Continuous Adaptation: Financial Sustainability for Global Nonprofit Startups
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Abstract

Every nonprofit must address the issue of financial sustainability in order to carry out its work and achieve its mission. While there are numerous resources available on this topic, there is little research on how to approach financial sustainability from the perspective of an international startup organization. Startups have to develop their financial strategies from scratch and international work has unique funding challenges. Drawing on a literature review, six expert interviews, and a case study, this project explores various approaches to financial sustainability and the particular challenges and opportunities for international startups in achieving that goal. The analysis charts a range of strategic choices and offers suggestions for how an international startup organization can navigate these options. The results suggest that financial sustainability is not a fixed concept but rather a continuous process of adaptation that requires critical assessments of internal capacity, funder priorities, and the external operating environment.
Acknowledgments

This project is dedicated to my life’s inspiration, Amma.

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Section 1. Introduction

Financial sustainability is important for every nonprofit organization because it provides the means by which the organization can continue to do its work and achieve impact. By definition, nonprofit organizations are formed to fulfill a charitable purpose rather than to accumulate profit. However without funding, an organization will not have the resources to carry out its work. An organization must also consider whether pursuing certain types of funding will draw it towards or away from its mission. The challenge of finding funds is often compounded when an organization is new since it may lack supporters, infrastructure, and evidence of impact. Organizations interested in entering international development work must contend with additional complexities, such as global aid trends, legal requirements, and the local context. Although a lot has been written about nonprofit financial sustainability, there is a gap in the research regarding what that might look like for an international nonprofit startup. This project explores current practices and challenges, as well as successful strategies in achieving financial sustainability for global startups and implications for practitioners and researchers.

The report starts with a literature review to provide background information on financial sustainability and young international development organizations. Next the report covers the methods and approaches of this research, including a case study and expert interviews. The data analysis section uncovers themes resulting from the case study and interviews in relation to the literature. The report then discusses the
implications and recommendations stemming from the data analysis. The final piece of the report offers conclusions.

Section 2: Literature Review

The literature review explores definitions of financial sustainability, starting a new international organization, trends in development aid, strategic approaches to funding sources, and potential models of financial sustainability.

Defining Financial Sustainability

In order to address strategic approaches to financial sustainability, one must first examine the term itself. Financial sustainability lacks a standard definition, in part because it is dependent on the unique goals and structure of each organization (Sontag-Padilla et al., 2012, p. 2). At the same time, there are some overarching similarities between definitions. Sontag-Padilla et al. (2012) defines financial sustainability as the “ability to maintain financial capacity over time” in order to “maintain or expand services within the organization while developing resilience to occasional economic shocks in the short term” (p. 2). This definition acknowledges the inextricable connection between mission and funding and also implies both short-term and long-term goals for financial sustainability. An alternative definition based on accounting principles suggests that financial sustainability depends on an organization’s “capacity to obtain revenues in response to a demand, in order to sustain productive processes at a steady or growing rate to produce results and to obtain a surplus” (Leon, 2001, p. 14). This definition explicitly emphasizes the importance of generating financial reserves in order to plan for the future. Leon describes both a tactic of building reserves and a claim that a nonprofit cannot
achieve financial sustainability without the security of earning more than it spends. Both definitions are complementary and highlight how building up financial resources ensures the continuity of the organization’s activities and mission over time.

By contrast, Fowler places financial sustainability in the context of international development and the larger concept of sustainability. Fowler (2000) coins the term the ‘virtuous spiral’ to capture the elements of external impact, human and financial resources, and organizational capacity that he considers essential to achieving sustainability in practice (xiii). In addition, Fowler (2000) emphasizes ‘insightful agility’ or continuous and purposeful adaptation in the face of change as a key element of maintaining longevity in an unstable environment (xii). Fowler considers financial sustainability to be one of several elements that contributes to the overall sustainability of an organization. This description also suggests that funding strategies must reflect the dynamic and changeable nature of external circumstances. For the purposes of this report, all of the above definitions can be synthesized. It is important to acknowledge the basic organizational necessity of earning more than is spent and how that supports the mission. At the same time, it is important to put this goal into the context of organizational sustainability and the unstable environment in which startup international development organizations operate.

**Starting an International Nonprofit**

None of the above definitions of financial sustainability specifically address startup organizations. This section examines the challenges of starting up international organizations in relation to developing financial sustainability. Organizations are
particularly vulnerable to failure in the startup phase (Bielefeld, 2014). They face certain challenges due to being new and often small, such as needing to build new systems, relationships, capital, and teams (Bielefeld, 2014). Nonprofits that intend to operate abroad have an additional layer of complexity. Norton (2012) provides an overview of the legal and practical considerations for 501(c)3 organizations considering operating or funding foreign programs so that practitioners can make informed choices about structuring operations and allocating resources. She highlights issues related to operating a foreign program, staffing foreign operations, global fundraising, and United States (US) reporting requirements. Norton emphasizes that these choices depend both on the particular country requirements as well as the goals and capacity of the organization. For startups, it may be difficult to make some of these choices without having a clear idea about how it could impact their funding in the long run.

**Trends in International Development Aid**

In order to understand the choices that international startups face when addressing financial sustainability, it is helpful to understand current trends in international development aid. US based development organizations have traditionally relied on the US government for financial support (Stoddard, 2012, p. 403). However, organizations that are concerned about maintaining their independence have tried to diversify their funding streams, particularly through the emergence of private donors (Stoddard, 2012, p. 404; Harman & Williams, 2014, p. 938). Harman and Williams (2014) suggest that the increase in non-traditional donors effectively reduces the power of traditional donors to set the development agenda and gives recipients more choice (p. 937-938). At the same
time, organizations must address funders’ expectations of accountability (Fowler, 2000, p. 15). Given the landscape of international aid, where a greater variety of donors and funding mechanisms are coming into play, and yet organizations may be restricted by funder requirements, it is worthwhile to explore what strategic options startup international organizations have for achieving financial sustainability.

**Funding Sources and Strategies**

To return to the definition of financial sustainability, a startup international organization needs to find the financial resources to fulfill its mission and have enough of the right type of resources that it can withstand changes in the environment and stay true to its purpose. This section examines what strategies are currently available for organizations.

One central question for organizations to consider is how to build their financial capacity without getting pulled away from their missions. Resource dependency theory argues that organizations are dependent on their environment for resources; therefore whoever controls the resources holds equivalent power over the organization (Fowler, 2000, p. 60). Fowler (2000) states that organizations can reduce their dependency on unreliable foreign aid by diversifying their revenue sources (p. 62). Resource diversification strategies can be categorized as non-financial, such as mobilizing volunteers; self-generating finances, such as enterprise development; or financial subsidization from another source such as government, business, or civil society (Fowler, 2000, p. 63). Fowler (2000) argues that non-financial options and self-generated revenue
offer more positive outcomes in terms of easing dependency and unreliability compared to relying on financial subsidization from another source (p. 65).

In terms of diversifying resources, Hunter (2015) aligns with Fowler in his support of self-generated income and the value of non-financial partnerships in order to overcome the challenges of restricted and insufficient funding. However Hunter argues that corporate partnerships can provide flexible financial resources compared to traditional aid funding without an adverse impact on the mission.

In contrast to the positive outlook on self-generated revenue, Low and Davenport (2002) raise the issue of balancing a self-sustaining financial strategy with an organization’s mission to serve extremely marginalized populations (p. 372-373). They suggest that often these two goals are in conflict. While they do not dismiss this option outright, they offer additional alternative sources of funding such as corporate giving, regional philanthropy, trust funds, foundations, and local government contracting (Low and Davenport, 2002, p. 375-376). These alternatives align more closely with Fowler’s options for subsidization.

In a reverse approach, Aschari-Lincoln and Jager (2016) attempt to understand how an organization’s characteristics influence the types of revenue it receives. Their quantitative survey of Swiss-based international non-governmental organizations (INGOs) suggests that different geographic regions influence the funding environment and that older, more established organizations may have more success with earned income activities. This finding may discourage new organizations from focusing on
earned income as a primary funding model. However this study has limitations due to its size, low response rate, and focus on Swiss-based INGOs.

One consideration of revenue diversification is how the different funding types interact. Herzer and Nunnenkamp (2013) examine the relationships between private donations, government grants, commercial activities, and fundraising. They perform statistical analysis using a data set from a previous study, covering over 1,600 international development organizations registered with the US federal government between 1939 and 2004. Their results support a complementary relationship between private donations and government grants, suggests that commercial revenues may crowd out private donations in the long run, and that maximizing donations through fundraising can be fruitful but should be done in moderation in order to not alienate donors. This type of analysis could be helpful for an organization seeking to maximize the benefits of resource diversification and develop complementary funding sources.

Through in depth interviews, Mitchell (2014) identifies a variety of strategic responses to the risk of resource dependency. These tactics range from adaptive strategies such as alignment with donor preferences, to avoidance tactics such as revenue diversification, commercialization, and unrestricted funding, to shaping tactics like donor education and compromise (Mitchell, 2014, p. 74). Mitchell (2014) states that revenue diversification must also account for restricted funding that is limited to a specific use; otherwise it can result in less autonomy (p. 88). He also notes that commercialization may be more successful when it is related to the core of the mission.
The literature indicates that there is a variety of tactics that international nonprofit startups can employ to develop financial sustainability. However the success of particular funding strategies is open to debate.

**Funding Models**

This section explores existing models for financial sustainability. While there are some existing models, none of them sufficiently address international startup organizations.

One approach to models is from the perspective of strategic planning. For example, the Matrix Map charts impact and financial benefits on a grid (Zimmerman & Bell, 2014). This is useful for organizations that are already up and running but does not adequately consider startups. As a planning tool, the Matrix Map does not consider how to make decisions when programs have not started operations or been operating long enough to predict their financial viability. It also does not take into account the external environment, which is critical to organizations working in an international context. Lastly, since its design gives equal weight to financial and impact goals, it may not adequately account for programs at the core of an organization’s purpose that lack the means to self sustain.

Other funding models are based on the successes of large US based organizations with revenues of at least $50 million (Foster et. al., 2009). The authors find that all of the funding models focus on achieving alignment with a well-matched funding source rather than pursuing multiple types of funding (Foster et. al., 2009, p. 34). This approach appears to contradict the earlier literature on revenue diversification. If these models are
successful for large nonprofits, they may be something that a startup can strive to emulate in the long term. However the funding models are not separated by issue area and may not accurately reflect startups or an international context.

Fowler (2000) constructs a rough pathway for international development organizations seeking to make strategic decisions for sustaining their financial resources. He suggests that an organization first assesses its positioning as a service provider versus activist as well as its relative autonomy from the state. Next it considers its stage of organizational development as well as the external environment. Based on these assessments, the organization can weigh its options for resource diversification based on how those choices influence its risk of resource dependency (Fowler, 2000, p. 125). However, Fowler does not create typologies based on positioning, nor does he offer a clear guide for establishing how organizational priorities might align with the different strategic choices he presents. In addition, this model’s level of complexity suggests that it may not be practical to implement. Based on these resources, there does not seem to be an adequate model of financial sustainability for international startup organizations.

**Section 3: Methods and Approaches**

In order to address the question of how international startups can develop sustainable funding, this report used qualitative methods including a case study and in depth interviews.

**Case Study**

In order to contextualize this issue, I used Indigenous Health Solutions (IHS), an international nonprofit startup based in the US with operations in Papua New Guinea, as
a case study. I gathered primary and secondary data on the organization and its environment to understand the particular challenges and opportunities open to IHS as it navigates strategic decisions about its funding.

**Interviews**

The goal of the interviews was to obtain a variety of professional perspectives on the issue of financial sustainability, and associated challenges and opportunities based on the interviewees’ expertise and experience.

In order to engage participants for the interviews, I used non-probability snowball and convenience sampling. This choice allowed for adequate responses within the project timeframe. First, I contacted the co-founders of Indigenous Health Solutions, with whom I had made a connection earlier in the academic year. This approach yielded interviews with each of the two founders and a colleague with experience in founding a separate international start up. I also used my academic and personal network to find potential interviewees. This approach yielded two experts in fundraising and resource development and a consultant with expertise in strategic planning. The resulting six interviews included a mix of expertise in founding and fundraising for international organizations. For the purposes of confidentiality, I refer to the respondents by their initials.

The criterion for selection was either experience in founding international organizations or experience in resource development and fundraising for international organizations. I assessed individuals based on the credibility of the recommender, the individual’s biography, and their availability.
Each individual was approached virtually, through an introductory email that explained the background of the project, the projected time commitment from the participant, and an offer to set up a time and convenient method of contact. After each interview, I followed up with a thank you email and any additional questions.

Four of the interviews were conducted over the phone, one was conducted via video conferencing software, and one was conducted via an online audio call. Each interview lasted between 30 minutes to 1 hour. All but one of the interviews was recorded and transcribed afterwards to validate notes and generate precise quotations. One interview was not recorded properly due to equipment error. Notes taken during the interview were supplemented within 24 hours by additional notes from memory.

I used a semi-structured interview method. Each of the interviewees was asked a basic set of questions, and specific follow up questions based on their responses. The standard questions included:

- How would you define financial sustainability?
- What are the biggest challenges you have experienced in developing sustainable funding for your organization?
- What strategies have been most successful in developing sustainable funding for your organization?

I treated the first interview as a pilot and several questions were adjusted after this initial interview.
The interviews were then analyzed and compared using an emergent coding technique to ensure that no relevant information was missed (Kara, 2012, p 143.). I then conducted a thematic analysis and compared the results with the literature.

Section 4. Data Analysis
The case study will be presented followed by the interview results.

Case Study

About Indigenous Health Solutions (IHS) is a nonprofit startup registered in the US that serves a remote indigenous population in the Eastern Highlands of Papua New Guinea. With planetary health as a guiding precept, it works closely with the local population to provide an integrated approach to development that includes health, education, and sustainability. Planetary health is a multidisciplinary concept that explores the interconnection between environmental systems and human health (Whitmee et. al., 2015). IHS’s initial goal is to get startup funding to deliver primary healthcare services, conservation practices, and livelihoods training to the indigenous Ankave people (IHS, personal communication, June 2017). Its long-term goal is to provide an evidence base for a community-led participatory model of health and development for impoverished indigenous communities that can be scaled to other country contexts (IHS, personal communication, June 2017). In order to accomplish these goals, IHS will need to think strategically about how to gather and maintain financial resources for the short and the long term.

Challenges Indigenous Health Solutions (IHS) has to consider its internal resources and capacity. As a startup organization, it does not have any fulltime staff.
Therefore it has very little bandwidth to devote to cultivating financial resources. Similarly, it has limited financial resources to dedicate to fundraising efforts.

It is also working in an isolated low resource region. This means that it will not be feasible to tap into the local population for funding its work, using for example, a fee for service model. It is also less likely to find local philanthropists with the means to support these services. Therefore its most likely avenue for funding comes from outside the local context. With high competition for funding, IHS must convince potential funders why they should care about this far away issue. It also must handle the legal and structural complexities of fielding funding from different countries.

IHS must also consider the context of Papua New Guinea. As a consequence of decentralizing the national health services administration, financial resources are unevenly distributed and lack oversight, leading to fragmented and unequal access in the provinces (World Bank, 2007, p. 200). While national health expenditures have declined, development partners have increased spending. The local context has a huge influence on what funding sources and partnerships are feasible for IHS to access.

In addition, IHS must contend with trends in international aid. Many funders prefer projects with clear, easily measured outcomes and a fixed timeline. This may not be possible in a community with hardly any existing infrastructure or resources. IHS has a complex and nuanced approach to addressing issues in the community. Its target population is small and isolated. Therefore, it may be difficult to measure the “success” of interventions in a way that satisfies funders. For example, global philanthropic
organizations often prefer to focus on particular geographic regions with the potential to reach a large number of people.

**Opportunities** An internal assessment of IHS reveals its strength in human resources. Its two co-founders have a strong background in health and development and in particular the context of Papua New Guinea. Its board of directors also has an impressive collective history, with a range of global experience in anthropology, conservation, and medicine (IHS, internal communication, June 2017). Out of the nine directors, three are based in Papua New Guinea, and one is a citizen. IHS may be able to leverage the experience, connections, and credibility of the people attached to the organization into organizational support.

Given the prevalence of nongovernmental organizations in Papua New Guinea, this is a promising area for partnership. Faith-based organizations deliver approximately half of Papua New Guinea’s health services (Asian Development Bank, 2015). While it may not directly provide financial support, partnerships with other groups can support financial sustainability by providing knowledge, shared services, or other important resources. At the same time, for partnerships to be effective, both organizations need to have alignment in their purposes.

Since the mission of IHS focuses on planetary health, it may be able to tap into existing international networks that have the same interest area. This has the potential to expand its connections and exposure to funding opportunities closely connected to its mission. IHS does not yet have a way to prove its efficacy since it has not yet implemented or measured its programs. However it is useful to the organization to have
evidence to generate support for its approach. Prestigious institutions such as the Rockefeller Foundation support the concept of planetary health and may help IHS to validate its approach (Whitmee et. al., 2015).

The founders are also interested in exploring self-generating income opportunities. While the financial success of this strategy is unclear from the literature, it does offer an alternative funding option compared to a fee for service structure. It can potentially be closely aligned with the organization’s goal to address conservation, education, and livelihoods as part of holistically caring for human health. Income generation that is closely aligned with the mission has proven more successful than peripheral activities. Papua New Guinea is also an emerging market for social enterprise, particularly in areas such as agriculture, women empowerment, and youth employment (Ganesh et.al., 2016, p. 11). Therefore this is an avenue that IHS may wish to explore further.

**Interviews**

The expert interviews addressed practitioner perceptions of financial sustainability, as well as the barriers and successes in achieving this goal.

**Defining Financial Sustainability** The first step was to establish how practitioners define financial sustainability. One unexpected result from the expert interviews was the negative reaction to this term. Three of the respondents, who are all founders and program implementers, thought of financial sustainability as an argument that funders could use to kill funding for their project. The specific objections covered a range of concerns. One founder S.D. stated “Arguing about sustainability is at a certain
point a pointless exercise because you need to do what’s in front of you otherwise people are going to die”. His concern was that a future orientation could overlook the needs of the present and that it would always provide a rationale not to act now. Another founder, A.C., stated that, “sustainability is a concept that unfortunately is used often as a reason why bold work should not be pursued”. From her perspective, focusing on the sustainability of an idea before it has been tested and refined means that promising ideas may not be brought to fruition. The third founder, D.M., argued against sustainability on several fronts. First, he said “when folks talk about sustainability they use it as a code word for we can’t afford that” rather than being open to making compromises to achieve a positive outcome. In addition, D.M. claimed that “sustainability sometimes implies a race to the bottom” where cost-effectiveness wins out over achieving the best outcomes for the recipients. D.M. also said “The problem with sustainability is that it implies that you reach this steady state and I don’t think…you can ever rest on your laurels”. The idea that financial sustainability requires constant adjustment resonates with Fowler’s description as well as other parts of the data analysis. By contrast, the other three respondents, who were fundraisers and consultants, did not raise any objections to the term and jumped straight into the practical concerns of how to get to sustainable funding.

From the interviews, several alternative definitions of financial sustainability emerged. D.M. offered a pragmatic perspective where “you are constantly looking at your financials and you’re constantly looking at the political risks, at the economic risks, and how you can continuously adapt and are honest about it”. This definition focuses on
financial planning, risk management, and flexibility to handle changing circumstances. A.C. used the descriptors “resilience”, “autonomy”, and a “lean and hungry culture” to describe an ideal state of financial sustainability. This definition privileges the ability to continue in the face of funding setbacks, freedom to follow an organization’s internal values, and an entrepreneurial spirit of creativity and invention. One fundraiser, C.A., suggested that the definition of financial sustainability depended on the particular model and context of the nonprofit and therefore the outcomes could be vastly different. For example, she suggested that financial sustainability could result in building local capacity to the point where the community can take over the work of the organization, or scaling the organization to another region. In this definition, financial sustainability is organization-specific. For a summary of the perceptions of financial sustainability, see Figure 1.

**Figure 1: Perceptions on defining financial sustainability**

**Challenges** The interviewees were asked about the challenges associated with developing financial sustainability for international nonprofit startups. The power of funders to dictate terms was one common challenge across all of the interviews. D.M. stated that
“the power differential between a philanthropist and a nonprofit is immense”
particularly in terms of the funder’s lack of accountability before delivering the funds. D.M. and A.C., both spoke about funders being primarily interested in supporting innovation rather than core organizational functions. S.D. and A.C both discussed how funders are more supportive of programs that focus on one single issue rather than integrated solutions that address related and underlying causes. S.D. further argued that funders’ focus on return on investment and exit strategies detracts from focusing on long-term goals.

Four interviewees talked specifically about the challenges of getting funders on board with the organization’s work. C.A. said, “the operative question is why should they care?”. S.D. talked about the difficulties of bridging the distance between recipients and donors as well as being able to speak the language of business to funders. Fundraiser R.H. discussed the difficulties of building support without evidence of success. Consultant S.B. talked about getting donors to care about issues that did not have an immediate and apparent result. These responses suggest that funders have vast leverage to set the terms of what and how they will fund; however startup organizations may struggle to convince funders of the merits of their work without the right language and evidence.

Interviewees discussed the environmental constraints that can hinder financial sustainability for international nonprofit startups. Interviewees discussed the local and national context of the place where the nonprofit operates. Five respondents discussed how changing political, legal, and economic realities require nonprofits to adapt. For
example, political interest may swing towards or away from a particular cause, laws governing philanthropy may become more or less regulated, or government budgets may fluctuate. At the local level, there may be little or no infrastructure development, which then requires a greater investment on the part of the nonprofit.

Another theme to emerge from the interviews was the risk of not giving appropriate consideration to the local context and population. S.B. stated “if you don’t understand people and if you aren’t sensitive to those things you cannot be successful in a different country”. S.D. and D.M. suggested that international startup organizations are in the position of being outsiders to the community and therefore require extra sensitivity to ensure that they are meeting local needs and adapting to the context. D.M. highlighted the risk of reproducing the uneven power dynamic between US-based organizations and local communities. This could negatively impact the organization’s long-term viability and success.

Lacking the internal organizational capacity to build financial sustainability also emerged as a challenge for startup international nonprofits. Organizations may struggle without the right team in place. D.M. noted this could be difficult when organizations lack the financial means to develop a strong team. Two interviewees, S.D. and S.B. said organizations that go straight into the work without developing a strategic plan may also suffer the consequences later due to lack of research or not having appropriate internal systems in place.

**Successes** The interviewees were also asked about what strategies were successful in developing financial sustainability for international nonprofit startups. Trust and
relationship building were consistent themes throughout the interviews. Three of six interviewees discussed the value of relationship building in the context of cultivating funders. Other tactics such as building credibility, educating donors, compromising, and diversifying funding sources were also mentioned as means to address and avoid being too dependent on donors. Trust and relationship building were also discussed in the context of establishing partnerships and supporting local communities.

In response to a changeable environment, interviewees identified flexibility as an important attitude to cultivate. Partnership was seen as a possible tactic that could help organizations overcome instability in the environment. For example, working through existing structures such as government systems, or establishing relationships with other civil society organizations could help to see an organization through a challenging time.

Interviewees also discussed local culture and stakeholders as an important part of developing a successful strategy. While some discussed this aspect as simply needing to understand local culture, others went further and argued that local stakeholders needed to be an active part of decision making. D.M. and S.B. argued that locals should be in leadership positions. Interviewees suggested that including locals would help organizations find out the community’s real needs rather than making assumptions.

Most interviewees talked about the importance of building up the internal capacity of the organization. Five out of six people discussed either needing to develop a business case to communicate to donors or thinking of the organization as a business in order to keep in mind a bottom line. There seemed to be a split between using a business
model as a guide to staying afloat financially and as a donor cultivation tool to demonstrate value.

“You can call it a social business, you can call it a nonprofit, you can call it a non-governmental organization - fundamentally you are running a business… And if you are running a business the worst thing that you can do is go out of business by not being able to make payroll.” D.M.

“What’s your business case? What’s your value proposition? All that sort of business language is incredibly important.” C.A.

Several interviewees also talked about the importance of developing a strategic plan, even knowing that it would change in the future. Without a plan, S.D. discussed the problems that can arise further down the road, such as running out of sustaining funds, or not having a clear decision making mechanism. Another respondent discussed the value of having a strong, diverse team in place from the start. For a summary of the challenges and strategic responses to developing sustainable funding for an international nonprofit startup, see Table 1.

**Table 1: Limitations and Successful Strategies for Developing Sustainable Funding as an International Nonprofit Startup**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Success Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependence on funder priorities:</strong></td>
<td><strong>Trust</strong> (relationship building), Credibility, Education, Compromise, Diversification</td>
</tr>
<tr>
<td>vertical vs. holistic funding; focus on ROI, exit, and metrics; innovation over core funding</td>
<td></td>
</tr>
<tr>
<td><strong>Environmental constraints:</strong> law, politics, lack of infrastructure</td>
<td><strong>Flexibility</strong>, Partnership</td>
</tr>
<tr>
<td><strong>Culture gap:</strong> startups have to understand funder needs and community needs</td>
<td><strong>Trust</strong>; <strong>Co-led decision making</strong> with community</td>
</tr>
<tr>
<td><strong>Lack of internal capacity and processes:</strong> human resources, theory of change, strategic plan</td>
<td><strong>Investing in a diverse team</strong>, <strong>Planning</strong>; <strong>Building a business case</strong></td>
</tr>
</tbody>
</table>
Aligning Interviews and Literature There was close alignment between many of the challenges and solutions mentioned by interviewees and the literature on resource dependency theory. Mitchell’s description of strategic responses to the risk of resource dependency had many parallels in the interview responses (2014). Figure 2 captures the number of interviewees out of a total of six who discussed the strategies that Mitchell identified.

Figure 2: Interview Alignment with Strategic Responses to Resource Dependency

Mitchell (2014) uses the categories of adaptation, avoidance, and shaping to group strategies indicating a higher to lower risk of external control (p. 74). The two most common strategies mentioned in the interviews were revenue diversification, or spreading out funding sources, and funding liberation, or securing greater unrestricted support. Revenue diversification was also the most common response in Mitchell’s study; however pursuing unrestricted funding was less common (Mitchell, 2014, p. 75).
Other common strategies mentioned in the interviews included subcontracting, donor education, and commercialization. While avoidance tactics were mentioned most often, strategies of shaping and adaptation may be options for international nonprofit startups to explore further. The alignment between the literature and interviews suggests that sustainable funding is both sufficient and independent. To that end, filtering funding choices based on the strength of their ability to resist resource dependency appears to be a viable and practical option.

**Section 5: Implications and Recommendations**

This report found that there is no one size fits all model for financial sustainability. While all of the respondents discussed various funding strategies, none of them claimed that there was only one solution. They discussed a variety of tactics that pointed towards spreading out risk, but also gave examples of organizations with very narrow or focused tactics that were equally. One interviewee discussed the risks inherent in any type of funding source, which suggested that the reliability of the funding source may be more important than having diversified funding. At the same time, most interviewees also said that the particular funding strategy for a given organization would depend on how it expects its programs to create change, as well as its operational model. For example, an advocacy organization would find its independence hindered by taking funding from the government. In contrast to the literature on the difficulty of balancing mission and funding, the interview subjects found that a clear alignment with mission would help direct funding strategy. They also acknowledged that it could be tempting to take funding that was not a perfect fit just to keep afloat, but that it was not the best
strategy for long-term financial sustainability. Therefore rather than focusing on which funding sources are most promising or what mix of sources will promote financial sustainability, it may be more useful for international nonprofit startups to clarify their approach to achieving their missions and then find funding that aligns with that work.

Founders of international startup organizations may have a negative view of financial sustainability because funder requirements can limit impact. As evidenced in the interviews, practitioners view financial sustainability as a potentially problematic term since it can signify funders’ unwillingness to fund worthy projects, penny pinch, and overlook current needs. At the same time there is an understanding of the practical need for funding and what sustainable funding could accomplish. Therefore founders may find it useful to work on building relationships, donor education, and compromise in order to overcome this challenge.

Organizations that focus on building internal capacity and putting processes into place will be better off in the long term. Getting clear on how the startup will accomplish change can inform financial strategy in addition to programming. Similarly, it is important to have the right people in place. Practitioners may not have complete control over their financial ability to hire, but building a strong and diverse team from the get go will help strengthen the organization’s ability to attract funding and act on its mission. Startups working in international environments cannot assume that they understand the local culture and context. Engaging locals in the decision making process will help to avoid replicating historic imbalances of power and imposing resource dependence on locals. Finally, it is critical that organizations have a strategic plan and decision-making
processes in place. Amidst inevitable external changes, nonprofits can use these plans to stay on course.

Externally, organizations have to be aware of the funding environment and be willing to engage with funders. It is critical to identify why a particular funder would be interested in an organization’s work from their perspective. Understanding what big picture issues the organization is addressing as well as its specific value from the funder’s perspective will help inform the organization’s case for support. Similarly, building relationships on trust and accountability will help organizations establish connections with donors. In combination with educating donors as to the benefits of the organization’s approach, these tactics can encourage the continuity, longevity, and reliability of donor funds. Organizations must also be aware of the limitations of funders and look out for opportunities to diversify resources, earn income and otherwise offset the risk of funder control.

Organizations working internationally must also be aware of the changing macro environment. Aid trends will vary according to global and political interests. There is also the environment of the place where the organization works. For example, changes in the political, economic, or social spheres could have a big impact on a nonprofit’s ability to fulfill its mission. Strategies to manage change include seeking out and maintaining strong partnerships as well as working within existing structures and constantly managing and assessing risks. This allows organizations to be realistic about funding options. See Figure 3 for an overview of the strategies influencing financial sustainability.
Financial sustainability may be considered a continual process of adaptation rather than an end goal for startup international organizations. Nonprofits that may be discouraged in attempting to reach financial sustainability can instead think of it as an ongoing process. Rather than considering financial sustainability to be a static state, it becomes a continuous assessment of internal capacity, funder priorities, and environmental influences. This may relieve some of the pressure on organizations that feel financial sustainability is out of reach.

**Figure 3: Strategies for International Startups to Model Sustainable Funding**

- **Internal Capacity Building**
  - Start with theory of change
  - Build a strong, diverse team
  - Actively engage target population in decision making
  - Make a strategic plan and know it will change

- **Engage with Funders**
  - Support your business case with big levers and added value
  - Build relationships based on trust and accountability
  - Educate your donors to overcome narrow, restricted funding

- **Environmental Influences**
  - Expect instability and be flexible
  - Cultivate partnerships to overcome instability
  - Consider working through existing structures to increase impact and stability
  - Manage risk of funding sources

**Recommendations**

1. Resource Dependency Framework: Given that startup international organizations experience limitations based on funder requirements, resource dependency theory could offer a useful frame for making decisions around financial sustainability. Being
able to filter strategic choices through a resource dependency frame may help international startups develop strategic responses to this dilemma.

2. **Business Culture Influence:** Funder requirements are often couched in business language, such as return on investment and exit strategy. Practitioners expressed understanding of its utility in engaging donors but also frustration in its limitations to capture the complexity of international development work. Further research could explore the impact of this business culture on startup international organizations and whether it positively or negatively affects their financial sustainability.

3. **Redefining Financial Sustainability:** Startup international organizations may feel that financial sustainability is out of their reach given the challenging low resource environments where they work. For example, a fee for service revenue stream would not be appropriate in a population lacking basic necessities. Future research could examine how this term might be re-defined to be more in line with organizations that serve the most vulnerable populations.

**Section 6: Conclusions**

The purpose of this report was to examine how international startup organizations can achieve financial sustainability. Financial sustainability was found to be a contested, fluid term. However it can be understood as a process of adaptation rather than a static end goal. Factors that influence financial sustainability include an organization’s internal capacity, funder priorities, and external environment. International startup organizations may be able to use resource dependence theory as a lens for making decisions about their potential funding sources in order to support financial sustainability.
Limitations

There were some limitations to this approach. Convenience sampling for interviews is not the most objective method. Including a quantitative approach would have strengthened the research methods. Since it is not a large or representative sample, the results cannot be generalized to the wider population. However given the time constraints of the project and the exploratory nature of the topic, I felt that this was an appropriate approach.

Next Steps/Applications

Indigenous Health Solutions can use the strategies uncovered above to inform their resource development plans as it moves forward. For example, areas of internal growth include developing a strong business plan that will appeal to funders, attracting a dedicated and diverse team, and establishing some form of local decision making whether that’s through informal meetings or more formalized such as an advisory board. In the funding environment, IHS is not yet eligible for the most common type of foreign aid in Papua New Guinea, originating from Australia. Nor does it make sense for IHS to pursue government contracting as the national government is currently undergoing a budget crisis. However there is a strong presence of civil society organizations, faith based organizations, and well established international nongovernmental organizations. Therefore this is a promising avenue for IHS to pursue. IHS may also consider individual private donors and small foundations that would be willing to fund a young organization in order to prove its model. IHS could consider using resource dependency as a frame for pursuing a range of funding strategies, such as donor education and revenue diversification.
**Future Research**

As mentioned above, future research could explore the impact of business culture on the financial sustainability of international nonprofit organizations. It could also explore how financial sustainability could be re-framed for organizations with limited resources that work with vulnerable populations in order to make this term more meaningful for them.

In addition, this study was exploratory and qualitative in nature. Future research could employ a quantitative approach to studying international organizations based in the US and test whether the conclusions in this report are representative.
List of References


Author’s Bio
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