Revenue Diversification as a Strategic Response by Canada's Nonprofit Sector[1]

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Abstract

Government policies in Canada have taken a "hard right turn" and tax cuts now have priority over investing in social programming. Both federal and provincial governments have been withdrawing from direct service provision with the expectation that the nonprofit sector will fill in the gap. At the same time, traditional government support for the sector has declined, which limits organizations' ability to meet their current service demands. Using a sample of 645 organizations from across Canada, this paper explores the use of revenue diversification as a response to policy changes. The findings indicate that while nonprofit organizations in Canada have embraced revenue diversification to support program delivery, the extent of diversification is influenced by size, whether the organization is run by women or not, whether it is a relatively new organization or one with a long history and track record, and whether its mandate has a broad or narrow appeal.

Introduction

In Canada the last two decades of the 20th century have been characterized by government policies that focus on stimulating the economy as a strategy for improving overall quality of life. This "hard right turn" has made tax cuts a priority over social program expenditures, and private sector efficiencies have been promoted as the most effective response to financial challenges (Jeffrey, 1999; McBride and Shields, 1997; Tester, 1996). Voluntary organizations[1] in Canada have had to adapt to this new environment. Both federal and provincial governments have been withdrawing from direct service provision in several areas of social welfare with the expectation that the voluntary sector will fill any resulting gaps in the social safety net. At the same time, a decrease in government support for the voluntary sector has limited its capacity to respond to an increased demand for its services (Hall and Banting, 2000). In Canada, on average 64% of revenues for voluntary organizations have come from government grants and payments (Hall and Macpherson, 1997). When the federal government limited transfer payments for various social programs (Tester, 1996), the provinces began a systematic retrenchment of these programs (Torjman, 1996). With such intense dependence on the government, any change in transfer payments is bound to have a noticeable impact on the sector (Rice and Prince, 2000). This paper addresses revenue diversification as a response to funding changes, within the context of resource dependence theory (Pfeffer and Salancik, 1978). Specifically, we explore whether structural and demographic characteristics influence the propensity of organizations to adopt revenue diversification as a strategy for responding to external environmental challenges.

Review of Literature

According to Pfeffer and Salancik's (1978) resource dependence theory, when resources are abundant and certain, external dependency is not problematic. However, when resources are threatened, organizations adopt strategies to ensure their continued existence. This is precisely the situation facing voluntary organizations in Canada. There have been unprecedented changes in their relationship with the government, their main funding source, and this, in turn is creating a radically new environment for these organizations. Only those that can adapt will have any chance for survival.

Numerous longitudinal studies tracking the births and deaths of populations of organizations indicate that the environment plays a significant role in the creation and survival of organizations. In times of environmental munificence, organizational populations grow, as new organizations take advantage of the opportunities provided by the environment (Carroll and Delacroix, 1982; Hannan and Freeman, 1980; Tucker, House, Singh and Meinhard, 1984;

Tucker, Singh and Meinhard,1990). This was the case in Canada in the post WWII years when the government was setting up a social welfare system that included generous grants to voluntary organizations for the delivery of social services, and as a result the population of voluntary social service organizations increased exponentially. However, in times of economic uncertainty, organizational populations decrease. Faced with turbulent and unstable environments, organizations attempt to change to accommodate new environmental demands. Most often, structural inertia prevents organizations from making changes rapidly enough and many organization die (Aldrich, 1979; Hannan and Freeman, 1977).

This notwithstanding, there are organizations that do change and survive. They do this by embarking on strategies that intentionally transform the organization to meet the challenges of the changing economic environment (Ginsberg and Buchholtz, 1990). There are several strategies that organizations can undertake to try to ensure their continued existence: a) restructuring to become more flexible and compatible with the environment (Lawrence and Lorsch, 1967); b) buffering the organization's technical core through stockpiling in abundant times and rationing in lean times (Thompson, 1967); c) undertaking boundary spanning activities such as lobbying and advocacy on behalf of the organization (Thompson, 1967; Pfeffer and Salancik, 1978); d) undertaking proactive measures to change the environment by advertising and public relations, political activity and influencing policy (Pfeffer and Salancik, 1978); and e) attempting to secure uninterrupted resource flow through negotiations, partnerships, joint ventures, mergers and resource diversification (Pfeffer and Salancik, 1978).

According to resource dependence theory, the most precarious situation for any organization is dependence on a single supplier for vital resources (Pfeffer and Salancik, 1978). As Gallagher (1989) points out, changes in the contractual relationships between government and social service organizations made organizations more dependent in terms of funding and affected the types of policies they adopted. Given that 64 % of organizations in Canada receive the bulk of their funding from government sources, voluntary organizations must engage in external transactions with the government as a matter of survival (Hermovics, Herman and Coughlin, 1993). In Canada the recent massive government reductions in grants are not part of a short-term strategy to balance the budget and retire the deficit, but rather they represent a fundamental shift in the definition of the role of government (Prince, 2000). This puts many nonprofit organizations in jeopardy, unless they are able to diversify their revenue sources. Randall and Wilson (1989) found that changing government funding levels resulted in a concerted and widespread effort by voluntary organizations to obtain new funding sources.

Revenue diversification reduces an organization's dependency (Chang and Tuckman, 1991; Gronbjerg, 1993) by rendering it less vulnerable to the influences and demands of any single exchange partner (Knoke, 1983). One key benefit of revenue diversification identified by researchers has been increased viability for nonprofit organizations (Fuller and Farrell, 1987; Chabotar, 1989). In their more recent study, Chang and Tuckman (1994) used several measures to explore the impact of multiple revenue sources on overall financial health and concluded, despite some data anomalies, that organizations with diversified funding sources are in a stronger overall financial position than those with few funders.

Not all the consequences of revenue diversification are positive. While organizations may ensure their basic survival by finding multiple funders, they also have to deal with the tension between meeting each funder's requirements for accountability and their own desire for autonomy (Ferris, 1993). Bielefeld (1992), in a longitudinal study of 174 organizations, found that when diversification entails self-generated revenues, uncertainty is not necessarily reduced. In addition, the quest for funding from alternate sources may cause mission displacement, as organizational resources are concentrated on revenue acquisition instead of the real mission of the organization (DiMaggio, 1986b). Finally, the pursuit of a revenue diversification strategy can lead to greater formality in the organization and a higher likelihood of being dominated by professional elites (Powell and Friedkin,1987).

Whether or not an organization engages in revenue diversification, and the type and extent of diversification undertaken, are determined by several factors previously identified in the literature: age, size, mandate and organizational leadership and composition.

<u>Age of organization</u>. It is to be expected that the younger the organization, the fewer the sources of revenue at its disposal. It takes time to establish legitimacy, and until an organization does so, resource suppliers will be cautious in their dealings with the organization (Stinchcombe, 1965; Hannan and Freeman, 1977). New organizations also have to overcome "barriers to entry" when entering a niche. They face tough competition for funding from the already established organizations (Stinchcombe, 1965; Hannan and Freeman, 1977). Thus, our first hypothesis states that <u>younger organizations will have fewer funding sources than older organizations.</u>

<u>Size of organization</u>. Smaller organizations are generally seen as more organic in nature, and thus more responsive to environmental fluctuations (Daft, 1999). They are also more likely to cater to specialized niches where resources, including funding resources, are more liable to be stable (Pfeffer and Salancik, 1978). Large, generalist organizations are also less effected by environmental turbulence, but for different reasons. As a result of their size, they have gained control of their environments and have slack resources to tide them over rough periods (Pfeffer and Salancik, 1978; Hannan and Freeman, 1977). Greening and Gray (1994) suggest that large organizations are more likely to have formal internal structures to manage and respond to external threats; and as a result, are in a better position to handle these challenges effectively. Slack resources also provide organizations with the flexibility to experiment with new strategies

and lower the risk of such experimentation (Kaluzny, McLaughlin and Jaeger, 1993). On the other hand, external challenges are more likely to have a negative impact on mid-sized organizations that are too big to cater to niches, but not large enough to have sufficient resources to withstand significant changes in the external environment. Given this differentiation in resources and focus by size of organization, we would expect mid-sized organizations to be more eager than other-sized organizations to seek multiple funding sources. Thus, our second hypothesis states that <u>smaller and larger organizations will rely on fewer revenue sources than medium-sized organizations.</u>

<u>Mandate of the organization</u>. Organizations with broad mandates that appeal to a variety of stakeholders and serve a range of client groups are more likely to compete successfully for charitable dollars (Hall and Banting, 2000), whereas organizations serving specialized causes will have a limited appeal. Stringent accountability and performance measures, laid down by some donors (Phillips and Graham, 2000), will favor organizations that have experience in serving multiple stakeholders. Some organizations have adopted multiple funding sources as a strategic goal and are systematically recruiting board members who can provide the necessary guidance to access non-governmental funding sources (Meinhard and Foster, 1997, 2000). We would expect that organizations with a wide appeal would be more successful in implementing revenue diversification than would those organizations with a narrower or cause-related mandate. In this study the sample of organizations was grouped into three mandate categories - health, social services and education/advocacy. Because health service organizations have the broadest stakeholder relevance, we hypothesize that <u>organizations with a health area mandate are more likely to attract revenue from diverse sources than agencies with other mandates</u>.

<u>Leadership and organizational composition</u>. In this study slightly more than half of the sample is comprised of organizations led by a woman Executive Director, whose board composition is at least two-thirds female and whose staff composition is at least 95% female. Previous research has indicated that compared to men, women have special needs that often rank low in the "establishment's" evaluation of what is important (Riordan, 2000). Their organizations are perceived to have less prestige (Bradshaw, Murray and Wolpin, 1996) and corporations, generally led by men, are not generous in funding women's causes (Useem, 1987). Women's organizations are still agitating for appropriate funding for research regarding their specific health concerns (Waserman, 1998). Because they have fewer alternative funding sources available to them, women's organizations are more dependent on government funding (Bradshaw et al., 1996). This makes them more vulnerable in times of governmental cutbacks. It would logically follow that, as governments cut back their funding, women's organizations would be forced to seek alternative sources. However, because of the inherent difficulties women's organizations face, we hypothesize that <u>women's organizations will have fewer sources of revenue than organizations not run by women.</u>

Finally, based on Chang and Tuckman's (1994) findings that organizations with more highly diversified revenue sources are financially more healthy, we hypothesize that there will be a positive correlation between diversification of funding and total revenue.

Resource dependence theory suggests that organizations seek to reduce their dependence on one source of revenue in order to balance power relations and restrict the influence of external forces on the mission and goals of the organization (Pfeffer and Salancik, 1978). However, we propose that diversification of funding sources as a response to environmental threats may be dependent on the structural and demographic characteristics of the organization.

Method

Design

Telephone interviews lasting approximately 45 minutes were conducted with 645 Presidents or Executive Directors of nonprofit organizations located in every province of Canada. We used a 120-item questionnaire containing both closed- and open-ended questions that was constructed on the basis of the results of a pilot study with 35 executive directors of nonprofit organizations (Meinhard and Foster, 1997).

Sample

Population. The target sample of 600 organizations was drawn from three separate population pools with the following sample sizes:

> One-quarter (150) from women's organizations affiliated with the National Action Committee on the Status of Women (NAC), a feminist umbrella organization.
>
> One-quarter (150) from women's organizations not affiliated with NAC, organizations that do not espouse a feminist ideology.
>
> One-half (300) from organizations that did not fall into the defined category of a women's organization.

Since no comprehensive list of nonprofit organizations exists in Canada, NAC membership lists, Revenue Canada's list of charitable organizations, Community Blue Book listings and Internet listings were used to create a master list from which a sample was randomly chosen.

Definition of qualified respondent. To qualify for inclusion in the sample, organizations had to fulfill the definitional requirements of a voluntary organization (Johnson, 1981:14): a) the organization does not owe its existence to statutory authority, but consists of a group of people who have come together voluntarily; b) the organization is self governing and decides its own constitution and policy; and c) the organization is not profit making. To be classified as a women's voluntary organization, the Executive Director of the organization had to be a woman and two-thirds of the positions on the board had to be filled by women.

Sampling framework. The sampling framework was based on a proportional representation of nonprofit organizations from the larger provinces, Quebec, Ontario and British Columbia, and a minimum of 25 organizations from the smaller provinces in the Maritimes and the Prairies. In addition, we sampled to ensure a representative distribution of organizations with respect to both size and mandate.

Size can be measured in several different ways. Kimberly (1976) identified four conceptually independent aspects of organizational size: a) physical capacity, b) personnel available, c) inputs / outputs and d) discretional resources available. The choice of measurement depends on the objectives of the research. Since this study focuses on organization-environment transactions, resource availability, as measured by reported annual revenue, was chosen as the criterion for size. The sample was stratified on the basis of what we learned about size distribution in the pilot study, by selecting 30% small (less than $100,000) 50% medium ($100,000 - $799,999) and 20% large ($800,000 or more) organizations from each of the population pools.

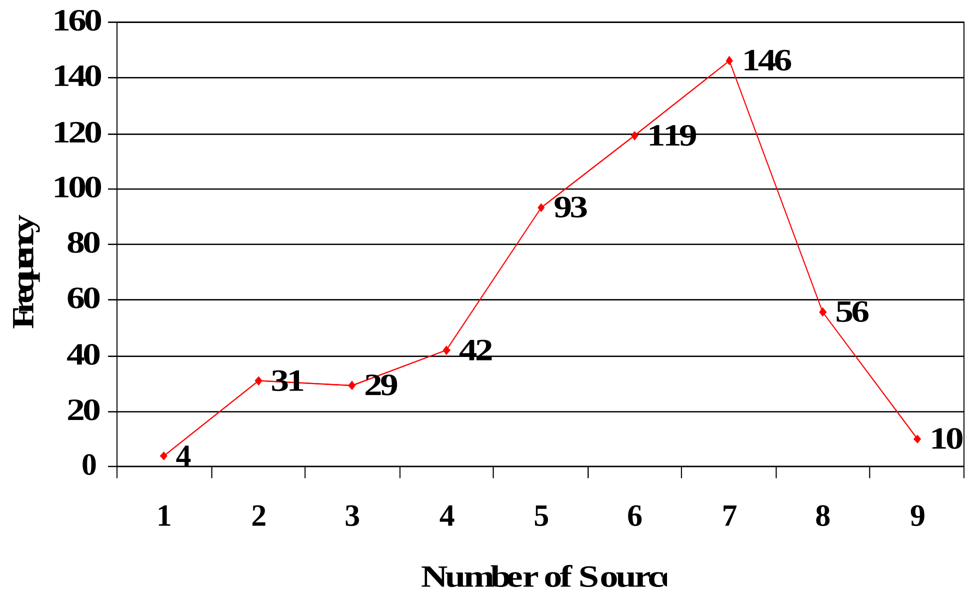
The stratification strategy for organizational mandate was also based on the findings from the pilot study. We found that voluntary organizations fall into one of three basic categories: social services (e.g. Elizabeth Fry Society), health services (e.g. Women's Health Clinic), and a cluster that we label education/advocacy/lobbying (e.g. National Anti-Poverty Organization). Although these often overlap, each organization has a primary mandate in one of these areas. The majority of our sample (60%) was selected from social service organizations, 20% from health service organizations, and 20% from education/advocacy/lobbying organizations. This reflects the distribution of these organizations in the population.

Because of the absence of a comprehensive list of organizations, this is not a true random sample. Nevertheless, we believe we have achieved a representative sample of nonprofit organizations in Canada because we stratified the sample on key demographic characteristics: size, location, mandate and leadership composition (run by women or not).

Definition of variables

Dependent: We defined the dependent variable, revenue diversification as a count of the number of funding sources including government sources, reported by respondents. The distribution is essentially normal, as illustrated in Figure 1. Consistent with Salamon's (1987) and Chang and Tuckman's (1994) research, over 90 percent of organizations have more than one funding source.

Figure 1: Number of revenue sources among a sample of 645 volunt ary organizations in Canada



Independent: The independent variables were age of the organization, size of organization, mandate of organization and leadership composition of the organization.

Age of organization was defined in four categories according to the self-report of respondents of how long their organization had existed: less than 10 years, 10-19 years, 20-29 years and 30 or more years.

Organizations were classified into size categories by their reported levels of total revenue: small (under $100,000); medium ($100,000-$799,999); and large ($800,000 and over).

We defined the mandate of the organization according to the self-report of respondents and grouped them into three categories: education/advocacy, social and community services and health services.

Leadership and organization composition was defined using the three categories matching the three population pools. Two subgroups represented women's organizations (NAC and non-NAC) and the third subgroup consisted of "other" organizations, those that did not meet the definition of either NAC or non-NAC organizations.

Results and Discussion

We used cross-tabulations, analysis of variance and regression to explore the relationship between our independent variables (age, size, mandate and leadership composition) and revenue diversification. For these hypotheses, we also tested for homogeneity of variances and these were significant for size, which we discuss in the body of the results.

Hypothesis 1: Younger organizations will have fewer funding sources than older organizations.

The first hypothesis is built on the work of Stinchcombe (1965) and Hannan and Freeman (1977) which explores issues related to the age of the organization. In general, the data show a significant linear relationship; the older the organization, the more funding sources it accesses, which supports our hypothesis. Table 1 presents the ANOVA results.

Table 1: ANOVA results for total number of revenue sources by age of the organization

Age of organization	Mean number of revenue sources
less than 10 years	4.26
10 to 19 years	5.20
20 to 29 years	5.57
30 or more years	5.90
ANOVA Results: F=18.287 df=3,637 p=.000	

It is not surprising that younger organizations have fewer sources of revenue than older organizations. Stinchcombe (1965) pointed out that it takes time to establish legitimacy and a credible track record that is appealing to funders. Additional information from this same data set[2] shows that younger organizations are significantly more likely (p=.000) than older organizations to receive 80% or more of their funding from government (44% vs. 13%). Older organizations are significantly more likely than younger organizations to be the recipients of foundation grants (p=.007), corporate donations (p=.007), individual donations (p=.003), member/user fees (p=.000), special event revenues (p=.000) and revenue from commercial ventures (p=.000). As Meyer and Rowan (1977) point out, it is legitimacy, not efficiency that is critical in an organization's ability to obtain the necessary funds to secure its operation, especially in the nonprofit sector. Organizations gain legitimacy by conforming to the stakeholders' definition of practices, beliefs and norms. It appears that because they have been visible longer, older organizations have had a more opportunities to establish legitimacy in the eyes of funders.

Hypothesis 2: Smaller and larger organizations will rely on fewer revenue sources than will medium-sized organizations.

The second hypothesis is an extension of Pfeffer's and Salancik's (1978) work on the impact of size on response to external environmental threats. As Table 2 illustrates, there are significant differences between different sized organizations in the number of revenue sources they report, with smaller organizations having the fewest number of sources and largest organizations the most.

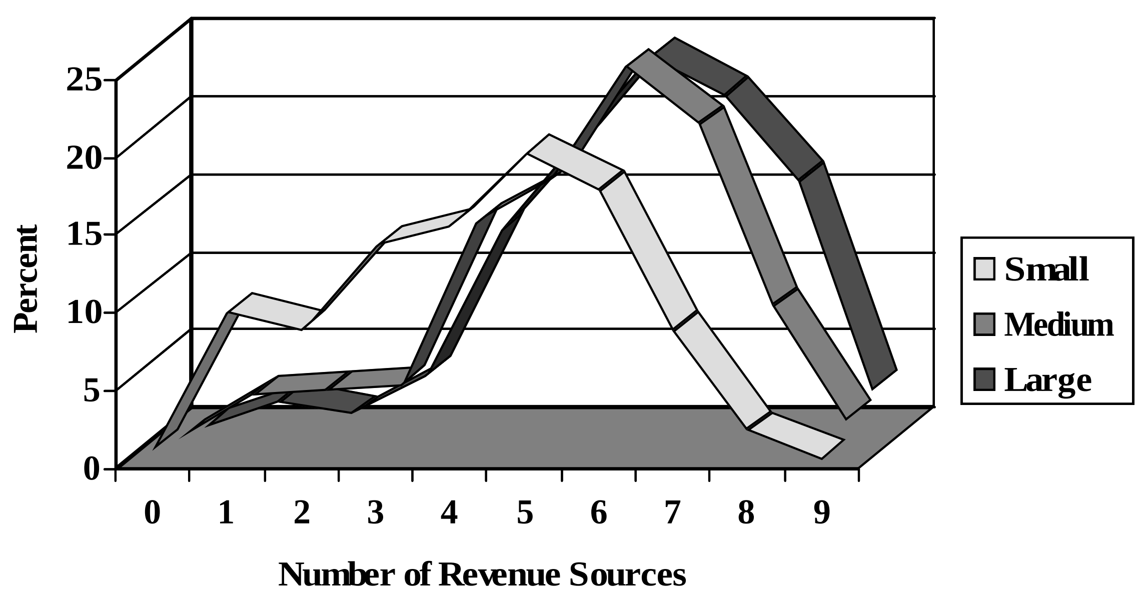
Table 2: ANOVA results for number of revenue sources by size of organization

SIZE OF ORGANIZATION	MEAN NUMBER OF REVENUE SOURCES
Small	4.28
Medium	5.50
Large	5.96
ANOVA Results: F=37.296 df=2,642 p=.000 Homogeneity of variances - p=.013	

These results do not support our hypothesis in that we had predicted medium-sized organizations would have more revenue sources. In addition, because the homogeneity of variances was significant, we ran cross-tabulations on these variables. Figure 2 shows the distribution of number of revenue sources by size of the organization. Both Chi-square ($\times^2$ = 78.617, df=1,18, p=.000) and Kendall's tau-b (T= 8.131, p=.000) were significant. Smaller organizations are significantly less likely to have as many funding sources as are medium-and large-sized organizations. One reason larger organizations may have more funding sources is because they have more administrative staff to pursue other revenue sources (Greening and Gray, 1994). Another reason may be that larger organizations are likely to be singled out by external stakeholders including donors because they are more visible (Scott, 1992).

However, the findings related to size of organization and specific strategic responses to environmental challenges are not always consistent. While Zinn and her colleagues (1998) found that size was not related to the adoption of TQM practices in nursing homes, nor to the likelihood of contracting with managed care organizations (Zinn, Mor, Castle, Intrator and Brannon, 1999), it was significantly related to the development of units dedicated to the provision of specialized care (Banaszak-Holl, Zinn and Mor, 1996).

Figure 2: Number of revenue sources by size of organization



One of the difficulties in using size as a variable is that different criteria are used to categorize organizations by size and what may be small by one standard is medium by another. This may be one of the reasons for contradictory findings in the literature with respect to the relationship of size to the adoption of specific strategies.

Hypothesis 3: Organizations with a health area mandate are more likely to attract revenue from diverse sources than are agencies with other types of mandates.

The third hypothesis seeks to extend analysis previously conducted on this data set by the authors (Meinhard and Foster, 1997, 2000). As Table 3 shows, there are significant differences in revenue diversification by type of mandate. As predicted, health organizations have significantly more revenue sources than do those with other mandates.

Table 3: ANOVA results for number of revenue sources by mandate of the organization

MANDATE OF ORGANIZATION	MEAN NUMBER OF REVENUE SOURCES
Education/advocacy	4.96
Social and community services	5.36
Health services	5.50
ANOVA Results: F=3.668 df=2, 642 p=.026	

Health organizations are just as likely as other organizations to receive 80% of their funding from government (social services - 34%; health - 38%; education/advocacy - 36%). However, health organizations are significantly more likely than other organizations to attract funding from foundations (p=.060), corporations (p=.025) and individuals (p=.064). This suggests that organizations that focus on causes with a broad social appeal are more able to elicit funds from a variety of sources than are social service organizations that deal with marginalized members of society and education/advocacy agencies that promote causes that may be a focus for only a small segment of society or a special interest group.

Hypothesis 4: Organizations run by women will have fewer sources of revenue than organizations not run by women.

This hypothesis expands the work conducted on gender differences in for-profit organizations (Foster and Orser, 1994; Schein, 1975). As Table 4 indicates, there are significant differences in the number of revenue sources by leadership composition of the organization. Our hypothesis is supported in that women's organizations report fewer sources of revenue than do "other" organizations.

Table 4: ANOVA results for total number of revenue sources by leadership composition of organization

Leadership composition of the organization	Mean number of revenue sources
Non-NAC	4.91
NAC	5.05
Other	5.63
ANOVA Results: F=9.739 df=2,642 p=.000	

Overall, most organizations (54%) in our sample have been diversifying funding sources over the past two years. One of the reasons for lower levels of diversification among women's organizations may be related to the strategic challenge presented by increasing the number of funders. A significantly higher proportion of women's organizations (NAC - 56%; Non-NAC - 37%) report receiving 80% or more of their funding from one source, the government, when compared to "other" organizations (24%). This suggests that "other" organizations may have an advantage over the women's organizations; namely, more experience in this type of fundraising and more skilled staff to undertake this type of activity. In order to reach the level of "other" organizations in funding diversification, women's organizations may need to shift attitudes about potential funders. Women's organizations were significantly more likely than "others" to feel that the needs of their clients were not a funder's priority (p=.000). As Table 5 shows, these philosophical differences between women's organizations and their funders may be reflected in their ability to access funds from specific sources. Women's organizations are significantly less likely to receive funds from corporations, members/users fees, special events and sale of goods than are other organizations.

Table 5: Percent of organizations reporting funding sources as major or minor contributors by leadership composition of the organization (n=645)

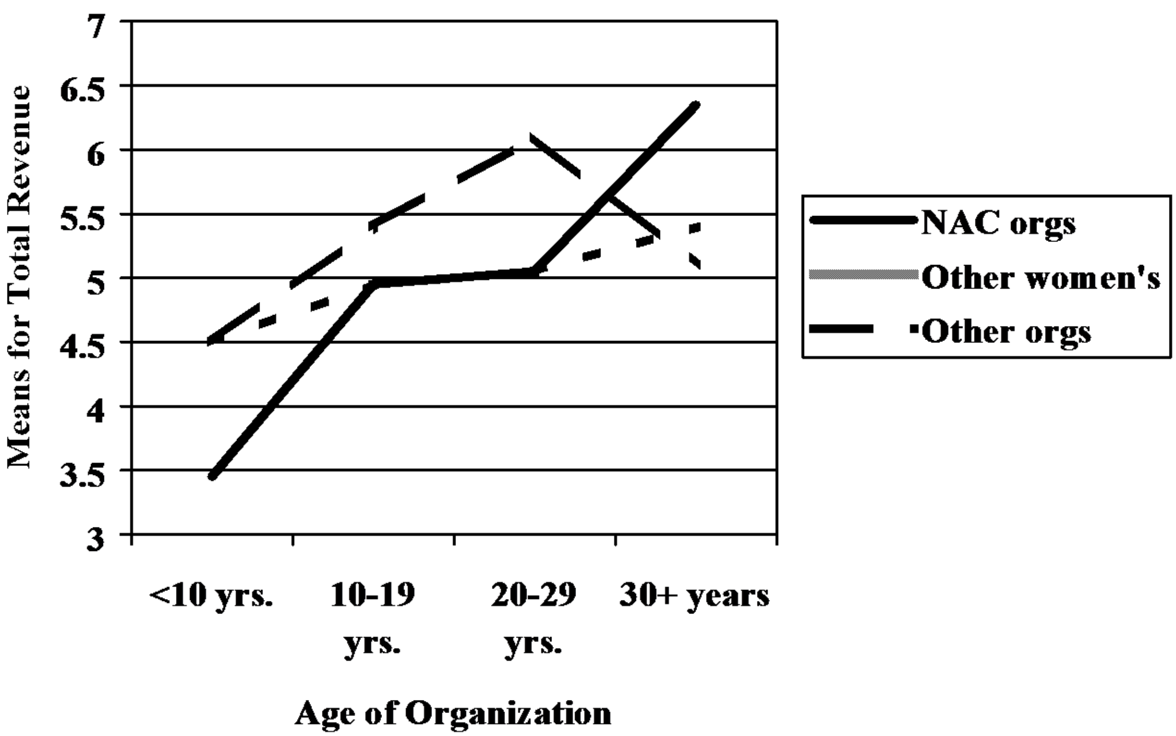
FUNDING SOURCE	NAC	NON-NAC	OTHER	SIGNIFICANCE
United Way	36	34	42	NS
Foundations	53	43	59	0.036
Corporations	53	62	70	0.000
Individuals	87	78	86	0.001
Members/user fees	53	56	67	0.000
Special events	71	73	78	0.004
Sales of goods	41	43	60	0.000

Bradshaw and her colleagues (1996) found that women's organizations found it more difficult to attract corporate donations because the causes they championed were less likely to be aligned with the social priorities identified by corporations. Corporations are also less likely to support organizations involved in controversial causes because of their concern about the reaction of customers and shareholders (DiMaggio, 1986a; Powell and Friedkin, 1986; Useem, 1987). The fact that 41% of the NAC organizations report being involved in education and advocacy may account for their having the lowest level of corporate support among the three types of organizations. "Other" organizations are significantly more likely than women's organizations to report working more closely with corporations over the past two years (p=.001).

We also note differences between women's and other organizations in their propensity to get revenue from sales of goods. As Weisbrod (1998) observed, voluntary organizations are becoming more dependent on commercial ventures to support their ongoing operating costs. Many voluntary organizations like commercial ventures because they provide greater flexibility and autonomy than do traditional funding sources which may have stringent reporting procedures and requirements (Froelich, 1999). In order to make these commercial ventures successful, voluntary organizations require the business expertise within the staff and/or on the board to manage these activities. Di Maggio (1986b) and Adams and Perlmutter (1991) both note the increased number of members with finance and marketing backgrounds on boards replacing those with traditional social service backgrounds. In our sample, half of "other" organizations want to recruit board members with business skills, which is significantly more (p=.056) than women's organizations (41%).

In order to understand these relationships more fully, we also ran multivariate ANOVA to control for the effects of the various independent variables on number of revenue sources. When all the variables were entered together, the Levene statistic testing for equality of variances was significant, indicating unequal variances. Next, we ran controls in stages and found that the problem was when both mandate and size were included together. Finally, we ran controls separately once with the variables organizational composition, age and mandate; and again with the variables organizational composition, age and size. In the control run with mandate, all variables maintained their significance: organizational composition (p=.063); age of organization (p=.000); and mandate (p=.003), and there were no significant interactions. However, when controlling for size, composition and age, the main effect of organizational composition was not sustained (F=1.16; df = 2,640; p=.315) and a significant interaction between organizational composition and age was found (F=2.38; df=6,640; p=.028).

Figure 3: Marginal Means of Total Revenue by Age of Organization for Each Type of Organization



As Figure 3 illustrates, NAC organizations less than 10 years old have between three and four sources of revenue on average, which is below the 4-5 average of Non-NAC and other organizations. On the other hand, NAC organizations in existence for 30 or more years have between 6 and 7 sources of revenue, which is well above the average of about 5 sources of revenue for Non-NAC and other organizations.

Older NAC organizations (30+ years) appear to be a special subgroup within the NAC population. They are significantly more likely than younger NAC organizations (<30 years) to obtain funding from corporations (p=.021), from member/user fees (p=.000), from special events (p=.043) and from sale of goods (p=.008). For NAC organizations, there were no significant differences among age groups for funding from United Way, foundations or individual sources. Obtaining corporate donors may in fact be the bellweather of legitimacy for women's organizations. While only 29% of young NAC organizations (<10 years) were able to attract corporate donors, 69% of the older NAC organizations (30+ years) were successful getting funds from this source. The older NAC organizations are not only different from younger NAC organizations, but they are also different from older "other" organizations. The older NAC organizations are significantly more likely to report revenue from the United Way (p=.064) and from Foundations (p=.004) than are the "other" organizations. While "other" organizations still have significantly more corporate donations (p=.061), the gap is narrower than it is with younger NAC organizations. Among older NAC organizations, 69% compared to 77% of "other" organizations (30+) report receiving funds from this corporate sources. Older NAC organizations are also significantly more likely (p=.007) than "other" organizations to have a social services mandate (77% vs. 63%). The finding suggests that length of time in operation can be a mitigating factor in decreasing the difficulty women's organizations have attracting corporate donors because their causes are not a priority (Riordan, 2000; Bradshaw et al., 1996; Useem, 1987). Further, older women's organizations are more likely to seek visibility and recognition through member/user fees, special events and sale of goods. These type of activities often require a track record and community visibility, which younger organizations have not had time to acquire (Stinchcombe, 1965). In addition, older NAC organizations have had more time to learn about and conform to stakeholder's beliefs and norms, which makes them seem more legitimate and worthy of support (Meyer and Rowan, 1997). Finally, older NAC organizations may be particularly successful with the United Way and foundations because their criteria for support are less cause related and more outcome and productivity focused.

<u>Hypothesis 5: There will be a positive correlation between revenue diversification and total revenue.</u>

Although some data anomalies exist in previous research, most of the work confirms that number of revenue sources and financial viability have a positive relationship (Chang and

Tuckman, 1994). For the purposes of this hypothesis, we defined financial viability as total revenue. Interestingly, diversification does not appear related to total revenue in that more sources do not necessarily result in more total revenue. The correlation between these two variables explained less than 1% of the variance. However, we do find a relationship between the number of funding sources and total revenue when controlling for leadership composition of the organization.

As Table 6 shows, for women's organizations (NAC and non-NAC), the more diversified the funding sources, the higher are the total revenues. This is not the case for "other" organizations. Likewise, we found no relationship between diversification and total revenue for the age or organizational mandate variables. Because the categories for size of organization were based on reported revenue, it was not appropriate to correlate two versions of the same variable. Although in general, there is less diversification among women's organizations when compared to "other" organizations, those who diversify get a bigger payoff. Although more "other" organizations diversify, they get less payoff in terms of total dollar revenues.

Table 6: Regression results for number of revenue sources and funding sources controlling for leadership composition of the organization

CATEGORY	n	F	df	beta	SIGNIFICANCE
NAC	165	16.891	1164	0.306	0.000
Non-NAC	182	8.59	1181	0.213	0.004
Other	293	1.612	1292	-0.074	0.205

One of the disadvantages of diversification is the increase in administrative work in order to meet the different reporting and performance requirements of individual funders (DiMaggio, 1986b; Gronberg, 1992, 1993; Powell and Friedkin, 1986; Tuckman, 1998). Women's organizations, especially NAC (81%) are already feeling the increased funder demands for accountability. This is significantly more (p=.007) than non-NAC (64%) and "other" organizations (69%) which may also be a reflection of differences in experience and staffing levels

It is likely that the motivation for diversification involves a combination of increased demand for services from client groups (73%), an increased sense of vulnerability (57%), and the need to cover service areas previously covered by other agencies (42%). It is the devolution of government programs to the voluntary sector, not cutbacks in funding that appears to be a stronger instigator for organizations to seek a variety of funding sources.

As Table 7 shows, organizations that believe their revenue has increased or decreased are more likely to report more funding sources than those who perceive their revenue to have remained static. Those who feel the threat of the external environmental changes are working to reduce their resource dependency on a few funders. Those who perceive that their revenues have increased may attribute that increase to their ability to attract additional funders.

Table 7: ANOVA results for number of revenue sources by trend in overall revenue

TREND IN OVERALL REVENUE	MEAN NUMBER OF REVENUE SOURCES
Decreased	5.17
Stayed the same	4.90
Increased	5.65
ANOVA Results: F=10.013 df=2,635 p=.000	

Summary and Conclusions

Successive budgets from the federal and provincial governments have reduced support for the voluntary sector by reducing grants to individual agencies and by downloading responsibility for services previously provided by government programs to the sector. In order to deal with the funding gap and increased service demands, we predicted that organizations would try to diversify their funding sources in order to increase total revenues. What we discovered in our analysis is that the extent of diversification depends on age, size, mandate and leadership composition of the organization; and that diversification is not related to higher revenues except for organizations run by women.

Younger organizations have fewer funding sources than older organizations in part because they have not been around long enough to develop profile and credibility. Without external legitimacy, it is more difficult to attract funders. The implication is that before younger organizations can adopt a revenue diversification strategy, they must first focus on establishing a track record of success so that potential donors will view them as stable, credible and worthy of support.

Smaller organizations are likely to have significantly fewer funding sources than either medium- or large-sized organizations. This may be related to the capacity of larger organizations to pursue alternative strategies, and their higher recognition levels within the community, which may make them more attractive to donors.

This analysis also shows that organizations with a broad appeal, that is, those whose mandate resonates with many segments of the population, are more successful in implementing a revenue diversification strategy than are those with narrower mandates. Social service and education/advocacy organizations may be advised to seek increased revenue sources through a strategy focused on specific niches of funders already aligned with their causes rather than implementing a mass market strategy.

Finally, this investigation found that organizations run by women have a different experience with revenue diversification than do organizations not run by women. As Bradshaw and her colleagues (1996) point out, historically women's organizations are not supported to the same level as others in part because of the causes with which they are associated. This, in turn, means that women's organizations have not had the same opportunity to develop experience and expertise in accessing funds from diverse sources. Despite these disadvantages, the data show a significant relationship for women's organizations between number of sources and total revenue. For other organizations there was no significant relationship between these two variables. This suggests that once women's organizations access additional sources of revenue, the costs of marketing and administration associated with this effort are more than compensated for by increased revenue. As a result, women's organizations may want to deliberately allocate resources to fundraising efforts because the outcome of such diversification is so positive.

In addition, these results suggest that older women's organizations are a special subgroup. Their actions and outcomes do not match either those of younger women's organizations, or those of older "other" organizations. While the data show that these older NAC organizations have been quite successful in attracting corporate donors, it seems unlikely that they will ever reach the level of support of the "other" organizations because the causes they represent are not as attractive or broadly supported. On the other hand, these organizations have been very successful in establishing their legitimacy with traditional funders because support from the United Way and Foundations may be more tied to meeting program and service delivery objectives, than choosing one cause over another. Further research on subgroups within women's organizations would provide useful insights into the interaction between structural and demographic variables.

These results have implications for both scholars studying the voluntary sector and for the organizations themselves. First, this study confirms the appropriateness of using resource dependence as a theoretical framework for the voluntary sector. As Abzug (1999) found in her review of management and sociological literature, only one-third of studies applying Pfeffer and Salancik's theory (1978) did so for the for-profit sector only. She also points out that Pfeffer and

Salancik relied on their own research with nonprofit and public hospital boards to develop some of the precepts of their theory.

Second, the information provides additional information about the strategies being undertaken in the face of government cutbacks. These results demonstrate that voluntary organizations in Canada have embraced revenue diversification strategies in order to support program delivery. Devolution has put tremendous pressure on the sector to deliver services that were previously part of the government's mandate. Although higher revenues may be the outcome, it is not without costs. In order to acquire this new revenue, precious staff resources may be diverted from program delivery into fundraising activities.

Finally, as our study indicates, organizations have to custom-design a revenue generating strategy for themselves. They must choose where and how to focus their efforts based on the size of their organization, whether it is run by women or not, whether it is a relatively new organization or one with a long history and track record and whether its mandate has a broad or narrow appeal.

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1. The terms "voluntary" and "nonprofit" are used interchangeably throughout this paper.
2. The variables related to revenue diversification are part of a much larger data set that contains information from 645 voluntary organizations in Canada on current attitudes and actions and future intentions for a range of topics. Information from other variables in this data set is used to enhance our understanding of the determinants of revenue diversification.