

**“Effective Financial  
Management—A Comparative  
Study of For-Profit and Non-  
Profit Organization?”**

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**Submitted to - Dr. Roe**

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*Title*

## **Introduction:**

Every business organization requires financial management to achieve its long-term goals. Financial management acts as the backbone of the organization. There are two different types of organizations in society, For-profit and Not-for-profit organizations. In this research study, we will learn about how For-profit and a Non-profit organization manage their finances and what strategies they follow to make their organization successful and keep going on track.

Non-profit organizations play a very important role in the development of social and economic growth worldwide. It has been recorded over one million Non-profit organizations in the United States in the last few years.)

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*Needs citation*

## **Background:**

Strategic Financial management is the process of planning, organizing, controlling, and monitoring the sources of finance in a business organization like, expenses, profits, accounts receivables and payable, flow of cash, and profitability to achieve its goals and objectives. It involves creating a financial plan that seeks to create profits for the business over the long run and maximize return on investment for investors (Will Kenton,2023).

*this sounds awkward*

The goal of a for-profit organization is maximizing profits, while the goal of a non-profit organization is to fulfill its mission and serve the public or keep itself going. For-profit organizations have shareholders who own equity in the company and expect a return on their investment, whereas non-profit organizations have donors who provide funds with or without restrictions and expect accountability and transparency. For-profit organizations generate revenue from selling goods and services to customers, meanwhile, non-profit organizations depend upon grants, donations, or other sources of income that may not be permanent and uncertain.

*addition*

There are four major categories of Non-profit organizations:

*Citation*

### **1. Healthcare Organization:**

Several Health care organizations provide care at a lower price as compared to other health centers. Under this category, a group of doctors and health centers come forward to help society.

Usually, those who cannot afford expensive treatments can take advantage of these healthcare centers.

## 2. Religious Organization

Usually, churches are considered as religious non-profit organizations but not all of them. Since churches are tax-exempt, they do not have to pay taxes on the amount of donation. They cannot generate profits as they have to keep the donation within the organization for future use instead of distributing it to the members.

## 3. College and University

Most of the colleges and universities that come under the state government are tax-free. Some of the community colleges are also considered Not-for-profit. The majority of colleges and universities are tax-free under IRC Section 501(c)(3).

## 4. Cultural Organization

Cultural heritage organizations bind communities together by promoting and preserving their identities, traditions, and values (Rosenstein, Oct 2006). There are 3 types of cultural heritage organizations-

- i. Cultural and Art Centers
- ii. Festival Organizations
- iii. Ethnic, Cultural, and Folk organizations.

### Importance:

The focus of a for-profit organization is to provide immediate customer satisfaction whereas a non-profit focuses on keeping society going for the long-term. For-profit organizations have a competitive marketplace, non-profit organizations have a collaborative marketplace.

3

What does this mean?

non-profit competitive

The performance of a for-profit organization is measured based on sales, return on investment (ROI), dividends, and market share but the performance of a non-profit is measured based on how many clients are served, how many are satisfied among them and how many are repeat donors or interested in donating again.

*Calisto*

*Confusing*

*purpose*

For-profit organizations exist to generate money from their owners or shareholders, while non-profit organizations exist to serve society and provide public benefits. They do not distribute the profits to anyone other than for the advancement of the organization.

*Calisto*

Both organizations can have employees. However, for-profit organizations tend to focus on the financial gain and value employees because they contribute in the creation of new products which can increase the revenue of the organization. On the other hand, non-profit organizations are dependent on the community and may rely on volunteers to achieve their goals.

*Calisto*

Conducting a comparative study of financial management between for-profit and non-profit organizations can be useful and can be applied practically. By comparing both sectors, the similarities and dissimilarities can be highlighted. The various problems and issues can be figured out and added our views to it. To contribute effectively, the researchers must explore remote areas, and follow practices with evidence that will improve the visibility and mission successful.

?

*no*

*what is this?*

*I really confused I want you to go in the center*

[Importance of Financial Management in an Organization - Talentedge](#)

[Financial Management Explained: Scope, Objectives & Importance | NetSuite](#)

A huge number of studies have been done to show the importance of financial management in for-profit organizations as well as non-profit organizations. Total Quality Management (TQM) and the European Foundation for Quality Management (EFQM) are examples of quality award models (EFQM model, the Deming Prize) that can be used to evaluate strategy and performance by focusing on how to do the right things to get the desirable results. The EFQM model is a wider model known globally for data analysis that is based on the principles of understanding the established cause-and-effect relationships, and understanding how key results compare to similar organizations. It is based on the simple but powerful logic of asking three questions - Why, How,

*conduct*

*desirable*

*Calisto*

and What to guide them in managing change and improving performance. Developing a set of key performance indicators and related outcomes, setting clear targets for key results, and segmenting results to understand the performance of specific areas of the organization.

### Literature Review:

In the field of financial management, there was much literature over the last many decades.

Number of popular editions have been published in the market. Like,

‘Financial Management: Theory and Practice (14<sup>th</sup> edition)’, written by (Eugene F. Brigham and Michael C. Ehrhardt). In this book, the author describes the balance between theory and practical knowledge. The concepts like corporate finance fundamentals, concepts, and techniques has been covered in this book. The author researched on the crises (Economic or financial) in the business world.

‘The Basics of Public Budgeting and Financial Management’ is published by ‘Charles E. Menifield’ in the year 2017. In this publication, the author introduces the concept of public budgeting and financial management. Moreover, it also highlighted the government policies funding and effective utilization of resources.

‘Economic Guide to Financial Management (2<sup>nd</sup> Edition)’ is the publication of an economist (John Tennent) in the year 2014. In this book, the author focuses on how to manage finances effectively in the practical world. Like “How to assemble a budget”, “How to invest in new equipment” and so on. The decisions related to investment and risk management.

‘When Genius Failed’ is one of the best financial management books. “Roger Lowenstein” is the author of this book published in the year 2001. In this book, the author discusses regarding the Long-term Capital Management (LTCM). It is also related to risk management and financial decision-making.

## Methodology:

Effective financial management is an elaborative concept in which a massive amount of research have been done in the past by many famous researchers. The information collected for this research paper is by exploring the ~~internet~~ and reading the book 'Financial Management for Nonprofit Organization Policies and Practices' by (John Zietlow, Jo Ann Hankin, and Alan G Seidner, 2007) searching various journals, articles, and many more. An author (McKinny, 2015) published his book Effective financial management in Public and non-profit agencies, 4<sup>th</sup> edition in 2015. In this book he explains how a for-profit and a non-profit organization manage their finances, like revenue, budgeting, and accounting. It provides explanations and examples of how to apply the concept of managing finances and its tools in practice. It shows the changes in accounting standards, rules and regulations that affect profit and non-profit organizations.

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[Financial Management: Theory & Practice \(with Thomson ONE - Business School Edition 1-Year Printed Access Card\): 9781111972202: Economics Books @ Amazon.com](#)

*You are not really explaining the methodology - Conduct secondary research*

*Work on it then be part of the literature review*

*What is this*

*You also need list of references cited in the proposal*

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[Financial Management for Nonprofit Organizations: Policies and Practices | Request PDF \(researchgate.net\)](#)