Factors associated with fundraising dependency among nonprofit organisations in Australia

Gianni Zappalà and Mark Lyons

Abstract

Despite the importance of fundraising to the nonprofit sector there has been surprisingly little research on fundraising as a revenue source in Australia. Research that has been conducted both here and internationally has focused on the cost of fundraising – the proportion of fundraising expenses to total fundraising revenue, and fundraising performance – the absolute or relative amount of money raised by organisations via fundraising. This paper examines why some nonprofit organisations are more dependent on fundraising as a source of revenue than others.

The paper applies multivariate techniques to examine the influence that three broad sets of factors: organisational; revenue generation model; and fundraising approach, have on what we term 'fundraising dependency' – the percentage of a nonprofit organisation's total revenue that is derived from fundraising activities. It finds that fundraising dependency is associated with a range of organisational characteristics (e.g. size, geographical scope of the organisation and tax status); alternative forms of revenue generation (e.g. reliance on government funding and commercial venturing) and fundraising approach (e.g. whether professional fundraising staff are employed, the use of volunteer fundraisers and the number of fundraising practices used). The results support taking a multidimensional approach to understanding fundraising dependency.

Keywords: Nonprofit organisations; fundraising; fundraising dependency

Introduction

A feature that distinguishes nonprofit organisations from for-profit and government organisations is that they obtain their revenue from a wide range of sources (Lyons 2001). Such sources of revenue include income from the people who consume and pay for the services of a particular organisation, membership fees from those who may choose to join a particular organisation, fundraising, government contracts and grants, interest or rents received from investments and other business activities.

While nonprofits are increasingly diversifying their revenue streams from sources such as the sale of goods and services, membership fees, commercial ventures, government contracts and partnerships with business, revenue from fundraising remains a distinctive core feature and form of support for many if not most nonprofit organisations (Flack 2004; Lyons 1995). Definitions of what activities comprise fundraising not only vary across countries (e.g. in the U.S. fundraising activities such as fetes, fairs, recycling of donated goods, and charitable gambling are more likely to be classed as commercial income rather than fundraising and thus subject to income tax) but within countries (e.g. the different State and Territory based fundraising regulations in Australia vary considerably as to what is included and excluded in their respective definitions and lists of fundraising) (Flack 2004).

Fundraising revenue can come from the public via a great variety of appeals, from bequests, from business as donations, sponsorships or grants as well as from trusts and foundations. Some large charities, for instance, utilise a wide range of sophisticated fundraising techniques such as telemarketing. In contrast, many small local nonprofit organisations survive on the proceeds from an annual fundraising event such as a fete, concert or fun-run. While fundraising techniques and activities are varied, there is general consensus that fundraising is a philanthropic or altruistic activity, carried out for the benefit of a particular cause or issue rather than for commercial profit or benefit.

Despite the importance of fundraising to the nonprofit sector there has been surprisingly little research on fundraising as a revenue source in Australia. Research that has been conducted has focused on the cost of fundraising – the proportion of fundraising expenses to total fundraising revenue (Lyons 1995; Flack 2004; Berman & Davidson 2003). This has also tended to be the focus of public policy (Consumer Affairs Victoria 2004; Industry Commission 1995). Similarly, international research has also focused on either the cost of fundraising and/or fundraising performance – the absolute or relative amount of money raised by nonprofit organisations via fundraising (Lindahl & Conley 2002; Paton 2003; Pink & Leatt 1991; Sargeant & Kahler 1999).

Another important dimension for nonprofit fundraising is the reliance on fundraising relative to other forms of revenue generation, such as commercial ventures, government grants and fees. While some large and long-established charities for example may raise significant amounts of fundraising dollars, that is, have a high public profile as a fundraising organisation, it may only comprise a small proportion of their overall revenue. In contrast, a small and recently established organisation may raise only a small dollar amount via fundraising although that amount comprises a large proportion of their overall revenue.

Having a better understanding of the factors that may be associated with reliance on one form of revenue, in this case, from fundraising, is important to understanding the long-term organisational health and sustainability of nonprofit organisations. Recent studies focusing on the diversity (or lack thereof) of nonprofit organisations' revenue sources have identified several indicators of financial vulnerability. The revenue concentration index, for instance, posits that the more an organisation relies on one or two sources for revenue, the greater the risk of financial failure (Buckmaster et al 1994; Greenlee & Trussel 2000, 2002; Tuchman & Chang 1991).

This paper focuses on the factors that are associated with the reliance of nonprofits on fundraising – a traditional and significant form of revenue for most nonprofit organisations – and examines the influence that three broad sets of factors have on what we term 'fundraising dependency', or the percentage of a nonprofit organisation's total revenue that is derived from fundraising activities. These factors are: 1) organisational; 2) revenue generation models; and 3) approach to fundraising. Fundraising dependency is not necessarily the same thing as raising large amounts of money from fundraising. Some organisations for example may have a high fundraising dependency as well as generating relatively large amounts of revenue from fundraising.[1]

The next section provides a brief review of the factors that may influence fundraising dependency. The third section describes the data and methods used to estimate the effects of organisational factors, alternative forms of revenue and fundraising practices on fundraising dependency. The fourth section discusses the key findings from the models as well as outlining their implications before concluding.

Factors that may influence fundraising dependency

Fundraising dependency can be simply understood as the percentage of a nonprofit organisation's total revenue that derives from fundraising activities in any particular financial year. Other sources of revenue can include government grants and contracts, fees and charges and commercial operations. In their detailed estimation of the income of the Australian nonprofit sector for 1995/96 (still the only one available), Lyons and Hocking (2000) found that 30 per cent of revenue came from government, 17 per cent from fees and charges, almost two-fifths (39%) from commercial sales, and 7 per cent from fundraising, with the remainder coming from a variety of sources (Lyons and Hocking 2000).

While there has been little research on the factors associated with fundraising dependency, we can draw upon insights (where available) from previous studies on fundraising to inform our expectations with respect to the factors that may influence fundraising dependency. Predicting the direction of influence of these variables on fundraising dependency is difficult for two reasons. First, as mentioned above, most studies focus on the factors associated with the cost of fundraising and/or fundraising performance rather than dependency. Second, those that have focused on dependency have been based primarily on descriptive statistics rather than multivariate analyses (see for example Zappalà & Lyons 2006).

Organisational factors

Field of activity/industry: The industry or field of activity that a nonprofit organisation operates in is known to be an important determinant of its experience and behaviour in a range of areas (Leiter 2005; Lyons 2001). In a previous study that examined the factors associated with fundraising performance and dependency among nonprofits in Australia, organisations that were active in international aid and development as well as religious groups were more likely to have a higher reliance on fundraising revenue (Zappalà & Lyons 2006). In contrast, nonprofits in social service activities were much less reliant on fundraising revenue. Similarly, another study focusing on the resourcing strategies of nonprofit organisations in the community sector found that government revenue was by far the largest source of revenue for those that received it (Lyons et al 2006). This is consistent with another previous large-scale survey based study of the nonprofit sector that found significant variations in revenue source by field of activity (Woodward & Marshall 2004).[2] Organisations in what the authors described as Human Services, Health and Community Service for instance all received a greater proportion of their overall revenue from government compared to philanthropic, religious and sports and recreation organisations. We would therefore expect an 'industry' effect to be present with respect to fundraising dependency, with organisations in the international aid and religious fields relatively more reliant on fundraising compared to those in social services.

Age: Like industry the length of time a nonprofit organisation has been established is also likely to influence a range of organisational behaviours and outcomes (Lyons 2001). Previous research suggests that younger organisations have greater difficulty in raising funds compared to longer established organisations as the former have not yet 'earned sufficient trust capital to induce donors to give' (Pink & Leatt 1991, 318). Similarly, recently established organisations may not have had sufficient time to build a reputation with government and this would increase the tendency of young organisations to be more reliant on fundraising revenue. In contrast, more established organisations may be more likely to receive government revenue through contracting for programs as well as receiving grants, hence reducing their reliance on fundraising. Furthermore, longer established organisations are more likely to have developed alternate sources of revenue, especially from commercial ventures, leading to greater self sufficiency (Guo 2006).

The recent direction of public policy in Australia also leads us to expect an 'age' effect on the revenue generation strategies of nonprofit organisations in at least some fields of activity. From the 1960s to the mid-1980s government policy in Australia encouraged community groups to form nonprofit organisations to provide services such as child care, aged care, family services, support for the young unemployed and refuges for the homeless. The policy had a dual aim of encouraging community development as well as providing needed services. Beginning in the mid-1980s and developing over the next decade governments came to embrace economic rationalism and to encourage market solutions to the growing demand for community services. This new approach looked to private organisations (for-profit and nonprofit alike) to meet an increasing demand for services by tendering for government funding in the form of grants or contracts to provide specified services. The interest was in already established organisations however and governments no longer encouraged the creation of nonprofits.

Taken together, the factors noted above would therefore lead us to expect that nonprofit organisations formed since the late 1980s would be more dependent on fundraising compared to older more established organisations.

Size: Organisational size (in terms of paid staff and total revenue) is often associated with age. As was noted above it takes time for nonprofit organisations to establish trust and reputation, factors that will generate greater revenue and ability to grow. Larger organisations may raise relatively larger amounts of revenue from fundraising but are also more likely to have a diversified revenue base including revenue from government and commercial activities, and therefore have a lower reliance on fundraising. New organisations are likely to be smaller and more likely to be initially highly dependent on fundraising (both from the public as well as grants from Foundations and Trusts) unless they pursue a social enterprise path. On average therefore our expectation is that larger organisations will have a lower dependency on fundraising compared to smaller organisations.

Geographical scope: Another organisational variable that may be expected to influence the degree of reliance on fundraising is the geographical scope of a nonprofit organisation's operations. Those that are international in scope (compared to either national, state or local) for instance may be more likely to have a greater reliance on fundraising as there are fewer alternative sources to fundraising within Australia willing to support services provided outside the country. The previously mentioned study that examined the factors associated with fundraising performance and dependency among nonprofits in Australia, found that organisations that were international in scope were significantly more likely to have a higher reliance on fundraising revenue compared to non-international organisations (Zappalà & Lyons 2006).

Geographical location: Whether an organisation is located in a major city or rural area is also likely to influence fundraising behaviour and outcomes. Urban populations generally have higher household incomes compared to households in rural and remote areas and thus have higher disposable incomes from which to donate to nonprofit organisations. Geographic location is therefore perhaps more likely to impact upon overall fundraising revenue with its influence on fundraising dependency being more difficult to predict. While on the one hand it may be expected that nonprofit organisations in rural and remote areas will be more reliant on revenue generated from fundraising activities in their local community, they may also receive government grants aimed at assisting communities in rural and regional areas.

Tax status: The tax status of organisations may be expected to play a role in determining fundraising dependency. The first status is whether the organisation is tax exempt. If a nonprofit organisation is to raise money from the public it needs to be able to provide an assurance that none of that money, or indeed revenue from any source will be returned to the government as tax. [3] There are many ways by which a nonprofit organisation can obtain tax exempt status, but the most common route, particularly for those nonprofits likely to seek funds from the public, is as an Income Tax Exempt Charity (ITEC). We would therefore expect ITEC status to be an almost threshold issue for nonprofit organisations that rely on fundraising revenue to a significant degree and therefore be positively related to fundraising dependency.

The second tax status of importance is that of Deductible Gift Recipient (DGR). This has been designed to facilitate fundraising. Organisations with DGR status have a fundraising advantage as members of the public that make donations of over two dollars to these organisations can claim the donation as a tax deduction. This will make the organisation more attractive to potential donors. We may therefore expect that organisations with DGR status may pursue fundraising revenue generation strategies compared to those without DGR status and because having DGR status certainly makes fundraising easier we may expect its presence to also be positively related to fundraising dependency. There are many different ways however in which an organisation may obtain DGR status. Most social services nonprofits, for example, are DGRs because they are Public Benevolent Institutions (PBIs).[4]

Primary purpose: Finally, a key distinguishing feature of nonprofit organisations is whether their primary purpose is to serve its members and supporters (member serving) or the wider public (public serving) (Lyons 2001). The former includes sports clubs and professional societies while the latter includes most charities and community organisations that provide counseling and material assistance to people. We may expect public serving nonprofit organisations to be more reliant on fundraising compared to member serving as the latter are more likely to rely on fees from members that use or frequent the particular service being offered. In addition, many member serving nonprofits are small and rely on fundraising to supplement member fees. It is also the case, however, that many public serving nonprofits derive a large proportion of their income from government sources (Lyons 2001; Woodward & Marshall 2004). The likely direction of influence of this variable on fundraising dependency is therefore difficult to predict with any certainty.

Revenue generation model

The second set of factors relates to the particular model or approach organisations have to generating their revenue. While aggregate data exists showing the revenue generated from different sources by nonprofits (ABS 2002), we know little of the way different organisations mix these revenue sources. In other words, we do not know if there are any patterns in the resource mobilisation strategies used by the nonprofit sector (Zappalà & Lyons 2005). Nor do we know if obtaining large amounts of revenue from one source (e.g. fundraising) has an effect on obtaining revenue from other sources. In this regard, the most important issue is the effect of government funding. American-based literature suggests that government funding 'crowds out' donations from fundraising. The assumption is that people do not like to make donations to organisations that are heavily supported by government (Abrams & Schmitz 1986; Steinberg 2003; Weisbrod 1988). Other studies have focused on organisational rather than donor behaviour and suggest that organisations that receive funding from government do not need to raise funds from the public. In some cases, it is argued that government funding can act as a seal of approval and can therefore assist nonprofits to raise additional funds through fundraising from the public (Salamon 1987).

In addition to government, another key revenue source that has been growing for nonprofits is commercialisation, or operating a commercial venture that either may or may not be related to the organisation's primary mission. Debates range on the impact of commercialisation on the quality of the service and mission that nonprofits provide as well as its potential benefits in achieving longer-term self-sufficiency and sustainability (Guo 2006). Estimating a non-recursive path model (attempts to address the issue of causality) on data from Human Service nonprofits in the U.S., Guo (2006) found that fundraising and government revenue is significantly inversely related to the proportion of funds received from commercial activities. In other words, we would expect that organisations that have a commercial venture are less dependent on fundraising and organisations that receive a large proportion of revenue from government to be less dependent on fundraising.

Finally, a previous study found that nonprofits that had high fundraising performance as well as high fundraising dependence were significantly more likely to have a partnership with at least one business (Zappalà & Lyons 2006). Partnerships aid fundraising not only by the fact that they generally provide reliable and significant cash and in-kind contributions but also by increasing an organisation's profile in the broader community. We would therefore expect a positive association between nonprofit organisations with a partnership and fundraising dependency.

Approach to fundraising

Approaches to fundraising, in terms of the types and mix of fundraising practices organisations use, donor profiles, and whether professional fundraising staff, volunteer fundraisers and/or specialist fundraising consultants are used, are varied. As one study noted, '[a]pproaches to fundraising are nearly as diverse as the types of organisations that populate the nonprofit sector, a fact that complicates efforts to understand how fundraising is achieved' (Hager et al 2002,312).

Hager et al (2002) have described three 'fundraising domains' of nonprofit organisations. The first domain is fundraising carried out as part of a nonprofit organisation's formal fundraising operations and includes staff whose primary function in the organisation is to generate grants and donations. The second domain comprises staff and volunteers who do not think of their primary role as that of fundraising even though they may occasionally be involved in fundraising activities. The third domain comprises the external institutional environment with respect to fundraising and includes professional fundraising consultants who on a fee for service basis solicit donations on behalf of their client nonprofit organisations as well as other general resources and networks that nonprofit organisations can draw or learn from with respect to fundraising.

The presence of paid fundraising staff is generally related to size and they are more likely to be positively associated with fundraising performance and concentrated in a small number of nonprofits (Hager et al 2002). This study also found that:

- Organisations with professional fundraising staff are more likely to involve volunteers and other staff in fundraising activities;
- The use of volunteer fundraisers was not linked to the amount of fundraising revenue generated, so organisations that are more reliant on fundraising may make greater use of volunteer fundraisers, even though 'more volunteers do not necessarily mean more money';
- The use of fundraising consultants is rare but more likely among organisations that receive relatively large amounts from fundraising.

The authors identified two approaches to fundraising. First, those organisations that rely on fundraising and demonstrate this by hiring professional fundraising staff to carry out their fundraising activities. Second, those organisations that are less reliant on fundraising and have less need to call on the various fundraising constituencies identified in their three domains. We would therefore expect a positive association between organisations that have paid fundraising staff, use volunteer fundraisers and use the services of an external fundraising consultant and fundraising dependency.

Table 1 summarises the expected direction between the dependent variable – fundraising dependency – and the three categories of independent variables: organisational, revenue generation model, and approach to fundraising.

Data and methods

The data for this study are from a survey of almost 500 nonprofit organisations across Australia that was undertaken by the authors in 2005 as part of the Giving Australia project (ACOSS 2005). The survey asked questions about the key characteristics of the organisations (e.g. industry, size, geographic location, organisational and legal status); details about their fundraising activities, partnerships with business, operation of commercial ventures and volunteering (see Zappalà & Lyons 2005 for further details).

The survey was distributed electronically to 552 nonprofit members of the Fundraising Institute – Australia (FIA) and a random sample of 987 nonprofit organisations from the six State-based fundraising and charities registers (excluding those already on the FIA list) in mid 2005.[5] In addition the survey was also hosted on the Australian Council of Social Service (ACOSS) web site with links to the survey distributed through several peak bodies across the nonprofit sector representing organisations in different industries. The data sets used do not therefore comprise a representative sample of the nonprofit sector in Australia. Data were gathered in this way because there is no single publicly available register or source of nonprofit organisations available for sampling. While it is not possible to generalise to the entire population of nonprofit organisations, these data sets were nevertheless sufficiently robust in terms of size and industry compared to the sector as a whole (ABS 2002; Lyons & Hocking 2000).[6] Another limitation of the data is that it is likely to be biased towards nonprofits that engage in fundraising given the use of the FIA database as a key data source.

Given the open invitation to the survey via the ACOSS web site (which elicited 163 survey responses) an overall response rate for the survey cannot be established. The response rate for the State Government Registers of charities database was 26 per cent, while that for the FIA database was 17 per cent giving an overall response rate for the two databases with known samples of 23 per cent. The analysis in this paper is based on 421 responses.[7]

Table 1: Predicted relationship between fundraising dependency and variables

Variables in study	Predicted direction of effect
Organisational *Field of activity*	
Social services	- ve
International/religious	+ve
Age	
Established > 1990	+ve
Size (revenue)	
<$100,000	+ve
Size (paid staff)	
Employs 0 -19	+ve
Organisational scope	
International	+ve
Geographical location	
Capital city	?
Tax status	
DGR	+ve
ITEC	+ve
Primary focus	
Public serving	?
Revenue generation model	
Government	
High reliance on revenue from government	-ve
Business partnerships	
Had a partnership with at least one business	+ve
Commercialisation	
Operates a commercial venture/social enterprise	-ve
Approach to fundraising	
Fundraising staff	
Employed fundraising staff	+ve
Volunteer fundraisers	
Utilize volunteers in fundraising	+ve
Fundraising consultants	
Utilize fundraising consultants	+ve
Fundraising practices	
Higher No. of fundraising practices used	+ve
Fundraising resources	
Higher fundraising resource intensity	+ve

Multivariate statistical techniques were used (ordinary least-squares – OLS) to model indicators of fundraising dependency and test the effects of organisational, revenue generation and fundraising practices. A direct measure of fundraising dependency (the dependent variable) was used in the analysis – the percentage of an organisation's total revenue generated from fundraising activities. Such a measure provides a useful way to gauge the extent to which a nonprofit is reliant on fundraising regardless of the variation in total and fundraising revenue size that exists across nonprofit organisations. The variable was based on a question where respondent organisations were asked for the approximate percentage of their organisation's total revenue that came from a number of specified sources for the 2003/04 financial year including fundraising.[8] Other sources of revenue that respondents could indicate included: sale of goods and services (both related and unrelated to the organisation's mission); membership fees, government, business, grants from Foundations and Trusts, interest on investments, dividends and rent, and an open 'other' category.

The average percentage of total revenue from fundraising in the study population was 26 per cent. As shown in Table 2, just over one-quarter (26%) of the organisations did not undertake any fundraising activities. Two-fifths of the organisations, the largest group in the study population, derived up to one-quarter of their total revenue from fundraising, while 13 per cent (N=53) of organisations relied heavily on fundraising as a form of revenue (i.e. it comprised over 75% of their total revenue).

Table 2: Summary statistics for fundraising dependency

Percentage of revenue from fundraising	N	%
None	109	26
1 – 25	165	40
26 – 50	50	12
51 – 75	40	9
76 – 100	53	13
Total	417	100

The key independent variables used in the analyses are summarised in Tables 3 to 5. Table 3 contains summary statistics for the organisational variables used in the regressions and includes field of activity or 'industry'[9], age of the organisation, size of the organisation as measured by total revenue and number of paid employees, geographical scope of the organisation, geographical location, tax status, and whether the organisation's primary focus is member or public serving. All the variables were dummy coded as shown in the second column of Table 3.

One-third of organisations were in social services, followed by culture and recreation and civic and advocacy. In terms of age, three-quarters of organisations were established prior to 1990. Most organisations had revenue greater than $100,000, with 38% of the sample having revenues greater than one million dollars. The majority of organisations (72%) either employed no paid staff or had fewer than 20 employees, with just over one quarter employing more than 20. A small but significant proportion (11%) of organisations had operations that were international in scope.[10] Of the remainder, 22 per cent were national, 36 per cent were State, and 31 per cent were local. Almost three-quarters of organisations were located in capital cities with the remainder spread fairly evenly between those located in large urban centres (15%) and rural/remote areas (12%). The majority of organisations also had ITEC and DGR status and almost two-thirds of organisations (62%) described themselves as public serving.

The three revenue generation model variables used in the analysis are summarised in Table 4. A key variable we would expect to be inversely related to revenue from fundraising is the reliance on government funding. Given the continuous nature of the dependent variable, the percentage of an organisation's total revenue generated from government grants and contracts (also a continuous variable) was split into two-levels: High reliance on government revenue – having 32 per cent (the mean) or more of revenue from government sources (n=171) and Low reliance on government revenue – having less than 32 per cent of revenue from government sources (n=250).[11] Almost two-fifths of the sample (39%) did not receive any funding from government sources.

Table 3: Summary statistics for organisational variables

Variable	Variable type	N	%
Field of activity	Nominal		
Culture & recreation	(0)	68	16
Education & Research	(0)	51	12
Health	(0)	47	11
Social services	(1)	138	33
Development & Housing	(0)	25	6
Civic & Advocacy	(0)	67	16
International	(1)	17	4
Religious	(1)	8	2
Age	Nominal		
Established <1990	(0)	308	75
Established >1990	(1)	103	25
Size (revenue)	Nominal		
Total revenue >$100,000	(0)	306	73
Total revenue <$100,000	(1)	111	27
Size (paid staff)	Nominal		
Employs >19	(0)	113	28
Employs 0 – 19	(1)	296	72
Organisational scope	Nominal		
Local, State or National	(0)	372	89
International	(1)	45	11
Geographical location	Nominal		
Large urban centre, rural, remote	(0)	111	27
Capital city	(1)	302	73
Tax status	Nominal		
No DGR	(0)	117	28
DGR	(1)	294	72
No ITEC	(0)	80	20
ITEC	(1)	321	80
Primary purpose	Nominal		
Member serving	(0)	158	38
Public serving	(1)	259	62

Table 4: Summary statistics for revenue generation variables

Variable	Variable type	N	%
Government	Nominal		
High (%)	(1 if High, 0 if Low)	171	41
Business partnerships	Nominal		
Had a partnership with at least one business	(1 if partnership, 0 otherwise)	161	40
Commercialisation	Nominal		
Operates a commercial venture/social enterprise	(1 if has a CV, 0 otherwise)	119	30

Two-fifths of the organisations had a partnership with one or more business organisations, while just under one-third (30%) of organisations operated a commercial venture or social enterprise. All revenue generation variables were dummy coded as shown in Table 4.

Table 5: Summary statistics for approach to fundraising variables

Variable	Variable type	N	%
Fundraising staff	Nominal		
Employed fundraising staff	(1 if employed fundraising staff, 0 otherwise)	138	33
Volunteer fundraisers	Nominal		
Utilize volunteers in fundraising	(1 if utilized volunteer fundraisers, 0 otherwise)	194	46
Fundraising consultants	Nominal		
Utilised fundraising consultants	(1 if utilized consultants, 0 otherwise)	50	12
Fundraising practices	Ordinal	Mean	
No. of fundraising practices used	(0 – 24)	4.1	
Fundraising resources	Ordinal	Mean	
Fundraising resource intensity	(0 – 7)	1.3	

Table 5 summarises the fundraising variables used in the analysis. Following Hager et al's (2002) 'domains of fundraising' model, the 'approach to fundraising' measures were based on survey responses that indicated whether the organisation employed specialist fundraising staff (corresponding to Hager et al's first domain), utilised volunteer fundraisers (corresponding to Hager et al's second domain) and external fundraising consultants (corresponding to Hager et al's third domain). These three variables were dummy coded as shown in Table 4. Two additional fundraising variables were also included. First, respondents were asked to nominate which types of fundraising practices they engaged in from a possible list of twenty four.[12] This was entered as an ordinal variable ranging from 0 to 24. The mean number of fundraising practices used was 4.1. Second, respondents were asked to indicate which and how many resources and supports they drew upon to assist them generate resources via fundraising, which we have labelled fundraising resource intensity.[13] This was also entered as an ordinal variable ranging from 0 to 7. The mean 'fundraising resources intensity' was 1.3.

Results

Table 6 reports on the variables that affect fundraising dependency. The table contains three columns, each column reporting an OLS regression of fundraising dependency on a set of possible determinants. The regressions are cumulative from left to right. The first column (model 1) shows the results of regressing organisational variables on fundraising dependency. The second column (model 2) adds variables that reflect the organisations' revenue generation models; while the third column (model 3) adds variables that reflect the organisations' approaches to fundraising.

The measure of fundraising dependency – percentage of total revenue from fundraising – was regressed on the set of organisational variables to estimate their effects and more accurately estimate the effects of alternate models of revenue generation and fundraising practices. Seven variables had significant effects on the percentage of revenue generated from fundraising (see Table 6, Model 1). First, social services organisations were less likely to be dependent on fundraising compared to organisations in other fields of activity. In contrast, organisations operating in the international sector or that are religiously-based were more likely to be dependent on fundraising revenue to undertake their activities. Second, smaller organisations in terms of revenue were more likely to be dependent on fundraising compared to larger organisations. Third, organisations located in capital cities were also more likely to be dependent on fundraising revenue to carry out their activities. Finally, both measures of tax status – ITEC and DGR – were significant and positive, that is, organisations with ITEC and/or DGR status were more likely to generate a greater proportion of their revenue from fundraising activities. An organisation's size (in terms of paid staff), age and its primary focus (whether member or public serving) each had no significant net effect on fundraising dependency, so they were removed from the model.

Retaining the significant organisational variables as controls, the second model examined the influence of three alternative revenue generation variables on fundraising dependency. As the second model in Table 6 indicates, all three of the revenue generation variables were significant. Organisations that had a high reliance on government revenue and/or operated a commercial venture were less likely to be dependent on fundraising revenue. In contrast, organisations that had a partnership with at least one business organisation were more likely to generate a greater proportion of their revenue from fundraising activities. Most of the organisational variables (with the exception of social services and geographic location) continued to be significant in this model.

Finally, the effects of the organisations' approach to fundraising were examined (see the final column in Table 6). The third model suggests that three of the fundraising practices variables were statistically significant – whether the organisation employed paid professional fundraising staff (Hager et al's first domain), whether the organisation utilized volunteers in their fundraising activities (Hager et al's second domain) and the number of fundraising practices used. All suggest that organisations that employed specialist fundraising staff and that made use of a greater number of fundraising practices and volunteer fundraisers were more likely to generate a greater proportion of their revenue from fundraising. The addition of the fundraising variables did not substantially change the effects previously established, with the exception that field of activity (international/religious), DGR status, and having a partnership with a business lost significance. The last row in Table 6 suggests that the third model has the best explanatory power (an adjusted R^2 of .45).

Table 6 Determinants of fundraising dependency

Independent variables	Cumulative Models					
	Model 1		Model 2		Model 3	
	Organisational variables		Revenue generation variables		Fundraising variables	
	ß	t	ß	t	ß	t
Social services	-9.97**	-3.12	-	-	-	-
International/religious	15.77*	2.45	15.08*	2.59	-	-
Established > 1990	3.11	0.9	-	-	-	-
Revenue <$100,000	15.74***	4.25	8.62*	2.57	8.67**	2.75
Employs 0 -19 staff	4.94	1.43	-	-	-	-
International scope	27.96***	5.63	22.34***	4.93	20.1***	5.08
Capital city	9.45*	2.72	-	-	-	-
ITEC	8.91**	2.53	8.47**	2.68	8.15**	2.87
DGR	12.41**	3.38	11.31**	3.57	-	-
Public serving	5.06	1.72	-	-	-	-
High reliance on gov. rev	-	-	-27.2***	-9.74	-23.05***	-8.79
Partnership with business	-	-	6.73*	2.45	-	-
Commercial venture	-	-	-5.78*	-1.98	-8.51**	-3.17
Employed fundraising staff	-	-	-	-	10.57**	3.06
Volunteers in fundraising	-	-	-	-	10.41***	3.66
Fundraising consultants	-	-	-	-	-3.71	-0.94
Fundraising practices used	-	-	-	-	1.62***	3.97
Fundraising resources	-	-	-	-	-0.19	-0.22
Constant	-9.00	-2.68	15.79	4.00	12.48	3.7
R^2	0.249		0.362		0.464	
Adjusted R^2	0.230		0.350		0.451	

Notes: *p<.05; **p<.01; ***p<.001

The results can be used to provide some hypothetical examples to illustrate how fundraising dependency varies according to the particular characteristics of an organisation. A nonprofit organisation that is international in scope, has ITEC status, employs fundraising staff and uses fundraising volunteers for example, all other things being equal, has a fundraising dependency of 61 per cent, that is, close to two-thirds of its revenue derives from fundraising. In contrast, a nonprofit that operates nationally, has ITEC status, has a high reliance on government funding and employs fundraising staff, has a fundraising dependency of only 15 per cent (i.e. only 15% of its revenue derives from fundraising). A small nonprofit with ITEC status and only volunteer fundraisers and using three fundraising practices has a hypothetical fundraising dependency of 44 per cent.

Discussion

Why are some nonprofit organisations more dependent than others on fundraising as a source of revenue? The findings from the multivariate analysis support taking a multidimensional approach to understanding fundraising dependency – one that includes organisational, revenue generation and fundraising variables.

One interesting finding is that field of activity or industry was not significantly related to fundraising dependency once other factors such as alternate forms of revenue generation and approaches to fundraising are controlled for. The industry an organisation is in, however, is likely to play a more significant role in determining the absolute dollar value of fundraising revenue generated. Similarly, the findings for age, which was also not significantly related to fundraising dependency, is more likely a factor in generating increased fundraising revenue due to the greater levels of trust that older organisations may enjoy with the fundraising public.

In contrast, the size of an organisation was found to be significantly positively associated with fundraising dependency across all three models. It confirms that smaller organisations (in terms of revenue) are more likely to be highly dependent on fundraising and are likely to remain so until their revenue reaches a point that enables them to explore pursuing other income generation options such as commercial venturing or gaining the confidence of those that hold the government purse strings.

An organisational variable that was strongly and positively related to fundraising dependency was the geographical scope of an organisation. The strength of the international scope variable is not surprising, for as was suggested previously, nonprofit organisations that operate internationally or at least those that mainly offer services in developing countries, are likely by the very nature of the services they offer to be less able to generate revenue from sales, or indeed from government. While such organisations could generate some revenue in the form of profits from commercial ventures, they are to a significant extent 'forced' to be dependent on fundraising revenue.

The final organisational variable that remained significant across all three models was ITEC status, and as expected, those organisations with ITEC status are more likely to be dependent on fundraising revenue. As was noted previously, we expected ITEC status to correlate with fundraising dependency. While DGR status was also statistically significant and positively associated with fundraising dependency in the first two models, it lost significance once the fundraising variables were added in the third and final model. This is surprising to some extent as DGR status is a positive incentive to donors and its absence makes fundraising less attractive in a competitive environment. There are some forms of fundraising, however, such as special events, business sponsorship and many local methods used by small local nonprofits (e.g. cake stalls, raffles, bingo) where DGR status is of no assistance and it is precisely those small local nonprofits that we expect to have a high dependency on fundraising revenue. In addition, as noted previously, some nonprofits that do not engage in fundraising may have obtained DGR status (as PBIs) for other reasons.

In terms of the revenue generation variables, the findings provide some support for the 'crowding out' thesis, as organisations that have a high reliance on government revenue are much less likely to generate a significant proportion of their revenue from fundraising (i.e. they have a low fundraising dependency). Organisations that generate revenue from the operation of a commercial venture are also significantly less dependent on fundraising. Both these findings are consistent with those of other studies on the revenue generation strategies of nonprofits (e.g. Guo 2006).

Finally, our findings on the significant association between the 'domains' of fundraising and fundraising dependency suggest that an organisation's approach to fundraising is important to understanding fundraising dependency and such variables should be included in future studies. As expected, organisations that are highly dependent on fundraising are more likely to employ professional fundraising staff and use volunteer fundraisers all else being equal. Two types of nonprofits are likely to be highly reliant on fundraising revenue: first, those that are very small and therefore reliant on volunteers for the performance of many tasks including fundraising activities; and second, those that are larger, and able to make use of many fundraising approaches, some of which invariably involve the use of volunteers. There has been much interest among the research and policy communities over the last decade on the importance of volunteering to society in general and in particular to a healthy and vibrant civil society. These findings confirm the important role that volunteers play to civil society, in this case a critical dimension of their organisational survival – generating the funds that keep them functioning and carrying out their respective activities.

Conclusion

Most of the research on fundraising in Australia and internationally has focused on either the cost of fundraising or fundraising performance. Few studies, especially in Australia, have examined fundraising dependency. This paper contributes to our understanding of the range of factors that are associated with fundraising dependency among nonprofit organisations in Australia.

The findings suggest that some organisational characteristics such as size, the geographical scope of the organisation and tax status; alternative revenue generation strategies, such as reliance on government funding and commercialisation; and the approach to fundraising are all significantly related to fundraising dependency. The results therefore support taking a multidimensional approach to understanding fundraising dependency.

Long-term organisational health and sustainability is a significant issue for most nonprofit organisations as well as those interested in fostering a vibrant and effective civil society. A key dimension of achieving that sustainability is a better understanding of the factors that may be associated with reliance on one form of revenue, be it fundraising, government or commercial venturing. We hope that this small and exploratory study stimulates further research on the revenue generation strategies of the third sector in Australia.

References

Abrams, B. A. & Schmitz, M. D. (1986) 'The Crowding-Out Effect of Governmental Transfers on Private Charitable Donations' in S. Rose-Ackerman ed., *The Economics of Nonprofit Institutions: Studies in Structure and Policy*, New York, Oxford University Press.

ABS (2002) *Nonprofit Institutions Satellite Account, Australian National Accounts 1999-2000*, Cat No 5256.0, Canberra, ABS.

ACOSS (2005) *Giving Australia: Research on Philanthropy in Australia. Summary of Findings*. Canberra, Department of Family and Community Services.

Berman, G. & Davidson, S. (2003) 'Do donors care? Some Australian evidence', *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 14 (4), 421-29.

Buckmaster, N., Lyons, M. & Bridges, A. (1994) 'Financial Ratio Analysis and Nonprofit Organisations: A Review and an Exploration of the Financial Vulnerability of Ninety Large Nonprofit Organisations in NSW', CACOM Paper 26, CACOM, UTS, Lindfield.

Consumer Affairs Victoria (2004) *Review of the Fundraising Appeals Act 1998*, CAV, July.

Flack, T. (2004) 'The mandatory disclosure of cost of fundraising ratios: Does it achieve the regulators' purposes?' Working Paper No.CPNS26, Centre of Philanthropy and Nonprofit Studies, Queensland University of Technology.

Greenlee, J. & Trussel, J. M. (2000) 'Estimating the Financial Vulnerability of Charitable Organizations', *Nonprofit Management and Leadership*, 11 (2), 199-210.

Guo, B. (2006) 'Charity for profit? Exploring factors associated with the commercialization of Human Services nonprofits', *Nonprofit and Voluntary Sector Quarterly*, 35(1), 123-138.

Hager, M., Rooney, P & Pollak, T. (2002) 'How fundraising is carried out in US nonprofit organisations', *International Journal of Nonprofit and Voluntary Sector Marketing*, 7 (4), 311-324.

Industry Commission (1995) *Charitable Organisations in Australia*, IC Report No.45, Canberra: AGPS.

Leiter, J. (2005) 'Structural Isomorphism in Australian Nonprofit Organizations', *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 16 (1), 1-31.

Lindahl, W.E. & Conley, A.T. (2002) 'Literature review: philanthropic fundraising', *Nonprofit Management & Leadership*, 13(1), pp.91-112.

Lyons, M. (1995) 'Fundraising in Australia – A survey of current effort', CACOM Paper, UTS, Lindfield.

Lyons, M. (2001) *Third Sector: The contribution of nonprofit and co-operative enterprises in Australia*. Crows Nest, Allen and Unwin.

Lyons, M. & Hocking, S. (2000) *Dimensions of Australia's Third Sector*, Lindfield, Centre for Australian Community Organisations and Management, University of Technology, Sydney.

Lyons, M., Zappalà, G & Nivison-Smith, I. (2006) 'Revenue raising strategies among the community sector in Australia' *forthcoming*.

Paton, R.(2003) *Managing and measuring social enterprises*, London: Sage.

Pink, G.H & Leatt, P (1991) 'Fund-Raising by Hospital Foundations', *Nonprofit Management & Leadership,* 1(4), pp.313-327.

Salamon, L (1987) 'Partners in Public Service' in W. W. Powell ed. *The Nonprofit Sector: A Research Handbook*, New Haven, Yale University Press.

Sargeant, A. & Kahler, J. (1999) 'Returns on fundraising expenditures in the voluntary sector', *Nonprofit Management & Leadership,* 10 (1), 5-19.

Steinberg, R. (2003) 'Economic Theories of Nonprofit Organisations: An Evaluation' in H. Anheier and A. Ben-Ner eds *The Study of Nonprofit Enterprise: Theories and Approaches*, New York, Kluwer Academic/Plenum Publishers.

Trussel, J. M. (2002) 'Revisiting the Prediction of Financial Vulnerability', *Nonprofit Management and Leadership*, 13 (1), 17-31.

Tuchman, H. & Chang, C. (1991) 'A Methodology for measuring the Financial Vulnerability of Charitable Nonprofit Organizations', *Nonprofit and Voluntary Sector Quarterly*, 20 (4), 445-460.

Weisbrod, B. A. (1988) *The Nonprofit Economy*, Cambridge, MA, Harvard University Press.

Woodward, S. & Marshall, S. (2004) *A Better Framework – Reforming Nonprofit Regulation*, University of Melbourne: Centre for Corporate Law and Securities Regulation.

Zappalà, G. & Lyons, M. (2005) *Strengthening Nonprofit Organisations – Survey Report*, Canberra, Department of Family, Community Services and Indigenous Affairs.

Zappalà, G. & Lyons, M. (2006) 'Fundraising performance and dependency among nonprofits in Australia', Paper presented at the *FIA 29th International Fundraising Conference*, Sydney, 25-28 February.

Endnotes

1. In Zappalà & Lyons (2006), for instance, high fundraising dependency was defined as nonprofits that derived 50 per cent or more of their total revenue from fundraising while high fundraising performance was defined as organisations with fundraising revenues greater than half a million dollars. They identified four possible quadrants in the relationship between fundraising dependency and performance within which nonprofit organisations can be located: High fundraising performance and high fundraising dependency; high fundraising performance and low fundraising dependency; low fundraising performance and high fundraising dependency; low fundraising performance and low fundraising dependency.

2. This study was based on a national survey of almost 1,700 nonprofit organisations that were limited by guarantee across all major fields of activity.

3. A pure gift is not counted as taxable income but funds raised by many popular forms of fundraising may be.

4. It should be noted that there are at least two good reasons why eligible nonprofits would seek to obtain PBI status even if they were uninterested in fundraising. Before the introduction of the Goods and Services Tax (GST) in 2000, PBIs were sales tax exempt, a good reason for ensuring a nonprofit had PBI (i.e. DGR) status, even if they did not engage in fundraising. In addition, PBIs are exempted (up to a certain value) from paying tax on fringe benefits provided to their employees, a concession that enables them to attract staff by packaging a range of benefits along with a relatively low cash component of salary.

5. The data set of 987 nonprofit organisations was randomly sampled at one in four (using a random numbers table) from the six State Government Registers of charities. There were a total of 3,992 nonprofit organisations listed in the six registers at the time of the study.

6. Almost all (92%) organisations were incorporated. Of these 28% were incorporated as a company limited by guarantee, 55% as an association under State legislation and the remainder as either an Aboriginal association; a cooperative; a separate Act of Parliament or had a legal identity linked with a church or religious body. Preliminary analysis of the data showed no association between the type of incorporation and fundraising dependency so the variable was excluded from further analysis.

7. A total of 510 surveys were returned and useable responses were received from 503 nonprofit organisations. Organisations that indicated that they were owned or controlled by Federal, State or Local government (n=22) were excluded from the analysis in this study leaving a final number of 481 respondents. Another 60 respondents were excluded as they did not provide data on their total revenue for the 2003/04 financial year as well as the percentage of their total revenue that came from different sources in the same financial year. Data on all variables used does not always total to 421 as some did not respond to particular questions.

8. The online version of the questionnaire ensured that responses to the question from which the dependent variable was derived added to 100 per cent.

9. The International Classification of Nonprofit Organisations (ICNPO) was used to allocate organisations to industry groups. The ICNPO is used by Central Statistical Agencies for the preparation of Nonprofit Satellite Accounts. See ABS (2002). For the purposes of the regressions International and Religious were combined because of the small cell sizes and the similarity in revenue sources between organisations in these fields.

10. Note that this is a wider group than those organisations classified to the International industry group in the ICNPO. See note 12.

11. This follows a similar procedure in Guo (2006) to avoid using two continuous variables from the same revenue data source.

12. The list of fundraising practices used in the survey was provided by the FIA and grouped under six main categories: Bequests/Major Gifts; Personal solicitation; Gaming; Marketing; Events and Other.

13. The resources included: Books/manuals; Fundraising resources from the Internet; Information received through course/seminar; advice from another CEO; advice from the board and/or board member; information received from a nonprofit support organisation (e.g.FIA).