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Impact of Revenue Diversification on Financial Health with Mediating Role of Flexibility: Non-Profit Organizations of Afghanistan

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Abstract

As nonprofit organizations continue to be faced with financial difficulties especially in the context of Afghanistan during recent years. Although several studies have found that revenue diversification has a significant impact on the financial health of nonprofits but studying organizational flexibility as a common mediating variable that defines the organizations' access to multiple options of funding, risk tolerance, autonomy, and, community connectedness is not observed or at least not measured yet. Thus, this study aimed to test the effects of the mediating role of flexibility on the relationship between dependent and independent variables through hypothesis testing, therefore the positivism philosophy of the research with a deductive approach and quantitative methodology was applied. The data of this study has been collected from among the top nonprofit organization's senior positions with 124 employees. The result of the study indicates that nonprofits with several funding resources are less vulnerable to financial shocks as the revenue diversification provides more options for funding which consequently increase the risk tolerance, independence, and community connectedness "widening of coverage area" of the organization. Being overly dependent on a limited number of resources is risky, because if a major donor of the organization declines or stops its funding, then it is more likely that the organization face financial problems. But the nonprofit organizations should be vigilant of the risk-reward of revenue diversification as well.

Keywords: Revenue diversification, Financial Health, Organizational flexibility, Nonprofit organizations.

JEL Code: G01, G32, D24, H20, D23, L21.

Introduction

As nonprofit organizations operate as entities that do not generate profits, they heavily rely on donations and funding from charity organizations as well as individuals who provide support to communities and people in need. Ensuring the financial health of nonprofit organizations is a major concern not only for the organizations themselves but also for the individuals and communities they serve, particularly in developing countries like Afghanistan. Nonprofits with weak financial health face significant challenges in

achieving their mission, and if their financial situation is not strengthened, they become vulnerable to losing credibility and even face the risk of closure. Unfortunately, economic downturns and various political and social issues create heightened financial stress for nonprofit organizations, impacting all their revenue sources. Moreover, the demand for many services in the human and social services industry has been rapidly increasing during these trying times (Lin & Wang, 2016).

Scholars have been actively researching ways for nonprofit managers to prepare for and respond to economic downturns. Failure to adapt and make necessary changes to the way nonprofits operate could lead to closures and reputational damage (Grønbjerg, 1993). One approach that nonprofits can utilize to overcome financial difficulties is revenue diversification, a concept initially proposed through modern portfolio theory. The underlying rationale for the revenue diversification strategy lies in the argument put forth by Tuckman and Chang (1991) that "a nonprofit would be more vulnerable to revenue decline if it relies on a limited number of sources rather than a diversified source of revenues since a shock is more likely to affect one revenue source than it is to affect all sources at once." As a result, modern portfolio theory principles have found widespread application among nonprofits as part of their resource acquisition strategies (Grasse et al., 2016; Kingma, 1993).

The benefits of revenue diversification on financial health have been widely tested and discussed in the business and non-profit sectors. Some researchers found that revenue diversification can reduce financial vulnerability (Chang and Tuckman 1996; Froelich 1999; Kingma 1993; Gronbjerg 1993), minimize revenue volatility (Carroll and Stater 2009), increase financial autonomy (Froelich 1999; Mitchell 2014), and enhance community connection (Hager, Galaskiewicz, and Larson 2004; Galaskiewicz and Bielefeld 1998). However, the issue of diversification is complex and ambiguous. Managing revenues from different sources can significantly increase administrative and fundraising costs, along with the risk of mission drift (Chikoto and Neely 2014). Heterogeneous sources of revenue may shift a non-profit organization's attention to various founders rather than beneficiaries (Froelich 1999).

Numerous studies have highlighted a positive relationship between revenue diversification and the financial health of nonprofit organizations, underscoring the value of this strategy (Hung & Hager, 2018). However, it is crucial to delve deeper into other influential factors that may impact this relationship. These factors include flexibility, risk tolerance, autonomy, and community connectedness. Previous research suggests that these forces should be studied to determine their effects on the relationship. Therefore, in this study, these forces are combined into a single mediating variable referred to as "flexibility," which will be tested to evaluate its impact on the relationship between revenue diversification and the financial health of nonprofit organizations in Afghanistan.

Nonprofit organizations should view revenue diversification as a proactive and strategic approach rather than merely a response to financial challenges. By diversifying their revenue sources, nonprofits can minimize their vulnerability to external shocks, such as the decline or withdrawal of a major donor, which could lead to significant financial problems. A diverse funding base offers a range of options and reduces dependence on a limited number of resources, providing organizations with greater financial stability and risk tolerance. Moreover, revenue diversification can also enhance the autonomy of

nonprofit organizations, enabling them to make independent decisions and pursue their mission in a more sustainable manner Kim (2017).

By examining these dynamics, this research aims to contribute to a comprehensive understanding of effective strategies for sustainable financial health in the nonprofit sector. It is important to recognize that financial health plays a critical role in enabling nonprofits to fulfill their missions and continue providing vital services to communities and individuals. Hence, identifying and exploring the mediating role of flexibility in the relationship between revenue diversification and financial health can offer valuable insights and inform the development of strategies to enhance the resilience and stability of nonprofit organizations operating in challenging contexts like Afghanistan.

2. Review of Literature

This chapter consists of the most relevant literature starting that when the concept of revenue diversification, financial health, and flexibility of nonprofit organizations evolved and which author introduced them first, then the underpinning theory and hypothesis based on the literature will be reviewed.

2.1 *Financial Health of Nonprofit Organizations*

Nonprofit organizations have grown substantially in recent years, especially in developing or less developed countries where poverty is higher compared to other more developed countries (Heist & Vance-McMullen, 2019). These organizations are continuously facing financial stress and their financial health is the key issue of their survival and fulfilling their obligations as they are not profit generating and they are dependent on the donations of other agencies such government and other donors (Hung and Hager, 2018). Bowman (2011) distinguished financial health into two broad categories: financial capacity and financial sustainability. Financial capacity is described as resources that organizations obtain and maintain to seize opportunities, keep running their programs smoothly, and overcome any unexpected risk and crisis. Measures of financial capacity are static and include assets (e.g., de Andrés-Alonso et al., 2015; Trussel, 2002), operating margin (e.g., Chang & Tuckman, 1994), revenues (e.g., Mayer et al., 2014), program expenses (e.g., de Andrés-Alonso et al., 2015), and even survival (e.g., Hager, 2001). Financial sustainability is the dynamic change in the financial capacity of organizations. While financial capacity visualizes the level of a financial indicator, financial sustainability represents its fluctuation over time (Wicker et al., 2015). The fluctuation of the financial indicators used as proxies of financial sustainability include the difference between actual revenue and expected revenue volatility (e.g., Carroll & Stater, 2009), percentage growth in total revenue (e.g., Chikoto & Neely, 2014), variance of revenues (e.g., Mayer et al., 2014; Wicker et al., 2015), and change in months of liquidity (e.g., Lam & McDougle, 2016).

Unfortunately, economic downturns and political and social issues create increased financial stress for nonprofit organizations, impacting all their revenue sources. Additionally, the need for many services in the human and social services industry has been rapidly increasing during these times (Lin & Wang, 2016). Nonprofits need to acquire sufficient financial resources as their higher priority, and they are requesting financial assistance to reimburse the costs needed for program implementation. (Lane, 2006) explained that the discrepancies between the revenue and expenses of nonprofits are a big concern and threat for them and may cause ineffectiveness when it comes to their operations.

2.2 Revenue Diversification

The revenue diversification concept emerged when studying the Modern Portfolio Theory (Markowitz, 1952) it explains the risk-reward relationship when it comes to profit-generating companies. Later the modern Portfolio Theory has been adopted by governments and nonprofits on how to raise capital and funds Kingma (1993), it is adapted for the purpose of analyzing the risk-rewards of nonprofit organizations' revenue streams. This theory explains that an ideal frontier should be determined by these organizations for the risk and return of revenue streams. This frontier should identify the structure of how much the revenues should be diversified to maximize the return with minimum risk with the intention of growth and financial predictability. The financial predictability concept is selected as it results from two major problems. One is that sometimes even the efforts made by the nonprofits may not generate the level of revenues that are expected in advance which may result from gain or loss in a short period. Secondly, any shock or changes in the revenue which is not expected should be considered by changes to the portfolio. Non-for-profit organizations should determine the level of revenues they desire to generate. But also, they should know that changes in their revenues may cause changes to their financial predictability. As per his recommendation, nonprofits should know both the variance and covariance of revenue diversification to find out the ideal portfolio for that organization.

The basic rationale for the revenue diversification strategy is that, as Tuckman and Chang (1991) argued, "a nonprofit will be more susceptible to revenue reduction if it relies and depend on a few and limited numbers of sources rather than a diversified source of revenues. Because if a financial shock happens then it is more likely to have an impact on one revenue source than it is to affect all sources at once. Since the middle of the 1990 century, several research has evaluated the impact of revenue diversification on financial stability, volatility, and performance of not-for-profit organizations (Carroll and Stater 2008; Chang and Tuckman 1994; Froelich 1999). A more recent study by Kim (2017) explained that there is a positive relationship between revenue diversification and the outcome of the organization's program implementation, the higher the revenue diversification the better the outcome of the program. (Hung and Hager 2018, p. 1-2) said that as nonprofits rely exclusively on grants, they might wish it should have pursued a more revenue diversification strategy. If a donor of nonprofit changes its funding priorities, then more revenue sources provide flexibility while reliance on a confined number of sources will make them vulnerable and will increase the chance of experiencing financial difficulties).

Despite the revenue diversification nonprofits bring new concerns and greater complexity for them (Froelich, 1999). but it also decreases revenue volatility and contributes to financial stability and health from year to year (Carroll and Stater, 2008). Although the Revenue diversification strategy has been considered a good and desirable strategy and explained the higher the revenue streams the higher the organizational financial stability with lower revenue dependency, minimized uncertainty, and lower level of financial difficulties (Altman 1968; Gilbert et al. 1990; Ohlson 1980). On the other hand, Frumkin and Keating (2011) generated the idea of revenue concentration and argued that revenue concentration may lead organizations towards higher efficiency and increasing rate of growth, but without any examined support for verifying the link between revenue concentration and the organization's growth. They explained that if an organization is heavily dependent on a single source of funding, then it will increase the chance of operating more efficiently due to decreasing its administrative and fund-raising

costs which argument create some doubt about the advantage of the revenue diversification.

One another recent research has been done by (Qiaozhen Liu & Mirae Kim, 2021) They also suggest that revenue diversification has a positive impact on the financial health of Nonprofits, but these organizations should pursue revenue diversification considering the benefit-based financial strategy as the revenue diversification can work in an unchanging way.

2.3 Nonprofit Organizations' Flexibility

The nonprofit organizations' flexibility can be described in a way that the revenue diversification is resulting and providing more options for funding its program. These multiple options of funding help the organizations to be safer when it comes to revenue dependency on the limited number of funding resources and also if any revenue fluctuations are incurred. Carroll and Stater (2009) explained that this fluctuation and revenue swings may be a result of declining or stopping funding by any unhappy major donor) or it may be because of environmental changes or global financial crisis.

Revenue diversification will be an important revenue-generating strategy that helps nonprofits to decrease the financial health of organizations overall and will reduce risk and particularly enhances financial stability. Is said to reduce financial risks and increase organizational stability. A change or decline in one or a limited number of revenue resources will be compensated by changing or increase in other funding and revenue resources (Bingham & Walters, 2013; Chang & Tuckman, 1994). Conceptually, a nonprofit organization with Similar and equal revenues from several sources is much safer or healthier against any financial misfortunes, while those nonprofits which pursue limited revenue sources and especially those which depend on a single source will be faced with financial crisis because of having or experiencing lower flexibility. More options for funding can consequently enhance the autonomy, risk tolerance, and community connectedness of the nonprofits which are discussed below (Hung and Hager 2018).

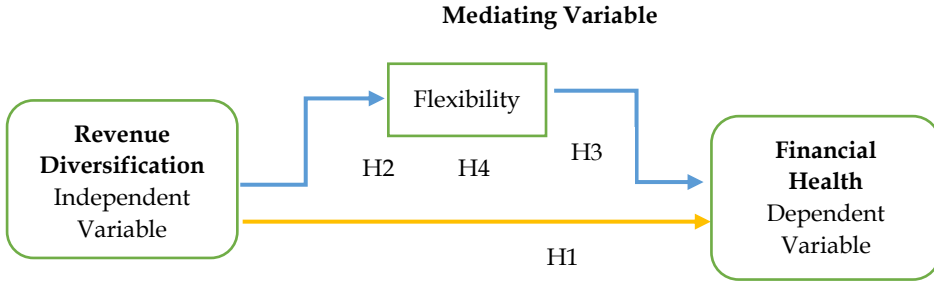
2.4 Theoretical Background or Theoretical Underpinnings

The Modern Portfolio Theory (Markowitz, 1952) is the theoretical underpinning of this study. The revenue diversification concept emerged when studying the Modern Portfolio Theory as it explains the risk-reward relationship and should be viewed together and simultaneously. The modern portfolio theory also has been adapted for nonprofits as well and it determines how the nonprofits could raise funds.

2.5 Theoretical /Conceptual framework / Research model

As it is explained in the theoretical background that there is an overall positive relationship between revenue diversification and the financial health of nonprofit organizations. But it has been found that some forces are directly related to the relationship between revenue diversification and financial health and the effects of these forces should be studied such as autonomy, flexibility, risk tolerance, and community embeddedness (Hung and Hager 2018) as in this research all these forces are combined and brought under one common mediating variable and interpreted as " organization flexibility" to find out whether flexibility (more options and sources) mediating the relationship between revenue diversification and financial health or not.

2.6 Conceptual Research Framework:



2.7 Literature Based on Hypotheses

2.7.1 Revenue diversification and financial health of nonprofit organizations

The fundamental logic for pursuing a revenue diversification strategy for the better financial health of nonprofit organizations is that, as Tuckman and Chang (1991) explained that being dependent on single, small, and or limited numbers rather than diversified sources of funding will increase the chance of being vulnerable to the financial difficulties because a shock is more likely to affect one revenue source than it is to affect all sources at once. As such, the principles set forth by modern portfolio theory have been widely applied by nonprofits as part of their resource acquisition strategies (Grasse et al. 2016) and (Kingma 1993). Nonprofit organizations should diversify revenue sources to hedge against uncertainty and financial shocks. As nonprofits rely exclusively on grants, they might wish it should have pursued a more revenue diversification strategy. If a donor of nonprofit changes its funding priorities, then more revenue sources provide flexibility while reliance on a confined number of sources will make them vulnerable to higher levels of risk and financial downturns (Hung and Hager 2018).

H1: Revenue diversification positively influences the financial health of nonprofit organizations.

2.7.2 Revenue diversification and financial health: the mediating role of flexibility

Scholars argued that revenue diversification provides options to organizations that suffer swings in dedicated revenue streams. Carroll and Stater (2009) and these swings could be characteristic, which means that a major donor may change its funding priority which may suffer the organizations (such as an unhappy major donor) or result from environmental shifts (such as a global financial crisis). Diversifying revenue portfolios will help the organization to reduce its financial risks and increase organizational stability: A decrease in one revenue source may be compensated by increases in other revenue sources (Bingham & Walters, 2013) and (Chang & Tuckman, 1994). Conceptually, a nonprofit organization with multiple and somehow equal revenue sources can be much healthier than those with revenue from a single source. And these more options due to having several revenue sources increase the organization's flexibility and create greater potential to overcome the financial shocks that happened due to losing a specific source of funds (Hung and Hager 2018).

H2: Revenue diversification positively influences the organization's flexibility.

H3: Flexibility positively influences the financial health

H4: Revenue diversification positively influences financial health through flexibility.

3. Research Methodology

As the research is quantitative research and the relationship between the variables is tested through hypotheses testing, and also as the research findings are quantifiable and observable and the knowledge stems from human knowledge and experience, therefore the positivism philosophy with deductive approach and quantitative-explanatory methodology is applied. Individual employees of nonprofit organizations in Afghanistan (especially the top management and finance staff) were used as the unit of analysis of the research. Because the study was relatively conducted in a small group of individuals and each opinion and experience was important to test the hypothesis and the relationship between the variables (Charles Glisson, 2008).

The population of this study was the employees of five nonprofit organizations in Afghanistan. To make sure that the determined sample size must be representative of the population, the researcher used the sample-to-item ratio method and the total items multiplied by 10 which is a higher number in this method in this research the sample size was calculated as 12 (estimated questions for questionnaires) \times 10 = 120 while 124 employees responded to research questions. As the research was conducted relatively in a large population with the characteristics of heterogeneity in each organization and with a higher degree of homogeneity between different organizations. So, the target population is divided into subpopulations or clusters and each of the sub-cluster or smaller group contains a few elements. Thus, the cluster sampling method is more appropriate which is used (Banerjee and Suprakash, 2010) and (Saifuddin, 2009). The reason that the cluster sampling method was used is that the employees within the top management and finance staff were heterogeneous within an organization, however, there is a high degree of homogeneity between different NGOs' employees when it comes to knowledge and awareness of revenue diversification and its impacts on the financial health. The researcher used the interval scale through the Likert scale strongly agree to strongly disagree on a scale of 1 to 5) to measure the impacts of mediating variables on the relationship between the independent and dependent variables because the distance between the numbers was important for the researcher to study the impacts of variables on each other (Adamson and Prison, 2013). The data was collected by submitting hard copies / online data collection forms of questionnaires. The data reliability has been checked through Cronbach's Alpha while the data validity has been checked through Skewness \pm 3 and Kurtosis \pm 10 by using the webpower.psychstat.org as checking data normality is not possible through SPSS when it comes to checking data of multivariate and then the collected data analyzed through regression data analysis of SPSS software.

4. Data Analysis and Findings

4.1 Data Reliability Test

The internal consistency type of testing the reliability of the data was used to measure whether the people's responses are reliable or not through Cronbach Alpha in SPSS.

Table 4.1: Reliability Analysis

Construct	Cronbach Alpha	Deleted items	Total items
Revenue	.772	0	4
Diversification	.708	0	4
Flexibility	.712	0	4
Financial Health			

Based on the above table 4.2, all the responses have been collected are consistent for dependent, independent, and mediating variables, meaning that the data is reliable, and the adapted items are relevant to all the variables, respectively in a reliable manner as the Cronbach Alpha is greater than 7 for all the research variables and items.

4.2 Descriptive Statistics Analysis & Findings

The below table shows the descriptive statistics of the data collected to reflect the research results related to the mean value and standard deviation. The maximum score, which is 5, shows that the highest agreement to the research question is strongly agree while 1 means that the research participants strongly disagree.

Table 4.2: Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis
Revenue Diversification	124	3.75	5	4.3085	.28354	-0.357	-1.393
Flexibility	124	4	4.75	4.4395	.28401	-0.054	-1.297
Financial Health	124	4	5	4.5302	.32603	-0.054	-1.297
Valid N (list-wise)	124						

As per table 4.3. The mean value for revenue diversification is 4.3085, any value higher than this reflects higher agreements with the questions while any value less than 4.3085 reflects more disagreements with the questions. So, similarly, the value for organizational flexibility is 4.4395 and for the financial health of the Non-Profit organizations in Afghanistan, the mean is 4.5302.

4.3 Discussion on Data Normality

The purpose of this research was to find out the mediating role of organizational flexibility on the relationship between revenue diversification and financial health of not-for-profit organizations in Afghanistan the model is a multivariate model analysis which is performed through webpower.psychstat.org as the SPSS is not able to analyze the data normality when it comes to multivariate. The multivariate result for Skewness is found as +0.176 and the Kurtosis value became +5.837. This means that the data collected is normal.

Because the Skewness and Kurtosis of the data lie between Skewness ± 3 and Kurtosis ± 10 . The main reason for this data normality is the consistent and normally distributed responses received from the participants of the research as the respondents were from the five Non-For-Profit Organizations with somehow similar characteristics and experiences of financial health and portfolio. Also, the participants were selected from the top management and senior positions and financial staff of these organizations which have a clear, enough, and somehow similar understanding of the concept of revenue diversification, financial flexibilities, and financial health of those organizations.

4.4 Hypothesis Test (Regression and Mediation Analysis)

Based on the data collected, the researcher is trying to analyze the impact of revenue diversification on financial health with mediating role of flexibility to see whether flexibility mediates the relationship between revenue diversification and financial health or not. This was performed through the Regression model of PROCESS v3.4 by Andrew F. Hayes's approach in SPSS.

Table 4.4: Impact of Revenue Diversification on NGOs' Flexibility

Model Summary							
	R	R-sq	MSE	F	df1	df2	p
	.8141	.6627	.0274	239.7354	1.0000	122.0000	.0000
Model							
	coeff	se	t	p	LLCI	ULCI	
constant	.9262	.2274	4.0733	.0001	.4761	1.3764	
RD	.8154	.0527	15.4834	.0000	.7112	.9197	

The above table 4.5.1 indicates that the revenue diversification (RD) as an independent variable positively (66.27% or R-sq = +0.6627) and significantly ($P < .05$) affects the organization's flexibility.

Table 4.3.2: Impact of Flexibility on NGOs' Financial Health

Model Summary							
	R	R-sq	MSE	F	df1	df2	p
	.8576	.7354	.0286	168.1538	2.0000	121.0000	.0000
Model							
	coeff	se	t	p	LLCI	ULCI	
constant	.0065	.2474	.0263	.9791	-.4834	.4964	
RD	.3644	.0926	3.9356	.0001	.1811	.5477	
Flexibility	.6653	.0924	7.1980	.0000	.4823	.8483	

The above table 4.5.2 indicates that flexibility as mediating variable positively (73.54% or R-sq = +0.7354) and significantly ($P < .05$) affects the organizations' financial health.

Table 4.4.3: Direct Effect of Revenue Diversification on NGOs' Financial Health

Effect	Se	T	P	LLCI	ULCI	c'_ps	c'_cs
.3644	.0926	3.9356	.0001	.1811	.5477	1.1177	.3169

As per table 4.5.3, the revenue diversification has a positive effect of +0.3644 with a Cronbach Alpha or P value of 0.0001 on the financial health. Meaning that more revenue diversification will result in better financial health even without considering any mediating variables.

Table 4.4.4 Indirect Effect of Revenue Diversification on NGOs' Financial Health

	Effect	BootSE	BootLLCI	BootULCI
Flexibility	.5425	.0783	.3856	.6946

As the effect value of flexibility on the relationship between revenue diversification and financial health is positive +0.5425, therefore flexibility plays the role of a mediating variable. Higher revenue diversification increases the flexibility of the organization by providing more funding options, higher risk tolerance, more community connectedness, and better financial autonomy and independence. Having multiple funding resources helps the organizations to be more secure in terms of any financial shock and this will increase the risk tolerance these characteristics of revenue diversification will enhance the organization's flexibility and can create options for switching between grants, especially when a major donor decline or even stopped funding and consequently decreasing of financial vulnerability through more diversified funding resources and multiple options will enhance the financial health of the not for profit organizations in Afghanistan.

Based on the above findings and analysis, all the hypotheses are accepted as for each of the variables the P value is less than 0.05 with a positive effect, and R-sq values

5. Discussion

The modern portfolio theory (Markowitz, 1952) is the basis of researching about revenue diversification concept and it explains the risk-reward relationship of the investment portfolio. The fundamental rationale for the revenue diversification strategy is that, as Tuckman and Chang (1991) explained, "a nonprofit will be more vulnerable to revenue decline if it depends on a few and limited numbers of sources rather than a diversified source of revenues. Because a shock is more likely to affect one revenue source than it is to affect all sources at once. A more recent study by Kim (2017) explained that there is a positive relationship between revenue diversification and the outcome of the organizations program implementation, the higher the revenue diversification the better the outcome of the program. One another recent research has been done by (Qiaozhen Liu & Mirae Kim, 2021) and they suggest that revenue diversification has positive impact on financial health of Nonprofits.

(Hung and Hager 2018) also found that revenue diversification holds value for the financial health of NGOs and also, during their study, they identified some forces that influence the relationship, and they pointed the four important forces among others to be studied in the future as they are unobserved or at least unmeasured. These forces are flexibility, community embeddedness, risk tolerance, and autonomy. In this research, all the above-mentioned four forces suggested by (Hung and Hager 2018) are combined under one mediating variable called organization flexibility. Similarly, to the other revenue diversification theory and literature, as per table 4.5.3 the researcher in this study has also found that the revenue diversification (RD) as the independent variable has a positive effect of +0.3644 with a Cronbach Alpha or P value of 0.0001 on the financial health as the dependent variable. Meaning that more revenue diversification will result in better financial health even without considering any mediating variables.

Also, the revenue diversification has positive (66.27% or R-sq = +0.6627) and significant ($P < .05$) effects on the organization's flexibility as indicated in above table 4.5.1. So, table 4.5.2 indicates that flexibility as mediating variable positively (73.54% or R-sq = +0.7354) and significantly ($P < .05$) affects the organizations' financial health. In the meantime, the research has found that there is a positive effect value of +0.5425 of the flexibility on the relationship between revenue diversification and financial health therefore the flexibility plays the role of mediating variable (research gap) between independent and dependent variables. As described above revenue diversification has a positive influence on the organization's flexibility which simultaneously the flexibility significantly affects the financial health of the NGOs.

Also, the organizations' flexibility plays the role of mediating variables on the relationship between revenue diversification and financial health, and therefore the research has found that the not-for-profit organizations in the context of Afghanistan can also apply the revenue diversification concepts for enhancing their financial health. As per the above explanations and research findings, the problem statement of the research has been addressed, research questions have been answered and the objectives are achieved as expected.

6. Conclusion, Recommendation and Future Direction

6.1 Conclusion

This study intended to investigate the impact of revenue diversification on the financial health of nonprofit organizations in Afghanistan with the mediating role and effects of flexibility. As the research was quantitative research with the aim of testing the relationship between the variables through hypotheses testing, therefore the positivism research philosophy is applied. The results of data analysis indicate that revenue diversification positively and significantly impacts the financial health of nonprofit organizations in Afghanistan with an effect value of +0.3644 with a Cronbach Alpha or P value of 0.0001 and also it has been found that the flexibility mediates the relationship between dependent and independent variables with the effect size of +0.5425.

As many scholars suggested that revenue diversification is one of the most preferred ways for nonprofit organizations to overcome their financial difficulties. (Hung and Hager 2018). Also, during their study, they identified some forces that influence the relationship, and they pointed out the four important forces among others to be studied in the future as they are unobserved or at least unmeasured. These forces are flexibility, community embeddedness, risk tolerance, and autonomy. In this study, those forces are categorized as one common mediating variable "flexibility". As per data analysis and findings of the research mentioned above, revenue diversification improves the flexibility of nonprofits as it will help the organization to have access to multiple funding resources which consequently enhances their risk tolerance and independence. Also, through having several funding resources the organizations can reach more communities and people and increase the coverage of their program and activities within the country. A wider coverage area increases the reputation of the nonprofits which will be other assets for them to secure more funds. Eventually, having access to sufficient and diversified funding resources and funding options will guarantee the financial health of nonprofit organizations in the long run. This means that the research questions have been answered and the objectives of this study are achieved.

6.2 Implication

As many scholars and practitioners found that revenue diversification holds value for the financial health of nonprofit organizations, the result of this study also indicates that revenue diversification has significant impacts on the relationship between the two as well as through the mediating role of flexibility. The researcher found that flexibility plays a significant role in the financial health of nonprofits because flexibility as having access to multiple funding options can significantly enhance the financial health of the NGOs. Nonprofit organizations can get benefits from the result of this study to enhance their financial health because revenue diversification can provide more options for funding and thus the nonprofits can decrease their dependency on a limited number of resource and can maintain and seize sufficient funds to properly keep their program running and overcome any financial shocks that will be a result of any decline or stop in funding by a single or limited number of donors. Flexibility as the mediator of the study can provide the opportunity the nonprofits that can switch between funding agencies, more options of funding can also increase their risk tolerance, independence, and community connectedness "widening of the coverage area and programs" as wider coverage area increases the reputation of the nonprofits which will be other assets for them to secure more funds.

6.3 Future Direction

However, a positive impact of the mediating variable has been found with a reliable and validated characteristic of the data on the relationship between dependent and independent variables, but it is recommended by the researcher that the Afghanistan nonprofit organizations should conduct a comprehensive cost-benefit analysis of any additional funding source that is going to be secured. The risk-reward of revenue diversification is crucial to be understood by the Afghanistan NGOs. Because securing numerous grants is sometimes risky if the organization cannot fulfill the donor's requirements and cannot properly implement the projects as the communities need. Nonprofits can maximize revenue growth by mixing revenue streams, but only at a level of risk, they are comfortable with to reliably achieve an optimal balance to maximize any advantage of pursuing greater numbers of revenue resources which is called revenue optimization. Thus, it is recommended to be studied which factors can help the organizations to take advantage of revenue diversification with tolerable risk and mission achievements in an effective and efficient manner. Future research can identify the weakness and strengths of the nonprofit organizations as the moderators that have an impact on the relationship between revenue diversification and financial health in the context of Afghanistan and propose important guidelines and instructions that could be applicable to all the NGOs.

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