargo, observamos una adaptación de este índice a la realidad del sector, al menos en términos predictivos. Este capítulo profundiza sobre cada una de las variables empleadas para calcular el índice, ofreciendo explicaciones sobre su inadecuación a este subsector de entidades no lucrativas.

Palabras clave: *vulnerabilidad financiera, entidades no lucrativas, cooperación al desarrollo, Reino Unido*

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1. INTRODUCTION

Corporate financial diagnosis has been exhaustively studied, especially since the work of Altman (1968). Academicians have repeatedly attempted to find suitable models to predict, first, corporate bankruptcy (Altman, 1968; Ohlson, 1980) and, afterward, financial distress (Frydman, Altman & Kao, 1985; Zmijewski, 1984). However, financial vulnerability of nonprofit organizations has been ignored by the academic literature until the 1990s. Since then, the great economic growth of this sector and, most important, the several fluctuations of the global economy, have led to the need to take into account this topic in the nonprofit sector also. Because of the lack of data on nonprofit bankruptcies, the first challenge was to define when a nonprofit organization (NPO) is considered financially vulnerable.

In 1991, Tuckman and Chang elaborated a model to evaluate NPOs' financial problems. After them, authors such as Trussel and Greenlee have tried to develop predictive models to detect in advance potential financial problems without reaching conclusive results (Greenlee & Trussel, 2000; Trussel 2002; Trussel & Greenlee, 2004; Trussel, Greenlee & Brady, 2002). Some of these researches have stressed the importance of considering the specific characteristics of each subsector so as to obtain better predictors of the financial vulnerability (Hager, 2001; Trussel, 2002; Trussel *et al.*, 2002).

We join these recommendations as we attempt to evaluate the financial vulnerability of the Non-Governmental Development Organizations (NGDOs). This subsector has its own distinctive features. First, it is highly dependent on donations (both public and private). So, NGDOs are particularly vulnerable in times of crisis, when private donations are drastically reduced and public funds for development cooperation also suffer an important cutoff. Second, a large amount of the NGDO's budget is allocated to organizations located in different countries. This fact not only complicates the oversight role carried out by the board and the donors, but also the analysis of their financial vulnerability as their resources are handled by those foreign organizations whose accounts are not included in the forecast.

Moreover, the strong impact of the recent financial and economic crisis in this sector has revealed the importance of appropriate income and expense structures to mitigate the consequences of a financial shock and, consequently, to enable these organizations to continue providing their services to society.

Particularly, we evaluate the ability of the Financial Vulnerability Index (FVI) introduced by Trussel *et al.* (2002) and broadly used by academics and practitioners, to predict the financial situation of NGDOs. According to our results, this index cannot reflect the reality of this subsector of NPOs. Considering these results, we describe the main problems of the index, and we explain the limitations of each of its components, particularly some contradictions with organizational efficiency.

The remainder of the chapter is organized as follows: the chapter begins with a review of the literature on financial vulnerability in the nonprofit sector. Then we describe the sample and the methodology used, and we present the obtained results by using traditional techniques. The chapter finishes with a discussion of the results and presentation of the main conclusions.

2. FINANCIAL VULNERABILITY IN THE NONPROFIT SECTOR

The forecast of financial vulnerability has been scarcely studied in the nonprofit sector in comparison with the for-profit one. Its importance in the nonprofit sector has increased during the past two decades, especially from the study conducted by Tuckman and Chang in 1991. However, in spite of this growing relevance, financial vulnerability in NPOs has still to be developed. Indeed, even the definition of *financial vulnerability* is not clear among the scholars of the nonprofit sector (as we will see in the next chapter), where the difficult measurement of inactive and extinct organizations is a hard barrier to overcome (Hager, 2001). Throughout the literature we find traditional concepts such as "a significant reduction in net assets", "the removal of programs provided by the organization", "a significant reduction in revenues", or simply "insolvency" (total liabilities exceeding total assets) to define this nonprofit financial vulnerability. Nevertheless, none of them seems to excel above the others.

But it is not necessary only to find a conclusive definition; the estimation of financial vulnerability is a developing field. Beginning this line of research, Tuckman and Chang (1991) were the first researchers who evaluated nonprofit vulnerability by using accounting ratios.

Particularly, they proposed that a NPO is financially vulnerable if it is in the lowest quintile of at least two of the following four ratios: net assets, administrative costs, revenue sources, and operating margin. Tuckman and Chang (1991) consider that a NPO is financially vulnerable if it is "likely to cut back its service offering immediately when it experiences a financial shock" (p. 445). So, implicitly, they understand NPOs' financial vulnerability as a large decrease of program expenses.

Using this definition of financial vulnerability almost a decade later, Greenlee and Trussel (2000) developed the first predictive model in this field with four variables similar to those introduced by Tuckman and Chang (1991). They observed the variables during three consecutive years to ensure that it was not a situational trouble, and they used a logit model, which constitutes a reference for future research. Shortly afterward, Hager (2001) applied the Tuckman and Chang (1991) model to the nonprofit arts sector, concluding that it is necessary to adapt this measure to each subsector. Finally, Thomas and Trafford (2013) developed a Financial Exposure Index (the mean value of the four Tuckman and Chang [1991] ratios), but they proposed to exclude the administrative costs ratio because of its dichotomy between efficiency and financial vulnerability.

A second group of studies defines the financial vulnerability as a large reduction in the NPO's net assets. In addition to the four traditional ratios previously described, Trussel (2002) and Trussel *et al.* (2002) included two: the organizational size (measured by total assets) and the subsector of activity. Both studies found that large NPOs are less financially vulnerable and also that there are significant differences among the different nonprofit subsectors.

In recent years, other researchers have been attempting to improve the prediction of NPOs' financial vulnerability by considering other variables. Bowman (2011) included the effect of inflation and differences between the short and long-term by considering concepts such as capacity, sustainability and resilience. Gordon, Fischer, Greenlee and Keating (2013) compared four models of financial vulnerability from nonprofit and for-profit sectors to identify the most significant ratios. They included in their model variables such as the existence of an audit, the existence or absence of restricted net assets, and financial ratios such as fundraising expenses to total expenses and program-related officers' compensation to program expenses. However, these developments are not settled in the literature yet.

In brief, after more than twenty years of research activity, there are no firm conclusions on this issue except that it is important to consider the specific sector of activity because it causes differences among the financial behavior of NPOs. In this line, we assess financial vulnerability on the international cooperation and development sector. Moreover, our sample, composed of NPOs from the United Kingdom (UK), could provide different empirical evidence on this issue, highly dominated by North American samples.

3. SAMPLE AND METHODOLOGY

The target population consists of Non-Governmental Organizations (NGOs) specialized in international cooperation. Our sample is composed by entities belonging to BOND, the membership body of the UK for NGOs working in international development. BOND is a member of the European Confederation of NGDOs (Confederation for Cooperation and Relief and Development [CONCORD]), and it has 370 members. Among its members, we have selected only those NGDOs with 2008 to 2012 financial statements published before March 2014, following the usual format, and comprising twelve-month periods. So, our final sample is composed of 228 NGDOs.

We have used not only the website of the Charity Commission for England and Wales[21] but also the websites of each NGDO to obtain their financial statements. Once we had the sample, we calculated the FVI defined by Trussel *et al.* (2002) (and also utilized by Hodge and Piccolo [2005]) to assess the financial position of each NGDO using the following equation:

$$FVI = 1 / (1 + e^{-z}),$$

where e = 2.718; and z = 0.7754 + 0.9272 DEBT + 0.1496 CONCEN - 2.8419 MARGIN + 0.1206 ADMIN - 0.1665 SIZE; being DEBT the leverage ratio defined by total liabilities to total assets; CONCEN a Herfindahl-Hirschman Index (HHI) calculated as $\sum$ (Revenues$_i$ / Total revenues)^2; MARGIN the surplus margin measured as total revenues minus total expenses, divided by total revenues; ADMIN the administrative cost ratio defined by administrative expenses to total revenues; and SIZE the natural log of total assets.

According to Trussel *et al.* (2002), the decision rule of the results of the previous equation is that low index values (FVI < 0.10) indicate a healthy position of the nonprofit; high index values (FVI > 0.20) indicate a vulnerable financial position of the nonprofit; and, intermediate index values (0.10 < FVI < 0.20) do not allow a conclusive evaluation.

4. DESCRIPTIVE RESULTS

We include in Table 2.1 the main descriptive parameters of the index, its components, and also some other variables (related to the components) that can help us to better interpret the index and its results.

As we can appreciate in the table, the proportion of debt (excluding provisions and pension schemes) is around 24% of total assets, a lower percentage than in other

[21] https://www.gov.uk/government/organisations/charity-commission

studies of this field (Trussel, 2002; Tuckman & Chang, 1991). Also, we can observe how it is majority composed (around 85%) by short-term debt.

Related to the revenue concentration, Table 2.1 shows a high value of the index (around 0.84) during the five years. This value is higher than those obtained in prior literature (Greenlee & Trussel, 2000; Hager, 2001; Trussel, 2002; Trussel & Greenlee, 2004). This concentration is derived from the high volume of voluntary income (above 60%) of these NPOs. According to the financial statements, income is classified into “voluntary income”, “activities for generating funds”, “investment income”, “incoming resources from charitable activities”, and “other incoming resources”. As we can see in Table 2.1, the most important income source is the one related with voluntary income (above 60%); income derived from charitable activities is the second source, with less than a half of the previous one (above 25%). Following the explanation given by the Charity Commission (2005), and attempting to reflect the income emanated from donations, we have added the “voluntary income” and the “activities for generating funds” to approximate our measure to those traditionally used by the nonprofit literature (income from donations, income from sold products and provided services to the beneficiaries, and investment income) (Gordon *et al.*, 2013). The income derived from sold products and provided services to the beneficiaries is represented by “incoming resources from charitable activities”. Finally, income originated from investment is calculated by adding “investment income” to “other incoming resources”.

The operative margin is the most volatile variable of the five index components. Its negative sign indicates that the NPOs have expended on average more than what they have received. This result is opposite to the habitual results of the sector. When we analyze its components we see that, in spite of the crisis, incomes have increased 18% from 2008 to 2012 (which is similar to the percentage found by Thomas and Trafford [2013] during a growth economic period [2002-2007]), but the expenses have risen much more (23%) during the period.

Table 2.1. Descriptive Statistics for Years 2008 -2012

Name	Definition	Year	Mean	Max.	Min.	SD
Variables included in the Trussel et al. (2002)'s equation						
FVI	Financial Vulnerability Index (Trussel *et al.*, 2002)	2008	0.26	1.00	0.03	0.16
		2012	0.25	1.00	0.02	0.14
DEBT	Ratio of debt to total assets (Trussel *et al.*, 2002)	2008	0.24	2.26	0.00	0.27
		2012	0.24	1.04	0.00	0.23
CONCEN	Revenue Concentration Index (Trussel *et al.*, 2002)	2008	0.82	1.00	0.34	0.18
		2012	0.85	1.00	0.44	0.18
MARGIN	Operative margin (Trussel *et al.*, 2002)	2008	-0.15	0.95	-37.16	2.49
		2012	-0.01	0.81	-4.01	0.41
ADMIN	Ratio of administrative expenses to total revenues (Trussel *et al.*, 2002)	2008	0.17	3.68	0.00	0.29
		2012	014	1.01	0.00	0.14
SIZE	Total assets (Trussel *et al.*, 2002) (£millions)	2008	13.48	538.70	0.01	59.90
		2012	16.41	655.40	0.01	72.83
Other variables						
CRED<1	Ratio of current liabilities to total assets	2008	0.21	2.26	0.00	0.25
		2012	0.22	1.04	0.00	0.21
VOLUNT	Ratio of "Voluntary income" to total revenues	2008	0.64	1.00	0.00	0.35
		2012	0.61	1.00	0.00	0.38
GENER	Ratio of "Generating income" to total revenues	2008	0.06	0.78	0.00	0.12
		2012	0.06	1.00	0.00	0.14
INVEST	Ratio of "Investment income" to total revenues	2008	0.03	0.94	0.00	0.09
		2012	0.02	1.00	0.00	0.09
CHAR_INC	Ratio of "Charitable income" to total revenues	2008	0.27	1.00	0.00	0.36
		2012	0.31	1.00	0.00	0.38
OTHER_INC	Ratio of "Other income" to total revenues	2008	0.01	0.40	0.00	0.04
		2012	0.00	0.07	0.00	0.01
INCOME	Total revenues (£millions)	2008	15.27	644.82	0.00	53.67
		2012	18.06	781.29	0.03	63.43
EXPENSES	Total expenses (£millions)	2008	14.69	619.19	0.00	51.62
		2012	18.10	785.33	0.03	64.01
FUNDR	Ratio of "Fundraising expenses" to total expenses	2008	0.12	0.00	0.99	0.15
		2012	0.11	0.00	0.84	0.13
GOVERN	Ratio of "Governance expenses" to total expenses	2008	0.04	1.00	0.00	0.10
		2012	0.02	0.33	0.00	0.04
CHAR_EXP	Ratio of "Charitable expenses" to total expenses	2008	0.84	1.00	0.00	0.17
		2012	0.86	1.00	0.16	0.14
OTHER_EXP	Ratio of "Other expenses" to total expenses	2008	0.00	0.18	0.00	0.01
		2012	0.00	0.41	0.00	0.03
FIXASSETS	Ratio of fixed assets to total assets	2008	0.15	0.98	0.00	0.24
		2012	0.15	0.99	0.00	0.25

Note: Exchanges rates: 31/12/2008: 1£ = 1.0270€ = 1.4476$; 31/12/2012: 1£ = 1.2234€ = 1.6168$

The administrative costs ratio is around 14% over the analyzed period, which is in line with the results obtained in previous studies (Greenlee & Trussel, 2000; Trussel & Greenlee, 2004). We have considered as administrative expense every outflow that is not intended for the mission of the nonprofit. So, along with the usual format of these financial statements, we have supposed as administrative costs those classified as "governance", "fundraising", and "others".

These NPOs have on average more than £15 million in assets in 2012. Most of these assets are current assets (around 85%); in fact, 17% of the NPOs have only currents assets in their balance. Similarly to the incomes and expenses, the amount of assets has increased during the analyzed period (22% from 2008 to 2012).

Finally, Table 2.1 reflects the FVI, which has been calculated with the previous variables. As Table 2.1 reflects, this index remains stable from 2008 to 2012 with a value greater than 0.20. So, the UK NGDOs would be on average in a delicate financial situation. Nevertheless, this value, that seems quite hopeless, could not correctly reflect the reality of this subsector of the nonprofit field. To assess its predictive ability, we have conducted a more detailed analysis of the index in the following section, where we attempt to test its predictive ability along the guidelines of Trussel *et al.* (2002).

5. EXPLANATORY RESULTS

Along with Trussel *et al.* (2002), the FVI allows us to predict the financial vulnerability of NPOs measured by a reduction of at least 20 percent of the entity's net assets during a three-year period. With our sample, we can calculate the index value in 2008 and 2009, and we can test afterward whether the net assets of the vulnerable NPOs have been effectively reduced (at least 20%) in 2011 and 2012, respectively (after the three-year period).

According to our estimations of the index, only 21 of the 228 NPOs (9.21%) are financially healthy in 2008. Most of them, 134 NGDOs (58.77%), are considered financially vulnerable, and the rest of the sample, 73 NPOs (32.02%), remains in an indeterminate position. If we calculate the FVI in 2009, we obtain similar percentages, with 128 NPOs (56.14%) in a delicate situation, 79 (34.65%) in an intermediate position, and 21 (9.21%) financially healthy.

However, when we analyze the reduction in net assets over a three-year period, we note that the index does not correctly classify the organizations of our sample. Thus, during the period 2008-2011, only 48 NPOs (21.05%) reduced at least 20% of their net assets. Of these 48 entities, only 29 (60.42%) had been classified as vulnerable in 2008 by applying the index developed by Trussel *et al.* (2002), while the other 19 NPOs (39.58%) were not detected by this FVI. Furthermore, among the 134 NPOs that the index classified as financially vulnerable organizations, only 29 (21.64%) decreased their net assets at least 20% over the next three years.

Regarding the period 2009-2012, 46 NPOs (20.18%) reduced their net assets at least 20%. Only 28 of them (60.87%) had been considered financially vulnerable according to the FVI. Also, among the 128 NGDOs classified as vulnerable by the index, only 28 entities (21.88%) confirmed this prediction with a reduction in their net assets at least 20% until 2012.

As our results show, the index seems to have a very poor explanatory power for the subsector of NGDOs. However, to achieve a better understanding of its strengths and weaknesses, we carry out an in-depth analysis of the index components and its predictive ability. Thus, we use a logistic regression to test the relationship between each component of the index and a binary dependent variable that takes the value “1” if net assets have decreased at least 20% (after a three-year period) and “0” otherwise.

Table 2.2 indicates that not all variables are significant. Regarding the period 2008-2011, the administrative costs ratio is the only significant parameter (95% confidence), and its sign is opposed to that explained in the literature. Concerning the period 2009-2012, we obtain that smaller NPOs with more diversified income sources are more vulnerable (95% confidence). The latter is also in contrast to expectations of the literature. In this way, we can observe that neither the index nor its components in isolation are useful in predicting the financial vulnerability of NPOs.

Table 2.2. Estimations of the Logit Analysis. Dependent Variable: Reduction in Net Assets over Three Years

Variable	*Predicted sign (Trussel et al., 2002)*	*2008-2011 Coefficient (SE)*	*2009-2012 Coefficient (SE)*
Constant		0.293 (1.373)	3.050** (1.457)
DEBT	+	0.110 (0.595)	0.426 (0.568)
CONCEN	+	-0.767 (0.905)	-1.859** (0.878)
MARGIN	-	0.231 (0.141)	0.944 (0.919)
ADMIN	-	1.895** (0.939)	-0.504 (1.203)
SIZE	-	-0.098 (0.079)	-0.218** (0.087)

*, **, ***: significant coefficient with a level of confidence of 90%, 95% and 99% respectively

Following the previous literature, and going deeper into this analysis of the components' ability to explain the financial position of NPOs, we introduce the other common measure of financial vulnerability: the reduction in program expenses (Greenlee & Trussel, 2000; Hager, 2001). We also use a logit regression to test the relationship between the index components and a dummy dependent variable that, in this case, takes the value "1" if program expenses have been reduced at least 20% (after a three-year period) and "0" otherwise.

As we see in Table 2.3, neither are there many significant components when attempting to explain the reduction in program expenditures of the nonprofit. Only size (in the period 2008-2011) and revenue concentration (in the period 2009-2012) seem to have enough explanatory power to be significant in the model. Their sign is also the same that we found when using the decrease of net assets, although the period in which they are significant changes.

Table 2.3. Estimations of the Logit Analysis. Dependent Variable: Reduction in Program Expenses over Three Years

Variable	*2008-2011* *Coefficient (SE)*	*2009-2012* *Coefficient (SE)*
Constant	1.765 (1.628)	1.780 (1.420)
DEBT	0.688 (0. 643)	-0.121 (0.599)
CONCEN	-1.058 (1.010)	-1.869** (0.888)
MARGIN	0.047 (0.228)	-0.694 (0.647)
ADMIN	-0.466 (1.233)	-0.215 (1.227)
SIZE	-0.204** (0.098)	-0.119 (0.083)

*, **, ***: significant coefficient with a level of confidence of 90%, 95% and 99% respectively

These results confirm the weak consistency of the FVI developed by Trussel *et al.* (2002) for the case of the subsector of NGDOs, and also the inconclusive results derived from its components in isolation. Except for the size and revenue concentration, which repeatedly show their sign and significance, the rest of the components seem to be unable to predict the financial position of a NPO. Also, it is noteworthy the contradictory effect of revenue concentration on the financial vulnerability of these entities. Contrary to what prior studies present, the revenue diversification makes the nonprofit more vulnerable to economic shocks. In short, these results lead us to the need to look for some reasons that allow us to explain such poor findings.

6. DISCUSSION OF RESULTS AND PROPOSED IMPROVEMENTS

Given the limited ability of the variables analyzed to assess financial vulnerability (both measured in terms of net assets and program expenses) in this subsector, we offer some likely causes that we have observed for each of them.

Regarding the administrative costs ratio, it has been justified by the possibility of reducing “excessive” administrative costs when a financial shock occurs. However, that reduction could not arrive in time, because the adjustment process is not immediate. Moreover, this ratio has been used as an efficiency measure (Thomas & Trafford, 2013). So, NPOs have usually opted for a reduction in the administrative costs for efficiency (more program expenses), and it seems highly complicated to reduce them more though their incomes go down. In fact, NGDOs are faced with a contradiction when setting limits for this ratio: high values are beneficial to reduce financial vulnerability, but, at the same time, the efficiency of the nonprofit decreases. According to this argumentation, the most efficient entities would be the most financially vulnerable. However, as Wellens and Jegers (2014) point out, many donors pay particular attention to efficiency ratios, conditioning their donations to their effective use by the nonprofit. Thus, many studies reveal a negative relationship between the total volume of donations and the administrative costs ratio (Calabrese, 2012; Carroll & Stater, 2009). In this way, during an economic shock, although those NGDOs with a high value of this ratio could use these resources to offset the drop in revenue, donors who have become even more cautious in the crisis scenario would select those more efficient entities. So, a high value of administrative costs ratio could threaten the survival of the nonprofit. These competing effects of the ratio could lead to a lack of significant effect of the administrative cost ratio on the financial vulnerability.

According to the agency theory, we should not omit the disciplinary role played by debt against opportunistic behavior of managers. We hardly find studies about debt in the nonprofit sector (Jegers, 2011; Jegers & Verschueren, 2006); however, the few that have been published indicate that the cost of equities is lower than the cost of debt. These studies go for equity funding, and, following the same arguments as the financial vulnerability literature, they limit the use of debt only to those situations in which NPOs are not able to meet the requirements of planned investment with their equity only (Jegers, 2011). The NPOs of our sample use debt in a very limited proportion, as reflected in the descriptive data (see Table 2.1), with debt less than a quarter of the nonprofit assets. This low leverage, far away from the 44% presented by Trussel (2002) for the charities in the United States, could be the explanation for the lack of effect of debt on financial vulnerability. It is probably that the debt ratio does not affect financial health of NPOs until it reaches a higher figure.

The third component of the FVI, the operating margin, is supposed to be negatively related to nonprofit financial vulnerability. So, low or negative values of this variable are associated to a more vulnerable position of the nonprofit. Although Calabrese (2012) provides three arguments to justify the accumulation of resources (increase the expenses, invest in fixed assets, and preserve these resources as internal capital), we must also consider its impact on the efficiency ratios. Though negative margin values are detrimental to efficiency and threaten the future of the nonprofit, positive and high margins can also have a negative impact on the incomes because donors could consider that spending on charitable programs might be higher than it is, which may cause the interruption of their regular contributions (Calabrese, 2012). In fact, there even exist limits for the accumulation of profits by organizations if they want access to some kind of public funds. Again, the conflicting effects of this component can lead to a lack of impact on the nonprofit financial health. Thus, NPOs should keep a balance between a sufficient margin (to resolve eventual financial problems) and the effective use of resources, avoiding an excessive accumulation that could have a negative impact on the total volume of donations.

On the subject of revenue concentration, the literature on financial vulnerability suggests than excessive concentration undermines the financial viability of the NPOs because it limits their autonomy and flexibility to adapt to environmental changes (Carroll & Stater, 2009). So, if a financial shock occurs, the organization could not turn to other sources of income to avoid restricting the services provided. But, at the same time, the existence of a main donor in a NPO is related to lower expenditures on fundraising and administration (Andrés-Alonso, Martín-Cruz & Romero-Merino, 2006) and, therefore, to a more reduced possibility of crowding-out effect (Carroll & Stater, 2009). Thus, considering this issue, a higher concentration of resources can improve efficiency, and the nonprofit can be better positioned to attract donations. Once again, the concepts of financial vulnerability and efficiency seem to confront themselves, though in this case we find that the latter explanation seems to prevail over the commonly used in the literature on financial vulnerability.

Also, it is important to think about the typology of sources in which the revenues are classified to calculate the concentration index. We have divided incomes into three groups, but there are some other alternative classifications (Hodge & Piccolo, 2005; Thomas & Trafford, 2013). In the NGDOs subsector most of the revenues come from donations; that is why the concentration index is so high. If we wanted to be more methodical in the index definition, we would need to consider the different groups of donors because donations are not a homogeneous group. Thus, donors may have different features, which implies that all donations do not have the same probability of interruption, and it is necessary to disaggregate this vast group. In this subsector, it is important to maintain the distinction between public and private income, not only because of the heavy reliance of these organizations on the first of them (Andrés-Alonso *et al.*, 2006), but also because of their different fluctuations (public grants are usually more stable, although they tend to fluctuate with changes in political leadership) (Hodge & Piccolo, 2005), and also because of the restrictions and control derived from the use of some kinds of public grants (Andrés-Alonso *et al.*, 2006; Calabrese, 2012). The disaggregation of public revenue into the different levels of the administration (European, national, and regional) would also be positive, because the conditions are different in each case. In short, the inadequate classification of income could also explain the contradictory sign of this variable in some of the tests.

Finally, the NPO’s size should protect organizations during financial crisis. Larger organizations might be better able to survive than smaller. In fact, size is usually associated with visibility of NPOs, and visibility with the income volume. These arguments are in line with our results in the logit analyses.

7. CONCLUSIONS

In this study we have applied the traditional financial vulnerability measures in NPOs to the case of the UK NGDOs subsector. Calculating the FVI of Trussel *et al.* (2002), we have noted the difficult application of these traditional measures to the NGDOs during a period of economic shock. NGDOs from the UK presents very low debt ratios and high income concentration indexes. Also, we have found negative operating margins and higher volatility of income sources as a result of the economic crisis. As a result, neither the FVI nor its components seems to be able to predict a reduction in the net assets or the program expenses of NPOs.

In addition to the reasons directly related to the components of the index that we have offered in the chapter, there may be other causes that provoke the failure implementing the index to the NGDOs from the UK. First, financial vulnerability studies have traditionally used North American samples. However, our data come from UK organizations (as well as the study of Thomas and Trafford [2013]), which implies the existence of disparities across the information sources, as well as possible differences in the behavior of organizations. Most of the previous studies have used the information contained in the Form 990 from the Internal Revenue Service, while we use the published financial statements. This fact may lead to a divergence in the classification of revenues, expenses, assets, and debts. Thus, several variables were approximated. Second, no study had ever analyzed the NGDOs subsector exclusively. As it is indicated at the beginning of this chapter, this subsector has various features that could cause the index not to fit as it does for the whole nonprofit sector. In fact, as we have shown in the discussion of results, some of the components are confronted with nonprofit efficiency. Finally, there is no doubt that the economic crisis has caused an exceptional shock for this sector. This could explain that previous research, during expansive years, did not adapt to financially troubled periods.

It is necessary now to take the next step, proposing an index that allows a better prediction of the financial survival of NGDOs, not only facilitating the work of practitioners but also helping donors and public bodies in making decisions. So, in future research we suggest two kinds of adjustments. On the one hand, it is necessary to modify some of the components of the index (the most significant variables) and introduce others that reflect better the reality of this subsector in a specific country and period of time, avoiding contradictions with traditional efficiency measures. And on the other hand, we propose a rethinking about when an organization is considered to be financially vulnerable, that is, which is the dependent variable that best reflects this concept.

CHAPTER 3:

DISENTANGLING THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS

DISENTANGLING THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS[22]

Abstract

This chapter analyzes the concept of financial vulnerability of nonprofit organizations (NPOs) in depth. We review the definitions given by the prior literature, concluding that none of them is complete. We propose a definition in which financial vulnerability consists of three dimensions: operational (variation of net assets over time), leverage (relationship between total assets and debt), and liquidity (ratio of current assets to short-term debt). We use a sample of 212 Non-Governmental Development Organizations (NGDOs) from the United Kingdom to analyze these measures, observing a limited number of NPOs simultaneously classified as vulnerable according to the different traditional concepts. Applying our proposed multidimensional model, we find that 6% of the sample is highly financially vulnerable according to the three dimensions, and a high proportion (18%) of NPOs is simultaneously vulnerable in leverage and liquidity dimensions. Finally, we compare the obtained results using traditional variables and those derived from our model.

Keywords: *financial vulnerability, financial survival, nonprofit organizations, NGDOs, United Kingdom*

Resumen

Este capítulo analiza en profundidad el concepto de vulnerabilidad financiera de las entidades no lucrativas. Repasamos las definiciones dadas por la literatura previa, concluyendo que ninguna de ellas es totalmente completa. Por ello, proponemos una definición según la cual la vulnerabilidad financiera está compuesta por tres dimensiones: operativa (variación de activos netos en el tiempo), de solvencia

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(relación entre activo y deuda totales) y de liquidez (ratio de activos corrientes respecto deuda a corto plazo). Empleamos una muestra de 212 Organizaciones No Gubernamentales para el Desarrollo (ONGDs) de Reino Unido para analizar estas medidas, observando un escaso número de entidades que sean simultáneamente clasificadas como vulnerables de acuerdo con las distintas medidas tradicionales. Al aplicar nuestra propuesta de modelo multidimensional, obtenemos que el 6% de la muestra es muy vulnerable financieramente de acuerdo con las tres dimensiones, y que una elevada proporción de las organizaciones (18%) es vulnerable en las dimensiones de solvencia y liquidez simultáneamente. Finalmente, comparamos los resultados obtenidos al utilizar las medidas tradicionales y los derivados de nuestro modelo.

Palabras clave: *vulnerabilidad financiera, supervivencia financiera, entidades no lucrativas, ONGDs, Reino Unido*

1. INTRODUCTION

The study of the financial vulnerability of organizations (both companies and nonprofit organizations [NPOs]) has gained importance in the recent years, especially after the economic and financial crisis which has been a hard shock to their annual budgets and, therefore, to the continuity of their projects and the achievement of their primary goals. But, what does "financial vulnerability" mean? Prior authors have focused on the definition of indicators of financial vulnerability, that is, on the general symptoms that organizations suffer from having problems tackling their debts and/or seeing themselves in other dangers of financially failing. However, we have observed throughout the literature that not only are there no robust indicators to predict financial vulnerability, but also that the definition of vulnerability is a problem in itself, mainly when we refer to the nonprofit sector, where bankruptcy is not always immediately transferred to the legal registers. Following these arguments, our aim in this is to find an accurate answer to the question "what is a financially vulnerable organization?".

Financial vulnerability of companies has been studied in the for-profit sector since the 1960s (Altman, 1968), and it has been generally understood as those companies that go bankrupt. As there seemed to be no problem defining vulnerability, the authors could focus on finding a formula for predicting bankruptcy, that is, the situation in which a company is not able to pay its debts. However, this definition, although commonly accepted, is far from being unanimous. As Pindado, Rodriguez and De la Torre (2008) point out, bankruptcy focuses on the legal consequences arising from financial problems. Therefore, some years later, researchers introduced financial distress as a new way to define financial vulnerability. Financial distress is much more useful if we want to find a combination of factors to predict financial difficulties, and so to stay alert to the risk of disappearance of the company. Unlike bankruptcy, financial distress can be defined quite ambiguously. In fact, there is no consensus about how this concept can be operationalized. For example, Gilbert, Mennon and Schwartz (1990) define distressed companies as those that have negative cumulative earnings over three consecutive years, while Jostarndt and Sautner (2008) consider them as such if their earnings before interest and taxes (EBIT) are less than their interest expenses during two consecutive years. Purnanandam (2008) defines financial distress as ''a low cash-flow state in which the firm incurs losses without being insolvent'' (p. 707), and Pindado *et al.* (2008) identify a financially distressed company when its earnings before interest, taxes depreciation, and amortization (EBITDA) are lower than its financial expenses for two consecutive years and, at the same time, its market value declines between two consecutive years.

The study of financial vulnerability in the nonprofit sector has a later beginning, the article by Tuckman and Chang (1991) being the seminal paper. Although the literature in this field is not abundant, the majority of prior researchers tried to find predictors of financial problems. The search for ratios or scores that accurately forecast financial vulnerability in the nonprofit sector has not been very successful; researchers continue searching for the best formula to predict the future financial problems of these organizations. Moreover, those authors faced another problem, which is the definition of financial vulnerability itself. Contrary to what occurs in the for-profit sector, it is difficult to find NPOs going into bankruptcy or ceasing their activity. With the exception of Clemenson and Sellers (2013), who describe the case of Hull House, an organization that shut down after more than one hundred years in existence, and Hager (2001), who identifies failed NPOs by their disappearance from the Internal Revenue Service (IRS) reports, there are no studies on a sample of NPOs that have ceased operating. Thus, before continuing with the search for a predictive index for financial vulnerability in the nonprofit sector, the definition of this concept should be much less ambiguous.

In this chapter, we attempt to bring some light to this field, because if the concept of financial vulnerability were clearer, its prediction would be more accurate and valuable for practitioners. Thus, we review all the different measures considered in the literature, evaluating their accuracy and proposing a multidimensional definition of vulnerability to sum up some of the most recognized traditional measures and to add other aspects of financial problems related to the short-term funding of the organization.

This chapter is organized as follows: we begin with a review of the literature on financial vulnerability of NPOs, and based on the lights and shadows of the most traditional definitions, we propose a new multidimensional model to evaluate the financial situation of the organizations. In the next section, we describe the sample, and we analyze it first using the traditional measures of financial vulnerability, and then with the new comprehensive model we propose. Afterward, we compare the obtained results using the traditional variables and the multidimensional model. Finally, we present our main conclusions.

2. FINANCIAL VULNERABILITY AND NONPROFIT SECTOR

In the nonprofit sector, financial problems were not analyzed until the 1990s. Due to the great difficulty of measuring the number of failed entities, only Hager (2001) (and the above-mentioned case study of Clemenson and Sellers [2013]) studied bankrupt companies supposing that a NPO disappears when it does not report to the IRS. The researchers introduced the concept of ‘‘financial vulnerability’’ from the very beginning. However, this concept has become a "slippery term" (Hager 2001), much more ambiguous than the financial distress of the for-profit companies. Although financial vulnerability of the nonprofit seems to be related to a high risk of disappearance due to financial problems and not being able to continue to provide services, the question of how to make it operational is a much more difficult and uncertain task.

The seminal study of this field (Tuckman & Chang, 1991) defined a financially vulnerable NPO as "if it is likely to cut service offerings immediately when a financial shock occurs" (p. 445). Due to the relative methodology they used, they did not need to measure this concept directly because a NPO was considered vulnerable ("at risk") or very vulnerable ("severely at risk") when it was in the bottom quintile of at least one or all four, respectively, of the four variables analyzed (equity balances, revenue concentration, administrative costs, and operating margins). Their model was subsequently applied by Thomas and Trafford (2013) to calculate a Financial Exposure Index. They calculated the variation (increases or decreases) of the variables (equally weighted) introduced by Tuckman and Chang (1991) during a five-year period, but neither did they define the concept of financial vulnerability.

Tevel, Katz and Brock (2015) studied the predictive capacity of Tuckman and Chang's model (1991) in addition to an adaptation of Ohlson's (1980) model (this model, coming from the for-profit literature, introduces several variables measuring solvency, liquidity, and profitability) and another formed from recommendations of practitioners (this model includes five variables: staying power, current cash flow, interest cover ratio, assets divided by total revenue, and management wages divided by total revenue). In this case, the authors explicitly defined financial vulnerability as "an organization's susceptibility to financial problems" (Tevel *et al.*, 2015: 2502). However, they operationalized the concept as the average of variables included in each of the three models, so they were actually testing whether the models themselves are good predictors.

Almost a decade after the model of Tuckman and Chang (1991), Greenlee and Trussel (2000) proposed the first predictive model of the field. This was the first time someone tried to make operative the concept of financial vulnerability. In this study, the authors assumed that "program expenditures provide a reasonable proxy of the year-to-year changes in program services needed to identify financially vulnerable organizations" (p. 202). Based on this, they defined financial vulnerability as a reduction in program expenses (as a proportion of total revenues) in each of three consecutive years.

Just two years later, Trussel (2002) proposed an alternative variable to operationalize financial vulnerability: the reduction in the net assets of an organization over several years. Specifically, he said that a NPO is financially vulnerable if it has "more than 20% decrease in its funds balance over three years" (p. 20). Similar definitions are given by Trussel, Greenlee and Brady (2002) and Trussel and Greenlee (2004), although the latter added a second model in which the reduction in net assets must be at least 50%. All of these authors defend this measure because if it occurs, it "will lead to a reduction in services and eventually result in the organization's inability to carry out its mission" (Trussel *et al.*, 2002: 67) and such reduction "would manifest through a reduction in revenues and/or increase in expenses" (Trussel & Greenlee, 2004: 101).

Afterward, some authors have jointly used both the proxies that we have already described (reduction in program expenses and reduction in net assets) in their analysis of the NPOs' financial vulnerability so as to better identify those organizations that face financial problems. In this line, Andres-Alonso, Garcia-Rodriguez and Romero-Merino (2015) assessed the predictive and explicative capacity of the financial vulnerability index of Trussel *et al.* (2002) by defining financial vulnerability as the reduction in the net assets or the program expenses, in both cases, by at least 20% over three years. Also, Cordery, Sim and Baskerville (2013) evaluated three predictive models of financial vulnerability over a three-year period: program expenditure model (reduction in program expenses / revenues during the overall period), net assets model (reduction in net assets in that period), and net earnings model (reduction in net earnings –income minus expenses– during the four years).

Likewise, Keating, Fischer, Gordon and Greenlee (2005) analyzed four different concepts of financial vulnerability, each of them measured in a different way, but ‘‘all of which relate to the ability of a nonprofit organization to carry out its mission’’ (p. 11). On one hand, two of these concepts correspond with both the previous proxies (reduction in net assets and in program expenses): financial disruption (reduction of at least 25% in net assets in a year) and program disruption (drop of at least 25% in program expenses in a year). On the other hand, this study added two new terms to the literature: technical insolvency (when total liabilities exceed total assets in a single year) and funding disruption (when total revenues decrease at least 25% in a year). All these four measures were used as dependent variables of their predictive models of financial vulnerability. This model was restructured in Gordon, Fischer, Greenlee and Keating (2013) by expanding the years included in the study, but reducing the number of dependent variables to only one –technical insolvency (liabilities greater than assets)–. Therefore, both studies (Gordon *et al.*, 2013; Keating *et al.*, 2005) introduced a static concept of financial vulnerability because the relation between liabilities and assets (technical insolvency) is measured in a particular moment, which confronts with the dynamic perception that the reductions of net assets or program expenses involve.

It is important to note that all these studies (Andres-Alonso *et al.*, 2015; Cordery *et al.*, 2013; Keating *et al.*, 2005) introduced some different measures or dimensions of the financial vulnerability. However, none of them defined a single multidimensional construct. Instead, they tested their models independently, in isolation, without seeking coincidences among the organizations that are considered financially vulnerable from the perspective of different dimensions. The first attempt to define a multidimensional concept of financial vulnerability can be found in Bowman (2011). Instead of defining financial vulnerability, he elaborated an alternative model, different from Tuckman and Chang’s traditional approach, by introducing two concepts related to financial performance: financial capacity and financial sustainability. Bowman (2011) also introduced the temporal dimension of the financial vulnerability, as he considered both financial capacity and sustainability in the short and long-term. On one hand, financial capacity ‘‘consists of resources that give an organization the wherewithal to seize opportunities and react to unexpected threats,’’ reflecting ‘‘different degrees of managerial flexibility to reallocate assets in response to opportunities and threats’’ (p. 38). And, on the other hand, financial sustainability is measured by ‘‘the rate of change in capacity in each period’’ (p. 38).

All these definitions are summarized in Table 3.1. We can clearly observe that the reduction in net assets (the difference between assets and liabilities) is the most widely used measure in the literature (Andres-Alonso *et al.*, 2015; Cordery *et al.*, 2013; Keating *et al.*, 2005; Trussel, 2002; Trussel & Greenlee, 2004; Trussel *et al.*, 2002), although the periods under consideration or the cutoff percentage applied to calculate the dummy vary. This measure, due to the non-distribution constraint and following Jegers (2003), who calculates the organization’s profitability as the variation of net assets divided by total assets, directly reflects the difference between revenues and expenses. Net assets will diminish if expenses are higher than revenues (as a result of a reduction in revenues without a corresponding decrease in expenses or an increase in expenses that is not accompanied by a growth in revenues). When this situation is repeated over the years, the organization faces a persistent operational problem and it may suspend its activity. Also in this line, when we find the terms ‘‘insolvency risk’’ or ‘‘technical insolvency,’’ the authors are referring to the net assets, though not considering its dynamic dimension (variation over time) but its static one (Gordon *et al.*, 2013; Keating *et al.*, 2005). Furthermore, some of the most recent papers add the short-term and long-term dimensions of this technical insolvency (Bowman, 2011; Tevel *et al.*, 2015).

Table 3.1. Definitions of Financial Vulnerability in the Nonprofit Literature

Article	*Concept of financial vulnerability*	*Financially vulnerable NPOs*
Tuckman & Chang (1991)	Cut service offerings	At the lowest quintile of at least one variable (equity, administrative costs ratio, revenue concentration, margin)
Greenlee & Trussel (2000)	Reduction in program expenses	Program expenses / Total Revenues decrease during three consecutive years
Hager (2001)	Capacity of survival	Do not report to the IRS during four following years
Trussel (2002)	Reduction in net assets	Reduction ≥20% in net assets over three years
Trussel *et al.* (2002)	Reduction in net assets	Reduction in net assets over three years
Trussel & Greenlee (2004)	Reduction in net assets	Net assets reduce ≥20% over three years Net assets reduce ≥50% over three years
Keating *et al.* (2005)	Insolvency risk Financial disruption Funding disruption Program disruption	Liabilities > Assets Reduction ≥25% in net assets in a year Total revenues decrease ≥25% in a year Drop ≥25% in program expenses in a year
Bowman (2011)	Financial capacity Financial sustainability	Months of spending Equity ratio Mark Up ROA
Gordon *et al.* (2013)	Technical insolvency	Liabilities > Assets
Thomas & Trafford (2013)	Relative measure	Variation of the four Tuckman and Chang's (1991) variables
Cordery *et al.* (2013)	Reduction in program expenses Reduction in net assets Negative net earnings accumulated	(Program expenses / Revenues) decrease over three years Reduction in net assets over three years (Income-expenses) ≤ [(Income-expenses) of the three previous years]
Andres-Alonso *et al.* (2015)	Reduction in net assets Reduction in program expenses	Net assets reduce ≥20% over three years Program expenses reduce ≥20% over three years
Tevel *et al.* (2015)	Organization's susceptibility to financial problems	Average of Tuckman and Chang's (1991) variables Average of Ohlson's (1980) variables Average of Practitioners' variables

The other common measure in the literature is the reduction in program expenses (Andres-Alonso *et al.*, 2015; Cordery *et al.*, 2013; Greenlee & Trussel, 2000; Keating *et al.*, 2005). However, far from being a measure free of drawbacks, this variable can result quite inaccurate to define a financially vulnerable position. In fact, if program expenses decrease without the previous drop in revenues, it would not indicate a problem of financial vulnerability but an inefficiency problem instead. And, even when revenues decrease, if program expenses decrease in a higher proportion than revenues, the situation would also reveal an inefficient entity. Moreover, by following the arguments of Tuckman and Chang (1991), a NPO that experiences financial difficulties first would try to reduce redundant administrative expenses instead of those related to its mission.

On the other side of the profit and loss account, Keating *et al.* (2005) use the reduction in total revenues as a proxy of financial vulnerability (funding disruption). Nonetheless, as it happened with the program expenses, we do not think this is an accurate concept of financial vulnerability. Not all reductions in revenues result in a decrease in net assets, because, as expenses are much more controllable than revenues, NPOs may (in fact, they should) diminish their expenses if revenues decline. In this way, a reduction in revenues solely constitutes a problem of financial vulnerability if expenses do not adjust and do not decrease in the same proportion. Therefore, a reduction in revenues actually means a reduction in the NPO's size (in terms of total revenues), but this variable by itself does not involve a financially vulnerable position.

We have also observed how the literature has evolved toward the use of more than one variable, although none of the previous papers has operationalized ''a financially vulnerable NPO'' simultaneously based on more than one criterion except Bowman (2011), who does not define the financial vulnerability of an organization but its financial capacity and sustainability. In this line, we perceive the need for a multidimensional measure of financial vulnerability that combines many facets of this concept, clarifies the relationships among all of them, and examines in greater depth some forgotten aspects such as the capacity of short-term financing. In fact, as Jegers (2008) notes, predictive models do not obtain highly satisfactory results, which could be caused by an inadequate operationalization of financial vulnerability.

3. A THREE-DIMENSIONAL MODEL OF FINANCIAL VULNERABILITY

Following Bowman (2011), we defend the idea that financial vulnerability is not a one-dimensional concept, but it forms a complex construct. It is necessary to observe more than a sole variable to be able to affirm that an organization is financially vulnerable. In this line, we propose a model that evaluates three dimensions in order to assess if a NPO is financially vulnerable or not: operational, leverage, and liquidity (see Figure 3.1).

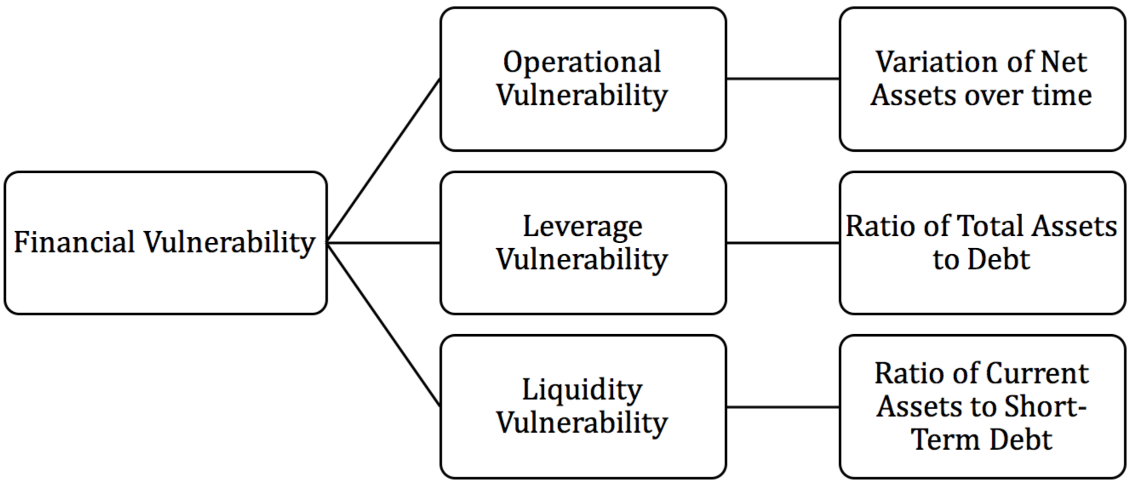

Figure 3.1. Three-dimensional Model of Financial Vulnerability

As we can see in the figure, the three dimensions we have selected only use data from the balance sheet (assets and liabilities). This decision is derived not only from the fact that some of these dimensions are the most commonly used in the traditional literature (variation of net assets as operational vulnerability, and ratio of total assets to debt as leverage vulnerability), but also because we defend that they are the most suitable to represent financial vulnerability. This is why we have discarded other usual concepts derived from the profit and loss account (both program expenses and revenues), because, as we have previously explained, they either mingle the concepts of inefficiency and financial vulnerability (program expenses) or they only reflect a very small fragment of the vulnerability (revenues) that is, in fact, contained in other traditional variables (net assets).

Following these premises, we have integrated in our multidimensional model both dynamic (operational) and static (leverage and liquidity) perspectives of financial vulnerability, taking into account both the long-term (leverage) dimension and the short-term dimension (liquidity) of the static perspective.

3.1. First Dimension: Operational Vulnerability

The first dimension of financial vulnerability is derived from the key concept defined by the previous literature, that is, the variation of net assets over time (Andres-Alonso *et al.*, 2015; Cordery *et al.*, 2013; Keating *et al.*, 2005; Trussel, 2002; Trussel & Greenlee, 2004; Trussel *et al.*, 2002). As we have previously explained, this dimension is associated with the recent variation of revenues and expenses of the organization such that when the net assets are reduced over the years, the organization faces a persistent operational problem; thus we give it the name "operational vulnerability." The need of using a dynamic analysis (reduction over the years instead of only one year) in this dimension is derived from the fact that the margin (difference between income and expenses) is a highly volatile variable (Andres-Alonso *et al.*, 2015; Thomas & Trafford, 2013).

Although this variable is the most widely used in the prior literature, it, however, does not fully include all the aspects of financial vulnerability. Operational vulnerability involves a mismatch between operational inflows and outflows which may result in a financial problem of greater or lesser importance depending on the financial condition of the organization. In this way, if operational revenues are reduced (decrease in revenues, one of the traditionally used variables) and the organization reduces its expenses equally, the operational dimension of financial vulnerability is not affected, but it does not prevent the nonprofit from experiencing problems related to its financial structure (the relationship between its debts and its assets). This is the reason why it is necessary to incorporate other dimensions to the definition of financial vulnerability.

3.2. Second Dimension: Leverage Vulnerability

The second and third dimensions of the concept are directly related to the way in which the NPO finances its payments. Although the reduction in net assets for many years in a row ends up affecting the financial vulnerability of the NPO, the accumulation of losses over time does not necessarily mean that the organization is in a critical financial situation. If the entity had a very healthy financial situation (low debts and high equity) at the beginning, it can survive for several years without problems in dealing with its payments. On the other hand, it is also possible that a NPO can have financial difficulties (leverage or liquidity vulnerability) without any operational vulnerability because it had an excess of long or short debt from the beginning. That is why we consider it essential to evaluate the second (leverage vulnerability) and third (liquidity vulnerability) dimensions in addition to the operational one.

When we focus on the NPO's capacity to pay both its short and long-term liabilities with its assets, which is related to the entity's financial structure, we refer to the second dimension. This dimension is commonly analyzed in the for-profit organizations as it measures solvency. Some researchers in the nonprofit sector (Gordon *et al.*, 2013; Keating *et al.*, 2005) have also studied this measure as ''technical insolvency'' or ''insolvency risk.'' It refers to the ability of an entity to meet the payment of its debt by analyzing the proportion of total assets to debt. This dimension has great importance especially if NPOs are also in a weak position in the other two dimensions. An organization whose net assets have been reduced during the last three years does not have the same financial problem if its ratio of assets to debt is high rather than low. However, this dimension cannot be considered in isolation, because, as Bowman (2011) suggests, some organizations have learned to live with high levels of debt. Thus, it is important to consider this model in a comprehensive way.

3.3. Third Dimension: Liquidity Vulnerability

When we focus on the short-term capacity of the nonprofit to pay its debts, we use this third dimension. This is what we call the liquidity vulnerability following the terminology used in the for-profit sector (as in Ohlson's [1980] model). In this sense, an organization may have sufficient assets to meet the payment of all its debts but it may have problems with short-term financing or vice versa. The interest of this dimension resides in analyzing the NPO's ability to reduce its assets when its revenues are insufficient. Thus, if the NPO opts for reducing assets to meet expenses, it has two options. On one hand, it could make use of its current liquid assets. On the other hand, it could sell its fixed assets, which would be converted into current assets, and then used to meet expenses. Obviously, the first option is easier for the organization and it does not depend on external factors that condition the sale of fixed assets. This dimension does not necessarily go in the same direction as the leverage vulnerability. That is why it is important to study all three in order to get a global vision of the financial problems of the entity.

3.4. A Comprehensive Model

After separately analyzing each of the three dimensions, it is necessary to make an overall assessment of the NPO's financial vulnerability to clearly identify if it is in a critical financial situation. Thus, if a NPO is simultaneously classified as vulnerable according to the three dimensions we analyze, it is considered in a highly financially vulnerable position because its expenses have exceeded its revenues during the last three years and its balance sheet shows a weak financial situation, with a low proportion of assets to debt both in general and current terms. If the organization is rated as financially vulnerable based on two criteria, its financial situation is better, although it still remains at high risk. In case of the entities which are classified as vulnerable according to only one dimension, their financial risk is less, but they have to take important precautions in order to avoid aggravating their position. We consider these last entities in a low financially vulnerable position. Finally, if the NPO is not determined to be vulnerable by any of the dimensions, it is considered to be in a healthy financial position.

Once we have defined our model and its relationship with the traditional measures of financial vulnerability, we conduct an empirical analysis to test if our model is truly helpful to achieve a clearer and more unambiguous understanding of the financial situation of NPOs.

4. EMPIRICAL APPLICATION

To test the convergence of traditional definitions of financially vulnerable organizations and our multidimensional model, we use a sample of Non-Governmental Development Organizations (NGDOs) from the United Kingdom (UK). The NGDOs are NPOs that carry out their work, at least partially, in the fields of international cooperation and development.

Our sample is extracted from those NGDOs belonging to BOND, the UK membership organization of these entities. Although this organization has over 400 NGDOs members, we have only chosen those which have published their financial accounts of the 2008-2012 period online, and whose financial statements followed the recommendations given by the Charity Commission for England and Wales (2005). Thus, our final sample is composed of 212 organizations.

4.1. Analysis of Traditional Variables

Our first empirical analysis consists of the concordance between the different proxies of financial vulnerability employed in the prior literature. According to Table 3.1, we analyze three of the most widely used variables: reduction in net assets, reduction in program expenses (deflated by total revenues), and reduction in revenues. Although several researchers have used these variables, their operationalization differs among them. Therefore, in this section, we consider these measures by assessing their variations during the prior three years and classifying as financially vulnerable (according to each of the three variables) those NPOs situated in the bottom quintile of the sample (those whose net assets, program expenses, or revenues have declined more in the last three years).

Consequently, our purpose here is to test if all these variables truly identify those organizations with serious financial problems, or, on the contrary, if each of the variables is actually measuring a different concept. To get more robust results, we carry out the analysis twice: from December 2008 to December 2011, and from December 2009 to December 2012.

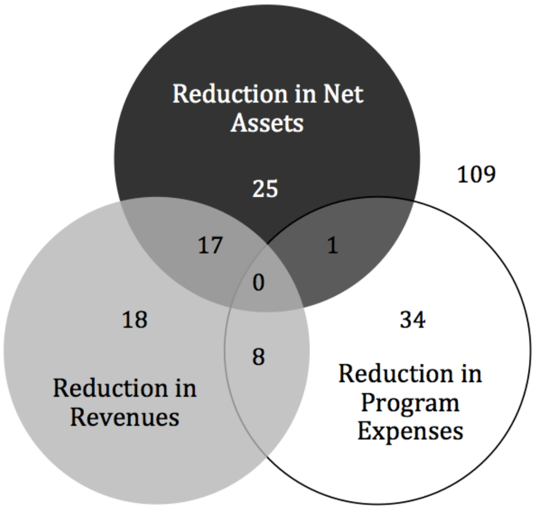

Figure 3.2. Number of Financially Vulnerable NPOs according to the Traditional Variables 2008-2011

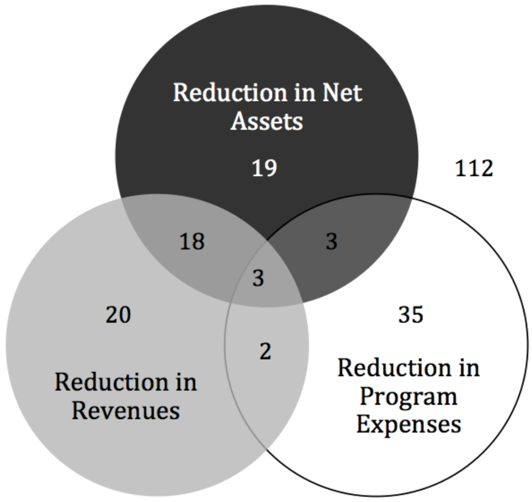

Figure 3.3. Number of Financially Vulnerable NPOs according to the Traditional Variables 2009-2012

Figures 3.2 and 3.3 show the number of organizations which are considered as financially vulnerable according to the three variables. The first noteworthy finding is the exiguous number of NPOs that meet the three criteria (none and three, respectively). Thus, we notice that although these three variables supposedly assess the same concept, actually, they measure different ideas. Another interesting result is the high number of organizations that are financially vulnerable according to a single criterion, especially program expenses. Examining the variables two by two, one last important outcome is the low number of entities that meet two criteria when one of them is the reduction in program expenses. Thus, there is a greater correlation between reduction in net assets and reduction in revenues than between these two variables and reduction in program expenses. These findings are in line with those presented by Cordery *et al.* (2013) and they are not unexpected if we examine each concept in depth. The reduction in net assets reflects a negative variation in the difference between revenues and expenses over time, so the decrease in revenues is a partial side of it. Although there is a higher coincidence between these two variables, as we have already explained, a reduction in revenues does not automatically involve a decrease in net assets but it depends on the capacity of the NPOs to adjust their expenses. At this point, someone could think that it would be more appropriate to use the reduction in total expenses as a proxy variable of the financial vulnerability. However, this variable has not been previously used in the literature. In its place, authors have opted for the reduction in program expenses (instead of total expenses) as a sign that the nonprofit is not fulfilling its mission, despite the fact that, as we have also noted, this variable is more related to NPO's inefficiency.

In this analysis, we have illustrated the importance of choosing the appropriate dependent variable that identifies financial vulnerability, because depending on the selected variable, the sample of vulnerable NPOs varies greatly. We have also provided theoretical reasons which suggest that none of the previous variables completely define the concept of financial vulnerability. Therefore, we test our three-dimensional model below.

4.2. Analysis of the Three-Dimensional Model

Once the three-dimensional model has been explained in the theoretical section, it is necessary to operationalize it. With regard to operational vulnerability, we evaluate the variation of net assets over time, which is the same variable we have previously studied in the analysis of traditional variables. As we previously did, we observe its variation during a three-year period and we define the bottom quintile of the sample as vulnerable instead of using an arbitrary cutoff percentage of 20% or 50%.

Table 3.2. Variation of Net Assets

Panel A. Period 2008-2011						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	615%	71%	23%	-3%	-43%	134%
Median	209%	67%	22%	-3%	-36%	22%
Maximum	7,185%	121%	40%	10%	-17%	7,185%
Minimum	121%	43%	10%	-16%	-96%	-96%
Panel B. Period 2009-2012						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	263%	48%	19%	-5%	-47%	56%
Median	147%	46%	20%	-5%	-44%	20%
Maximum	1,115%	82%	29%	6%	-19%	1,115%
Minimum	87%	29%	7%	-18%	-87%	-87%

We can observe in Table 3.2 that the behavior of NPOs is similar in the two periods, except for the extraordinary positive value that distorts the total and first quintile means in the period 2008-2011. There are important differences between quintiles. Thus, the top three quintiles have positive growth in net assets during both periods, while such variation is negative (on average) in the fourth and fifth quintiles. In fact, all the NPOs in the bottom quintile had a decrease in net assets of more than 15% over the three years.

After the analysis of the first dimension (operational vulnerability), we evaluate the leverage vulnerability of the NPO. We operationalize this dimension as the ratio of total assets to total debt. This variable indicates how many times the NPO's assets cover its liabilities. This ratio (as well as the third dimension) is only calculated at the end of the period because the operational dimension already considers the recent fluctuation of revenues and expenses (variation of net assets). Accordingly, we present below the corresponding data for the years 2011 and 2012.

Table 3.3. Ratio of Total Assets to Total Debt

Panel A. 2011						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	136.31	14.12	5.94	3.13	1.68	32.09
Median	47.79	13.72	5.69	3.03	1.70	5.69
Maximum	2,292.64	22.59	8.80	4.03	2.38	2,292.64
Minimum	22.71	8.95	4.07	2.38	0.81	0.81
Panel B. 2012						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	70.70	11.39	5.78	2.97	1.66	18.42
Median	34.52	11.10	5.73	2.80	1.99	5.73
Maximum	354.44	18.08	7.51	4.30	2.18	354.44
Minimum	18.47	7.71	4.32	2.25	0.96	0.96

We have omitted one nonprofit with no liabilities to estimate the mean and maximum of the entire sample and the first quintile in each Panel.

Table 3.3 shows similar outcomes in both years, excluding the lowest and highest values that distort the means. All the NPOs situated in the bottom quintile have values below 2.40. It implies that their assets cover, on average, less than twice the value of their total liabilities. These NPOs are in a more critical situation, because they have a high level of debt that limits their ability to deal with other financial problems. It is also noteworthy that few organizations are in technical insolvency, that is, with a level of debt greater than their assets (only one each year).

Finally, we study the liquidity vulnerability of the NPO by calculating the relation between current assets and short-term debt. This measure indicates the number of times that, in the short-term, the assets cover the debt. As in the case of leverage vulnerability, we assess this ratio for the years 2011 and 2012.

As observed in Table 3.4, the fifth quintile has a lower value for this ratio (2.16 as maximum). In fact, there are some organizations whose short-term debt is greater than their current assets, presenting a value lower than 1 in the ratio (six NPOs in 2011 and three in 2012). These low values (around 1.5 as average) involve serious problems in meeting current financial obligations, placing the organizations in a critical position.

Table 3.4. Ratio of Current Assets to Short-term Debt

Panel A. 2011						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	124.08	12.72	5.68	2.93	1.47	29.24
Median	40.98	11.78	5.37	2.93	1.45	5.37
Maximum	2,292.64	20.95	8.39	3.80	2.16	2,292.64
Minimum	20.96	8.44	3.89	2.18	0.36	0.36
Panel B. 2012						
	Quintile					All
	1st	2nd	3rd	4th	5th	
Mean	60.82	10.37	5.35	2.88	1.52	16.12
Median	28.59	10.04	5.16	2.72	1.47	5.16
Maximum	347.29	16.70	6.89	3.92	2.13	347.29
Minimum	16.75	6.97	4.05	2.14	0.55	0.55

We have omitted one nonprofit with no short-term debt to estimate the mean and maximum of the entire sample and the first quintile in each Panel.

Finally, after the separate evaluation of the three dimensions, we conduct an overall test, attempting to detect if there are organizations with financial problems in all three categories.

When we observe Table 3.5 and Figures 3.4 and 3.5, we can see that, with slight differences, the results of both years have a similar distribution. Almost two out of three NPOs in the sample do not have any symptoms of financial vulnerability. By contrast, about 6% have all three kinds of financial difficulties simultaneously, being highly financially vulnerable. These organizations are in a critical situation since their expenses have been higher than revenues during last three years and they have a low proportion of total assets and current assets in relation to total debt and short-term debt, respectively. Almost 14% of the sample are financially vulnerable according to two dimensions, and about 16% of NPOs present only one financial problem.

Table 3.5. Number of NPOs with Financial Vulnerability Problems. Years 2011 and 2012

Problem	*Number of NPOs (%)*	
	2011	2012
Without financial problems	137 (64.62%)	136 (64.15%)
Operational problems	43 (20.29%)	43 (20.29%)
Leverage problems	43 (20.29%)	43 (20.29%)
Liquidity problems	43 (20.29%)	43 (20.29%)
Operational and leverage problems	15 (7.08%)	14 (6.60%)
Operational and liquidity problems	14 (6.60%)	12 (5.66%)
Leverage and liquidity problems	37 (17.45%)	39 (18.40%)
Operational, leverage and liquidity problems	12 (5.66%)	12 (5.66%)
TOTAL	212 (100%)	212 (100%)

With the use of quintiles, there are 43 NPOs that suffer each of the three financial problems (the bottom quintile of the sample). However, it is noteworthy how the number of organizations that simultaneously have two of these problems differ. We observe that the more usual relationship is between leverage and liquidity vulnerability (around 18% of the sample has both problems, including those NPOs which also have operational problems): about 90% of NPOs with leverage difficulties have also liquidity problems and vice versa. By contrast, only 6-7% of the sample has operational and leverage problems or operational and liquidity difficulties at the same time (including in both cases those entities with the three troubles). In other words, one of every three organizations with operational vulnerability also suffers leverage vulnerability, being a similar proportion of NPOs with simultaneous operational and liquidity problems (although the great majority of entities coincide having all three difficulties). Thus, leverage and liquidity problems largely appear simultaneously, while operational vulnerability is more likely to occur in isolation.

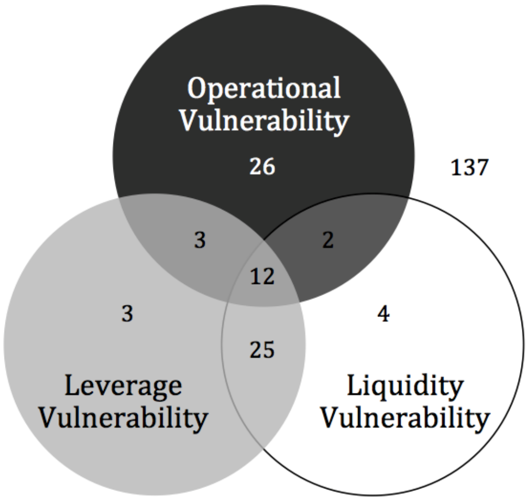

Figure 3.4. Number of Financially Vulnerable NPOs in 2011 according to the Three-dimensional Model

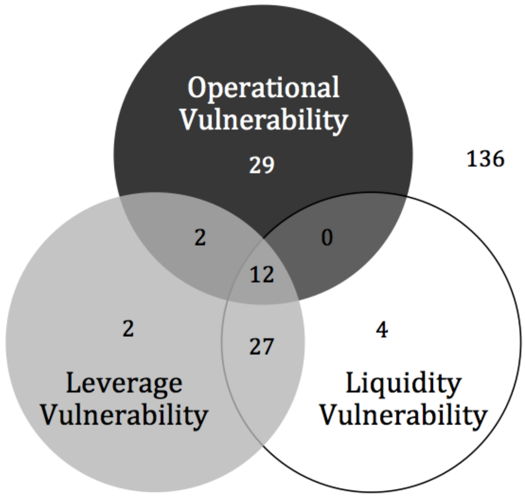

Figure 3.5. Number of Financially Vulnerable NPOs in 2012 according to the Three-dimensional Model

These findings can be explained by the relationship between the ratios that operationalize leverage and liquidity vulnerability. The ratio necessary to calculate the liquidity dimension (current assets to short-term debt) constitutes a part of the one used to measure the leverage vulnerability (total assets to total debt), limiting assets, and debt only to the short-term. Furthermore, both ratios refer to the balance sheet, reflecting the present situation of properties and obligations of the organization. However, the relations between the variation of net assets over time and the ratios of assets to debt (total or current) are not as immediate.

4.3. Comparison between the Assessments of NPOs' Financial Vulnerability Performed with Traditional Measures and our Multidimensional Proposal

To conclude, we make an empirical comparison between the estimations of NPOs' financial vulnerability done with the traditional one-dimensional measures and our proposed multidimensional model. In doing so, we examine if those NPOs that are classified as highly financially vulnerable according to our model are also rated as vulnerable following the different traditional criteria.

Table 3.6. Comparison of Vulnerable NPOs according to the Traditional Variables and the Multidimensional Model

		Financially Vulnerable NPOs: Multidimensional Model							
		Three dimensions (12 NGDOs)		Operational vulnerability (43 NGDOs)		Leverage vulnerability (43 NGDOs)		Liquidity vulnerability (43 NGDOs)	
	Years*	2011	2012	2011	2012	2011	2012	2011	2012
Financially Vulnerable NPOs: Traditional Variables	Reduction in net assets (43 NGDOs)	12	12	43	43	15	14	14	12
	Reduction in program expenses (43 NGDOs)	1	2	1	6	7	4	10	5
	Reduction in revenues (43 NGDOs)	1	4	17	21	4	7	3	5

* Traditional variables and operational vulnerability are calculated as reductions over a three-year period: 2008-2011 and 2009-2012.

Table 3.6 shows the number of NGDOs that are simultaneously considered as financially vulnerable by traditional variables and the multidimensional model. Note that the leverage and liquidity vulnerability use data from a single year (static dimension of vulnerability), while all the traditional variables and the operational vulnerability have been calculated as a reduction over a three-year period (dynamic dimension of vulnerability), but in these last cases, a NPO is not considered as "vulnerable" along the analyzed period, but at the end of it if the reduction has occurred.

As observed in the first two columns (Three dimensions), there are important differences between the traditional variables: reductions in program expenses and revenues occur in few of those NPOs which are classified as highly financially vulnerable (problems in the three dimensions). Obviously, reduction in net assets appears in all of them because it is introduced as the operational vulnerability in the multidimensional model.

The third and fourth columns of the table (Operational vulnerability) show the number of vulnerable organizations according to the operational dimension and the traditional variables. Here again, the NPOs with operational vulnerability (43) are those that have reduced their net assets in a higher proportion (by definition). Almost half of them are vulnerable according to the reduction in revenues, but when considering the reduction in program expenses, the number is much smaller. These results correspond to those presented in Figures 3.2 and 3.3.

The fifth and sixth columns (Leverage vulnerability) indicate the number of entities with problems of leverage vulnerability and also with some of the traditional variables. We can observe that it coincides with the reduction in net assets in a higher proportion (one out of three), as we explained when referring to the operational vulnerability, but the relationship with the other two traditional variables is much smaller (16% as maximum).

Finally, the seventh and eight columns (Liquidity vulnerability) show the comparison between the vulnerable NPOs according to the liquidity dimension of our model and those NPOs that present the financial difficulties according to the variables used by the prior literature. Once again, reduction in net assets is the variable that best corresponds with this dimension (around 30% of NPOs with liquidity problems are also in a weak position regarding the decrease in net assets), compared with reduction in program expenses (23% as maximum) and revenues (12% as maximum).

This analysis is in line with the theoretical explanation given in the previous sections. Reduction in net assets appears as the traditional variable that best defines financial vulnerability, but it needs to be supplemented, as it does not include all the aspects of this complex concept. In contrast, reductions in revenues and program expenses, far from representing financial vulnerability, may be measuring extraneous concepts such as the NPO's inefficiency in its resources allocation (reduction in program expenses) or in its fundraising activity (drop in revenues).

5. CONCLUSIONS

While many authors are looking for accurate indicators of the NPOs' financial vulnerability, we focus in this chapter on the concept of financial vulnerability itself. The difficulty in finding failed NPOs has constrained the researchers in appraising the financial problems through very different proxy measures which lead the studies about vulnerability predictors to blurred results and ambiguous conclusions. In our opinion, it is necessary to stop and reflect on what is really meant by financial vulnerability before continuing the search for its determinants.

In this chapter, we gain insight into the concept of financial vulnerability, offering a multidimensional definition that compiles the main aspects of the previous definitions and completes them by introducing short and long-term issues related to the financial structure of the NPO.

After reviewing how prior literature defines financial vulnerability, we select the most utilized measures to analyze their consistency in identifying the truly vulnerable NPOs. We use a sample of NGDOs from the UK to test this consistency and we observe that none of the previous one-dimensional definitions of financial vulnerability is complete and that, actually, such variables measure different concepts. The most commonly used measure –the reduction in net assets– does not automatically imply a critical financial situation, because it depends on other variables that may maximize or minimize the impact of such decrease. The situation varies greatly if an organization has accumulated net assets in the years before the decrease. Another of the most common measures –the reduction in total revenues– does not imply a financially vulnerable position by itself because NPOs may avoid negative margins by adjusting their expenses to their income drop. Finally, the reduction in program expenses (deflated by total revenues) does not show a problem of financial vulnerability. A decrease in the program expenses is a problem of organizational efficiency which should not be confused with any kind of financial vulnerability.

In contrast to these traditional variables, we propose a multidimensional definition for financial vulnerability. This multidimensional approach implies that we need to observe more than only one variable to confirm that a NPO is vulnerable, as it has already been done in the for-profit field. We suggest a definition in which an organization is classified as ''highly financially vulnerable'' if it simultaneously meets three different criteria: a large reduction in net assets during the last three years, a low proportion of total assets to debt, and a low ratio of its current assets regarding short-term debt. If a NPO meets only one or two criteria, its grade of vulnerability is reduced, while organizations that are not graded as vulnerable in any dimension are considered to have no financial difficulties. Following this framework, when we analyze our sample, we observe that only 6% of all NPOs are highly financially vulnerable, but when we consider two dimensions the percentage of vulnerable organizations increases to 14%, and almost 16% present financial problems in one dimension. We have also noticed that most of the vulnerable organizations in terms of liquidity also have problems of leverage vulnerability, and vice versa. When we compare these results with those obtained using traditional variables, we can conclude that the reduction in net assets is the traditional measure that best defines financial vulnerability, not only considering the operational dimension (because it is exactly the same measure), but also the leverage and liquidity ones. However, the model we propose here adds some aspects of financial vulnerability that are directly related to the ability of the nonprofit to cope with its debts which was not considered by traditional variables.

This chapter can be useful for both researchers and practitioners because it offers a thoughtful and comprehensive measure of the financial vulnerability. This measure may give certain homogeneity to future papers about determinants or indicators of financial vulnerability. Using the same dependent variable, it will be much easier to get unambiguous results on signs that an organization will have severe financial problems. This study can also help NPOs' managers to assess the financial problems they may have to deal with in the future.

The main limitation of this study is that we only make a proposed definition; we have not verified its actual explanatory power because we do not have failed NPOs that could allow us to check whether these dimensions actually lead to bankruptcy, and if so, how long the process takes. Accordingly, an interesting line of future research would be to find such entities and test if these dimensions truly reflect the financial problems of the organizations. Another limitation is the measurement we have used for each dimension. We have opted for using quintiles to avoid the setting of arbitrary limits that divide the sample. However, the classification of a NPO as vulnerable depends on the remainder of the sample, assuming that one out of every five organizations has financial problems. In this line, future studies could use a different, larger sample from another country or nonprofit sector.

Further research is necessary in this field to find and accept a convincing and consensual definition of financial vulnerability that identifies those NPOs with serious financial difficulties and, thereafter, improves the prediction of such problems –which is the real need of practitioners–.

CHAPTER 4:

THE ROLE OF BOARDS IN THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS

THE ROLE OF BOARDS IN THE FINANCIAL VULNERABILITY OF NONPROFIT ORGANIZATIONS

Abstract

This chapter analyzes the relationship between the board composition of 65 nonprofit organizations from Spain and their financial vulnerability. This relationship is a novel one in the nonprofit literature; however, the for-profit literature has justified it both theoretically and empirically. Adapting its reasoning to the nonprofit sector, we consider a multi-theoretical approach to explain the double role of the board (advisory and monitoring) and a multidimensional model of financial vulnerability. Contrary to the theoretical reasoning, our results support the inexistence of a significant relationship between the board composition (in terms of board structure and directors' experience and education) and the financial vulnerability of nonprofit organizations. This finding indicates that the board has not been able to develop their roles effectively due to several reasons that we suggest in the discussion.

Keywords: *financial vulnerability, governance, nonprofit organizations, board, NGDOs*

Resumen

Este capítulo analiza la relación entre la composición del consejo de 65 entidades no lucrativas españolas y la vulnerabilidad financiera de las mismas. Esta relación es novedosa en la literatura del sector no lucrativo; sin embargo, la literatura empresarial la ha justificado tanto teórica como empíricamente. Adaptando su razonamiento a la realidad del sector no lucrativo, consideramos un enfoque multiteórico para explicar el doble rol del consejo (asesor y supervisor) y un modelo multidimensional de vulnerabilidad financiera. Contrariamente al razonamiento teórico, nuestros resultados apoyan la inexistencia de relación significativa entre la composición del consejo (en términos de estructura del consejo y experiencia y educación de sus miembros) y la vulnerabilidad financiera de las entidades no

lucrativas. Este resultado indica que el consejo no está siendo capaz de desarrollar sus roles de una manera efectiva debido a varias razones que proponemos en la discusión.

Palabras clave: *vulnerabilidad financiera, gobierno, entidades no lucrativas, consejo, ONGDs*

1. INTRODUCTION

Since the pioneering works of Daily and Dalton (1994a, 1994b), many authors have attempted to provide a definitive answer to the question about the role of the board in the reduction of bankruptcy risk and costs. Although these research studies are far less prolific than those that analyze the effect of a board on corporate performance, they become noteworthy when times of economic prosperity lead into the financial crisis, and consequently, the concern about increasing corporate results makes way for the worry about financial survival.

The literature on nonprofit organizations (NPOs) is always one step behind the literature on the for-profit industry. There is some research on the influence of a board on NPOs' performance (or efficiency), but in the field of bankruptcy the literature is almost nonexistent. The lack of specific studies on nonprofit bankruptcy is mainly due to the general conviction that economic failure is not a real problem in this sector, assuming that their financial structure is always healthy. It is also because there are no contrasted indicators to measure the bankruptcy risk. However, when the recent economic and financial crisis caused a difficult scenario for NPOs, the literature on insolvency and financial vulnerability began to grow.

Before questioning which kind of board can avoid the financially failure of a NPO, the authors searched for indicators that allow for assessing bankruptcy risk in advance. This line of research began in the 1990s, which is considerably later than in the for-profit sector (Altman, 1968). Since then, some researchers addressed the financial vulnerability of NPOs before the last financial crisis (*e.g.*, Greenlee & Trussel, 2000; Keating, Fischer, Gordon & Greenlee, 2005; Tuckman & Chang, 1991). From them on, attention on this issue has been on the rise, especially after some bankruptcy cases in this sector.[23] These nonprofit bankruptcies cases have caused rethinking the need to change how some of them finance their activity.

As the volume of literature on nonprofit bankruptcy indicators grows, even they are far from being conclusive (Jegers, 2008), it is starting to become necessary to identify which factors influence NPO's vulnerability in order to prevent it, if possible. Specifically, we propose analyzing whether the board of trustees can avoid financial vulnerability by functioning as the main internal governance system. The board, which is the apex of the organization, is the guarantor of the well-functioning of the company (Jensen, 1993). It would be responsible if the organization reaches a financial distress situation or it goes bankrupt (Simpson & Gleason, 1999), as they are both considered to be extreme cases of poor organizational performance (Lajili & Zéghal, 2010). Therefore, our goal in this study will be to analyze the differences between the board composition of financially vulnerable NPOs with respect to the financially healthy ones, as well as the impact that board composition has on the probability of classifying an NPO as financially vulnerable.

As the relationship between the board and the organization's financial problems has been previously tested in the for-profit scope, it is possible to use the same theoretical frameworks already verified, but adapting their reasoning to the reality of the nonprofit sector. Accordingly, we raise our hypotheses based on the arguments of the two most common frameworks for governance, including the agency theory and the resource dependence approach.

We use a sample of Spanish Non-Governmental Development Organizations (NGDOs) to test the hypotheses about the potential effects of board composition (*i.e.*, size, independence, duality, accumulation of knowledge and experience) on

[23] For example, Hull House in Chicago, Visiting Nurse Association of Long Island and FUNDESO in Spain.

the NPOs' financial vulnerability. However, our results show no differences between the board composition of vulnerable and healthy NPOs. Additionally, we do not find any governance variable to have explanatory power on the likelihood of an NPO is being classified as vulnerable or not, so we suggest some reasons that could explain these results.

The remainder of the chapter is organized as follows. We begin with a literature review related to nonprofit governance and financial vulnerability. After that, we explain the sample, variables and methodology we use, to later show our obtained results. Finally, we discuss the results, and we expose the main conclusions derived from this chapter, as well as the limitations and possible areas for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Despite the existence of some other mechanisms (*i.e.*, relevant donors, regulation, debt, and external audit), most articles on NPOs' governance identify the board as the main governance mechanism of these organizations due to its major effectiveness (Callen, Klein & Tinkelman, 2003; O'Regan & Oster, 2002). The board is the responsible for protecting the interest of founders, donors, beneficiaries and society in general since its members are responsible for leading the NPO with ability and integrity towards the achievement of its mission. Furthermore, in the nonprofit scope, the board has an especially active and instrumental role (Coombes, Horris, Allen & Webb, 2011; O'Regan & Oster, 2005).

The roles of the board, as in the for-profit sector, have been explained using different theories, but the majority has focused on the agency theory (Jensen & Meckling, 1976) and the resource dependence approach (Pfeffer & Salancik, 1978). Each of them supports a different main role of the board (*i.e.*, monitoring and advisory, respectively). Nevertheless, during the last decade, several authors propose the idea of adopting a multi-theoretical approach to explain the role of NPOs' boards in a larger and more accurate way (Brown, 2005; Callen, Klein &

Tinkelman, 2010; Van Puyvelde, Caers, Du Bois & Jegers, 2012). Hence, the optimal board composition (*i.e.*, the one that allows it to effectively develop a dual role as supervisor and strategist) is defined using arguments coming from the agency theory (*i.e.*, board size and independence), and from the dependence resource approach, such as human capital (*i.e.*, education and experience of board members) and relational capital (*i.e.*, experience in boards of other organizations) (Andrés-Alonso, Azofra-Palenzuela & Romero-Merino, 2010; Dalton & Dalton, 2005).

As we have already noted, previous literature on the nonprofit sector has traditionally focused on the relationship between the board and NPO's efficiency (*e.g.*, Andrés-Alonso, Martín-Cruz & Romero-Merino, 2006; Brown, 2005; Callen *et al.*, 2003, 2010). To our knowledge, only Hodge and Piccolo (2005) study the impact of board effectiveness and private contributions on financial vulnerability. These authors predict that higher board participation involves a lower level of financial vulnerability, but this relationship has not proven to be significant.

In contrast, in the for-profit sector, the effect of the board has previously been studied in regards to organizational performance and in relation to bankruptcy and financial difficulties suffered by companies (*e.g.*, Daily & Dalton, 1994a, 1994b; Darrat, Gray & Wu, 2016; Lajili & Zéghal, 2010; Lee & Yeh, 2004; Platt & Platt, 2012; Simpson & Gleason, 1999). In line with these studies, our general hypothesis for the nonprofit sector is that the board composition is related to the financial vulnerability of NPOs, but we disaggregate it into different specific aspects, some of them derived from the traditional agency theory (*i.e.*, board structure) and from the resource dependence approach (*i.e.*, experience and knowledge of directors).

2.1. Board Structure

When the role of the boards is analyzed under an agency focus, it is usually described through variables, such as the board size and independence as well as the Chief Executive Officer (CEO) duality or the directors' ownership. Using only the agency arguments, the expected influence of all these variables on the financial vulnerability would be quite clear, but when we combine them with the resource dependence approach, the expected effects turn out to be puzzling. According to this line of thought, the arguments coming from the two theories support opposite effects of board size on the organization's financial problems (De Maere, Jorissen & Uhlaner, 2014; Gales & Kesner, 1994; Platt & Platt, 2012). On the one hand, agency theory explains that a smaller board is more beneficial for the well-functioning of the organization because it implies a quicker and more active decision process. On the other hand, a bigger board allows a greater volume of skills and expertise that could improve the decisions of the body. Therefore, we hypothesize that

H1. Board size does not influence the NPO's financial vulnerability.

The effect of board independence on financial vulnerability, in contrast with what occurred with board size, is reinforced by the two theories. Agency arguments support a positive effect of a more independent board on the financial health of the organization because external directors might monitor the work of the management team in a better way than if they were insiders (Chancharat, Krishnamurti & Tian, 2012; Platt & Platt, 2012). Also these outsiders could provide the NPO with additional resources (*i.e.*, human and relational capital) to those that are already in the organization because of its employees. Thus, we expect that

H2. Board independence has a negative effect on the NPO's financial vulnerability.

Using an agency approach, the CEO duality is understood as a severe lack of independence. CEO duality supposes a decrease in board oversight, which will have a negative effect on the organization's financial vulnerability (De Maere *et al.*, 2014; Krause, Semadeni & Cannella, 2014). By contrast, resource dependence approach argues that this duality favors the leadership of the organization and, therefore, its effectiveness (Dalton, Daily, Ellstrand & Johnson, 1998; Krause *et al.*, 2014). Consequently, as in the case of board size, we hypothesize that

H3. CEO duality does not have an effect on the NPO's financial vulnerability.

Previous literature on boards and financial difficulties has also considered other variables related to ownership, such as the percentage of stocks owned by the board members or the proportion of members elected by the highest stakeholder, which supports a double role for the director. On the one hand, it allows aligning the interests of directors and the organization. On the other hand, it might cause the organization to take an excessive level of risk that increases directors' profits (Platt & Platt, 2012). This excessive level of risk could lead to a higher financial vulnerability. Although this literature cannot be directly applied to the NPOs, it could be related to the presence of the founders on the board. In this way, founders might feel similar to owners because they set up the organization. However, as they cannot obtain profit from this position, they might be only interested in attempting to achieve that the NPO endures over years by avoiding financial risks, and, for that reason, we argue that

H4. The presence of founders on the board has a negative effect on the NPO's financial vulnerability.

2.2. Board Experience and Education

Directors provide the board with their personal background, that is, their human and social capital. Board capital might have a positive impact both in the strategic and the monitoring roles of the board (Hillman & Dalziel, 2003). In particular, directors' skills, previous experience and expertise could enhance the quality of their advice (Baysinger & Butler, 1985; Gales & Kesner, 1994; Hillman & Dalziel, 2003), and specific expertise and experience on certain financial situations may improve its ability to monitor the managerial team in such circumstances (Carpenter & Westphal, 2001; Hillman & Dalziel, 2003). More specifically, the financial health of NPOs might benefit more from directors with experience in the decision-making process, and from directors with experience in economic fields, such as banking and finance, or the specific subsector in which the NPO operates (Harris, 2014; Platt & Platt, 2012; Ritchie & Eastwood, 2006). Accordingly, we present the following hypothesis

H5. Boards with a higher proportion of directors with experience in decision-making positions, in finance, or in the specific subsector of the organization are negatively related to the NPO's financial vulnerability.

As in the previous case, the directors' formal educational background might impact the effectiveness of the board (Hillman & Dalziel, 2003). Having specific knowledge on economics or a field related to the functioning of the NPOs, directors possess additional resources that might allow them to carry out their roles (*i.e.*, monitoring managers and contributing to the financial strategy of the NPO) in a better way. Therefore, higher levels of formal education imply a deeper ability to process and apply information and to address complex environments (Hambrick & Mason, 1984; Ritchie & Eastwood, 2006; Schroder, Driver & Steufert, 1967; Wally & Baum, 1994), which may also improve the directors' quality of tasks. Therefore, we expect that

H6. Boards with a higher proportion of directors with specific or higher knowledge are negatively related to the NPO's financial vulnerability.

3. SAMPLE, VARIABLES AND METHODOLOGY

3.1. Sample

In this chapter, we study a particular field of the nonprofit sector: International Cooperation for Development. The organizations in our sample, namely, NGDOs, work in international cooperation and humanitarian aid in less developed countries. We also focus our study on a single country, Spain, where NGDOs have suffered from the reductions in both public subsidies (Official Development Aid [ODA]) and private donations (Fundación Lealtad, 2013). Actually, our sample is composed of NGDOs that belong to the Spanish Platform of NGDOs (CONGDE) in 2011. Among them, we have only included those that had their board composition and annual accounting and financial information from 2011 to 2013 available. Based on these criteria, our final sample is composed of 65 Spanish NGDOs and 806 board members, 10 of which serve on two organizations in the sample simultaneously.

The data were manually collected. The financial variables are calculated by using the NGDOs' financial statements, which are publicly available on their websites or in their annual reports. Information related to revenue was obtained from the annual reports, which were elaborated by CONGDE. The data regarding the board members' curricula vitae was obtained from the website of each organization, and finalized using information found by web search engines. Finally, the age of the NGDO was obtained from the website of each entity.

3.2. Variables

The main milestone in the definition of variables is how to measure the one we want to explain, in this case, the financial vulnerability. It has been scarcely studied in the nonprofit sector in comparison with the broad literature related to bankruptcy and financial distress of for-profit companies (Andres-Alonso, Garcia-Rodriguez & Romero-Merino, 2015). Although this issue needs deeper progress (Gordon, Fischer, Greenlee & Keating, 2013), since the seminal study of Tuckman and Chang (1991) conducted more than two decades ago, its importance in the nonprofit literature has continuously increased. In this way, the most predominant traditional concepts are "significant reduction in net assets" (*e.g.*, Andres-Alonso *et al.*, 2015; Keating *et al.*, 2005; Trussel, 2002; Trussel & Greenlee, 2004), "reduction in program expenses" (Andres-Alonso *et al.*, 2015; Greenlee & Trussel, 2000; Keating *et al.*, 2005), "reduction in revenues" (Keating *et al.*, 2005), or "insolvency" (Keating *et al.*, 2005; Gordon *et al.*, 2013). It is important to highlight that while in the for-profit scope it was possible to study the bankruptcy since the very beginning and, afterwards, the financial distress, nonprofit literature had to start by analyzing the financial difficulties of NPOs (financial vulnerability) directly, due to the great difficulty in measuring inactive and disappeared entities (Hager, 2001). All of these variables have been operationalized in a large range of different ways, but the most recent literature bets on a multidimensional approach (Andres-Alonso, Garcia-Rodriguez & Romero-Merino, 2016; Bowman, 2011). Specifically, we follow Andres-Alonso *et al.* (2016), who has made one of the most recent contributions, and we consider the following three dimensions: a reduction in net assets of at least 20% from 2011 to 2013 (VARNA); a value lower than 1.5 in the ratio of total assets divided by total debt (TATD); and, a value lower than 1.5 in the ratio of current assets divided by short-term debt (CASD).[24] We created a dummy

[24] The value 1.5 has been chosen because it is included by the Spanish Agency for International Development Cooperation (AECID) during the accreditation process of NGDOs.

variable for each of these dimensions that take the value “1” if the NGDO fulfills the criterion (*i.e.*, it is in a vulnerable position), otherwise it is “0”. Then, for each organization we add the values of the previous three variables, obtaining a value between 0 and 3 (ordered from least to most financial vulnerability). Finally, we group the above results into two: "not financially vulnerable organizations" (values "0" and "1") and "financially vulnerable organizations" (values "2" and "3").

To measure the board structure, we consider the most traditional variables in these studies, such as the board size and independence (BOARDSIZE and INSIDER, respectively), the duality CEO/chairman of the board (DUALITY), and the presence of founders in the board (FOUNDER). We quantify the directors’ experience by measuring the number of executives and members of other boards both in companies and NPOs (EXEC_COMP, EXEC_NPO, BOARD_COMP, and BOARD_NPO). We presume that all of them are usually involved in complex decision-making processes. In the same way, we also study the types of experience that may be relevant to prevent and address financial distress situations. Specifically, we calculate the number of directors who work in the field of banking, insurance or finance (BANKING), and those with professional experience (not volunteer) in international cooperation (COOP). In relation to educational background, we include the number of directors with higher studies in economics and business (ECO), and the directors with specific studies on international cooperation or management of NPOs (NPOSTUDY). We also consider the mean of the directors’ academic level (EDUCGRADE). To calculate this variable, we first assess the level of each director’s educational background between 0 and 3 (“3” if PhD, “2” if Master, “1” if Bachelor, and “0” otherwise), and afterwards we calculate the mean of the board.

Table 4.1. Variables

Name	**Definition**
Dependent variables	
VARNA	Dummy variable that takes "1" if the NGDO has reduced its net assets at least 20% during the 2011-2013 period, and "0" otherwise
TATD	Dummy variable that takes "1" if the value of the ratio Total Assets / Total Debt in 2013 is lower than 1.5 and "0" otherwise
CASD	Dummy variable that takes "1" if the value of the ratio Current Assets / Short-term Debt in 2013 is lower than 1.5 and "0" otherwise
FINVULN	Dummy variable that takes "1" if the sum of the three previous ones (VARNA, TATD and CASD) is two or three, and "0" otherwise
Independent variables (all of them measured in 2011)	
BOARDSIZE	Size of the board, measured by the number of members
DUALITY	Dummy variable that takes "1" if the chairman of the board is also the CEO of the NGDO and "0" otherwise
INSIDER	Percentage of members that work in the same NGDO
FOUNDER	Percentage of members that are founders of the NGDO
EXEC_COMP	Percentage of members with experience as managers of companies
EXEC_NPO	Percentage of members with experience as managers of NPOs
BOARD_COMP	Percentage of members with experience in board of companies
BOARD_NPO	Percentage of members with experience in boards of other NPOs
BANKING	Percentage of members with professional experience in banking, insurance or finance
COOP	Percentage of members with professional experience in a NGDO
ECO	Percentage of members with higher education in economics or business
NPOSTUDY	Percentage of members with specific studies related to NPOs
EDUCGRADE	Mean of members' educational level (PhD=3; Master=2; Bachelor=1)
Control variables (all of them measured in 2011)	
NGDOSIZE	Total assets of the NGDO (in euros)
REVCON	Revenue concentration (Herfindahl Index based on seven sources of revenues)
AGE	Age of the NGDO (in years)
PUBLIC	Percentage of public funding

Finally, we introduce four control variables that are usually considered to be predictors of financial vulnerability: organizational size (NGDOSIZE), measured as total assets; revenue concentration (REVCON), which me measure with a Herfindahl Index that includes seven sources of revenues[25] (*i.e.*, “1” being the most concentrate and “1/7” the most diversified); age of the organization (AGE), as years of activity; and the proportion of public funding (PUBLIC). According to previous literature, organizational size, public funding and age have negative effects on financial vulnerability (Kingma, 1993; Tevel, Katz & Brock, 2015; Trussel, 2002; Yan, Denison & Butler, 2009) while a higher revenue concentration would involve higher vulnerability (Tuckman & Chang, 1991). See Table 4.1 for a summary of all these variables.

3.3. Methodology and Model

In this study, we classify NGDOs as financially vulnerable or not, grouping them into two categories. We first compare the board composition of both groups by using the Mann-Whitney test (instead of the t-test, due to the sample size), and afterwards, we estimate a logistic regression, in which FINVULN is the dichotomous dependent variable. As can be seen in the model, we use it to test our hypotheses, and we analyze the board composition two years prior (in 2011) to the organization being classified as financially vulnerable or not (in 2013):

$$\text{Financial Vulnerability}_{it} = \beta_0 + \beta_1\text{*Board size}_{it-2} + \beta_2\text{*Duality}_{it-2} + \beta_3\text{*Independence}_{it-2} + \beta_4\text{*Founder}_{it-2} + \beta_5\text{*Experience}_{it-2} + \beta_6\text{*Educational background}_{it-2} + \beta_7\text{*Control variables}_{it-2} + \varepsilon_{it-2},$$

[25] International public funds, national public funds, regional and local public funds, periodic and child sponsorship, one-time donations, contributions from other private organizations, and revenues from sales and services.

4. RESULTS

4.1. Descriptive Results

As we have previously said, the data we use in this chapter has been manually collected because there are no standardized databases available for this sector. Hence, we consider the descriptive results to be an advance in the knowledge of the sector since we not only provide a description of the financial structure of the Spanish NGDOs but also an in-depth description of the board composition in terms of background and experience[26].

We see in Table 4.2 that the effects of the economic crisis persisted in this sector during the period of 2011 to 2013. Although the mean of the net assets variation presents an increase of 110%, this figure is somehow misleading because the median shows a decrease of 27% and, in global terms, 36 of the 65 NGDOs (*i.e.*, 55% as it can be seen in Table 4.2 as the mean of VARNA) reduced their net assets by at least 20%. Regarding the NGDOs' capital structure, the average proportion of total assets to total debt is 16.86. This value reflects a more promising situation than the previous dimension, although it hides high data dispersion because 26 organizations (*i.e.*, 40% as it shows the mean of TATD in Table 4.2) have a proportion of total assets to total debt lower than 1.5. Finally, 24 of the 65 NGDOs (*i.e.*, 37% as we observe in Table 4.2 as the mean of CASD) have a ratio of current assets to short-term debt lower than 1.5. This ratio shows a mean value of 15.37 (or a median of 2.64), which, as in the case of the total assets and debt, reveals an overall satisfactory situation. When we consider the three dummies related to financial vulnerability jointly, as we have explained in Table 4.1, we find 25 NGDOs (*i.e.*, 38%) classified as financially vulnerable (*i.e.*, 12 organizations are highly vulnerable as they have problems in all three dimensions, and 13 are only vulnerable as they have problems in two of them), and 40 NGDOs (*i.e.*, 62%) that are not vulnerable (*i.e.*, 24 are a little vulnerable as they have problems in one variable, and 16 are healthy as they do not present any financial difficulties according to the dimensions we have defined).

[26] A more exhaustive analysis can be found in García-Rodríguez and Romero-Merino (2014).

Table 4.2. Descriptive Statistics

Variable	Mean	Median	Min.	Max.	Std. Dev.
Financial vulnerability variables					
Variation of Net Assets	110.30%	-27.06%	-111.18%	6,356.57%	810.35%
Total Assets / Total Debt	16.86	3.32	0.23	137.60	30.32
Current Assets / Short-term Debt	15.37	2.64	0.18	121.24	26.84
VARNA	0.55	1.00	0.00	1.00	0.50
TATD	0.40	0.00	0.00	1.00	0.49
CASD	0.37	0.00	0.00	1.00	0.49
FINVULN	0.38	0.00	0.00	1.00	0.49
Board composition					
BOARDSIZE	12.40	10.00	4	56	9.00
DUALITY	0.09	0.00	0.00	1.00	0.29
INSIDER	6.59	0.00	0.00	40.00	9.63
FOUNDER	7.67	0.00	0.00	75.00	13.72
EXEC_COMP	17.44	5.26	0.00	100.00	23.61
EXEC_NPO	12.62	11.11	0.00	50.00	11.48
BOARD_COMP	11.95	0.00	0.00	91.07	19.97
BOARD_NPO	28.80	27.27	0.00	81.82	21.62
BANKING	8.98	0.00	13.81	0.00	63.63
COOP	13.58	9.09	0.00	100.00	17.88
ECO	20.63	14.29	0.00	100.00	22.08
NPOSTUDY	7.03	0.00	0.00	42.86	11.01
EDUCGRADE	1.33	1.32	0.30	2.11	0.38
Control variables					
NGDOSIZE	23,713,061	6,108,148	14,782	719,768,000	89,122,123
REVCON	0.49	0.42	0.25	1.00	0.21
AGE	29.45	24.00	12	147	21.25
PUBLIC	54.28	62.37	0.00	100.00	33.77

Regarding the board of the NGDOs in this sample, the average size is 12 members (*i.e.*, one director less than in Andrés-Alonso *et al.,* 2006), and it has a low proportion of insiders (7%, which is even lower than the 8% shown in Andrés-

Alonso *et al.* [2006]). The CEO of 6 NGDOs (9% of the sample) is also their chairman, and donors represent 8% of the board (in fact, there is at least one founder in each of the 26 organizations, which is 40% of the sample). According to our data, 2 out of the 12 directors (17%) have experience as top executives in companies and one or two directors (13%) as executives in NPOs. Only 12% (*i.e.*, one or two people) of the board members have experience as a director on companies' boards, while 29% (*i.e.*, three or four directors) of them also participate in boards of other NPOs. In this sample, one (9%) of the directors of the average board has worked in banking, assurance or finance and another one or two (14%) in international cooperation (this figure includes the 7% of insiders). Regarding their educational background, only 7% of board members have specific studies on international cooperation or NPOs, and one out of every five (21%) have studied business or economics. The educational level is 1.3, which implies that, on average, all members have at least a bachelor's degree.

Finally, the mean value of the assets of the NGDOs that compose our sample is almost 24 million euros, although variability is quite high. In this way, organizations' size varies from less than 15,000 euros to more than 700 million euros. The mean number of years for NGDOs is 29 years. This value indicates the maturity that this subsector is achieving in Spain, where it began its development in the 1980s. Revenue concentration is 0.49, showing an average high diversification of sources. Another signal of this average diversified structure of revenue is the balance between public and private funding (54% and 46%, respectively), although there exist some extreme cases (*i.e.*, NGDOs without public or private revenue).

After this first descriptive analysis and following other studies (Chancharat *et al.*, 2012; De Maere *et al.*, 2014; Lajili & Zéghal, 2010; Lee & Yeh, 2004; Platt & Platt, 2012), we undertake a mean test of the previous variables, comparing the board composition of the financially vulnerable NGDOs with respect to the healthy ones. Because of the reduced size of our sample, we use the non-parametric test of Mann-Whitney (25 vulnerable organizations *vs* 40 non-vulnerable ones). As we can see in Table 4.3, neither the variables related to the board composition of neither NGDOs, nor the control ones show significant differences between vulnerable and healthy organizations.

Table 4.3. Comparison between Vulnerable and No Vulnerable NGDOs and Mann Whitney Test

	Vulnerable NGDOs (n=25)		**No vulnerable NGDOs (n=40)**		
Variable	**Mean**	**Median**	**Mean**	**Median**	**Significance**
Dependent variables					
VARNA	0.56	1.00	0.55	1.00	
TATD	0.96	1.00	0.08	0.00	***
CASD	0.96	1.00	0.00	0.00	***
FINVULN	1.00	1.00	0.00	0.00	-
Independent variables					
BOARDSIZE	12.40	10.00	12.40	9.00	-
DUALITY	0.04	0.00	0.13	0.00	-
INSIDER	6.79	0.00	6.26	0.00	-
FOUNDER	7.32	0.00	7.88	0.00	-
EXEC_COMP	14.81	5.26	19.09	4.55	-
EXEC_NPO	12.00	9.09	13.00	12.92	-
BOARD_COMP	9.98	0.00	13.19	2.94	-
BOARD_NPO	27.93	28.57	29.33	24.50	-
BANKING	7.47	0.00	9.92	3.85	-
COOP	13.01	7.69	13.93	12.10	-
ECO	17.61	12.50	22.52	17.14	-
NPOSTUDY	5.17	0.00	8.19	0.00	-
EDUCGRADE	1.31	1.33	1.35	1.29	-
Control variables					
NGDOSIZE	11,294,835	5,748,740	31,474,453	6,364,165	-
REVCON	0.46	0.35	0.52	0.44	-
AGE	26.36	22.00	31.38	25.00	-
PUBLIC	57.24	62.37	52.10	57.10	-

*, **, ***: significant difference with a level of confidence of 90%, 95% and 99% respectively

4.2. Explanatory Results

Despite the fact that the results we obtained in the previous test are not very hopeful, we conduct a logit analysis to determine if the variables related to the board composition influence the NGDOs' financial vulnerability (*i.e.*, dummy FINVULN). This relationship contains less endogeneity problems than the traditional relationship between the board composition and organizational efficiency. As Andreoni and Payne (2011) state, donors tend to perceive only the "general welfare" of the organization, while its financial situation is more difficult to determine. The same argument can be used for directors, who may choose the entity they provide service for reasons of visibility, reputation or efficiency, but doubtfully for the financial health of the organization. The potential multicollinearity problems and the intuitive relationship between the dependent variable and each of the explanatory ones can be observed in the matrix of bivariate Pearson correlations in Table 4.4.

As we can see in Table 4.4, it is noteworthy the lack of significant correlation between the variable of financial vulnerability (FINVULN) and those related to the board composition, which corroborates the results of the Mann-Whitney test that we obtained in the previous section. We also observe some high values between independent variables, which could constitute problems of multicolinearity if we would want to estimate our global model as a whole. In light of this, we separate the variables into groups, creating several partial models.

Table 4.4. Bivariate Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. FINVULN	-																	
2. BOARDSIZE	0.00	-																
3. DUALITY	-0.14	-0.12	-															
4. INSIDER	0.02	-0.24	0.43**	-														
5. FOUNDER	-0.02	-0.26*	0.14	0.35**	-													
6. EXEC_COMP	-0.09	0.31*	-0.03	-0.16	0.03	-												
7. EXEC_NPO	-0.04	-0.29*	0.19	0.43**	0.39**	0.16	-											
8. BOARD_COMP	-0.08	0.39**	0.02	-0.16	-0.05	0.79**	0.06	-										
9. BOARD_NPO	-0.03	0.24	-0.03	-0.00	0.08	0.26*	-0.10	0.38**	-									
10. BANKING	-0.09	0.30*	-0.08	-0.18	-0.12	0.58**	0.08	0.69**	0.24	-								
11. COOP	-0.03	-0.23	0.26*	0.49**	0.19	-0.14	0.54*	-0.08	-0.24	-0.03	-							
12. ECO	-0.11	0.12	0.18	-0.01	0.18	0.70**	0.39**	0.65	0.27*	0.62**	0.07	-						
13. NPOSTUDY	-0.13	-0.18	0.01	-0.08	0.34**	-0.06	0.28*	-0.23	-0.18	0.20	0.25*	-0.00	-					
14. EDUCGRADE	-0.04	-0.04	0.13	-0.06	-0.22	0.44**	0.17	0.26*	0.10	0.05	-0.14	0.41**	-0.07	-				
15. NGDOSIZE	-0.11	0.50**	-0.01	-0.04	-0.10	0.03	-0.13	0.02	-0.03	0.04	-0.05	-0.03	-0.12	-0.15	-			
16. REVCON	-0.15	-0.00	0.07	0.20	0.26	0.25	0.15	0.22	0.32*	0.18	-0.04	0.33*	0.01	0.15	-0.17	-		
17. AGE	-0.12	0.37**	-0.03	-0.08	-0.24	0.04	-0.21	0.05	-0.08	0.07	-0.12	-0.04	-0.19	-0.10	0.70**	-0.05	-	
18. PUBLIC	0.08	0.06	0.07	0.10	0.25	0.04	0.01	0.07	0.25	-0.01	0.05	0.09	0.14	-0.1	-0.1	0.17	-0.20	-

*, **: significant correlation with a level of confidence of 95% and 99% respectively.

The results of the different logit regressions are presented in Table 4.5. The first column includes the most traditional variables studied in this relationship, such as board size, duality, independence and the proportion of founders (BOARDSIZE, DUALITY, INSIDER, and FOUNDER). The experience variables have been tested in two different models (second and third columns in Table 4.5) due to multicolinearity problems. On the one hand, the second model (Column 2 in Table 4.5) includes experience as executives of companies and NPOs (EXEC_COMP and EXEC_NPO), as well as participation in boards of other NPOs (BOARD_NPO). On the other hand, the third model (Column 3 in Table 4.5) analyzes the experience in banking and finance (BANKING) and international cooperation (COOP). Finally, we test a fourth model (Column 4 in Table 4.5) focused on educational background, including the knowledge in economics and finance (ECO), the specifics of the industry (NPOSTUDY), and the educational grade of the board (EDUCGRADE). In all five models, the dependent variable is FINVULN, that, as we have already explained, takes "1" when the organizations are financially vulnerable and "0" otherwise, and we include the four control variables although, in this case, size and age are introduced by the value of the natural logarithm of the NGDOSIZE and AGE variables (LNSIZE and LNAGE, respectively).

Table 4.5. Estimations of Logit Analysis. Dependent Variable: FINVULN

Variable	*(1)* Coeff. (St. E.)	*(2)* Coeff. (St. E.)	*(3)* Coeff. (St. E.)	*(4)* Coeff. (St. E.)
BOARDSIZE	-0.003 (0.035)			
DUALITY	-1.381 (1.297)			
INSIDER	1.889 (3.427)			
FOUNDER	-0.966 (2.486)			
EXEC_COMP		-0.603 (1.367)		
EXEC_NPO		-0.702 (2.559)		
BOARD_NPO		-0.608 (1.466)		
BANKING			-1.693 (2.306)	
COOP			-0.366 (1.616)	
ECO				-1.964 (1.725)
NPOSTUDY				-1.913 (3.086)
EDUCGRADE				0.631 (0.851)
LNSIZE	-0.047 (0.192)	-0.046 (0.189)	-0.052 (0.185)	-0.049 (0.188)
REVCON	-1.805 (1.678)	-1.563 (1.802)	-1.822 (1.705)	-1.558 (1.782)
LNAGE	-0.418 (0.692)	-0.458 (0.686)	-0.369 (0.651)	-0.528 (0.710)
PUBLIC	0.818 (1.012)	0.799 (1.009)	0.761 (1.021)	0.917 (1.037)
Constant	2.274 (3.361)	2.566 (3.245)	2.346 (3.188)	2.095 (3.370)
Cox & Snell R^2	0.069	0.054	0.056	0.080
Nagelkerke R^2	0.092	0.073	0.076	0.107
Percentage of global correct predictions	59.3%	64.4%	64.4%	59.3%

*, **, ***: significant coefficient with a level of confidence of 90%, 95% and 99% respectively

As we can see in Table 4.5, there are no significant variables in any of the models we consider. These results support the previously obtained results in the Mann-Whitney test and the correlation matrix, confirming that there is no relationship between the board composition and financial vulnerability of Spanish NGDOs. In this way, neither the board size, independence, or duality, as well as directors' educational background and experience show significance in our analysis to explain the financial vulnerability of these NPOs. Therefore, these results support our hypotheses 1 and 3 (no effect of the board size and duality) and reject the remainders (impact of the board independence, founders and the directors' experience and education). It is also remarkable that none of the control variables are significant in every model we have tested. Previous literature supports that a higher size, age, revenue diversification and public funding prevent financial vulnerability (Tevel *et al.*, 2015; Trussel, 2002; Tuckman & Chang, 1991), although there exist differences depending on the subsector (Hager, 2001). According to our results, these variables do not seem to have any explanatory power to predict vulnerability of NGDOs (Andres-Alonso *et al.*, 2015). Finally, we also observe low values of R^2, which confirms the limited predictive power of board composition and control variables.

To reinforce these results, we ran the same models, but considered as dependent variables each of the individual dummies of financial vulnerability (VARNA, TATD and CASD).

As we can observe in Table 4.6, none of the variables of the board shows significance in any of the models, and among the control variables, only PUBLIC is positively related with VARNA. These results confirm those obtained when we consider the multidimensional dependent variable.

Table 4.6. Estimations of Logit Analysis. Dependent Variables: VARNA, TATD and CASD

Variable	*VARNA*				*TATD*				*CASD*			
	Coeff. (St. E.)	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*	*Coeff. (St. E.)*
BOARDSIZE	0.085 (0.051)				-0.008 (0.035)				-0.005 (0.035)			
DUALITY	-1.575 (1.345)				-1.266 (1.284)				-1.387 (1.304)			
INSIDER	6.517 (3.984)				0.661 (3.431)				2.147 (3.419)			
FOUNDER	-1.693 (2.609)				-1.393 (2.571)				-0.769 (2.454)			
EXEC_COMP		2.197 (1.568)				-0.386 (1.335)				-1.002 (1.396)		
EXEC_NPO		2.364 (2.913)				-0.486 (2.546)				0.335 (2.552)		
BOARD_NPO		-1.485 (1.650)				-0.575 (1.458)				-0.123 (1.455)		
BANKING			3.957 (2.558)				-1.437 (2.244)				-1.308 (2.262)	
COOP			1.656 (1.918)				-0.133 (1.602)				-0.029 (1.608)	
ECO				-2.071 (1.758)				-1.060 (1.632)				-1.560 (1.704)
NPOSTUDY				1.110 (3.235)				-1.913 (3.053)				-2.806 (3.157)
EDUCGRADE				-0.395 (0.944)				0.039 (0.840)				0.448 (0.845)

Table 4.6. (continued)

LNSIZE	-0.323 (0.215)	-0.274 (0.199)	-0.352* (0.205)	-0.323 (0.199)	-0.027 (0.186)	-0.022 (0.183)	-0.021 (0.180)	-0.021 (0.181)	-0.053 (0.195)	-0.055 (0.190)	-0.072 (0.186)	-0.075 (0.190)
REVCON	2.049 (1.875)	1.521 (1.862)	0.971 (1.793)	0.885 (1.837)	-1.656 (1.608)	-1.577 (1.745)	-1.734 (1.644)	-1.571 (1.721)	-1.577 (1.692)	-1.407 (1.809)	-1.620 (1.709)	-1.431 (1.792)
LNAGE	-0.858 (0.798)	-0.233 (0.768)	-0.193 (0.749)	-0.096 (0.730)	-0.445 (0.674)	-0.460 (0.664)	-0.395 (0.635)	-0.549 (0.677)	-0.285 (0.693)	-0.277 (0.683)	-0.231 (0.650)	-0.431 (0.708)
PUBLIC	1.983* (1.150)	2.085* (1.084)	2.009* (1.107)	1.792* (1.077)	0.424 (0.977)	0.344 (0.972)	0.282 (0.982)	0.365 (0.989)	0.957 (1.024)	0.907 (1.017)	0.928 (1.030)	1.106 (1.048)
Constant	4.668 (3.697)	3.080 (3.576)	4.071 (3.646)	4.084 (3.659)	2.451 (3.292)	2.471 (3.185)	2.207 (3.127)	2.706 (3.275)	1.672 (3.388)	1.713 (3.274)	2.346 (3.188)	2.154 (3.371)
Cox & Snell R^2	0.237	0.201	0.203	0.171	0.066	0.047	0.049	0.057	0.061	0.048	0.044	0.071
Nagelkerke R^2	0.317	0.269	0.271	0.229	0.088	0.062	0.065	0.076	0.082	0.065	0.060	0.096
Percentage of global correct predictions	74.6%	64.4%	72.9%	64.4%	61.0%	61.0%	64.4%	55.9%	57.6%	71.2%	66.1%	62.7%

*, **, ***: significant coefficient with a level of confidence of 90%, 95% and 99% respectively

5. DISCUSSION AND CONCLUSIONS

In this study, we have analyzed the relationship between the board of NPOs and the organization's financial vulnerability. Although for-profit literature justifies this relationship, both theoretically and empirically, our results indicate that there is no relationship between the board composition and the financial problems in the nonprofit sector. In this way, we have not found significant differences between the boards of financially vulnerable and healthy NPOs. Likewise, we obtained a lack of significant explanatory power of board variables on the probability of classifying an organization as financially vulnerable.

When reviewing the main results of the research, most of the studies focus on giving reasons for the ones that are statistically significant. However, here the most significant result is just the absence of significant results. But, what does this lack of results really mean? The first thought that comes to our mind is that the board is not effectively accomplishing either its monitoring role (*i.e.*, when setting and approving an annual budget) or its advising one (*i.e.*, because directors are not giving advice to preserve the organizations' assets or, if they are, the managerial team is not listening to them). In sum, they are not fulfilling their mission to safeguard the NPO's continued well running. Of course, as Mintzberg (1983) notes, the board has other roles (*i.e.*, fundraising, co-opting resources, or building the firm's reputation) which, in fact, can be especially important in the nonprofit sector where there are not stable shareholders, but punctual donors, who decide each year if it is worthy to go on donating and, if so, which entity deserves their donations. However, we are not assessing here if the board is not effective in carrying out those other roles, but we are focused on the financial monitoring role (or even the financial advising one).

Many previous authors have noticed the lack of effectiveness of boards in monitoring nonprofit finance. In fact, there is a big gap between the prescriptive functions of the board (*i.e.*, those that it should do) and the real ones (*i.e.*, those that it actually does) (Ostrower & Stone, 2010; Zimmermann and Stevens, 2008), but we cannot forget that even though we all know that reality differs from prescription when talking about nonprofit governance, the board goes on being responsible for the well-functioning of the organization. According to our results, it seems that financial monitoring is only being carried out in a formal aspect, in that the managers are in charge of planning, designing and monitoring the financial strategy. In this way, we could consider boards as a *rubber stamp* or *CEO-dominated* governance mechanisms where the chief executive and other senior managers exercise the main power and directors play a largely symbolic role by simply rubber stamping decisions (Cornforth, 2001b). In this way, although boards seem to follow formal procedures in the financial control, actually they might not be using them in an active way (Parker, 2008).

These outcomes derive from a single part of the nonprofit sector, that is, the Spanish organizations that work in the international cooperation and humanitarian aid. At least in this case, we find that either directors are not conscious of their responsibility to monitor the managerial team or that they may not have been able to develop their monitoring role effectively. This begs the question, why is this break between board and financial vulnerability in NPOs happening?

On the one hand, directors may be unable to monitor managers because executives do not want to be controlled by the board. If the NPO's managerial team is not interested in the board participating in the functioning of the organization, they can avoid it by not giving enough information in order to not allow directors to factually oversee their work. Alternatively, maybe directors might not be aware of their responsibility or, if they are, they might lack time, competence or motivation to effectively develop their monitoring role. The question is how to change this situation to let the NPO benefit from the directors' support.

Therefore, our results (or, in this case, the lack of them) ought to be a wakeup call for the NPOs' directors and practitioners. First, executives should allow boards to take part in the decision-making of the NPO to benefit from their expertise. Second, directors should enroll in a nonprofit board only if they have time and are capable of playing their role. NPOs' directors have to be mindful about their duties. When they belong to too many boards, they may not have enough time for each organization (either for-profit or nonprofit); when they do not know the sector, they may not be able to understand the functioning of the organization; and when they lose their motivation, they may not be dedicating enough effort to achieve their goals. In any case, the NPO could reconsider their enrollment processes (*i.e.*, to get those people who can offer what the NPO really needs) and re-evaluate how to motivate these directors without using monetary rewards.

Nonetheless, our results only refer to a specific subsector of the nonprofit industry and in a single country. In fact, the main limitation of this study is the cross-sectional character of the sample. The analysis comprises a single moment (and influenced by the crisis effect), country and subsector, so the results could not be generalized to the whole nonprofit sector. Additionally, we note the method we use to compile the data, as the level of detail (both quantity and quality) of the information greatly differs depending on the public importance of the director. As it is shown in the business sector, the level of complexity and sophistication of organizations influence the relationship between the board and financial problems (Darrat *et al.*, 2016), so this result could not occur in other areas of the third sector. Consequently, one of the future lines of research we propose is to enlarge the sample to study by including more countries, years, or different nonprofit subsectors. Additionally, it could be interesting to complement the study of the board by analyzing the top executives using the same terms (*i.e.*, knowledge and experience), attempting to determine who is assuming the financial planning of NPOs. As our results indicate that board members do not have an influence on the prevention of financial problems, another option is to study the effect that boards have in other fields, such as fundraising or the reputation of the organizations.

GENERAL CONCLUSIONS

"Serva ordinem et ordo servabit te"
"Ubi ordo deficit nulla virtus sufficit"

GENERAL CONCLUSIONS

The path walked throughout this doctoral thesis has allowed us to advance in the knowledge about the relationship between the board of trustees of nonprofit organizations (NPOs) and their financial vulnerability. During the different stages of this journey we have carried out an updated review of the literature on nonprofit governance and we have looked at the concept of financial vulnerability of these organizations. While it is true that the journey we have begun in this thesis is far from complete and that, in fact, there are many future lines of research that arise from the point where we are, it is not less true that we have done some progress that we will describe in the following lines.

The main conclusion we draw from this doctoral thesis is the lack of any kind of relationship between the structure and composition of the board and the financial vulnerability of the NPOs. This result, expressed in the fourth chapter, contrasts with those obtained in the for-profit field, where prior literature has theoretically and empirically tested the influence of the board on the financial difficulties of the organization, considering both financial distress and bankruptcy. In the case of the nonprofit sector and, more specifically, the Non-Governmental Development Organizations (NGDOs), it seems that the usual practice is to have boards that are far from making financial decisions. They could be considered, at least in this aspect, like *rubber stamps boards*. That is, despite having a considerable *de jure* power (we should not forget that they are the ultimate legal responsible for the organization), the boards of the NPOs, lack (or elude) *de facto* power. In this sense, it would be advisable that directors are aware of their real responsibility with the organization that they "govern" and are effectively involved in the decision-making in all areas of the NPO. Thus, as already indicated in the previous chapter, directors should only accept a position of this nature if they really have the knowledge, motivation and time to assume such responsibility. And, on the other hand, managers should search mechanisms to take advantage of the human and social capital provided by directors, allowing them to participate actively, both in the supervision of their work and in the design of the organizational strategy. Although it is true that, following the results obtained by prior literature, the board influences the efficiency of NPOs, by changing the central question of our research and focusing our study on analyzing the effect of the board on the financial vulnerability of the entity, we find an absence of relationship between the board composition and this purely financial aspect of the organization. It is important to note that this lack of effect between boards and financial vulnerability of NPOs is tested by following the recommendations of the most recent governance literature (Brown, 2005; Callen, Klein & Tinkelman, 2010; Van Puyvelde, Caers, Du Bois & Jegers, 2012), and under an eclectic theoretical umbrella that combines arguments coming from different theories to explain the reality of the nonprofit sector.

The use of this extended approach, with arguments derived from the main theories on governance, arises precisely from the theoretical revision made throughout the first chapter. Thus, the journey through the different approaches of governance literature has led us to conclude that none of these approaches, individually considered, can fully explain the performance of the list of roles and functions that have been assigned to the board. That is why it is necessary to combine the postulates of different theories to build a theoretical framework that contemplates the performance of the governance mechanisms in the different facets considered by the literature. More specifically, we have based our study of the fourth chapter fundamentally on the two most common theoretical approaches in the governance literature, that is, the agency theory and the resource dependency approach. Thus, we have analyzed the effectiveness of the board in terms of its performance as monitor and advisor of the management. On this basis, the board has been characterized by its structure (size, independence, presence of founders and duality between the Chief Executive Officer [CEO] and the chairman of the board) and the directors' human and social capital (experience as managers or directors of companies or NPOs, average educational level, specific experience and studies in the field in which the organization operates, and specific experience or studies in banking or finance) and we have analyzed its influence on the financial viability of the organization. However, as we have already indicated, we have not found any significant relationship between the board configuration and the financial vulnerability of the NPO. In some cases (*e.g.*, board size), the use of opposite arguments coming from various theories has led us to hypothesize in terms of the lack of direct effect on financial vulnerability. Only on these occasions the absence of a significant relationship between board and vulnerability could be understood as the empirical evidence of our multi-theoretical approach.

Besides the study of nonprofit governance and its effect on the financial health of NPOs, this doctoral thesis has reflected deeply on the concept of financial vulnerability of these organizations. As we have already mentioned in the previous chapters, this is a relatively recent topic in the third sector research, since the seminal study of this issue dates back to 1991. This explains why its degree of empirical and theoretical development is not very elevated. For this reason, this research has attempted to bring clarity to the state of the art of this topic in relation to both the definition of financial vulnerability itself and the predictors used to anticipate it. First, the measure of financial vulnerability itself had not been directly studied in the literature, and several measures had been used without any consensus on which of them was the most appropriate although, as shown in the third chapter, they differ from each other. In this chapter, we defended the use of a multidimensional model that allowed us to collect different aspects of the financial vulnerability. The operational dimension reflected the variation of net assets over a three-year period (which, given the non-distribution constraint of NPOs, is the difference between revenues and expenses in such period), while the leverage and liquidity dimensions allowed us to capture the ability of the organization to meet its total or short-term debt respectively. Thus, the first dimension included a dynamic aspect of the financial vulnerability, while the second and third analyzed a static concept, taking into account the long and short-term. This model is the one we use in the analysis that has been carried out in the fourth chapter, although we had to adapt it following some particular circumstances, such as the criteria of the Spanish Agency for International Development Cooperation (AECID) and the measures in which they have been made operative by the traditional literature. This multidimensional model of financial vulnerability allows the joint analysis of several particularities of this concept, since none of the dimensions considered in isolation can reflect all the complexity that it entails. This multidimensional assessment differentiates this study from others (Andres-Alonso, Garcia-Rodriguez & Romero-Merino, 2015; Cordery, Sim & Baskerville, 2013; Keating, Fischer, Gordon & Greenlee, 2005) that introduce several variables of financial vulnerability but they do not use them simultaneously to form a single construct. In this way, the weakness in one of the three defined dimensions leads to a more or less serious problem depending on whether the NPO has a delicate position in the other two dimensions or not. However, despite the progress we have made in this regard, much remains to be done in this area, as it will be discussed in the final part of this chapter.

Regarding the financial predictors that prior literature has used, as discussed in the second chapter, they present a confrontation depending on whether they are analyzed from a financial vulnerability perspective or from an organizational efficiency point of view. From this double perspective, the global effect of these predictors of the financial vulnerability becomes unclear and a tradeoff between their advantages and disadvantages turns out to be necessary. Our reasoning is in line with the most recent literature on nonprofit finance (Calabrese, 2012; Mitchell & Calabrese, 2016). This literature suggests the need to think carefully about those relationships that we assume that are valid and accepted when the empirical results are not conclusive. For this reason, it is necessary to bring arguments from other fields (in our case, the research on organizational efficiency) to analyze how some of the different expected effects could offset or void others. In our research, the most obvious example of all this is the operating margin of the NPO (difference between revenues and expenses). The literature on financial vulnerability argues that when the margin is high, it allows the NPO to use reserves in case of future financial problems, and, therefore a high operating margin would be related to a better financial health. However, based on the literature on efficiency, a high margin could be considered excessive by donors since a large part of the available resources (mainly donations and public grants) are not allocated directly for the purpose for which they were conceded, that is, the fulfillment of the organization's mission. In this way, the NPO would be classified as inefficient, and donors could interrupt their contributions to the organization, jeopardizing their financing and, ultimately, their financial survival. For all this, it is necessary to find a balance so that the surplus exists without being disproportionate. In short, this reflection on each of the traditional predictors (debt ratio, revenue concentration, operating margin, administrative cost ratio and size) could be useful to determine the appropriateness of including them in a global indicator, similar to that of Altman in the for-profit field, that allows to anticipate the situation of a NPO's financial vulnerability. In this respect, our research has also revealed the need to consider the particularities of each subsector of the nonprofit field, since those models that predict financial vulnerability in a relatively acceptable way for the third sector as a whole are not useful to do so for the specific area of international cooperation and development. This is corroborated by the results obtained in the second chapter, as well as by the absence of significant coefficients of the control variables in the fourth chapter. This need for considering the peculiarities of the subsector is in line with the recommendations expressed by previous literature (Hager, 2001; Trussel, 2002; Trussel, Greenlee & Brady, 2002) and it insists on the highly diverse reality that we can find throughout the nonprofit sector.

In addition to the foregoing, it is also noteworthy that our empirical analyses have been carried out in a context of financial crisis. This contrasts with the majority of studies related to the financial vulnerability of NPOs, conducted during times of economic expansion, which provides a different framework to this type of analysis. There is no doubt that the crisis has been an extremely delicate scenario for NPOs, as their financial survival has been threatened by the reduction of donations and public grants and the restrictions on banking credit. Likewise, the samples we analyze are composed by European organizations, specifically from Spain and the United Kingdom (UK). This fact means a contribution of a different context to a literature traditionally dominated by empirical studies based on samples composed by NPOs from the United States (US). In this line, such literature often employs the Form 990 of the Internal Revenue Service (IRS), while in our case we have used the audited financial statements of each organization. In sum, this different context (subsector, time period, country, source of information) may help to explain the differences between our analyses of financial vulnerability and previous studies.

Finally, this doctoral thesis also provides important recommendations for practitioners in the nonprofit sector. As we have already pointed out, NPOs should modify their internal functioning, so as to favor both the enrollment of directors with high human and social capital as well as their involvement in the strategic decision-making of the organization, besides their role as supervisors of management decisions. In this sense, the low presence of directors with specific studies of international cooperation for development or management of NPOs (7.03% of our sample of the fourth chapter) is particularly noteworthy. In fact, such data should invite reflection on the enrollment policy to the boards of NPOs; even more when such studies have almost become a prerequisite for applying for a job in the subsector. But, likewise, managers also have to facilitate and encourage the participation of the board allowing and promoting their involvement in the decision-making of the NPO. In this way, the management team (and the NPO) would benefit from this set of knowledge and experiences that the board as a whole possesses. Moreover, the application of the multidimensional model of financial vulnerability could help practitioners to evaluate the financial situation of the organization as a whole, not looking at a specific measure, but considering the three proposed variables simultaneously.

All these results and conclusions have turned into a motivation to continue the research in different lines, as we will explain at the end of this chapter. And also, they have turned into the need to overcome some of the limitations of our analyses, as we will describe in the following paragraphs.

First, there are certain aspects that affect all the analyses conducted throughout the doctoral thesis. In this way, we are aware of the small size of the samples we use, especially compared to previous studies of financial vulnerability of US NPOs. This is justified by the absence of databases (such as that provided by the IRS in the US studies), so the information had to be gathered manually. At the same time, this same restriction causes that we have not been able to use specific panel data methodologies, since the number of years of which we have been able to obtain complete information has been limited, without forgetting that, in addition, the calculation of financial vulnerability (in particular, the operational dimension, the variation of net assets) requires the use of data from several periods. Likewise, in this research we have only analyzed one subsector of the whole nonprofit field, the one corresponding to international cooperation for development. As we have shown throughout this doctoral thesis, this subsector has a very particular idiosyncrasy, so the conclusions obtained might not be extrapolated to the third sector as a whole. Moreover, the analyses are conducted in years in which NPOs have suffered the consequences of the crisis, so the results we obtain might only be explained by this exceptional shock and, therefore, they are not transferable to periods of greater economic stability.

Besides this limitation regarding the empirical analysis of the arguments presented in chapters two to four, there are also some particular limitations in relation to the fourth chapter. Thus, with regard to the financial vulnerability, the appropriateness of the proposed multidimensional model has not been empirically tested, so we have not been able to verify the usefulness we have theoretically explained. Moreover, the source of information we use to estimate the human and social capital of directors (the website of each NGDO and generic web search engines) causes that we have not achieved the same level of detail in the biography of each director, because it depends on both the level of public relevance and the transparency of the NPO in this regard.

To conclude this chapter and the doctoral thesis, we present the main lines of research that have been opened in the light of the results obtained throughout the previous chapters. The first of them is related to the empirical analysis of the explanatory power of the multidimensional model we propose to define financial vulnerability in the third chapter. In this sense, it would be interesting to confirm whether NPOs that have ceased activity due to financial reasons would have been classified as vulnerable when applying our multidimensional model. As prior literature notes (Hager, 2001), the difficulty to do this is that such cessation is not usually directly transferred to the corresponding legal registers. Along with this fact, it is important to note that not all NPOs cease activity due to economic and financial reasons. Therefore, it is hard to find a sample of organizations that meet the necessary requirements to test our model. Also in relation to the vulnerability, an index that allow to predict the financial vulnerability of NPOs remains to be developed. This would be a particularly useful tool for practitioners of the nonprofit sector, as it would allow them to anticipate situations of financial problems. However, before carrying out this research, it must be ascertained that the dependent variable, that is, the financial vulnerability itself, is correctly measured and it is an adequate proxy, as we have indicated previously.

Another line of research to tackle in the future is to consider additional theoretical perspectives of nonprofit governance, such as stakeholder theory (Freeman, 1984; Freeman & Reed, 1983) or stewardship theory (Davis, Schoorman & Donaldson, 1997), so as to take into account other relationships between stakeholders of the organization and other types of conflicts in their relations. Likewise, aspects from cognitive approaches such as the group decision-making (Forbes & Milliken, 1999) or the cognitive approach of agency theory (Charreaux, 2005, 2008; Wirtz, 2011) could be included to take into account the proactivity of the directors, the mental schema of each of them and the "cognitive conflicts" that occur in the decision-making processes when there are individuals with diverse cognitive schemas. In this context, it would make sense to study the diversity of the board, both in observable (*e.g.*, race, gender) and unobservable (*e.g.*, education, experience) terms. In fact, in the for-profit sector, a greater presence of women (related to gender diversity) has been associated with lower levels of risk and higher financial performance (Campbell & Mínguez-Vera, 2008; Chen, Ni & Tong, 2016; Faccio, Marchica & Mura, 2016; Reguera-Alvarado, Fuentes & Laffarga, in press).

As a result of the use of other theoretical approaches of nonprofit governance, we could analyze the roles that the board assumes and which is the most suitable composition for the effective development of each of them. As mentioned above, it is noteworthy that, while previous literature finds a significant effect of the board on the organizational efficiency, we do not obtain any impact on the financial vulnerability of the NGDOs. Therefore, it would be interesting to simultaneously analyze the effect of the board on efficiency (allocative, administrative and fundraising), financial performance, financial vulnerability and other areas in which the literature is emerging in this third sector, such as reputation and transparency. In this way, we could study whether the correct performance of each function needs a different board composition, or whether the same board configuration allows an efficient execution of all these functions. Connected to this line of research, we could also include in the analysis, as already discussed in the fourth chapter, the characteristics of the NPO's managerial team. It would be interesting to analyze managers in the same terms as those we have used for the board. In this way, we could study whether the managers are influencing on the probability of classifying the NPO as financially vulnerable, as well as their effect on other areas of the organization.

Finally, an additional line of research is to enlarge the analyzed samples, which would possibly help to overcome most of the limitations noted above. Such extension could be developed in several directions: increasing the number of organizations, the number of years, the subsectors analyzed or even the countries to which the NPOs belong. A greater number of organizations would involve greater variability in data and, therefore, greater reliability of the results. Likewise, this would allow us to use a contingent approach (Ostrower & Stone, 2010), considering that the specific characteristics of each NPO result in different needs and, therefore, in a different configuration of the governance mechanisms. A greater number of periods would allow us the opportunity to use panel data methodologies that would give greater robustness to the results. A greater number of subsectors would allow us to extrapolate the results to the nonprofit scope as a whole, considering partial analyses that highlight the possible differences between subsectors. Finally, a comparative international study would mean a particularly relevant contribution in this sector given the scarcity of studies that use this type of samples. Notwithstanding, collaboration between researchers from different countries is required for conducting this type of research, given the great differences between the regulations of each country. In this sense, a preliminary study has been performed (Garcia-Rodriguez & Jegers, 2016). It analyzes the capital structure of NPOs from Belgium, Spain and the UK, showing significant differences depending on the nationality of the organization. These international samples would allow to introduce the effect of institutional, macroeconomic and cultural variables, as it has been done in the for-profit field (*e.g.*, Laitinen & Suvas, 2016; Li & Harrison, 2008; Zheng, El Ghoul, Guedhami & Kwok, 2012).

In short, throughout this doctoral thesis we have attempted to respond to a problem of the current reality of the third sector: the financial difficulties that NPOs have experienced during the recent crisis. To this end, we have analyzed in detail the concept of financial vulnerability and we have incorporated into the literature the study of the effect that the board composition could have on such vulnerability, which is not significant in our study. In this way, as we have noted since the introduction of this thesis, we have changed the focus of the problem, going from analyzing the effect on the traditional organizational efficiency to the extreme situation of financial vulnerability. However, the financial survival of the NPO should only be considered as a necessary condition for the continuity of the functioning of the organization. It must be emphasized that having a sound financial structure is not sufficient to ensure the survival of the NPO over time. This is because the society as a whole will demand from the organization the proper use of its funds, as they have obtained them mainly from private donations and public grants. Thus, efficiency and financial vulnerability should be considered as related and even complementary concepts, and therefore a balance between them is necessary so that the NPO continue to fulfill its mission over the years.

Nevertheless, although we have been able to shed some light to some stages of the route we have travelled, many of them still remain in darkness and will become, very possibly, deviations that we will take in the future. These deviations would allow us to continue clearing up some of the many questions about the third sector that still need to be addressed.

CONCLUSIONES GENERALES

"Serva ordinem et ordo servabit te"
"Ubi ordo deficit nulla virtus sufficit"

CONCLUSIONES GENERALES

El camino recorrido a través de esta tesis doctoral nos ha permitido avanzar en el conocimiento sobre la relación que existe entre el consejo (*board of trustees* en términos anglosajones) de las entidades no lucrativas (ENLs) y su vulnerabilidad financiera. En las distintas etapas de esta travesía hemos realizado una revisión actualizada de la literatura de gobierno en las ENLs y hemos profundizado en la delimitación del concepto de vulnerabilidad financiera de estas organizaciones. Si bien es cierto que el viaje que hemos iniciado en esta tesis está lejos de finalizar y que, de hecho, muchas son las líneas de investigación futuras que se plantean a partir del punto en el que nos encontramos, no es menos cierto que hemos realizado algunos avances que también procederemos a describir en las líneas que se relatan a continuación.

La principal conclusión que extraemos en esta tesis doctoral es la inexistencia de cualquier tipo de relación entre la estructura y composición del consejo y la vulnerabilidad financiera de las ENLs. Este resultado, plasmado en el capítulo cuarto, contrasta con los obtenidos en el ámbito empresarial, donde la literatura ha probado, teórica y empíricamente, la influencia del consejo sobre las dificultades financieras de la organización, considerando como tal tanto el *financial distress* como la quiebra. En el caso del sector no lucrativo y, más concretamente, en las Organizaciones No Gubernamentales para el Desarrollo (ONGDs), parece que la práctica habitual es contar con consejos alejados de la toma de decisiones de carácter financiero que podrían ser considerados, al menos en este aspecto, como "consejos decorativos" (*rubber stamps boards* en términos anglosajones). Es decir, que a pesar de tener un considerable poder de *iure* (no debemos olvidar que son los responsables últimos de la organización), los consejos de las ENLs, carecen de (o eluden el) poder de *facto*. En este sentido, sería recomendable que los consejeros se hiciesen conscientes de su responsabilidad real para con la organización que "gobiernan" y se implicasen efectivamente en la toma de decisiones de todos los ámbitos de la ENL. Así, tal y como se indicaba ya en el anterior capítulo, los consejeros solo deberían aceptar un puesto de estas características si realmente contasen con los conocimientos, motivación y tiempo necesarios para asumir tal responsabilidad. Y, por otro lado, los directivos deberían buscar la manera de aprovechar el capital social aportado por los consejeros permitiendo su participación activa, tanto en la supervisión de su trabajo como en el diseño de la estrategia de la organización. Si bien es cierto que, siguiendo los resultados obtenidos en la literatura previa, el órgano de gobierno influye sobre la eficiencia de las ENLs, al cambiar la pregunta sobre la que gira la investigación y focalizar nuestro estudio en el estudio del efecto del consejo sobre la vulnerabilidad financiera de la entidad, hallamos una ausencia de relación entre la composición del consejo y este aspecto puramente financiero de la organización. Es importante apuntar que esta ausencia de efecto entre consejo y vulnerabilidad financiera de las ENLs se contrasta, siguiendo las recomendaciones de la literatura más reciente (Brown, 2005; Callen, Klein & Tinkelman, 2010; Van Puyvelde, Caers, Du Bois & Jegers, 2012), bajo un paraguas teórico ecléctico que aúna argumentos procedentes de diferentes teorías para explicar la realidad del sector.

La utilización de este enfoque ampliado, con argumentos extraídos de las principales teorías sobre gobierno, se deriva precisamente de la revisión teórica realizada a lo largo del primer capítulo. Así, el viaje realizado a través de los distintos enfoques de gobierno empleados por la literatura nos ha llevado a concluir que ninguno de esos enfoques, considerados de manera individual, logra explicar completamente el desarrollo del elenco de roles y funciones que se han venido asignado al consejo. De ahí la necesidad de aunar los postulados de las diferentes teorías para construir un marco teórico que contemple la actuación de los mecanismos de gobierno en las distintas facetas consideradas por la literatura. De manera más específica, en el capítulo cuarto nos hemos basado fundamentalmente en los dos enfoques teóricos más habituales en la literatura de gobierno, esto es, la teoría de la agencia y el enfoque de dependencia de recursos. Así, hemos analizado la efectividad del consejo en función de su desempeño como supervisor y asesor de la dirección. En base a ello, se ha caracterizado al consejo a través de su estructura (tamaño, independencia, presencia de los fundadores o dualidad entre el *Chief Executive Officer* [CEO] y el presidente del consejo) y del capital humano y social de los consejeros (experiencia como directivos y como consejeros, tanto de empresas como de ENLs, nivel medio de estudios, experiencia y sus estudios específicos en el campo en el que actúa la organización, y experiencia y los estudios específicos en el campo económico-financiero) y se ha examinado su influencia sobre la viabilidad financiera de la organización. Sin embargo, como ya hemos indicado, no hemos encontrado ninguna relación significativa entre la configuración del consejo y la vulnerabilidad financiera de la ENL. En algún caso (como sucede con el tamaño del consejo), la utilización de argumentos contrapuestos de varias teorías nos ha conducido a plantear hipótesis en términos de ausencia de efecto directo sobre la vulnerabilidad financiera. Solo en estas ocasiones la inexistencia de relación entre consejo y vulnerabilidad podría entenderse como el contraste empírico de nuestro enfoque multiteórico.

Junto al estudio del gobierno y su efecto sobre la salud financiera de las ENLs, esta tesis doctoral ha reflexionado profundamente sobre el concepto de vulnerabilidad financiera de estas entidades. Como ya hemos comentado en los capítulos anteriores, se trata de un tema relativamente reciente en la investigación del tercer sector, dado que el estudio seminal de esta materia data de 1991. Ello explica que su grado de desarrollo, empírico y teórico, no sea muy elevado, por lo que esta investigación ha tratado de aportar claridad al estado del arte de esta cuestión, en relación tanto con la definición de vulnerabilidad financiera en sí misma como con los predictores empleados para poder anticiparla. En primer lugar, la propia medida de vulnerabilidad financiera no había sido estudiada directamente por la literatura, habiéndose empleado varias medidas sin que existiera consenso alguno acerca de cuál era la más adecuada y pese a que, como se demuestra en el capítulo tercero, presentan importantes diferencias entre ellas. En dicho capítulo, defendimos el uso de un modelo multidimensional que permitía recoger distintos aspectos de la vulnerabilidad financiera. La dimensión operativa recogía la variación de activos netos en un periodo de tres años (que, dada la restricción de no distribución de las ENLs, es la diferencia entre ingresos y gastos en tal periodo), mientras que las dimensiones de solvencia y de liquidez permitían captar la capacidad de la organización para hacer frente a sus deudas totales o a corto plazo respectivamente. Así, la primera dimensión recogía un aspecto dinámico de la vulnerabilidad financiera, mientras que la segunda y la tercera analizaban un concepto estático, teniendo en cuenta el largo y el corto plazo. Dicho modelo es el empleado en el análisis que se ha llevado a cabo en el capítulo cuarto, si bien, hemos tenido que adaptarlo siguiendo algunas circunstancias particulares, como son los criterios de la Agencia Española de Cooperación Internacional para el Desarrollo (AECID) y las formas en las que se han hecho operativas por la literatura tradicional. Este modelo multidimensional de valoración de vulnerabilidad financiera permite el análisis conjunto de varias particularidades del concepto, pues ninguna de las dimensiones consideradas aisladamente consigue reflejar toda la complejidad que este encierra. Y es precisamente esta valoración multidimensional la que diferencia este estudio de otros (Andres-Alonso, Garcia-Rodriguez & Romero-Merino, 2015; Cordery, Sim & Baskerville, 2013; Keating, Fischer, Gordon & Greenlee, 2005) que, aun introduciendo varias variables de vulnerabilidad financiera, no lo hacen de forma simultánea formando un único constructo. De este modo, el presentar debilidad en una dimensión conllevará un problema más o menos grave dependiendo de si la ENL cuenta o no con una posición delicada en las otras dos dimensiones. No obstante, pese a los avances realizados a este respecto, aún queda mucho por recorrer en este campo, tal y como detallaremos en la parte final de este capítulo.

Con respecto a los predictores financieros que se han venido empleando en la literatura, tal y como hemos expuesto en el capítulo segundo, estos presentan una confrontación según se analicen desde una perspectiva de vulnerabilidad financiera o desde el punto de vista de la eficiencia de la ENL. Bajo esta doble perspectiva, el efecto global de las variables utilizadas para predecir la vulnerabilidad se vuelve confuso y será necesario realizar un *trade off* entre las ventajas e inconvenientes de esos elementos utilizados como predictores. Nuestros razonamientos nos sitúan en consonancia con la literatura más reciente sobre finanzas de ENLs (Calabrese, 2012; Mitchell & Calabrese, 2016), planteando la necesidad de reflexionar sobre relaciones que se dan por válidas y aceptadas cuando, por el contrario, la realidad empírica no es concluyente. Por ello, es necesario traer argumentos provenientes de otras realidades (en nuestro caso el estudio de la eficiencia organizativa) para analizar cómo los distintos efectos esperados se pueden contrarrestar y anular entre ellos. En nuestra investigación, el ejemplo más claro de todo ello es el relativo al margen operativo de la entidad (diferencia entre ingresos y gastos). La literatura sobre vulnerabilidad financiera defiende que cuando este es elevado, permite a la ENL gozar de reservas a las que recurrir en caso de tener problemas financieros en el futuro, y, por lo tanto, un elevado margen operativo se relacionaría con una mejor salud financiera. Sin embargo, atendiendo a la literatura sobre eficiencia, tal margen puede ser considerado como excesivo por parte de los donantes dado que gran parte de los recursos disponibles (mayoritariamente donaciones y subvenciones públicas) no son destinados directamente al fin para el cual fueron otorgados, esto es, cumplir la misión de la organización. De esta manera, la ENL sería calificada como poco eficiente, y los donantes podrían suspender sus contribuciones a la organización poniendo en peligro su financiación y, en definitiva, su supervivencia financiera. Por todo ello, es necesario encontrar un equilibrio para que, existiendo un superávit, este no sea desproporcionado. En definitiva, esta reflexión sobre cada uno de los predictores tradicionales (ratio de endeudamiento, concentración de ingresos, margen operativo, ratio de costes administrativos y tamaño) puede ser de utilidad para, en una siguiente etapa, determinar la conveniencia de incluirlo en un indicador global, similar al de Altman en el ámbito corporativo, que permita anticipar la situación vulnerabilidad financiera de una ENL. A este respecto, nuestra investigación también nos ha permitido poner de manifiesto la necesidad de considerar las particularidades de cada subsector del entorno no lucrativo, pues los modelos que predicen la vulnerabilidad financiera de manera relativamente aceptable para el conjunto del tercer sector, no lo hacen para el ámbito concreto de la cooperación internacional para el desarrollo. Ello es corroborado por los resultados obtenidos en el capítulo segundo, así como por la ausencia de coeficientes significativos de las variables de control en el capítulo cuarto. Esta necesidad de considerar las peculiaridades del subsector se encuentra en consonancia con las recomendaciones vertidas por la literatura previa (Hager, 2001; Trussel, 2002; Trussel, Greenlee & Brady, 2002) e incide en la realidad altamente diversa que nos podemos encontrar a lo largo de todo el sector no lucrativo.

Además de todo lo anterior, es reseñable también que nuestros análisis empíricos se hayan llevado a cabo en un contexto de crisis. Ello contrasta con la mayoría de estudios relacionados con la vulnerabilidad financiera de las ENLs, desarrollados en épocas de expansión económica, lo que aporta un marco diferente a este tipo de análisis. No cabe duda de que la crisis ha supuesto un escenario extraordinariamente delicado para las ENLs, las cuales han visto amenazada su supervivencia financiera debido a la reducción de donaciones y subvenciones y a las restricciones existentes en el crédito bancario. Igualmente, las muestras analizadas están conformadas por organizaciones europeas, concretamente británicas y españolas. Este hecho supone una contribución de un contexto diferente a una literatura tradicionalmente dominada por los estudios empíricos basados en muestras conformadas por entidades estadounidenses. En esta línea, dicha literatura suele emplear como principal fuente de información el Formulario 990 del *Internal Revenue Service* (*IRS*), mientras que en nuestro caso nos hemos valido de las cuentas anuales auditadas de cada organización. En suma, este diferente contexto (subsector, periodo, países, fuente de información) puede ayudar a explicar las diferencias de nuestros análisis de vulnerabilidad financiera respecto a los estudios previos.

Por último, de esta tesis doctoral se derivan también importantes recomendaciones para los profesionales del sector no lucrativo. Como ya hemos apuntado, las ENLs deberían modificar su funcionamiento interno, de tal manera que se favorezca tanto la incorporación de consejeros con un elevado capital humano y social como su participación en la toma de decisiones estratégicas de la entidad, además de ejercer su labor como supervisores de las decisiones de los directivos. En este sentido, destaca especialmente la baja presencia de consejeros con estudios específicos de cooperación internacional al desarrollo o de gestión de ENLs (el 7,03% de nuestra muestra del capítulo cuarto). En efecto, tal dato debería invitar a la reflexión sobre la política de incorporaciones a los órganos de gobierno de las ENLs; más aún cuando tales estudios se han convertido en un requisito casi imprescindible para trabajar en el sector. Pero, igualmente, los directivos también han de facilitar y fomentar la participación del consejo permitiendo y promoviendo que se involucren en la toma de decisiones de la organización. De esta manera, el equipo directivo (y la ENL) conseguiría beneficiarse de ese conjunto de conocimientos y experiencias que posee el órgano de gobierno en su conjunto. Por otra parte, la aplicación del modelo multidimensional de vulnerabilidad financiera puede ayudar a los profesionales a evaluar la situación financiera de la organización en conjunto, no fijándose en una medida en concreto, sino considerando las tres variables planteadas de manera simultánea.

Todos estos resultados y conclusiones se traducen, no solo en una motivación por continuar la investigación en diferentes líneas de actuación, tal y como relataremos al final de este capítulo, sino también en la necesidad de superar algunas de las limitaciones de las investigaciones realizadas, tal y como procederemos a describir en los siguientes párrafos.

En primer lugar, existen ciertos aspectos que inciden en todos los análisis realizados a lo largo de la tesis doctoral. De este modo, somos conscientes del tamaño reducido de las muestras empleadas, especialmente comparado con estudios previos de vulnerabilidad financiera de ENLs estadounidenses. Ello encuentra su justificación en la ausencia de bases de datos (como la proporcionada por el *IRS* en los estudios americanos), con lo que la información tiene que ser recopilada de manera manual. A su vez, esta misma restricción provoca que no hayamos podido emplear metodologías específicas de datos de panel, pues el número de años de los que hemos podido extraer información completa ha sido limitado, sin olvidar que, además, el cálculo de la vulnerabilidad financiera (en concreto para la dimensión operativa, la variación de activos netos) requiere la utilización de datos provenientes de varios periodos. Igualmente, en esta investigación únicamente hemos analizado un subsector de todo el ámbito no lucrativo, el correspondiente a la cooperación internacional para el desarrollo. Como hemos expuesto a lo largo de esta tesis doctoral, este subsector cuenta con una idiosincrasia muy particular, con lo que puede que las conclusiones obtenidas no sean extrapolables a todo el conjunto del tercer sector. Además, los análisis corresponden a años en los que las ENLs han padecido las consecuencias derivadas de la crisis, motivo por el cual los resultados obtenidos puede que solo se deban a este *shock* excepcional y no sean trasladables a otros periodos de mayor estabilidad económica.

Además de esta limitación relativa a la contrastación empírica de los argumentos defendidos en los capítulos dos al cuarto, también existen limitaciones particulares relativas únicamente al capítulo cuarto. Así, con respecto a la vulnerabilidad financiera, la idoneidad del modelo multidimensional propuesto no ha sido contrastada empíricamente, con lo que no hemos podido constatar la utilidad que hemos fundamentado teóricamente. Por otra parte, la fuente de información empleada para la estimación del capital humano y social de los consejeros (la página web de cada organización y buscadores genéricos de internet) provoca que no hayamos logrado el mismo nivel de detalle en la biografía de cada consejero, pues depende tanto de su nivel de relevancia pública como de la transparencia ofrecida por la ENL en este aspecto.

Para finalizar este capítulo y esta tesis doctoral, exponemos las principales líneas de investigación que se han ido abriendo a tenor de los resultados obtenidos en los capítulos precedentes. Entre ellas se sitúa, en primer lugar, el contraste de la capacidad explicativa del modelo multidimensional de vulnerabilidad financiera propuesto en el capítulo tercero. En este sentido, sería interesante confirmar si las organizaciones que han cesado su actividad por motivos financieros habrían sido calificadas como vulnerables en el momento del cese aplicando nuestra propuesta de modelo. Como indica la literatura (Hager, 2001), la dificultad de ello radica en que la finalización de las operaciones de las ENLs no se suele transmitir directamente a los registros legales pertinentes. Junto a este hecho, es importante señalar que no todas las entidades cesan sus actividades por motivos económico-financieros. Por ello, es difícil encontrar una muestra de organizaciones que reúnan los requisitos necesarios para contrastar nuestro modelo. También en relación con la vulnerabilidad financiera, queda pendiente desarrollar un índice que permita predecir la vulnerabilidad financiera de las organizaciones. Ello sería una herramienta especialmente útil para los profesionales del sector, pues les permitiría anticipar situaciones de dificultades financieras. No obstante, para llevar a cabo esta labor, primero hay que cerciorarse de que la variable dependiente, la vulnerabilidad financiera, está medida correctamente y es una *proxy* adecuada, tal y como hemos indicado con anterioridad.

Otra línea de trabajo que se puede abordar consiste en considerar perspectivas teóricas de gobierno adicionales, tales como la teoría de los *stakeholders* (Freeman, 1984; Freeman & Reed, 1983) o la teoría *stewardship* (Davis, Schoorman & Donaldson, 1997), para contemplar otras relaciones entre partícipes de la organización y otro tipo de conflictos en las relaciones. Igualmente, se podrían incluir aspectos provenientes de enfoques cognitivos, como la teoría de decisiones (Forbes & Milliken, 1999) o el enfoque cognitivo de la teoría de la agencia (Charreaux, 2005, 2008; Wirtz, 2011), para tener en cuenta la proactividad de los consejeros, el esquema mental de cada persona y los "conflictos cognitivos" que se producen en los procesos de toma de decisiones cuando existen individuos con esquemas mentales divergentes. En este contexto, cobraría sentido el estudio de la diversidad de los consejeros, tanto de aspectos observables (raza, género) como no observables (educación, experiencia). De hecho, en el sector empresarial ya se ha constatado cómo una mayor presencia femenina (relacionado con la diversidad de género) está asociada a unos niveles de riesgo inferiores y a una mayor *performance* financiera (Campbell & Mínguez-Vera, 2008; Chen, Ni & Tong, 2016; Faccio, Marchica & Mura, 2016; Reguera-Alvarado, Fuentes & Laffarga, *in press*).

Derivado de la utilización de otros enfoques teóricos de gobierno, se podrían volver a analizar las funciones que el consejo asume y la composición más idónea para el desarrollo efectivo de las mismas. Como se ha comentado previamente, es reseñable cómo mientras la literatura previa encuentra un efecto significativo del consejo sobre la eficiencia de la ENL, en nuestro caso no lo obtenemos sobre la vulnerabilidad financiera de la misma. Sería interesante, por tanto, analizar simultáneamente el efecto del consejo sobre la eficiencia (asignativa, administrativa y de captación de fondos), la *performance* financiera, la vulnerabilidad financiera y otras áreas en las que la literatura es muy incipiente en este tercer sector, como son la reputación y la transparencia. De esta manera, se podría estudiar si para la correcta realización de cada función es necesaria una composición diferente del consejo, o si una misma configuración del consejo permite una ejecución eficaz de todas estas funciones. Vinculado con esta línea de trabajo, también podríamos incluir en los análisis, tal y como ya se ha comentado en el capítulo cuarto, las características del equipo directivo de la organización. Sería interesante valorar a los directivos en términos similares a los que hemos empleado para el consejo. De esta manera, podríamos averiguar si los directivos están influyendo en la probabilidad de que la ENL se adentre o no en situación de vulnerabilidad financiera, así como su efecto en otras áreas de la organización.

Por último, una vía adicional, y posiblemente necesaria para superar las limitaciones apuntadas anteriormente, consiste en ampliar las muestras analizadas. Tal ampliación podría llevarse a cabo en varias direcciones: ampliar el volumen de organizaciones, el número de años, los subsectores analizados o incluso los países de pertenencia de dichas entidades. Un mayor número de organizaciones permitiría tener mayor variabilidad en los datos y, por ende, una mayor fiabilidad en los resultados. Igualmente, este mayor número de organizaciones permitiría adoptar un enfoque contingente (Ostrower & Stone, 2010), considerando que las características propias de cada ENL derivan en unas diferentes necesidades y, por tanto, en una configuración distinta de los mecanismos de gobierno. Un mayor número de periodos ofrecería la posibilidad de aplicar técnicas de datos de panel que diesen una mayor robustez a los resultados. Un mayor número de subsectores nos permitiría extrapolar los resultados a todo el entorno no lucrativo, considerando la realización de análisis parciales que resalten las posibles diferencias entre subsectores. Por último, un estudio comparativo de carácter internacional supondría una aportación especialmente relevante en este sector dada la escasez de estudios que cuenten con ese tipo de muestras. No obstante, para llevar a cabo este tipo de trabajos de manera oportuna sería necesaria la colaboración entre investigadores de los distintos países, dadas las grandes diferencias entre las regulaciones de cada país. En este sentido, se ha desarrollado un estudio preliminar (Garcia-Rodriguez & Jegers, 2016) en el que se analiza la estructura de capital de ENLs de Bélgica, Reino Unido y España, mostrando diferencias significativas en función del país de origen de la organización. Esta construcción de muestras internacionales permitiría introducir el efecto de variables institucionales, macroeconómicas y culturales propias de cada país, tal y como se ha realizado en el ámbito empresarial (*e.g.*, Laitinen & Suvas, 2016; Li & Harrison, 2008; Zheng, El Ghoul, Guedhami & Kwok, 2012).

En definitiva, en esta tesis doctoral hemos tratado de dar respuesta a un problema de la realidad actual del tercer sector, como son las dificultades financieras experimentadas por las ENLs en la reciente época de crisis. Para ello, hemos analizado detalladamente el concepto de vulnerabilidad financiera y hemos incorporado a la literatura el estudio del efecto que la composición del consejo de la organización puede tener sobre dicha vulnerabilidad, resultando, en nuestro caso, no significativo. De esta manera, como apuntamos desde la introducción de esta tesis, hemos cambiado el foco del problema, pasando de analizar el efecto sobre la tradicional eficiencia organizativa al existente sobre la situación extrema de vulnerabilidad financiera. No obstante, la supervivencia financiera únicamente ha de ser considerada como la condición necesaria para la continuidad del funcionamiento de la organización. Hay que insistir en que el hecho de que poseer una estructura financiera saneada no es condición suficiente para disfrutar de tal continuidad pues, en último término, la sociedad en su conjunto demandará a la organización el uso correcto de los fondos de los que dispone, ya que ha sido ella la que se los ha otorgado (principalmente, vía donaciones privadas y subvenciones de las administraciones públicas). Así, la eficiencia y la vulnerabilidad financiera han de valorarse como conceptos conexos e incluso complementarios, siendo necesario por tanto un equilibrio entre ambos para que, con el transcurso de los años, la ENL continúe desempeñando su misión.

Con todo, si bien hemos sido capaces de aportar cierta luz a algunos tramos del camino recorrido, somos conscientes de que muchos otros aún permanecen en tinieblas y que se convertirán, muy posiblemente, en desvíos que tomaremos en el futuro que nos permitirán seguir despejando algunas de las múltiples incógnitas del tercer sector que aún restan por abordar.

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