

2022

Strategies for Navigating the Nonprofit Starvation Cycle

Jennifer T. Matthews
Walden University

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Walden University

College of Management and Technology

This is to certify that the doctoral study by

Jennifer Matthews

has been found to be complete and satisfactory in all respects,
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Walden University
2022

Abstract

Strategies for Navigating the Nonprofit Starvation Cycle

by

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MA, Notre Dame of Maryland University, 2011

BS, Morgan State University, 1998

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

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April 2022

Abstract

Donors' skewed perceptions and unrealistic expectations about nonprofit organization (NPO) overhead can negatively impact the administrative infrastructure and limit productive capacity. NPO leaders who succumb to the pressure to spend less overhead are at high risk of eroding the administrative infrastructure and limiting productive capacity. Grounded in Duncan's theory of impact philanthropy, the purpose of the qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the nonprofit starvation cycle. Data were collected from five nonprofit leaders using semistructured interviews, organizational documents consisting of annual reports, at least 3 years of Form 990, websites, member checking. Data were analyzed using Yin's five-step process. Four themes emerged: (a) diversify revenue, (b) identify and pursue unrestricted funds, (c) minimize overhead, and (d) unconventional budgeting and reporting. A key recommendation is for NPO leaders to be honest and transparent about operations costs in conversations with those in the grantmaking space. The implications for positive social change include the potential for improved NPO sector sustainability, resulting in thriving NPOs that can better aid beneficiaries and their communities through service and, therefore, fulfill their mission.

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Dedication

This work is dedicated to my late grandmother, Sarah Normalee Jones (1924-2017). I grew-up, literally, in my playpen at her business, which was a convenience store, bar, and restaurant on the corner of Pine and Cedar Streets in Cambridge, Maryland. “The Store,” as everyone called it, was my introduction to business, and she was my introduction to entrepreneurship. An African American, female, business owner with a corner establishment on Maryland’s Eastern Shore, “Mom-Mom,” is where the deep interest in business and entrepreneurship began for me. She worked, both in the home and in her business. She was a wife, mother of six, devoted sister, grandmother, friend, community porch watchperson, businesswoman, and entrepreneur in her day and time. While many say that we, *modern-day women*, are doing too much to have it all, my grandmother did have it all. Long after my grandmother sold the business and retired, I observed her, and she remained meticulous about her personal financial ledgers and record-keeping -- Just for household expenses. Her ethic was consistent. She reviewed bills, looked at income and expenses, and kept hand-written records of all transactions until she was 90 years old. What I gathered from my grandmother is that business is not just what we do, but rather business is instilled in us – Business is who we are. Born in 1924, my grandmother was a 3rd generation, African American entrepreneur. She was because of them, and I am because of her. Therefore, I honor the memory of My 1st Best Friend through the work and sacrifice required to complete this journey successfully. Mom-Mom, I have taken the torch and I am running forward -- Your legacy lives on!

Acknowledgments

I would like to acknowledge the faculty and staff of Walden University. I extend a special thank you to Dr. Sue Subocz, Provost and Chief Academic Officer, and to the Doctor of Business Administration program staff. To my phenomenal chair, Dr. Tim Truitt, my second committee member, Dr. Yvonne Doll, and my University Research Reviewer, Dr. Denise Land, I express deep appreciation for your guidance and assistance. To my parents, Alma and Charles Boulden, thank you for the encouragement and support throughout this process. To my deceased father, Reuben L. Matthews, I hope you are smiling down with pride and joy. To my spiritual leadership, Lady Winsome and Dr. Monroe R. Saunders, thank you for my covering and faith foundation – It propelled me through this. I express special thanks to Lady Drucilla and Bishop Donald Williams for your encouragement. To my sisters, Dr. Cheryl R. Smith and Chrishan Charles, and my “son,” Sputty Cephas, thank you for standing with me through the hardest thing I have ever had to face (losing Mom-Mom). Thank you, Dr. Simone Gibson, for being a great inspiration and for telling me, “You can’t quit.” To my niece, Londyn, I wanted to do this so that you are directly connected to possibility: Who runs the world? Girls! To my Godchildren, Da’Mauri and Bryce, when you were born, I committed to always be at my best so that I could show up great for you – Your lives made me a better woman. Lastly, to every child growing up in a single-parent home, and to children who learn differently, as a dyslexic who was raised by a single mother, I acknowledge you and your greatness! I thank God that I am celebrating this great accomplishment! All glory belongs to Him –

The Author and Finisher of my faith.

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Section 1: Foundation of the Study

The foundation of this study originated from questions I developed because of observing many nonprofit organization (NPO) leaders accept large monetary donations gifted to NPOs, yet not investing in the overall infrastructure of the NPO, which should become more robust to support programs and services as they expand. The nonprofit sector is shifting, as changes are underway regarding how NPOs report information and outcomes on programming, maintain accountability, and satisfy stakeholders (Mitchell & Berlan, 2018). Impact philanthropists who give to NPOs are stakeholders who desire to make a difference personally, seek charitable fulfillment, and form codependent relationships with the organizational leader (Duncan, 2004). While serving in the role of executive director for multiple NPOs, I observed nonprofit leaders misrepresent budgets, downplay true operating costs, and oblige charitable givers by allowing donors to decide how monetary donations should be spent. In a codependent relationship, impact philanthropists and NPO leaders benefit from each other, potentially resulting in a conflict between charitable organizations and such donors concerning the allocation of charitable gifts (Duncan, 2004). The budget represents the annual monetary, operational plan of the NPO; therefore, ongoing discussions and disagreements may hinder organizational activities throughout the budgeting process, causing damage to the organization (Sinuany-Stern, 2014). When NPOs experience a systematic and chronic cycle of underfunding and underinvesting, called the nonprofit starvation cycle (NSC; Berlin et al., 2017), and when NPO leaders lack effective strategies to navigate the NSC,

they are prevented from maximizing efficacy and achieving their mission, which is the background of this study.

Background of the Problem

NPO leaders and charitable donors are vital to the overall success of NPOs, as both support NPOs in achieving their mission. Leaders of NPOs are charged with carrying out mission-related work efficiently and effectively while being responsible for management and oversight of public funds and private donations (Berlin et al., 2017). According to Berlin et al. (2017), the overhead for NPOs is often a prevalent and controversial topic in the philanthropic sector, causing tension between NPO leaders and donors. Donor expectations are increasingly unrealistic and cause leaders to spend less on overhead, which yields the erosion of administrative infrastructure and limited productive capacity (Lecy & Searing, 2015). When NPO leaders reduce overhead to gain a competitive advantage in donor markets, the NSC is triggered (Gregory & Howard, 2009), which deprives NPOs of finances and resources, and could prevent NPOs from achieving their mission.

Falling overhead in the nonprofit sector has been studied, and trends have been documented. For example, Lecy and Searing (2015) explored falling overhead ratios in the nonprofit sector, and there was a downward trend in reported overhead costs, reflecting a significant reduction in administrative expenses. According to Gregory and Howard (2009), the downward trend in reported overhead costs is caused by the following: (a) donors' unrealistic expectations, (b) the willingness of NPO leaders to conform to such unrealistic expectations, and (c) underspending and underreporting,

which results in the perpetuation of these expectations. While it is difficult to identify the origin of the unrealistic expectations of donors, researchers have noted that the most effective way to reduce or end the NSC is to act at the first stage of the cycle, and make a coordinated, sector-wide effort to change donors' expectations (Gregory & Howard, 2009). By exploring strategies for navigating the NSC, the findings of this study may provide NPO leaders with insight to (a) avoid the downward NSC trend, (b) recover quickly, and (c) reverse the cycle; therefore, helping NPO leaders to maximize efficacy and achieve their mission.

Problem and Purpose

Funders expect NPOs to spend an unrealistically low percentage of their income on overhead, which deprives NPOs of finances, resources, and an overall solid infrastructure (Schubert & Boenigk, 2019). Nearly 60% of American donors believe that NPOs spend too much on overhead, which lends to why donors' increasingly demanding expectations for what constitutes a reasonable overhead ratio has dropped from an average of 22% in 2012 to 19% in 2018 (Qu & Daniel, 2021). The general business problem is some NPOs experience a systematic and chronic cycle of underfunding and underinvesting, called the NSC, which prevents NPOs from maximizing efficacy. The specific business problem is some nonprofit leaders lack effective strategies to navigate the NSC, which prevents them from achieving their mission. Therefore, the purpose of this qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents NPOs from achieving their mission. The targeted population consisted of five nonprofit leaders who were employed by five different

registered 501(c)3 tax-exempt NPOs in the Greater Washington DC and the surrounding area, with over 5 years of demonstrated strategic efficacy in navigating a systematic and chronic cycle of underfunding and underinvesting, or the NSC. The implication for positive social change was that leaders of NPOs may use the findings from this study to apply effective strategies to navigate the NSC, resulting in having the resources needed to serve their beneficiaries better and fulfill their overall organizational mission.

Population and Sampling

To take part in this study, participants were required to be an NPO executive who was employed for at least 5 years by a registered 501(c)3 tax-exempt NPO located in the Greater Washington DC and surrounding area. Additionally, participants had to have successfully implemented effective strategies to navigate the NSC, which prevents NPOs from achieving their mission. Data for this study was collected by conducting semistructured interviews, reviewing organizational documents, and completing a member checking process.

Nature of the Study

There are three categories of research methodologies: qualitative, quantitative, and mixed methods (Venkatesh et al., 2016). Qualitative research methods are used to explore, explain, and understand phenomena, as researchers use words instead of numbers, as data for analyses (McCusker & Gunaydin, 2015). Data take the form of narratives gathered through interviews, direct observation, and content analysis (Hussein, 2015). The qualitative approach allows researchers to explore central phenomena as well as gather data in the form of words, such as open-ended interview questions, which

allows researchers to gain insights into underlying reasons, motivations, and prevalent trends in thought and opinion (McCusker & Gunaydin, 2015). Conversely, a quantitative methodology is appropriate for researchers who administer surveys to a subset of the whole population to collect data and those seeking to project their findings into a larger population (Jason & Glenwick, 2015). I did not select the quantitative method to complete this study because I was not seeking to generate statistical and numerical measures to support decision-making processes comparing, ranking, and selecting data. While the quantitative method involves deriving conclusions from data collected and statistical analysis measures (Thorne & Giesen, 2002), researchers use the mixed method, built on elements of qualitative and quantitative methodologies, to develop rich theoretical perspectives (Venkatesh et al., 2016). The mixed method approach involves collecting statistical and numerical data (Hussein, 2015), which did not align with the focus of my research; therefore, I did not select the mixed methodology to conduct this study. Consequently, I selected the qualitative methodology for this study because I wanted to explore effective strategies NPO leaders use for navigating the NSC.

There are five principal qualitative research designs: (a) narrative research, (b) phenomenological research, (c) grounded theory, (d) ethnography, and (e) case study (Yin, 2018). Narrative research design involves exploring the life of an individual and drawing from the humanities, while phenomenological design involves connecting events and situations through participants' lived experiences (Marshall et al., 2021). Researchers using grounded theory design develop a theory grounded in data in the field of study while ethnography involves describing and interpreting patterns of a culture-sharing

group (Marshall et al., 2021). I did not choose narrative or phenomenological research, grounded theory, or ethnography designs for my study. While I could have conducted my study using the narrative research design, I chose not to because narrative research is centered around exploring the lives of participants and having clear context of their lives. According to Tomaszewski et al. (2020), when conducting narrative research design, it is important to uncover the multilayered context of a life. In this case narrative research would involve exploring the lives of NPO leaders; therefore, I chose not to use the narrative research design because the focus of my study involves exploring practices and strategies NPO leaders use to in their professional roles to prevent or navigate a systematic and chronic NSC of underfunding and underinvesting, as opposed to exploring the many layers of their lives. Like the narrative research design, I could have also used the phenomenological research design to conduct my study, however, I chose not to conduct phenomenological research. According to Moustakas (1994), when conducting phenomenological research, the participants must be carefully selected, as all chosen individuals need to have experienced the phenomenon in question. Requirements for conducting phenomenological research are too structured, as the criteria for participation in my study did not require NPO leaders to have common experiences; therefore, I did not use the phenomenological research design for my study. I did not choose grounded theory research design because I did not intend to generate or discover a theory. Lastly, I did not examine participants' shared patterns or working with large sample sizes of 20 or more individuals; therefore, I did not choose the ethnography research design.

A case study enables researchers to understand complex issues, extend experience, and strengthen what is known through previous research (Yin, 2018). Therefore, I chose to conduct a case study design because I explored a real, specific business problem that involves exploring phenomena and asking questions about *how*, *why*, and *what* in nature (Yin, 2018). Subsequently, the case study design of qualitative research was appropriate for exploring effective strategies nonprofit leaders use to navigate a systematic NSC.

Research Question

The research question used to guide the study is “What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission?”

Interview Questions

The following interview questions were developed and used to address the overarching research question:

1. What has been your experience with funders and their expectations about your NPO’s overhead costs?
2. What specific strategies do you use to ensure funders understand the realistic cost of building the robust infrastructure needed to prevent triggering a systematic NSC of underfunding and underinvesting?
3. How, if at all, have funders’ expectations about overhead costs impacted how you represent or report operational costs?

4. What specific strategies do you use to ensure operating or overhead costs are accurately budgeted and represented in your organization?
5. What effective strategies have you used to navigate a systematic NSC of underfunding and underinvesting in your organization?
6. How do you assess the effectiveness of the strategies you have used to navigate an NSC in your organization?
7. Of the strategies that you used to navigate an NSC in your organization, which were the most effective?
8. Of the strategies that you used to navigate an NSC in your organization, which were the least effective?
9. How were the strategies used to navigate a systematic NSC successfully communicated to all stakeholders in your organization?
10. What additional insight or feedback, beyond what has been shared in your responses to interview questions 1-9, can you lend regarding effective strategies to navigate an NSC?

Conceptual Framework

I chose a philanthropy-based theory, the theory of impact philanthropy, as the conceptual framework for my study. The NSC begins with, and is triggered by, funders' unrealistic expectations about the cost of running an NPO, resulting in nonprofit leaders misrepresenting their costs while depriving vital systems, and ultimately, feeding the skewed beliefs of funders (Lecy & Searing, 2015). The theory of impact philanthropy is the new model of altruism and was developed in 2003 by Duncan. Based upon an impact

philanthropist, who is someone wishing to make a difference personally, the theory of impact philanthropy suggests (a) contributions of other donors can reduce the charitable fulfillment of an impact philanthropist, which can result in a reduction of aggregate giving; (b) impact philanthropy can lead to a codependent relationship between givers and receivers in which both benefit from the other; and (c) conflict occurs between charitable organizations and donors concerning the allocation of charitable gifts, as the organizations prefer to spread a donor's contribution across many goods, while donors prefer to target their contribution at a specific good (Duncan, 2004). Therefore, the theory of impact philanthropy applied to this study because the theory explained why donors frequently prefer to fund a specific part of a production process, such as refusing to pay operational or overhead costs or preferring to sponsor one individual child rather than a children's organization that uses charitable contributions to feed 1,000 children (Duncan, 2004). According to Duncan (2004), a fundraising policy that maximizes philanthropists' perceived impact is inconsistent with a fundraising policy that maximizes total contributions. Due to a lack of effective strategies to navigate a systematic NSC, yielding to donors' skewed perceptions could ultimately prevent nonprofit leaders from achieving their mission.

Operational Definitions

Impact philanthropist: An impact philanthropist is a donor who wants to make a difference personally (Duncan, 2004).

Impact philanthropy: Impact philanthropy is the new model of altruism, developed in 2003 by Duncan and is based upon an impact philanthropist (Duncan, 2004).

Nonprofit leader: A nonprofit leader is a person who is responsible for the management and oversight of an NPO, typically holding the position of chief executive officer (CEO), executive director, or president (Danna & Porche, 2008).

Nonprofit organization (NPO): A nonprofit organization, according to Grobman (2008), is formed at the state level, and it is an entity that is legally recognized, and eligible for tax-exempt status through the Internal Revenue Service (IRS). While NPOs are permitted to generate additional revenue, usage is restricted and can only be used to carry out the organization's mission, grow the organization, or aid in the organization's sustainability, as the goal of an NPO is not to generate profit (Grobman, 2008).

Nonprofit starvation cycle (NSC): The nonprofit starvation cycle is a crippling trend that debilitates organizational infrastructure because of underinvestment and misleading financial reporting, fueled by donors' unrealistic expectations of increasingly low overhead expenses (Lecy & Searing, 2015).

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions, according to Marshall et al. (2021), are beliefs of individuals that are unproven or not verified. The first assumption was that the interview process and supporting organizational documents, for this study, were adequate for collecting feedback and information regarding strategies for navigating the NSC. The second

assumption was the NPO leaders, chosen as study participants, would respond to my interview questions accurately, honestly, and openly.

Limitations

Limitations, referring to potential weaknesses of the study, could interfere with findings and are beyond the researchers' control (Marshall et al., 2021). According to Marshall et al. (2021), the larger the sample population, the more one can generalize the results. Therefore, a limitation for this study was a lack of generalizability due to the small sample size of five NPO leaders who were employed by five different NPOs, which could have prevented the researcher from meeting data saturation. If I did not meet data saturation with five participants, I planned to expand the sample size by one participant until data saturation was met. Another limitation was the results were limited to the responses participants were willing to disclose in their interview process. My recommendation for addressing this limitation was to end semistructured interviews by asking the participants for any additional insight or feedback beyond what they already shared in their responses. Asking for additional insight allowed participants to be open and share information beyond the targeted interview questions.

Delimitations

Delimitations refer to the bounds or scope of the study. Researchers consciously place delimitations on a study (Yin, 2018). This qualitative multiple case study was limited to the experiences of five NPO leaders who were employed by five different NPOs. The NPO leaders were limited to those with over 5 years of demonstrated efficacy in navigating the NSC. Results of this qualitative case study were limited to a select few

of the NPO leaders in the Greater Washington DC and the surrounding area, with demonstrated efficacy in navigating a systematic and chronic cycle of underfunding and underinvesting. Lastly, this study was limited to exploring strategies for effectively navigating the NSC. To address the delimitations, I sought participants (a) with different years of experience, (b) from NPOs of different fields, and (c) from different geographical locations within Greater Washington DC and the surrounding areas. For example, I sought participants with 5, 10, and 20 years of experience from NPOs that focused on education, homelessness, and pet rescue efforts that were based in Washington DC, Northern Virginia, and Montgomery County Maryland to address delimitations in this study.

Significance of the Study

Some NPO leaders experience systematic and chronic NSC, which prevents them from achieving their mission (Gregory & Howard, 2009). This study can be significant to business practice because it could provide leaders of NPOs with strategies to effectively navigate a systematic NSC, resulting in having the resources needed to serve their beneficiaries better and fulfill their mission for the communities they serve. Verifying the applicability of the impact philanthropy conceptual framework could also yield insights to share with funders and philanthropists since the NSC is prompted by donors' unrealistic expectations and beliefs about the true cost of operating NPOs. Understanding the theory of impact philanthropy and how it applied to this study, and increased transparency around discussing the NSC, could potentially lend awareness to impact

philanthropists, which may cause funders to have more realistic expectations about the cost of running NPOs.

The implications for positive social change include providing leaders of NPOs with the findings from this study, providing them with practical, effective strategies to navigate their organizations away from, or successfully through the NSC, which could yield thriving NPOs better able to aid beneficiaries and their communities. For example, with the finances and resources needed to build and maintain a solid infrastructure, NPO leaders could achieve their mission and maximize efficacy by building more robust programming and expanding their target area or service-base. Additionally, funders may use the findings of this study to aid in the development of a new grant-making approach by catalyzing honest dialogue around the topic of actual, as opposed to misrepresented, operating costs for NPOs to run effectively. Honest dialogue about actual operating costs needed to effectively run NPOs could potentially result in equipping nonprofits with resources to serve their beneficiaries better and fulfill their mission.

A Review of the Professional and Academic Literature

Literature reviews, as a research methodology, not only lend to conceptual, methodological, and thematic development of different domains, but provide readers with a current and relevant understanding of the research topic and aid in identifying gaps in research, which helps pinpoint future research opportunities (Paul & Rialp-Criado, 2020). Additionally, when prior studies are logically synthesized, subjects advance (Kumar et al., 2019). The purpose of this qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents NPOs from achieving

their mission. In this section, I present the literature search strategy, provide an in-depth review of the conceptual framework for this study, and an extensive review of previous research. Since the theory of impact philanthropy and the NSC were relatively new, as they were introduced in 2004 and 2009, respectively, I researched thoroughly to scrutinize both subject matters in depth and to explore related themes. The themes related to philanthropy that I analyzed were philanthropic motivation theories, such as the private consumption model or warm-glow theory, and the public goods model, which support and rival Duncan's theory of impact philanthropy, the conceptual framework for this study. Additional themes discussed in this section include organizational factors related to the NSC, such as NPOs, NPO leaders, and NPO efficacy measurement. The most efficient NPOs are headed by NPO leaders who are skilled in following the proverbs of NPO fiscal management: (a) overhead costs, (b) revenue diversity, (c) fiscal leanness, and (d) debt avoidance (Mitchell & Calabrese, 2019). Lastly, this literature review includes a discussion about these factors and donor expectations, considering the NSC. Seeking literature on all the themes of my topic required preparation and a thorough search process.

To identify relevant literature, I primarily used various databases from the Walden University Library, including ProQuest, Business Source Complete, and EBSCOhost. Additional material for this review was obtained from relevant seminal texts, government reports, and other web-based sources. Using the Boolean function, I searched for the following keywords: *nonprofit*, *nonprofit leadership*, *nonprofit budgets*, *nonprofit operating costs*, *nonprofit overhead*, *nonprofit funding*, *altruism*, *philanthropy*, *theories*

of philanthropy, and *nonprofit starvation cycle*. I searched for these keywords because when brainstorming and outlining elements associated with the topic for this study, the keywords were consistent themes in the literature, and they are connected or relational.

I applied parameters to use dates no earlier than 2018, and to return results consisting of only peer-reviewed sources while searching the databases. My goal was to keep data sources scholarly, as Walden University's suggestion is for at least 85% of references to be peer-reviewed sources. Another goal is to keep data sources current because Walden University also suggested that 85% references be within the past 5 years. There were 147 references used in this doctoral study. I incorporated 69 references into the literature review, including 59 (86%) peer-reviewed sources, and 57 (83%) current sources that were published in 2018 or later. Table 1 reflects a summary of the sources used in this doctoral study proposal.

Table 1

Summary of Sources Used in this Doctoral Study

| Resources | Total | 2018-2022 | 2017 & Earlier |
|----------------------------|-----------|-----------|----------------|
| Peer-reviewed articles | 127 (87%) | 67 | 60 |
| Books & Seminal Texts | 8 | 3 | 5 |
| Websites & Online Articles | 7 | 6 | 1 |
| Published Dissertations | 2 | 2 | 0 |
| Research Notes & Data Sets | 2 | 2 | 0 |
| Government Reports | 1 | 0 | 1 |
| Total | 147 | 80 (54%) | 67 |

Applied Business Problem

The purpose of this qualitative case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents NPOs from achieving their mission. The

research question emerging from this literature review was “What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission?” NPO leaders write organizational budgets and spearhead fundraising efforts, including donor recruitment and cultivation. However, because of lacking solid infrastructure and experiencing systematic and chronic underfunding and underinvesting, NPOs are often left deprived of finances and resources (Schubert & Boenigk, 2019). According to Schubert and Boenigk (2019), a lack of solid infrastructure and deprivation of resources leave NPOs unable to function as businesses. Four youth-serving NPOs studied by Gregory and Howard (2009) had actual overhead rates ranging from 17% - 35% but reported lower overhead rates ranging from 13% - 22% to comply with the expectations of both public- and private-sector donors. Misrepresenting overhead costs caused the NSC, which could prevent NPOs from ultimately achieving their mission. Since the NSC is triggered by the misrepresentation of NPO leaders to comply with donor expectations, I chose to apply a theory of altruism to this doctoral study called the theory of impact philanthropy.

Conceptual Framework: Duncan’s Theory of Impact Philanthropy

The theory of impact philanthropy, the newest altruism model, was developed by Duncan in 2003. Since the development of the theory of impact philanthropy, Duncan’s peer-reviewed source, which introduced the theory, has been cited by subsequent scholars over 300 times. Duncan’s theory is based upon an impact philanthropist that is one who wishes to make a difference personally (Duncan, 2004). The theory of impact philanthropy suggests that the feeling of fulfillment an impact philanthropist experiences,

which is obtained from making a difference personally, could be reduced as cooperation among donors who are giving to the same organization or towards the same goal could cause a decrease in aggregate giving (Duncan, 2004). Duncan (2004) stated that impact philanthropy could cause a codependent relationship between givers and receivers in which both benefit from the other. Lastly, according to Duncan, conflict occurs between charitable organizations and donors over the allocation of charitable gifts. This conflict occurs because organizations prefer to spread donors' contributions across many goods, while donors prefer to target their contribution at a specific good. Impact philanthropy provides deeper insight on the approach regarding the varying preferences of charitable gifts allocation.

Some donors prefer to fund a certain part of a production or programming process to avoid overhead costs. For example, this type of donor would prefer to sponsor an individual child, as opposed to a children's organization. Duncan (2004) asked if it was more satisfying to an individual contributor to save a single child from starvation than to provide each child with a single grain of rice. Duncan further asked whether paying for the children's food was more satisfying than paying the charitable organization's administrators' salaries. The theory of impact philanthropy suggests that the answer to both questions is yes because impact philanthropists perceive more significant impact when giving to a specific part of a process. A perceived impact increases when sponsoring an individual child because the philanthropist's first and last dollar is given to the child. While the theory suggests that targeted giving is beneficial to impact philanthropists, overall contributions can decrease when charitable organizations, such as

NPOs, conform to donors' unrealistic expectations (Duncan, 2004). When NPOs follow a fundraising policy that maximizes philanthropists' perceived impact, they create an inconsistency with fundraising policy that increases and maximizes total contributions (Duncan, 2004). Therefore, better understanding of impact philanthropy and application practices are vital for NPO leaders.

Impact philanthropy can be applied to or scrutinized in different settings. Duncan (2004) explored three settings: (a) an individual donor financing a single charitable good, (b) several donors financing a single charitable good, and (c) several donors financing several substitutable goods. The first setting can yield a codependent relationship, resulting in the donor and the recipient lacking interest in the outcome being self-sufficiency for the recipient (Duncan, 2004). In the second setting, impact philanthropists fail to account for how their gift affects other donors. Lastly, in the third setting, while impact philanthropists will typically contribute more than the Pareto optimal amount of sustainable goods, a group of impact philanthropists can contribute optimally by allocating their donations so that no one contributes to the same good (Duncan, 2004). In all settings, donors or impact philanthropists favor targeted-gift allocation.

While impact philanthropists favor targeted-gift allocation, NPO leaders are often reluctant to do so because targeted gifts may cause total contributions to fall. Still, NPOs leaders often yield and honor donors' requests even it means misrepresenting costs while starving vital systems, and ultimately weakening the infrastructure, which triggers the NSC (Gregory & Howard, 2009). Qu and Daniel (2021) completed a study, and the theory of impact philanthropy was referenced and cited. In the study, philanthropists were

surveyed, and ask to choose which of two organizations should receive a donation. Initially, participants preferred the NPO with less overhead; however, researchers then presented additional information outlining the purpose of the other NPOs higher overhead, which was to build long-term organizational capacity, a significant number of donors or participants changed their preference, choosing to award the NPO with the higher overhead the donation (Qu & Daniel, 2021). Therefore, if NPO leaders provide donors with additional information about NPOs with higher overhead ratios, perhaps less donors would have skewed beliefs the NPO operations costs. If NPO leaders could prevent giving into the pressure of impact philanthropists if they (a) better understand characteristics of the impact philanthropist, (b) had the opportunity to identify impact philanthropists early in the donorship process, and (c) were prepared with strategies to use when faced with being forced to yield to donors' skewed beliefs.

Impact Philanthropists

Some types of donors, like impact philanthropists, prefer targeting their gift to a specific thing, as opposed to donating to an NPO in general or supporting the overall cause. According to Duncan (2004), if a donor contributes to a charitable good, then something about contributing must provide the donor utility. Impact philanthropists want to make a difference personally; thus, they would likely prefer sponsoring one individual child instead of contributing to a children's organization that uses charitable funds to feed 1,000 children (Duncan, 2004). In a setting where an individual donor finances a single charitable good, a codependent relationship can occur, resulting in the donor and the

recipient lacking interest in the outcome being self-sufficiency for the recipient (Duncan, 2004).

NPOs are mission-driven. Success is measured by an NPO leader's ability to lead the organization while achieving the mission or turning inputs into outputs (Coupet & Berrett, 2019). Impact philanthropists often experience codependent relationships with recipients, namely when the recipient is the decision maker or NPO leader. Impact philanthropists' contributions should improve the situation of those who benefit from the NPO's mission being achieved but when that happens, those benefiting may not need the assistance of the philanthropist or the NPO. Still, the impact philanthropist needs to give to make a difference, and the NPO leader has a mission to achieve which requires funding. Anything that reduces the need for contributions, according to Duncan (2004), could hurt the impact philanthropist. For example, the need for contributions could be reduced by (a) other donors who wish to contribute, (b) an improved situation no longer needing a contribution, or (c) an NPO leader suggesting that an impact philanthropist contributes to general operating funds, which leads to conflict between NPOs and impact philanthropists (Duncan, 2004). Add summary and synthesis to connect back to your study.

Several factors lend to understanding why donors give. Impact philanthropists are motivated to give because they want to make a difference (Duncan, 2004). According to Carlson and Zaki (2018), prosocial behaviors are acts that benefit others, and when people engage in prosocial behaviors, they benefit themselves as well. Impact philanthropy is prosocial behavior because while people want to make a difference, they

also enjoy the feeling they experience from giving. For example, donors enjoy positive outcomes of their largesse, such as material benefits including tax breaks, social benefits, and receiving praise for their efforts, or emotional benefits like experiencing the good feelings associated with doing a good deed (Nehrlich et al., 2019). Impact philanthropists give for the good feeling of personally making a difference by doing a good deed.

Additionally, the good feeling that impact philanthropists experience when giving is synonymous with how their gift is allocated; therefore, the theory of impact philanthropy serves as the conceptual framework for this study. Beyond impact philanthropy, there are other reasons and motivations for prosocial behavior and there are many models of altruism and theories of philanthropy that exist in connection with those motivations (Metzger & Günther, 2019). One model that is similar, and therefore, supportive of the theory of impact philanthropy is the private consumption model, referred to as the warm-glow theory.

Supporting Theory: Private Consumption Model/Warm-Glow Theory

There are multiple models or theories of altruism; however, the supporting model I chose for this study was the private consumption model. The private consumption model is also referred to as the warm-glow theory because donors give motivated by how giving makes them feel (Andreoni, 1990). Like the theory of impact philanthropy, the defining assumption of the private consumption model is that giving alleviates any social guilt because donors contribute and are motivated by the personal satisfaction the act of giving brings (Burum et al., 2020). According to Andreoni (1990), warm-glow theory does not suggest that individual gifts are related; therefore, one donor's gift does not

necessarily affect the enjoyment others gain from giving. Private consumption philanthropists do not take free rides off others' gifts (Duncan, 2004). Like impact philanthropy, donors contribute because they enjoy the feeling of increasing the output of good.

Like the theory of impact philanthropy, warm-glow theory has also been linked to triggering feelings in financial stakeholders. Warm-glow theory contends that if individuals receive a warm-glow payout such as feeling good about themselves, then they are willing to make suboptimal choices (Jancenelle et al., 2019). Additionally, Jancenelle et al. (2019) stated financial stakeholders are emotionally triggered by warm-glow rhetoric. A study that focused on warm-glow rhetoric and making investors feel good during earnings conference calls found (a) if a warm-glow return is received, investors are willing to accept a lower financial return; (b) when an investor receives a warm-glow payout, irrational behaviors can be rationalized; and (c) warm-glow returns have assisted by explaining investor behavior like accepting lower returns from companies that are socially responsible, or being willing to make interest-free loans (Jancenelle et al., 2019). Like the investors who experienced warm-glow return in the study conducted by Jancenelle et al., impact philanthropists are also emotionally connected to giving and seek the same internal feeling of satisfaction that comes from personally making a difference. Lastly, the warm-glow theory and the theory of impact philanthropy have both been applied to behaviors and reactions.

Ultimately, warm-glow return and the feeling that impact philanthropists seek in the donorship process are so similar that there is a link when applying both models to

behaviors. Since warm-glow inducing rhetoric used by firm managers aided in mitigating investors' reactions to earnings surprises in the Jancenelle et al. (2019) study and the warm-glow return is like the feeling impact philanthropists seek in the donorship process, then perhaps NPO leaders would have the same success mitigating impact philanthropists' reactions to true overhead costs. Warm-glow models have been applied to explain a vast range of behaviors, including choosing costly alternatives instead of optimal alternatives in exchange for a warm-glow payoff (Jancenelle et al., 2019). Additionally, warm-glow theory was used by Andreoni (1990) to explain systems of impure altruism, which occur when individuals such as impact philanthropists donate to private providers of charity or NPOs for warm-glow returns like feeling good about oneself. Impact philanthropists enjoy the feeling of personally making a difference, which is in alignment with the private consumption model and warm-glow return of feeling good about oneself. Therefore, the private consumption model is a supporting theory of the theory of impact philanthropy, which means impact philanthropists and warm-glow philanthropists parallel in many ways.

Warm-glow Philanthropists

The characteristics of warm-glow philanthropists closely align with the characteristics of impact philanthropists. Pure warm-glow philanthropists care solely about how they feel due to the act of giving, not about the recipient's well-being (Andreoni, 1990). Whether the reason is seeking acclaim or prestige, avoiding guilt, exercising reciprocity, satisfying moral imperatives, or following social norms, warm-glow philanthropists are egotistically motivated (List et al., 2021). Egotistical motivation

is connected to being self-centered; therefore, warm-glow philanthropists are similar or impact philanthropists, as both are egotistically motivated. Understanding warm-glow theory, Nike exploited philanthropists predominantly motivated by warm-glow in 2004 when they launched a fundraising campaign for the Livestrong Foundation, selling yellow rubber bracelets for \$1 (Gangadharan et al., 2018). Over 87 million bands were sold and worn by actors, athletes, and presidential candidates to indicate that those wearers donated to cancer research (Gangadharan et al., 2018). While the motivation is the same, the campaign design of simply selling bracelets for \$1 removed the opportunity for the donor to specify how their donation would be spent. Instead, the donor received an instant symbol of recognition, which was the bracelet, for supporting the Livestrong Foundation. Obtaining the band and wearing it afforded the donor personal satisfaction for having done the right thing; one giving up what is rightfully theirs for a philanthropic cause and, in turn, feeling good about it, which motivates warm-glow philanthropists (Bhati & Hansen, 2020). While the warm-glow philanthropist would be fulfilled within from wearing the bracelet, the impact philanthropist may wonder if just \$1 made a large enough impact. The impact philanthropist may not feel as much satisfaction, because even though the campaign raised \$87 million, each donor only gave \$1. Therefore, the success of the overall fundraising campaign was a result of 87 million donors, which diminishes what the impact philanthropist contributed because it is a shared success.

While warm-glow philanthropists align with impact philanthropists, pure altruists differ from warm-glow philanthropists. Warm-glow philanthropists are motivated because prosocial behavior causes them to experience positive feelings, whether their

giving makes a difference or not (Bhati & Hansen, 2020). Warm-glow philanthropists differ from pure altruists, as pure altruists genuinely care about the recipient's well-being (List et al., 2021). It is useful for researchers to consider a warm-glow component because it allows them to fill the gap between the standard model of altruism and the empirical evidence on charitable giving (Gangadharan et al., 2018). The warm-glow component is like the impact component; therefore, the private consumption model aligns with the theory of impact philanthropy, which is why it is a supporting theory. On the contrary, however, the public goods model contrasts with the warm-glow and impact models of altruism, making it the rival theory in this study.

Rival Theory: Public Goods Model

The rival theory I chose for this study was the public goods model. The public goods model suggests that donors are motivated by what their gifts accomplish, and they contribute motivated by their desire to consume a public good (Duncan, 2004). The defining assumption for public goods philanthropists is if one donor gives, it increases the supply of the public good to be enjoyed by all; therefore, public good philanthropists enjoy the supply of public good without having to pay for it or contribute, taking advantage of the free-ride or benefitting another's expense without the usual cost or effort (Haydon et al., 2021). The public goods model is a rival theory to the theory of impact philanthropy because impact philanthropists desire to personally make a difference through giving, and do not want free rides in the philanthropic process.

There are several examples and analogies to aid in understanding the public goods model. An article by an unknown author, *The Definition of a Public Good* (2019),

referred to a piece of pizza to demonstrate the definition of a private good, and national security was used to demonstrate the definition of a public good. Public goods are nonexcludable, meaning it is impossible to exclude someone from using the good (Definition of a Public Good, 2019). For example, if I buy a private good like a piece of pizza, I can exclude another person from eating it. However, a public good such as national defense protects everyone, and even if I disagree with how it is being implemented, they cannot choose to be unprotected, which confirms that public goods are nonexcludable.

Public goods are not only nonexcludable, but public goods are also described in other ways. In addition to being nonexcludable, public goods are nonrivalrous, meaning when one person uses the public good, another person can use it, too (Definition of a Public Good, 2019). Using pizza as an example of a private good, if I eat a slice no one else can eat it. On the other hand, considering national defense as a public good, my consumption of national defense does not decrease the amount left for someone else, making us nonrivalrous in this area. The public goods model suggests that philanthropists who are aligned with this theory of altruism give without excluding and intend to have a nonrivalrous outcome, which rivals the theory of impact philanthropy.

Public Goods Philanthropists

Like the public goods model rivals the theory of impact philanthropy, public goods philanthropists rival impact philanthropists. Public goods philanthropists concern themselves with maximizing the utility of the beneficiary (van Teunenbroek et al., 2020). Additionally, public goods donors give motivated by what their gifts accomplish, and

they contribute motivated by their desire to consume a public good (Duncan, 2004). Just as the public goods model has nonexcludable and nonrivalrous, public goods philanthropists are as well, meaning they do not aspire to exclude others from giving, and they understand that one person's giving does not take away from another person giving. Therefore, public goods philanthropists are vastly different from impact philanthropists.

The differences between public goods philanthropists and impact philanthropist fall on opposite ends of the giving spectrum. There are two types of donors: (a) those like public goods philanthropists who concern themselves with maximizing the utility of the recipient, and (b) those like impact philanthropists who have preferences about how the recipient spends the money (van Teunenbroek et al., 2020). Additionally, in a study exploring the relationship between paternalism and altruism, researchers found that non-paternalistic altruists or those only concern themselves with the well-being of the recipient will transfer funds directly and allow the recipient who best knows their preferences and needs, to choose how to use the funds (Gangadharan et al., 2018). According to Gangadharan et al. (2018), a paternalistic altruist prefers to assist the recipient but thinks he knows better than the recipient how to improve their position. Therefore, paternalistic altruists align with private consumption or warm-glow philanthropists and impact philanthropists in that their approach is derived from a given perception held by the donor regarding recipients' private use of their donations. As such, I did not choose the public goods model for the conceptual framework for this study because non-paternalistic altruists, such as public goods philanthropists, focus only on the well-being of the recipient. Unlike impact philanthropists, who pressure NPO leaders to

yield to their skewed beliefs about how their donations should be used, public goods philanthropists believe the recipient knows how best to use charitable gifts.

Themes and Phenomena

In this section of the literature review, I presented themes around NPOs, and discuss organizational factors associated with NPO management and fiscal oversight. I discussed NPOs, NPO leaders, NPO efficacy measurement, and scrutinize the proverbs of NPO fiscal management, which include (a) overhead costs, (b) revenue diversity, (c) fiscal leanness, and (d) debt avoidance. Next, I discussed donor expectations, and lastly, I explored the factors above in light of the NSC. NPOs are a relevant component of the business sector, and the various organizational elements and factors that lend to NPOs achieving their mission are vital to nonprofits' success.

Nonprofit Organizations

NPOs are a very important part of the business world. The business world is fast-paced and money-centric, and there are more than 1.5 million NPOs registered in the United States (Gazdik, 2018). While NPOs are sometimes forgotten, the fact remains that NPOs are still expected to solve societal issues and aid in alleviating suffering through service or mission achievement. However, the resources allotted to NPOs are handicapped, and NPO leaders are often frowned upon for investing in self-sustaining expenses (Gazdik, 2018). According to Gazdik (2018), NPOs aid in sustaining society, as they provide disaster relief, sustain arts and culture programs, assist refugees, and represent millions more who deserve to be heard. The mission-based work and the impact made on the world, because of the work done through NPOs is immeasurable. While the

common misconception is that NPOs do not earn a profit, they do; NPOs reinvest into the organization as opposed to distributing profit among shareholders like for-profit businesses do (Trautman & Ford, 2019). Therefore, reinvesting into the organization requires allocating funds towards operations or overhead costs. When overhead costs are properly allocated and represented, the infrastructure of the organization grow and expands to support the work that is being done through NPOs, which is vast and impactful.

NPOs have a significant impact on the economy, as well. NPOs contribute nearly \$1 trillion to the U.S. economy, representing 5.4% of the gross domestic product while generating over 12 million jobs in 2017 (Quevedo & Quevedo-Prince, 2019). NPOs based in the U.S. reported revenues have grown from \$1.04 Trillion in 1998 to \$2.62 trillion in 2016 (Duffin, 2020). According to Duffin (2020), NPOs in the U.S. hold nearly \$6 trillion in assets. In 2019, Americans gave \$449.64 billion to NPOs, reflecting a 5.1% increase from 2018 (National Philanthropic Trust, n.d.). Yet, NPOs encounter increased pressure to achieve their mission and high financial efficiency while decreasing overhead expenses (Tian et al., 2020). The dispute about how NPOs should use donations is not new. According to Qu and Daniel (2021), the culture in which NPOs are evaluated, and transparency around the vital resources NPOs require to grow needs to change. To change the culture requires understanding (a) the role of NPOs, (b) the inefficiency of evaluating overhead ratio, and (c) the most effective measures of evaluation (Gazdik, 2018). NPOs leaders, as opposed to donors like impact philanthropists, would better understand what is required for organizational growth.

Nonprofit Leaders

NPO leaders are the driving force behind the mission-based work of NPOs. The role and function of NPOs are critical; therefore, those serving in executive leadership are essential to the success of the organization (Norris-Tirrell et al., 2018). Top leaders in NPOs operate out of the following titles: (a) executive director, (b) chief executive officer (CEO), (c) chief professional officer (CPO), or (d) president (Norris-Tirrell et al., 2018). Since NPO leadership is crucial to organizations' critical work, the most important indicator of organizational success and sustainability is effective leadership (Kingston, 2021). NPO leaders have an array of responsibilities, from facilities management to strategic planning and alignment, and are typically knowledgeable of the intricacies of volunteer management and organizational productivity (Norris-Tirrell et al., 2018). Therefore, NPO leaders have a comprehensive understanding of the industry in which their organizations operate.

While NPOs have been a relevant part of society for hundreds of years, NPO leaders were first recognized in the professional sector just 4 decades ago. Community-based organizations, charities, and other types of formal associations have been vital to society for centuries; however, it was not until the 1970s that academic literature on the nonprofit sector emerged, making the idea of a career in NPO leadership even more recent (Norris-Tirrell et al., 2018). This is an indicator that NPOs had become relevant enough to require an official staffing structure to support such work or public service. According to Chung et al. (2021), public service motivation (PSM) is defined as an individual's predisposition to respond to motives grounded primarily or uniquely in

public institutions. Motives such as an attraction to public policy may be rational, or motives like the commitment to public interest, feeling a sense of responsibility for civic duty, or a desire for social justice could be normative (Chung et al., 2021). Regardless as to the motive, NPO leaders tend to operate out of compassion and self-sacrifice to oversee the work of the NPOs they have aligned with in public service.

Public service and what motivates NPO leaders to feel a sense of responsibility for civic duty has been examined extensively by researchers. PSM has been explored through several qualitative studies (Norris-Tirrell et al., 2018). A study by Nickson et al. (2007) found that NPO employees are highly committed and experience high levels of job satisfaction, as the aspects of their jobs most important to these employees were: (a) making a difference, (b) having rewarding work, (c) having high levels of autonomy and responsibility, and (d) having supportive colleagues and managers (Nickson et al., 2007). These findings resonate with Alizadeth's (2021) stance that NPO leaders choose and remain in their field of work because of commitment to the mission of the organizations they serve. NPO leaders are committed to the cause and are responsible for ensuring the efficacy of the NPOs they lead.

Nonprofit Efficiency Measurement

Measuring the efficiency of NPOs is vital to understanding how investment lends to impact and outputs. Coupet and Berrett (2019) noted that before their study on nonprofit efficiency measurement, the use of overhead ratio to measure the efficiency of NPOs was common practice; however, just because the top-heaviness of an NPO can be measured by overhead ratio, the same does not necessarily apply to measuring efficiency.

Coupet and Berrett investigated affiliates of Habitat for Humanity with the goal of ranking efficiency with the following: (a) overhead and administrative ratio, (b) data envelopment analysis (DEA), and (c) stochastic frontier analysis (SFA) . To do so, Coupet and Berrett used, both, financial and operational data. Finding from this investigation revealed that while DEA and SFA rankings correlated significantly, overhead rankings negatively correlated with the aforementioned. Therefore, it was concluded that NPO leaders and donors should not use financial ratios to measure the efficiency of NPOs, but rather move toward concepts and measures that maximize what NPOs can make and do, based on an organization's ability to turn inputs into outputs (Coupet & Berrett, 2019). For example, when serving as executive director of an NPO that serviced and house homeless families, efficiency was measured by how many families came into the shelter over the fiscal year, the number of families who transitioned from the shelter into permanent housing, and of those how transitioned from the shelter into permanent housing, how many remained stably housed. My first year in the NPO leader role at this shelter, the recidivism rate was high, as many who were moved in permanent housing placements ended up returning into the shelter system. This was an unfavorable outcome. As a result, we established post-shelter support services, which provided case management services via a home-visiting model. From the launch of the post-shelter support services, the recidivism rate immediately dropped to 0%, and remained that way for remainder of my tenure. While I was able to restructure staffing and not increase the operations budget to launch this new program as a part of our homeless services continuum, many NPO leaders may not have the flexibility or

resources available to do so, and perhaps would have to increase their overhead to build the infrastructure needed to support such an expansion. Increasing overhead to invest in additional programming to achieve desired outcomes and fulfill the mission of the organization is sometimes required; however, some donors, such as impact philanthropists, may disagree. Perhaps results from this study will help balance out the varying views and opinions of NPO leaders and impact philanthropists.

I hope that the findings from my study will aid NPO leaders and donors in understanding the importance of taking the pressure off, creating realistic budgets, reporting accurate numbers, and measuring organizations based on their ability to turn input into outputs. Overhead spending does not directly measure the relationship between outputs and inputs (Coupet & Berrett, 2019). According to Coupet and Berrett (2019), NPO leaders are starving vital systems based on an inaccurate tool of measuring efficiency, and donors' expectations are unrealistic as a result of the same. If this information, along with strategies for effective fiscal management, is accessible, clear, and concise, perhaps the NSC could be prevented.

Proverbs of Nonprofit Financial Management

There are several do's and don'ts when it comes to financial management. NPO leaders strive to demonstrate their organization's trustworthiness by conforming to what is referred to as the proverbs of nonprofit financial management (Mitchell & Calabrese, 2019). According to Mitchell and Calabrese (2019), the proverbs to nonprofit financial management include the following imperatives: (a) minimize overhead, (b) diversify revenue, (c) be fiscally lean, and (d) avoid debt. The proverbs capture the fundamental

accounting equation's core components, recognizing that liabilities plus net assets equal assets (Mitchell & Calabrese, 2019). Minimizing overhead and diversifying revenue pertains to the accumulation or use of organizational wealth, fiscal leanness relates to asset accumulation, and debt avoidance focuses on liabilities (Lam et al., 2020). While reducing overhead is one of the proverbs of nonprofit financial management, nonprofit leaders must be realistic and honest about what it costs to operate the organization, and they must not compromise that truth by misreporting overhead to please donors and their unrealistic expectations, as doing so can trigger the NSC.

Overhead Costs. NPOs require overhead costs to operate, which is why overhead costs are often referred to as operating costs. Nonprofit overhead is prevalent and controversial in the nonprofit and philanthropic sectors (Schubert & Boenigk, 2021). The overhead rate is a key indicator when determining nonprofit worthiness and donors, such as impact philanthropists, like to determine how their gift is used because they do not want to fund overhead costs or the operating budget, which leads to controversy. As a result of controversy around overhead costs and donors' unrealistic expectations, NPO leaders struggle to manage operations amidst various funding sources' conflicting requirements (Newman et al., 2019). NPO leaders feel pressure to spend less on vital overhead costs and report low, and misleading, overhead rates (Schubert & Boenigk, 2021). Low overhead rates cause funders to expect and demand even lower rates, causing NPO leaders to comply, prompting the NSC (Gregory & Howard, 2009). When NPOs enter the NSC, the infrastructure and vital systems are neglected and underfunded, which

could negatively impact the services NPOs provide, potentially preventing NPOs from achieving their mission.

The conversation around NPO overhead is very prevalent among NPO leadership. Berlin et al. (2017) documented actual experiences from NPO leaders in California and gathered insights from real-world situations. The outcomes of the study confirmed that there is a growing consensus that NPO overhead rates are problematic (Berlin et al., 2017). When NPO leaders cannot fund programs at full cost, they must bridge the gap, meaning they must modify the existing budget to cover the cost. According to Berlin et al. (2017), NPO leaders bridge the gap by accelerating private source fundraising, lowering salaries, reducing benefits, underfunding, and underinvesting in facilities and technology, and spending reserve funds. Pulling from other sources and systems to bridge gaps weakens the infrastructure, which causes other aspects of the business structure to lack vital resources NPOs need to operate effectively and fulfill their mission.

Modifying budgets and reallocating funds to bridge the gap have become common practice for NPO leaders. According to Berlin et al. (2017), NPOs studied are managing as well as they can with what they have. But they are experiencing great difficulty because core operating costs are inadequately funded. Berlin et al. used the imagery of an NPO sitting on a two-legged stool trying to work with lower capacity all around while starving vital systems and infrastructure. Having to operate in this capacity, NPO leaders are pressured to keep the overhead low and manage by implementing the strategies that negatively impact the organization in areas such as staffing, quality programming, program expansion, and the use of reserve funds. Lastly, when NPO

leaders keep overhead costs low to keep money in programs, the result is that programs and services diminish in quality and quantity, which prevents NPOs from achieving their mission.

The controversy around overhead costs remains relevant. Overhead minimization is the proverb most rigorously enforced by stakeholders of influence (Mitchell & Calabrese, 2019). For example, to earn the highest rating from online information intermediary Charity Navigator, NPOs must limit overhead to 0% - 15% (Charity Navigator, 2020), while CharityWatch deems a status of “highly efficient” (p. 1) to NPOs with 25% or lower in overhead costs (CharityWatch, 2020a). Charity Navigator nor CharityWatch include inputs and outputs or outcomes, based on the mission of the NPO, as factors in their rating scale. They only use overhead rates to determine how high NPOs rank, and to deem NPOs highly efficient. Additionally, BBB Wise Giving Alliance imposes a 35% threshold for accreditation (BBB Wise Giving Alliance, 2020), and according to Eisenberg (2016), experts at Forbes Magazine advise potential donors that NPOs with overhead rates exceeding 20% are unreasonable. Forbes is one of the most credible business publications, reaching 140 million readers each month. For Forbes to deem NPOs unreasonable to potential donors if an NPOs operating budget exceeds 20% is major, as NPOs could lose charitable donations based upon Forbes’ criteria for unreasonableness. Regulators play a key role in norm enforcement, as well. For example, in Oregon, NPOs with overhead costs exceeding 70% for 3 years are disqualified from tax-exempt status (Mitchell & Calabrese, 2019); however, none of the intermediaries account for organizational outcomes. Organizational outcomes drive the NPO sector and

the mission-based work that NPO leaders do, but they are not considered when NPOs are ranked or deemed unreasonable or worthy.

Whether an NPO is ranked high or deemed worthy impacts how donors view the organization, and that impact determines if donors give and how much they give. Since NPO worthiness has become socially based on overhead, donors tend to reduce donations and charitable giving efforts to nonprofits who report higher overhead costs (Charles et al., 2020). Donors could also display characteristics of impact philanthropists if NPO worthiness ranks low because of overhead, as impact philanthropists like to determine how their donations are allocated, which aids in resolving feelings of doubt or distrust in NPO leaders and how they handle charitable funds. Additionally, caps are imposed on overhead costs by public and private funders, and private individual donors seem similarly overhead-adverse, which restricts NPOs from recovering administrative and fundraising costs (White et al., 2020). Such caps are set by ranking entities such as Charity Navigator, Charity Watch and Forbes; however, funders and donors glean from these NPO ranking entities and expect NPO leaders to cap overhead rates. As a result, the downward spiraling of overhead rates throughout the NPO sector has contributed to the NSC and hampers the ability of NPOs to fulfill their missions (Altamimi & Liu, 2021). The ability is hampered because lowering overhead presents challenges and obstacles for NPO leaders.

The overhead rate must support the infrastructure of the NPO. Low overhead reduces effectiveness and capacity (Mitchell & Calabrese, 2019). According to Calabrese (2020), overhead minimization has also been associated with fundraising inefficiency,

reduced fiscal slack, and reduced environmental resilience, underinvestment in an administrative capacity, increased financial vulnerability, and reduced utility. While there are negative effects of low overhead on organizational effectiveness, higher overhead costs invite reputational damage, therefore, reducing contributions from donors (Mitchell & Calabrese, 2019). NPO leaders who aim to demonstrate trustworthiness through conformity to such fiscal norms may find it to be problematic, eventually, if the purpose of the NPO is to achieve meaningful organizational outcomes and achieve the mission efficiently. In addition to minimizing overhead, revenue diversity is important in the fiscal management process.

Revenue Diversity. There are many benefits to diversifying revenue. The benefits of revenue diversity flexibility, autonomy, income growth and potential, and community connection and embeddedness (Hung & Hager, 2019). The aforementioned benefits are desired outcomes for NPO leaders, as these benefits are indicators of a healthy NPO status. Conversely, according to Guan et al. (2021), the positive impact that diversity revenue has on overall financial health, remains less conclusive. Certainly, there could be factors that yield different, or less than positive outcomes when drawing a correlation between revenue diversity and overall fiscal health. The correlation between revenue diversity and fiscal health is subject to vital contingencies that mediate and reverse the desirable outcomes of diversification (Suykens et al., 2021). For example, diversifying into certain types of donations could cause challenges. Financial volatility could potentially increase when diversifying into private donations and doing so could reduce expected revenue if substituted for earned income (Chikoto-Schultz & Sakolvittayanon,

2020). Although benefits such as lower administrative and fundraising expenses are believed to increase exposure to revenue volatility, NPOs with more concentrated revenue sources still tend to report them. While NPO leaders feel pressure to misrepresent overhead rates, revenue sources tend to be reported accurately regardless of the type.

While NPOs have a standard model, NPO leaders are becoming more innovative in raising revenue to generate funding to sustain their organizations and to ensure the NPOs they lead achieve their mission. The standard theory of the nonprofit is modeled implicitly on NPOs that are donative, based on presumptions of contract failure and separation between purchaser and recipient (Mitchell & Calabrese, 2019). Donative NPOs cannot distribute their surplus revenues to NPO leaders or those who receive resources like donated time and money and provide private excludable public goods. Many stakeholders consider the more appropriate source of income to be donative revenue, as opposed to commercial revenue; however, research suggests donative revenue increases financial vulnerability and is, therefore, less stable than commercial revenue (Lu et al., 2020). This presents another probable situation where factors that are logical and seem to be more appropriate could still yield undesired outcomes. As such, diversification into donative revenue could yield unintended negative consequences (Kim & Mason, 2020). Therefore, it is important to review various studies and cases to look for diversification trends and patterns in revenue categories to seek deeper understanding.

Exploring diversification trends and patterns lends deeper insight into probable financial outcomes. According to Kim and Mason (2020), diversification patterns within

revenue categories have significant additional effects. Understanding these significant effects is vital preventing financial volatility and increasing sustainability and growth. Studies that use highly aggregated Hirschman-Herfindahl Indices (HHI) tend to obscure the real significance and extent of the result of the diversification on various financial outcomes (Chikoto et al., 2016). Concealing the true significance and extent of the impact of diversification on financial outcomes could be problematic, as revealing how diversification effects financial outcomes lends to increased advantage when planning. The studies of Chikoto and Neely (2014) have found the following: (a) for donative NPOs, diversification does not reduce financial volatility, (b) financial volatility increases when diversification within the earned income and investment income categories occurs, and (c) when the HHI is disaggregated, the relationship is strengthened between revenue concentration and financial growth, as revenue concentration, as opposed to diversification, has been associated with exceptional financial growth, consistently. Therefore, while a proverb of financial management is revenue diversity, other cases have shown that revenue concentration correlates to consistent and exceptional financial growth. Additionally, concentrated revenue streams may decrease costs.

It takes more to manage multiple streams of revenue. Increased transaction costs related to managing a larger number of revenue streams counterbalance the benefits of revenue diversification (Mitchell & Calabrese, 2019). Increase transactions costs also means an increase in overhead costs, which is a factor that causes impact philanthropists great concern. According to Modi and Sahi (2021), diversifying revenue increases fundraising costs, namely for smaller NPOs that may lack the administrative capacity

required to manage a diverse income portfolio efficiently. A lack of administrative capacity occurs because the infrastructure does not support the operations of an NPO, which is due to underfunding and underinvesting. When other means to aid in preserving or promoting the fiscal health of NPOs are not available, diversification strategies could be offered to NPOs (Mitchell & Calabrese, 2019). Suggesting that diversification strategies be offered to NPOs when other means to preserve or promote fiscal health are not available is an indicator that diversification strategies should be a last resort. Additionally, Mitchell and Calabrese (2019) point out that the potential negative outcomes of revenue diversification, such as fiscal volatility and vulnerability, could be more appropriately managed by doing the following: (a) increasing fundraising, (b) accumulating reserves, and (c) issuing debt. While these strategies can manage potential negatives, they can also potentially be problematic for NPOs, as doing so may undermine their perceived trustworthiness (Mitchell & Calabrese, 2019). An NPO's trustworthiness could be questioned because the aforementioned strategies cause increased risk and an increase in transaction costs. Therefore, NPO leaders should assess their fiscal status and consider all factors to determine if diversifying revenue is best for their NPOs.

Revenue diversification may not benefit NPOs equally. While revenue diversification is overemphasized in nonprofit financial management literature, according to Kim and Mason (2020), diversifying revenue is not universally sound advice for all NPOs. According to Mitchell and Calabrese (2019), the following factors determine if diversification of revenue is desirable for NPOs: (a) the nature of the nonprofit's benefits, (b) risk-return trade-off from pre-existing revenue models, and (c) growth stage. The

effects of revenue diversification are complex and contingent, and may or may not be beneficial, depending on a nonprofit's objectives and context. Fiscal leanness, like revenue diversification, is a vital component to NPO financial management, as well.

Fiscal Leanness. Another proverb to financial management that NPO leaders strive towards is fiscal leanness. Managers may try revenue volatility mitigation at the source by diversifying revenue and through averting risk if NPOs have limited capability to accumulate enough operating reserves, which help cope with fiscal shocks (Mitchell & Calabrese, 2019). While mitigation is a strategy that NPO leaders use to aid with better navigating unexpected fiscal patterns, doing so comes with challenges, as well. The pressure to quickly spend surplus revenues on current programming is something that NPOs face; otherwise, NPOs that accumulate excessive reserves risk charges (Calabrese, 2018). While NPOs that I have worked for have always had a reserve accumulated with at least \$500 thousand in the account, spending down funds was also important to the CFOs of the organizations as well. According to The Center on Philanthropy (2012), NPOs, overall, show that they value current spending more than reserve accumulation, and many CFOs admit that the goal of their NPO is to specifically report zero annual profit (Zietlow et al., 2018). The idea is that NPOs should have no profit and the goal is to have a balanced budget at the end of the fiscal year. Like overhead costs, reserve accumulation seemingly violates traditional sensibilities, which ultimately equate fiscal leanness with trustworthiness and organizational virtue, overall (Mitchell & Calabrese, 2019). Many donors often ask for financial statements and NPOs typically post monthly or quarterly financial reports on their website as an act of fiscal transparency. When

donors see that NPOs have reserve accumulation, it could deter donors from giving or impact the amount that they give. However, there are benefits of reserve accumulation as well.

The benefits of strategic reserve accumulation are significant. Reserves can (a) support program development, (b) support capital purchases, and (c) aid NPOs in meeting revenue gaps (Nonprofit Operating Reserves Initiative Working Group, 2008). NPO leaders' goals are to bridge revenue gaps and to identify and secure resources that support capital purchases and program development; therefore, the benefits of strategic accumulation align with the desired outcomes of many NPO leaders. Furthermore, reserves at a higher level are associated with a higher level of financial stability (Garcia-Rodriguez et al., 2021), and high-level reserves allow NPOs to more sync fundraising with the business cycle, more efficiently, which allows NPOs to increase fundraising and reserves during stronger fiscal times, and to decrease fundraising and reserves when experiencing fiscal hardships or difficulty (Lu et al., 2020). Financial stability and the ability to be flexible to modify the fundraising plan to align with the fiscal state of NPOs are vital to NPO leaders; therefore, the benefits of reserve accumulation may be greater than the risk associated with accumulating reserves.

NPO leaders acknowledge the benefits of accumulating reserves, but many operate without reserves. NPO leaders find accumulating reserves difficult, despite their benefits (Kim & Mason., 2021). As a result, NPO leaders often utilize other resources to bridge financial gaps and stabilize NPOs. A significant amount of NPOs operate without reserves at all, although many NPO leaders say they want increased reserves (Irvin &

Furieux, 2021). NPOs are mission-based and the work that NPO leaders and their teams do to benefit those served is carried out through programming. Without reserves, NPO leaders do not have adequate support to develop programs; therefore, NPO leaders rely upon other resources, which lead to volatility. Due to such difficulties, many NPO leaders depend on lines of credit, capital reserves, and investment, instead, using them as substitute operating reserves to stabilize imbalances (Cortis & Lee, 2019). Depending on the aforementioned resources, as opposed to reserves, creates additional barriers for NPO leaders.

NPO leaders face many barriers regarding reserve accumulation. According to Mitchell and Calabrese (2019), NPOs are not permitted to generate profits, per most government contracts, and when contracts are delayed, NPOs are rarely reimbursed for the cash flow costs associated with the contract itself. Delayed contracts cause NPO leaders to scramble for other resources to bridge financial gaps, as the government contracts process is often lengthy. NPO leaders do not stop serving those who benefit from their services until they receive payment, nor are they reimbursed for the funds they use to bridge the gaps. Accumulated reserves would lessen the burden in situations like reimbursement delays with government contracts. Additionally, the same concept can also be applied to many private funders. NPOs operate in a culture that regards reserve accumulation as diverting resources away from current programming (Mitchell & Calabrese, 2019). Private funders, such as impact philanthropists, may be even more inclined to specify how they would like their charitable contribution used if NPOs have accumulated reserves, as it speaks to how trustworthy the NPOs are.

Organizational trustworthiness is important to philanthropists, and many consult resources such as the Better Business Bureau, CharityWatch, or Forbes to check ratings, prior to making charitable gifts to NPOs. Reserve accumulation is regarded as a contravention of donor intent and charitable purpose that undermines organizational trustworthiness (CharityWatch, 2020a). Many believe that the financial focus of NPOs should be on current programming, and reserve accumulation. A classic example would be the accreditation standards for the Better Business Bureau Wise Giving Alliance, which requires NPOs to avoid accumulating funds that could be used for current program activities (BBB Wise Giving Alliance, 2020). Therefore, while NPO leaders find accumulating reserves to be beneficial for NPOs, standards such as requirements needed to prove organizational trustworthiness make doing so difficult and creates barriers for NPO leaders. NPOs are downgraded on CharityWatch if they have “excessive funds that hoard donations,” (p. 4) regardless of whether those funds are used to support future programs (CharityWatch, 2020b). Hoarding donations is a bit harsh, as many NPOs have had to depend on reserves to sustain the programming during difficult financial times. I worked to an NPO that was negatively impacted by the pandemic of 2020, and they were able to sustain without downsizing because of a \$350,000 reserve. NPOs with excessive reserve accumulation could be construed as having commercial intent (Calabrese, 2020). However, many NPO leaders use reserves for reasons that are deemed appropriate based on guidelines for NPOs. Additionally, NPO leaders feel pressure to misrepresent and signal trustworthiness and propriety by appearing to spend at high levels on current programs and have low reserves (Coupet & Broussard, 2021). NPO leaders mitigate the

risk of NPOs appearing too wealthy by maintaining low or no reserves (Zietlow, 2020). Pressure to misrepresent is what causes the NSC, and therefore, negatively impacts NPOs, which could prevent NPOs from achieving their mission. As new asset accumulation increases, donations decrease (Calabrese, 2020). Therefore, reserve accumulation can negatively impact NPOs' reputation and finances, and NPO leaders should seek alternatives to accumulating reserves.

Seeking options other than reserve accumulation may be beneficial to NPO leaders, but it is difficult. Alternatives to reserve accumulation are limited for NPO leaders (Mitchell & Calabrese, 2019). Overhead was categorized as a source of slack by Calabrese and Ely (2020) because NPO leaders could reduce it, as opposed to program spending during difficult fiscal times. While NPO leaders could be flexible and reduce overhead, vital systems and organizational infrastructure were negatively impacted because programs were still operating without all the resources needed to fully function, due to underfunding and underinvestment. As intermediaries have increasingly used overhead rates for NPO evaluation, the source of slack has shrunk (Tian et al., 2020). Instead, NPOs could consider reducing spending on non-operating and non-revenue-generating activities during poor fiscal years and reversing it in the thriving years (Cohen et al., 2020). Doing so could aid NPO leaders in stabilizing financial imbalances during economic downturns.

NPO leaders take various approaches to stabilizing financial imbalances during economic downturns. NPOs, however, tend to use broad spending cuts, as well as a reduction in service, as a response to economic downturns, even though increased service

demand is often accompanied by recessions (Mitchell & Calabrese, 2019). NPOs are mission-based and NPO leaders and staff are often needed most during difficult times, as those who benefit from the work they do, require more support. For example, of the NPOs surveyed during the Great Recession of 2008-2009, 59% experienced increased service demand, and 52% reported reduced funding (McLean & Brouwer, 2009). Reduced funding means reduced resources, and therefore, less to offer an increased number of service recipients in need. It is important to explore what reductions NPO leaders make during economic downturns. According to McLean and Brouwer (2009), NPO leaders cut services (57%), froze salaries (47%), froze hiring efforts (37%), laid-off employees (30%), reduced employee benefits (20%), and decreased operating hours (13%) in response to increased demand and reduced funding. A similar study by The Center on Philanthropy (2012), found that spending reductions (82%), program reductions (63%), and personnel reductions (46%) were the most common tactics for coping with economic downturns. Therefore, not only are NPO leaders making cuts that demand more of existing staff, but NPO leaders are also cutting benefits and salaries, which are key motivating factors to many employees. When faced with an economic downturn, as an Executive Director, I realized the NPO I worked for was spending approximately \$75,000 annually, on paper, printing, and postage. Therefore, I created a plan to digitize the organization, by ending the paper filing systems and moving to Salesforce's customer relationship management (CRM) platform, to log notes, house records, and maintain an e-address list to digitize all correspondences. We saved over \$100 thousand over the fiscal year. Therefore, fiscal leanness was beneficial to the NPO

and was one of the proverbs of financial management that I followed as an NPO leader. Like fiscal leanness, the final proverb of NPO fiscal management, debt avoidance, can aid in navigating economic downturns as well.

Debt Avoidance. The fourth proverb of financial management is debt avoidance. Debt service, like overhead and reserve accumulation, traditionally represents a diversion from current programs, which could undermine the reputation and trustworthiness of an NPO (Mitchell & Calabrese, 2019). NPOs are program and service delivery focused entities; therefore, diverting funds from current programs tends to be a point of contention for donors. “Present-biased,” occurs when NPOs feel the pressure of having to fund current programs with current contributions, as opposed to funding previous costs with debt, or future costs with accumulated reserves (Charles et al., 2021). Online information intermediary Charity Navigator (2020) points out that the liability to asset ratio of an NPO “help donors assess the financial capacity and sustainability of a charity” (p. 1). I would argue that NPOs create debt from carrying out the charitable mission, as doing so requires staff that need to be paid and resources that require investment. NPOs are viable businesses that have operations budgets just like for profit entities, and NPOs do have operating costs associated with their charitable missions. Therefore, many of the organizational worthiness platforms score NPOs unrealistically. For example, for NPOs to earn the highest rating on Charity Navigator, NPOs must maintain a debt service ratio of no higher than 15%. Debt service ratio and high levels of debt are associated with reduced donations (Mayo, 2021). Therefore, the amount donors give is based upon the amount of debt NPOs have.

While higher debt service ratios are a determining factor in organizational trustworthiness, debt avoidance may have legal implications, as well. In the U.S. context, debt aversion also has a legal basis (Mitchell & Calabrese, 2019). Debt issuance occurs when entities raise funds by borrowing money from bondholders at a set rate of interest and over an agreed upon period. According to Mitchell and Calabrese (2019), debt issuances were limited by public policy from 1987 to 1997, as a result of elite universities issuing significant tax-exempt debt during the 1980s. Additionally, some large NPOs issued large amounts of tax-advantaged debt while they also held and increased endowment assets. While endowment assets may be used for operations or programming, endowments must be used based on the wishes of donors; therefore, holding and increasing endowment assets negatively impacts trustworthiness. When endowments are not immediately spent on current programs, policymakers become concerned and worried that benefits are accruing to NPOs at the expense of the federal treasury (Mitchell & Calabrese, 2019). As a result, policy was established limiting debt issuances. Policymakers effectively validated the normative belief that debt for NPOs should be minimized or completely avoided, and as a result, it was written into law that debt was to be used sparingly. Therefore, debt minimization and avoidance are key to financial management of NPOs.

Debt has many advantages for NPOs. One advantage of debt is capitalization of NPOs. For example, debt can capitalize an NPO relatively quickly and at a low cost (Mitchell & Calabrese, 2019). Capitalization can support programmatic expansion, which could attract additional revenues from new donors or expanded programs (Mitchell &

Calabrese, 2019). While capitalization can support program expansion, the infrastructure should be invested in as well, so that systems that support programs expand when programming expansion occurs. According to Fedele et al. (2021), debt-financed capitalization allows new NPOs to focus on programs more strongly. It is important that new NPOs focus on programs because NPOs are funded to carry out mission-based work; therefore, new NPOs should start strong by building and operating programming and establishing trust. Trust is important and necessary if NPOs decide to take on debt. Borrowing money for a short-term, in the form of trade credit or notes, or long-term, in the form of mortgages or bonds, inherently, is neither a good decision nor a bad one for NPOs (Calabrese, 2020). However, some NPOs benefit from debt in various other ways. Debt for NPOs, according to Smith (2010), can aid in (a) funding new programs, (b) supporting existing programs, (c) saving cash, (d) increasing liquidity for other purposes, and (e) secure needed capital for organizational growth. The aforementioned advantages would benefit NPOs who are able to borrow or acquire debt.

Short-term debt, as opposed to long-term debt, can be beneficial to NPOs. In many cases, NPOs need the ability to borrow on a short-term basis (Calabrese, 2018). NPO leaders make the decision to borrow or take on debt for several reasons, however, saving cash and increasing liquidity are important to the fiscal stability of NPOs. NPOs have maintained liquidity or acquired capital, by using trade credit, and this type of borrowing, compared to lines of credit and other types of short-term borrowings, is expensive (Michalski et al., 2018). For example, NPO leaders could benefit from establishing and utilizing lines of credit to bridge gaps so that programming continues

while waiting for funding sources to process payments. NPOs providing government-contracted services, often expand resources because they experience cash flow mismatches between providing services and when government payment is received (Calabrese, 2018); therefore, short-term borrowing can inexpensively aid NPOs by efficiently linking these periods (Michalski et al., 2018). While short-term borrowing can be an advantage, NPO leaders want to ensure debt is manageable and can be repaid per the terms of the loan agreement.

When borrowing or acquiring debt, it is important that NPO leaders manage the debt and that they can meet the financial obligations. Debt capacity is a vital tool that aids in program sustainability during economic downturns, as many NPOs lack sufficient operating reserves to endure recessions and other shocks to their revenue streams caused by external factors (Calabrese, 2018). While debt capacity aids in sustaining NPOs during economic downturns, NPO leaders should not expand debt capacity beyond what they can manage so that they avoid insolvency or the ability to repay the debt. When NPO leaders make recourse to debt, rather than to spending cuts, they can: (a) reduce staff turnover, (b) maintain program capacity and scale, and (c) navigate sectoral norms that limit access to other types of fiscal slack (Mitchell & Calabrese, 2019). Therefore, making recourse to debt lends to the financial stability and overall sustainability of NPOs. Additionally, according to Calabrese (2018), long-term debt, for capital expenditures, is the most justifiable type of financing, theoretically, because it links costs and benefits of capital, more closely, over long periods. As such, current users of the capital asset do not bear all the acquisition costs, and current assets, like cash, for example, are not

immediately consumed. Since current assets are not consumed immediately the risk of volatility is decreased, which affords NPOs increased stability.

Conversely, there are other factors associated with debt that may be problematic and negatively impact the growth and sustainability of NPOs. NPOs with the goal to grow a large capital expenditure, but are not willing or able to issue debt, could raise capital long-term, through donations (Mitchell & Calabrese, 2019). However, raising capital through long-term donations requires more than just soliciting donations. Doing so requires surplus revenue accumulation, which is problematic as previously discussed (Mitchell & Calabrese, 2019). According to Mitchell and Calabrese (2019), it is also problematic to expand fundraising efforts, as increasing fundraising costs increases overhead when not offset by current program spending. Increased overhead is not the goal of most NPO leaders, as the desired outcome is to keep overhead as low as possible so that the trustworthiness of NPOs is not questioned. Additionally, there are increased fundraising costs associated with capital campaigns. Capital campaigns not only take several years to raise sufficient funds for a project but require significant fundraising and managerial costs, immediately; therefore, compared with debt issuances, capital campaigns could potentially be less efficient, regarding cost and time, which hinders organizational growth (Mitchell & Calabrese, 2019). However, following the proverbs of NPO fiscal management, as opposed to yielding to donor expectations, could aid in organizational growth and sustainability.

Donor Expectations

NPO leaders often feel pressure from, and yield to the unrealistic expectations of donors. Duncan's (2004) theory of impact philanthropy further explains that fundraising policy either maximizes philanthropists' perceived impact or maximizes total contributions. Conflict and misalignment occur when the line is not drawn. In many cases, NPO leaders are pressured to curtail spending on administration and fundraising because funders expect them to spend an unrealistically low percentage of income on overhead costs (Park & Matkin, 2021). However, when NPOs comply, reporting reduced overhead expenditure, funders expect even less to be spent in the future, ultimately leads to falling overhead ratios, and investment gaps, which weakens the organizational structure, impairing organizational effectiveness, over time (Harris & Neely, 2021). This systematic cycle of underfunding and underinvesting is referred to as the NSC. A lack of effective strategies to navigate the NSC could ultimately prevent NPO leaders from achieving their mission.

A lack of understanding between NPO leaders and donors often leads to the conflict that occurs in the philanthropic process. NPO leaders must understand donors and their various motivations for giving, so that donors' expectations can be used to tailor their fundraising strategies, and manage expectations appropriately, as a blanket or one-size-fits-all approach is likely to fail (Gangadharan et al., 2018). For example, one way to appeal to the philanthropists' expectations could be to allow them to choose which goods or services their contribution will be directed towards. Using Oxfam or DonorsChoice will allow donors to determine how their donation will be spent

(Gangadharan et al., 2018). While donors are satisfied with the ability to choose, NPO leaders have control over what choices are available to choose from, which makes it a win-win situation for the NPO, as the goal is to avoid the NSC.

Nonprofit Starvation Cycle

Understanding the NSC and how to navigate NSC is vital to the overall success and sustainability of NPOs. As the demand for mission-driven work, through NPOs, increases (Altamimi & Liu, 2021), and donors who wish to personally make a difference by supporting the common good of society (Duncan, 2004) continually emerge, researchers, as well as NPO leaders and philanthropists must better understand effective strategies for navigating the NSC. NPO leaders and philanthropists are stakeholders who often desire the same outcomes and who have a common mission between them. The conflict occurs when donors expect what the NPO leader cannot promise and NPO leaders yield beyond comfortability so that a donor is not turned away. While the donor is pleased and the NPO leader feels accomplished for securing a charitable gift, the actions of both are eroding the organizational infrastructure and weakening the systems needed to carry out programming. Schubert and Boenigk (2019) described the NSC as a phenomenon in which NPOs continually underinvest in their organizational infrastructure in response to external expectations for low overhead expenditure. When donors have unrealistic expectations, NPO leaders feel pressure to conform, which causes NPOs to neglect infrastructure and misrepresent data, and leads to a systematic and chronic cycle of underfunding and underinvesting, called the NSC, ultimately preventing them from achieving their mission (Gregory & Howard, 2009). If NPOs are unable to fulfill their

mission they are unsuccessful, lose funding, and are unable to sustain. Even if NPOs that experience the NSC can recover, their reputation and trustworthiness are negatively impacted.

It is of the utmost importance that NPOs maintain trustworthiness and a stellar financial reputation. The lifeblood of NPOs is the reputation (Gazdik, 2018). According to Gazdik (2018), when NPOs do not hold a reputation of high financial effectiveness, it triggers a decline in public perception, and the flow of donations decreases, ultimately resulting in the organization being lost. NPO leaders do not desire a decreased flow of donations. Perhaps NPO leaders are trying to prevent losing donors by allowing donors such as impact philanthropists to determine how their charitable contributions will be spent; however, doing so and misrepresenting overhead costs also leads to financial strain within the NPO. NPO leaders work hard to endure their NPOs have solid reputations, causing many to be pressured to keep overhead costs low, as they have a responsibility to use donations on mission-related activities; yet NPOs also need to be taken care of (Gazdik, 2018). NPOs ultimately fail when overhead costs are undervalued and underfunded, and this phenomenon is called the NSC.

The NSC has increasingly negatively impacted NPOs and continues to do so. When NPO leaders yield to pressure to remain at the top of the competitive donor market, reports are compromised and numbers are skewed, causing cultivation of unrealistic expectation of actual amount to sustain overhead costs among donors (Coupet & Broussard, 2021). As a result, NPO leaders yield to the demanding expectations, and the NSC begins. The NSC is prevalent in the nonprofit sector, as there has been a trend in

NPOs reporting a decrease in average reported overhead costs, and several NPOs reported that absolutely no funds were spent on overhead costs (Qu & Daniel, 2021). Misrepresenting overhead costs is detrimental to NPOs.

The negative outcomes of the NSC are vast, as NPO leaders struggle to operate programs through NPOs with deprived and weakened infrastructure. According to Gregory and Howard (2009), underfunded overhead expenses starve NPOs of vital systems and infrastructure, which yields outdated or nonfunctioning technology, limited staff as a result of having no access to professional development opportunities, and old and broken facilities and furniture. In a sense, when this happens, the NPO are in need and seemingly are on the opposite end of the service spectrum, because of cycles of misrepresented numbers. Consequently, when NPO leaders lower overhead and misrepresent numbers, it may please donors and inflate the organization's reputation initially; however, the quality of service will suffer, overall (Gazdik, 2018). When the expectations of donors and the public area are used as a method to evaluate the efficacy of NPOs, there is an increased risk of failing, which negatively affects the organization and its donors (Gazdik, 2018). The NSC is the outcome of the lack of understanding that falls between NPO leaders and donors.

NPO leaders face challenging situations with donors requiring a specific skill set to be effective at navigating the NSC. Understanding the various theories of philanthropy and models of altruism available to navigate these challenging situations and support achieving the organizational mission could provide NPO leaders with tools to effectively implement new strategies. Conducting this qualitative multiple case study will allow

NPO leaders who have navigated the NSC to provide deeper insight into how they implemented effective strategies to facilitate change. The questions that will be asked during semistructured interviews will allow NPO leaders to share their experiences and insights with other NPO leaders, as well as with donors. The literature review provides critical analysis and synthesis of the conceptual framework, and for the supporting and rival theories of this study. The literature review also provides a basis for exploring literature on potential NPOs, overhead costs, donor expectations, and the NSC.

Transition

Section 1 of this study was composed of information on strategies that some NPO leaders may use to navigate the NSC in the Greater Washington DC and surrounding area. The section began with the Foundation of the Study and Background of the Problem, followed by the Problem and Purpose, Population and Sampling, Nature of the Study, the overarching Research Question and Interview Questions. Next, I presented the Conceptual Framework, Operational Definitions, Assumptions, Limitations, Delimitations, and Significance of the Study. Lastly, I presented a Review of the Academic and Professional Literature, which contained the conceptual framework and themes relevant to the context of this study. I applied models and theories of philanthropy to establish the framework for this study.

Section 2 of this study contains the Purpose Statement, the Role of the Researcher, Participants, Research Method and Design, Population and Sampling, Ethical Research, Data Collection Instruments and Technique, Data Organization and Analysis, and Reliability and Validity. I presented the findings, application of professional practice,

the implications for social changes, recommendations for action and future research, reflections, and the conclusion to the study, in Section 3.

Section 2: The Project

In this study, I focused on exploring effective strategies NPO leaders use to navigate the NSC. In this section, I present the methodology that was used to scrutinize and interpret the following research question: “What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission?” Additionally, I addressed the following in Section 2: Purpose Statement, the Role of the Researcher, Participants, Research Method and Design, Population and Sampling, Ethical Research, Data Collection Instruments and Technique, Data Organization Technique and Analysis, and Reliability and Validity of the study.

Purpose Statement

The purpose of this qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents NPOs from achieving their mission. The targeted population consisted of five nonprofit leaders who were employed by five different registered 501(c)3 tax-exempt NPOs in the Greater Washington DC and the surrounding area, with over 5 years of demonstrated strategic efficacy in navigating a systematic and chronic cycle of underfunding and underinvesting or the NSC. The implication for positive social change is that leaders of NPOs will have the findings from this study to apply effective strategies to navigate the NSC resulting in having the resources needed to better serve their beneficiaries and fulfill their mission for the communities of those served.

Role of the Researcher

As the researcher for this study, it was vital that I understood the role of the researcher in the doctoral study process. The primary role of a researcher in a qualitative study is to serve as the main data collection instrument (McCusker & Gunaydin, 2015). The role of the researcher also includes analyzing and interpreting data (Koch et al., 2014). As the primary data collection instrument, my goal is to collect content-rich information about strategies NPO leaders use to navigate the NSC. According to Yin (2018), the relationship between a researcher and the participants is critical to the success of the study. I have 20 years of NPO leadership experience in the Greater Washington DC and surrounding areas, as well as 10 years of nonprofit consulting experience. While I have worked in the field, I did not have any expertise to lend the topic of this study, because I have had limited experience encountering impact philanthropists in my role as an NPO leader. Additionally, I did not gather data from NPO leaders from organizations that I had been affiliated with, personally or professionally, when collecting data. I sought study participants from NPOs that I was not familiar with. While I was familiar with the nonprofit sector, which was the broad research area for this study, I was not aware of the NSC before beginning the research process for this study. Lastly, as the researcher, I established an interview protocol to eliminate bias and minimize preconceptions. According to Mealer and Jones (2014), ascertaining bias and minimizing preconceptions could potentially impact data collection. As the researcher, my role in this study included (a) establishing a sampling strategy, (b) corresponding with potential participants by sending a letter of recruitment for NPOs, (c) obtaining consent by completing a consent

form with participants, (d) applying an interview protocol (Appendix A), (e) conducting interviews with participants using established interview questions (Appendix B), (f) analyzing the data, (g) applying triangulation, and (h) writing a report.

Researchers should follow the ethical guidelines outlined in *National Commission for the Protection of Human Subjects* to protect the rights of participants (Bromley et al., 2015). *The Belmont Report* is a good resource for researchers, as it includes reflective principles such as telling the truth, keeping promises, being fair, and respecting others (National Commission for the Protection of Human Subjects and Biomedical and Behavioral Research, 1979). I followed the principles of *The Belmont Report* by being honest with participants, keeping my word, being fair, and treating respondents with respect.

To align with Marshall et al. (2021), I was the primary data collection instrument; therefore, I prepared for data collection and guided participants through the interview process while remaining objective and intentional when I collected the data. Errors in findings, judgment, and decision making may occur when personal biases are factors in research (Chamberlain, 2016). Reflexivity has been used in qualitative research to account for the researcher's voice and perspective (Reich, 2021). According to Reich (2021), reflexivity aids qualitative researchers in understanding how their experiences affect the inquiry process. Therefore, as the researcher for this study, I implemented reflexive journaling to (a) document biases and assumptions, (b) have a systematic way of accounting for and processing the many aspects of reflexivity that could emerge, (c) be aware of issues I may have had difficulty in order to process it, and (d) aid with refining

data analysis procedures. Lastly, I identified and mitigated personal bias in the research process by being open, appreciative, and understanding of all points of view. According to Parkhurst (2016), openness and a willingness to appreciate and understand opposing points of view could reduce bias in qualitative research; therefore, I was open to understanding all sides and journal the process.

When using interviews to collect data, acceptable practice for avoiding researcher bias is creating and designing interview protocols (Goicolea, et al., 2016). Such protocols afford researchers a smooth interview process, yielding in recording the richest form of experience (Neuert & Lenzner, 2016). I followed a standard interview protocol (Appendix A), which was provided by Walden University when conducting each interview of this qualitative multiple case study to ensure consistency throughout the interview process.

Participants

The participants for this study were NPO leaders who have successfully implemented effective strategies to navigate the NSC, which prevents NPOs from achieving their mission. According to Braun and Clarke (2021), the researcher's criteria for eligibility should align with the study's research question. Criteria for participant eligibility in this study NPO executives (a) employed by a registered 501(c)3 tax-exempt NPO, (b) located in the Greater Washington DC and the surrounding area, and (c) with over 5 years of demonstrated strategic efficacy in navigating the NSC. Therefore, my eligibility criteria aligned with the study's research question.

I attended and completed an executive certificate program in NPO management at Georgetown University in Washington, DC, which allowed me to establish and maintain good relationships with a vast array of other NPO leaders. This was key because the target population for this study consisted of five executive leaders who were employed by five different NPOs in the Greater Washington DC and surrounding area who have over 5 years of demonstrated strategic efficacy in navigating the NSC. I met data saturation with only five participants; therefore, I did not have to implement the alternative strategy I planned to use had I not met data saturation, which was to expand the sample size by one participant until data saturation is met. I relied on professional networks of NPO leaders, Guidestar.org data, and a catalog that lists NPOs in the Greater Washington DC and surrounding area to gain access to potential participants who met the criteria based on filings of IRS Form 990 for the Greater Washington area, including Maryland, Northern Virginia, and Washington, DC.

There was an additional criterion for participation in this study. To achieve their mission, NPO leaders need to be honest, realistic, and transparent about the cost of running an NPO, representing their costs, evaluating the organization's vital systems, and the skewed beliefs of funders (Lecy & Searing, 2015). Therefore, the additional criterion for participation for this study was that the targeted population be actively involved with fiscal planning and implementing strategies to navigate the NSC. Executive leaders are typically titled executive director, chief executive officer, chief operating officer, or president. I made contact via telephone calls and emails to introduce myself and the study

to establish basic rapport and determine their interest in participation. I referenced this in the interview protocol (Appendix A).

Research Method and Design

Research Method

The three most common research methods are qualitative, quantitative, and mixed method (McCusker & Gunaydin, 2015). The qualitative method can aid in ruling out alternative interpretations and facilitating stronger causal inferences (Yin, 2018). Through open discourse I explored contemporary phenomenon; therefore, qualitative methodology was appropriate to apply to this study. According to Warwick-Booth (2013), when capturing the views, feelings, practice, and experience of others, as well as the atmosphere and context in which they act and respond, qualitative methodology is appropriate. Berlin et al. (2017) used the qualitative method to gain insights into how overhead costs are handled in NPOs. The qualitative method was most appropriate for this study because the purpose was to explore the phenomenon that NPO leaders lack effective strategies to navigate the NSC, which prevents NPOs from achieving their mission. In studies where a researcher is aiming to investigate specific issues in-depth and detail, qualitative methodology is highly suitable because it is often descriptive in nature (Shekhar Singh, 2014). Qualitative methodology was, therefore, highly suitable for this study because I aimed to investigate effective strategies to navigate the NSC in detail and describe the findings in-depth.

Different views are posed by researchers using quantitative and qualitative methodology. Quantitative methodology is appropriate for researchers who administer

surveys to a subset of the whole population to collect data, seek to project their findings into a larger population, and focus on relationships among variables to answer questions of *how much* or *how many* (Jason & Glenwick, 2015). Researchers also use a quantitative methodology to generate statistical and numerical measures to support decision-making processes comparing, ranking, and selecting data (Thorne & Giesen, 2002). I did not generate statistical and numerical measures to support decision-making processes comparing, ranking, and selecting data; therefore, I did not choose the quantitative methodology to conduct this study.

Mixed methodology is the third of the most common research methods. The mixed methodology is a model built on elements of, both qualitative and quantitative methodologies, to develop rich theoretical perspectives (Venkatesh et al., 2016). The mixed-method approach involves collecting statistical and numerical data, which did not align with the focus of my research. My focus was not on the generalization of findings, predictions, or relationships among variables; therefore, I did not select quantitative or mixed method research to conduct this study.

Research Design

The five most common approaches to qualitative inquiry, according to Shekhar Singh (2014) are (a) narrative research, (b) phenomenological research, (c) grounded theory, (d) ethnography, and (e) case study. I considered all design types for use in this study. I used a multiple case study approach because my goal was to gain an in-depth understanding of the phenomena between the cases and to generalize conclusions over the various units. A multiple case study approach afforded me greater depth than a single

case study approach could have provided. I conducted interviews and reviewed organizational documents to collect in-depth data to explore strategies for NPO leaders to navigate the NSC. Case study analysis depends on the rigorous empirical thinking style of the researcher, the sufficient presentation of evidence, and considering alternative interpretations carefully (Yin, 2018). I applied the aforementioned variables by Yin (2019) to the analysis of this multiple case study.

Another approach to qualitative inquiry is narrative research. Narrative researchers collect data based on participants' life stories (Lewis, 2015). In narrative research, the primary data source is stories told by participants, which are also referred to as storytellers who aid researchers in determining meaning and understanding life experiences (Bruner et al., 2017). An interpretive approach, narrative research design facilitates increased understanding and generates human responses by sharing individual experiences and beliefs (Sahni & Sinha, 2016). I sought to explore data regarding strategies NPO leaders use to navigate the NSC, as opposed to seeking life stories and experiences; therefore, narrative research design did not align with my study.

While phenomenological research is an interesting approach to qualitative inquiry, this research design did not align with my research question. According to Bevan (2014), researchers using the phenomenological design focus on one's life experiences and perceptions. These phenomena include attitudes, beliefs, feelings, and opinions. It is assumed that the researcher is part of the experience in the study when applying phenomenology (Yin, 2018). A phenomenological design did not align with this study

because I was not seeking to collect data based on the lived experiences or perceptions of participants.

The next approach to qualitative inquiry I considered is ethnography.

Ethnographic research helps business researchers understand how organizational culture is affected by social factors (Fusch et al., 2017). According to Yin (2018), researchers using ethnographical design seek to understand the lived experiences from the perspective of an individual, and present the conceptual world of a given group, experienced from the inside. Ethnography is a passive research design involving observing behaviors in natural settings, and the subject is not aware of being observed (Fusch et al., 2017). The ethnographic design did not align with my study because my research question did not focus on organizational culture or the lived experiences of participants. Additionally, I did not incorporate nonconsensual observations of behaviors. The ethnographic design would not have provided an in-depth and detailed exploration of the phenomenon.

A case study is a strategic qualitative research design because using this research design can aid in answering exploratory and supportive questions posed (Yin, 2018). The case study design allows researchers to collect data using a flexible and interpretive approach while exploring qualitative analysis techniques to lend insight into key concerns (Yin, 2018). My goal was to conduct an in-depth and detailed exploration of phenomena by collecting data from multiple NPO leaders; therefore, the most suitable design for this study was a multiple case study.

As the researcher, one of my goals was to achieve data saturation. Data saturation occurs when no new relevant information is forthcoming, even in the event of additional people being interviewed (Galvin, 2015). I attained data saturation by structuring interview questions in a way that facilitated asking multiple participants the same questions, and by ensuring that I was asking the appropriate quality and quantity of questions to retrieve enough information to replicate the study. Additionally, I reviewed organizational documents to gather in-depth and detailed insight into strategies used by NPO leaders to navigate the NSC. Since this was a qualitative research study, I sought to achieve data saturation by using follow-up member-checking interviews, which validated the collected data from the initial interview, as well as with theme alignment. Braun and Clarke (2021) pointed out that researchers achieve data saturation when no new information emerges from the data. To further aid in data saturation achievement, I used a saturation grid to discover themes from conducted interviews, so that was confident data saturation was reached. Achieving data saturation aided in answering my research question on strategies for navigating the NSC.

Population and Sampling

Population

The population for this multiple case study consisted of five executive leaders who were employed by five different NPOs. In NPOs, leaders typically have one of the following titles: president, CEO, executive director, or chief operating officer. Additional criteria will be expounded upon when discussing the sample of this study.

Sampling Method

I incorporated a purposeful sampling technique for this study. According to Yin (2018), purposeful sampling is the deliberate choice of participants based on matching their qualities with the criteria for participation established by the researcher. Therefore, the sample for this multiple case study consisted of five executive leaders who were employed by five different NPOs in the Greater Washington DC and surrounding areas. The participants for this study were NPO leaders who successfully implemented effective strategies to navigate the NSC, which prevents NPOs from achieving their mission.

The goal was to seek study participants who were willing and able to provide the data needed to answer the research question by knowledge or experience. For this study, I reviewed the Greater Washington Edition of *The Catalogue for Philanthropy* to learn about featured NPOs in the following areas: (a) nature: environment and animal services, (b) culture: performing arts, (c) education: youth education and enrichment, and (d) human services: basic needs, food, and housing. I used *The Catalogue for Philanthropy* because it featured NPOs specifically in my targeted geographical area, highlighted NPOs who applied to be featured and wanted to be noticed by philanthropists or charitable donors, and it referenced the executive director and their contact information. According to Palinkas et al. (2015), searching in-depth for participants who are information-rich in the purpose of the research is purposeful sampling. An organization's annual report typically provides a comprehensive summary of what the NPO accomplished during a fiscal year and highlights key information detailing how their mission was carried out. The procedures yielded participants who were information-rich

in the purpose of exploring effective strategies NPO leaders use to navigate the NSC, which prevents them from achieving their mission.

Sample Size

While sample size must be ascertained in qualitative studies like in quantitative studies, the concept of focus for qualitative research is data saturation. According to Malterud et al. (2016), the size of a sample with sufficient information power depends on (a) the aim of the study, (b) sample specificity, (c) use of established theory, (d) quality of dialogue, and (e) analysis strategy. The aim of my study was narrow as my focus was on strategies for navigating the NSC. Secondly, I had narrow criteria for study participants or my sample, in that participants must have been (a) NPO executives, (b) employed by a registered 501(c)3 tax-exempt NPO for at least 5 years, (c) located in the Greater Washington DC and the surrounding area, and (d) have successfully implemented effective strategies to navigate the NSC, which prevents NPOs from achieving their mission. Additionally, according to Malterud et al. , studies starting from scratch with no theoretical background must establish a foundation for grounding the conclusions, and therefore, require a larger sample size. My study had an established conceptual framework and was appropriate for a smaller sample size. I established an overarching research question that aligned with a comprehensive list of interview questions, which were open-ended to ensure strong, rich dialogue. Lastly, while my study was a multiple case study and I made analysis across cases, the other narrow aspects of the determining factors of sample size selection justified the use of a small sample size.

A secondary method used to determine sample size was to compare similar published studies. Studies with similar topics of interest, empirical recommendations, and researcher's experience generally determine the target sample size (Tran et al., 2016). Therefore, I chose a sample of five participants because I researched published dissertations from Walden University students, similar in topic and design, who used three participants, and achieved data saturation. Friedel (2018) conducted qualitative case study research with three NPO leaders, examining funding allocation strategies for improving the effectiveness of NPOs in the Northeastern United States. Lastly, Colemon (2019) researched strategies used by three NPO leaders to achieve financial stability through sustainable funding. Therefore, my justification for the sample size for this study aligns with the suggestion of Tran et al. (2016) that the target sample size is generally determined by that of studies with similar topics of interest. Since my study has similarities to the research conducted by Friedel and Colemon, five participants were the appropriate sample size for this study

Data Saturation

The goal of researchers using qualitative methodology is to attain data saturation. Data saturation occurs when no new relevant information is forthcoming; that does not change even if more interviews are completed (Galvin, 2015). According to van Rijnsoever (2017), coding, developing themes, and providing a visual diagram of the data are common features of data analysis procedures. If responses indicate no new data, themes, or coding, and if there is enough data to replicate the study, then data saturation

has been reached (Braun & Clarke, 2021). Qualitative researchers seek to achieve data saturation.

To ensure data saturation, I incorporated purposeful sampling, which allowed me to interview individuals with whom I had no personal or professional relationship, and that worked for NPOs with different causes than NPOs I worked for. Additionally, to achieve data saturation, I asked the proper quality and quantity of questions to obtain enough information to replicate the study. The number of people to interview is often a concern for researchers, as well as methods to incorporate to ensure additional data collection efforts do not yield new important information (Braun & Clarke, 2021). If data collection efforts do not yield new important information, and the researcher gains new information in the final interview, additional interviews should be conducted until data saturation is achieved (Braun & Clarke, 2021). It is important to achieve data saturation because doing so confirms sufficient and quality data collection in qualitative research, which was my goal for this study.

Ethical Research

Ethical challenges occur through all phases of the study. It is important to establish clear protocols and to ensure all involved parties taking part in the study are aware of them, and that they exercise them if needed. The appendices of this study, including the interview protocol (Appendix A), and interview questions (Appendix B), are listed in the Table of Contents. My informed consent form, which was provided by Walden University, ensured participants were protected from physical, emotional, and financial harm (see Bernard, 2017). Protocols were in place to address ethical challenges

regarding informed consent, confidentiality, and the potential influence researchers have on participants and vice versa (Sanjari et al., 2014). For interviews that are face-to-face, or via online platforms such as Zoom, informed consent can be obtained online or by email (Blake et al., 2015). Therefore, once approved by the Institutional Review Board from Walden University (approval number: 09-03-21-0593370), I emailed participants to obtain informed consent, and awaited a response. Once informed consent was obtained, the data collection process, including participant interviews and organizational document review, was scheduled. Participants were made aware that if they wanted to withdraw from the study, they could email or contact me; however, no one who consented and scheduled their interview withdrew. Compensation was not provided to participants; however, each participant will receive a copy of the findings from this study. My personal email account was used to send and receive all email messages about this study.

Determining whether an action is ethical depends on the consequences, and on if the action is good. According to *The Belmont Report*, good and reflective principles include telling the truth, keeping promises, being fair, and respecting others (National Commission for the Protection of Human Subjects and Biomedical and Behavioral Research, 1979). I followed the principles of *The Belmont Report* by being honest with participants, keeping my work, being fair, and treating them with respect. I will store data in a secure location for 5 years to protect study participants' rights. I will ensure data security by password protecting electronic files and keeping paper files secured in a locked file cabinet in my home. According to Petrova et al., (2016), when the sample is small, the following processes may be beneficial: (a) use codes or pseudonyms, (b) allow

participants sovereignty over their data, and (c) make a concerted effort to conceal information that could compromise their identity in the research findings. Therefore, I will protect participants' confidentiality by removing all identifiers and coding their names as P1, P2, P3, P4, and P5. Additionally, to avoid the possibility of a reader deducing the identity of a participant, I will withhold site descriptions and demographic details.

Data Collection Instruments

As the researcher of this qualitative multiple case study, I was the primary data collection instrument and I collected data from two sources, semistructured interviews and organizational documents, to gather in-depth and detailed insight into strategies implemented by NPO leaders to navigate the NSC. According to Lewis (2015), data collection is a series of interrelated activities designed to gather information to answer emerging research questions. For qualitative research, documentation, archival records, interviews, direct observations, participant observations, and physical artifacts are evidentiary sources (Yazan, 2015). According to De Massis and Kotlar (2014), researchers can conduct interviews to collect empirical data. Interviewing is a data collection instrument that is targeted, insightful, and highly efficient (De Massis & Kotlar, 2014). Therefore, I collected data by conducting semistructured interviews and reviewing organizational documents.

Semistructured Interviews

I conducted semistructured interviews to collect data for this study. A semistructured interview is defined as a flexible method of freely communicating with

participants about topics of interest in the study that researchers use (Anyan, 2013).

According to Aulgur (2016), conducting semistructured interviews lends the researcher an opportunity to gain intimacy and depth. When participants meet and exceed the criteria, by their experience, they possess greater knowledge of the phenomenon of interest (Palinkas et al., 2015). Therefore, I conducted semistructured interviews with selected NPO leaders from the Greater Washington DC and the surrounding area who met specific criteria for participation in this study.

I conducted interviews, virtually, using the video conferencing platform, Zoom. I conducted interviews in my home office. The goal was for the interview setting to be free from interruptions and noise; therefore, I ensured being home alone, and that electronics were turned off or muted. According to Dikko (2016), the location for interviews should be comfortable for the participant and should be quiet, having minimal distractions for the duration of the interview. Due to COVID-19, all interviews were held, virtually, via Zoom; no face-to-face interviews were conducted.

To ensure consistency, I collected data the same way with each study participant. I used the same interview protocol (Appendix A), the same interview questions (Appendix B), and the same interview format for all study participants. I gained informed consent from each participant via email, to obtain permission to (a) include participant in the study; (b) schedule a date, time, and location for the interview; (c) establish a time limit of 90 minutes to conduct the interview; (d) conduct the audio recorded interview; (e) transcribe and interpret participants' responses; and (f) schedule a follow-up appointment after the initial interview for member checking process.

Document Review

According to Shekhar Singh (2014), biases of interview respondents are counteracted by documents because they aid in tracing organizational history and statements made by key NPO stakeholders. Therefore, I reviewed the following organizational documents for all five NPOs: (a) website, (b) 3 years of Form 990 from the GuideStar site, and (c) annual reports. All organizational documents are public information and I gained access to the organizational documents via the internet. The aforementioned organizational documents were key for determining participants' strategic efficacy, navigating the NSC.

Member Checking

As the researcher, my role was to validate and increase the reliability of, the data collection process. I increased the validity and reliability of the interview process by using the member checking technique. Member checking is a key technique used to explore the credibility of results and involves sharing synthesized data with participants so that they can confirm the researcher's interpretation of their responses and resonance with their experience (Motulsky, 2021). Therefore, I conducted the member checking process, virtually, using email. I emailed participants my summarized interpretation of their responses from their interviews so that participants could confirm my synthesis of the data and provide additional feedback. Member checking aided in ensuring the accuracy of the participant experience, and therefore, member checking increased the validity and reliability of the interview protocol.

Data Collection Technique

The research question used to guide this study was: What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission? Yazan (2015) pointed out four techniques of data collection, including (a) direct observation, (b) participating in the environment, (c) in-depth interviews, and (d) analyzing documents. An integration of semistructured interviews and document analysis is an approach often used by researchers conducting case studies (De Massis & Kotlar, 2014). Face-to-face, semistructured interviews were originally going to be my primary data collection technique, and the secondary technique was going to be evidentiary organizational documentation for analysis. However, I modified my plan due to the global COVID-19 pandemic. I conducted semistructured recorded interviews, virtually, using Zoom, and I reviewed organizational documents.

An advantage of conducting a semistructured interview is that the process allows a researcher and participants to share mutually beneficial information (Busetto et al., 2020). Semistructured interviews aid in the researcher's understanding of the phenomenon from the participant's point of view and allow the researcher to gain deeper insight and meaning through visual cues (Aarsand & Aarsand, 2019). A disadvantage of the semistructured interview process is the interviewer becomes a part of the story. While this could cause bias, incorporating a reflective process can mitigate bias and influence of the interviewer (Gringeri et al., 2013). I obtained informed consent to audio record interviews using the record meeting feature on Zoom. Additionally, I used the Grain

platform, which provided me with a transcript from each interview. The Grain transcripts increased validity as I prepared for the member checking process.

I used recorded Zoom interviews and Grain transcribed the interviews. I interpreted participants' interview responses, summarized the interpreted responses, and emailed the summaries to participants so that they could review them for accuracy and offer feedback. This process is called member checking. Widodo (2014) suggested using member checking to obtain feedback from research participants on the accuracy of interpreted interview data. While the advantage of member checking is it increases the validity and reliability of the participant experience and the interview protocol, a disadvantage is it takes additional time and requires an additional commitment from the participant. I planned member checking appointments with study participants to be held for a maximum of 45 minutes, via Zoom; however, all five participants requested emailing the interpreted summaries from their interviews, due to limited time and availability. Therefore, I complied and emailed the summaries to P1 though P5.

The virtual process provides more convenience, as the interview and member checking follow-up session can be completed from the comfort of home or wherever the participant chooses. The added benefit or advantage to conducting virtual interviews, during the COVID-19 pandemic, is it eliminates contact and in-person interaction. On the other hand, the disadvantage to a meeting on virtual platforms is the possibility of technical difficulties or malfunctions occurring.

The secondary means of collecting data was reviewing organizational documents, such as annual reports, budgets, donor records, financial statements, and strategic plans.

According to Bretschneider et al. (2017), an advantage of reviewing organizational documents is it confirms and validates the financial and funding information of the NPO and allows the researcher to view trends. A disadvantage to using organizational document review is the possibility of the organization withholding access to organizational documents or receiving altered or manipulated documents (Bretschneider et al., 2017). I asked all participants for budgets and other organizational documents, at the end of each interview. All participants said they would send the documents; however, none of them did. After sending out reminders, I decided to register for access to the GuideStar website, so that I could access Form 990 for each NPO, which provided me with all the financial data I needed. Additionally, I reviewed each NPO's website and annual reports.

Data Organization Technique

Data organization is a vital part of the research process. According to Vaughn and Turner (2016), when conducting qualitative research, a systematic process must be used to organize data in preparation for data analysis. Organizing data into clusters of information allows the researcher to create an audit trail (Hoque et al., 2013). Using the forthcoming series of steps, I preserved the truthfulness and accuracy of the data organization technique in this study. I used the Zoom record feature to document an audio record of the interviews, and I used Grain, a digital platform that transcribes recordings. Grain provided me with a transcript from each interview. Next, I created an individual, digital folder for each participant, and stored the following files belonging to each NPO leader: (a) introductory email, including the letter of recruitment; (b) invitation

to participate in business research; (c) informed consent form; (d) agreed-upon interview protocol (Appendix A); (e) interview questions (Appendix B); (f) digital audio file of the recorded interview; (g) text document of transcribed interview; (h) interpreted summary of interview responses used for member checking; and (i) organizational documentation. The folders are password protected and my computer is password protected. While Anyan's (2013) suggested time frame for completing the aforementioned data organization protocol is 10 days, due to delays due to the rigorous schedules of the NPO leaders who participated in my study, I allowed myself 30 days to conduct, complete, and code the interview data. Lastly, I incorporated an analytical process that consisted of creating alphanumeric codes including P1 through P5 for the five participants to maintain confidentiality and privacy. All data will be deleted at the end of the 5-year storage period. Additionally, the data storage device will be incinerated.

Data Analysis

Data analysis is a critical element of the research process. Thematic analysis allows emerging themes to be identified for data interpretation (Yin, 2018). According to Yin (2018) the five-step process to analyze the data includes (a) compiling data, (b) disassembling data, (c) reassembling data, (d) interpreting the meaning of the data, and (e) concluding the data. I completed Yin's five-step process and compiled data by rereading transcribed notes from interviews and discussions and disassembled data by dividing compiled data for interview questions into smaller response fragments from each participant. I reassembled the data by grouping interview question responses into subcategories for each interview question. Computer-assisted qualitative data analysis

software (CAQDAS) can assist researchers in organizing, coding, and analyzing data (Yin, 2018). I used NVivo software to analyze and organize data gathered from interviews. Additionally, I used NVivo software to help with pattern matching of emerging themes, classification, and coding. Lastly, I used coded data to find parallels in interviewees' questions and responses.

According to Heale and Forbes (2013), methodological triangulation is used by researchers to ensure the analyzed data is dependable. Therefore, I used methodological triangulation as an appropriate data analysis process to aid in ensuring data dependability. Triangulation involves the researcher correlating data from multiple data collection methods (Braun & Clarke, 2021). Data triangulation includes analyzing primary data from the interview questions and responses, and secondary data from organizational documents and the website (Yin, 2018). After collecting data, transcribing audio-recorded interviews, summarizing interview content, and completing the member checking process, I triangulated primary and secondary data from interview data, organizational documents, and the public websites using methodological triangulation.

Overall, in the data analysis process, I focused on key themes from the data collected and data analysis. According to Yin (2018), the objective of the study is to extrapolate key themes from interview transcripts for consistency. I compared emerging themes from the interviews, literature, and conceptual framework, which added depth to the data, and therefore, assisted with achieving data saturation.

Reliability and Validity

Reliability

Reliability is a concept used to evaluate quality and consistency in research. The reliability and validity of research are key components of a successful research study, namely since other elements such as the nature of the study, interviews, analysis of interview data, and research notes are subjective in nature (Kong, 2015). Reliability depends on if a study is replicable, and if the data has been misrepresented by the researcher (Epp & Otnes, 2021). To establish reliability, qualitative researchers enhance the trustworthiness of findings by providing narratives and methodological strategies (Noble & Smith, 2015). According to Stahl and King (2020), gathering consistency from dependable participants symbolized reliability in qualitative research.

Dependability, credibility, transferability, and conformability are encompassed in qualitative research. An evaluation of the quality of the data collection and analysis to ensure findings are consistent is called dependability (Stahl & King, 2020). Shekhar Singh (2014) points out that dependability is like trustworthiness because it establishes consistency and reliability of interpreted results. Since dependability and the criteria cannot quantify, transcription review is used to increase dependability in qualitative research (Stahl & King, 2020). Therefore, I used member checking to allow participants to review the summary of interpreted data for the accuracy of interview responses, and to provide feedback, suggest changes or approve the interpreted data summary. According to Motulsky (2021), well-developed member checking processes improve reliability and validity. Additionally, following a well-organized interview protocol enhances

dependability (Neuert & Lenzner, 2016). I developed and followed an interview protocol (Appendix A) for this study.

Validity

According to Khan (2014), if the actual representation of a phenomenon is reliable in a qualitative study, validity has been reached. In qualitative research researchers aim to enhance credibility, transferability, and confirmability of the findings (Marshall et al., 2021). Barnham (2015) suggested qualitative researchers may increase the validity of a study by involving triangulation with different sources of data and examining evidence. Other strategies to increase validity, according to Koch et al. (2014), are member checking and usage of rich, detailed descriptions of themes. These strategies ensure credibility, transferability, and conformability, resulting in a valid study.

The first goal of qualitative researchers to discuss is enhancing credibility. Establishing trustworthiness, believability, and the actual meaning of the data collected equates to credibility (Noble & Smith, 2015). To build credibility, qualitative researchers make various inquiries and compare data extracted from many sources to devise findings (Gaya & Smith, 2016). In this study, used member checking to enhance credibility by conducting follow-up sessions to ensure no new information or themes are discovered or missing. With participants as active contributors, I determined if the phenomena studied were reflected in the richness of the data gathered, per Patton's (2015) suggestion.

Triangulation is also an aim of qualitative researchers. According to Patton (2015), triangulation is a technique used to establish credibility. Triangulation ensures that a response is rich and comprehensive by cross-checking information from multiple

perspectives (Patton, 2015). Triangulation also enhances the credibility of qualitative research by comparing and layering multiple sources to discover emerging themes (Harvey, 2015). I used a methodological triangulation approach in this study by conducting semistructured interviews, analyzing organizational documents, and member checking.

Researchers who transfer the findings of a study to additional settings in qualitative research establish transferability (McGannon et al., 2021). Enough data must be provided to ensure transferability to a similar framework, and the meaning of the study must be maintained (Stahl & King, 2020). Providing rich descriptions and a data collection process aid in establishing transferability (Koch et al., 2014). I established transferability by providing a rich and thick description of this multiple case study, which allows readers to understand my research, including data collection, protocol questions, data analysis, and findings.

In qualitative research, maintaining neutrality between participants to capture data truthfulness is confirmability (Havenga et al., 2014). According to Koch et al. (2014), confirmability is enhanced by following a well-developed interview protocol to discourage researcher bias when collecting data and to help with reflecting the views of the respondent. To address confirmability, I triangulated multiple data sources, used member checking to ensure accuracy, and recorded rich, thick descriptions to explain the results of my study. Additionally, I incorporated reflexivity in my qualitative case study. Reflexivity is the practice of making personal biases and roles known, which delivers a

degree of transparency and lends to increased confirmability (Yin, 2018). Reflexivity is vital to conducting ethical research.

Lastly, data saturation is necessary in ensuring validity has been reached. To attain data saturation, I structured interview questions in a way that facilitates asking multiple participants the same questions, and ensured I was asking the appropriate quality and quantity of questions to retrieve enough information to replicate the study. I also sought to achieve data saturation by utilizing a digital member-checking process, which was effective in validating the collected data from the semistructured interview, and in validating theme alignment. Additionally, I reviewed organizational documents to gather in-depth and detailed insight into strategies used by NPO leaders to navigate the NSC. Braun and Clarke (2021) pointed out that researchers achieve data saturation when no new information emerges from the data. To further aid in data saturation achievement, I used a saturation grid to discover themes from conducted interviews, and I am confident data saturation was reached. In addition to the aforementioned actions, I took to achieve data saturation, I followed all of Walden University Institutional Research Board research guidelines through my doctoral study research process.

Transition and Summary

In Section 2, I documented the detailed steps taken when I conducted my qualitative multiple case study. I described the Role of the Researcher, outlined criteria for potential study participants, which are as follows: (a) NPO executives, (b) employed by a registered 501(c)3 tax-exempt NPO, (c) located in the Greater Washington DC and the surrounding area, and (d) have over 5 years of demonstrated strategic efficacy in

navigating the NSC. Next, I described my study as a qualitative multiple case study and explained that the population for my study was NPO five NPO leaders from five different registered 501(c)3 tax-exempt NPOs in the Greater Washington DC and the surrounding areas. Next, I revealed that I was able to obtain data saturation with five study participants. Additionally, I discussed how I ensured conducting ethical research and my mitigated bias in the process. I outlined data collection instruments for this study, which were semistructured interviews, organizational documents, and member checking. Lastly, I discussed the following: Data Organization Techniques, Data Analysis, Reliability, and Validity. In Section 3, I present the findings of this study including Presentation of the Findings, Application to Professional Practice, Implications for Social Change, Recommendations for Action, Recommendations for Further Research, Reflections, Conclusions, References, and Appendices.

Section 3: Application to Professional Practice and Implications for Change

Introduction

The purpose of this qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents NPOs from achieving their mission. To collect the data, I conducted semistructured interviews with five NPO leaders who were employed by five different NPOs. Additionally, I reviewed organizational documents from all five registered 501(c)3 tax-exempt NPOs in the Greater Washington DC and the surrounding area. Participant insight, detailing only nonidentifying information, is displayed in Table 1.

Table 2

Participant Information

| Code | Title | Years in Role |
|------|-----------------------------|---------------|
| P1 | Founding executive director | 8 |
| P2 | Founding executive director | 12 |
| P3 | Executive director | 15 |
| P4 | Executive director | 15 |
| P5 | Chief executive officer | 10 |

All five participants stated that they have experienced donors with skewed perceptions and that those donors do not understand the true costs required to effectively operate NPOs. All participants said that they have felt pressure to spend less than 20% on overhead costs and agree that NPOs who spend less than 80% of total revenue on programming are often categorized, by funders or NPO ranking entities, as low-performing or at-risk. All participants also stated that they use specific strategies to navigate the NSC. Four themes emerged from the analyzed data: (a) diversify revenue,

(b) identify and pursue unrestricted funds, (c) minimize overhead, and (d) unconventional budgeting and reporting. Section 3 includes a presentation of the findings, implications for social change, and recommendations for action, as well as for future research. Lastly, this section ends with reflections on my experience within the DBA Doctoral Study process and a conclusion.

Presentation of the Findings

The overarching research question to guide this study was “What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission?” I conducted semistructured interviews with five NPO leaders who were employed by five different NPOs, and who have been in their role for at least 5 years. Each study participant was employed by a different NPO. I also reviewed the organizational documents of each NPO, including the websites, mission statements, vision statements, annual reports, and 3 years of Form 990, which were filed with the U.S. Department of Treasury IRS. Analyzing the data resulted in four themes emerging. The themes are shown in Figure 1.

Figure 1*Emerging Themes***Theme 1: Diversify Revenue**

The first major theme that emerged from the data analysis process was diversify revenue. NPOs depend on various streams of revenue sources to effectively operate, including corporate and private contributions, government funding, earned revenue, and various investments (Hung & Hager, 2019). Analyzing the data indicated that diversifying revenue is an effective strategy that NPO leaders use to navigate the NSC. All five study participants mentioned the importance of diversifying revenue. P5 shared challenges experienced before implementing strategies to diversify revenue:

Diversifying revenue is a strategy that has been really great. When I first started, about 60% of our budget came from DC government sources, which meant we were definitely in a cycle of having to hustle, hustle, hustle. The year ended September 30th, so everything was working towards that. Then we had to start over and going through that whole process of contracting was very time consuming and very risky because if one of our funding sources dried up, then we

were in a position where you might have had to change programming and cut staff.

Diversifying revenue aided P5 in reducing the risks associated with having the bulk of the budget come from one type of funding. Therefore, diversifying revenue is an effective strategy in navigating the NSC.

According to Hung and Hager (2019), different types of NPOs rely on blended revenue streams or vast portfolios. Some types of diverse funding streams include (a) government grants and contracts, (b) corporate contributions, (c) private funding, (d) foundation grants, (e) individual donors, (f) bequests, (g) interest from investments, (h) fee for services, and (i) earned revenue. P1 said, “I focus on a couple of strong private donors – two or three strong individual donors or strong foundations that I can consistently rely on.” P1 also mentioned, “leveraging marketing efforts to keep donors really connected to the work their staff does through the NPO,” and P1 targets fundraising efforts that reflect donors’ personal interests, which builds the relationship between the donor and P1, ultimately making the ask easy and more comfortable.

Securing guaranteed, recurring, earned revenue is way to diversity revenue streams, as well. According to P5, earned revenue is a significant part of the organization’s budget:

It’s a dream for me to work in an organization that has such significant earned revenue because we have partners, and a piece of the work is making sure our partners are happy and that our program participants are successful.

P5 shared that about 40% of their budget is earned revenue, which comes from partners who pay for the NPO to place participants at their company or organization. Additionally, P5 said, “Most of our partners come back year after year. So, we know that significant chunk of our budget is secured.” Partners who return to participate in the programming that P5’s NPO offers, annually, indicate program success, which P5 stated provides an additional means of measuring quality service delivery.

Each year, P1 also depends on guaranteed, recurring, earned revenue. P1 accounts for a guaranteed number of participants to join the program their NPO offers, at a guaranteed amount, each year:

It only requires 10 to 15 participants to join and pay the full cost of the 15-week program, which is \$100, to cover the minimum needed in order to operate. I can run the program for 15-weeks and pay our most important corporate expenses with that money.

In addition to diversifying revenue, P1 stated, “I have two foundations that I keep on reserve. When I call them, they will fill miscellaneous financial gaps. I make private asks, behind the scenes, to campaign for my organization and to encourage giving.” Therefore, P1 diversifies revenue by leveraging relationships to utilize foundational grants as a strategy for navigating the NSC.

According to P2, government funding processes and grantmaking approaches are becoming more forward-thinking. P2 stated, “Government grants tend to allow 10% indirect costs, and government grants are usually big enough that the 10% is a meaningful amount of money that can truly help with your overhead.” P2 shared that

government funding sources “do not look for a line-by-line budget,” and that the “money can generally be used freely,” without restrictions. P3 agreed that the government funding process lends flexibility. P3 stated, “The government does a better job, grantmaking. Certain government grantors allow you to actually negotiate for an indirect rate, which is typically two and half to three times the rate that most private philanthropy allows.” Lastly, P4 diversifies revenue by “going after the smaller grant awards to fund projects,” as opposed to seeking larger awards to fund the overall organization. Therefore, diversifying revenue is an effective strategy that NPO leaders use to navigate the NSC.

Theme 2: Identify and Pursue Unrestricted Funds/Flexible Dollars

The second major theme that emerged from the data analysis process was identify and pursue unrestricted funds, which 3 of 5 NPO leaders referred to as “flexible dollars.” According to Yermack (2017), when making a philanthropic contribution, donors can pinpoint how the money will be spent or donors can allow NPO leaders to make the decision, which makes the gift unrestricted. Unrestricted dollars can be used any way NPO leaders deem appropriate to further their mission; therefore, overhead costs could be covered by unrestricted funds. P2 shared unrestricted funds are what NPO’s need to navigate the NSC:

The most effective strategy used to navigate the NSC is to lock in as many unrestricted funds as possible. That requires locking in corporate and major donors. We need aligned donors who will just give us flexible dollars. To do that requires starting conversations about what the actual needs are and connecting the

dots for them. We need to remind funders that NPOs are still businesses and that we still need to conduct business.

P3 provided similar feedback about the importance of donors trusting NPO leaders and understanding the need for flexible dollars:

Nonprofit work is considered women's work and it tends to be undervalued because of that. We need funders who believe in us. Just give me your money and trust me because we demonstrate our value every day. They have to invest in organizations, not just projects.

Therefore, it is vital to start conversations around unrestricted funds in the grantmaking sector.

Conversations about flexible dollars in the grantmaking space can be beneficial and could help address misunderstandings and donors' skewed perceptions. Donors tend to assert that financial limitations and restrictions help NPO service delivery; however, NPO leaders say that financial restrictions get in the way of service delivery (Hung & Berrett, 2021). P4 said, "It's always a struggle to get operational funding." According to P4, their NPO started 20 years ago and for the past 19 years, they have been level funded at \$50,000 per year in operating support. In 2020, P4's NPO received increased level funding of \$100K in operating support, which is a result of the "additional work required to meet community needs due to the pandemic." P4 believes that the challenge of getting support for the infrastructure of the organization is unnecessary:

Funders think they don't really need all of the little nonprofits. We struggle because funders don't want to fund an entity that is just focused on one

community. While they wish we would service a broader area, that would mean being a larger organization, which would require a larger infrastructure to fund and maintain.

Identifying unrestricted dollars and funds has proven to be difficult for NPO leaders, and the challenge in doing so speaks to the notion that donors' perceptions are skewed, regarding the importance of building robust infrastructure to support NPO operations. To aid in addressing donors' unrealistic expectations and skewed perceptions, NPO leaders must build solid relationships and trust within the grantmaking space.

All five participants shared that building solid relationships and trust is vital to securing unrestricted funds or flexible dollars. While P1, P2, P3 and P4 had secured in unrestricted dollars, P5 shared, "The strategy proven to be most effective in navigating the NSC is the ability to obtain flexible funding." P5 has been so successful at obtaining flexible funding that overhead costs do not seem to be a factor for their NPO anymore. P5 said, "I am seeing more and more lenders be less concerned about overhead, which is amazing. Especially the national funders or philanthropic funders that are more ahead of their time – More forward-thinking." P5 shared additional insight, stating, "I think the main funding sector that is still concerned about overhead costs, in my experience, is governmental funders." According to P5, funders' expectations about NPO overhead costs is getting better, and that is evident by the "increasing amount of unrestricted dollars" made available to NPOs.

Theme 3: Minimize Overhead

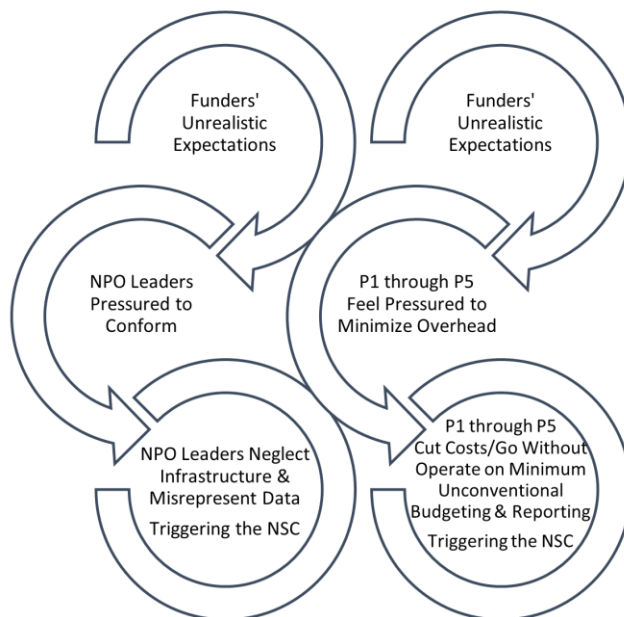
The third major theme that emerged from the data analysis process was minimize overhead. Controversy around overhead costs remains relevant. Overhead minimization is rigorously enforced by stakeholders of influence (Mitchell & Calabrese, 2019). While P5's experience is that "funders are less concerned with overhead", P1, P2, P3, and P4 were intentional about minimizing operations costs. P1 minimizes overhead costs by operating a 100% volunteer-operated organization, meaning there are no salaries to cover. As the founding executive director, P1 does not earn a salary from the NPO they founded and leads. P1 said, "We operate as a volunteer-led organization because payroll would put us in a predicament." P1's NPO has partnerships with three universities and these schools give students credit hours for working with an NPO before they graduate. P1 said, "The students are committed, and they really show up – They don't cancel." In addition to staff savings, P1 does not have the overhead burden of rent and office expense, thanks to a university partner. P1 stated, "We have a granted space at a partnering university, so that we don't have a facility overhead. If we had to pay a payroll and a lease, we'd fold." The university partner offers workspace at no cost. Additionally, P1's NPO hosts frequent gatherings and competitive events, as a part of their programming, and the university hosts everything on campus for the organization at no cost.

Overhead ratios have been used as a proxy for NPO efficiency for decades (Qu & Daniel, 2021). Therefore, NPO leaders feel pressure to reduce spending and minimize overhead. P2 expressed concerns about high costs and the need to keep overhead at a

minimum, as well. During the interview, P2 stated, “I live in fear of the cost of our admin and our fundraising going above 20%. I am aware that once that happens, then it starts to raise other kinds of questions.” P3 minimizes overhead by going without and keeping salaries low:

Keeping salaries low means paying people less than they’re worth. I don’t know if funders realize that that’s what they’re ultimately taking away from. You can only skim on that so far. People get burned out, and that yields a high turnover rate and lack of staff retention.

Since NPO leaders who participated in this study feel pressure to minimize overhead by making cuts where they can and operating without all that they really need to effectively run an NPO, vital systems are lacking, which ultimately weakens the infrastructure of their organizations. The experiences shared by all study participants align with the steps that trigger the NSC. Figure 2 shows the experiences of the study participants applied to the NSC model.

Figure 2*Participant Experiences Applied to the NSC*

While Figure 2 includes the final step in the NSC, which is misrepresent data, all study participants referred to misrepresenting data differently. Table 3 shows each participant's alternate way of referring to misrepresented data.

Table 3*How Participants Referred to Misrepresenting Data*

| Participant | Alternate Way of Referring to "Misrepresenting Data" |
|-------------|--|
| P1 | "Tuck costs" |
| P2 | "Lean it out there" |
| P3 | "Creative categorizing" |
| P4 | "A delicate dance" |
| P5 | "Play this little game" |

To follow the pattern established by the study participants, I termed the final theme creatively as well.

Theme 4: Unconventional Budgeting and Reporting

The fourth major theme that emerged from the data analysis process was unconventional budgeting and reporting. Financial reporting is a vital part of the discharge of accountability for NPOs, particularly as it relates to donations and funding (Cordery et al., 2019). The data analysis process revealed that all study participants use unconventional practices when necessary, namely when matters are related to the budget or other areas that require reporting out to stakeholders. More specifically, study participants are unconventional when (a) building in buffer funding, (b) concealing reserves, and (c) strategically categorizing costs and staff's time.

Buffer Funding

The first subtheme to emerge from unconventional budgeting and reporting is build buffer funding into the budget. According to Albritton et al. (2018), when budgeting for NPOs, unique aspects of accounting must be considered. Therefore, understanding the differences between for-profit and not-for-profit entities is vital. For example, some differences to be considered for NPOs include (a) revenue sources that are nonreciprocal, (b) focusing the budget on the costs necessary for mission fulfillment, (c) facilities and services performed as it relates to in-kind donations received, (d) unbalanced budgets, (e) the NPO board and its role in governance, and (f) the availability of data for NPOs. When speaking about strategies used to ensure operating costs are accurately budgeted and represented in their NPO, P2 shared that they use a very distributed act to build the budget.

P2 uses logic models that are linked to strategic goals, and many of those strategic goals are operations goals. Therefore, P2 asks staff members the question, “What do you need to get that done?” Once that question is asked, P2’s team works backwards to come up with the answer:

Every team is honest about what they need and how much it costs. We do a simultaneous exercise with the revenue side to see how far off we are. Teams use the prior year’s actuals to build the budget, while dreaming of what they actually need for the future.

As a result of the process used by P2 and their team, P2 determines what is needed and builds buffer funding into the budget, which allows them to more effectively navigate the NSC. P2 stated, “We usually come in under budget every year because we are conservative on the development side and liberal on the expense side.” Therefore, when budgeting, P2 and staff over-budget for expenses. Yet, when sharing about what their NPO does, regarding actual operation during the fiscal year, P2 stated, “We increase development goals opposed to shave off expenses,” which tends to put more strain on the development team and P2. “We’re getting to a point where things have to be more prioritized,” according to P2, during the interview. While building in buffer funding is a strategy that has worked for P2’s NPO, doing so comes with increased pressure for the development team.

Conceal Reserves

Operating reserves are funds that NPOs may accumulate, allowing for annual imbalances to be smoothed out between revenues and expenses, namely if the NPO is

encountering a fiscal upset (Calabrese, 2018). Mitnik's theory of agency has been applied to many disciplines; however, agency theory, when applied to NPOs, NPO leaders and reserves, indicates that NPO leaders might use reserves to enrich themselves at the expense of the organization (Mitnick, 2021). This indication is perhaps why P3 and P4 were adamant in their interviews about concealing reserves.

As it relates to reserves, both, P3 and P4 shared the following: (a) they conceal reserves, (b) they deem concealing reserves as an effective strategy they use to navigate the NSC, and (c) they deem showing reserves, upfront, as the least effective strategy in navigating the NSC. More specifically, P3 said, "Don't boast having a reserve. While it should be considered as a good business practice, funders see reserves as NPOs not needing money or additional support." Additionally, P4 tends not to show reserves, and said, "It's a delicate dance and showing reserves or that there's money left over at the end of the year – If you do, funders think you don't need any money; however, that's a sign of the health of the organization." P4's NPO has reserves that can be used as working capital, which is helpful and lends to sustainability:

Nearly all the grants are reimbursable – Reimbursables, I have to spend thousands of dollars before I can literally get paid for having done that. So, I need to minimize any representation of reserves. I used to keep that in our budget, because I was trying to show we're building a reserve and trying to educate the board on why that was important. Keeping it in the budget seemed like the easiest way.

While P4 minimizes representation of reserves in the budget, there are other documents that show reserves accurately reflected, such as the annual audit, for example. Therefore, while P3 and P4 do not deny that their NPOs have reserves, they have, however, found ways to unconventionally budget for, and report them.

Strategic Categorization

NPOs, as described in Internal Revenue Code Section 501(c)(3), must report total expenses by type and by function (Eining et al., 2020). The type, for example, includes elements such as salaries, occupancy, and supplies, while the function would include categories like programming, administrative and fundraising. NPOs are required to report expenses in this manner because it lends information to the IRS and donors, which is used to determine if the number of expenditures is appropriately aligned with activities that further the purpose for which the NPO is exempt. Therefore, a strategy that all 5 study participants use to navigate the NSC is unconventionally reporting expenses by strategically categorizing the type (costs) and the function (staff's time).

Strategic Categorization of Type: Costs. NPO leaders are able to use unconventional budgeting and reporting, and strategic categorization as strategies to navigate the NSC, because there is no set standard for what should be revealed in the financial statements of NPOs. According to Eining et al. (2020), donors and many accountants are less familiar with Form 990 or the financial statements from NPOs, than they are with documents that are reviewed to ascertain the status of for-profit entities. All expenses must be categorized when using Form 990, including the following categories: (a) program, (b) management and (c) general/administrative expenses, or fundraising

expenses. Based on the semistructured interviews I conducted, all 5 participants have made efforts to categorize as many costs possible as program costs. For example, when discussing how funders' expectations about overhead costs impacted how operational costs are represented or reported, P1 stated, "I've had to tuck costs into the equipment costs and try not to focus on the fact that our equipment costs are higher than expected." While P1 does that because equipment is necessary to see the program through, there are some expenses that funders do not feel are program costs. However, according to P1, those things "reinforce participant strategies, and therefore, reinforce and strengthen the program." As a result, P1 has utilized the tool of unconventional reporting by strategically categorizing costs as equipment or supplies.

Strategic Categorization of Function: Staff's Time. While P1 does not have to be concerned with strategically categorizing staff's time by function, because their NPO is 100% volunteer based, P2, P3, P4 and P5 have intentionally worked at finding ways to "try to lean it out there," as P2 said when speaking about how staff's time is reported. According to P2, they live in fear of their administrative and fundraising costs going above 20%:

I hate classing my time as admin on my timesheet. For example, I'll always try to lean it out there if I can. It's not quite misrepresenting, but it does play into how I think about how I categorize my time on my timesheets.

P2 gave additional examples of how they and their staff strategically categorize or report their time. If the NPO that P2 leads has a staff meeting, staff's time is categorized as general programs, as opposed to calling it an administrative cost. P2 said, "There are a lot

of ways you could class that time, and I would always lean towards classing it as general programs.” Like P2, P3 spoke of strategically categorizing staff’s time, similarly:

I don’t know that I would want to say that I was ever dishonest or that my organization was ever dishonest. I can say that if there was ever an argument for calling something programmatic work, rather than G&A (General and Administrative), we would use it.

In addition, P4’s experience aligns with those of P2 and P3, in that finding ways to categorize staff’s time as programmatic is their goal, as well:

No one wants to fund NPOs to do tasks which keep them afloat, such as staffing the board, training staff, or managing the audit, for example. Even though those tasks are time consuming and necessary. The other way it plays out is in distributing my time across different programs in terms of supervision, or in terms of anything that I can spread across the programs to make it look like it’s programmatic costs.

Lastly, P5’s experience is consistent with those of P2, P3 and P4. According to P5, if things were ideal, NPO leaders would not have to go through the exercise of reporting unconventionally or strategically categorizing, in an effort to remain in compliance; however, NPO leaders have to be more creative and think the reporting process through:

I think all non-profits play this little game where, in my opinion, we are all working on programming. Like every single person in the organization is doing this for the mission. So really, as we’re doing timesheets, we’re thinking of how to allocate.

P5 gave the example of one who may be doing operations director functions, which is typically categorized as general or administrative, however, they consider how much the operations director tasks directly impact the program, overall, and strategically categorize, and unconventionally report the tasks under programs.

Applications to Professional Practice

The findings of this study are relevant to the professional practice of business, namely to the future of NPOs, NPO leaders, funders and philanthropists, and all stakeholders of NPOs. While the topic of my study was relevant when I first presented it in my prospectus, my study and findings seem even more relevant to the professional practice of business, since the COVID-19 pandemic. My study determined that some nonprofit leaders use the following strategies to navigate the NSC, which prevents NPOs from achieving their mission: (a) diversify revenue, (b) identify and pursue unrestricted funds, (c) minimize overhead, and (d) unconventional budgeting and reporting. The findings with respect to the professional practice of business can be vastly applied, as: (a) NPO leaders can use the findings for insight on how to navigate the NSC; (b) funders and philanthropists can use the findings to gain deeper understanding, hopefully prompting change around grantmaking and charitable gift approaches; (c) Stakeholders, from supporters to beneficiaries or NPO program participants, and even critics of NPOs can gain broader understanding, in general, around NPOs and the NSC, and how NPO leaders' strategies for navigating the NCS impact the achievement of the mission. 100% of the participants in this study expressed being glad that I chose to conduct research in this area and on this topic, as they are hoping for a time when the grantmaking approach

shifts for the better. Additionally, 3 out of 5 study participants expressed that they have seen improvement in the approach, as it relates to grantmaking and charitable giving, but also shared that we still have a long way to go. Therefore, publishing the results of this study will be a step in the right direction.

Implications for Social Change

The implications for positive social change include providing leaders of NPOs with the findings from this study, and therefore, providing them with practical, effective strategies to navigate their NPOs away from, or successfully through the NSC, which could yield thriving NPOs that are better able to aid beneficiaries and their communities. For example, with the finances and resources needed to build and maintain a solid infrastructure, NPO leaders could achieve their mission and maximize efficacy by building more robust programming and expanding their target area or service-base. Additionally, funders may use the findings of this study to aid in the development of a new grant-making approach by catalyzing honest dialogue around the topic of actual, as opposed to misrepresented, operating costs for NPOs to run effectively. Honest dialogue about actual operating costs needed to effectively run NPOs could potentially result in equipping nonprofits with resources to better serve their beneficiaries and fulfill their mission.

NPOs were greatly impacted by the COVID-19 pandemic. According to Kim and Mason (2020), who surveyed NPO leaders from more than 600 NPOs, most NPOs experienced an immediate impact on their programs and financing; however, the need for the services that NPOs provide, because of the pandemic, increased significantly.

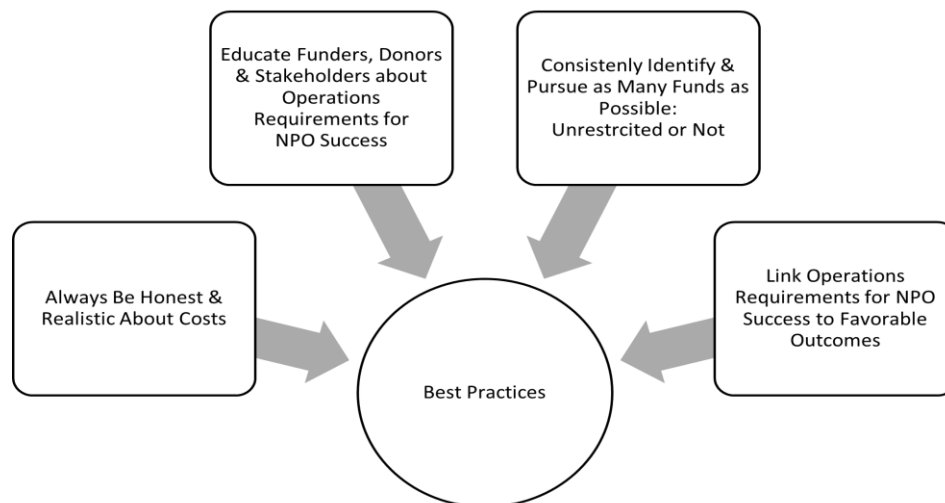
Additionally, NPOs with more reserves were less likely to experience a reduction of operating hours or staff, and it was less difficult for them to acquire supplies or vendor services. Therefore, findings from this study could contribute to positive social change by prompting new ways of viewing reserves, as a vital element in the sustainability of NPOs in a pandemic. Lastly, this study could highlight the overall importance of NPOs and how vital the NPO service delivery model is, namely since the start of the COVID-19 pandemic.

Recommendations for Action

In conducting this research, I found that while the strategies that emerged from the interviews with all 5 participants were effective in helping P1 through P5 navigate the NSC, their strategies did not avoid the NSC. The data from this study proved that while the NPO leaders were navigating the NSC, they were still in a systematic and chronic cycle of underfunding and underinvesting. Therefore, my recommendations for action, as illustrated in Figure 3, would be for NPO leaders to try to avoid the NSC by following these best practices: (a) always be honest and realistic about costs, (b) educate donors, funders, and stakeholders about operations requirements for NPO success, (c) consistently identify and pursue as many funds as possible, whether they are unrestricted or not, and (d) link operations requirements for NPO success to favorable outcomes.

Figure 3

Best Practices: Recommendations for Action



The first best practice I derived from the data collected in this study is always to be honest and realistic about costs. The NSC is a cycle, meaning a recurring series of events; therefore, once an NPO leader starts to misrepresent what is being reported, the next report is misrepresented as well, and it continues. Being honest is the only way to avoid the NSC, as it triggered by NPO leaders caving to the unrealistic pressures of donors and funders. The next best practice is to educate donors, funders, and stakeholders about the operations requirements to ensure NPO success. While the NSC is triggered by donors' skewed and unrealistic expectations of what it really takes to operate NPOs, it is the responsibility of NPO leaders to be honest with donors, funders, and stakeholders, while educating them about true costs and expenses associated with operating programs through NPOs. P3 shared a rhetorical question, during the interview, wondering, "Do donors really understand how their refusal to fund overhead costs negatively impacts

people's lives?" P3 also shared that a strategy used for navigating the NSC is, "Just doing without," and "Paying people less than what they're worth," which causes staff burnout, low morale, and higher turnover rates than desired. Perhaps if the honest picture was painted for donors, funders, and stakeholders, donors' expectations would shift, and NPO leaders would not feel the need to misrepresent.

The third best practice for NPO leaders to try in an effort to avoid the NSC is to consistently identify and pursue as many funds as possible, whether they are unrestricted or not. NPO leaders from this study suggested relentlessly identifying and pursuing unrestricted funding or flexible dollars, while saying there are not many unrestricted funds available. Then why only seek out and relentlessly pursue a type of fund that is limited, rare, difficult to lock-in? NPO leaders should consistently identify and pursue all types of funding. If it happens to be unrestricted, that is certainly a benefit; however, if it is not, then NPO leaders have an opportunity to be honest, and to educate the donor, funder, or stakeholder about what is needed to successfully operate their NPOs. This type of practice is best because it establishes consistency, and if NPO leaders follow and remain consistent, then the grantmaking community could possibly change their approach, as consistency lends to the credibility of the nonprofit sector and to that of NPO leaders. Lastly, NPO leaders should link operations requirements for NPO success to favorable outcomes. Doing so demonstrates that NPOs can achieve desired outcomes when they have the resources they need, which is also linked to NPOs achieving their mission.

The results of this study are vital to NPO leaders, NPO stakeholders (board, staff, beneficiaries of NPO programs or services, the communities in which NPOs operate, other supporters or even critics), and donors and funders. I will disseminate the results of this study to research participants via email. I will also disseminate the results of this study to NPO leaders and to professionals in the grantmaking sector via appropriate platforms such as business journals, conferences, seminars, and trainings.

Recommendations for Further Research

The focus of this study was to explore effective strategies that some nonprofit leaders use to navigate the NSC, and I conducted semistructured interviews with five NPO leaders who were employed by five different registered 501(c)3 tax-exempt NPOs in the Greater Washington DC and the surrounding area. Therefore, my first recommendation for further research would be to expand the geographical location or target area of where researchers conduct studies. Since 4 of my participants were from NPOs in Washington DC, perhaps there would be different insight from choosing NPO leaders throughout the nation, as donor relations or grantmaking culture could be different in other geographical areas.

In conducting the research for this study, I discovered that there are limited peer-reviewed resources available on, both, the NSC and on my theory, which is the theory of impact philanthropy. This made my literature review difficult, as it was a challenge to find relevant sources that were peer-reviewed and recent. Therefore, I would recommend that researchers conduct more studies to build upon what has been established so that the research remains relevant and current.

Additionally, I would recommend that researchers complete not just qualitative studies in on the NSC, but rather quantitative and mixed method studies as well, because quantitative methodology is used when seeking to generate statistical and numerical measures to support decision-making processes comparing, ranking, and selecting data. I believe when presenting the findings to donors or funders, having the statistical and numerical data could aid in effectively relaying the findings, and make the results more credible, since donors and funders are interested in the numbers, such as budgets and financial statements.

Limitations, referring to potential weaknesses of the study, could interfere with findings and are beyond the researchers' control (Marshall et al., 2021). A limitation for this study was a lack of generalizability due to the small sample size of five NPO leaders who were employed by five different NPOs. While I was able to achieve data saturation, a larger sample size may have resulted in more themes emerging or different themes emerging. Another limitation was the results being limited to the responses participants are willing to disclose in their interview process. I followed my recommendation for addressing this limitation, which was to end the semistructured interviews by asking the participants for any additional insight or feedback beyond what they already shared in their responses. Asking for additional insight allows participants to be open and share information beyond the targeted interview questions. 100% of study participants added additional insight; however, some were very brief due to time constraints. Therefore, I would recommend giving participants time periodically, throughout the interview to lend any additional insight, between questions.

Reflections

The purpose of this qualitative multiple case study was to explore effective strategies NPO leaders use to navigate the NSC, which prevents them from achieving their mission. I interviewed NPO leaders who has been employed by registered 501(c)3 tax-exempt NPOs. I had the preconceived idea that NPO leaders had experienced the NSC and that they would find the topic of this study interesting and helpful to, both, NPO leaders and to those in the grantmaking and charitable gifting arenas. My preconceived idea proved to be true, as I initially had over ten NPO leaders who were interested in my study. Ultimately, I ended up interviewing 5 participants who were all excited to take part in the study, and 100% of the study participants expressed the importance of my research, as well as their hopes for it being instrumental in illuminating the NSC and the issues with the overall grantmaking approach.

I also had a preconceived idea that study participants would not freely share their strategies. However, my preconceived idea was incorrect, as all 5 participants were comfortable, open, and transparent during the data collection process. All study participants knew that I had experience as an executive director in the NPO sector, the reasons that I wanted to conduct this study, and that I would ensure their names and organizations would remain confidential, as I included the aforementioned in my introductory email.

Lastly, I had the preconceived idea that I could not possibly be the only NPO leader experiencing issues with donors and funders who want to give, but do not want any of their gift allocated towards operations costs. After interviewing five NPO leaders,

I learned that my preconceived idea was true, as all five study participants confirmed that impact philanthropists do exist in the NPO sector, and that the NSC is real.

Conclusion

According to Schubert and Boenigk (2019), funders' unrealistic expectations around NPO overhead cause the deprivation of the elements that lend to nonprofits' overall infrastructure. Nearly 60% of American donors believe that NPOs spend too much on overhead; therefore, causing what was considered a reasonable overhead ratio in 2012, to drop from an average of 22% in 2012 to 19% in 2018 (Qu & Daniel, 2021). Therefore, it is imperative that NPO leaders understand the NSC, and use effective strategies to navigate the NSC. As it relates to the effective strategies for navigating the NSC, the four themes that emerged from this study were (a) diversify revenue, (b) identify and pursue unrestricted funds, (c) minimize overhead, and (d) unconventional budgeting and reporting. However, there are overall best practices that could potentially help avoid the NSC, and they are to (a) always be honest and realistic about costs, (b) educate donors, funders, and stakeholders about operations requirements for NPO success, (c) consistently identify and pursue as many funds as possible, whether they are unrestricted or not, and (d) like operations requirements for NPO success to favorable outcomes. The findings from this study are consistent with the literature review and the conceptual framework by Duncan (2004), as it explains why donors frequently prefer to fund a specific part of a production process, such as refusing to pay operational or overhead costs or preferring to sponsor one individual child rather than a children's organization that uses charitable contributions to feed 1000 children. Lastly, NPO leaders

and stakeholders, as well as those in the grantmaking and charitable gifts sectors, could use the findings of this study to hopefully change the pressure that stems from unrealistic expectations about overhead costs. Eliminating donors' skewed perceptions about overhead would remove the pressure that NPO leaders feel to conform, causing the NSC to be mitigated, and therefore, allowing for NPOs to operate with solid infrastructure to achieve their mission.

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Appendix A: Interview Protocol

The interview protocol will consist of the following seven steps:

1. An opening statement with greetings and introductions
2. The study participants should have read the consent form and provided their consent via email, agreeing to participate in the research. I will thank the participant for agreeing to participate in the research study. I will also provide information regarding the member checking process that will follow the transcription and interpretation of the data.
3. Following the transcript interpretation, I will schedule time with the participants for member checking processes to ensure the reliability and validity of the data.
4. Participants will be given a hard copy print out of the consent letter for their records.
5. I will record and note the date, time, and location.
6. I will indicate the sequential representation of the participant's name, e.g., 'P1' on the audio recording, document on my copy of the consent form and the interview will begin.
7. Each participant will be given the required time to fully answer each pre-determined interview question in detail (including any additional follow-up/probing questions).
8. At the close of the interview, I will thank each participant for their time.

Appendix B: Interview Questions

This section includes the semistructured interview questions that I will use during the interview sessions. The results will be a part of Section 3 of this study.

Time of the Interview: _____

Date: _____

Place: _____

Interviewer: Jennifer Matthews (Researcher)

Interviewee: P_____

The purpose of this study is to explore effective strategies nonprofit leaders use to navigate the Nonprofit Starvation Cycle (NSC).

The following interview questions were developed to address the overarching research question, which is: What effective strategies do some nonprofit leaders use to navigate the NSC, which prevents NPOs from achieving their mission?

1. What has been your experience with funders and their expectations about your NPO's overhead costs?
2. What specific strategies do you use to ensure funders understand the realistic cost of building the robust infrastructure needed to prevent triggering a systematic NSC of underfunding and underinvesting?
3. How, if at all, have funders' expectations about overhead costs impacted how you represent or report operational costs?
4. What specific strategies do you use to ensure operating or overhead costs are accurately budgeted and represented in your organization?

5. What effective strategies have you used to navigate a systematic NSC of underfunding and underinvesting, in your organization?
6. How do you assess the effectiveness of the strategies you have used to navigate an NSC, in your organization?
7. Of the strategies that you used to navigate an NSC, in your organization, which were the most effective?
8. Of the strategies that you used to navigate an NSC, in your organization, which were the least effective?
9. How were the strategies used to navigate a systematic NSC, successfully communicated to all stakeholders in your organization?
10. What additional insight or feedback, beyond what has been shared in your responses to interview questions 1-9, can you lend regarding effective strategies to navigate an NSC?