

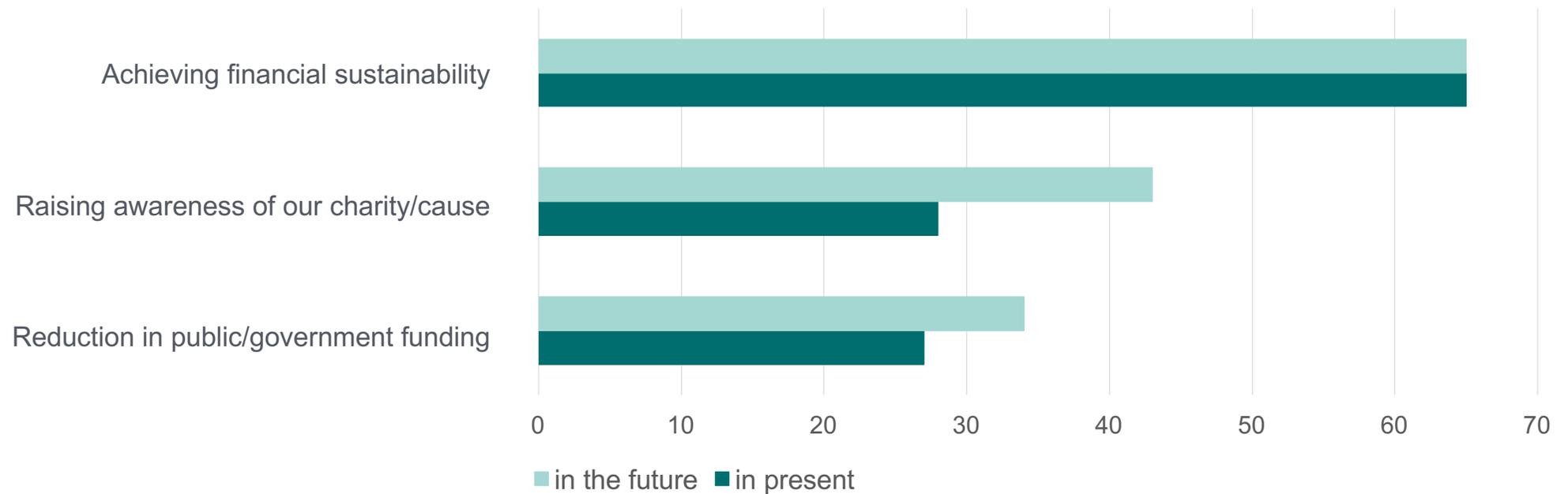
**University  
of Basel**

# **Managing your financial resources**

Prof. Dr. Georg von Schnurbein

# Major challenges for nonprofits

Which do you consider to be the three most pressing challenges facing your organization?



Hengevoss/Berger 2018

# Financial health

## Aim of financial management

- Securing cash flow
- Managing financial health and choosing your revenue sources

## Financial health consists of two different constructs

- Financial stability
- Financial capacity

# Concentration or diversification?

- Portfolio theory: diversify your financial revenue mix in order to spread the risk
- Donations, state funding and own revenues
- Downside of diversification: increased costs of control

# Herfindahl Hirschman Index (HHI)

- Measurement of diversification/concentration

$$\text{normalized HHI} = \frac{1 - K}{1 - \frac{1}{N}}, \quad K = \sum_{i=1}^n \left( \frac{\text{income source}_i}{\text{total income}} \right)^2$$

- Results between 0 (full diversification) and 1 (full concentration)

# HHI: example

<b>private donations</b>		<b>public funding</b>		<b>own revenues</b>			<b>total</b>	<b>HHI (3 income sources)</b>
619'180		50'340'234		225'615			51'185'029	0.95
<b>donations</b>	<b>bequests</b>	<b>federal government</b>	<b>local government</b>	<b>revenue from services</b>	<b>membership fees</b>	<b>other revenues</b>		<b>HHI (7 income sources)</b>
448'680	170'500	25'684'233	24'312'887	198'256	343'114	27'359	51'185'029	<b>0.39</b>

# Indicators for financial health

## Operating margin (MARGIN)

$$\frac{\text{total revenue} - \text{total expense}}{\text{total revenues}}$$

→ Money available at the end of the year

## Administrative cost ratio (ADMIN)

$$\frac{\text{administrative expenses}}{\text{total revenues}}$$

→ Share of expenses not directly used for projects

# Criteria for finance mix

- Governance/ethics
- Competency
- Efficiency
- Volatility
- Interdependencies