

Chapter 4

Financial Capacity During a Pandemic Crisis: Insights From the Non-Profit Sector

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ABSTRACT

This chapter seeks to provide empirical evidence of the financial shocks that non-profits experienced during the coronavirus disease-19 (COVID-19) pandemic lockdown period. The research included a literature review of the main up-to-date publications to understand non-profits' financial vulnerabilities. The statistical analyses' results facilitate a fuller understanding of the impacts that the abrupt loss of clients, volunteers, and employees due to the pandemic has had on non-profits' finances. These results are discussed in light of the previous studies. Through computer-assisted text analysis, this study examined non-profit managers' perceptions of the most significant challenges faced by these organisations in the pandemic's initial phase. The findings reveal a dramatic situation characterised by a decrease in revenues and increase in expenses, in which non-profits regulated by Portugal's social welfare private institutions statutes were the most strongly affected. The most salient challenges identified include technological preparedness, safety assurance, and physical distancing.

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INTRODUCTION

The non-profit sector covers a large number of organisations that pursue community welfare and development objectives, comprising more than 70,000 entities in Portugal alone. During the coronavirus disease-19 (COVID-19) pandemic, these organisations have played a key role by ensuring support for the most vulnerable individuals in terms of health, social and economic conditions. Non-profits work hand-in-hand with the public sector to deliver essential services to the relevant populations.

The degree to which governments rely on the non-profit sector depends on the perceived social urgency of the problems to which these organisations seek to respond (Frumkin & Kim, 2002). Evidence-based decision making can guide politicians who develop public policies for this sector and managers who readjust strategies and operational resources to keep their organisation active during the current crisis. In this sense, evidence related to non-profit sector challenges is urgently needed so that appropriate policies and strategies can be put into place.

Non-profits have responded to the COVID-19 pandemic crisis from the first day, but they have struggled to sustain preparedness and intervention capacities primarily because of the lack of resources that characterises these organisations and workers and volunteers' absence due to health issues related to the virus. Some academic studies have contributed to providing a picture of how non-profits have responded to the COVID-19 pandemic and how this has impacted their activities. Recent contributions have come, for example, from the United States (Deitrick, Tinkler, Young, Strawser & Meschen, 2020; Mumford & Greene, 2020) and Canada (Barr, 2020). These authors reveal a non-profit sector experiencing a decline in the average revenue and applying human resources policies that reduced the number of employees or staff hours. The cited authors also highlight the need to keep supporting non-profits considering that, in this pandemic, the demand for non-profit services continues to grow.

Cultural and historical factors intensify differences between non-profits from varied regions (Mirabella, Gemelli, Malcolm & Berger, 2007), which implies that academics must take into consideration differences and similarities between non-profits when generalising results (Santos, Laureano & Moro, 2020). To generate more valuable insights for Portuguese non-profit sector managers and public policies, the present study addressed the specific challenges that Portugal's non-profits are facing as a consequence of COVID-19. In particular, this research focused on non-profits' financial capacity as it is a key aspect in terms of anticipating resource constraints, managing risks and implementing proactive risk response activities through both management decisions and public funding programmes. On the one hand, this study sought to characterise the impacts that the abrupt loss of clients, volunteers and employees due to the pandemic have had on non-profits' financing policies. On the other hand, these organisations face a vast array of challenges, including financial issues, so the research focused on examining non-profit managers' perceptions of the most significant challenges faced by non-profits in the COVID-19 pandemic's initial phase.

Background

Non-profits are oriented towards social impacts, which is a distinct feature of these organisations compared with companies that are not so clearly mission-driven (Sagawa & Segal, 2000). Thus, when decision-making processes are based on non-profits' social mission rather than financial returns (Drucker, 1989), these organisations will most likely struggle to keep their financial situation balanced. Non-profits' financial vulnerability has been widely confirmed in the literature. Scholars posit that this vulnerability

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