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FINANCIAL DISTRESS OF NONPROFIT ORGANIZATIONS IN BOSNIA AND HERZEGOVINA

Financial health of nonprofit sector, as a third sector of each economy, is the least developed one. Since nonprofit organizations are registered at various country levels in Bosnia and Herzegovina, there is no one central register and it is very difficult to discuss about an organized nonprofit sector. The purpose of this study is to provide an overview of the sector's financial distress by using financial ratios. The sample includes 215 nonprofit organizations registered with the Ministry of Justice of BiH, which submitted financial statements for 2015, 2016, and 2017. Current, quick, and days of cash on hand ratios were calculated and descriptive analysis was conducted. The results show that there was no significant development in size of organizations throughout the three-year period. They also show large variations between top and bottom 50 organizations through all ratio calculations, meaning that the country has both extremely developed and undeveloped examples. Bottom 50 organizations experienced progress, while top 50 experienced the opposite. Study also portrays distress by organizational size and shows variations in results through the three-year period.

Keywords: NGO sector; financial distress; financial ratios; Bosnia and Herzegovina

1. INTRODUCTION

Nonprofit sector, as a third sector of each economy, alongside private and public one, is no less important when considering its contribution to the society. Nonprofit organizations are established by one society's members for the purpose of fulfilling its civil, economic, social, cultural, or other rights, and not for obtaining profit (Ciucescu 2009). However, this does not mean that these organizations are operating at a loss. Rather it means that the money that results from the operations of the business at the end of a fiscal year is not distributed to the owners, but is reinvested in the organization. Therefore, financial health of the nonprofit sector is equally important to health of other sectors. However, it is also the least developed one (Myser 2016).

Analysis of the Western Balkans countries according to the number of registered nonprofit organizations in 2014 lists Bosnia and Herzegovina as the second one with around 12,000 organizations. When taking into consideration the number of citizens per one organization, the country was on the third place with 316 (Balkan Civil Society Development Network 2016: 12). However, resource from 2018 mentions 25,000 organizations registered in the country, of which only 15,000 submitted annual financial reports¹. This is only one of the factors showing sector's poor development and performance.

Furthermore, since a nonprofit can be registered at canton, Federation of BiH, and country level, while the Republic of Srpska gives this responsibility to the district courts, there is no one central register of all organizations. Additionally, the law does not strictly require liquidation, so it happens that an organization just ceases to exist without the society's awareness². As stated by Zeravcic (2008), it is very difficult to talk about an organized NGO sector in the country. Further on, many organizations are only existent on the paper. Many of them are non-governmental ones, while they operate by governmental money³. Still, a lot of them serve the society in the best possible ways, through helping the threatened groups, assisting the ill ones, and bringing together people who share the same values and strive towards the same goals.

Financial distress has long been an interest of research in the for-profit sector, while application of similar methods of research in the nonprofit sector followed up

¹ <https://www.vecernji.ba/vijesti/po-drzavnom-registru-u-bih-ima-25-000-nvo-izvjesce-predalo-15-000-1275965>. (05. 04. 2019.)

² <https://www.klix.ba/vijesti/bih/na-teritoriji-bih-postoji-vise-od-12-000-nevladinih-organizacija-i-udruzenja/150219092> (02. 04. 2019.)

³ <https://www.vecernji.ba/vijesti/po-drzavnom-registru-u-bih-ima-25-000-nvo-izvjesce-predalo-15-000-1275965>. (05. 04. 2019.)

with a slower pace. A possible reason behind this is that not so many nonprofits declare bankruptcy. Some of them just cease to exist, while some of them merge with other organizations (Keating et. al. 2015). Still, as research in nonprofit financial distress is becoming more developed and recognized as a significant field, the same research in Bosnia and Herzegovina is very limited, with no researches that study the financial distress of the sector.

This study aims to provide an overview of nonprofit sector's financial distress in BiH through use of financial ratios and contribute to the development of the sector as a final result. The study has implications on nonprofits, which may compare their positions to the sector's averages and plan on time; researchers, who may see areas for further analyses; and society as a whole, which may recognize the relevance of this sector and take part in its development. The introductory part is followed by a literature review, through which research on nonprofit financial health and on sector's state in the country are reviewed. Going further, research method and results are presented. Finally, through discussion and conclusion results are analyzed.

2. LITERATURE REVIEW

The study of nonprofit financial health drew from the studies previously conducted in the for-profit sector. However, while financial management of for-profit organizations has the goal of increasing profits at the benefit of their shareholders, that goal in the nonprofit sector is directed towards fulfilling the organization's mission and serving those in need. That is why standard model of financial management cannot simply be applied to the nonprofit sector without making any changes (Strydom & Stephen 2014).

In 1991, Tuckman and Chang point out that general knowledge about nonprofit distress and failure was poorly developed and that is why research in this field was lagging behind as well (Tuckman & Chang 1991). In their 2015 article, Mihaltan et. al. state that there is no need for competition in the nonprofit sector, since all of these organizations work on achieving goals from a societal perspective (Mihaltan et. al. 2015). However, Hager (2001) begins his article by stating that financial distress is a common case for nonprofits. He also mentions that donors do choose between competing organizations when deciding to which one they should donate, meaning that a different sort of competition does exist. Further on, Myser (2016) mentions that nonprofits are often perceived as at risk due to „tight operating margins, competition

from private sector, and overreliance on unpredictable public sector grants and contracts“ (Myser 2016).

In 2005, Keating et. al. point out that financial oversight and accountability are two important factors in nonprofit management (Keating et. al. 2015). Strydom and Stephen (2014) define the goal of nonprofit financial management as „survival or the minimization of deficits“ as opposed to maximization of revenues. They state that for this kind of organizations, cash management is a critical point and it stands above managing inventory and accounts receivable (Strydom & Stephen 2014). Keating et. al. provide a reason for this and say that a nonprofit organization needs to make sure it has the needed resources to fulfill its mission (Keating et. al. 2015).

There could be multiple reasons behind a possible distress. As stated by Hager (2001), organization’s funders can change giving guidelines, individuals can change their preferences and direct their resources towards a different cause, government support can change, etc.

Despite the fact that nonprofits are not organized for the purpose of making profit, research shows that they are still interested in improving organizational financial performance. In their research, Mihaltanet. et. al. (2015) studied 100 most important global organizations and came to the conclusion that 84.71% of these organizations conduct economic and financial analyses of their performance. Furthermore, they concluded that most of these organizations use balance sheet and outturn account data for this purpose.

Economic conditions affect performance of nonprofits in several manners. Based on Keating et. al. (2015), individual and corporate giving declines as a result of recession, leading to a lowered income, especially for those organizations dependent on this source. A better understanding of factors that influence a nonprofit’s vulnerability is important not only for funders, but also for board members and nonprofit managers, in order to know what and how affects their organization’s financial performance (Hager 2001).

2.1. Dimensions of Nonprofit Financial Health

Further on, research identifies four most common concepts when studying nonprofit financial health: vulnerability, flexibility, stability, and capacity. Nonprofit financial health is defined in terms of these four dimensions (Myser 2016). Tuckman and Chang (1991) define a vulnerable organization as one that is ready to reduce its serv-

ice offerings as soon as it experiences a financial shock. They also developed a financial test that projects the vulnerability of an organization. In 2000, Greenlee and Trussel describe a vulnerable organization as the one which reduces its program expenses during 3 consecutive years (Greenlee & Trussel 2000). In 2012, Calabrese relates vulnerability to revenue concentration, where higher diversification is considered better (Calabrese 2012).

At the same time, Zietlow studies organizational flexibility and says that a flexible organization is the one that is able to deal with any unexpected challenges or opportunities (Zietlow 2012), while Hager (2001) discusses flexibility as the opposite of vulnerability. For him, a financially vulnerable organization is the one which is able to persist and survive. Hager also discusses a stable organization as the one which has high equity balance, revenue diversification, administrative costs, and good operating margin, dragging from the research of Tuckman and Chang (Hager 2001). Further on, research relates capacity to organizational resources which give it the chance to deal with the two in the proper manner and fulfill the organization's mission (Chikoto & Neley 2014). For Miller, capacity is the most important dimension of an organization's financial health (Miller 2003).

Apart from the four described dimensions, research also points out other three dimensions of research, distinct based on time measures. This involves three separate time frames, being immediate, short term, and long term, or distress, capacity, and sustainability. A distressed organization is the one which does not have enough resources to operate in the current time frame, satisfy its current liabilities, meaning that it is at risk of bankruptcy. An organization with a good capacity is the one which is liquid in the current time frame, is flexible, and also has the ability to take risks in its operations. Once these two dimensions are properly managed, an organization is able to work on its long term operations, planning, and invest in its sustainability (Myser 2016).

2.2. Nonprofit Sector in Bosnia and Herzegovina

Research of nonprofit sector in Bosnia and Herzegovina is very limited, especially when it comes to its financial health. *Report on the Level of Development of Civil Society in BiH* (2008) studied various aspects of civil society, including its structure, surrounding, values, and involvement of citizens. Research shows that most of these organizations are existent in big cities and urban locations (around 83%), while the least of them are in rural ones (Centar za promociju civilnog drustva 2008: 12).

According to the *Analysis of Institutional Cooperation between Government and Non-Government Sector in BiH* (2008), conducted as an initiative of the European Commission, 60 municipalities had a signed agreement of cooperation with the NGO sector, which is 42.25% of the total number of municipalities. The Analysis examines government financing and shows that sport organizations received the biggest portion of the funds, while human rights and environment protection received the least (Zeravcic 2008: 8).

Analysis of the NGO Sector from the Perspective of Social Inclusion (2009) in one part does focus on size and structure of activities of the sector. Most of the organizations were active and registered at canton level (56.3%). This is followed by the country level, which covered 21.4% of organizations registered with the Ministry of Justice. The lowest percentage of organizations (5.4%) were registered at the entity level (Ibrahimagic 2009).

3. RESEARCH METHOD

This study uses financial statements of nonprofit organizations for a three-year period, from 2015 to 2017, as the secondary source of data, for the purpose of analyzing the sector's financial distress or risk of bankruptcy. The duration of the period chosen for analysis matches the previous studies of nonprofit financial health, which mostly cover two to three years (Myser 2016; Keating et. al. 2005).

3.1. Data Collection

Even though NGO sector in Bosnia and Herzegovina counts around 15,000 organizations that submitted annual financial reports in 2017, not all of them are accessible to the wider public. Financial statements used for this analysis are obtained from official website of Ministry of Justice of Bosnia and Herzegovina (mpr.gov.ba), which includes organizations that are registered at the country level. For 2016, the website provides access to financial statements of 412 organizations, while in 2017 that number is 554. Financials for 2015 are obtained from 2016 documents, since those include previous year for comparison. However, not all organizations have both 2016 and 2017 financials available. Since the objective of this research is to analyze financials of the same organizations throughout the three-year period, the final sample of or-

ganizations includes only those that have financials available for all three years. That includes 215 organizations. After all documents are obtained, the needed data is extracted from PDFs to an Excel document, for further analysis.

3.2. Data Analysis

This research begins with a general overview of the whole sector through its size, determined by using total revenues, per Never (2014). Organizations are sorted into six revenue groups. Further on, in order to analyze the sector's financial distress, the following ratios are calculated, per Myser (2016):

1. Current ratio – current assets / current liabilities
2. Quick ratio – (current assets – inventory) / current liabilities
3. Days of cash on hand – cash / (cash expenses / 365)

To continue, top and bottom 50 organizations based on current ratio results are taken from the sample in order to conduct descriptive statistics, per Myser (2016). In addition, descriptive statistics is conducted for each of the revenue groups as well, in order to analyze potential differences in distress based on revenue size and changes through the three-year period. For the purpose of analyzing all data, SPSS (PASW Statistics 18) is used.

4. RESULTS

4.1. Sample Characteristics

Even though nonprofit sector in Bosnia and Herzegovina counts around 15,000 organizations that submitted annual financial reports for 2017, not all of them are publicly and at no cost available. This research analyzes financial statements of 215 organizations that submitted their 2016 and 2017 documents to the Ministry of Justice of BiH, as these were identified to be appropriately accessible. The final sample excludes those organizations that submitted financial documents for both years, but did not have any revenues nor expenses for one of the years. It also excludes organizations whose financials are incomplete, meaning that one or more of the pages are missing, and those whose financial statements were not properly scanned, so that information is not readable.

The final sample includes 215 organizations from 20 different cities. Table 1 provides the frequencies and percentages for each. The most common city is Sarajevo, covering 80.9% of organizations or 174. The following is Tuzla, with 6.5% or 14 organizations. The remaining 27 organizations are from 18 other cities. Of 215 organizations, 11 are from Republic of Srpska, 203 are from Federation of BiH, and one is from Brčko District.

Table 1 - Sample Frequencies by Location

City	Frequency	Percent	City	Frequency	Percent
<i>Banja Luka</i>	4	1.9	<i>Zavidovići</i>	2	.9
<i>Mostar</i>	4	1.9	<i>Bijeljina</i>	2	.9
<i>Prijedor</i>	1	.5	<i>Zenica</i>	1	.5
<i>Sanski Most</i>	1	.5	<i>Bratunac</i>	1	.5
<i>Sarajevo</i>	174	80.9	<i>Brčko</i>	1	.5
<i>Srebrenica</i>	1	.5	<i>Cazin</i>	1	.5
<i>ŠirokiBrijeg</i>	1	.5	<i>Grude</i>	1	.5
<i>Tuzla</i>	14	6.5	<i>Istočno Sarajevo</i>	1	.5
<i>Usora</i>	1	.5	<i>Kiseljak</i>	1	.5
<i>Visoko</i>	2	.9	<i>Modriča</i>	1	.5
Total					215

Figure 1 provides details on organizational size based on total revenues for 2015, 2016, and 2017. Organizations are sorted in six size groups used from *Analysis of NGO Sector from the Perspective of Social Inclusion* from 2009 (Ibrahimahic 2009: 02). For all three years, the biggest number of organizations had revenues between 3,000 and 30,000 BAM, while the lowest number of organizations had revenues over 1 million BAM.

In order to analyze the sample based on subsectors, mission, activities, and names of 215 organizations are reviewed and these are then sorted between 24 subsectors taken from a previous research conducted in the country (Centar za promociju civilnog drustva 2008: 79).

Figure 2 provides the distribution of the sample presented in percentages. Organizations were sorted between all of the subsectors, with exception of those that focus their activities on working with migrants, since no such an organization was identified.

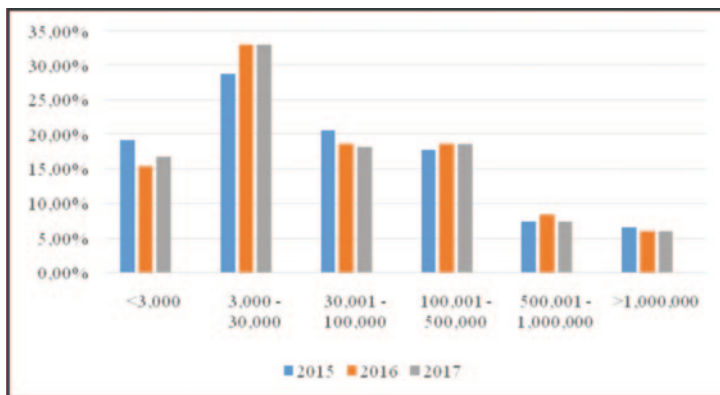


Figure 1 - Organizational Size based on Total Revenues

Four subsectors include one organization per each, including: minorities, development of NGO sector, volunteerism, and religion. Two subsectors include two organizations per each: public policy and peace and disarmament; and three subsectors include three organizations per each: gender, people with special needs, and philanthropy. The sample contains various types of organizations, including mostly associations, but also foundations and unions.

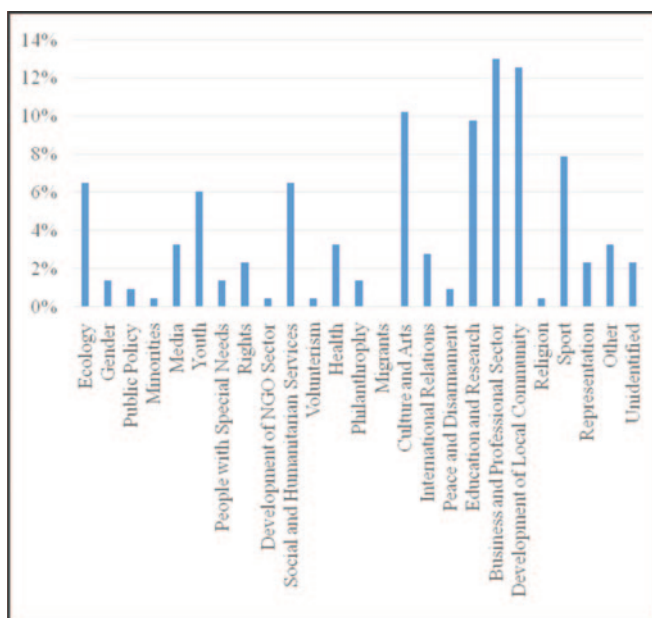


Figure 2 - Structure of Organizations based on Subsectors (2015-2017)

4.2. Distress

Analysis of financial distress involves calculations of current, quick, and days of cash on hand ratios. In 2015, current and quick ratios could not be calculated for 64 organizations, due to the fact that they did not have any current liabilities. In 2016, that number was 61, while in 2017 it was 63. In 2015, two organizations had total cash expenses equal to zero, meaning that their days of cash of hand ratio could not be calculated. These organizations were excluded from results presented in the following tables.

Current ratio shows how many times an organization's current liabilities can be covered by its current assets. At the same time, quick ratio excludes inventory from current assets and shows how many times current liabilities can be covered by current assets without inventory. An organization is considered healthy if it has the two ratios of at least one (Lasher 2008). Days of cash on hand shows how many days an organization would be able to cover its operating expenses without receiving additional income. Organizations aim to keep this ratio at 90 to 180 days⁴. Table 2 provides percentages of organizations that had current and quick ratios less than one, and days of cash on hand less than 90 for the three years, while table 3 shows percentage of organizations that experienced net losses for each of the three years.

Table 2 - Organizations with Distress Ratios below Standards

	Current Ratio <1 (% of organizations)	Quick Ratio <1 (% of organizations)	Days of Cash <90 (% of organizations)
2015	20.93	21.4	53.02
2016	18.6	19.53	46.05
2017	20.0	20.47	47.44

Table 3 - Organizations with Net Losses

	Net Loss (% of organizations)
2015	35.81
2016	31.63
2017	42.33

⁴ https://forbesfunds.org/sites/default/files/resource-files/Sample_Financial_Ratios.pdf. (03. 04. 2019)

For the purpose of displaying the results, two parts of the sample are taken: bottom 50 organizations, which include organizations with the lowest amounts of current ratio, and top 50 organizations, which include organizations with the highest amounts of current ratio. Tables 4, 5, and 6 show results for each of the three years.

Table 4 - Distress Ratios Descriptive Statistics for 2015

	Mean	Std Deviation	Min	Max
Bottom 50 Organizations				
<i>Current Ratio</i>	.48	.40	.00	1.04
<i>Quick Ratio</i>	.47	.40	.00	1.04
<i>Days of Cash</i>	84.11	164.79	.00	910.12
Top 50 Organizations				
<i>Current Ratio</i>	309.86	1,303.97	4.21	9,035.55
<i>Quick Ratio</i>	309.25	1,304.11	4.21	9,035.55
<i>Days of Cash</i>	370.50	631.75	2.63	3,891.26

Table 5 - Distress Ratios Descriptive Statistics for 2016

	Mean	Std Deviation	Min	Max
Bottom 50 Organizations				
<i>Current Ratio</i>	.58	.41	.00	1.06
<i>Quick Ratio</i>	.58	.41	.00	1.06
<i>Days of Cash</i>	130.67	222.15	-9.79	1,001.44
Top 50 Organizations				
<i>Current Ratio</i>	278.05	629.97	6.82	2,808.05
<i>Quick Ratio</i>	277.93	630.02	6.50	2,808.05
<i>Days of Cash</i>	313.16	478.86	11.23	2,875.62

Table 6 - Distress Ratios Descriptive Statistics for 2017

2017	Mean	Std Deviation	Min	Max
Bottom 50 Organizations				
<i>Current Ratio</i>	.61	.38	.00	1.05
<i>Quick Ratio</i>	.61	.38	.00	1.05
<i>Days of Cash</i>	364.45	1,341.11	.20	8,179.52
Top 50 Organizations				
<i>Current Ratio</i>	168.31	465.63	6.1	2,861.77
<i>Quick Ratio</i>	168.12	465.7	3.25	2,861.77
<i>Days of Cash</i>	443.31	828.70	.00	5,635.78

Tables 7, 8, and 9 provide descriptive statistics for the three distress ratios according to the six revenue groups in 2015, 2016, and 2017, respectively.

Table 7 - Distress Ratios by Size for 2015

	Minimum	Maximum	Mean	Std. Deviation
Revenue <3,000 BAM				
<i>Current Ratio</i>	.00	16.96	2.86	5.01
<i>Quick Ratio</i>	.00	16.96	2.81	5.01
<i>Days Cash on Hand</i>	.00	717.65	193.6	268.54
Revenue 3,000 - 30,000 BAM				
<i>Current Ratio</i>	.00	336.04	17.39	54.57
<i>Quick Ratio</i>	.00	336.04	17.34	54.59
<i>Days Cash on Hand</i>	.00	3,891.26	341.31	694.26
Revenue 30,001 - 100,000 BAM				
<i>Current Ratio</i>	.04	1,290.08	65.21	236.93
<i>Quick Ratio</i>	.00	1,290.08	64.5	237.06
<i>Days Cash on Hand</i>	.22	613.34	146.41	192.29
Revenue 100,001 - 500,000 BAM				
<i>Current Ratio</i>	.02	303.97	16.41	53.25
<i>Quick Ratio</i>	.02	303.97	16.24	53.22

	Minimum	Maximum	Mean	Std. Deviation
<i>Days Cash on Hand</i>	.34	636.85	107.02	149.72
Revenue 500,001 – 1,000,000 BAM				
<i>Current Ratio</i>	.41	9,035.55	582.21	2,254.53
<i>Quick Ratio</i>	.41	9,035.55	582.21	2,254.53
<i>Days Cash on Hand</i>	11.41	1,134.18	270.58	346.51
Revenue > 1,000,000 BAM				
<i>Current Ratio</i>	.04	1,826.34	197.31	527.92
<i>Quick Ratio</i>	.04	1,826.34	197.31	527.92
<i>Days Cash on Hand</i>	5.79	1,572.31	198.05	401.76

In 2016, the most distressed organizations were again those that had revenues less than 3,000 BAM based on current and quick ratio, and those that had revenues from 100,001 to 500,000 BAM based on days of cash. The least distressed organizations were those that had revenues from 30,001 to 100,000 BAM based on current and quick ratio, and those that had revenues from 500,001 to 1,000,000 BAM based on days of cash, but with large standard deviation.

Table 8 - Distress Ratios by Size for 2016

	Minimum	Maximum	Mean	Std. Deviation
Revenue <3,000 BAM				
<i>Current Ratio</i>	.00	15.63	3.32	4.97
<i>Quick Ratio</i>	.00	15.63	3.25	5.01
<i>Days Cash on Hand</i>	-9.79	1,001.44	259.99	326.76
Revenue 3,001 – 30,000 BAM				
<i>Current Ratio</i>	.00	176.78	20.42	43.2
<i>Quick Ratio</i>	.00	176.78	20.39	43.21
<i>Days Cash on Hand</i>	.04	2,875.62	257.2	484.4
Revenue 30,001 - 100,000 BAM				
<i>Current Ratio</i>	.01	2,560.69	202.48	617.32
<i>Quick Ratio</i>	.00	2,560.69	202.34	617.36
<i>Days Cash on Hand</i>	.03	1,694.81	237.45	380.92

	Minimum	Maximum	Mean	Std. Deviation
Revenue 100,001 – 500,000 BAM				
<i>Current Ratio</i>	.06	2,808.05	170.14	507.48
<i>Quick Ratio</i>	.06	2,808.05	170.09	507.49
<i>Days Cash on Hand</i>	1.00	1,037.99	166.88	238.93
Revenue 500,001 – 1,000,000 BAM				
<i>Current Ratio</i>	.73	85.32	20.39	32.01
<i>Quick Ratio</i>	.73	85.32	20.15	31.1
<i>Days Cash on Hand</i>	3.64	69,868.85	4,238.12	16,912.98
Revenue > 1,000,000 BAM				
<i>Current Ratio</i>	.03	61.31	15.65	23.95
<i>Quick Ratio</i>	.03	61.31	15.65	23.95
<i>Days Cash on Hand</i>	2.99	1,584.04	212.09	418.62

In 2017, the most distressed organizations were again those that had revenues less than 3,000 BAM based on current and quick ratio, and those that had revenues from 30,001 to 100,000 BAM based on days of cash. The least distressed organizations were those that had revenues from 100,001 to 500,000 BAM based on current and quick ratio, and those that had revenues less than 3,000 BAM based on days of cash, but with large standard deviation.

Table 9 - Distress Ratios by Size for 2017

	Minimum	Maximum	Mean	Std. Deviation
Revenue <3,000 BAM				
<i>Current Ratio</i>	.00	68.55	8.72	18.59
<i>Quick Ratio</i>	.00	68.55	8.72	18.59
<i>Days Cash on Hand</i>	.00	8,179.52	1,515.49	2,575.64
Revenue 3,001 – 30,000 BAM				
<i>Current Ratio</i>	.02	324.14	24.01	56.52
<i>Quick Ratio</i>	.02	324.14	23.89	56.56
<i>Days Cash on Hand</i>	.20	1,714.82	274.41	344.59

	Minimum	Maximum	Mean	Std. Deviation
Revenue 30,001 - 100,000 BAM				
<i>Current Ratio</i>	.32	241.56	20.49	51.49
<i>Quick Ratio</i>	.32	241.56	20.48	51.49
<i>Days Cash on Hand</i>	.00	806.83	139.55	197.18
Revenue 100,001 – 500,000 BAM				
<i>Current Ratio</i>	.06	2,861.77	160.89	544.43
<i>Quick Ratio</i>	.06	2,861.77	160.75	544.47
<i>Days Cash on Hand</i>	.07	1,006.09	156.82	251.73
Revenue 500,001 – 1,000,000 BAM				
<i>Current Ratio</i>	.96	169.94	22.94	43.88
<i>Quick Ratio</i>	.96	169.94	22.87	43.9
<i>Days Cash on Hand</i>	17.00	532.12	171.66	155.89
Revenue > 1,000,000 BAM				
<i>Current Ratio</i>	.01	344.57	38.5	94.61
<i>Quick Ratio</i>	.01	344.57	38.5	94.61
<i>Days Cash on Hand</i>	1.06	1,106.36	192.74	288.89

5. DISCUSSION

Comparison of organization sizes throughout the years shows that there are no large variations. For all three years, most of the organizations (28.8 to 33.0%) had revenues between 3,000 to 30,000 BAM. In 2015, the second largest group (20.5%) are organizations that had revenues between 30,000 to 100,000 BAM, while in 2016 and 2017, the second largest group (18.6% for both years) are organizations that had revenues between 100,001 to 500,000 BAM. In addition, for all three years, the lowest number of organizations had revenues over 1 million BAM (6.5, 6.0, and 6.0%, respectively for the three years). A slightly higher number had revenues between 500,001 and 1 million BAM (7.4, 8.4, and 7.4%, respectively for the three years).

One noticeable change is the growth of the second size group (3,000 to 30,000 BAM) and decrease of the first size group in 2016, meaning that there were organizations that developed and moved from the weakest position. In addition, there was a decrease in the size of the third revenue group (30,001 to 100,000 BAM) and, at the same time, an increase in the size of the fourth revenue group (100,001 to 500,000

BAM). This analysis also shows that there were no large decreases in the last two groups with higher revenues (>500,000 BAM).

Table 10, obtained from *Analysis of NGO Sector from the Perspective of Social Inclusion* (2009), provides information on organizational size from 2008. When compared to 2015-2017 numbers, no large differences can be noticed even though the time period between the two analyses is almost 10 years. Again, the biggest percentage of organizations had revenues from 3,000 to 30,000 BAM, while the lowest percentage of organizations had revenues over 1 million BAM.

Table 10 - Organizational Size based on Total Revenues from 2008 (Ibrahimahic, 2009)

	Percent
<3,000	19.0
3,000 – 30,000	39.3
30,001 – 100,000	13.5
100,001 – 500,000	19.02
500,001 – 1,000,000	6.12
>1,000,000	3.06

Still, when comparing 2008 and 2017, two main differences can be noticed. In 2008, a significantly smaller percentage of organizations was in the 30,001-100,000 BAM group as opposed to 2017 (13.5% compared to 18.10%), while a significantly larger was in the 3,000 – 30,000 BAM group (39.3% compared to 33%). Also, in 2008, number of organizations that had revenues over 1 million BAM was around 3% smaller than in 2017. These results show that the sector has experienced development in size over the nine-year period.

Results from tables 4, 5, and 6 for bottom 50 organizations show progress when looking at all three distress ratios. Mean values increased over the three years, with standard deviation remaining between 0.38 to 0.41. In 2016, only one organization had negative days of cash. These results can be related to the two facts: the first revenue group decreased, while at the same time the second revenue group grew, and also that the percentage of organizations that had current and quick ratio less than one decreased from 2015 to 2016.

However, when looking at the ratio results for top 50 organizations, opposite trend can be noticed. Current and quick ratio decreased over the three years, while days of cash decreased from 2015 to 2016, and then again increased in 2017. This shows that

top performers experienced negative trends, while bottom performers progressed. However, standard deviation shows large dispersion of the data set, especially in 2015. When comparing bottom and top performers, large differences in ratio results can be noticed, showing that this sector has both extremely developed and undeveloped organizations.

Results show that sector's distress slightly improved from 2015 to 2016, based on table 2, especially when considering its lowest performers, but it again experienced an increase in the number of distressed organizations in 2017, according to current and quick ratio results. This can also be seen through the percentages of organizations that had net losses over the three years, presented in table 3. Days of cash on hand results from table 2 show a slight improvement of situation in 2017 compared to 2016.

Furthermore, results from tables 7, 8, and 9 also show that organizations that had revenues less than 3,000 BAM, were the most distressed ones through all three years, based on current and quick ratio. However, when looking at days of cash ratio, this group was not the lowest performing one. In 2015 and 2016, organizations that had revenues between 100,001 and 500,000 BAM had the lowest days of cash ratio, while in 2017 that position was taken by organizations that had revenues from 30,001 to 100,000 BAM. Based on current and quick ratio, best performing groups were changing through the years, first being organizations that had revenues from 500,001 to 1,000,000, then 30,001 to 100,000, and finally 100,001 to 500,000 BAM.

Days of cash ratio does not show any trend through the three years for any of the revenue groups, meaning that it is difficult to notice any progress. When looking at current and quick ratios, it can be noticed that revenue groups <3,000 and 3,000 to 30,000 BAM did experience progress throughout the years. This can be related to the fact that bottom performers improved. However, other four revenue groups experienced both positive and negative changes, not showing any trends.

6. LIMITATIONS

This study analyzes financial distress of nonprofit organizations in Bosnia and Herzegovina from 2015 to 2017. However, this research is limited by the number of organizations comprising the sample, which includes 215 organizations that submitted their financial statements to the Ministry of Justice of BiH. At the same time, these are the organizations that are registered at the country level, with the Ministry of Justice.

Therefore, this research is limited to this one group of organizations and does not include those that are registered at canton, Federation of BiH, or district courts of Republic of Srpska. Research is also limited by the three-year period chosen for analysis. A longer period might identify more specific trends and patterns in the development of the sector

7. CONCLUSION

In a nut shell, this study analyzed financial distress of nonprofit organizations in Bosnia and Herzegovina by using current, quick, and days of cash on hand ratios. Organizations were first sorted into six size groups based on their total revenues. For all three years, most of the organizations had revenues between 3,000 to 30,000 BAM, while least of them had revenues over 1 million BAM. Results also show that the sector has experienced development in size from 2008 to 2017.

Furthermore, descriptive statistics of each ratio results was conducted for bottom and top 50 performers based on current ratio. Results showed that bottom performers experienced development from 2015 to 2017. However, opposite trend was noticed for top 50 organizations, meaning that while more distressed organizations were experiencing development, less distressed ones experienced the opposite. In addition, it can be concluded that top performers are extremely above the bottom performing ones, especially when looking at current and quick ratio results.

To continue, descriptive statistics of each ratio results was also conducted for each of the size groups. Comparison of results provided almost no trends in development from 2015 to 2017. Still, it can be concluded that organizations that had revenues less than 3,000 BAM were the most illiquid ones through all three years. However, they also experienced slight progress from 2015 to 2017.

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FINANSIJSKI PROBLEMI NEPROFITNIH ORGANIZACIJA U BOSNI I HERCEGOVINI

Sažetak:

Finansijsko zdravlje neprofitnog sektora, kao trećeg sektora svake ekonomije, je ujedno i najslabije u odnosu na druga dva. S obzirom na činjenicu da se neprofitna organizacija može registrovati na različitim nivoima države, u Bosni i Hercegovini ne postoji jedan centralni registar i vrlo je teško govoriti o organizovanom neprofitnom sektoru. Svrha ovog istraživanja jeste da se obezbijedi pregled finansijskih problema sektora kroz upotrebu finansijskih omjera. Uzorak izabran za analizu uključuje 215 neprofitnih organizacija registrovanih kod Ministarstva pravde Bosne i Hercegovine, koje su predale finansijske izvještaje za 2015., 2016. i 2017. godinu. Korišteni su koeficijent tekuće likvidnosti, koeficijent ubrzane likvidnosti, te odnos gotovine i prosječnih troškova i urađena je opisna analiza. Rezultati pokazuju da nije bilo značajnog razvoja u veličini organizacija kroz period od tri godine. Također, rezultati pokazuju da nema većih varijacija između 50 najuspješnijih i najneuspješnijih organizacija kroz sve korištene kalkulacije, što znači da zemlja ima istovremeno veoma razvijene i veoma nerazvijene primjere. Dok je 50 najnerazvijenijih organizacija doživjelo napredak, 50 najrazvijenijih je doživjelo suprotno. Studija takođe analizira finansijske probleme organizacija prema njihovoj veličini i uočava varijacije u rezultatima kroz period od tri godine.

Ključne riječi: neprofitni sektor; finansijski problemi; finansijski omjeri; Bosna i Hercegovina

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