

Ratio Analysis in the Measurement of Financial Performance of Non-Profit Organizations (Non-Governmental Organizations)

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Extensive Summary

1. Introduction

Effective and successful management of the nonprofit organizations who are targeting to provide social benefit to the public, and to solve the social problems and to contribute to the public welfare are most likely possible with availability and analysis of the accurate financial data. Ratio analysis might be available for an accurate and a reliable analysis.

Ratio analysis is a common method that is used for measuring of the fiscal performance. Nevertheless, its use in nonprofit organizations is fairly limited. Some of the ratios used for the companies are not directly related with the nonprofit organizations because of the target differences.

In this study, financial performances of the nonprofit organizations were measured and analyzed under the four title as liquidity, productivity, sustainability and effectivity.

2. Method

Literature on financial analysis of the nonprofit organizations is not so common as it was in companies. Although profitability, activity and fiscal structure analyses come forward for measuring of company performance, sustainability, productivity and effectiveness are most likely for the nonprofit organizations.

Financial ratios for measuring of the institution and the projects that are available for the use of nonprofit organizations were analyzed under the four title as the ratios of liquidity, productivity, sustainability and effectiveness.

Apart from the companies, project based debt solvency was checked through the liquidity analysis. Productivity analysis is also evaluated with measuring the donation income and the spending on these donations. With the effectiveness analysis how properly and ethically was conducted the financial activities of the institution is analyzed. Finally, with the sustainability analysis, how sustainable the long term activities of the institution was analyzed

3. Results

Though main aim of the companies is to maximize the long term profitability, nonprofit organizations aim to maximize the benefits of the target groups subject to their services. The difference between the aims requires to change the focal point of financial analysis for nonprofit organization and to focus on productivity, effectiveness and sustainability

Measuring the financial performances of the nonprofit organizations provides financial information about the organizations to the decision makers that how successfully they were managed and how their activities were effective and productive, how the resources were properly used, how the mission to serve the people was realized

For making the effective performance analysis in profit oriented institutions, it is needed to have the accounting registry system from which the financial data can be obtained. Account plan should be prepared in accordance with this analysis.

Ratios implemented in this study can be used concurrently in internal and external audit for checking how accurate the information.

Measuring the performances of the nonprofit organizations can be based on the real data which are taken from them. Nonprofit organizations can be rated based on their financial performances. This organization may have better opportunities up to their performance grade. Similar ratios with the sector ratios published by the chamber of commerce and TCMB may be published for the nonprofit organizations.