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Strategic Positioning and the Financing of Nonprofit Organizations: Is Efficiency Rewarded in the Contributions Marketplace?

This article addresses the question of whether operational efficiency is recognized and rewarded by the private funders that support nonprofit organizations in fields ranging from education to social service to arts and beyond. Looking at the administrative efficiency and fundraising results of a large sample of nonprofit organizations over an 11-year period, we find that nonprofits that position themselves as cost efficient—reporting low administrative to total expense ratios—fared no better over time than less efficient appearing organizations in the market for individual, foundation, and corporate contributions. From this analysis, we suggest that economizing may not always be the best strategy in the nonprofit sector.

Today, the nonprofit sector plays an increasingly important role in the provision of vital services in fields such as health, social services, and education. The size of the nonprofit sector has increased rapidly over the past 60 years from a little more than 12,000 organizations in 1940 to over 1.5 million organizations today (Boris 1999). This sector includes 501(c)(3) public-serving nonprofits that are organized for religious, educational, charitable, and scientific purposes, as well as a host of member-serving nonprofits, such as business leagues, social clubs, and labor associations (Bowen et al. 1994). While the sector has grown quickly, serious questions have arisen in recent years about the funding and management of these organizations, particularly the public-serving nonprofits whose supporters are entitled to a tax deduction for their contributions. In response to contributors' concerns following a series of highly publicized financial scandals at nationally prominent charities, the field of nonprofit management has quietly undergone a period of self-examination aimed at bringing greater financial controls and tighter operations to the sector (Bryson 1995; Kearns 1996; Letts, Ryan, and Grossman 1999; Pappas 1995).[1] Reforms in the way nonprofit organizations operate have been aimed at reassuring the public that contributions are being wisely applied to the core charitable missions of these organizations.

The rapid rise in the number of nonprofits seeking a piece of the limited amount of charitable contributions has increased competition within the sector and made it harder for many of these organizations to achieve long term financial stability. Charitable nonprofits raise funds through two principal means (Hansmann 1980). The first is through the charging of fees for the delivery of services or the creation of commercial ventures designed to generate a stream of earned income. Over the past two decades, these commercial forms of revenue represent a critical source of operating funds that has given nonprofits the ability to launch and sustain initiatives by having clients and consumers pay for part or all of the cost of delivering services (Weisbrod 1999). The second way nonprofits support their operation is through donations and grants. By emphasizing the public-serving nature of their work, many donative nonprofit service providers are able to elicit a stream of contribu-

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tions that provides critical revenue for operations (Gronbjerg 1993). For organizations that work with disadvantaged populations or that seek to provide a service for free or at a subsidized price, contributed income is often a critical ingredient in their financial strategy. Today, there are few entirely donative or entirely commercial nonprofit organizations. In the face of a tight market for contributions, many nonprofits attempt to alter and diversify their funding bases from a predominant reliance on contributions toward a more balanced approach that includes earned income. All the while, there remains a significant ongoing need for contributed income to fund those activities that are part of the mission of a nonprofit organization but not easily supported by client payments.

Against the backdrop of these financial pressures, we examine the factors that drive charitable contributions to nonprofit organizations. Because nonprofits have received a great deal of advice on how to manage their operations efficiently, we are interested in the question of whether strategic positioning around efficiency, defined as the reporting of a below average administrative to total expense ratio, increases the contributed income that a nonprofit organization is able to raise over time. Beyond the need to build legitimacy and donor confidence, which may underlie the new bottom-line movement in the nonprofit sector, there has been much talk about the growing sophistication of philanthropy as evidenced in the expectation of donors that their contributions be well-spent. This research asks how much reality lies behind this new rhetoric and whether the funders of nonprofit organizations have indeed begun to take more seriously the efficiency of the organizations they support. Thus, while the efficient management of nonprofit organizations may serve a range of purposes, we are interested here in whether it has an impact on an organization's ability to attract public support as measured by contributed income.

The article moves toward an answer in five steps. First, we set the stage by considering the background issues and previous research related to this question. Second, we define the research hypotheses that guided our work. Third, we describe our data and methodology. Fourth, we present our results and analyze the findings. Finally, we conclude with some broader reflections on the question of nonprofit management and accountability.

Background and Literature Review

To date, research on the private funding of the nonprofit sector has tended to focus on donor motivations. Starting with the question of what determines the amount of giving, many studies have looked at the sensitivity of contributions to various changes in the funding environment. The goal of this work has been to explain donor decisions and to do so almost always without taking into consideration the activity of the recipient organizations. Studies of individual charitable contributions have modeled donations as a function of disposable income and the "price" of giving to a nonprofit (Clotfelter 1985) or the "price" of obtaining a dollar of charitable output from a nonprofit (Steinberg 1986; Weisbrod and Dominguez 1986). In the field of corporate contributions, the impact of taxation on giving has also been studied, though the results are more mixed (Navarro 1988). Studies of the giving patterns of private foundations have focused on the multiple roles and responsibilities that frame the strategic decisions that foundations make about how to use their resources (McIlnay 1998). In these and other cases, modeling and theorizing have tended to treat the contributions process from a perspective in which the donor is actively involved in weighing alternatives and the recipient is a passive vessel of benevolence.

Another important line of inquiry is the relationship between other sources of nonprofit revenue and private donations. Specifically, this research addresses whether government grants and contracts "crowd out" charitable contributions (Brooks 2000; Kingma 1989; Okten and Weisbrod 2000; Steinberg 1993). The findings are mixed, however, across various subsectors and geographic regions with some studies finding evidence of a partial "crowd out" effect and other studies finding opposite evidence of a partial "crowd in" effect. Nonetheless, the thrust of this literature has been to evaluate the responsiveness of various revenue streams without explicitly taking into account the actions of the nonprofit itself.

We start with a different set of concerns and assumptions about contributions to the nonprofit sector. Rather than begin with the question of what determines the amount of contributions made by supporters of nonprofit organizations, we draw on a different research tradition; one that starts with the role of information asymmetry (Akerlof 1970) in the market for charitable contributions and moves to the question of what determines the fundraising success of nonprofits (Kelly 1997). Far from being bystanders to the deliberative process of donors, nonprofit organizations are, in fact, actively engaged in courting supporters by signaling the importance of their mission and the efficiency of their operations (Kim 1999). This strategic positioning is a critical part of the giving process since it determines what information reaches donors as they make their decisions on where to direct their funds. The most basic form of positioning is around mission. Nonprofits define themselves around the causes they are established to serve, which they hope the public views as important enough to support through both volunteering and charitable giving. As the public shifts its attention to issues ranging from homelessness to early childhood education to famine relief, different sectors of the charitable market benefit from successive surges of public support. Because an organization's mission is not usually subject to quick or radical change, maintaining financial support over long periods of time can be a difficult task. Donors are notorious for experiencing "compassion fatigue," as the demand for charitable resources for what seems like an endless range of causes marches on and on. Over the past two decades, there has been a conscious effort to change some of the dynamics of the contributions market and to help nonprofits find a dimension other than mission on which to position themselves, namely managerial and administrative efficiency. This has led to an explosion of handbooks and management manuals designed to give nonprofit leaders tools to improve their operations (Light 2000).[2]

On a daily basis, many nonprofit managers are confronted with a long list of challenges, including staff turnover, unreliable volunteers, difficult clients, and demanding funders. As a consequence, the successful nonprofit manager must constantly work to find ways to sustain the myriad of complex personal relationships that together allow a nonprofit organization to pursue its mission. While all nonprofits would like to develop long-term organizational plans and improve management practices, a harried agency director may, more often than not, be drawn to focus on the more immediate objective of simply making it through the day and keeping the organization afloat. Of course, some well-funded nonprofits are free from these mundane constraints, but many organizations, particularly community-based service agencies, struggle mightily simply to keep their programs functioning. Funders are increasingly selective in their awarding of gifts and grants to nonprofits. Underfinanced and duplicative nonprofit organizations must now contend with the inability of private funders to finance completely the explosive growth of this sector. One consequence of this development is the rise in nonprofit bankruptcies and closings (Hager et al. 1996). What then is a nonprofit organization to do?

A popular response in the literature is for nonprofit organizations to manage themselves better and more efficiently in the new competitive and performance-driven world they now face. Improving management is seen both as a way of raising operational effectiveness and as a method of reducing costs. Dozens of books aim to help nonprofit practitioners improve their organizations and manage more effectively and efficiently (Antos and Brimson 1994; Dropkin and LaTouche 1998; Drucker 1992; Eadie and Schrader 1997; Firstenberg 1996; Pynes and Schrader 1997; Wolf 1990). Many of these titles attempt to bring business concepts such as reengineering, quality management, and benchmarking to bear on the nonprofit sector, usually with the intent of raising the level of organizational and program performance. A common theme that emerges from these texts is that the absence of a traditional bottom line in the nonprofit sector—far from freeing nonprofits to blindly pursue their missions—means that these organizations must manage themselves especially well and develop a special kind of operational discipline. Though rarely expressed directly, these books suggest that a management lag between the nonprofit and private sectors can be closed with a direct transfer of managerial knowledge and technology.

In large part, the push toward efficiency and performance is fueled by the rapid professionalization of many parts of the nonprofit sector over the past three decades (Frumkin 1998). Professional staffs want to bring a new rigor to their work and develop standards to measure their performance, both as the basis for their own advancement within the field and in an effort to build a growing body of expert knowledge. For these professionals, the techniques of reengineering processes, quality management systems, and benchmarking are appealing because they hold out the promise of supporting and justifying the move from volunteer labor to well-compensated professional staffs. With their desire to avoid the charges of amateurism that have plagued this sector in the past, the growing ranks of nonprofit professionals have turned out to be the perfect audience for claims that cost effectiveness represents the new frontier of nonprofit management.

As professionalism has set in, competition for contributed income has intensified, particularly among start-up organizations. Many nonprofit managers confront the fact that there are often several nonprofit organizations with similar missions operating in close proximity with little coordination. In some fields, the competition is quite heated. In the case of international relief organizations, differentiation around overhead costs and programmatic efficiency is now commonplace. Realizing that individual donors to famine relief would, all things considered, prefer to see their funds reach those in need at the lowest cost possible, many relief agencies compete for the distinction of having the lowest administrative and overhead costs. Moreover, this competition is encouraged by the media, which regularly publishes (particularly around the holidays) ratings of charities designed to lead donors towards lean and well-run organizations. Under such conditions, it appears that few managers can afford to ignore the question of cost efficiency, measured most often in terms of the ratio of administrative to total expenses. Of course, the categorization of costs as either administrative or programmatic is a subject of considerable dispute and few industry standards exist in practice (Wilson, Hay, and Kattelus 1999). As a result, the pressure for nonprofits to position themselves around efficiency only intensifies because challenging such claims is so difficult.

At the same time, foundations and corporations are increasingly tough-minded in their dealings with nonprofit organizations (Freund 1996). Within institutional philanthropy, there is a move to secure greater levels of control over the entire grantmaking process. The most visible manifestation of this shift is the rise of project grants, which now outnumber general operating grants by a ratio of close to three to one (Foundation Center 1998). Individual contributors, who together donate more than foundations and corporations combined, are also more aggressive in the way they conduct their philanthropy. Although many small contributions are made on a wish and a prayer, donors of large contributions regularly seek more information before making any commitments and then demand greater involvement and engagement with the organizations they support (Miller 1997).

For nonprofits, changes in the way large institutional contributions are made means more fundraising work and more post-grant work as well. To satisfy these grant makers, nonprofit organizations must now—at a minimum—specify in great detail how funds will be spent, discuss their plans with foundation staff, submit to a site visit, write a project narrative, and provide a financial report. The greater level of oversight and heightened emphasis on effectiveness and efficiency necessitates the recruitment and training of program staff, who know not only how to provide services but also how to handle donors and the new rigors of securing contributed income. These changes have led to an even greater emphasis on fundraising skills within the sector and to the rising salaries of development professionals (Duronio 1997).

There are currently significant limits to the ability of the contributions market to absorb and use information, however. Although many nonprofits are required to file on an annual basis a financial disclosure form with the Internal Revenue Service and then make this information available to the public upon demand, it remains unclear how well this information shapes the contributions decisions of many donors (Chisolm 1995). Foundations and corporations routinely scrutinize audited financial statements and public reporting forms, but small individual contributors rarely inquire in any depth into an organization's finances. In addition, there is considerable concern about the accuracy of the information detailed on the financial disclosure forms because the reporting categories are often vague and audits of nonprofit organizations are increasingly rare. The IRS only has a small enforcement office for nonprofits and it struggles to keep up with the explosive growth of the sector (Gaul and Borowski 1993; Greene and Williams 1995). Still, the information contained on the reporting forms can help us understand how many nonprofit organizations present themselves to the public. This public disclosure of information represents an organization's most visible statement of its financial condition and managerial priorities.

Research Hypotheses

The new language of charitable giving speaks of "social investments" rather than grants and "social return on investment" rather than stewardship (Emerson 1996). The question that remains to be answered is whether the changes that have swept across the funding landscape reflect a new rhetoric for philanthropy or whether these changes have transformed the contributions market into one where the business of benevolence takes seriously the performance of recipient organizations. A good way to address this question is to look at nonprofit organizations to see whether those that follow the growing literature on nonprofit management and tighten their operations are rewarded with greater levels of contributed income.

Therefore, the first hypothesis we test reflects the position that efficiency matters to donors and that it is recognized and rewarded in the market for contributions. H1 incorporates the underlying assumptions of the new literature on nonprofit management and the push towards greater attention to the bottom line within nonprofit organizations.

> H1: Nonprofit organizations that report low administrative to total expense ratios and that appear efficiently managed will have more success raising contributed income than organizations that report higher expense ratios.

The second hypothesis we test rests on the assumptions held by some practitioners that competition for contributions does not take place in a well-functioning market where information about nonprofit performance is scrutinized and where efficiency is rewarded. Instead, H2 argues that the best predictor of an organization's success in soliciting contributions is the amount of money that the organization spends selling itself and its mission to donors in every way imaginable, from face-to-face solicitation of major gifts to mass-mail appeals to small contributors.[3] This hypothesis tests the claim that what matters most to donors is *not* how well a nonprofit is run from a managerial point of view or how efficiently it marshals resources to accomplish its goals, but rather how well it sells itself to the public. H2 affirms that philanthropy may have developed an impressive business-based lexicon, but the majority of giving remains idiosyncratic and emotive.

> H2: Nonprofit organizations that spend more on fundraising or marketing will have more success raising contributed income than organizations that spend less on fundraising or marketing.

By testing these two opposing propositions, our goal is to understand whether strategic positioning around operational efficiency is rewarded by donors or whether effective mission marketing ultimately drives charitable giving to nonprofit organizations.

Data and Methodology

The data for this analysis is drawn from information provided to the IRS by nonprofit organizations that are required to file a Form 990 information return (Return of Organization Exempt From Income Tax). The data set covers the period 1985–95. Although nonprofit organizations are generally exempt from paying income tax, they must nonetheless file an annual return with the IRS reporting detailed financial and other activity for the year. Three important categories of nonprofit organizations are not required to file a Form 990 information return: religious organizations, private foundations (which must file a different form), and nonprofit organizations with gross receipts less than $25,000.

In order to qualify for tax-exempt status under section 501(c)(3) of the Internal Revenue Code, the primary mission of the organization must be charitable, religious, scientific, literary, educational, or promote public safety, prevent cruelty to children or animals, or foster amateur sports competition. Operating under this broad umbrella of exempt purposes that has been amended and extended over the years, nonprofit organizations not only enjoy the benefits of income tax exemption but also donors are entitled to deduct charitable contributions from their income tax returns. Yet each nonprofit organization must serve the public good as opposed to private gain in order to maintain exempt status. Thus, exempt organizations may not distribute their net earnings (for example, profits) to shareholders or other individuals but rather must use them to further the mission of the organization.

Sample Selection

Following common practices in setting up a panel study, our sample consists of only those nonprofit organizations appearing in each panel year. This balanced panel consists of 2,359 nonprofit organizations, yielding a total of 25,949 observations. This panel constitutes a stratified random sample of the universe of nonprofit organizations that are required to file an IRS Form 990 information return. The IRS adopts a stratified sampling approach in which the sample is classified into five strata based upon total asset size with each stratum being sampled at a different rate (IRS 1991, 1993).

Dependent Variable

The dependent variable in our model is *private donations* in a given tax year. Some researchers have cautioned, however, that a potential problem may exist because of the confusion of nonprofit managers over the various contribution categories of the IRS Form 990 (Froelich 1997; Froelich and Knoepfle 1996). To account for this possibility, we perform a separate analysis of our model using *total contributions* as the dependent variable. We report our results in the following section. A natural logarithm transformation of both variables was used in the regression analysis.

Independent Variable

The independent variable in our model, *efficiency*, measures the ratio of administrative expenses to total expenses in a given tax year. This is the most common way to measure administrative efficiency in nonprofits. It is a measure that is sometimes employed by auditors and accreditors to compare the operations of organizations with similar missions, with the goal of determining which organizations have the leanest operations. In our model, this variable is employed to measure differences in operational efficiency among nonprofits working in common subsectors as defined by the National Taxonomy of Exempt Entities (NTEE). Our model includes the following major category groups of the NTEE: arts, education, health, human service,[4] public benefit,[5] and other.[6] By measuring efficiency within subsectors and determining if it is a good predictor of contributions, we take the first step toward testing our two hypotheses. In order to address potential issues of simultaneity, we use the lagged value of efficiency in our model.

Control Variables

The following four variables were included as controls in the regression analysis: (1) *program expenditures* or the amount of money dedicated to service delivery or core mission-related work, (2) *fundraising expenditures* or the amount of money spent on marketing, (3) *total revenue* or the amount of money flowing into the organization each year from all sources, and (4) *government grants and contracts* or the amount of money flowing into the organization each year specifically from government sources. A natural logarithm transformation was performed on each independent variable in order to facilitate the analysis. As with our independent variable, we use the lagged value of each control variable in our model to address potential issues of simultaneity.

Model Specification

A simple pooled cross section time series model that is estimated using ordinary least squares (OLS) will not yield consistent coefficient estimates if unobserved firm-specific characteristics have a unique but constant impact upon charitable contributions. In this case, the simple pooled model will suffer from omitted variable bias. Moreover, diagnostics performed on the sample reveal the presence of first-order serial correlation.[7] We correct for these problems by using a general least squares (GLS) estimator.

Results and Analysis

We began this investigation with the question of whether efficiency—reflected in below average administrative to total expenses—helped nonprofit organizations in the marketplace for contributions. We looked at the influence of efficiency on contributions within the major fields of activity that nonprofits populate. Accordingly, we sorted organizations by their areas of activity (such as arts, health, education, human service, public benefit, and other) and then asked whether being more efficient than the competition in one's own field yielded greater levels of contributions. Our belief is that few donors make their charitable giving decisions by comparing, for example, a museum to a hospital. Instead, we believe that donors are more likely to compare one nonprofit day-care center against another nonprofit day-care center.

Table 1 reports descriptive statistics for the entire sample including the means, standard deviations, and pooled correlation matrix for all 11-panel years of data. Table 2 presents the results of our regression model. The results of our analysis indicate that reporting low administrative to total expense ratios and positioning an organization as efficient does not lead to greater success in garnering contributions. In none of the six fields of activity did we observe a statistically significant effect of efficiency on contributions.

What then did drive contributions? One variable, the lagged log of fundraising expenditures, was statistically significant at the 0.001 level across five out of the six subsectors in our model and at the 0.01 level in the sixth. Given the fact that efficiency positioning did not appear to be a factor in determining the level of contributions received, these are intriguing and substantively significant findings. They suggest that nonprofit organizations that spend more marketing themselves to the donating public do better at raising contributed income than organizations focused upon leaner, more efficient operations. No matter the field of activity, positioning around mission positively influenced the flow of contributions. These results strongly support the second of the two hypotheses we defined earlier.[8]

With R-Squares ranging from 0.13 to 0.44, our models did only moderately well in predicting contributions. Still, in order to assure ourselves that concerns over errors in the completion of the 990 Form might have skewed our results, we did a sensitivity analysis. On the assumption that nonprofit managers may not fully understand the various reporting categories of contributions, we estimated another version of our model using total contributions as the dependent variable. A general pattern emerged in these results with the coefficient estimates similar in both sign and magnitude to our original model, which suggests that any problematic Form 990 filers do not pose a threat to our analysis.[9]

We believe that the results of the analysis are important for two reasons. First, they cast doubt upon the wisdom, at least in part, of the growing tidal wave of advice that non-

Table 1 Descriptive Statistics and Pooled Correlation Matrix

Variable	Mean	Std. dev.	1	2	3	4	5
1. Log of contributions	10.76	5.75					
2. Efficiency*	0.17	0.17	–0.04				
3. Log of program expenses*	16.20	2.81	0.17	–0.53			
4. Log of fundraising expenses*	5.37	6.37	0.55	–0.05	0.11		
5. Log of total revenue*	16.79	1.91	0.17	–0.14	0.77	0.11	
6. Log of government grants and contracts*	5.51	6.87	0.31	–0.04	0.22	0.35	0.24

*Lagged values of these variables were used in the regression analysis.

Table 2 Regression Models of the Log of Contributions

	Industry Subsector					
Independent Variables	Arts	Education	Health	Human service	Public benefit	Other
Lagged efficiency	0.937	0.745	0.567	0.863	–0.387	–0.615
	(0.565)	(0.404)	(0.459)	(0.603)	(0.956)	(0.989)
Lagged log of program expenses	0.058	0.304***	0.046	0.049	0.085	0.071
	(0.061)	(0.050)	(0.036)	(0.047)	(0.076)	(0.082)
Lagged log of fundraising expenses	0.054**	0.064***	0.108***	0.110***	0.109***	0.173***
	(0.021)	(0.010)	(0.013)	(0.019)	(0.028)	(0.043)
Lagged log of total revenue	0.118	0.150*	-0.016	0.497***	0.091	–0.108
	(0.101)	(0.070)	(0.078)	(0.094)	(0.118)	(0.136)
Lagged log of government grants and contracts	0.028	0.005	0.055***	0.044**	0.014	0.042
	(0.015)	(0.009)	(0.010)	(0.016)	(0.021)	(.038)
Constant	9.854	5.072	8.335	0.294	7.501	10.14
	(1.618)	(1.090)	(1.184)	(1.311)	(2.147)	(2.305)
Observations	1,130	6,250	10,380	3,350	1,600	880
Adjusted R^2	0.44	0.36	0.13	0.15	0.16	0.16

Standard errors in parentheses.
* $p < .05$; ** $p < .01$; *** $p < .001$.

profit organizations are receiving from the new literature on nonprofit management. While tighter operations, leaner staffing, and other tools designed to lower administrative costs might well increase margins on earned or commercial income within some nonprofits, such steps appear not to impress or influence contributors. Second, the results in our model, particularly the significance of fundraising expenses, indicate that when the more donative nonprofits carry their message to funders aggressively, they often reap rewards in the form of higher contribution levels. Our findings suggest that giving may still be driven more by donor identification with organizations than by economizing and positioning based on low administrative expense ratios.

In light of these conclusions, arguments about bringing a new bottom line to the nonprofit sector will need to be based on something other than a claim that donors recognize and reward efficiency by increasing contributions to lean organizations. It may be that efficiency is critical to ensuring that the commercial side of nonprofit operations maximizes earned income. Who after all could quarrel with the logic of a claim that organizations with lower overhead and administrative costs are in a better position to increase the revenue derived from fees for service and ventures? However, when it comes to attracting the critical contributed income on which many nonprofits rely to fuel their charitable activities, particularly services that are offered to disadvantaged populations, operational efficiency does not appear to be a critical consideration in the eyes of donors.

Discussion

Some will surely object that efficiency has been shortchanged in this analysis. After all, proper marketing, positioning, and fundraising strategy only assure that an organization has made its case to the public, not that an organization has a record of efficient operation that will ensure its survival in the competitive environment of the increasingly commercial nonprofit sector. More than anyone else, Williamson (1994) has voiced a clear objection to the emphasis on strategy in the broader management literature. Williamson has forcefully argued that excessive concern over strategy and positioning obscures the fact that efficiency remains a more critical factor to organizational success and that economizing is much more fundamental than strategizing. Williamson's point was that strategizing cannot carry the day if a program is burdened by significant cost excesses in production, distribution, or organization. His conclusion was simple and direct: "Economizing is more fundamental than strategizing—or, put differently ... economy is the best strategy. That is the central and unchanging message of the transaction cost economics perspective" (Williamson 1994, 362).

Although these strong words were directed at all firms that operate in competitive markets, it is not clear that they hold true for nonprofits operating in the contributions market. When nonprofits engage in fundraising to support their charitable missions and make appeals based on emotion and urgency rather than efficiency and effectiveness, the unchanging message of transaction cost economics appears in need of some modification, both as a positive and normative conclusion. In fact, the results of this analysis indicate that strategy, which in the nonprofit world means choosing a distinctive position rooted in systems of activities that are difficult to copy, may be a more viable approach to attracting the contributions on which many nonprofit organizations still critically depend.

The importance of strategy over economizing is evidenced in the fact that increased efficiency has often led to operational improvements in business firms, but rarely have these gains translated into sustained profitability (Porter 1996). Many large business firms have become locked into hypercompetition, with the search for efficiency only driving profit margins down and down. The move to tighten controls and improve operational systems has had the effect of creating a rising tide of mutually destructive competitive battles that damage the profitability of many companies. The irony of the situation is clear: as managers push to improve on all fronts, they move further away from viable competitive positions. As Porter has noted, operational effectiveness, although necessary to superior performance, is not sufficient because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in activities that are much more difficult to match. The economic basis of competitive advantage can thus be traced down to the level of the specific mix of activities within an organization and the fit of those activities with the market.

We believe this argument is strikingly relevant to the growing universe of nonprofit organizations. Today, many nonprofits face increasing competition and pressure as the financial needs of the sector expand faster than its revenue. For many nonprofits, the idea of economizing and lowering operational costs might appear appealing both as a way of making earned income go further and as a signal to donors that contributions will be used efficiently (Kim 1999). While such a conclusion might conceivably hold for the commercial side of nonprofit finance, our analysis suggests that donors do not reward economizing. Strategic positioning through the aggressive communication of mission is a more potent driver of contributions than maintaining efficient operations. We conclude therefore that the new literature on bottom-line nonprofit management may be giving practitioners useful tools for tightening their fee-based operations, but it does not appear to be helping nonprofits attract the contributions that remain essential to the ability of many organizations to carry out their charitable missions.

An additional word about the other side of the giving equation is also in order. While there has been much talk recently of an increasingly hard-nosed approach by the funders of nonprofit organizations, our analysis of a decade of funding data suggests that contributions remain for the most part unrelated to operational efficiency. In thinking about how and why efficiency does not affect donor decisions, it is reasonable to ask whether there is an adequate supply of information. The answer is unclear at present.[10] In fact, only within the past year has the IRS moved to put in place new disclosure requirements for nonprofit organizations. Nonprofits must now mail their Form 990 to any interested party or post it on the Internet. This marks a major change from the previous disclosure law, which only required that the forms be shown upon request in a charity's own offices. Few contributors ever made pilgrimages to see these forms and, therefore, the supply of information on the management of public charities was largely determined by what organizations chose to disclose in their annual reports.

Despite this recent reform, there is reason to believe that improvement in the quantity and quality of information supplied to donors will not be instantaneous. A study of Form 990 returns in 12 states, begun after the new disclosure regulations took effect in June of 1999, revealed that just 37 percent of nonprofits fulfilled information requests in a timely fashion and that 31 percent responded in ways coded as obfuscation—they referred survey takers to another office or required them to leave voicemail messages that were not returned (Stokeld 1999). The study concluded that many organizations appeared either to be following a long-established process, or to have no process at all, for responding to information requests. Whether the Form 990 will become an important source of information for donors in the future depends on several unknowns, including how quickly organizations communicate rule changes through their networks and how aggressively the IRS is perceived to be monitoring compliance. Still, it appears that government could do more to inform nonprofits of the rule change and to enforce disclosure requirements. This would require that government take an active role in simplifying the Form 990, communicating more directly with nonprofit organizations, and building a credible enforcement staff capable of letting nonprofits know that disclosure is a central responsibility.

There is at least one major development on the horizon that may help answer questions about the supply of information in this sector. A new nonprofit organization has been formed to disseminate financial information on nonprofits over the Internet. The project, known as Guidestar, is still in its early stages but promises to overcome at least part of the information problem. The Guidestar web site allows anyone to access the Form 990 financial data for a large number of nonprofit organizations. Information about operating expenses, administrative overhead, and fundraising costs are all available to potential contributors and volunteers alike. The goal of the project is to make research on nonprofits easier for the average donor by putting this data where it is easiest to access.

While Guidestar has promise, it needs to address a key obstacle: major gaps in what one might call the generally accepted accounting principles for nonprofits make it hard to ensure the accuracy of reported information. This is especially problematic given that Guidestar has also set up links to online giving programs. This feature allows contributors to look up information and then make pledges online very quickly. The obvious temptation for many charities will be to put their best foot forward and to engage in a kind of strategic "gaming" aimed at making themselves look as efficient as possible. With contributors' dollars hanging in the balance, Guidestar may well end up fueling a race to the bottom as charities use creative accounting techniques to control their image. None of these technical problems is insurmountable with a few modest reforms, including separating more clearly the reporting and fundraising functions of the service and developing a workable auditing system.

The problems associated with nonprofit accounting are significant enough to lead Herzlinger (1996) to argue that the only real solution to the accountability problem in the nonprofit sector may lie in the establishment of a Securities and Exchange Commission (SEC)-type organization that could ensure openness and disclosure as a way of regulation through information. The principal role of a "nonprofit SEC" would be to bring uniform accounting techniques to public charities, disseminate information on the financial condition of organizations, and create channels through which donors, volunteers, clients, and community members could access and use this information. Of course, this would be a far more complex proposition in the nonprofit sector, where lines of ownership are poorly defined and often overlapping, than in the private sector, where one group of owners (for example, shareholders) have a clear interest in receiving accurate information. For information to work as regulation and for Herzlinger's provocative idea of a nonprofit SEC to have an opportunity to succeed, a major transformation is needed not just in the kind of information that is made available, but also in the outlook of the many stakeholders of nonprofit organizations, including donors, clients, and the general public.

We believe that ambivalence about some of the recent developments bearing on nonprofit information may be wise. On the one hand, the availability of more information about the management and finances of nonprofit organizations only bodes well for increased transparency and broader accountability within the sector. On the other hand, it may not be entirely problematic that decisions about contributions remain for the time being (as they have long appeared to be) largely driven by legitimacy and positioning. After all, one of the best reasons to give to a charity is that it has communicated a clear and compelling mission with which donors can identify. Far from being an obstacle that must be overcome at any cost, we think the findings reported here could be interpreted as pointing in the other direction. They remind us that donors are still listening to fundraising pleas and that social cause, organizational mission, and personal commitment may all still matter in a sector not yet fully oriented toward efficiency.

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Notes

1. Over the past decade a number of major financial scandals have rocked the nonprofit world, including the conviction and imprisonment of the president of the United Way of America for embezzlement, the jailing of the head of the Foundation for New Era Philanthropy for perpetrating an enormous investment fraud that turned out to be a massive Ponzi scheme, and the prosecution of several leaders of the Episcopal and Baptist churches for outright theft. To add insult to injury, ethical lapses have also hurt the credibility of the sector and some of its largest institutions. The ouster of the head of the National Association for the Advancement of Colored People over the improper transfer of funds to the president's former mistress and the forced resignation of the president of Adelphi University following revelations of high living made possible by an extraordinarily generous compensation package did nothing but further tarnish the public's perception of the nonprofit sector.
2. The growth of this literature on nonprofit management has coincided with the establishment of new nonprofit degree programs within business and public policy schools.
3. Note, however, that total investment in fundraising and marketing may not be reflected in reported expenditures since volunteers may assume significant responsibilities in these areas.
4. Human service includes those organizations whose missions are related to crime, employment, food/nutrition, housing/shelter, public safety, recreation/sports, and youth development.
5. Public benefit includes those organizations whose missions are related to civil rights, community development, philanthropy, science, technology, and research institutes.
6. Other includes all remaining major category groups under the NTEE system, such as those organizations whose missions are related to environment and animals, international and foreign affairs, religious, mutual benefit and membership, and unknown or unclassified.
7. The presence of autocorrelation was ascertained using the Durbin-Watson statistic.
8. Three other variables had sporadic effects on contributions: program expenses in education, total revenue in human service, and government grants and contracts in health and human service.
9. Although the results of these regressions were not reported, they are available upon request from the authors.
10. In testing the possibility of an information lag affecting contributions, we found little evidence in the data to support the claim that information about the past efficiency of an organization (going back several years) had any impact upon its present contributions.

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Organizational Characteristics and Funding Environments: A Study of a Population of United Way–Affiliated Nonprofits

This study examines a population of United Way–affiliated nonprofit organizations in Massachusetts (1) to test hypotheses generated by previous research on relationships between government funding and specific nonprofit organizational characteristics, (2) to compare differences in organizational characteristics between nonprofits receiving higher percentages of revenues from the United Way and from government sources, and (3) to explore associations between government funding and United Way and underexamined characteristics, including use of commercial income and racial diversity of organizational membership. The study supports previous research on the relationship between government funding and nonprofit characteristics, with one notable exception—less administrative complexity was associated with higher percentages of government funding. The study also finds differences in organizational characteristics between nonprofits with higher proportions of government funding and those with higher percentages of United Way funding, including organization size, number of board members, administrative complexity, use of volunteers, and the racial diversity of boards, staff, and volunteers.

In recent decades, we have witnessed dramatic changes in the institutional configuration of human-service provision in the United States (Kramer 1981; Salamon 1995). While government and nonprofit organizations share deep historical roots (Hall 1987; Salamon 1995; Smith and Lipsky 1993), these two sectors operated relatively autonomously prior to the mid-1960s: A large public system supported by tax revenues provided basic human services to the needy, and a smaller private system supported by philanthropic donations delivered services to more specialized populations. Today, however, the majority of human services are provided by private organizations, most of which are nonprofits for whom government funds have become the principal source of revenues (Salamon 1995). This transformation has dominated recent scholarly discourse on the welfare state. Researchers have introduced new terms

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such as "third-party government" (Salamon 1987), "enabling state" (Gilbert and Gilbert 1989), "the shadow state" (Wolch 1990) and the "contracting regime" (Smith and Lipsky 1993) to capture manifestations of the institutional shift toward publicly funded but privately delivered human services.

The substantial transformation of social-welfare policy that is currently under way in the United States, as well as the devolution of government responsibilities to local levels and more general downsizing, is having profound effects on the funding environments in which human-service organizations are embedded (Gronbjerg 1993; Salamon 1995). The purpose of our research is to more fully understand interactions between funding environments and particular organizational characteristics. While research has examined the effects of heightened interdependence between public agencies and nonprofit organizations (see Bernstein 1991; Gronbjerg 1993; Harlan and Saidel 1994; Hartogs and Weber 1978; Kramer 1981; Saidel 1991; Smith and Lipsky 1993; Stone 1996), the present study extends the inquiry in several ways:

- The study tests hypotheses generated by previous research on relationships between certain characteristics of nonprofit organizations and the extent of government funding; unlike much of the prior research, however, it includes in its population nonprofits that receive very little or no government funding;
- The study analyzes the extent to which different organizational characteristics are indicators of higher proportions of revenues from government and from the United Way;
- The study explores associations between organizational characteristics that have received little systematic attention, including the pursuit of commercial income and the racial diversity of organizational members, and government and United Way funding.

In particular, the research examines nonprofits operating in Massachusetts, a state that increased outlays for the purchase of human services from private providers from \$25 million in 1971 to more than \$1.6 billion in 1993 (DeNucci 1994). The study population comprises nearly 200 nonprofits that were members of the United Way of Massachusetts Bay in 1994. The study assesses United Way–affiliated nonprofits, not human-service nonprofits generally. The United Way, however, provides a particularly provocative site for this research, as it could be an important player, reluctant bystander, or extinct institutional form, given changes in the funding environments of human-service nonprofit organizations.

Within this population, we find much support for the findings of previous research on the relationship between government funding and nonprofit characteristics, with one notable exception—less administrative complexity is associated with higher percentages of government funding. The study also finds differences in organizational characteristics between nonprofits with higher proportions of government funding and those with higher proportions of United Way funding. Nonprofits with higher proportions of funding from government sources were larger, had smaller boards, less administrative complexity, used fewer volunteers, received less commercial income, and had more racially diverse boards and staff. Nonprofits with higher proportions of revenue from the United Way were smaller, had larger boards, higher percentages of administrative and fundraising expenses, and used more volunteers.

This article is organized into five sections. In the first section, we discuss the roles that United Way and public funding of human services have played, and the similarities and differences between these two funding environments. The second section presents our research hypotheses, derived from prior research on the relationship between government funding and characteristics of nonprofit fund recipients. The third section describes the study's research methodology, and the fourth section presents the study's findings. We conclude with a discussion of these findings and their implications for theory and future research.

The United Way and Government Funding Environments

In this section, we describe and compare the United Way and government funding environments, paying attention to particular attributes of the Massachusetts context, where the research took place.

United Ways and the Case of the United Way of Massachusetts Bay

The United Way (UW) is a large and important player in the realm of private philanthropy. Salamon (1992) estimates that 25 percent of all charitable support comes from this revenue source, making it the largest single private contributor. Because the United Way gives general support grants that fund operational activities, United Way dollars are considered extremely valuable by nonprofit grantees. Receiving United Way funding is also an important signal of external legitimacy for nonprofit organizations, increasing its value beyond the actual dollar amount (Gronbjerg 1993; Gronbjerg et al. 1996).

The United Way presents a very particular case of private philanthropy: since its modern beginnings in 1913 in Cleveland, it has tried to marry corporate, community, and charitable interests (Brilliant 1990). Now, however, United Ways across the country are facing many challenges as the interests of stakeholders become less complementary and more contradictory (Gronbjerg et al. 1996). As Gronbjerg and colleagues (1996) argue in the case of Chicago, the United Way's role in community planning is being questioned by those considered more in tune with increasingly complex social problems. Its role in fundraising is being profoundly affected by transformations within corporations themselves, such as corporate downsizing, relocations, and mergers, and by changes in how corporations view their contributions. The United Way's role in allocations is being challenged by the increasing popularity of donor choice and by member agencies, for whom United Way dollars represent an ever-decreasing percentage of total revenues.[1] For some member agencies, it is more profitable to drop out of the United Way than to live with the constraints imposed by federated fundraising (Brilliant 1990; Gronbjerg et al. 1996). Nonetheless, "the scope of the UW system is impressive...UW organizations shape the activities of (member agencies) as well as other funders by the amount of funding they provide and the standards they impose on agencies and are an integral part of the local nonprofit structure in most communities" (Gronbjerg et al. 1996, 449).

The United Way of Massachusetts Bay (UWMB), one of the largest United Way organizations in the United States, feels these tensions. From 1990 to 1994, the UWMB faced a severe state recession, corporate downsizing and mergers, and the William Aramony scandal at the United Way of America. The total amount of funds it raised during those years dropped nearly 20 percent.

Public Funding and the Case of Massachusetts

As Hall (1987), Salamon (1995), Smith and Lipsky (1993), and others have documented, the United States has a long history of interdependence between the public and nonprofit sectors, especially in health care and education. In the field of human services, the interrelationship between the two sectors increased dramatically in the 1960s and 1970s with the Great Society programs and Title XX amendments to the Social Security Act. As the 1980s unfolded, both public distrust of big government and the Reagan administration's policies of retrenchment and privatization decreased direct federal support for many social service programs and increased the contracting out of public services to private enterprises. Driven by expectations of substantial cost savings and greater program flexibility, state and county governments initiated and then rapidly expanded contracting arrangements with nonprofit human-service providers. While it is doubtful that these expectations have been met (Smith and Lipsky 1993; Smith 1996), contracting by government to nonprofit organizations has become a significant and complex funding environment.

Massachusetts was one of the first states to use purchase-of-service (POS) contracting with nonprofit organizations, beginning in 1969 with massive deinstitutionalization of youth from state-operated training schools. A growing belief in the philosophy of community integration and the use of local nonprofit human-service agencies accompanied the deinstitutionalization. Bolstered by a governor who firmly believed in privatization of government services, POS contracting remained a dominant funding mechanism for social service delivery in Massachusetts throughout the early 1990s (DeNucci 1994).

Practitioners and scholars raised initial concerns that dependence on government dollars would divert the missions of nonprofits and would increase bureaucracy and the use of professional staff (Hartogs and Weber 1978; Kramer 1985). While government funding was associated with greater bureaucratization (Salamon 1987), most early studies saw other fears as unfounded. More recent studies on the effects of government–nonprofit interdependence, however, have uncovered other disturbing trends, such as service specialization, minimization of board roles, and decreased attention to grassroots constituencies and local community linkages (Rosenthal 1996; Smith and Lipsky 1993; Sosin 1990; Stone 1996) in nonprofit organizations.

Comparison of United Way and Government Funding Environments

Both the United Way and government funders face political uncertainty in their environments arising from diverse, multiple constituencies from whom each needs support to maintain external legitimacy. United Ways must balance the often contradictory interests of corporate donors, community leaders, and member agencies (Gronbjerg et al.1996). Likewise, government funders operate in an arena of contested public authority (Smith 1996) where special interest groups, the legislature, and media scrutinize public-agency activities. Nonprofit organizations, as fund recipients, are an important constituency for both the United Way and government. Support by nonprofits legitimates the United Way in local communities and legitimates government agencies in the eyes of some citizens and special interest groups (Gronbjerg et al. 1996; Saidel 1991, 1994).

Another source of uncertainty for both the United Way and government funding agencies derives from their dependence on others to implement their goals; that is, both are funders rather than deliverers of service (although this is more complicated in the case of public agencies). Further, goals are often not easily measured in straightforward performance or outcome terms. Relationships between means and ends are not clear, and differences of opinion among constituencies exist regarding desirable outcomes. Direct oversight or control of program activities by either funder, therefore, is difficult.

To manage these uncertainties, both the United Way and government have relied on long-term relationships with nonprofits to promote stability and predictability (Gronbjerg et al. 1996; Smith 1996). They have also developed accountability mechanisms through complex structural and process requirements, with which nonprofits must comply. Both the United Way and government funders are known for imposing stringent fiscal, managerial, and programmatic requirements on nonprofit grantees and contracting agencies (Gronbjerg 1993).

Despite these similarities, important differences exist between the two funding environments. Local United Ways are limited in the extent to which they can demand compliance with requirements because they are only loosely coupled with member agencies; that is, they maintain only partially interdependent relationships and must recognize members' autonomy (Polivy 1988; Warren 1967). Furthermore, member agencies can exit the United Way system and directly compete with it for community and corporate dollars (Gronbjerg et al. 1996). On the other hand, government agencies often view nonprofits as extensions of the state service-delivery system, not as autonomous organizations—the regulations and requirements they often place on nonprofits reflect this perception (Gronbjerg 1993; Stone 1996). Furthermore, power in terms of resources is clearly on the side of the state (Kramer 1987; Saidel 1991, 1994; Smith 1996).

This brief account has provided both general and research site-specific background information on the United Way and government funding environments. Drawing on this material as well as additional research findings, the next section develops hypotheses about the relationships among five types of organizational characteristics and government and United Way funding.

Research Hypotheses

In this section, we examine five organizational characteristics—organization size, governance, managerial systems, commercial income, and racial diversity—and their relationships to government funding and to United Way funding. The first three characteristics draw on previous research on government funding of nonprofit organizations to generate hypotheses, while the fourth and fifth characteristics, largely unexamined, draw on suggestive evidence.

A good deal of the previous research on the relationship between government funding and characteristics of nonprofit organizations implies causality; that is, greater dependence on government funding prompts certain characteristics of nonprofit organizations to change. This argument is in line with mainstream organization theory, which maintains that external environments influence organizations' structural and strategic decisions, as well as their internal belief systems (see DiMaggio and Powell 1991; Pfeffer and Salancik 1978; Scott 1987). Organization theory also recognizes, however, that organizations can and do influence their environments. As Scott succinctly states, "Influences are reciprocal" (1987, 138). Untangling the direction of causality, then, is extremely difficult. For purposes of our research, we do not assert a causal relationship for several reasons. First, our data are cross-sectional and not longitudinal; therefore, we cannot assert that dependence on either government dollars or United Way dollars over a period of time has caused these nonprofits to change in particular ways. Second, many external and internal factors are likely to affect changes in organizational characteristics, so isolating a "cause" as coming from a particular funding source is risky. Third, using these cross-sectional data, we argue that certain organizational characteristics or particular sets of characteristics are likely to be indicators of nonprofits that receive higher proportions of their total revenues from either government or from the United Way. We are interested in patterns of interrelationships (between characteristics and types of funding sources) and not linear, causal relationships.

Organization Size

Some argue that larger nonprofit organizations are likely to be associated with government funding because they have more fully developed administrative systems and greater capacity to increase the scope of their services, geographically and programmatically (Rosenthal 1996; Smith and Lipsky 1993).

United Way funding has been associated with large, well-established nonprofit organizations, which are likely to receive larger allocations and a larger percentage of their total revenues from the United Way than smaller nonprofits (Polivy 1988).

Therefore, we hypothesize that:

> **H-1a.** Larger, nonprofits affiliated with the United Way of Massachusetts Bay (UWMB) will receive a higher proportion of their total revenues from government sources than smaller UWMB nonprofits.

> **H-1b.** Larger, UWMB-affiliated nonprofits will receive a higher proportion of their total revenues from United Way than smaller UWMB nonprofits.

Governance

The relationship between government funding and nonprofit governance is not clear. Some argue that nonprofits that depend heavily on government funding have powerful executive directors and inactive boards because executives are better able to manage the complexities of government contracting than are volunteer boards (Bernstein 1991; Gronbjerg 1990a; Kramer 1985; Smith and Lipsky 1993). Other research indicates that governance patterns are more complex. Harlan and Saidel (1994) find that some boards are actively involved in managing a nonprofit's relationship with its government funders, although a later extension of that study finds executives of government-funded nonprofits more active than their boards in political advocacy and buffering roles (Saidel and Harlan 1998).

Our research does not focus on issues of board–executive power, but on a related concern—the board's style of governance. Both Smith and Lipsky (1993) and Stone (1996) find that nonprofits that rely heavily on government funding also had more corporate-style boards of directors. A corporate style of governance is indicated by a small board, comprised of businesspeople and professionals rather than community representatives, and focused principally on financial matters. These characteristics may be associated with government funding because they indicate an ability to deal with the complexity of government contractual arrangements and regulations and the financial sophistication needed to provide contract oversight within the organization.

The United Way, while emphasizing the need for formalized board practices and systems among its member agencies, is more likely to be associated with nonprofits that maintain boards that are broadly representative of the community it serves. The United Way depends on broad-based support within the community for its fundraising as well as for its legitimacy. Therefore, large, diverse boards are more likely to be associated with United Way funding.

> **H-2a.** UWMB-affiliated nonprofits with corporate-style boards will receive higher proportions of total revenues from government than UWMB nonprofits without these characteristics.

> **H-2b.** UWMB-affiliated nonprofits with larger and more diverse boards will receive higher proportions of total revenues from the United Way than UWMB-affiliated nonprofits with smaller and less diverse boards.

Managerial Systems and the Use of Volunteers

Greater administrative complexity and the use of professional staff for program management and service delivery (that is, staff who are formally credentialed) often indicate high levels of government funding (Gronbjerg 1990a, 1991; Rosenthal 1996; Salamon 1987; Smith and Lipsky 1993; Wolch 1990). Furthermore, highly professionalized service-delivery systems are often associated with less use of volunteer staff (Lipsky and Smith 1989).

Administrative complexity is likely associated with United Way funding because entry into the United Way system entails meeting substantial administrative requirements, particularly requirements concerning financial and managerial accounting systems and program outputs (Brilliant 1990; Gronbjerg 1993). Unlike government-contracting requirements, however, United Way demands are not likely to decrease the use of volunteers. In fact, the United Way strongly encourages the use of volunteers because they enhance the member agency's community reputation and visibility, which, in turn, increases the legitimacy and fundraising capability of the United Way.

Therefore, we hypothesize that:

> **H-3a.** UWMB-affiliated nonprofits with greater administrative complexity will receive a higher proportion of total revenues from government than UWMB-affiliated nonprofits with less administrative complexity.

> **H-3b.** UWMB-affiliated nonprofits with greater administrative complexity will receive a higher proportion of total revenues from the United Way than UWMB-affiliated nonprofits with less administrative complexity.

> **H-4a.** UWMB-affiliated nonprofits that use fewer volunteers will receive a higher proportion of total revenues from government than UWMB-affiliated nonprofits that use more volunteers.

> **H-4b.** UWMB-affiliated nonprofits that use more volunteers will receive a higher proportion of total revenues from the United Way than UWMB-affiliated nonprofits that use fewer volunteers.

Use of Commercial Income

The relationship between government funds and use of commercial or fee-generating income is a source of increasing interest and concern. Salamon (1997) finds that 35 percent of the revenue growth for human-service nonprofits in 1982–92 came from fees and service charges. Both Salamon (1997) and Weisbrod (1997) argue that government-retrenchment policies, coupled with increasing human-service needs, have forced nonprofits to look elsewhere for funds. They agree that neither individual nor corporate donations can match the level of financial support needed by nonprofits; therefore, many have turned to various kinds of commercial-income activities.

Our research cannot test the argument that nonprofits use commercial income to fill gaps created by a decline in government revenues because our data are not longitudinal. We make a similar argument, however—government funds are a more stable source of revenue for nonprofits than either fees or donations (Gronbjerg 1991, 1993). Thus, there is less incentive for nonprofits to seek revenues elsewhere if they currently receive a high proportion of funds from government sources. We expect to find a negative relationship between the use of commercial income and receipt of government funds.

There is no reason to believe that United Way funding will have any effect on the use of commercial income by its member agencies.

> **H-5a.** There will be a negative association between the use of commercial income and receipt of government funds for UWMB-affiliated nonprofits.

> **H-5b.** There will be no significant association between the use of commercial income and the proportion of total revenues from the United Way for UWMB-affiliated nonprofits.

Racial Diversity of Organizational Membership

The relationship between government funding and the racial diversity of an organization's membership has not been examined. The issue is important, however, because it sheds light on the extent to which different funding environments provide nonprofit human-service organizations with incentives or disincentives to become more diverse in their organizational makeup. Previous research has shown that government funding is associated with serving a higher proportion of poor and needy clients (Gronbjerg 1990b; Kramer 1981; Salamon 1995), but it has not dealt directly with racial diversity within nonprofits themselves.

The question we raise, therefore, is whether a racially diverse organizational membership (including board members, staff, and volunteers) is an indicator of government funding. We think it is, for several reasons. First, to the extent that government funding is associated with nonprofits that work with the poor and needy, many of whom come from minority populations, it is plausible to hypothesize that these nonprofits are likely to develop boards and staff that are representative of these populations. Second, Saidel's research (1994) documents movement of staff between government agencies and the nonprofits they fund. Because government agencies have traditionally employed a relatively high proportion of minority staff (Mirvis and Hackett 1983), we might expect to see some crossover of minority employees from government agencies to nonprofit organizations that receive government funding. Third, it is likely that nonprofits receiving government grants and contracts are held to affirmative action regulations similar to those required of government agencies. These regulations provide incentives to nonprofits to diversify their organizations.

While United Ways across the country have been criticized for their lack of allocations to agencies serving the truly needy (Gronbjerg et al. 1996; Polivy 1988) and, by extension, to minority nonprofits, the UWMB has in recent years attempted to strengthen its allocations to communities in need. It also has encouraged member agencies to maintain boards, staff, and volunteers that represent the communities they serve, suggesting greater heterogeneity of organizational membership.

Therefore, we hypothesize that:

> **H-6a.** UWMB-affiliated nonprofits with racially diverse boards, staff, and volunteers will receive a higher percentage of revenues from government sources than less diverse UWMB-affiliated nonprofits.

> **H-6b.** UWMB-affiliated nonprofits with racially diverse boards, staff, and volunteers will receive a higher proportion of total revenues from the United Way than less diverse UWMB-affiliated nonprofits.

To summarize, we expect that corporate-style boards, fewer volunteers, and less use of commercial income all indicate a higher proportion of total revenues from government sources. We expect larger and more diverse boards and greater use of volunteers to indicate a higher percentage of total revenues from the UWMB. We expect larger organization size, more administrative complexity, and greater racial diversity to indicate higher percentages of total revenues from both government sources and the United Way.

Research Methodology

The study uses data from a population of member agencies of the United Way of Massachusetts Bay. This section provides information about the population, describes the data set, defines independent and dependent variables, and explains the principal statistical analyses used.

Research Sample

The 1994 population of UWMB member agencies for whom data were available consisted of 191 organizations serving 1.7 million people in 81 towns and cities in eastern Massachusetts (UWMB 1994). The population includes organizations such as the Girl Scouts, the Boys and Girls Clubs, the Red Cross, and other mainline agencies commonly associated with United Way. The population also includes smaller, locally based organizations that tailor their services to particular groups in need, such as refugee or immigrant populations, housing-project residents, or pregnant teens.

Research Data Set

Data were drawn from a 1994 data set collected by the UWMB through its allocation request package (ARP). Included in the ARP are extensive data on member-agency funding sources, revenues and expenditures, data on board size, and board, staff, and volunteer demographics.[2]

Dependent variables. The primary dependent variables are the percentage of total revenues from government funding sources and the percentage of total revenues from the

United Way. These variables were calculated simply as the amount of government or United Way revenues divided by the total revenues of the organization.

Independent variables. Independent variables, as derived from the hypotheses, are as follows.

- H-1a and H-1b, organization size
  1. Total annual expenditures[3]
- H-2a and H-2b, corporate-style boards (three measures)[4]
  2. Size of the board, measured as the number of reported board members
  3. Racial diversity of the board, measured as nonwhite board members as a percentage of total members
  4. Gender diversity of the board, measured as female board members as a percentage of total members
- H-3a and H-3b, administrative complexity (two measures)
  5. Percentage of expenditures spent on administration and fundraising
  6. Administrative staff as a percentage of total staff
- H-4a and H-4b, use of volunteers
  7. Number of reported volunteers
- H-5a and H-5b, percentage of commercial income
  8. Total fee-generating income (not including member dues) as a percentage of total revenues
- H-6a and H6-b, racial diversity of organization members (two measures)
  9. Nonwhite staff as a percentage of total staff
  10. Nonwhite organization members as a percentage of all organization members (includes board, all types of staff, and volunteers)

Because organization size influences many organizational characteristics, we included organization size, measured as total expenditures, as the control variable for hypotheses two through six.

Statistical Analyses

We first assessed each variable to determine whether it met the normality assumptions necessary for ordinary least squares regression. Variables became candidates for transformation when the skew of the distribution exceeded 1.0; five variables exceeded this value and were transformed using the method that reduced the skew to acceptable levels. Therefore, the percentage of total revenues from the United Way was transformed by taking its square root; the number of board members was transformed by taking its natural log; the percentage of nonwhite board members was transformed by taking its square root; the number of volunteers was transformed by taking its natural log; and total expenditures was transformed by taking its natural log. All other variables met the normality assumption.

Second, we used a correlation matrix to examine initial relationships among all variables and to check for multicollinearity among the independent variables. The independent variables capturing racial diversity were all highly correlated (ranging from $r = .59$ to $r = .86$) and significant. Therefore, we used only one racial diversity variable, as appropriate, in our regression models. Other independent variables were correlated at or below $r = .39$.

Ordinary least squares regression was used to test each hypothesis, first with the percentage of total revenues from government as the dependent variable, and then with the percentage of total revenues from the United Way as the dependent variable. We also wanted to determine which independent variables were significant indicators of high levels of funding from each source. To do this, we ran a bivariate analysis for each independent variable on each dependent variable.[5] We also ran a regression with the set of variables used in the hypotheses if appropriate (for example, in H-2a and H-2b, H-3a and H-3b, and H-6a and H-6b). Finally, we ran a saturated model using all independent variables for each dependent variable. From these regressions, we selected the significant independent variables for each dependent variable and used them to arrive at the most parsimonious model that explained variance in the dependent variables.

Findings

In this section, we present the findings relative to the hypotheses generated earlier. First we present descriptive statistics for each variable and then turn to each of the hypotheses. Our final models follow.

Descriptive Statistics

As shown in table 1, organization size, measured by total expenses, varies considerably, with a mean value of $2.8 million but a median level of $1.2 million. In terms of revenue flows, member agencies receive (on average) 44 percent of their revenues from government, although a quarter of this population receives no or very little (under 4 percent) government funding. Organizations receive an average of 10 percent of their revenues from the United Way. Board size and numbers of volunteers also vary considerably. On average, nonprofits in this population have 21 board members and use 187 volunteers. Median values are lower, however—18 board members and 43 volunteers.

The last column in table 1 shows the number of organizations in the population that reported these data. Almost all organizations reported expense and revenue data, while 41 organizations did not provide data on the demographic makeup or size of their boards, paid staff, or volunteers. In the regression equations that follow, organizations with missing data on variables included in the regression models were dropped from that particular analysis. The tables report the number of cases included in each regression equation.

Table 1 Descriptive Statistics of UWMB Member Agencies

Variable	Mean	Standard deviation	Median	N
Percentage nonwhite board members	31	27	24	151
Percentage women board members	49	24	47	151
Number of board members	21	13	18	151
Administration and fundraising expenses as percentage of total expenses	17	7	16	185
Administrative staff as percentage of total staff	46	26	43	152
Nonwhite professional staff as percentage of total professional staff	36	31	29	146
Nonwhite administrative staff as percentage of total administrative staff	37	32	26	151
Nonwhite staff as percentage of total staff	38	28	33	152
Nonwhite board members as percentage of total members	37	26	31	150
Number of volunteers	187	771	42.5	152
Percentage of total revenues from fees	17	20	10	192
Percentage of total revenues from the United Way	10	11	8	191
Percentage of total revenues from government sources	44	33	46	191
Total expenditures (in millions of dollars)	$2.8	$5.6	$1.2	192

Tests of the Hypotheses

The results that follow draw on models presented in tables 2 and 3.

H-1a and H-1b, Organization Size. Model 1 in table 2 and model 2 in table 3 present the results for regressions concerning the effects of organization size, measured as the natural log of total expenditures, on the percentage of total revenues from each of the two funding sources. From model 1, one can see that larger organizations are more likely to receive a higher percentage of total revenues from government, a finding that is in line with hypothesis 1a. However, model 2 shows that larger organizations are not likely to have a higher percentage of total revenues from UWMB, in contrast to hypothesis 1b. Both models are significant at the .001 level and size alone accounts for 20 percent of the variance in the proportion of total revenues from government funds and 25 percent of the variance in the proportion of total revenues from the United Way. Given this notable influence, all subsequent models include size as a control.

H-2a and H-2b, Corporate-Style Boards. Model 3 in table 2 and model 4 in table 3 include all three independent variables used to indicate corporate-style boards: board size, racial diversity, and gender makeup of board members. From model 3, the racial diversity of board members is a positive and significant indicator of a higher proportion of total revenues from government, contrary to expectations. Board size is a negative and significant indicator of government funding, meaning that nonprofits receiving higher proportions of total revenues from government tend to have smaller boards, as predicted. Hypothesis 2a, therefore, is partially supported.

Board size is the only significant predictor of the percentage of total revenues from the United Way. Neither the racial nor gender diversity of the board is significant. Model 4 suggests that while nonprofits with a higher proportion of total revenues from UWMB have larger boards, those boards are not associated with greater racial and gender diversity of membership. Hypothesis 2b is, therefore, only partially supported.

H-3a and H-3b, Administrative Complexity. Model 5 in table 2 and model 6 in table 3 present the results of our analysis of administrative complexity measured by the percentage of administration and fundraising of total expenditures and percentage of administrative staff.

Contrary to prediction, the percentage of administrative staff is negatively associated with government funding (model 5), meaning that less administrative complexity, is an indicator of higher levels of government funding. Hypothesis 3a is not supported.

On the other hand, the percentage of total expenditures spent on administration and fundraising is a positive and significant indicator of a higher proportion of total revenues from the United Way (model 6). Therefore, one measure of administrative complexity is an indicator of higher levels of United Way funding, and hypothesis 3b is partially supported.

H-4a and H-4b, Use of Volunteers. The results here support hypothesis 4a but not hypothesis 4b. Model 7 in table 2 shows that the use of volunteers is a significant and negative predictor of government funding, suggesting that UWMB-affiliated nonprofits with higher proportions of government funding use fewer volunteers than those with lower percentages of government funding. Contrary to our prediction, model 8 in table 3 shows that volunteer use is not a significant indicator of UWMB funding.

H-5a and H-5b, Use of Commercial Income. Model 9 in table 2 and model 10 in table 3 present the results of regressions that analyze the relationship between use of commercial income streams, such as user fees, and the proportion of total revenues from government and from the United Way. As we had predicted, the use of commercial income is negatively and significantly associated with a higher proportion of total revenue from government, as shown in model 9. Model 10 shows that the use of commercial income is not a significant predictor of United Way funding. Therefore, hypotheses H-5a and 5b are supported.

Table 2 Relationship among Organizational Characteristics and Percentage of Revenues from Government

	Organization size	Corporate-style board	Administrative complexity	Use of volunteers	Use of commercial income	Racial diversity		Final model	
	H-1a	H-2a	H-3a	H-4a	H-5a	H-6a			
	Model 1	Model 3	Model 5	Model 7	Model 9	Model 11	Model 12	Model 15	Model 16
LN (expenses)	.122***	.130***	.102***	.104***	.131***	.104***	.107***	.126***	..127***
	(.017)	(.017)	(.019)	(.019)	(.015)	(.019)	(.019)	(.015)	(.015)
SQRT (percent nonwhite board members)		.165*						.062	
		(.082)						(.079)	
Percent women on board		.025						.006	
		(.088)						(.082)	
LN (board size)		–.296**						–.228***	–.245***
		(.041)						(.041)	(.038)
Percent admin./fundraising expenses			–.293						
			(.368)						
Administrative staff/total staff			–.364***					–.125	
			(.088)					(.079)	
LN (number of volunteers				–.033**				–.006	
				(.011)				(.009)	
SQRT (percent revenues from fees)					–.623***			–.389***	–.469***
					(.074)			(.090)	(.083)
Percent nonwhite organization members						.223*			
						(.090)			
Percent nonwhite staff							.260**		
							(.082)		
Intercept (a)	–1.274***	–.579*	–.756**	–.893***	–1.184***	–1.085***	–1.150***	–.462	–.451*
		(.275)	(.289)	(.269)	(.210)	(.275)	(.274)	(.258)	(.222)
Adjusted R^2	.201	.414	.248	.191	.417	.176	.195	.508	.508
N	191	150	146	151	191	149	151	150	150

*p <.05; **p <.01; ***p <.001. Parameter estimates are ordinary least squares regression coefficients and numbers in parentheses are standard errors.

Table 3 Relationship among Organizational Characteristics and Percentage of Revenues from the United Way

	Organization size	Corporate-style board	Administrative complexity	Use of volunteers	Use of commercial income	Racial diversity		Final model
	H-1b	H-2b	H-3b	H-4b	H-5b	H-6b		
	Model 2	Model 4	Model 6	Model 8	Model 10	Model 13	Model 14	Model 17
LN (expenses)	–.062***	–.063***	–.067***	–.059***	–.061***	–.059***	–.059***	–.071***
	(.008)	(.008)	(.007)	(.008)	(.008)	(.008)	(.008)	(.007)
SQRT (percent nonwhite board members)		.031						
		(.039)						
Percent women on board		.038						
		(.042)						
LN (board size)		.091***						.053***
		(.020)						(.016)
Percent admin./fundraising expenses			.291*					.277*
			(.134)					(.131)
Administrative staff/total staff			.020					
			(.032)					
LN (number of volunteers				.001				
				(.005)				
SQRT (percent revenues from fees)					–.068			
					(.038)			
Percent nonwhite organization members						.005		
						(.039)		
Percent nonwhite staff							.022	
							(.036)	
Intercept (a)	1.157	.882***	1.180***	1.127***	1.166***	1.126***	1.114***	1.083***
	(.108)	(.133)	(.105)	(.117)	(.108)	(.119)	(.119)	(.105)
Adjusted R^2	.253	.334	.424	.247	.262	.247	.249	.464
N	191	150	146	151	191	149	151	145

*p <.05; **p <.01; ***p <.001. Parameter estimates are ordinary least squares regression coefficients and numbers in parentheses are standard errors.

H-6a and H-6b, Racial Diversity of Organizational Membership. Racial diversity in these models is measured as the percentage of nonwhite members (includes board, staff, and volunteers) and the percentage of nonwhite staff. The racial diversity of board members was already examined in models 3 and 4. Because of the extremely high intercorrelations between these independent variables, models 11 and 12 in table 2 and models 13 and 14 in table 3 consider each variable separately.

Greater racial diversity of all organization members considered together (board, paid staff, and volunteers) and racial diversity of staff are both indicators of higher proportions of revenues from government. Hypothesis 6a is supported. Hypothesis 6b is not supported, as there are no significant relationships between United Way funding and racial-diversity variables. A similar pattern appears if one returns to models 3 and 4, in which the racial diversity of board members is a positive and significant indicator of government funding, though it is not a significant indicator of UWMB funding.

Summary. Results from the analyses of each of the six hypotheses are summarized as follows:

- H-1a is supported, as larger organization size is an indicator of a higher percentage of total revenue from government. H-1b is not supported. Smaller nonprofits are more likely to receive a higher percentage of their total revenues from the United Way.
- H-2a and H-2b are partially supported. Smaller boards are indicators of higher proportions of government funding, but these boards are racially diverse. Larger boards indicate higher proportions of United Way funding, but these boards are not significantly more diverse.
- H-3a is not supported. One important measure of administrative complexity, the ratio of administrative to total staff, is a negative predictor of higher proportions of government funding. H-3b is generally supported, as the percentage of expenditures devoted to administration and fundraising is a positive predictor of higher proportions of United Way funding.
- Hypothesis 4a is supported. Nonprofits that use fewer volunteers are more likely to receive a higher proportion of total revenues from government sources. Hypothesis 4b, however, is not supported. The use of volunteers is not significantly associated with a higher proportion of revenues from UWMB.
- H-5a and H-5b are supported. Use of commercial income is a negative indicator of higher proportions of government funding, while there is no significant relationship between commercial income and the proportion of total revenues from the United Way.
- Finally, H-6a is supported but H-6b is not. Racial-diversity measures are positive indicators of government funding. These measures are not significant indicators of a greater proportion of revenues from the United Way.

Overall Model

To arrive at the best overall and most parsimonious models, we ran both a saturated model using all independent variables and a model using only variables that showed significant relationships to dependent variables in the previous analysis.[6] Models 15 and 16 in table 2 show that larger nonprofit size, smaller boards, and less use of commercial income are significant indicators of a higher percentage of total revenues from government sources. These variables explain more than 50 percent of the variance in the percentage of total revenues from government sources. Model 17 in table 3 shows that smaller nonprofit size, larger boards, and a higher percentage of administration and fundraising expenses are associated with a higher proportion of total revenues from the UWMB. Model 17 explains 46 percent of the variance in the percentage of revenues from the United Way.

These findings point to important differences between nonprofits receiving relatively higher proportions of their funding from government and those receiving relatively higher proportions of their funding from United Way. These differences are discussed below.

Discussion and Conclusions

One goal of this research was to test hypotheses derived from previous research on the associations between government funding and certain characteristics of nonprofit fund recipients. The present study's findings lend support to much of this prior research, including the finding that larger nonprofit size, smaller boards (one indicator of corporate-style governance), and use of fewer volunteers are significantly related to higher levels of government funding. Our research's most significant departure from previous studies is the extent to which increased administrative complexity within nonprofit recipients is associated with government funding. We found the opposite to be true—a lower administrative to total staff ratio was significantly associated with higher levels of government funding. There are several explanations for this finding. First, bureaucratizing effects may be most pronounced in the early stages of government funding. Funding relationships between government agencies and nonprofits in Massachusetts, however, have existed for over 25 years. Many human-service nonprofits in Massachusetts have developed sophisticated systems to cope with government funding requirements (Wubbenhorst and Stone 1993), and these systems may now be streamlining administrative structures. Gronbjerg (1993) makes the point that high dependence on government funds simplifies some management tasks, because such dependence narrows the range of external contingencies to which a nonprofit manager must attend. This simplification, then, may be demonstrated by a lower administrative-to-total-staff ratio. Second, Massachusetts underwent significant administrative reforms to its contracting system during the early 1990s. These reforms may, in fact, have decreased the contracting system's administrative burden on nonprofits. Furthermore, pressures from the public at large, the legislature, and the executive branch to make more efficient use of public dollars grew during the 1990s. As a result, nonprofits that demonstrated lean administrative structures may have become more attractive to government funders.

Our second research goal was to compare organizational characteristics as indicators of government funding with organizational characteristics as indicators of funding from the United Way. Much of the previous research focused only on nonprofit organizations that received government funding, with little or no comparison to other funding environments (a notable exception is Gronbjerg's research [1991, 1993]). The comparison proved to be useful. As the regression models demonstrated, organizational characteristics differed substantially between nonprofits receiving higher levels of government funding and those with higher levels of United Way funding. UWMB-affiliated nonprofits with higher percentages of total revenues from government sources were associated with larger size, smaller boards, lower administrative-staff ratios, less use of volunteers, less use of commercial income, and greater racial diversity of organizational membership. Characteristics that were significant in the final model included organization size, smaller boards, and less use of commercial income. UWMB-affiliated nonprofits with higher levels of United Way funding were smaller, had larger boards, and spent more on administration and fundraising.

The differences in these organizational characteristics, taken together, reflect the relative stability or turbulence of the two funding environments at the time of the study. That is, beyond being associated with particular types of funders (such as government or the United Way), organizational characteristics of nonprofits may also be related to more macro-level dimensions of funding environments. Organizational characteristics associated with higher proportions of government funding indicate a more stable funding environment—as we noted earlier, Massachusetts had steadily increased outlays to purchase human services from nonprofits for over two decades. In particular, the more stable funding environment for UWMB-affiliated nonprofits with high degrees of government funding may be indicated by:

- larger size, which may primarily reflect increases in government funding, as Gronbjerg (1993) finds;
- smaller boards, because larger numbers of board members are not needed for fundraising purposes or for their linkages to multiple constituencies and donors;
- less use of volunteers, because they are not necessary to extend the reach of paid staff; and,
- less use of commercial income, because government funding is often more predictable than those associated fees or for-profit ventures (Gronbjerg 1993).

Throughout the early 1990s, UWMB experienced several years of funding turbulence and a decline in monies raised because of significant changes in the region's corporate landscape, an economic recession, and lingering effects of the Aramony affair at the United Way of America. While United Ways in general are stable sources of funding for their member agencies (Gronbjerg 1993), the UWMB has undergone significant changes in its funding levels and, subsequently, its funding priorities in recent times. Therefore, the more turbulent funding environment for UWMB-affiliated nonprofits with higher percentages of United Way funding may be indicated by:

- larger boards needed to tie these nonprofits to broader constituencies and funding bases in the community (Pfeffer 1973); and,
- higher administration and fundraising expenditures, because of the necessity to secure additional resource flows and manage multiple donor sources (Gronbjerg 1993).

The usefulness of comparing two types of funding environments and the organizational characteristics of fund recipients, then, lies in the ability to see broader patterns across organizational characteristics. These patterns may indicate important differences in underlying funding-environment structures, such as stability versus turbulence of funding flows (Gronbjerg 1993).

A third goal of the study was to examine organizational characteristics that have received little research attention—in this case, the use of commercial income and the racial diversity of boards, paid staff, and volunteers. UWMB-affiliated nonprofits that rely heavily on government funds or that receive proportionately higher revenues from the United Way are not turning to commercial income to supplement these sources. What other sources of funding do they rely on? Do they exhibit fundamentally different organizational characteristics than other human-service nonprofits? Hansmann's typology of nonprofit organizations (1980, 1987) and Gronbjerg's research (1993) suggest that they may be different in behavior and form, and this needs to be further investigated.

The findings related to the racial diversity of organizational membership are more difficult to interpret. Greater racial diversity of boards, staff, and volunteers was significantly associated with higher percentages of government funding but not with higher percentages of United Way funding. We hypothesized that racial diversity would be associated with higher proportions of government funding because of several factors: (1) board and staff that more closely represent the racial diversity of the poor and needy populations served by these nonprofits; (2) staff crossovers from public agencies to nonprofits they funded; and (3) affirmative action and equal employment regulations imposed by government funders. This research cannot disentangle which, if any, of these explanations are correct. However, we believe the first explanation is the most plausible. All racial-diversity variables were highly intercorrelated, suggesting that within this population, it would be unlikely to find an all-white board and a racially diverse staff and volunteers. Such high intercorrelations suggest a clear commitment by the nonprofit to maintain racial diversity throughout the organization, perhaps to mirror the diversity of the populations it serves. On the other hand, it is curious that racial diversity was not significantly associated with higher proportions of United Way funding, since the UWMB has placed a great deal of emphasis on targeting nonprofits that serve minority communities. The lack of any significant findings may simply indicate that UWMB has not been wholly successful in these outreach efforts, perhaps, because of its own funding turbulence. More research is certainly needed on the relationship between racial diversity of organizational membership and different funding environments.

Before extrapolating further from these findings, several cautionary notes must be made. First, the research took place within a particular population of nonprofits—member agencies of the United Way of Massachusetts Bay. United Ways differ from one another, and it is likely that the UWMB possesses unique characteristics. Therefore, we caution against generalizing findings beyond this population. A comparison study is needed with United Way sites in other states to explore the generalizability of these findings. The research also took place within a state that has a long history of public-agency contracting with nonprofits and has undergone considerable administrative reforms to its POS contracting system. These context-specific factors are likely to have influenced the public–nonprofit relationship and, therefore, make generalizing beyond Massachusetts difficult. Second, the study may have used indicators of organizational characteristics, such as "corporate-style" governance, that do not fully capture the phenomenon of interest. For example, while board size may be a good indicator of corporate-style boards, other direct measures might include frequency of meetings and the kinds of skills present on a nonprofit board, data that we did not have. Third, the data for this study were cross-sectional, and they limited our ability to make stronger arguments about associations between particular types of funders and characteristics of funded organizations. Future research should collect longitudinal data to strengthen such arguments, but it should also look for interactions between funding environments and funded organizations. We doubt that a linear, causal relationship exists between funding requirements and changes in organizations. To the extent that these relationships exist over time (which can only be uncovered with longitudinal data) it is likely that complex interdependencies will develop and significantly shape organizational characteristics.

Future research on nonprofit funding environments must pay attention to factors in the broader environment in which such relationships are embedded. These factors include context-specific information, such as that provided here, which indicates relative funding stability versus turbulence. As boundaries continue to blur between the public and private sectors because of institutional transformations associated with social welfare policy, it is critical that research continue on relationships between the changing nature of funding environments and organizational characteristics of nonprofit organizations, and that such research include comparisons of funding environments and attention to their historical, political, economic, and policy dimensions.

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Notes

1. On average, United Way funds as a percentage of total revenues were only 11 percent in 1985 compared to 27 percent in 1970 (Brilliant 1990).
2. Because of member agencies' confidentiality concerns, the data set we used did not contain any agency-identifying information, such as the name or location of the member agency.
3. Total expenditures rather than total revenues were used as the measure of size, for two reasons. First, we used total revenues as the denominator for both dependent variables and one of the independent variables. Second, it was more likely that an organization's revenues could fluctuate widely from year to year (because of an extraordinary gift or a one-time grant, for example) than would total expenditures.
4. We hypothesized that corporate-style boards are smaller in number and composed largely of business people and professionals. This data set did not contain occupations of board members, so we substituted proxy measures, reasoning that boards of businesspeople and professionals were more likely to be white and male than a more representative board would be.
5. To streamline the presentation of statistical information in the article, we do not present each bivariate model for those hypotheses testing sets of variables. All models, however, are available from Melissa Middleton Stone.
6. Percent women on board is included in model 15 because it was significant in our bivariate analysis (not discussed here). For the United Way models, both the saturated and final models were the same, so we only report the final model.

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