Multidimensional Approaches to Nonprofit Revenue-Generation Strategies and Outcomes: Organization, Community, and Institution

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Abstract

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Among all types of resources, revenue stands out as one of the most crucial assets for nonprofit organizations to fulfill their distinctive missions, sustain their operations, and ensure their survival and long-term viability. Given the pivotal role of revenue in lifecycle of organizations, how do nonprofits enhance their performance in acquiring it? What factors influence the outcomes of revenue generation for nonprofits? This dissertation investigates how various attributes constituting nonprofits' resource environment – including organizational, community, institutional characteristics – influence revenues strategies and outcomes, employing a range of theoretical frameworks and empirical evidence. Firstly, this study examines the effects of management characteristics on the extent of nonprofit revenue diversification, focusing on nonprofits' managerialism, collaboration, and community ties. This study theoretically and empirically supports the idea that nonprofits utilize managerialism and collaboration as strategic tools to generate diverse revenue streams in their unique multilevel environmental contexts. Secondly, this

dissertation explores how these multilevel factors affect the likelihood of human service nonprofits securing government contracts. It operates under the theoretical assumption that government cost considerations, nonprofits' resource factors, and institutional pressures play key roles in determining the success of nonprofits in securing public contracts. The research demonstrates that nonprofits' utilization of performance measures, administrative capacity, and advocacy efforts increase their chances of securing public contracts by aligning with the requirements of multiple levels. Thirdly, this study delves into the influence of social capital at the community level on charitable giving and foundation grants for nonprofits. The research findings suggest that nonprofits situated in communities with high rates of volunteering are likely to have a larger portion of foundation funding, while a high density of nonprofits has a negative influence. Conversely, tightly knit communities with dense social clusters tend to offer fewer contributions of individual donors. Additionally, the paper examines how leadership diversity connects social capital to nonprofits' financial performance. It finds that board diversity significantly moderates the impact of bridging on individual donation income and the impact of bridging and bonding on foundation grant income. In summary, this dissertation provides valuable insights into the intricate web of relationships nonprofit organizational attributes, community characteristics, institutional environment, and nonprofits' revenue acquisition outcomes. It underscores the adaptive nature of nonprofits in response to their environments and emphasizes the significance of strategic decision-making in ensuring their long-term sustainability.

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Dedication

To Him, for His everlasting love and kindness.

Chapter 1

Introduction

1.1 Background

Every organization, regardless of its nature, has the common goal of obtaining and managing a diverse set of resources to fulfill their unique missions and objectives. These resources are essential not only during the establishment phase but also for sustained operations. Organizations require access to materials, physical space, information, and human expertise to produce goods or services, deliver them, and conduct their day-to-day operations. Nonprofit organizations are no exception to this rule. They rely on a wide array of resources, including labor, symbolic assets, and monetary funds, to deliver social services, drive social movements, and manage their day-to-day activities. They need skilled human resources to interact with clients, beneficiaries, members, partners, competitors, stakeholders, and regulators. They must continually update their knowledge and information about their market or the sector they operate in to meet both collective and individual demands. They must also secure the necessary financial resources to sustain their operations.

Among all these resources, revenues stand out as the most vital and fundamental resource for nonprofits to ensure their survival and long-term sustainability. For instance, revenues are necessary to pay staff salaries, cover office rent, and purchase essential equipment like computers. Even grassroots mobilization efforts require budgets derived from revenues, including funds to

transport individuals to events, create poster signs, or print flyers for distribution. Given the central role of revenues in nonprofit organizations, researchers have extensively studied the impact of nonprofits' revenue generation strategies and revenue outcomes, primarily focusing on the relationships between the composition of revenues and financial health of nonprofits, as well as the connections between nonprofit reliance on specific revenue sources and their overall financial well-being (e.g., Chang & Tuckman, 1994; Frumkin & Keating, 2011; Chikoto & Neely, 2014; Carroll & Stater, 2009; Greenlee & Trussel, 2000; Trussel, 2002; Froelich, 1999).

However, prior research that emphasizes the significance of revenue-generation strategies and revenue structures in nonprofits' mission achievement and survival has paid relatively little attention to the factors that influence the revenue generation strategies and capacity to develop specific revenue sources and desired revenue structures. If it is universally accepted that all nonprofits should strive to optimize their organizational performance in acquiring revenue and efficiently managing their revenue streams, then why do some nonprofits excel in generating and managing revenue streams while others struggle? What explains the differences in nonprofits' revenue-generating abilities and outcomes? This dissertation is driven by the inquiry into comprehensive theoretical and empirical evidence that encompasses the effects of multilevel and multidimensional factors on nonprofits' revenue acquisition strategies and their consequences, which I refer to as institutional, environmental, and organizational factors. The argument put forth here is that a systematic understanding of organizational financial performance necessitates a multifaceted approach, as organizations are influenced by institutional forces (macro-level influences), the conditions of their community environment (meso-level influences), and their internal characteristics and dynamics (micro-level influences), all of which make up their role as social actors within broader social systems.

Indeed, research indicates that the resource environments experienced by individual nonprofit organizations are shaped by long-term sectoral changes and the unique characteristics of each organization. For example, a recent research report by the Urban Institute (Faulk et al., 2021) reveals that income from individual donations to nonprofits in the United States generally increased from 2016 through 2019, but this trend was disrupted by the event of the 2020 pandemic for many nonprofits. Moreover, the study shows that sectoral trends did not affect every organization equally. Despite the overall increase in donations from 2016 through 2019, a greater portion of organizations led by people of color experienced declines in donations during that period compared to non-Hispanic-white-led organizations. Even the impact of the Coronavirus pandemic on nonprofits' income from individual giving varied among nonprofits, with smaller nonprofits which budgets under $500,000 experiencing more substantial decreases in donations in 2020 than larger nonprofits with budgets of $500,000 or more.

The funding outcomes of nonprofit organizations are subject to the intricate and simultaneous influences stemming from the formal and informal institutions (e.g., norms, culture, and regulations), the socioeconomic characteristics in the communities they serve (e.g., the proportion of resourceful populations and the number of people in need of nonprofit services), and the attributes and dynamics within the organizations themselves (e.g., financial capacity for fundraising, the role of leaderships as resource brokers, and the presence of organizational partners for collaborative resource mobilization). Furthermore, organizations are not merely passive recipients of their resource mobilization conditions; they actively assess and leverage these conditions to formulate their strategic approaches to acquire resources. In examining nonprofit behaviors and outcomes, this dissertation posits that they are a product of environmental and institutional influences, as well as nonprofits' strategic responses to these conditions.

Based on these underlying assumptions, this dissertation adopts an open-system logic, viewing nonprofits as systems engaged in multifaceted interactions with internal actors and the external environments. These interactions take various forms, including information exchange, communication, recruitment, monetary resource transfers, and adherence to socially desired templates. Underlying this perspective is the notion that nonprofits, at a system level, engage in strategic alignment and relationships with both internal and external actors to perform technical tasks, gain access to external resources, and secure the legitimacy needed to support their goals and objectives. These linkages with internal stakeholders and the external environment enable the exploration of research questions related to various environmental and organizational elements, drawing on comprehensive theoretical frameworks that highlight each component and their interconnectedness.

1.2 Understanding Nonprofit Organizations

The wide range of activities carried out by voluntary and social purpose organizations in the United States is often collectively referred to as the "nonprofit sector." This sector has been known by various names over time, including "charitable organizations, civil society, the third sector, the independent sector, the social sector, and more recently, social purpose organizations." (Powell, 2020, p. 3). This dynamic sector has garnered significant attention from scholars and policymakers since its emergence as a distinct sector, separate from both government and business. According to Ma and Konrath (Ma & Konrath, 2018), the research in this sector has cited a total of 311,212 references between 1971 and 2016 in this field, with contributions from 10,135 authors representing 3,506 institutions worldwide. Furthermore, the establishment of academic programs

focused on nonprofit management in the United States has grown substantially since the early 1980s (Young, 1999).

The expanding scope and depth of research and education on nonprofits reflect the remarkable growth of nonprofit organizations, both on a national and global scale. In the United States, the nonprofit sector has expanded since World War II (Powell & Clemens, 1998, Weisbrod, 1988). For instance, in the 1950s, the commissioner of the Internal Revenue Service (IRS) testified before Congress that no more than fifty thousand charitable tax-exempt organizations were registered with his agency (Hall, 1995), but by the end of 1960s, this number exceeded four hundred thousand (Weisbrod, 1988). By the end of 1970s, it has reached eight hundred thousand, and by the mid-1980s, it was nearly nine hundred thousand (Weisbrod, 1988). This growth has continued unabated. In 2016, approximately 1.54 million nonprofits were registered with the IRS, and the nonprofit sector contributed to an estimated $1,042.2 trillion to the U.S. economy in 2016, constituting 5.6 percent of the country's gross domestic product (GDP) (Urban Institute, 2019).

The expansion of nonprofit organizations is not limited to the United States. According to Salamon et al. (1999), the nonprofit sector in 22 countries they examined represents an industry with $1.1 trillion in expenditures, accounting for an average of 4.6 percent of GDP in these countries. The sector employs nearly 19 million full-time equivalent paid workers, making up almost five percent of all nonagricultural employment, 10 percent of all service employment, and 27 percent of all public sector employment. Salamon and his colleagues assert that if the nonprofit sector in these countries were considered a separate national economy, it would rank as the eight largest in the world.

The reasons behind the proliferation of the nonprofit sector vary widely across the globe, but two key characteristics of nonprofits are particularly significant. Firstly, they are mission-driven

social service providers operating in the intersection of the market economy and the public sphere, and secondly, they serve as advocates for policy change and collective benefits, bridging the gap between government and the community.

Firstly, nonprofits represent an institutional hybrid that combines the characteristics of both public service entities and private enterprises (Powell & Clemens, 1998; Park & Brunjes, 2022; Weisbrod, 1988). Similar to governments, nonprofits are committed to serving public purposes and often have close ties to the communities they serve (Gazley & Brudney, 2007; Lee & Wilkins, 2011). Like businesses, nonprofits often operate in competitive environments where marketing and responsiveness ae crucial for long-term success (Weisbrod, 1988; Bunger 2013; Lakdawalla & Pillipson 1998; Park & Brunjes, 2022). Consequently, in many areas, public sector services have been initiated, transferred to, or assumed by nonprofits. Governments have divested themselves of numerous activities that have been taken by nonprofit organizations (Smith & Lipsky 1993; Brown et al., 2006; Park & Brunjes, 2022). In fields like arts and education, private nonprofit organizations funded largely by federal money dominate the service provision landscape. Industries such as health care and daycare witness extensive competition among different organizational forms, further fueling nonprofit growth (Powell & Clemens, 1998). The scope of public services provided by nonprofits is broad and results in intricate distinctions between public, private, and nonprofit actors.

Equally crucial is the growing advocacy role played by nonprofits in pursuit of collective benefits and policy change. The rapid proliferation of specialized advocacy movements represents the second major driver of nonprofit expansion. Moreover, this advocacy role is not limited to emerging nations. Industrial democracies have witnessed the rapid growth of special-interest nonprofit advocacy groups (Jenkins, 2006). In contrast to other political groups that aimed to

redistribute wealth and political power, nonprofit advocacy groups articulate collective interests, such as environmental conservation or the expansion of citizenship rights, by appealing to both general public and those in positions of power. The expansion of nonprofit organizations as both service providers and advocates for change has prompted scholarly efforts to examine how these organizations differ from other institutional forms, such as government and business, in terms of their motivations, functions, behaviors, and impact.

Given that nonprofits often serve less privileged and resource-limited populations while competing for resources in the market economy, understanding their strategies and efforts to ensure organizational survival and sustainability is an intriguing subject for organization scholars. Recent research indicates that a significant portion of nonprofits operates within and serves lower-income communities, 45 percent of U.S. nonprofits having programs focused on individuals and families below the federal poverty level. Many of these programs target historically marginalized groups, including Black or African American individuals (29 percent), Latinx individuals (27 percent), Indigenous, Native American, and Alaskan Native individuals (17 percent), and LGBTQ individuals (19 percent) (Faulk et al., 2021). How do nonprofits navigate their unique resource environments to increase their chance of survival while continuing to achieve their mission? Motivated by the distinctive and compelling characteristics that define nonprofit organizations as hybrid entities, coupled with the expansion of nonprofit organizations and the significance of their roles, this dissertation aims to provide a body of evidence on how the interplay between external and internal environments shapes nonprofits' ability and strategies for revenue acquisitions as well as their consequences.

1.3 Dissertation Structure

The initial study of this dissertation aims to investigate the influence of management characteristics within nonprofit organizations on the extent of their revenue diversification. It draws upon theoretical frameworks, including institutional theory, resource dependence theory, and financial portfolio theory. Using structural equation modeling and survey data collected from nonprofits in the Puget Sound region of Washington state and the San Francisco Bay Area in California state, this chapter seeks to answer the question: "How do nonprofits strategically leverage their organizational attributes, such as managerialism, collaboration, and community ties, to diversify their sources of revenue?"

Both institutional theory and resource dependence theory provide a theoretical foundation for understanding how nonprofits utilize these three management characteristics as strategic tools for revenue generation. Additionally, financial portfolio theory allows for an examination of how revenue diversification can mitigate financial risks and stabilize an organization's financial position by spreading risks across funding sources (Carroll and Stater, 2009; Chang and Tuckman, 1994; Froelich, 1999; Greenlee and Trussel, 2000; Trussel, 2002).

While the existing literature on organizations and management views organizations as strategic entities navigating their institutional and task environments to ensure stability and sustainability, there is limited research on how specific organizational attributes contribute to creating conditions favorable for nonprofit organizations' stability and sustainability. Therefore, the first research of this dissertation aims to investigate how nonprofits leverage their management assets, such as professional staff, collaborative partnerships, and strong community ties, to enhance their prospects of stability through revenue diversification.

The second analysis of this dissertation focuses on examining how organizational, community, and institutional characteristics impact nonprofit organizations' procurement of public contracts. This research is grounded in theoretical frameworks that includes transaction cost economics, resource dependence theory, and institutional theory. Public contracting has become a significant revenue source for many nonprofits in advanced countries over the last few decades (Salamon et al., 2017). This is particularly true in the United States, where it serves as the primary revenue source for many human service nonprofits (Boris et al., 2010). Given its vital role in the survival and sustainability of human service nonprofits, this chapter delves into the factors that influence the likelihood of these nonprofits securing government contracts.

This study explores two main themes concurrently. First, this chapter decomposes and investigates the factors influencing the decisions made by both governments (the supply-side) and human service nonprofits (the demand-side) regarding contracting. Then, it integrates these factors to describe and prove their interconnectedness across three analytical levels.

The premise is that contracting outcomes result from joint decisions made by government entities (contract suppliers) and nonprofits (contract awardees). Public-nonprofit contracting is the product of complex cost-benefit calculus that involves both government and nonprofits on each end. Each party calculates cost and benefits that the contractual relationships can bring to it, and both parties commonly seek to maximize the benefits and minimize the costs. Government aims to reduce program startup and management costs while responding to newly identified needs and demands of service recipients through expertise and innovative approaches of private providers they contract with (Van Slyke 2007; Smith & Grønbjerg, 2006). To achieve this goal, government might choose private vendors most likely to deliver high-quality services at the lowest contract costs. Nonprofits also pursue maximizing the benefits, most explicitly income from government,

but also including enhanced management expertise and connection to government agencies. They aim to minimize costs such as overinvestment of staff time, loss of autonomy, and possible government underfunding (Smith & Grønbjerg, 2006; Urban Institute, 2013).

The two parties' cost-benefit calculus is not only influenced by the assessment of the organizations' internal conditions, but also impacted by the institutional environment that shapes the perceptions of "deservingness" of being contract awardees, as organizations are under institutional pressures that require demonstrating their fitness for social ideals and norms. This paper employs key concepts from transaction cost economics, resource dependence theory, and institutional theory to identify the factors influencing the decision-making of both parties at the organizational, community environment, and institutional levels and to explore the independent and joint effects of the factors. Empirical investigation will involve Bernoulli multilevel modeling and the use of composite data derived from surveys and administrative records of human service nonprofits in the Puget Sound region of Washington state and the San Francisco Bay Area of California.

The third project in this dissertation explores the influence of community-level social capital on nonprofits, specifically focusing on individual donations and foundation funding. Individual donations and foundation funding constitute the primary revenue sources for nonprofits in the United States, serving as fundamental resources for the operational efficiency and sustainability of these organizations. Given that longstanding assertion that social capital can be transformed into other economic resources (Bourdieu, 1986; Portes, 1998), and the fact that nonprofits are social actors whose activities are significantly influenced by social relations, the social capital present in social relationships should be a potent community-level factor shaping unique resource environments that influence the fundraising outcomes of nonprofit organizations. Despite this

potential connection between stocks of social capital embedded in the community and nonprofits' resource outcomes, there is limited research on this topic. The goal of this chapter is to examine how nonprofits' revenue outcomes are both constrained and enhanced not only by individual organizations' characteristics but also by the surrounding neighborhood conditions and the institutional environment that shape nonprofits' access to social resources embedded in social relations among community members, referred to as social capital.

To understand the relationships between social capital and nonprofits' revenue outcomes, particularly incomes from individual donations and foundation funding, this study draws upon social capital theory, social network theory, institutional theory, and resource dependence theory. This chapter also utilizes composite data sourced from social media and surveys of nonprofits in the Puget Sound region of Washington and employs multilevel linear regressions as the analytical method. It particularly focuses on two-level factors as the primary exogeneous variables: first, three dimensions of social relations impacting the quantity and quality of social capital stocks - patterns of social interaction, network cohesiveness, and civic engagement – as community-level resource factors, and second, organizational internal diversity as the organization-level resource broker connecting external community-level social capital to the organization's operating environment. This research will examine the effects of social capital on nonprofits' incomes from individual donations and foundation funding and the moderating roles of internal organizational diversity in the relationships between social capital and the nonprofit revenue outcomes.

1.4 Significance of the Dissertation

This dissertation is poised to make significant contributions to the field of nonprofit organization research through several key avenues. Firstly, it will enhance our understanding of the various revenue generation strategies employed by nonprofits, all of which share a common objective: the survival and sustainability of these organizations. In times of economic challenges and uncertainty, the study of nonprofit revenue generation practices holds practical importance. It will provide nonprofit practitioners with valuable insights for assessing and analyzing their own management practices and the surrounding environments in which they operate. Additionally, it will equip policymakers with information for evaluating and supporting existing and potential nonprofit partners.

Secondly, this dissertation delves into the multifaceted factors influencing organizational resource-seeking strategies and outcomes. These factors span multiple levels, including an organization' internal attributes representing the organization's strategic inventory, the community-level resource environment shaped by constituents and external stakeholders, and institutional forces that impact organizational responses to social expectations. Those elements are examined through the lens of synthetic theoretical frameworks, primarily focusing on institutional theory and resource dependence theory, but also drawing from transaction cost economics, financial portfolio theory, social capital theory, and social network theory. By advocating for the integration of conceptual elements and logical underpinnings from various organizational, sociological, and economic theories, this dissertation not only allows for a holistic examination of organizational behaviors but also encourages exploration of arguments that transcend theoretical traditions, more widely accessible across scholarly domains, and less susceptible to different

assumptions. By combining different yet compatible organizational theories and conceptual lenses in each paper, the dissertation aims to provide comprehensive insights into diverse responses enacted by nonprofits as a result of their interactions with the internal and external environment.

Lastly, all three empirical papers within this dissertation employ analytical techniques that are not widely recognized or commonly used in nonprofit research. Structural equation modeling, Bernoulli multilevel modeling, and multilevel linear regression have gained increasing scholarly attention in the field of organizational studies in recent decades, but their potential for application to various topics in nonprofit organization research remains largely untapped. The methodological approaches adopted in this dissertation will offer valuable technical insights and analytical avenues that deserve consideration in future empirical research within the field.

Chapter 2

Which Nonprofits Are More Financially Stable?

Organizational Attributes and Revenue Diversification

Abstract

This paper examines the effects of organizational attributes on the degree of nonprofit revenue diversification. By combining institutional theory, resource dependence theory, and financial portfolio theory, this study seeks to provide an understanding of the organizational factors that influence the degree of nonprofit revenue diversification which potentially affects financial stability and organizational sustainability. A structural equation model was developed for an empirical test, based on survey data of nonprofits in the San Francisco Bay Area in California and the Puget Sound Region in Washington. This research finds that nonprofits with higher managerialism or higher collaboration are more likely to have diversified revenue portfolios, controlling for other organizational factors. In contrast, community ties do not have significant relationship with revenue diversification. The results of this analysis indicate that a nonprofit's organizational attributes such as managerialism or collaboration serve as the inventories of strategies the organization can utilize in its efforts for diversifying revenue streams while community ties do not have such instrumental functions.

2.1 Introduction

Organizations strive to acquire and maintain resources for their survival and day-to-day operations. As noted by Grønbjerg (1993), among the various resources, revenues stand out as "critical resources that organizations must secure and manage effectively if they are to survive" (p. 6) because "[revenues] constitute a convertible resource that organizations can use to obtain most other types of resources needed to stay in operation" (p. 13). The structure, nature, and predictability of revenues are indicative of, and often determinative for, an organization's sustainability.

In today's landscape, revenues play an especially pivotal role for nonprofit organizations. In the United States, the ongoing fiscal challenges faced by nonprofits underscore the significance of revenues more than ever. According to a survey report by the Urban Institute, 40 percent of nonprofits in the United States are grappling with budget deficits (Boris et al., 2010). These challenges are compounded by factors such as increased competition within the nonprofit sector (Hall, 2016; National Center for Charitable Statistics, 2020), continuous entry of for-profit entities into traditionally nonprofit-dominant service markets (Weisbrod, 1997; Salamon, 1997; Eikenberry & Kluver, 2004), and shrinking or stagnant government support (Salamon & Geller, 2007). The COVID-19 pandemic has further exacerbated financial uncertainties and instabilities, making financial management of nonprofit organizations even more intricate and demanding.

Given this context, it is imperative to understand how nonprofits strategically navigate fiscal stress and overcome the challenges arising from their external environment, considering their unique institutional conditions. Typically, nonprofits rely on multiple revenue sources, each requiring distinct organizational resources and strategies. Therefore, studying how nonprofits

leverage their own organizational attributes as intangible assets and valuable resources for revenue generation can shed light on the characterization and analysis of nonprofits as strategic actors.

While there exists a significant body of research examining the relationships between nonprofit revenue sources and changes in nonprofits' organizational characteristics, prior research has primarily focused on the impact of revenue sources on organizational characteristics, rather than how organizational factors influence revenue outcomes. For instance, research on government revenues suggests that government funding tends to professionalize nonprofit boards, decrease representational capacities of nonprofits in the community (Guo, 2007; Rosenthal, 1996), increase boards' fiscal accountability and monitoring roles (O'Regan & Oster, 2002; Stone, 1996), limit administrative autonomy, alter mission, propel institutionalization (Grønbjerg, 1991a, 1992, 1993; Smith & Lipsky, 1993), exacerbate goal displacement or at least shift program emphases (Bernstein, 1991; Grønbjerg, 1993; Kramer, 1981; Liebschutz, 1992), increase bureaucracy and associated staff (Salamon, 1987; Smith & Lipsky, 1993), lower service quality and performance (Marwell & Calabrese, 2015), and increase the scale of service as well as the administrative demands (Smith & Lipsky, 1993). Similarly, research on private contributions demonstrates that dependence on gifts from large donors, foundations, and corporations results in goal displacement, controversy avoidance, tempered innovation, and increased formalization and professionalization within organizations (Froelich, 1999). These studies collectively highlight the influence of the resource environment, particularly funding sources, on nonprofit operations. However, there is limited research on how these funding sources are shaped by the way nonprofits operate and manage their business and personnel.

In addition to generating revenue through specific funding sources, nonprofits also aim to stabilize their revenue streams (Chang & Tuckman, 1991; Froelich, 1999). The conventional wisdom of nonprofit finance suggests that diversifying revenue streams can reduce financial vulnerability (Carroll & Stater, 2009; Chang et al., 2018; Chang & Tuckman, 1994; Froelich, 1999; Jegers, 1997; Kingma, 1993; Kramer, 1981; Powell & Friedkin, 1986). In other words, nonprofits seek sustainability not only by acquiring and maintaining available financial resources but also by minimizing the volatility of their revenue portfolios. Drawing from financial portfolio theory, which posits that the optimal combination of revenue sources minimizes financial risks, several empirical studies have supported this wisdom by demonstrating the positive impact of revenue diversification on the overall revenue stability of nonprofits (Carroll & Stater, 2009). Recent research on nonprofit dissolution has even revealed that revenue diversification enhances nonprofits' chances of survival, based on longitudinal data from U.S. nonprofits (Lu et al., 2020).

With the assumption that nonprofits are willing and capable, this paper aims to address the following research question: "How do nonprofits strategically utilize their organizational attributes to diversify their revenue sources?" Whereas existing research on nonprofit resource acquisition practices provides some insights into this question, it rarely extends its focus beyond financial portfolio analysis to the role of underlying organizational attributes in revenue-generating strategies and outcomes.

Given the significance of this topic and the dearth of relevant research, this study specially aims to investigate how nonprofits' non-financial organizational characteristics influence revenue diversification. To this end, this paper selects three organizational characteristics – *managerialism, collaboration, and community ties* – that reflect a nonprofit's structural and relational assets. These characteristics are considered potential predictors of a nonprofit's revenue-generating practices

and outcomes. Institutional theory and resource dependence theory effectively establish the connections between these organizational features and nonprofits' choice of revenue-generating strategies and outcomes.

This paper proceeds as follows. The following section draws on institutional theory and resource dependence theory to illustrate how organizations respond to institutional and environmental influences within the nonprofit sector. Subsequently, it explores the discourse surrounding the ideal of revenue diversification, which is broadly embraced in both the business and nonprofit sectors. This discussion combines the rationales behind revenue diversification as a strategic decision for financial stability with insights from institutional and resource dependence theory to elucidate why nonprofits pursue financial stability through revenue diversification. The paper then presents research hypotheses concerning the unique contributions of each organizational attribute to the degree of revenue diversification, with a particular focus on how each characteristic can explain the acquisition of different revenue streams. The following section outlines the research design, data, and analytical models. After discussing the methodology, the paper presents its findings and identifies avenues for ongoing analysis. The concluding section discusses the implications of this research for nonprofit management scholarship and highlights its limitations.

2.2 Theoretical Frameworks

2.2.1 Integrating Institutional Theory and Resource Dependence Theory

As noted above, this article investigates how specific organizational attributes, reflecting the structural and relational assets of nonprofit organizations, influence their financial stability. To

achieve this, it employs institutional theory and resource dependence theory as the primary theoretical frameworks. The combination of these two theories have been advocated for its enhanced predictive power (Bielefeld, 1992; Guo, 2007; Hessels & Terjesen, 2010; Oliver, 1997; Sherer & Lee, 2002). Indeed, scholars in the field organizational studies frequently have integrated these two theories to discuss organizational innovation, adaptive strategies, competitive advantage, resource decision and acquisition, the vitality of various types of nonprofits, and the structural characteristics of organizations associated with these changes (Alexander, 2000; Bielefeld, 1992; Guo, 2007; Oliver, 1997; Sherer & Lee, 2002).

However, prior theoretical investigations have predominantly focused on external environmental influences shaping the diffusion or adoption of organizational characteristics. The two theories have rarely been applied or tested to examine the opposite directional relationship - how organizational characteristics, developed in response to institutional and environmental pressures, enhance organizational survivability or sustainability as strategic assets in the context of revenue acquisition.

While institutional and resource dependence theories stress the influence of institutional pressures and environmental changes on organizations' internal belief systems and organizations' strategic behaviors respectively (DiMaggio & Powell, 1991; Pfeffer & Salancik, 1978; Scott, 1998), the two theories share the notion that organizational actors interpret, incorporate, and respond to external pressures in their own unique ways for survival rather than passively reacting to environmental influences. Since both theories explicitly assume that organizations are active responders (Froelich, 1999; Grønbjerg, 1993; Meyer & Rowan, 1977; Pfeffer & Salancik, 1978), the scarcity of research on the impact of organizational strategic decisions on organizations' goal achievement is somewhat surprising. The predominant emphasis on the "outside-in" approach,

where environmental factors affect organizations, has often failed to illuminate the pathways through which nonprofits strategically act to accomplish organizational goals such as increased survivability, sustainability, and resource acquisition (See Froelich, 1999; Stone et al., 2001).

Furthermore, in the practical realm, despite the increasing global institutionalization and marketization of nonprofits (meaning they become more rationalized and professionalized) (Drori et al., 2006; Hwang & Powell, 2009; Smith & Lipsky, 1993a; Stone et al., 2001; Suárez & Esparza, 2017), there is limited research on how nonprofits leverage their formalized and business-like organizational features and structures to optimize their financial portfolios. Do nonprofits' revenue structures vary based on the degree of institutionalization? Do discernible patterns in financial portfolios emerge among highly institutionalized and marketized nonprofits? In response to these two limitations of previous studies, this study is centered on understanding how specific organizational characteristics, representing management considerations and strategic choices, influence the degree of revenue diversification, which potentially affects nonprofits' financial stability.

As mentioned briefly in the introduction section, this study draws upon the two theories – institutional theory and resource dependence theory – to lay out possible predictors of revenue diversification: managerialism, collaboration, and community ties. Each theory offers its own insights into the relationships between these organizational characteristic and organizational resource outcomes. To illustrate these relationships, the following two sections will delve into how the two theories are similar and distinct in their fundamental tenets, addressing the following three questions: What are the environmental pressures constraining organizational choices? Why do organizations succumb to the influence of environmental actors? How do organizations respond to external pressures?

2.2.2 Institutional Theory

Institutional theory defines institutions as the social structures that are "composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life" (Scott, 2008, p. 48). The theory assumes that organizations operate within the institutional environment that provides a socially constructed framework of norms, values, and beliefs. Organizations conform to their given institutional environment by adopting practices that are considered acceptable and legitimate in their organizational field (Oliver, 1997; Scott, 2008). The conformity of organizations to institutionally-elaborated environments or "isomorphism with environmental institutions" (Meyer & Rowan, 1977, p. 348) is driven and justified by the benefits it brings to organizations, such as stability, legitimacy, and access to resources needed to survive (Meyer & Rowan, 1977; Zucker, 1987).

In institutional theory, organizations demonstrate their fitness for social ideals and legitimate themselves with internal and external stakeholders. According to Meyer and Rowan (1977), one of the ways they legitimate themselves is to "employ external or ceremonial assessment criteria to define the value of structural elements" (p. 348-349). Meyer and Rowan argue that "the use of external assessment criteria – that is, moving toward the status in society of a subunit rather than an independent system – can enable an organization to remain successful by social definition, buffering from failure" (p. 349). External assessment criteria may involve ceremonial awards, the standard prices of professionals and consultants, and endorsement by reputable people or authorized agencies (Meyer & Rowan, 1977). Most often, nonprofits formalize roles, rules, and instruments in their organizational management, and increasingly hire paid employees with higher education and credentials in lieu of unpaid volunteers—a move toward rationalization and professionalization, respectively (Drori et al., 2009; Hwang & Powell, 2009; Suárez, 2011).

Rationalization and professionalization are considered as two "distinct aspects of managerialism" (Suárez & Esparza, 2017, p. 650) that refers to the ideological nature seeking the congruence of organization management with that of corporates (Maier et al., 2016), but they are conceptually and practically tied to each other. Rationalization, defined as "continuing efforts to systematize nonprofits around standardized rules and management schemes" (Jepperson, 2002, p. 257, recited in Drori et al., 2009, p. 22), is realized and proliferated by the growing presence of paid professionals with specialized expertise and efficiency-oriented mindsets in nonprofit organizations. Drori et al. (2009) point out that "through the transformation of social life around means-ends logic, the celebration of efficiency, and the valorization of credentialed expertise, rationalization becomes a most pervasive cultural force" (p. 22). According to the authors, there are three basic indicators of rationalization: *formal planning* (the area of organizational goal and strategy development), *rationalized personnel arrangements* (the area of human resource management), and *rationalized structure* (the area of organizational structure and performance management) (Drori et al., 2009, p. 26-27).

Although the adoption of standard management practices and reliance on professional expertise do not guarantee efficiency or effectiveness, they are expected to confer legitimacy upon nonprofits and aid in their efforts to acquire resources by adding the character of "rationalized myths" (Suárez & Hwang, 2013, p. 587) to the nonprofit adopters (DiMaggio & Powell, 1991; Meyer & Rowan, 1977; Suárez, 2011). Incorporating externally endorsed structures and management practices creates an assumption that an organization's actions are socially acceptable and desirable, thereby increasing the likelihood of resource acquisition, such as loans, donations, or investments (Baum & Oliver, 1991; Lu, 2015; Meyer & Rowan, 1977). In essence, managerialism, which is often characterized as rationalization and professionalization, lends

credibility to organizations, increases the chance for resource access, and ultimately bolsters the organizations' survivability and sustainability.

Organizations are also under institutional pressure to engage in interorganizational relationships, particularly through collaboration (Provan & Milward, 1991; Sowa, 2009). Collaboration is viewed as an effective and democratic approach to addressing complex organizational and societal issues that often require the involvement of multiple organizations rather than being tackled by a single entity (Nathan & Mitroff, 1991). The prevailing belief that collaboration is superior to unilateral action leads organizations to establish collaborative relationships with one another even if collaboration may not always be desirable to them (Bryson et al., 2006; Nathan & Mitroff, 1991; Ostrower, 2005; Sowa, 2009). The institutional environment, comprising normative, legal, and regulatory elements, compels organizations to collaborate if they are to achieve the legitimacy and resources that are necessary for operation and survival (Bryson et al., 2006; Crawford & Gram, 1978; DiMaggio & Powell, 1983; Oliver, 1991). Institutional funders, such as foundations and governments, often mandate that nonprofit grant recipients engage in collaboration, even when there is little evidence that it will yield their desired outcomes (Ostrower, 2005; Provan, 1983; Sharfman et al., 1991; Waddock & Post, 1995). Given these prevailing rules, requirements, and norms, the establishment and invocation of affiliations and memberships with other organizations become a popular strategy that nonprofits adopt to access to critical resources.

In addition to interorganizational and intersectoral ties, institutional pressures motivate or even compel organizations to establish linkages with community members. Nonprofits often build relationships with community members by fostering social connections among constituents or by connecting constituents to institutional resources. Nonprofits contribute to the formation of social

bonds within communities by providing a platform for constituents to share their interests and identities. They also engage in advocacy by assuming the role of community representatives, supplanting the role of elected officials, or self-identifying as allies for policy reforms or social change (Levine, 2016). Both forms of community ties confer legitimacy on nonprofits by assuring their contribution toward socially legitimate goals or expected public benefits. Wiewel and Hunter (1985) assert that an organization's ability to exercise authority — by laying claim to and acquiring resources — is "a function of the degree to which its authority is accepted by others" (p. 490). In their case study, they found that "representational legitimacy," often derived from affiliation with community members, attracts the attention of entities controlling resources, such as community representatives, foundations, and government officials (Wiewel & Hunter, 1985, p. 490).

2.2.3 Resource Dependence Theory

While institutional theory posits that organizations take seriously what is acceptable and legitimate within a specific environment or organizational field, resource dependence theory views economic and market demand as the impetus for organizational decision-making and change (Bielefeld, 1992; Hessels & Terjesen, 2010). Resource dependence theory does not disregard the importance of normative rewards such as legitimacy, but it generally treats social meaning or legitimation as a means to acquire exchangeable resources such as money and information, rather than as end goals. Therefore, in resource dependence theory, the environment is primarily defined in "technical" terms. In this "technical" environment, organizations produce and exchange products or services through market mechanisms and are rewarded for their effective and efficient performance (Scott, 1998). An organization's dependence on resources provided by its environment – which are often scarce and unpredictable in their outcomes – necessitates interaction with individuals and groups

that control resources and respond to the demands of various environmental actors (Froelich, 1999). In other words, organizations described in resource dependence theory are also constrained by the external environment, due to their tangible necessity rather than intangible social ideals.

However, resource dependence theory does not portray organizations as passive entities. Rather, it underscores "a wide range of active choice behaviors that organizations can exercise to manipulate external dependences or exert influence over the allocation or source of critical resources" (Oliver, 1991, p. 148). While institutional theorists focus on the conformity of organizations to institutionalized beliefs and practices, resource dependence theorists emphasize organizations' ability and inclination to build relationships to access resources from the external environment where they rely on other actors (Scott, 1998). From this perspective, organizations have a variety of possible responses to environmental pressures. Pfeffer and Salancik (1978) enumerate a broad spectrum of strategies that an organization can employ to adapting to the external environment.

> "The organization can adapt its structure, its information system, its pattern of management and human relations, its technology, its product, its values and norms, or its definition of the environment. In attempting to affect the environment, the organization can engage in strategies of diversification, total absorption as in cooperation, or in activities that are designed to influence the rules under which interorganizational action takes place. Organizations can lobby to have the government control the environment in their interest or can persuade established regulators to create favorable environmental contexts" (p. 107).

Among all these possible responses, modern nonprofits increasingly adopt business-like management practices. Although the immediate impetus for managerialism in the nonprofit sector is "institutional isomorphism" (DiMaggio & Powell, 1983), nonprofits adopting standard business practices and management knowledge may find themselves better equipped to address demands from external resource providers, such as the evaluative criteria for administrative capacity set by institutional funders. In essence, managerialism can empower an organization to assert control

over its external environment by facilitating its responses to technical and operational demands. Therefore, managerialism serves not only as a strategy for legitimacy but also as a resource strategy.

Nevertheless, the most extensively discussed organizational characteristic by resource dependence theorists is "to establish linkages with elements in their environments and use these linkages to access resources, to stabilize outcomes, and to avert environmental control" (Pfeffer & Salancik, 1978, p. 144). According to resource dependence theory, organizations are motivated to seek organizational partners to shield themselves from uncertainties embedded in their task environment and establish a steady resource flow (Baum & Oliver, 1991; Galaskiewicz, 1985; Galaskiewicz & Shatin, 1981; Miner et al., 1990; Pfeffer & Salancik, 1978).

Pfeffer and Salancik (1978) list four primary benefits that linkages to other organizations offer nonprofits (in their efforts to manage environmental interdependence): 1) access to information about the activities of the linked organization that could affect the focal organization, 2) a channel for communicating information to another organization, 3) an opportunity to secure commitments of support from the environment, and 4) a means to legitimating the focal organization (p. 145). By managing information and social legitimacy through collaboration with other organizations, nonprofits often gain improved access to resources. For instance, a connection to powerful and reputable organizations signals that a focal organization adheres to "institutional prescriptions of appropriate conduct" (Baum & Oliver, 1992, p. 540) and enhances the organization's access to resources.

Another type of linkage that nonprofits pursue is with community members. Community ties offer benefits similar to those of inter-organizational ties, including information, trust, support, and legitimacy. Legitimacy derived from community ties has a distinctive instrumental value. According to Wiewel and Hunter (1985), legitimacy is "a direct function of the degree to which

one can call upon other sources of 'back-up' power to make one's own power effective in case of need" (p. 490). In the policy arena, organizations with strong community ties and endorsed community representation can wield significant political power (Pfeffer & Salancik, 1978). They can confidently justify their business activities and policy interventions related to their constituency and better deal with possible challenges to the quality and credibility of their policy proposals. In summary, community ties enhance the political power and influence of the focal nonprofit, which, in turn, strengthen its position in the competition for resources.

Additionally, strong community ties may be indicative of an organization's high performance. In an experimental study involving community breastfeeding support groups in Scotland, Hoddinott, Britten, and Pill observed that the proximity between nonprofit health professionals and community clients regarding administrative support and accessibility to services played a crucial role in achieving better breastfeeding outcomes (Hoddinott et al., 2010). When nonprofits and their local constituents have close ties, this intimacy is likely to facilitate ongoing commitment and interactions among them, including information sharing, client referral, feedback exchanges, and more, ultimately enhancing organizational performance. Given that organizational effectiveness is a crucial factor in the competition for resources, community ties help nonprofits access and secure resources.

2.2.4 Revenue Diversification and Organizational Sustainability

As previously discussed, institutional theory and resource dependence theory serve as valuable theoretical frameworks for understanding how nonprofits strategically respond to the external environment. Several commonalities in the assumptions of these frameworks and the divergence in their foci demonstrate the potential for the two theories to complement each other, as prior

research claims (Oliver, 1991). The two theories share the idea that external pressures constrain an organization's choices, impacting its survivability and sustainability by subjecting it to external demands and influences. However, they differ in their definitions of the external environment for organizations and the characterization of organizational responses to that environment.

Institutional theory examines how cultural norms and regulatory structures push nonprofits toward institutional compliance. Resource dependence theory underscores that resource scarcity in a competitive environment drives organizations to act strategically in securing resources. Despite differences in illustrating environmental pressures and organizational responses – compliance with the environment versus adaption to changes in power or environmental shifts – both theories imply that organizations are actors with "goal autonomy and purposiveness" to some degree (Brandtner & Suárez, 2021, p. 123; Drori et al., 2006, 2009; Meyer & Jepperson, 2000; Pfeffer & Salancik, 1978; Scott, 1998). Among these goals, one of the most crucial for organizational actors is securing the financial resources for their survival and sustainability.

These theoretical claims give rise to a fundamental inquiry: How do organizations strategically navigate their access to financial resources while considering institutional norms? Particularly, how do nonprofit organizations generate and manage their revenue sources to improve and maintain their sustainability? While maximizing total revenue along with unrestricted fund reserves may appear as the most promising strategy, existing empirical research proposes two distinct avenues for elucidating nonprofit revenue decisions.

First, research on nonprofit finance and revenue streams has primarily focused on explaining the association between revenue diversification and nonprofit financial stability (Chikoto & Neely, 2014). Unlike for-profit entities whose risk-taking behaviors are generally allowed for and often encouraged for profit maximization, nonprofits typically prioritize stability and sustainability over

risk and profit maximization to ensure their long-term survival. In this context, revenue diversification is viewed as a strategy to reduce the risk of financial crises and stabilize financial positions by spreading risk across various funding sources and shielding organizations from market turbulence. Indeed, a good deal of theoretical and empirical research demonstrates that establishing multiple revenue streams and avoiding excessive dependence on any single source of funding may lead to lower levels of financial distress in nonprofits or lower risks of dissolution on average (Carroll & Stater, 2009; Chang & Tuckman, 1994; Froelich, 1999; Greenlee & Trussel, 2000; Trussel, 2002; Lu et al., 2020). This ideal of revenue diversification is particularly appealing in contemporary times.

In certain sectors of the nonprofit sector, organizations have become heavily dependent on a single funding source. For example, the role of government contracts in social services has expanded substantially since 1960 (Lipsky & Smith, 1990; Salamon, 1993). In 2009 alone, U.S. nonprofits in eight human service sectors were awarded approximately 200,000 contract or grants worth over $100 billion (Boris et al., 2010). While many nonprofits rely on government funding in the increasingly competitive environment, nonprofit leaders are well aware of the drawbacks of over-reliance on governmental funding. Onerous government oversight and regulations, payment shortfall, and the short-term nature of formal agreements make nonprofits hesitant to seek resources from the government (Lu, 2015; Marwell & Calabrese, 2015). Therefore, some researchers argue that when donor contributions and commercial activities are available options, nonprofits tend to diversify their revenue sources to reduce dependence and uncertainty stemming from governmental funding (Carroll & Stater, 2009; Froelich, 1999).

Simultaneously, nonprofits are contending with heightened competition for donor contributions due to a dwindling donor base and a growing number of nonprofit organizations

(Kim, 2015; MacIndoe & Sullivan, 2014). Sargeant and Woodliffe (2007) found that many nonprofits in the United States and United Kingdom once lost up to 60% of cash donors after their first donation and up to 30% of their loyal donors. The National Center for Charitable Statistics at Urban Institute (2020) reported that total private giving from individuals, foundations, and businesses in the United States decreased by 1.7 percent in 2019 relative to 2017, while registered nonprofits have increased by 4.5 percent since 2006.

Although corporate contributions to nonprofits are generally considered to be less erratic than individual donor contributions, they can still fluctuate due to shifting corporate giving patterns influenced by corporate interests. Similarly, foundation grants are also subject to volatility, with initiatives changing from year to year (Froelich, 1999; Grønbjerg, 1992, 1993). Foundations not only tend to set their own agendas through grant programs and exert pressure on grant recipients to align with their programmatic themes and operational methods, but many grant programs also have episodic natures that lead to fluctuations in the revenue received by grant recipients (DiMaggio, 1986).

Given that heavy reliance on a single type of revenue source can result in revenue volatility, nonprofits concerned about their stability should ensure that they can diversify revenue sources to mitigate uncertainty and potential risks stemming from change in a specific funding source. This suggests that revenue diversification signifies a vital factor for financial stability of nonprofits as well as the outcome of an organization's strategic efforts aimed at achieving long-term sustainability.

However, nonprofits prioritize not only financial stability but also financial capacity. Recent scholarship suggests that the inverse of revenue diversification – revenue concentration or specialization – bolsters nonprofits' financial capacity that "consists of resources that give an

organization the wherewithal to seize opportunities and react to unexpected threats" (Bowman, 2011, p. 38; Foster & Fine, 2007; Frumkin & Keating, 2011). According to research, nonprofit leaders may recognize "tradeoffs between return and risk shift" (Grasse et al., 2016, p. 835) and, as a result, develop their revenue portfolios to optimize outcomes based on the "potential tradeoffs between diversification and specialization" (Grasse et al., 2016, p. 836). In a study of U.S. social enterprises, Frumkin and Keating (2011) found that revenue concentration allows nonprofits to achieve higher administrative efficiency by significantly reducing administrative costs. Empirical study by Chikoto and Neely (2014) also indicates a positive association between revenue concentration and financial capacity, although they caution that the positive contribution of revenue concentration to financial capacity or financial growth appears to be temporal and effective only "when deployed as a one-time strategy" (p. 579). Besides, research on the relationships between revenue concentration and financial capacity still confirms that revenue diversification increases financial stability, consistent with prior research (Frumkin & Keating, 2011). In summary, existing research generally suggests that if an organization's primary objective is to strengthen financial stability, revenue diversification is the preferred strategy.

Given these discussions and empirical findings regarding nonprofit financial strategies, this paper posits that nonprofits pursue revenue diversification as the main strategy, because stability is generally a more critical aspect of nonprofit operations than either profitability or growth. Pfeffer and Salancik (1978) note that "instability with respect to an important resource means the organization's survival has become more uncertain… Uncertainty or instability with respect to an important resource threatens the continued existence of the organization, because it makes the participation of coalition members more doubtful…" (p. 47). They also claim that "the two ways

of diminishing dependence are the development of substitutable exchanges and diversification" (p. 109).

Chikoto and Neely (2014) argue that "the decision to diversify or concentrate one's revenue streams can be a product of conscious strategizing on the one hand and a product of path dependence on the other, one that is driven by the nature of benefits (services) a nonprofit confers through its activities" (p. 573). Therefore, this study aims to examine how nonprofits diversify revenue sources through organizational assets and strategy while controlling for service-related contextual factors such as organizational service domains and organizational slack size. The next section outlines three organizational attributes that may specifically influence revenue diversification outcomes.

2.3 Organizational Predictors and Research Hypotheses

In this section, building upon the preceding theoretical discussions, I formulate the research hypotheses regarding the relationships between three organizational characteristics – managerialism, collaboration, and community ties – and the degree of revenue diversification. To provide a logical foundation for the relationships, I analyze the potential impact of each organizational attribute on the acquisition of different revenue sources, demonstrating the strategic potential of each organizational characteristic as driving or restraining forces for revenue diversification.

2.3.1 Managerialism

In recent decades, scholars have continuously reported that nonprofits are increasingly becoming business-like (Eikenberry & Kluver, 2004; Lundström, 2001; Maier et al., 2016; Salamon, 1993). This shift is marked by the assimilation of various management approaches commonly used in the business sector, such as strategic planning, quantitative matrices for program evaluation, hiring consultants, performing annual audits, and replacing volunteer labor with paid staff (Suarez, 2011). This collective adoption of business-oriented management practices, referred to as 'managerialism,' is known to have positive associations with nonprofit funding outcomes.

To being with, significant empirical research reveals that administrative capacity for economic efficiency and the use of professional staff for program management and service delivery are associated with high levels of government funding (Grønbjerg, 1991b; Rosenthal, 1996; Stone et al., 2001). The prevalent trend of privatization in the public sector is closely tied to the ideology that nonprofits should operate transparently, be accountable, and demonstrate effectiveness (Bernstein, 1991; Ospina et al., 2002; Salamon, 1993). Under the banner of New Public Management (NPM), nonprofit contractors and grantees face escalating demand from public agencies for economic efficiency and accountability in their service delivery (Kettl, 1997; Salamon, 1993; Suárez, 2011). They also grapple with the complexity of public contractual arrangements and regulations that obligate them to carry out financial monitoring activities as part of their contract oversight responsibilities within their organizations (Stone, et al., 2001). In this context, nonprofits capable of self-assessing their service outcomes and processes and leveraging a wide pool of professional expertise are more likely to secure and retain government funding (Kettl, 1997; Salamon, 1993; Suárez, 2011).

In addition to government funding, foundation grant acquisition increasingly necessitates nonprofits to adopt business-like practices. In recent times, proponents of so-called "new philanthropy" have exerted significant influence on the grant-making practices of traditional foundations. These new philanthropists, operating with a variety of slogans such as "strategic philanthropy", "effective philanthropy", "venture philanthropy" and "social change philanthropy", emphasize the measurement and evaluation of program processes, impact, and performance, and by doing so, seek to increase the impact of their contributions. They require their nonprofit grantees to be systematically capable and accountable enough to engage in self-assessment processes and to become their partners in achieving transformative social change. Regardless of the terminology used to describe this trend, this "new approach" emphasizing impact-oriented and management-assistance modeling has quickly penetrated the traditional philanthropic field since its birth, despite many controversies and criticisms surrounding the approach (Frumkin, 2003; Moody, 2008). Today, it is commonly observed that traditional foundations require their grant or gift recipients to establish clear performance benchmarks and rigorous assessment and measurement practices (Katz, 2005; Ramdas, 2011). A great deal of empirical research consistently demonstrates that nonprofit grantees of the new philanthropists and foundations are required to adopt specific evaluative frameworks and managerial tools such as articulated milestones, strategic business or action plans, and standardized assessment measures in order to receive funding (Brest & Harvey, 2018; Quinn et al., 2014; J. Scott, 2009). Based on these observed trends, nonprofits that exhibit more business-like operational and service delivery characteristics are more likely to be awarded foundation grant contracts.

Corporate donors and sponsors also seek measurable impact and clear benchmarks when providing cash and in-kind support to nonprofits. A survey conducted by the Conference Board

reveals that 44 percent of contributions and community relations managers conduct some form of measurement or evaluation of their corporate contributions and community programs. Additionally, 56 percent of respondents reported that they benchmarked them when deciding on corporate contributions (Alperson, 1996). Galaskiewicz and Colman (2006) point out a distinct reason that measured performance analyses and benchmarks are particularly important to staff in charge of corporate contributions. They argue that quantified outcomes and performance can be a persuasive tool for corporate staff who often have to justify "charity" programs that may not directly contribute to the company's "bottom line" (Galaskiewicz & Colman, 2006). Therefore, when receiving either foundation grants or corporate donations, nonprofits identified as reliable partners in terms of administrative efficiency and measurable impact generation gain a comparative advantage.

Contrary to the broad consensus on the positive association between managerialism and institutional funding, research on individual donations suggests the countervailing effects of managerialism, although most of the research does not explicitly distinguish individual donations from corporate donations. Assuming that corporate donations constitute a negligible portion of nonprofit revenues compared to individual donations, several studies indicate that individual donors tend to penalize nonprofits with high administrative expense ratios. Investments in internal management reforms, such as performance measurement, oversight, fundraising, and formalization, tend to increase administrative expense ratios, often measured as administrative expenses divided by total expenses (Frumkin & Kim, 2001; Jacobs & Marudas, 2009; Tinkelman & Mankaney, 2007) or administrative expenses divided by the sum of program and administrative expenses (Greenlee & Brown, 1999). The research suggests that nonprofits that appear to allocate

more resources to management issues and less to service or program efficiency receive less donor support (Tinkleman & Mankaney, 2007; Greenlee & Brown, 1999; Jacobs & Marudas, 2009).

Donors may perceive organizational spending on internal management and administrative functions as diverting resources away from programs and services (Weisbrod & Dominguez, 1986). The donors' desire to make a meaningful impact through their charitable gifts in a cost-effective manner can lead them to seek evidence of a higher program expense ratio relative to the administrative ratio. In light of these observations, existing research suggests that nonprofits that proportionally invest more in planning, compliance, risk management, collection of data for service performance measurement, the use of professional fundraisers, and staff training than in direct service delivery may attract fewer individual donations.

However, nonprofits with a high degree of managerialism may also attract more individual donations. Given that individual donors are interested in learning how their contributions are used to make a promised impact, they may be more inclined to support nonprofits that provide transparent and systematic assessment reports detailing how their contributions have yielded the desired results. In an experimental study, Khumawala and Gordon (1997) found that donors consider both financial and non-financial information before making donations, with financial information being particularly relevant when choosing among competing nonprofits for donations. Gordon and Khumawala (1999) note that "Determining whether an organization is worthy of support includes identifying its mission, the strategies it uses to achieve its objectives, and evidence about the effectiveness of its activities in accomplishing its charitable purposes. Accounting and financial reporting for charitable organizations could help with the 'Which Organizations' decision…" (p. 43). This information on donor behaviors implies that adopting business-like management practices such as auditing, financial reporting, and impact assessment

may lead to better individual donation outcomes for nonprofits. Nevertheless, there is limited research exploring the relationships between the adoption of business-like characteristics by nonprofits and the revenues obtained from individual donations.

Finally, professionalized service-delivery systems, standardized management practices, and outcome-based measurement can also contribute to the generation of program-related income because providing programs and commercial services (e.g., providing veterinary services for a fee or operating a gift shop) requires significant administrative capacity, financial sophistication, and managerial systems. Hence, rationalized and professionalized nonprofits are more likely to gain benefits from commercial service provision if all other conditions are equal.

In summary, nonprofits with a high degree of managerialism have comparative advantages in terms of attracting diverse revenue streams, despite inconclusive existing evidence regarding individual donations. Thus, I posit my first hypothesis as follows:

H1: ***Nonprofit organizations with a higher degree of managerialism are more likely to have balanced portfolios comprising diverse revenue sources, all else being equal, despite inconclusive evidence regarding the effect of individual donations.***

2.3.2 Collaboration

Guo and Acar (2005) define nonprofit collaboration as "what occurs when different nonprofit organizations work together to address problems through joint effort, resources, and decision-making and share ownership of the final product or service" (p. 342-343). Expanding upon this definition of nonprofit collaboration by Guo and Acar above, I also incorporate the concept of cross-sector collaboration, using the definition provided by Becker and Smith (Becker & Smith,

2018). According to them, cross-sector collaboration refers to "alliances of individuals and organizations from the nonprofit, government, philanthropic, and business sectors that use their diverse perspectives and resources to jointly solve a societal problem and achieve a shared goal" (Becker & Smith, 2018, p. 2).

A significant body of research suggests that inter-organizational collaboration, both within a sector and across sectors, offers various advantages to nonprofit organizations. These benefits encompass community endorsement for organizational effectiveness, improved service provision, higher staff quality, greater success in advocacy efforts, increased influence on philanthropic funding agendas, and heightened government funding (Balser & McClusky, 2005; Johansen & LeRoux, 2013; Selden et al., 2006; Silver, 2004; Suárez, 2011). These suggested normative or practical benefits can also contribute to expanded access to various funding sources.

Firstly, as previous research demonstrates, collaboration provides nonprofits with legitimacy and increases the capacity of member organizations to mobilize resources, ultimately increasing the likelihood of acquiring financial resources (Baum & Oliver, 1992; Grønbjerg, 1993; Guo & Acar, 2005; Pfeffer & Salancik, 1978). In an empirical study involving 200 interviews with nonprofit leaders in the San Francisco Bay Area, Suárez found that collaboration played a significant role in obtaining government funding and garnering support from government sources (Suárez, 2011). Studies on organizational collaboration suggest theoretical and empirical evidence that public agencies may view the extent of collaboration as an indicator of various dimensions of organizational effectiveness. These dimensions include an organization's propensity for innovation and joint problem solving, its capacity to bring people together for a shared goal, its ability to deal with complex issues, its strategic flexibility in the pursuit of a mission and program objective, its potential for cost savings and organizational learning, its access to new skills and

markets, and its lower exposure to risk (Agranoff & McGuire, 2003; Bamford et al., 2002; Chaves et al., 2004; Suárez, 2011).

Some public funders make the awarding of grants or contracts contingent upon evidence of collaborations or partnerships (MacIndoe & Sullivan, 2014; Shaw, 2003). Nonprofits with established inter-organizational relationships may be preferred by public agencies in the contract market due to demonstrated trustworthiness and a lower perceived risk of contract failure. Nonprofits with current or historical linkages to public agencies can leverage these networks to gain credibility and information from public decision-makers in the contract and grant market. As a result, a higher degree of collaboration may explain a greater likelihood of receiving government funding.

Collaboration may also contribute to securing financial resources from foundations because of its connection to legitimacy, expertise, and organizational effectiveness. Particularly, many "new philanthropists," who are influencing the grantmaking practices of other foundations, tend to pursue large-scale transformative social change, a goal that is more attainable when working with well-connected entities. These philanthropists share the objective of addressing the root causes of social injustice and inequality through their philanthropic investments (Ramdas, 2011). One way for philanthropists to achieve this goal cost-effectively is to support nonprofits with strong inter-organizational ties, which can exert influence over a broader political, social, and organizational landscape.

Similarly, corporations may find that nonprofits engaged in collaborative efforts are worthy of support due to their expanded political and social presence and the potential to drive transformative change in society. Corporations can expect greater public attention through advertising and word-of-mouth when their nonprofit partners have extensive connections with other organizations. Most

importantly, corporations may prefer donating to nonprofits actively involved in collaboration because the existing collaborative work of a nonprofit can signal its organizational quality as a strategic partner and recipient of donations. Given the substantial differences between nonprofits and for-profits (see Weisbrod, 1998), corporation may interpret nonprofits' track record in collaboration as a sign of their effectiveness in various crucial dimensions, thereby helping to mitigate potential challenges stemming from the differences.

First and foremost, corporations may perceive collaboration as a sign of a nonprofit's current or potential alignment and compatibility with different organizations. Empirical research reveals that partner selection is a critical success factor in business-nonprofit partnerships, with a major consideration being the fit and alignment between the company and the nonprofit (Austin, 2000; Austin & Seitanidi, 2012; Berger et al., 2004). Austin and Seitanidi (2012) encapsulate the significance of fit as follows: "Good fit enables the generation of synergistic value, and the better the fit, the greater the value creation" (p. 741). Research suggests that companies may find it more advantageous to support nonprofits that can align their values and practices with those of other entities, including for-profit firms, through past or current collaborations.

Relatedly, a nonprofit's existing collaborations can inspire confidence that the nonprofit has relatively fewer factors posing risks to its reputation. Managing reputation risk is crucial for all organizations, but it can be particularly critical for companies whose reputation and image have a direct and immediate impact on their brand power, sales performance, and financial value in the capital market. In light of the importance of reputation management, firms may seek nonprofit recipients whose level of risk and potential for value creation have been evaluated through collaborations with other partners. The fact that a nonprofit collaborates with other organizations may indicate that it "passed" the test of reputation risk conducted by other organizations or can

provide the test results in the future. Consequently, nonprofits involved in collaborations may attract more corporate donations and sponsorship opportunities compared to nonprofits that do not engage in collaborative efforts.

Once again, the argument that collaboration can provide legitimacy, information, networks, and visibility for the resource mobilization efforts of nonprofits also extends to individual charitable donations. Inter-organizational connections can expand the donor base of nonprofits by augmenting their normative value assets, elevating their visibility among the public, and enriching the quality of information available to potential donors. However, in the context of individual donations, the higher income stemming from individual donations can be a direct consequence of collaborative fundraising campaigns because nonprofits often collaborate with other organizations primarily to expand their individual donor bases. Collaborative fundraising campaigns or donor programs are particularly prevalent in the fields of human services and healthcare. When nonprofits are relatively small, less known to the public, or their services and programs are not yet recognized within target communities, collaborative fundraising becomes an appealing choice. For instance, Anderson and Trias (2009) documented a successful example of collaboration in the United States between a tissue bank and a hospital, when a tissue donor program was rarely known to the public.

Lastly, collaboration may assist nonprofits to generating increased program-related income by enabling them to reach new clients in the communities where their partners are already established, acquire new knowledges or management practices that enhance the quality of their services and programs, or achieve both objectives. According to Bridgespan 2014 Nonprofit Collaboration Spectrum Survey of CEOs, over 50% of nonprofits experienced improved quality of services and programs, expanded reach/range of services and programs, and/or enlarged/diversified base of

clients and audiences through collaborations, including associations, joint programs, shared support functions, and mergers (Neuhoff et al., 2014).

Considering all the positive collections between collaboration and revenue streams described above, nonprofits engaged in collaborative relationships with other nonprofits or entities from different sectors may access a larger funding pool comprising diverse revenue sources. As a result, I propose the following hypothesis:

H2: ***Nonprofit organizations with a higher degree of collaboration are more likely to have balanced portfolios comprising diverse revenue sources, all else being equal.***

2.3.3 Community Ties

Community ties can promote the legitimacy of a nonprofit, particularly in the eyes of its funders and partners, whether the ties are substantial or merely symbolic. Specifically, linkages with community members and representatives provide a nonprofit with an opportunity to send signals to its stakeholders, indicating that it is accountable, legitimate, and effective (Johansen & LeRoux, 2013; Ospina et al., 2002). Nonprofit leaders can shape stakeholder expectations and evaluations of their organizations through the reputation and credibility they gain from their community connections and leverage them in the funding market (Balser & McClusky, 2005).

Indeed, case studies have shown that nonprofits with strong community networks are more successful in securing government funding. In a case study of a Chicago community organization, Fish (1973) reported that strong community support and extensive community ties were crucial for being considered as a legitimate partner for a federal funding project. A solid constituency backing and citizen support led the organization in Fish's study to be included in a federal project

initiated by city governments, as the federal government required city halls to distribute a few million dollars to organizations that "work out authentic partnership with target area organizations and residents" (p. 239). In their study of several dozen San Francisco nonprofits, Kramer and Grossman (1987) suggested that nonprofits often actively utilize community support and networks to attract government funding. They noted that it is "exceedingly difficult [for governments] not to renew a contract if the [nonprofit] provider has supporters in the government or if it can mobilize community support" (p. 43). They concluded that political advocacy, such as mobilizing "hundreds of elderly or disabled clients to pack a legislative chamber," is an effective organizational strategy that nonprofits use to address short-term underfunding (Kramer & Grossman 1987, p. 46). As the empirical evidence shows, community ties clearly create incentives for government investment in nonprofits involved in various forms of community engagement and advocacy.

Foundations may also favor grant recipients with robust community ties. Despite the inherent elitism among professional foundation officers and their wealthy founders and donors, foundations have been striving to position themselves as "more open, accessible, and responsive" to the public and grassroots constituencies, especially in the United States, since the 1960s (Prewitt, 1999, p. 982). This shift from an elitist, private, and exclusive self-conception to a more open, accountable, and participatory self-conception entailed "a shift in the relationship with the grantees that would share 'ownership' of the foundation with its intended beneficiaries" (Prewitt, 1999, p. 983). It is now widely recognized that foundations seek to ensure partnerships with grantees and favor bottom-up approaches in working with stakeholders and constituents.

In addition to this cultural transformation in foundations' self-conception, foundations also have a pragmatic reason to connect with the community: exerting political influence. Extensive research finds that foundations are political actors and they constantly search for opportunities and

pathways to exert their influence on policy (Bushouse & Mosley, 2018; Farley, 2018; Reckhow, 2013, 2016; Reckhow & Tompkins-Stange, 2018; Scott, 2009; Suárez et al., 2018). According to Goss (2016), "Approximately two thirds of US-based Pledgers (63%) have indicated and typically acted on their commitment to informing or changing public policies" (p. 445). Foundations have played a non-trivial role in the policymaking arena. Jenkins et al. (2018) assert that "foundation funding and support contributed to the creation of new advocacy and organizing efforts by the 'public interest' movement and the environmental movement" (p. 1641).

Foundations not only play an indirect role in policymaking as nonprofit patrons but also directly influence politics and policies. Goss and Berry (2018) define foundations as interest groups that aim to influence public policy to achieve their own missions. For interest groups, a strong and broad constituency is a critical asset in advancing their policy agendas. Therefore, funding nonprofits with the ability to mobilize grassroots pressure on policymakers and leveraging their grantees' networks, credibility, and achievement in the community can be a strategic choice for foundations. For these reasons, nonprofits with robust community ties are more likely to become foundation partners in the grant market.

Similarly, when corporations select nonprofits for donations or sponsorships, they may favor those with strong community connections. Securing local community support is crucial for companies because they rely on society's approval and trust to gain and maintain their "license to operate and make profits" (Visser et al., 2010, p. 271). Community engagement is vital to obtaining the social license to operate. For example, corporations' non-market strategies, such as corporate social responsibility (CSR) and corporate political activity (CPA), often aim to secure favorable social conditions for their business and frequently involve non-market community partners (Hond et al., 2014).

In addition to creating social and political conditions under which corporations can thrive, they also pursue to maintain and strengthen their community ties to respond to business threats, such as anti-corporate activism and boycotting movements (Visser et al., 2010). For instance, research examining the network structure around boycotting and advocating for Starbucks and Budweiser found that the network of boycotters was very dense and highly connected among subgroups (Rim et al., 2020). Smith's work discusses how corporations' success in political and social venues, such as lobbying, is constrained by public opinion (Smith, 2000). To deal with business threats stemming from grassroots constituents or ensure their success in political or social contexts, corporations need to cultivate and maintain relationships with community representatives who can be allies or mediators. Community connections provide corporations with avenues to address public concerns and mobilize social and political pressures in times of crisis. In summary, corporations have a strong incentive to support nonprofits that have robust community ties because it aligns with their strategic business objective.

Individual donors also tend to prefer nonprofits with strong community ties. As noted by Prakash and Gugerty (2010), "Many individuals believe that their world-views are superior and want to shape the society in their preferred image… [but] these individuals might find it difficult to influence public policy and might consider collective action via advocacy organizations to be more effective. Or, they may want their views to shape public policy but would rather have somebody else do the heavy lifting" (p. 6). In addition to fulfilling these "expressive" desires by supporting advocacy, many individuals also seek "solidary" benefits such as "socialization, status, and identification" by joining and participating in community groups and club activities (Prakash & Gugerty, 2010, p. 6). In both cases, individuals can achieve their goals more effectively and

efficiently by supporting nonprofits with established and reliable community ties. Therefore, community ties can attract individual donations.

Finally, the strategy of developing community ties may increase program-related income such as fees for services and membership dues, although this area of research requires further exploration. Established relationships with community members and indigenous support help nonprofits build a member/client base that can be used for marketing and promoting their services and programs. Prior research suggests that nonprofits focusing on the benefits of members in their target community are more likely to collect membership dues than those aiming for public (nonmember) benefits (Smith, 1993; Quarter et al., 2001). Although research in this area is limited, existing evidence suggests that people might purchase products or services from nonprofits that demonstrate strong group affiliations and community bonds. Consequently, we can anticipate that community ties may assist nonprofits in generating program-related income.

However, despite the apparent preference for nonprofits with community ties, it is important to note that institutional funders such as governments, foundations, and corporations may be cautious about supporting organizations engaged in distinctly ideological community actions, certain social issues, or "radical" forms of advocacy. A substantial body of research suggests that institutional funding shapes an organization's ideological scope and tactical approaches to advocacy. Studies in this area demonstrate that governments and foundations prefer supporting nonprofits that employ conservative mainstream discourses, consensus-oriented action, or moderate and institutional advocacy tactics such as lobbying or litigation (Chewinski & Corrigall–Brown, 2020; Jenkins et al., 2018; Prewitt, 1999; Zchout & Tal, 2017). Although there is little research on the relationships between business funding and ideological and tactical choices for community action, corporate donors are expected to have similar preferences as governments, as

business interests are often aligned with government interests (Corrigall-Brown, 2016; Hond & De Bakker, 2007). Given the ideological and tactical preferences of institutional funders, some nonprofits that employ more direct and contentious advocacy techniques may face challenges in generating revenues.

Based on the significant contribution of community ties to income from various sources, I suggest my third hypothesis:

H3: ***Nonprofit organizations with a higher degree of community ties are more likely to have balanced portfolios comprising diverse revenue sources, all else being equal, despite a potentially negative effect of direct and contentious advocacy tactics on the revenue outcomes from institutional funders.***

2.4 Data, Variables, and Methods

2.4.1 Data and Sample

The cross-sectional data used in this analysis was obtained from two extensive random samples collected in two West Coast regions: the San Francisco Bay Area in California and the Puget Sound Region in Washington. These two regions share a similar local environment that makes them fertile grounds for nonprofit organizations. Firstly, both regions exhibit a strong tech presence and a history of progressive politics (Brandtner & Powell, 2022). In particular, with the emergence of tech giants such as Google, Microsoft, and Amazon, the local high-tech industry has been a primary source of economic growth and new philanthropy in these regions. As the tech-driven economy flourished, the influence of wealthy private foundations, community foundations, high-

profile philanthropists, and corporate philanthropy has grown substantially. The growth of the high-tech industry and liberal politics, along with the regions' proximity to water, also made the regions to be constantly affluent with sizable immigrant and migrant populations. The influx of people into the regions has contributed to the regions' reputation for early adoption of innovative ideas and practices within the public and nonprofit sectors and their openness to active social movements in civil society (Laryea et al., 2022; Suárez & Park 2022).

However, the economic and population growth experienced by these two regions has also led to growing inequalities and rising social problems, such as colossal income disparity, gentrification, and housing insecurity, which mark the landscape faced by the nonprofit sector in the two regions (Laryea et al., 2022; Suárez & Park 2022). For example, the Bay Area's top income earners at the 90^{th} percentile earn 11.5 times more than those at the 10^{th} percentile, and residents in the Bay Area are much more likely to perceive growing income inequality compared to the rest of the state (Bohn et al., 2020). Similarly, in tandem with economic and population growth in the Puget Sound Region, Seattle has witnessed soaring housing prices outpacing average income growth and national averages. Between 2016 and 2017, Seattle's average housing price surged by 13.4 percent, while average wages only increased by 4.8 percent (Hatfield et al., 2018). These economic challenges and their societal repercussions have created diverse and evolving demands for assistance from nonprofits in both regions.

While the commonalities stemming from their local civil societies and geographic locations on the West Coast make the nonprofit data collected from the two regions to be readily comparable, the data was originally collected as part of a broader international research project launched in six cities of five countries under the organizational umbrella, the Civic Life of Cities Lab (CLC Lab) at Stanford Center on Philanthropy and Civil Society (Stanford PACS). The researchers from San

Francisco, Seattle, Shenzhen, Singapore, Sydney, and Vienna conducted interviews with nonprofit leaders (e.g., executive directors, board chairs, or chief executives) from randomly selected nonprofits in their respective cities or regions centered on one of the cities. The aim of the project is to conduct comparative research to develop a contextual and deeper understanding of organizational behaviors and interactions among organizations, individuals, and civil societies at local and global levels.

Among these local survey projects, those in the San Francisco Bay Area (San Francisco) and the Puget Sound Region (Seattle) were specifically designed to create a representative sample reflecting the unique institutional context in the laissez-faire United States, compared to the wealthy cities in autocratic settings reflected in Singapore and Shenzhen and more corporatist democracies in Vienna and Sydney (Brandtner & Powell, 2022). To this end, our collaborative research team established clear geographic boundaries for sampling. The San Francisco Bay Area was ensured to be made up of ten counties, including the urban areas of Oakland, San Jose, and San Francisco, the suburbs of Marin and San Mateo, and formerly rural counties such as Napa, Santa Cruz, Solano, and Sonoma. The Puget Sound Region was defined as the Seattle-Tacoma-Olympia Combined Statistical Area (CSA), comprising nine counties, including urban center areas of Seattle, Tacoma, Olympia, and Everett, satellite cities of Bellevue and Bremerton, and the counties such as King, Snohomish, Pierce, Kitsap, Island, Thurston, Jefferson, Mason, and Skagit.

While both regions' samples were randomly selected from the 2015 National Center for Charitable Statistics (NCCS) Core File, the specific methods used for draw samples from the full population of 501(c)(3) public charities operating in each region varied different. The Bay Area team purposefully selected three types of subsamples and combined them to construct a comprehensive sample. The subsamples included organizations that reported financial data to the

Internal Revenue Service for the fiscal year 2000 and had been tracked since the first wave of the Bay Area project in 2002 (the "original" sample), organizations that were also alive in 2000 but had not been previously tracked (the "replenish" sample), and organizations founded after 2001 (the "digital natives"). Conversely, the Puget Sound team drew one random sample from the 2015 NCCS Core file in late 2018 and used it as the master data for sampling.

Data collection for the CLC Lab surveys in both the San Francisco Bay Area and the Puget Sound Region took place between 2019 and 2020. The surveys included nearly identical questions covering organizational structure, leadership, volunteer management, performance measurement, partnerships, advocacy, interactions with constituents and partners, staff training and recruitment, financial management, and more. However, data collection in the Bay Area concluded in February 2020, while the final interview in the Puget Sound occurred in August of the same year. This timing difference may introduce varying effects of COVID-19 responses on organizational behaviors and interactions between organizations and communities in the two regions. The surveys were conducted virtually, with options for in-person or phone survey provided for respondents who preferred offline methods.

In the San Francisco Bay Area, 81 percent of the original sample completed the survey, 70.5 percent of the replenish group completed it, and 65 percent of the digital natives did so. The overall response rate was 72.7 percent, resulting in 313 completed surveys. In the Puget Sound Region, the research team attempted to contact 422 organizations, and 192 organizations responded to the surveys, resulting in a 45 percent response rate. For this study, I use data from 312 organizations for the Bay Area and 184 organizations for the Puget Sound Region, excluding organizations that did not provide any response to survey questions related to the variables used in this study.

Despite the general commonalities in the spatial context of the two regions, concerns were raised regarding potential differences in how nonprofit groups in these regions interpret the survey responses, impacting the conceptualization of the selected constructs in this study: managerialism, collaboration, and community ties. Region-specific factors, such as regulations, policies, local resource environments, community cultures, or demographic profiles of residents, may influence nonprofit leaders' understanding and interpretation of the survey questions related to these concepts. To address this potential issue, I conducted a measurement invariance test in the modeling stage. Table 3 illustrates the results of the measurement invariance test, which is discussed in the following section. This analysis helps determine whether the same underlying constructs contribute to the interpretation of items across groups (Behrens et al., 2019; Jeong & Lee, 2019; Spurk et al., 2015) and whether the data collected from the two regional groups can be combined for analysis.

2.4.2 Variables

2.4.2.1 Dependent Variables

The measurement of Revenue Diversification (RD) is based on the modified Herfindahl-Hirschman Index (HHI) from the literature on management and business administration. Because HHI has commonly been used for measuring market concentration and market competitiveness, the index also has been used to measure and determine how concentrated a nonprofit's revenue is in identified categories (Chang & Tuckman, 1994; Chikoto et al., 2016; Frumkin & Keating, 2011; Greenlee & Trussel, 2000).

HHI = $\sum_{i=1}^{N}(\frac{r_i}{R})^2 , i = 1, \dots, N$

HHI captures two dimensions of revenue concentration: the number of revenue sources and the extent to which dollars of revenue are dispersed across sources. To calculate revenue diversification, not revenue concentration, I modified the index that is computed by the formula below, following Chikoto et al. (2016).

RD = $[1 - \sum_{i=1}^{N}(\frac{r_i}{R})^2]$ (when N = 1)

RD = $[1 - \sum_{i=1}^{N}(\frac{r_i}{R})^2]/[\frac{N-1}{N}]$ (when N > 1)

where N = the number of revenue sources, r_i = revenue from the *i*th source, and R = the total revenues from all sources. When total revenue comes from one source (N=1 and r_1 = R), RD becomes zero. This indicates that a nonprofit's revenue comes from a single source. As N increases, RD increases. If a nonprofit has equal revenues from many sources, the index will approach one because the share of the several revenue sources is equally distributed, by a minimum value of 1/N. In addition, RD is unrelated to the size of an organization. For example, nonprofits with different revenue sizes, large or small, can have the same value if they have the same number of revenue sources and their revenues are equally diversified (Chikoto et al., 2016).

In this study, the RD index is constructed from six revenue categories reported on the survey. The revenue categories used are:

- Government funding (i.e., grants and contracts from all levels of government)
- Foundations (i.e., gifts and grants)

- Corporate donations (i.e., gifts from businesses and corporate sponsorships)
- Individual donations (i.e., gifts and bequests)
- Program-related income (i.e., program services revenues, fees for service, membership dues, and sales)
- Other (e.g., interest on investments or endowments)

2.4.2.2 Independent Variables

All three independent variables – managerialism, collaboration, and community ties – are latent variables derived from the observed variables that are briefly listed in Table 2-1. The way each latent variable was constructed is described in the methodology section.

Table 2-1 Descriptive statistics of the observables used for latent variables

Latent Variable	Observable Variable	Mean	S.D.	Range
Managerialism	Number of evaluation techniques used in the organization	3.70	2.61	[0, 8]
	Number of staff trainings offered by the organization	4.36	3.62	[0, 12]
	Number of areas that hire external consultants	4.72	4.95	[0, 18]
	Number of staff's professional expertise	11.80	11.38	[0, 48]
	Number of areas in which staff participate decisionmakers	2.90	2.72	[0, 8]
Collaboration	Number of collaborative works with nonprofits	2.41	2.45	[0, 12]
	Variety of collaborative work with public/for-profit organizations	1.29	2.04	[0, 12]
Community ties	Number of advocacy activities led by the organization	4.03	3.88	[0, 15]
	Number of the events held by the organization in the community	2.27	1.86	[0, 7]
	Number of the channels through which beneficiaries participate in the organization's decision-making processes	2.17	1.69	[0, 6]
	Number of areas in which beneficiaries routinely participate in the organization's decision-making processes	1.03	1.56	[0, 8]

Note: The number of observations is 496 organizations.

2.4.2.3 Control Variables

I included eight control variables to account for other organizational factors influencing nonprofit revenue generation. The control variables used in the model are summarized in Table 2-2.

Table 2-2 Control variables

Control variables	Configurations
Service Area or organizational fields (binary)	Arts and culture, education, environment, health, human services, and others (using NTEE code)
Organizational affiliations (binary)	Independent organization and affiliated organizations
Presence of paid members (binary)	Whether a nonprofit receives membership dues
Size of revenue (continuous)	Log of revenue size
Number of staff (continuous)	Whether a nonprofit has full-time or part-time staff (not including volunteers)
Organizational slack (continuous)	(Self-reported) The number of months for which nonprofits can operate without additional income
Geographic coverage (binary)	Specific neighborhood, specific municipality or county, all over the Bay Area/Puget Sound, all over California/Washington, all over the United States, outside the United States, and other (e.g., virtual)
Nonprofit age (continuous)	Log of years a nonprofit has existed since its official ruling year

2.4.2.3.1 Service Areas or Organizational Fields

According to DiMaggio and Powell (1983), an organizational field consists of "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products" (p. 148). Once disparate organizations are structured into an organizational field, "these actors constitute a network of social relations, governed by the distribution of resources and power and by a shared logic, composing one arena of social life" (Barman, 2007, p. 1423). Therefore, an organizational field is a critical source of pressure and influence on the behavior of the actors that inhabit it. This depiction of an organizational field implies that the structure of an organizational field influences nonprofits' strategies for revenue generation and management, shaping the extent and structure of their relationships with potential donors and funders.

The charitable practices of individual donors, foundations, governments, and corporations are all influenced by the composition and dynamics of the organizational fields within which nonprofit recipients operate. Consequently, this leads to variations in fundraising strategies and outcomes

among nonprofits belonging to different organizational fields (Grønbjerg, 1993). For instance, the primary sources of revenue and fundraising approaches employed by nonprofits in the field of arts and culture are likely to differ substantially from those of nonprofits in the human service sector. While arts and culture organizations typically receive a significant portion of their revenues from foundations and wealthy individuals (Maclean, 2019), the primary source of revenues for human service nonprofits is government funding. While a youth orchestra may rely heavily on membership dues or service fees (e.g., sales of concert tickets), a local food bank may depend more on individual donations or government grants.

Furthermore, these variations in revenue structures across organizational fields are often associated with distinctive organizational characteristics within nonprofit organizations, including managerialism, collaboration, or community ties. For instance, the environmental field increasingly exhibits characteristics such as centralization, professionalization, and specialization, driven by a growing emphasis on scientific knowledge. This transformation is correlated with a significant shift from the traditional model of individual memberships and donations to a model focused on government-backed project funding (Selle & Strømsnes, 1998, 2001). The field of arts and culture is also a highly professionalized sector due to its historical association with elite interests and income from philanthropists and foundations (DiMaggio & Anheier, 1990; Odendahl, 1990) while it is less likely to engage in collaborative initiatives and community involvement.

Given the effects of organizational fields on revenue outcomes and various organizational attributes explored in this study, I incorporated a control variable for nonprofits' service areas or organizational fields using the National Taxonomy of Exempt Entities (NTEE) categories to account for distinct operating contexts that nonprofits in different fields may encounter (Bouchard & Rousselière, 2016; Hager et al., 2004; Harrison & Laincz, 2008; Lu at al., 2020).

2.4.2.3.2 Organizational Affiliations

Similar to organizational fields, organizational affiliations also play a role in shaping the revenue generation strategies of nonprofits and their outcomes, primarily impacting their revenue structure. For instance, a nonprofit arm of a for-profit organization may predominantly gain its income from corporate donation or the sale of goods and services, while a nonprofit arm of a public agency may receive a significant portion of its revenue from government grants or contracts. Likewise, a local affiliate of a large nonprofit organization is more likely to depend on internal revenue streams such as financial support from its parent organization, whereas an independent nonprofit is more inclined to rely on external revenue sources such as individual donations and institutional funding. Consequently, organizational affiliations may affect the degree of revenue diversification by shaping a nonprofit's available revenue sources and its revenue structure.

Organizational affiliations also have systematic effects on the degree of revenue diversification by influencing a nonprofits' concerns regarding financial stability. If a nonprofit has a stable income support from its larger umbrella organization, whether the umbrella organization is a for-profit, nonprofit, or government, it is less inclined to pursue a strategy for financial stability, i.e., revenue diversification, compared to a nonprofit lacking such stable internal financial support. Grounded on these rationales, I integrated two categories of organizational affiliations into the model (refer to Table 2-2), classifying organizations as either independent entities or affiliated organizations.

2.4.2.3.3 Membership Dues

In addition to organizational fields and organizational affiliations, I introduced a dummy variable for membership organizations that collect membership dues. This inclusion aims to account for the influence of revenue structure, specifically shaped by the presence of membership dues, on the extent of revenue diversification. Moreover, I posit that membership organizations may display distinct patterns of community ties compared to non-membership organizations due to their fundamental grassroots donor base.

2.4.2.3.4 Size of Revenue

Revenue size is one of the measures used by nonprofit researchers to quantify organization size (Guo, 2007; Chikoto & Neely, 2014). Larger organizations can generate larger revenues in terms that "the size of an organization indicates its visibility and level of attention from institutional stakeholders" (Guo 2007, p. 463). Furthermore, larger organizations may be better equipped for financial management, due to economies of scale in some operational capacities (such as cash management and banking), easier access to credit, and enhanced financial sophistication (Marwell & Calabrese, 2015). In other words, organization size measured by revenue size also serves as an indicator of financial capacity (Chikoto & Neely, 2014). The connection between revenue size, organization size, and financial capacity implies that larger nonprofits are better equipped financially to hire professional staff, seek administrative efficiency, collaborate with other organizations, and serve their community constituents.

Conversely, it is also plausible that nonprofits with a more professionally staffed team, broader organizational network, and strong community presence tend to have larger financial capacity because these organizational attributes enhance their fundraising capabilities. Furthermore, higher financial capacity enables nonprofit organizations to make strategic choices about their revenue structure based on changes in their operating and external environment, ultimately impacting the degree of revenue diversification. Given these relationships between organization size (or financial capacity), revenue diversification, and the independent variables – managerialism, collaboration, and community ties – I incorporate revenue size as a control variable in this analytical model, measuring it by taking the natural logarithm of the total revenue.

2.4.2.3.5 Number of Staff

The number of staff or employees is another measure of organization size. Similar to revenue size, organization size measured by the number of staff may elucidate why larger nonprofits encounter fewer challenges in raising capital (Kalleberg & Leicht, 1991). A nonprofit with staff can raise capital in a more stable and effective manner than a nonprofit completely relying on volunteers. If an organization has personnel with professional expertise and administrative skillsets, it can leverage the qualification of its staff to seek various revenue sources as discussed in the managerialism section. Furthermore, the presence of staff enables a nonprofit to manage its organizational networks and community connections in a more stable and consistent manner, which ultimately influence the organization's ability to seek various revenue streams, as discussed in the collaboration and community ties section. Due to these linkages between the number of staff,

revenue diversification, and the independent variables, I control for the number of staff as an important variable.

2.4.2.3.6 Organizational Slack

Organizational slack may also matter. Bourgeois (1981) defines that "organizational slack is that the cushion of actual or potential resources which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment" (p. 30). Given this definition, organizations with more abundant slack resources at their disposal may find themselves more motivated to engage in activities aimed at driving policy changes or responding to environmental shifts, such as advocacy or supporting community engagement. They might do so without immediate concerns about their future revenue streams, but their commitment to community-based activities may ultimately open doors to diverse sources of income, as discussed in the community ties section.

Conversely, organizations with substantial organizational slack can have reduced incentives to pursue revenue diversification as a method to achieve financial stability since these surplus resources help buffer against income fluctuations associated with concentration on specific revenue sources. Therefore, a nonprofit with greater organizational slack may be less inclined to adopt strategies for diversifying revenues. Whether organizational slack has a positive or negative relationship with revenue diversification, this study includes it as a control variable to accounts for its influence. While various methods for calculating organizational slack have been proposed

(Bourgeois, 1981), this paper quantifies organizational slack using the number of months for which nonprofits can operate without additional income.

2.4.2.3.7 Geographic Coverage

This analytical model also incorporates the geographic coverage of nonprofits. The underlying assumption here is that the scale of the region a nonprofit serves is positively correlated with the scale of grants and contributions it solicits. For instance, a nonprofit serving and operating in Washington State is likely to have a larger donor base compared to one serving only a specific neighborhood. This larger geographic scope implies a greater population for nonprofit fundraising activities. Relatedly, nonprofits serving larger populations are more attractive to institutional funders like foundations, governments, or corporations because these funders may perceive them as having a greater overall impact. Consequently, the size of the community served enables nonprofits to leverage their visibility and legitimacy when soliciting grants, contribution, and contracts. Moreover, a larger geographic coverage can lead to increased commercial income, such as revenue from sales of goods and services, as larger communities provide more potential clients or customers to nonprofits. Similarly, larger populations can amplify the effects of community ties cultivated by nonprofits, increasing their visibility and political presence in the policy arena. This, in turn, enhances their fundraising capabilities. For these reasons, I included seven categories of nonprofit geographic coverage (see Table 2-2) to control for its potential effects.

2.4.2.3.8 Nonprofit Age

Lastly, age can be an important factor of organizational capability affecting revenue generation. Organizational theorists have long argued that younger organizations are less likely to survive than older ones (Bouchard & Rousselière, 2016; Carroll & Delacroix, 1982; Carroll, 1983; Freeman et al., 1983; Hager et al., 2004; Hannan 1988; Singh et al., 1986). While the literature has articulated a variety of reasons for "the liability of newness" (Freeman et al., 1983; Hannan, 1998; Hannan & Freeman, 1989; Geroski, 1995; Hager et al., 2004), age may have a significant effect on the survivability of an organization because of its close connection to reliability and accountability (Hager et al., 2004; Bouchard & Rousselière, 2016). Hager et al. (2004) assert that "Investors and donors will be slow to invest in or contribute to the organization until it shows that it has the ability to produce quality products and services, keep customers and happy and be accountable" (p. 162). In short, younger and newer nonprofits are "not as well embedded as older organizations" (Hager et al., 2004, p. 160), which can impede their ability to gain legitimacy needed to access resources, including a variety of revenue sources. Hence, age can serve as another factor in explaining varying fundraising capacities and revenue structures. Age is measured using the ruling years of nonprofits and the natural logarithm of the calculated age.

2.4.3 Model Specification

This article delves into the three primary hypotheses concerning nonprofits' revenue diversification. To accomplish this, I have developed an empirical model that explores the organizational factors influencing the extent of nonprofit revenue diversification. This model is based on the combination of theoretical insights and empirical findings from previous research.

While it is empirically challenging to definitively establish the direction of causality between organizational attributes and revenue outcomes (Stone et al., 2001), investigating how organizational characteristics are associated with revenue diversification is crucial from both theoretical and practical perspectives. To empirically explore these relationships, I have chosen structural equation modeling as the most suitable method.

2.4.3.1 Structural Equation Modeling (SEM)

The objective of this empirical analysis is to explore how each facet of organizational characteristics, which represents distinct management strategies and intangible organizational assets, explains the degree of revenue diversification. To this end, the analysis employs structural equation modeling (SEM). Schreiber et al. (2006) highlight the benefits of using SEM, stating that "SEM allows researchers to test theoretical propositions regarding how constructs are theoretically linked and the directionality of significant relationships" (p. 326).

In particular, a path model is appropriate for testing composite hypotheses, as it allows for the examination and assessment of the effects of variables acting on a specified outcome within multiple regression framework. In this context of a path model, the specification of the chosen independent variables and dependent variables is grounded in substantive theory, which establishes a comprehensive network of relationships. Both the two theories employed in this study – institutional theory and resource dependence theory – support the notion that selected organizational attributes influence revenue diversification. Therefore, SEM is employed as the primary analytical technique for empirically examining and estimating hypothesized relationships among the variables, which are substantiated on theoretical grounds.

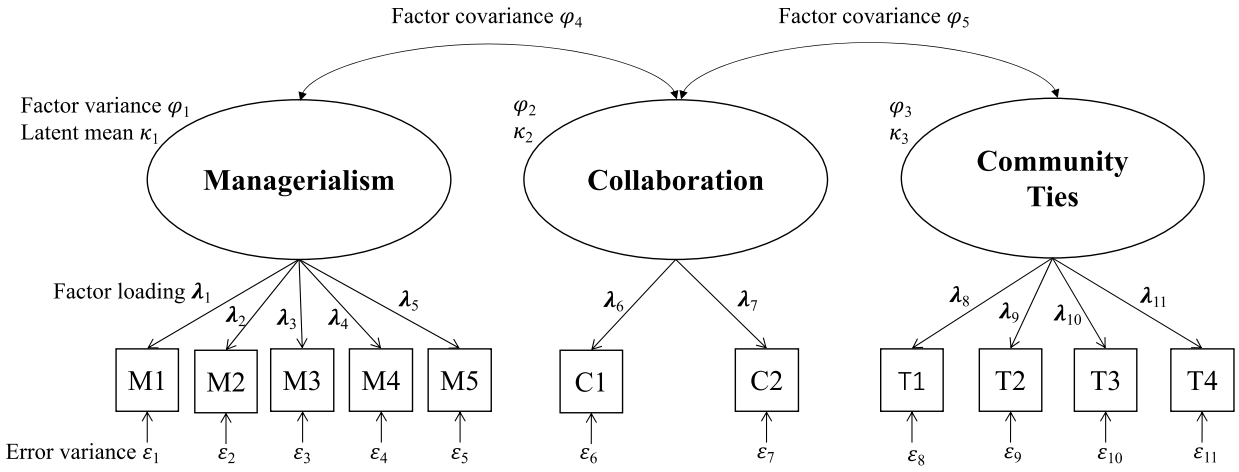
2.4.3.2 Measurement Model

This study conducts confirmatory factor analysis (CFA) to assess independent variables constructed as latent variables. Given that a large number of items are categorical variables, the sample data of this study is highly likely to suffer from multivariate non-normality. Therefore, this analysis employs robust corrections for nonnormality, particularly maximum likelihood, for the corrected estimations. Two key facts justify the use of robust maximum likelihood (ML) estimation: First, the smallest number of item categories used in this study is five (Rhemtulla et al., 2012). All indicator variables of this study have response scales of more than 5 points. Higher scores reflect the increased importance of the respective activities. Second, this study aims to test the hypotheses derived from theoretical propositions. Anderson and Gerbing (1988) note that ML is for theory testing and development, while a partial least squares (PLS) estimation approach is for application and prediction. Joreskog and Wold (1982) also assert that "ML is theory-oriented and emphasizes the transition from exploratory to confirmatory analysis" (recited in Anderson & Gerbing, 1988, p. 412).

Since structural equation modeling involves multi-stage processes, primarily comprising a measurement model and a path model, CFA is initially used to evaluate whether the measured, observable variables are valid indicators of their underlying, unobservable constructs (Anderson & Gerbing, 1988; Bollen, 1989). The outcome of CFA indicates whether the measurement model (i.e., the relationships between observed indicators and latent constructs) is a good fit for the data. I opted for CFA instead of exploratory factor analysis (EFA) because CFA is designed to test the reliability of the selected observable variables in light of the hypothesized model and examine the extent of interrelationships and covariation (or lack thereof) among the latent constructs. In this

process, factor loadings, unique variances, and modification indices are estimated to identify the most suitable indicators of latent variables prior to testing the path model (Schreiber et al., 2006). The path diagram presented in Figure 2-1 visualizes the measurement model, where three observed indicators represent managerialism, two observed indicators characterize collaboration, and four observed indicators gauge community ties. Table 2-1 provides a list of the observed variables used to construct the latent variables.

Figure 2-1 Measurement model



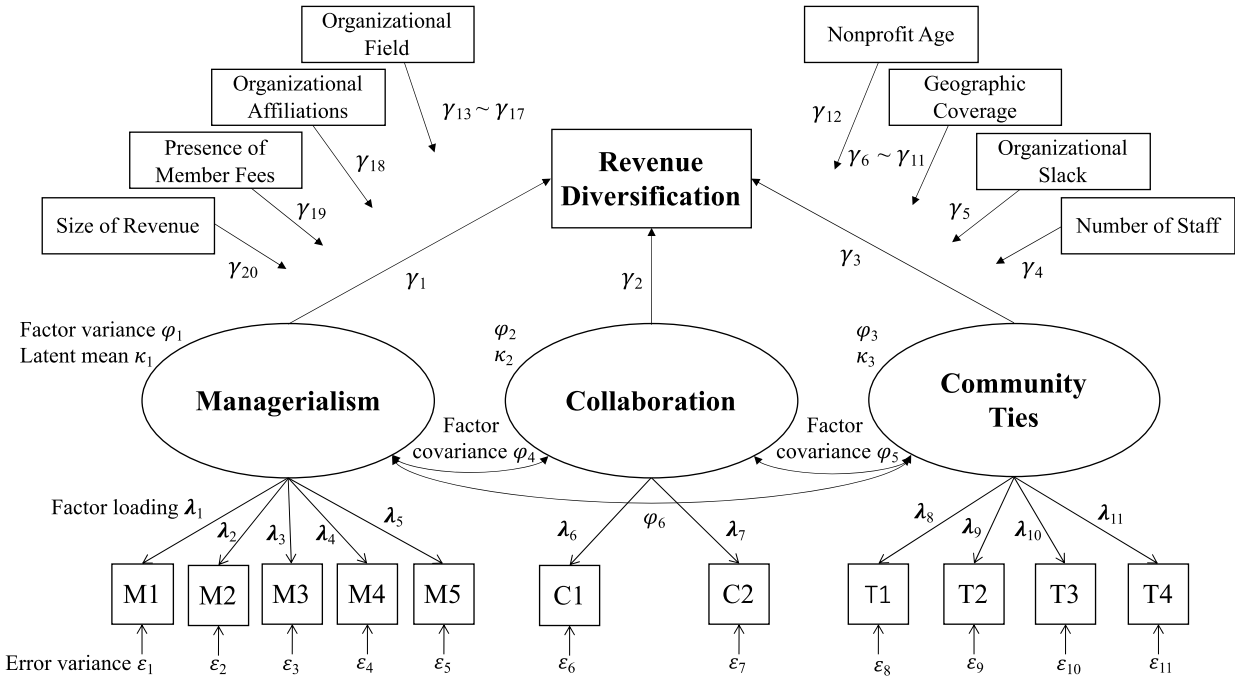
2.4.3.3 Path Model

The next step following CFA is to test the hypothesized model using a path model, which in SEM corresponds to a regression model. The regression employed in this study is outlined as follows. Figure 2-2 illustrates the path diagram of the structural equation model.

$$RD = \beta_0 + \beta_1 MNGM + \beta_2 COLLAB + \beta_3 COMM + \beta_4 \sim \beta_{20} CONTROLS + \varepsilon$$

where RD refers to *revenue diversification*, which serves as the dependent variable, and MNGM, COLLAB, and COMM denote *managerialism*, *collaboration*, and *community ties*, respectively. Additionally, the model incorporates control variables (referred to as CONTROLS), encompassing organizational fields or service areas, organizational affiliations, the presence of membership dues, revenue size, staff count, organizational slack, geographic coverage, and nonprofit age.

Figure 2-2 Path diagram



2.5 Data Analyses and Results

2.5.1 Test of Measurement Invariance

Prior to running the measurement model, I performed a test of measurement invariance to assess whether the same underlying constructs contribute to the interpretation of items across the two distinct regional nonprofit groups (Behrens et al., 2019; Jeong & Lee, 2019; Spurk et al., 2015).

This measurement invariance test was conducted at four increasing stringency levels: configurational, metric, scalar, and residual measurement invariance. Factor means were fixed at zero, factor variances to one, and residual variances to one to ensure model identification for both the Bay Area and Puget Sound groups. Moreover, categorical variables were treated as continuous variables due to their response scales exceeding five points (Rhemtulla et al., 2012).

While there were only a few missing cases in the dataset, some indicators for latent variables had a couple of missing cases. To address this, I employed the full-information maximum likelihood (FIML) estimation technique, instead of other methods such as listwise-deletion and pairwise deletion, which can cause selection bias due to nonrandom attrition (Arbuckle, 2003; Kim & Kim, 2010). FIML is considered efficient for handling incomplete data (Schafer & Olsen, 1998; Kim & Kim, 2010). I assessed the normality of each variable using its kurtosis and skewness to identify whether the predictors meet the normality assumption of the FIML estimation. All indicators meet the assumption of normality according to the guideline (i.e., skewness < 2, kurtosis < 7) proposed by Curran, West, and Finch (1996) and Bryne (2010). All of them meet even stricter criterion (i.e., skewness < 2, kurtosis < 3), except for three predictors whose kurtosis values are higher than 3.

The measurement invariance test involved a series of nested multigroup models, beginning with the configurational invariance level. In the first model, both nonprofit groups (i.e., those in the San Francisco Bay Area and those in the Puget Sound Region) were simultaneously examined, holding only the pattern of factor loadings invariant. This initial model has two functions. First, it tests configurational invariance (Horn & McArdle, 1992). A poor fit of this model indicates that either the factor structure does not hold across the two samples or that the model is misspecified in one or both samples (Meade et al., 2008). This model also serves as a baseline for model fit

comparison with more restrictive measurement invariance models (Jeong & Lee, 2019; Meade et al., 2008). Once the adequate fit for the baseline model was confirmed, tests of the quality of parameters in the CFA were conducted in a series of sequential models in which typically factor loadings, intercepts, and other model parameters were constrained incrementally. The second model tested weak or metric invariance by imposing equal factor loadings across both regional groups. A poor fit of this model indicates a difference in factor loadings across the two samples and an adequate fit of this model implies that the measures have the same meaning and structure for all groups (Jeong & Lee, 2019). The third model examined strong, scalar, or threshold invariance, holding factor loadings and item thresholds to be equal across the groups, to assess whether there is no difference in factor loadings and item intercepts. Scalar invariance implies that "observed scores are related to the latent scores; that is, individuals who have the same score on the latent construct would obtain the same score on the observed variable regardless of their group membership" (Milfont & Fischer, 2010, p. 115). The final model tested a strict or residual invariance, evaluating differences in factor loadings, item intercepts, and residuals. Successful model fit in this test suggests that "the indicators measure the underlying latent variables with the same degree of measurement error" (Jeong & Lee, 2019, p. 473).

The results of the measurement invariance test, presented in Table 2-3, revealed no significant differences between the Bay Area and the Puget Sound groups across all four levels, suggesting that factor loadings, intercepts, and residuals are equal across both groups. All four models exhibited good model fits, characterized by a comparative fit index (CFI) > .90 and root mean square error of approximation (RMSEA) < .08. Measurement invariance at each level was proven by small changes in model fit, specifically a change in CFI > .002. It is worth noting that $\chi 2$ values

are reported but not relied upon due to the oversensitivity of $\chi 2$ tests to large sample sizes, as in this study.

In summary, the test results suggest that the two regional groups interpreted the survey questionnaires in a consistent manner, implying that group membership does not impact the probability of observed responses conditioned upon latent scores (Meade et al., 2008; Behrens et al., 2019; Jeong & Lee, 2019; Spurk et al., 2015). In other words, it refutes the idea of potential differences in the groups' conceptualization of organizational attributes examined in this study. Hence, I treated the data from the two samples as if it were drawn from a single dataset.

As part of a sensitivity analysis, I also conducted one more measurement invariance test using a mean- and variance-adjusted weight least squares (WLSMV) estimator to account for the ordinal nature of some variables even though the response scales are all more than five (Behrens et al., 2019). Although this alternative test is a more conservative approach than the test using a robust maximum likelihood estimator, it also established good model fit in all four levels, as shown in Table 2-4.

Table 2-3 Invariance measurement test

Invariance level	**χ^2**	**df**	**$\Delta\chi^2$**	**CFI**	**RMSEA**	**Lower CI**	**Upper CI**	**ΔCFI**
Configurational	162.687	82	-	**.947**	**.063**	.049	.076	-
Metric	172.327	93	9.64	**.948**	**.059**	.045	.072	.001
Threshold	185.925	101	13.598	**.944**	**.058**	.045	.071	**-.004**
Residual	192.806	112	6.881	**.947**	**.054**	.041	.066	**.003**

Invariance tests using a robust maximum likelihood (MLR) estimator are presented here. Good model fit (noted in bold) was established by a comparative fix index (CFI) > .90 and root mean square error of approximation (RMSEA) < .08. Additionally, measurement invariance at each level (noted in bold) was established by CFI differences of more than .002.

Table 2-4 Invariance measurement test

Invariance level	χ^2	df	$\Delta\chi^2$	CFI	RMSEA	Lower CI	Upper CI	ΔCFI
Configurational	165.437	82	-	**.905**	**.064**	.050	.078	-
Metric	126.947	93	- 38.49	**.962**	**.038**	.019	.054	**.057**
Threshold	139.832	107	12.885	**.963**	**.035**	.015	.051	.001
Residual	143.381	117	3.549	**.970**	**.030**	.002	.046	**.007**

Invariance tests using a mean- and variance-adjusted weight least squares (WLSMV) estimator are presented here. Good model fit (noted in bold) was established by a comparative fix index (CFI) > .90 and root mean square error of approximation (RMSEA) < .08. Additionally, measurement invariance at each level (noted in bold) was established by CFI differences of more than .002.

2.5.2 Measurement Model

As mentioned earlier in the research design section, I estimated factor loadings, unique variances, and modification indices to derive the best indicators of latent variables prior to testing the path model (Schreiber et al., 2006). Factor loading indicates the variance of an indicator that is shared with a latent variable, and unique variance represents the unshared variance or the measurement error. Table 2-5 presents this model's standardized factor loadings that indicate standardized measurement coefficients linking the observed indicators to each latent construct. Most factor loadings are above .60, demonstrating high or moderate saturation with their respective constructs. Saturations are relatively low for two indicators of community ties, which are above .30. However, all factor loadings are statistically significant, confirming the adequacy of all indicators in representing their corresponding latent constructs.

To ensure the reliability and replicability of selected indicators for each construct, I performed cross-validation using EFA. The sample was randomly divided into two equal subsamples, each consisting of 248 organizations. One subsample underwent CFA, while the other underwent EFA. The results were then compared to verify their consistency. In the EFA, I let the study rotate with direct oblimin (oblique), which permits correlations among factors, because oblique rotation offers a more realistic representation of real-world relationships (Kim & Kim, 2010). The outcomes of these analyses were found to be entirely consistent, validating the reliability and replicability of

the chosen set of indicators for each construct. Tables A-1 and A-2 in the appendix presents the detailed results. Additionally, it is worth noting that, similar to the measurement invariance test, FIML estimation was employed for the measurement model to handle incomplete data.

Table 2-5 (Standardized) Factor loadings for all indicators (Confirmative Factor Analysis)

		Managerialism	Collaboration	Community ties
1	Number of evaluation techniques used in the organization	.648***		
2	Number of staff trainings offered by the organization	.803***		
3	Number of areas that hire external consultants	.702***		
4	Number of staff's professional expertise	.724***		
5	Number of areas that allow for staff involvement in the organization's decision-making processes	.628***		
6	Number of collaborative works with other nonprofits		.928***	
7	Number of collaborative works with other sectoral organizations		.690***	
8	Number of advocacy activities led by the organization			.684***
9	Number of the events held by the organization in the community			.711***
10	Number of the channels for beneficiaries' participation in the organization's decision-making processes			.443***
11	Number of areas that allow for beneficiaries' routinely involvement in the organization's decision-making processes			.337***

N = 496. Two-tailed t-test.
$^{+}p \leq .1$.
$^{*}p \leq .05$.
$^{**}p \leq .01$.
$^{***}p \leq .001$.

In conclusion, this study evaluated the model fit using multiple fit indices. The comparative fit index (CFI) is designed to gauge the goodness of fit of a model independent of sample size. The index compares the fit of the proposed model with that of a baseline model. Acceptable fit is defined as .90, or ideally .95 or greater, for CFI. The root mean square error of approximation (RMSEA) is the index of the difference between the observed covariance matrix per degree of freedom and the hypothesized covariance matrix which denotes the model. An RMSEA value less than .08, and ideally less than .05, corresponds to an acceptable fit. The standardized root mean

squared residual (SRMR) represents the average absolute discrepancy between observed sample variances and covariances compared to those predicted by the model. A SRMR value of .05 or lower is indicative of a good model fit (Ruan et al., 2015). Lastly, the chi-square statistic was reported as an indicator of the overall model fit, with the caveat that the chi-square is criticized for its excessive sensitivity in large samples, which may suggest a poor model fit in the absence of true data issues. The results of the model fit indices are presented in Table 2-6, affirming that the measurement model demonstrates an acceptable level of fit.

Table 2-6 Model fit indices (Robust maximum likelihood estimators)

N	Degrees of freedom (df)	CFI	SRMR	RMSEA	χ^2 (chi-square)
496	41	.952	.042	.059	112.816 ($p < .001$)

2.5.3 Path Model (Regression)

Having confirmed that the indicators effectively represent the latent constructs – managerialism, collaboration, and community ties – I proceeded to conduct the path model (regression) by introducing the dependent variable and control variables into the analysis. The path model demonstrates a good fit with the data based on the results from robust estimation: $\chi^2_{(172)} = 374.365$, $p < .001$, CFI = .905, SRMR = .050, RMSEA = .048. These overall fit measures provide compelling support for the hypothesized revenue diversification model. The CFI is on the acceptable cut-off value, .90, registering at .905. Both SRMR of .050 (≤ .05) and RMSEA of .048 (≤ .05) indicate a well-fitting model. The relatively narrow confidence intervals for RMSEA, ranging from .041 to .055, demonstrate high precision. This means there a 90% confidence that the true RMSEA value in the population falls within this range.

Table 2-7 Model fit indices (Robust maximum likelihood estimators)

N	Degrees of freedom (df)	CFI	SRMR	RMSEA	χ^2 (chi-square)
496	172	.905	.050	.048	374.365 (p < .001)

In addition to presenting global fit to the data, the hypothesized path model exhibits strong local fit. The two structural coefficients align with expected directions and hold statistical significance at p ≤ .05. The relationships between managerialism and revenue diversification ($\gamma = .066$, $p \leq .05$) and collaboration and revenue diversification ($\gamma = .049$, $p \leq .05$), supporting Hypothesis 1 and 2, respectively, are statistically significant. For instance, a one standard deviation change in managerialism is likely to result in a .066 unit increase in a nonprofit's revenue diversification, all other factors being equal. The detailed regression analysis outcomes are displayed in Table 2-8 below.

Table 2-8 Results of path analysis

	Revenue Diversification	Reg. coef.	Standard est.	P-value
1	Managerialism*	.066	.303	.025
2	Collaboration*	.049	.025	.050
3	Community ties	-.009	.041	.832

N = 496. Two-tailed t-test.
$^{+}p \leq .1$.
$^{*}p \leq .05$.
$^{**}p \leq .01$.
$^{***}p \leq .001$.

As depicted in Table 2-8, the regression findings indicate the statistical significance of managerialism and collaboration, while community ties do not display statistical significance. Moreover, the positive sign of the relationships signifies that nonprofits adopting more business-like practices or engaging in greater collaborative efforts with other organizations are more inclined to diversify their revenue sources.

2.6 Discussion and Conclusion

Decades ago, Bielefeld (1992) pointed out that "organization theory has been vigorously pursuing the systematic conceptualization and measurement of organizational environments and the assessment of the impacts that environments have on organizations" (p. 49). However, nonprofit organization scholars have predominantly focused on the impacts of environments on organizations, leaving another vital question unexplored: How do nonprofits strategically respond to environmental variations and pressures? This research is an endeavor to address this relatively overlooked inquiry in organization study.

In this analysis, I delved into the role of organizational attributes in shaping their responses to environmental variations and pressures, drawing upon two complementary frameworks: institutional theory and resource dependence theory. Specifically, I empirically examined how these organizational attributes influence nonprofits' capacity to diversify their revenue sources, a well-known strategy for enhancing financial stability. According to financial portfolio theory, avoiding excessive dependence on a single revenue source can bolster nonprofits' financial positions by mitigating the risk of financial crises or interruptions in funding. My focus has been on investigating the impacts of three selected organizational attributes: managerialism, collaboration, and community ties.

The findings of this study largely lend support to the proposed hypotheses, alluding that organizational attributes can serve as strategic assets in nonprofits' endeavors to navigate environmental pressures and capitalize on external demands, thereby increasing their prospects for survival and stability. This analysis particularly demonstrates that managerialism and collaboration enhance nonprofits' ability to access diverse revenue sources. These results imply that nonprofits leverage their managerial characteristics, such as professional staff, use of

technology, evaluation techniques, and inter-organizational and inter-sectoral networks, when seeking various funding sources.

On the other hand, this study reveals that community ties do not have a statistically significant effect on nonprofit revenue diversification, refuting my third hypothesis. I propose four plausible explanations for this result. First, strong community ties may not be sufficient to attract a diverse range of donors and funders. For example, institutional funders, such as governments, foundations, and companies, may be less inclined to support nonprofits engaged in notably strong or ideologically oriented forms of community actions, potentially leading these nonprofit organizations to rely predominantly on non-institutional revenue sources. Moderate, non-political, community nonprofits may also experience limitations in their revenue sources due to their relatively under-resourced donor base. Consequently, they may end up overly relying on one or two institutional funding sources, as their individual donors may not consistently provide reliable funding.

On the flip side, community-based nonprofits may choose not to pursue institutional support due to concerns about potential loss of autonomy, mission drift, or detachment from their grassroots base. For instance, foundation and government funding can lead to co-optation, moderation, and bureaucratization of social movement groups, or engagement in operations outside their missions and causes (Jenkins et al., 2018; Jenkins 1987; Corrigall-Brown, 2016; Chaves et al., 2004; Rodgers & Knight, 2011; Bennett & Savani, 2011). Governing funding can also restrict nonprofit agencies from engaging in political activities, for instance, by limiting their support or opposition to candidates running for office or by constraining a "substantial" portion of political activities, such as lobbying (Chaves et al., 2004). In fear of repercussions for unwelcome

activities, some community-oriented nonprofit groups may abstain from seeking institutional funding like government contracts or grants.

Thirdly, revenue diversification may not be the preferred strategy for community-oriented nonprofits, primarily due to the hidden costs incurred by this approach – specifically, administrative costs. Managing various revenue sources demands staff time devoted to administrative and fundraising activities (Frumkin & Keating, 2011). Besides, given the high staff turnover that characterizes the nonprofit sector, managing diverse revenue streams from public and private sources entails additional costs associated with recruiting and training new staff. Since many community-oriented nonprofits have relatively fewer professional staff with administrative expertise and experience high staff turnover, they may opt not to pursue revenue diversification to minimize administrative expenses.

Lastly, some nonprofits with strong community support may find it unnecessary to diversify revenue streams, as their community-based income sources, such as individual donations and membership dues, offer sufficient financial stability. For these nonprofits, revenue concentration might prove a more promising strategy for financial stability compared to revenue diversification.

While this analysis does not provide definitive evidence to conclude which explanation best accounts for the weak effect of community ties on nonprofit revenue diversification, it underscores the importance of further research on this topic. Regardless of the specific mechanisms underlying the effects of community ties on revenue diversification, the collective findings of this study lead to a common conclusion: nonprofits' strategic actions, driven by cost-benefit analysis, can explain their revenue generation outcomes, while larger structures and processes concurrently constrain these outcomes (Alexander 1998; Barman, 2007; Bourdieu, 1991; Powell & Minkoff, 2006; Scott, 2008). Nonprofits do not passively react to environmental pressures and changes; instead, they

actively interpret their surroundings and adopt optimal strategies leverage their internal and external environments. A nonprofit's organizational attributes, such as managerialism or collaboration, represent the inventories of strategies the organization can utilize in their efforts.

Apart from its research implications, this analysis also holds practical relevance. Firstly, the study results confirm that the managerial trends observed in modern nonprofit organizations – managerialism and multi-sectoral collaboration – are not mere passing trends but rather deliberate strategies organizations may continue to adopt to realize tangible benefits. Nonprofits increasingly embrace evaluation techniques, recruit and train paid staff, develop performance matrices, and prioritize collaborative endeavors, recognizing that these practices can serve as tools to enhance their position in the organizational field and market. Given the tangible advantages, nonprofits are likely to persist in adopting such practices.

Secondly, the observed higher levels of revenue diversification among more formalized, professionalized, and collaborative nonprofits imply growing polarization and disparities within the nonprofit sector. Given that adopting new management practices and cultivating partnerships require substantial organizational resources, it is more probable that wealthier and larger nonprofits enjoy greater access to diverse revenue sources compared to their relatively under-resourced counter partners. I propose that institutional funders and donors reconsider their grantmaking and donation criteria, giving due consideration to organizations that may not meet their current managerial criteria but demonstrate a stronger commitment to community-building activities. In particular, I call for collective efforts involving scholars, practitioners and policymakers to develop more multi-dimensional and sophisticated metrics for evaluating organizational performance, which can contribute to the equitable growth of the nonprofit sector.

Despite the contributions this study makes to existing research, it is essential to acknowledge its limitations when interpreting the findings. Firstly, the data were collected exclusively from the two U.S. states, and the sample is limited to registered and formal nonprofits, excluding congregations, private foundations, or organizations with annual revenues under $25,000, due to the original sampling frame. Such sampling approaches might restrict the generalizability of the study's findings to other geographic locations and various types of nonprofits that were not included in this research.

Secondly, there are two major sources of measurement errors. First, data on the types and percentages of revenue sources used to construct the revenue diversification index, as well as on organizational slack, relied on self-reported survey responses. Furthermore, the data collection period coincided with the reporting of coronavirus outbreaks in the San Francisco Bay Area and Puget Sound. The research team took measures to minimize the potential impact of these factors on survey responses. For example, we encouraged respondents to refer to their financial data during the surveys, provided sufficient time for this, and emphasized that the survey responses should be based on 2019 data, not 2020 data, which was likely to be affected by the pandemic. Nevertheless, it remains plausible that inaccuracies stemming from self-reporting, the disruptions experienced by survey participants, and changes within their organizations could be reflected in their survey responses.

Thirdly, due to the cross-sectional nature of the data, it is impossible to isolate the purely causal effects of organizational attributes on revenue diversification. Rather, the primary contribution of this analysis is to provide nuanced evidence regarding the influence of nonprofit managerial characteristics on their strategic capability for revenue diversification. Besides, this study does not investigate potential time-lagged effects of organizational attributes on revenue diversification.

For example, a nonprofit's high degree of revenue diversification might partially result from its prior engagement in high levels of inter-sectoral collaboration. This study does not incorporate such time-lag effect into the analytical model.

Fourthly, the collaboration variable in the study relies on only two survey response items, which is the minimum number of observed variables required in SEM. Future research can refine this construct by incorporating additional indicator items that contribute to its development.

Last but not least, this study does not fully consider the heterogeneity and diversity among individual nonprofits. Subsequent research can focus on examining the distinctive roles of sector-specific characteristics associated with managerialism, collaboration, and community ties in nonprofits' revenue diversification. Exploring how different institutional logics across organizational fields influence nonprofits' strategic decisions and capacity for organizational stability and survival holds promise as a fruitful avenue for future research.

Chapter 3

Which Nonprofits Become Government Contractors for Human Services? Multidimensional and Multilevel Explanations

Abstract

For decades, the government has increasingly relied on nonprofit organizations to outsource publicly services, highlighting a growing reliance on government funding as a primary income source for these nonprofits. Given this escalating mutual dependence, it is worthwhile to investigate the factors that impact the contracting relationship between nonprofits and the government. This study aims to offer multilevel and multidimensional explanations for the factors associated with government-nonprofit contracting, drawing from three theoretical frameworks: transaction cost economics, resource dependence theory, and institutional theory. These theoretical frameworks provide conceptual lenses on how factors such as governments' cost factors, nonprofits' resource factors, and institutional pressures may influence the government's engagement in human service contracting with nonprofits. I use multilevel data on organizational characteristics and community context of nonprofits in the Puget Sound of Washington and the San Francisco Bay Area of California. Preliminary findings indicate that certain organizational characteristics, such as nonprofits' use of performance measures, involvement in advocacy activities, and administrative capacity, can explain the likelihood of nonprofits becoming

contractors for the government. Interestingly, the broader community context in which these organizations operate appears to have minimal influence on the observed outcomes. These results offer partial support for the theoretical explanations being considered.

3.1 Introduction

Over the course of several decades, the government has increasingly turned to private providers, particularly nonprofits, to assume the role of contractors in various public service sectors. A substantial body of literature in the fields of public management and nonprofit governance has highlighted the pivotal role of nonprofits as major providers of government-funded services (Bode & Brandsen, 2014; Milward & Provan, 2003; Osborne, 2006, 2010; Salamon, 1995).

This growing reliance of the government on nonprofits for public service delivery reflects a parallel increase in nonprofits' dependence on government funding as their primary source of revenue. For example, according to a report by the Urban Institute on nonprofit-government contracting and grants, government funding constitutes more than 65 percent of total revenues for human service nonprofits in the United States. Moreover, 60 percent of human service nonprofits receiving government grants and contracts consider government funding as their most significant financial source (Boris et al., 2010). The Johns Hopkins Comparative Nonprofit Sector Project (CNP Project) estimates that nearly 40 percent of financial support for nonprofits originates from governments in the United States, and 35 percent of nonprofit revenues depend on government support across 41 countries on average (Salamon et al., 2017).

Given the prevalent use of nonprofit contractors by the government for public service delivery and the consequential reliance of nonprofits on government funding, this chapter seeks to explore

the factors that influence the likelihood of a nonprofit's securing government contracts, which directly impacts nonprofit's reliance on government funding. Why do some nonprofits succeed in obtaining one or even more government contracts while others do not, even when they operate in the same service field? What explains the variations in these outcomes?

Most existing research on public contracting has primarily focused on the government's production decisions. For instance, prior research has concentrated on identifying the factors that shape the government's decisions to choose between different production mechanisms, such as in-house provision or contracting out. These factors encompass a wide range of economic, social, political, ideological, and organizational characteristics, including the complexity of services, the level of competition in the contract market, the jurisdiction's metropolitan status, public interest in the service delivery process, and diversity of citizen demands as well as political orientation, governance model, and fiscal challenges faced by the government (Brown & Potoski, 2003b; Brudney et al., 2005; Damanpour et al., 2020; Ferris & Graddy, 1986; Hefetz & Warner, 2012; Schoute et al., 2018; Warner et al., 2021). However, while extensive research has explored why the government decides to contract out services rather than providing them in-house, there is a relative dearth of research addressing why specific organizations are chosen for contracting over others.

This paper aims to address this underexplored question by building upon prior research that primarily examined factors associated with the government's "make-or-buy" decision. As Ferris and Graddy (1986) note, the decision to contract out is a two-step process: "The government decides whether or not to contract out and then chooses with whom to contract" (p. 332). While previous research has predominantly focused on the first step – exploring the rationales and variables influencing the government's decision – whether or not to contract out – this study aims

to illuminate the second step, focusing on the government's decision regarding whom to contract with.

To this end, this paper proposes a multidimensional approach that incorporates supply-side factors (governments as contract providers) and demand-side factors (nonprofits as contract seekers and recipients) as two major determinants of nonprofits' contracting outcomes. Public-nonprofit contracting ultimately results from a complex cost-benefit analysis involving both parties, although the government remains a major decisionmaker in these relationships. Each party assesses and compares the costs and benefits associated with the contractual relationship, while seeking to maximize benefits while minimizing costs.

The government's concern centers around reducing program startup and management costs while addressing newly identified needs and demands of service recipients by leveraging the expertise and innovative approaches of private providers it contracts with (Van Slyke 2007; Smith & Grønbjerg, 2006). To accomplish this goal, the government may select private vendors with a high likelihood of delivering high-quality services at the lowest cost.

Nonprofits, too, aim to maximize benefits while minimizing costs. They anticipate various forms of benefits from contractual relationships, primarily financial resources, but also including enhanced management expertise, legitimacy, and a close connection to government agencies. Costs to be minimized may include diminished loss of legitimacy in the community as independent enterprises, excessive paperwork, and potential risks of government underfunding (Smith & Grønbjerg, 2006; Urban Institute, 2013). To optimize benefits and reduce potential costs, nonprofits evaluate the resources they can gain through contracting, as well as their internal resources that can be employed to obtain external resources and safeguard against associated challenges, before entering the contract market. In summary, both the government's cost

considerations and the nonprofits' resource considerations involve an assessment of internal organizational conditions related to costs and resources.

In addition to these internal conditions associated with cost and resources, the decisions made by both the government and nonprofits take into account their surrounding institutional environment. The institutional environment around both the government and nonprofits can impact their purposive decisions on "with whom to contract." Organizations are subject to institutional pressures that require demonstrating alignment with social ideals and norms. Meyer and Rowan assert that "organizational success depends on factors other than efficient coordination and control of productive activities. Independent of their productive efficiency, organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive" (Meyer & Rowan 1977, p. 352). Given that elements of legitimacy increase the likelihood of survival and success, governments and nonprofits may assess and adopt elements deemed to legitimate to enhance the stability of contractual relationships and organizational performance.

To investigate these dynamics, this paper applies conceptual frameworks from three theoretical perspectives: transaction cost economics (TCE), resource dependence theory (RDT), and institutional theory (IT). These three theories provide core concepts and theoretical frameworks for examining government contracting with nonprofits across multiple analytical dimensions: governments' cost factors, nonprofits' resource factors, and institutional pressures, respectively. By synthesizing these theoretical perspectives to explain the different facets of the phenomenon, this paper demonstrates that transaction cost economics, resource dependence theory, and institutional theory are mutually reinforcing in explaining government contracting with nonprofits, yielding coherent and practically relevant explanations.

In addition to utilizing a multidimensional approach that considers factors related to the government's and nonprofits' decisions, referred to as government cost factors and nonprofit resource factors here, this study adopts a multilevel approach that incorporates community characteristics and institutional forces, which are reflected in the reasoning of both parties and serve as underlying explanatory elements. When either a government or nonprofit contemplates contracting with one another, they take into account not only the organizations' internal aspects but also the influences and constraints imposed by the surrounding community and institutional environment on the organizations' operations and management outcomes. Thus, whether a nonprofit secures a government contract may be explained by a combination of the internal characteristics of both the government and nonprofits as well as the attributes of the surrounding community and institutional environment.

This study places a particularly emphasis on public contracting within a single organizational field - the human service area - to mitigate the effects of confounding factors associated with the heterogeneity of service markets (e.g., varying levels of fixed costs required for service delivery, types of service recipients, and the availability of private service vendors) and the diversity of resource environments and institutional forces faced by nonprofit organizations across different organizational fields (e.g., competition levels between public and private providers, availability of private revenue sources). I argue that concentrating on a single service area will not undermine the validity of the analyses because human service nonprofits "are more likely than other types of organizations to enter into contracts with governments to provide services" (Urban Institute 2013, p. 2). This trend has been consistent since contracting became a popular public instrument. For instance, Ferris and Graddy (1986) demonstrate that city and county governments contract with nonprofits over 40 percent of the time for human health service categories, such as child welfare

programs, programs for the elderly, and drug/alcohol treatment, a larger proportion than for-profit providers. Moreover, focusing on human service contracting offers an ideal analytical setting for examining the multilevel effects of organization-level and community-level characteristics on nonprofit contracting outcomes, given the strong community embeddedness of human service nonprofits.

To analyze the data effectively, this study employs a Bernoulli multilevel model, also referred to as a random effects model or mixed effects model, due to the multilevel and nested structure of data used for independent variables. Multilevel modeling is well-suited to studying the multilevel effects on public contracting outcomes, allowing for the measurement of higher-level variance between communities. The paper will further explain the methodological advantages and application of this selected method more in the data and method section. The data used in this study were collected from various sources, including the Civic Life of Cities (CLC) survey, the National Center for Charitable Statistics (NCCS), and the Census Bureau.

This paper is organized into six sections. The first three sections introduce the selected theoretical frameworks for explaining government-nonprofit contractual relationships. These sections explain how transaction cost economics, resource dependence theory, and institutional theory can shed light on the cost-benefit calculations and institutional pressures that influence the likelihood of nonprofit organizations becoming government contracting partners. The introduction of these theories leads to a series of hypotheses that will be empirically tested. The subsequent section describes the data, methods, and models employed in this study. In the fifth section, research findings are presented, followed by a discussion of the results and an exploration of the analysis's limitations in the sixth section.

3.2 Theoretical Frameworks

3.2.1 Government Cost Factors: Transaction Cost Economics (TCE)

Contracting out for public services is one of the most predominant forms of public service privatization, which refers to externalizing public service production through market transactions (Van Slyke, 2003; Amirkhanyan & Lambright, 2017). As privatization has gained momentum both nationally and internationally as a viable option for delivering public services, contracting out has been advocated primarily for its theoretical advantages within a competitive marketplace, including potential cost savings, efficient service delivery, improved service quality, and heightened accountability (Park & Brunjes, 2022; Brunjes, 2020; DeHoog, 1985; Schlesinger et al., 1986; Van Slyke, 2003; Brown & Potoski, 2003a, 2005). Among these advantages, one of the most emphasized benefits is "the potential efficiency gain, i.e., costs savings" (Ferris & Graddy 1986, p. 332). Accordingly, the existing body of work on contracting out has largely examined whether such contracts lead to efficiency gains, particularly in terms of reduced costs (Brunjes, 2020, p. 203).

While cost efficiency is often considered the primary advantage of contracting out, the types of costs that contract administrators aim to reduce go beyond "the relative costs of the traditional production factors – fixed assets, labor, and capital" (Brown & Potoski, 2003a, p. 276). They also include "comparative costs of planning, adapting, and monitoring task completion under alternative governing structures" (Williamson, 1981, p. 552-553), which are referred to as transaction costs.

Transaction cost economics posits that buyers and sellers frequently encounter unexpected costs related to factors like uncertainty, information exchange, and capacity building (Williamson,

1981). According to this theory, transaction costs essentially represent management costs that influence a firm's "make or buy" decision – whether to produce goods or services internally or produce them through contracting (Brown & Potoski, 2003b; Coase, 1937). In recent decades, transaction cost economics has provided a useful framework for explaining the government's choice to contract services with specific private vendors, particularly nonprofit organizations (see Brown & Potoski, 2003b; Smith & Grønbjerg, 2006).

Generally, high transaction costs are incurred when the government cannot effectively manage uncertainty and prevent opportunistic behavior by vendors in exchange relationships or transactions (Coase, 1937; Williamson, 1981; Brown & Potoski, 2005). In public service contracting, the government often lacks the ability to process or assess all the information relevant to contracting. Consequently, it cannot fully specify contracts based on the prediction of all possible future scenarios. This inability exposes the government to the risk of opportunistic behaviors by contractors – situations where contractors pursue their self-interest and goals, sometimes at the expense of the agreed-upon contract goals. The high risk of opportunism by vendors leads to increased transaction costs for the government, as it must allocate resources to preclude or at least mitigate vendor opportunism through monitoring vendor behavior and assessing outcomes produced.

Therefore, the government seeks to select vendors that are likely to reduce the risk of vendor opportunism and the associated transaction costs from the outset. This rationale also holds true when the government contracts with nonprofits in the human service area. When the government decides which nonprofit vendor to contract with for human services, two critical cost factors within the contract market may influence the government's decision: *service measurability and competition.*

Service measurability refers to the ease with which public managers can assess the quantity and quality of services and monitor the activities required for service delivery (Brown & Potoski, 2003a, 2003b; Brown et al., 2006). The difficulty of measuring performance and monitoring can increase transaction costs for the government by exposing it to the risk of obscured vendor non-performance or negligence (Williamson, 1981; Praeger, 1994; Brown & Potoski, 2003b). The transaction cost scholarship suggests that the government is inclined to minimize this risk by choosing service mechanisms over which it has more control, such as direct service delivery or trustworthy contractors when service outcomes and processes are not easily assessable (Williamson, 1981; Brown & Potoski, 2003a). This is particularly relevant in cases where the outcome of service delivery takes an extended period to achieve, or where service delivery processes are complex and not easily identifiable.

The human service sector (e.g., child welfare programs, programs for the elderly, drug/alcohol treatment, programs for the homeless) is a prime example of such hard-to-measure services. The clientele of many human services is composed of diverse individuals, often representing socially and economically disadvantaged groups. Their needs and preferences for human services are not only obscure to policymakers but also challenging to describe and measure due to their complexity, variability, instability, nuance, and multi-layered nature.

Efficiently meeting these diverse needs and preferences through contractors requires the government's capacity and efforts to enforce or guide "exchange relationships functioning within a context of contractual norms of behavior" (Fink et al., 2006, p. 502), which minimizes the risk of vendor opportunism among contractual partners. Empirical studies indicate that the government endeavors to ensure that its contractors deliver the promised performance by employing various techniques for monitoring and assessing vendor contract performance. These methods include

monitoring citizens' complaints, conducting citizen satisfaction surveys, analyzing vendor performance data, and auditing vendor activities in the field (Brown & Potoski, 2003a; Savas, 2000; Segal, 2002).

However, if nonprofit vendors possess their own capacity and expertise to generate performance information, the government's costs associated with vendor evaluation can decrease. Given this, the government may prefer nonprofit organizations capable of measuring and transparently communicating their service outcomes. To determine whether a nonprofit is capable of such efforts and has the relevant capacity, the government may assess whether the nonprofit produces and discloses measurable performance data and whether it possesses the administrative capacity to measure its service outcomes upon request.

On the other hand, when a service marketplace contains few vendors, the risk of vendor opportunism may increase due to the absence of competitors capable of offering comparable quality, pricing, and cost structures. The government may find it challenging to determine whether the prices and service quality offered by the vendors are reasonable because it lacks alternative service providers and cannot obtain information about trade-offs among service quality, quantity, and price (Brown & Potoski, 2003a, 2005). Information on true service quality and production/delivery processes can be easily concealed or monopolized by a small number of contracted vendors. This widened information gap between the government and its vendors escalates the risk of vendor opportunism.

Moreover, the government has few means to guard against the risk of vendor opportunistic behavior when competition is lacking. Since re-competition or re-bidding is rarely feasible in a "thin" market, the government cannot use a credible replacement threat to enforce compliance with contract terms (Brown & Potoski 2003a). Proponents of privatization in public management

emphasizes the importance of competition in achieving efficiency (Prager & Swati, 1996; DeHoog, 1985; Van Slyke, 2003). Schlesinger et al. (1986) assert that "the greatest potential advantage of a contract-based system rests in the ability to promote competition among private agencies vying to provide services" (p. 247).

Given the challenges and costs associated with a lack of competition in contractual relationships, the government may opt to contract human services with organizations operating in competitive service markets with numerous vendors rather than in markets with few vendors (Shetterly, 2000). Public contracting literature demonstrates that public managers consistently take measures to maintain or increase the number of vendors in the market from which they purchase services (Graddy & Chen, 2006; Johnston & Girth, 2012). Ni and Bretschneider (2007) found that eight U.S. state governments with larger computer-related service markets were more inclined to contract for e-government services than state governments with smaller service markets. Feiock and Jang (2009) discovered that U.S. local governments were more likely to contract with nonprofits when communities had a greater number of nonprofits. Hefetz and Warner (2004) and Girth et al. (2012) also contend that U.S. local governments are less likely to contract out when market competition diminishes. In summary, both theoretical and empirical evidence suggests that the government is more likely to award public contracts to nonprofits when service marketplaces have a greater number of comparable service providers, reducing the risk of vendor opportunism.

3.2.2 Nonprofit Resource Factors: Resource Dependence Theory (RDT)

While transaction cost economics provides a framework for understanding why governments choose specific vendors, resource dependence theory offers insights into why nonprofit organizations choose to participate in contract markets. The core idea of resource dependence

theory is that organizations are interconnected and interdependent when it comes to accessing resources. Resource dependence theorists emphasize an organization's need to access external resources for its survival and success (Pfeffer & Salancik, 1978; Hessels & Terjesen, 2010). According to them, organizations depend upon external actors to acquire resources they lack. However, as resources are often limited, multiple organizations end up competing and interacting with individuals and groups controlling these scarce resources (Hessels & Terjesen, 2010; Froelich, 1999).

Given the organizational dependence on external actors for survival and the uncertainty stemming from resource scarcity, an organization's ability to establish strategic relationships to access resources becomes a crucial asset. Resource dependence theory posits that organizations actively make strategic choices to gain control over vital resources and reduce the influence of others in these relationships, thereby mitigating environmental uncertainty and dependence (Hillman et al., 2009; Ulrich & Barney, 1984). These strategic actions by organizations to mitigate environmental uncertainty and dependence are particularly relevant in government-nonprofit contractual relationships.

The government and nonprofits are interdependent within the contract regime. At its core, the government relies on nonprofits "to minimize costs, improve quality, leverage expertise, or increase confidence among citizens and service users because of the perception that government is inefficient or ineffective at meeting diverse heterogeneous needs" (Lecy & Van Slyke, 2013, p. 192). As discussed earlier, the government seeks cost efficiency through private contractors. Simultaneously, nonprofits depend on public funding as a crucial resource, both material and immaterial, "to fulfill its mission and maintain its scope of activity" (Lecy & Van Slyke, 2013, p. 192). Given that contracting is a resource-driven activity for nonprofits, interdependence is a

pivotal concept to understand why and when nonprofits actively pursue resources through public contracting.

Nonprofits often find themselves in a weaker position than the government in contract markets because they are "assessed," "chosen," and "funded" by the government among numerous organizations offering similar services. Furthermore, government contracts are not without risks for nonprofits. Stringent government oversight and regulations can lead to mission drift, administrative burdens, inefficiency, and greater formalization (Akingbola, 2006; Bennett & Savani, 2011; Gazley & Brudney, 2007; O'Regan & Oster, 2002; Lu, 2015).

To safeguard against the potential resource drain while acquiring the resources they need, nonprofits must strive to make contractual relationships reciprocal and enhance their bargaining power. Consequently, the more evident the interdependence and power balance between the government and nonprofits, the more actively the nonprofits may engage in competition for contracts, increasing their chances of securing contracts. Three characteristics related to contracting may serve as parameters for assessing interdependence and power dynamics: *nonprofits' provision of services addressing unmet community needs, their access to alternative resources, and their political influence in advocating for funding streams.*

Firstly, nonprofits often serve the community by addressing needs that cannot be adequately met by government or market provision of goods and services. Theories of government and market failure both suggest that nonprofits are uniquely suited to respond to specific demands and needs that are beyond the capacity of government or private firms to fulfill (Smith & Grønbjerg, 2006).

According to government failure theories, the government seeks partners or complementary suppliers offering a greater variety of quality goods and services for minority segments of society, whose needs cannot be met through the political process centered on the preferences of the

majority of voters (Weisbrod, 1988; Corbin, 1999; Kim, 2015; Grønbjerg & Paarlberg, 2001). Although democratic governments are expected to address the diverse demands of various groups within society, they often end up providing services that align with the preferences of the median voters, who constitute the majority of their potential political supporters (Anheier, 2005; Jeong & Cui, 2020; Liu, 2017; Lu & Xu, 2018; Weisbrod, 1988). Bureaucracy and red tape also often hinder the government's ability to meet the diverse and conflicting demands of heterogeneous populations (Douglas, 1987; Grønbjerg & Paarlberg, 2001). Similarly, market failure theories argue that private firms are inefficient when it comes to providing public goods or services for which a reasonable price cannot be established through the private marketplace (Smith & Grønbjerg, 2006). Private firms particularly struggle to serve marginalized populations that have limited financial resources since these segments are not profitable customer bases (Park & Brunjes, 2022).

Nonprofits face fewer of these constraints or at least not to the same extent as governments or for-profit firms. Rather, under this circumstance, nonprofits emerge as entities that fill gaps by mobilizing resources to provide goods and services that governments and private firms overlook (Corbin, 1999; Grønbjerg, 1993; Kim, 2015; Lecy & Van Slyke, 2013; Young, 2000). Salamon (1987, 2015) claims that nonprofits have a unique ability to address the unmet needs of heterogeneous populations due to their strong community ties and deep knowledge of these diverse subgroups. By doing so, he challenges the traditional perspective to view nonprofit responses as residual to the failure of the government and the market by emphasizing the mutually dependent relationships between nonprofits and governments.

Expanding on Salamon's argument, contracting with nonprofit providers for human services allows governments to tap into nonprofits' in-depth knowledge and experience to meet diverse and often hidden demands of citizens, especially those that are hard to reach for governments and for-

profit organizations. Human service beneficiaries often live on the margins of society and require highly responsive service providers. These characteristics often make it hard for governments and for-profit firms to develop the intimate relationships needed to understand various minority groups, including immigrants, migrant workers, LGBTQ+ individuals, people with disabilities, and the homeless. Governments, often described as bureaucratic, less flexible, and entangled in political power dynamics, struggle to provide specialized human services to those sub-populations promptly. For-profit organizations, driven by profit maximization, are neither incentivized nor inclined to allocate their resources to meet the complex, diverse, and individualized needs of less-profitable customers. Consequently, both governments and for-profit firms are ill-suited for developing in-depth knowledge about minority groups, and nonprofits emerge as preferred partners for addressing the needs of marginalized populations who cannot effectively access market or government services. Given this comparative advantage, nonprofits serving communities with diverse needs can utilize their connection and understanding of their service recipients to secure public contracts.

Moreover, nonprofits that recognize their unique expertise and track record in serving diverse community groups may find that the government regards them as less replaceable and more valuable partners in the contract market. They might find that their in-depth understanding and proficiency in the community help alleviate the uncertainties associated with heavy dependence on government funding, by strengthening their negotiating position. As a result, these nonprofits may actively participate in the contract market by strategically allocating resources to secure public contracts.

On the other hand, human service nonprofits serving marginalized subgroups may have limited alternative revenue sources in the funding market due to their community members' lack of

economic affluence, which often lead them to intensify efforts to secure public contracts. Consequently, these nonprofits may constitute a larger portion of the nonprofit contractor pool. In essence, their need for more reliable income sources drives them to compete for contracts, even though they are aware that engaging in contracts can increase their vulnerability to external factors such as political influence from public agencies or economic conditions in the contract market. Similarly, human service nonprofits facing fierce competition for similar private funding sources in their service sector may perceive dwindling available resources. Therefore, community wealth and competition for revenue sources can be resource factors influencing the extent of participation in the contract realm.

Additionally, a nonprofit's political advocacy efforts can affect its resource situation in the contract market. In recent years, researchers have increasingly focused on the role of human service nonprofits in advocacy. In addition to their core activity as human service providers for disadvantaged, disenfranchised, and marginalized populations, human service nonprofits act as intermediaries between these groups and government agencies by engaging in policy advocacy (LeRoux, 2009, LeRoux & Goerdel, 2009; Reid, 2006; Salamon & Geller, 2008; Schmid, 2004; Hoefer, 2002; Dalrymple, 2004; Almog-Bar & Schmid, 2014). By engaging in advocacy, human service nonprofits often seek to achieve the comprehensive goals of their services - representing and promoting the social, cultural, political, or economic interests or values of their constituents.

In addition to this alignment with human service provision, nonprofit advocacy also serves an instrumental purpose by helping manage environmental uncertainty and altering power-dependent relationships (Mosley, 2010). There is a view that organizations dependent on government funding may be unwilling to engage in advocacy out of fear that their advocacy involvement could be seen as disagreement with the government, jeopardizing their relationship with this powerful funding

source (Smith & Lipsky, 1993; Schmid et al., 2008). However, recent studies have revealed that nonprofit organizations, including those in human services, employ advocacy to navigate environmental conditions and safeguard vital funding streams. They engage in political advocacy to promote their programs and build relationships with decision-makers, thereby safeguarding funding from the government (Mosley 2010; Child & Grønbjerg, 2007). Mosley (2010) notes, "Advocacy is a key way for organizations to convince leading actors in their environment to accept and support their policy positions, thereby increasing access to resources and acceptance of their moral point of view" (p. 58). In fact, political advocacy, such as mobilizing "hundreds of elderly or disabled clients to pack a legislative chamber," has been a strategy used by nonprofits to deal with short-term underfunding (Kramer & Grossman, 1987, p. 46).

Resources essential for successful political advocacy – extensive community ties, genuine partnerships with community stakeholders, the ability to organize and manage social mobilization and advocacy tactics, and networks with policymakers – enhance the perception of organizations as legitimate government project partners and strengthen their bargaining power in the government funding market. Previous studies suggest that political pressures exerted by elected or appointed officials, department directors, and state legislators are not trivial factors in the contractor selection process (DeHoog, 1985). Given these advantages, human service nonprofits can employ their involvement in political advocacy to increase funding opportunities and ensure funding stability in the contract market.

3.2.3 Institutional Pressures: Institutional Theory (IT)

In addition to government cost-efficiency concerns and nonprofit resources and environmental factors, institutional forces within the context of these two parties also play a significant role in

shaping contract decisions. According to institutional theorists, organizations operate within a social framework defined by norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable behavior. These institutional environments condition organizations' decisions and actions. Organizations align themselves with this socially constructed framework in institutionally elaborated environments by adhering to socially expected external criteria of worth and value (Meyer & Rowan, 1977; Oliver 1991, 1997).

From an institutional standpoint, one of the key outcomes of an organization's conformity with the norms and social expectations of its institutional environment is an increased likelihood of resource acquisition and improved economic production functions (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Oliver, 1991, 1997). By conforming to institutional meanings and expectations, an organization "obtains legitimacy, social support, and approbation from external constituents of its institutional environment" and "this external legitimation elevates the organization's status in the community, facilitates resource acquisition, and deflects questions about an organization's rights and competence to provide specific products or services" (Baum & Oliver, 1991, p. 187). In other words, an organization that has gained institutional legitimacy enjoys competitive advantages linked to its close alignment with the institutional environment. Taken together, organizations' resource procurement outcomes and competitive advantage are influenced not only by transactional motives and economic factors but also profoundly by the institutional context within which resource decisions are made (Oliver, 1997).

Considering the impact of institutional contexts, both governments and nonprofits displaying congruence with what is socially expected norms may achieve more favorable economic outcomes from their contractual relationships. Firstly, nonprofits that incorporate practices and procedures defined efficient and effective according to prevailing institutional rules and standards have a

higher probability of securing government contracts. They utilize these work activities as "rational means to the attainment of desirable ends" (Meyer & Rowan, 1977, p. 345). Secondly, the government that contract with organizations conforming to institutional prescriptions may find it easier to justify and rationalize its decision, garnering greater public and political support. Two institutional domains primarily associated with the legitimacy-seeking behaviors of both parties affect government-nonprofit contracting outcomes: *an organization's work activities reflecting its pursuit of efficiency as a technical element and an organization's provision of professional services to underserved populations as a moral element.*

To elaborate, nonprofit organizations in modern society face substantial institutional pressure to rationalize their management, often characterized by the demand for incorporating various technical and credential-based elements into their work activities. This rationalization process, defined as "continuing efforts to systematize nonprofits around standardized rules and management schemes" (Jepperson, 2002, p. 257, recited in Drori et al., 2009, p. 22), has become pervasive through the adoption of formal rules, expertise, and efficiency-oriented approaches in nonprofit organizations. Drori et al. (2009) assert that "through the transformation of social life around means-ends logic, the celebration of efficiency, and the valorization of credentialed expertise, rationalization becomes a most pervasive cultural force" (p. 22). This cultural force is also closely tied to New Public Management, an ideological pillar supporting the privatization of government's public service delivery by reinforcing the beliefs that privatization enhances values such as transparency, efficiency, effectiveness, and accountability (Bernstein, 1991; Ospina et al., 2002; Salamon, 1993).

Nonprofits employ externally endorsed structures and management practices to demonstrate their alignment with institutionally derived production standards and value criteria. These practices

include strategic planning, quantitative matrices for program evaluation, hiring consultants, performing annual audits, and replacing volunteer labor with paid staff (Suárez, 2011). Among these practices, the most compelling evidence for nonprofits' alignment with market-oriented ideals is their use of performance measurement or program evaluation metrics. Numeric outcomes and client feedback analysis serve as strong indicators of an organization's fitness for market-oriented principles. Sharing performance records also demonstrates an organization's transparency, accountability, effectiveness, and efficiency.

Given the advantages of nonprofits using evaluative techniques in the institutional environment, the government may seek to bolster their standing in the political arena by contracting with nonprofits that systematically employ these practices. Relying on nonprofits' evaluation processes for contracting outcomes and service delivery can help the government demonstrate its commitment to values like efficiency, effectiveness, and accountability to citizens and taxpayers. Consequently, nonprofits that can systematically track and measure their performance may be more likely to secure public contracts. Meyer and Rowan (1977) also suggest that incorporating formal structures aligned with expected norms and beliefs can enhance an organization's resource acquisition in modern society. They assert that "The incorporation of structures with high ceremonial value…makes the credit position of an organization more favorable. Loans, donations, or investments are more easily obtained" (p. 351).

Furthermore, nonprofits that focus on serving populations traditionally underserved by both government and for-profit enterprises can attain a higher degree of legitimacy and, consequently, a greater chance of securing government contracts. These nonprofits establish strong social bonds within their communities by providing a platform for constituents to share their interests and identities. They also engage in advocacy by representing the community, sometimes supplanting

elected officials, or self-identifying as political allies for policy reforms or social change (Levine, 2016). Both forms of community ties confer legitimacy on nonprofits by ensuring their contribution to socially legitimate goals or expected public benefits.

This legitimacy, stemming from the social contribution for community benefits, is particularly evident when other parties have underserved the community and nonprofits are seen as unique and irreplaceable contributors. As mentioned in the resource dependence theory section earlier, nonprofits are recognized as gap-filling entities that deliver goods and services to address unmet community needs, including those of diverse and minority populations (Corbin, 1999; Grønbjerg, 1993; Kim, 2015; Lecy & Van Slyke, 2013; Young, 2000; Salamon, 1987). The "representational legitimacy" of nonprofits (Wiewel & Hunter, 1985, p. 490) enhances their social endorsement, aiding in their resource acquisition efforts.

Governments can leverage nonprofits' representative status in underserved communities as strong evidence to justify contracting instead of providing services directly or contracting with for-profit firms. Hence, the provision of services to underserved populations by nonprofits can rationalize and support the government's decision to privatize services in potential political debates regarding the legitimacy of contracting for specific services. In essence, nonprofits serving diverse and underrepresented needs may be more likely to secure public contracts, since government contracting with them creates a mutually beneficial situation for both parties, increasing the likelihood of continued collaboration in the provision of human services through contracting.

3.3 Theoretical Integration and Hypotheses

In the preceding sections, I have delved into how three distinctive analytical perspectives – economic cost, resource dependence, and institutional forces – can collectively enhance our understanding of the determinants influencing a nonprofit organization's acquisition of public contracts. This theoretical exploration has revealed that organizations, whether they are providers or recipients of contracts, are driven by economic rationale, inter-organizational dynamics, and institutional structures. Furthermore, it underscores the interrelated nature of these three dimensions, reinforcing the validity of each theoretical proposition.

Firstly, transaction cost economics helps elucidate the government's preference for contracting with nonprofits possessing organizational and environmental attributes that can mitigate contract risks. The government is inclined to choose nonprofits capable of reducing costs when outsourcing services, especially when higher uncertainty and cost risks are introduced.

Secondly, while the government's economic considerations are pivotal in its contracting decisions, nonprofits' concerns related to resources significantly influence their efforts to secure contracts. Although the government ultimately makes the contracting decision, nonprofits' levels of participation in the contract market play a crucial role in determining "with whom the government contracts." The types and number of participating nonprofits in the contract market establish the government's range of choices. Nonprofits' resource-related factors can influence their extent of participation in the competition for contracts and their commitment to ongoing contractual relationships.

Lastly, institutional forces explain both nonprofits' comparative advantages in the contract market and the government's selection of nonprofit vendors possessing these advantages. Organizations strive for material resources to address environmental uncertainties and institutional

legitimacy to meet societal expectations (Lu, 2015). Therefore, the government might opt for nonprofit vendors that contribute to its legitimacy, while nonprofits benefit from displaying adherence to institutional norms when pursuing government contracts. Nonprofits that operate in ways aligned with societal expectations are more likely to secure government contracts. Drawing from these three complementary theoretical perspectives, I propose the following hypotheses.

3.3.1 Nonprofits' Use of Performance Measures

Building on transaction cost economics, I posit that the government is more likely to contract with nonprofits that offer services with measurable outcomes. Measurable services enable the government to reduce monitoring costs associated with outsourced production. This cost-based rationale also aligns with institutional theory, which emphasizes the values of business practices like performance measurement. Driven by institutional pressures towards rationalized management structures and data-driven accountability systems, governments may prefer contracting with nonprofits that systematically and measurably demonstrate their service processes and outcomes. Therefore, I hypothesize:

> ***H1: Human service nonprofits that excel in assessing and demonstrating their service performance in a measurable manner are more likely to secure government contracts than their counterparts, holding all else equal.***

3.3.2 Competition Among Nonprofits in the Service Sector

Based on economic theory, I suggest that the presence of competing nonprofits in the service marketplace increases the likelihood of a nonprofit obtaining government contracts. This is because competition diminishes the government's concerns about vendor opportunism. When the government has numerous potential contractors to choose from, it can more effectively deter opportunistic behavior among vendors by signaling that contractors can be easily replaced as a penalty for such behavior.

This economic rationale is also consistent with the insights from resource dependence theory, which supports the impact of competition on the availability of alternative resources for nonprofits. Nonprofits may also explore opportunities for other types of revenues beyond government funding due to concerns related to government oversight, regulatory constraints, and well-documented issues of insufficient funding. Therefore, nonprofits with greater prospects of securing less restrictive or more stable alternative income sources may be less inclined to aggressively pursue government funding. In other words, nonprofits operating within highly competitive environments where access to alternative revenue streams is limited may be more inclined to accept the risks associated with government control and political influence compared to nonprofits with abundant alternative revenue sources. The reduced likelihood of securing private revenue streams may lead nonprofits to actively pursue government contracts. Therefore, I suggest:

H2: Human service nonprofits operating in more competitive environments are more likely to secure government contracts compared to their counterparts, holding all else equal.

3.3.3 Community Heterogeneity

Drawing from resource dependence theory, the potential resource drain associated with government contracts may lead nonprofits to leverage their intangible assets to hedge against the risks arising from power imbalances. One critical intangible asset for human resource nonprofits is their ability to serve populations that are not prioritized by government or market entities. Nonprofits offering superior services to diverse populations may be more motivated to participate actively in the contract scheme as they can utilize their expertise as an internal resource to strengthen and safeguard their position in the contract market. The positive influence of nonprofits serving diverse community subgroups on their likelihood of securing contracts aligns with institutional theory, which posits that governments prefer nonprofit vendors with a track record of serving underserved populations with diverse needs. The strong community knowledge and connections of nonprofits working with underrepresented populations provide a normative, value-based justification for why governments contracting with nonprofits rather than choosing alternative service delivery methods such as direct service provision or private firms. For these reasons, I hypothesize:

H3: Human service nonprofits that cater to diverse subgroups within the community are more likely to secure government contracts compared to their counterparts, holding all else equal.

3.3.4 Community Wealth

In line with the impact of human services for diverse populations, nonprofit organizations' provision of services for minority populations, which are underserved by the government and the market, may also serve as nonprofits' internal assets to heighten and safeguard the nonprofits' position in the competition for contracts. Moreover, a nonprofit's commitment to the welfare of underserved populations may contribute to its legitimacy, making it more attractive choice for the government when compared to equally qualified competitors. Lastly, a nonprofit's minority client base can also be indicative of its limited private revenue sources. Nonprofits that serve a larger number of minority populations than others may face reduced opportunities for private individual donations or commercial incomes. Given the relatively scarce private revenue sources, these nonprofits may be more motivated to pursue government funding and put in greater efforts to secure government contracts, assuming all other conditions are equal. Combining these factors, I propose the following:

H4: Human service nonprofits serving minority populations are more likely to secure government contracts compared to their counterparts, holding all else equal.

3.3.5 Nonprofit Engagement in Policy Advocacy

Lastly, drawing from resource dependence theory, I hypothesize that nonprofits' political influence, which translates into bargaining power in contractual relationship, can enhance the chances of obtaining government contracts. Policy advocacy is a commonly employed strategy by nonprofits to promote their programs and establish political connections with policymakers. The resulting

community support and political ties can help nonprofits secure and stabilize government funding, including government contracts. Given the strategic advantages associated with policy advocacy, nonprofits that actively engage in such activities may have a higher probability of securing government contracts compared to their counterparts. Hence, I put,

H5: Human service nonprofits that more actively engage in policy advocacy are more likely to secure government contracts than their counterparts, holding all else equal.

3.4 Data, Variables, and Methods

3.4.1 Data and Sample

To investigate the hypotheses derived from the theoretical frameworks mentioned earlier, I used a combination of survey and administrative data sources. These data sources include Civic Life of Cities Surveys (CLC), the National Center for Charitable Statistics (NCCS), the 2019 Census Annual Survey of State and Local Government Finances (Census), and the 2015-2019 American Community Survey 5-Year Estimates (ACS 5-Year Data).

The CLC data were collected directly from leaders (e.g., executive directors, board chairs, or chief executives) of randomly selected nonprofits in the two regions in the United States: the San Francisco Bay Area of California and the Puget Sound Region of Washington. The surveys were designed to gain a comprehensive understanding of organizational behaviors and interactions within the regions. To achieve this, the research team established geographic boundaries for sampling.

The San Francisco Bay Area consisted of ten counties, including the urban areas of Oakland, San Jose, and San Francisco, the suburbs of Marin and San Mateo, and formerly rural counties such as Napa, Santa Cruz, Solano, and Sonoma. The Puget Sound Region was defined as the Seattle-Tacoma-Olympia Combined Statistical Area (CSA), covering nine counties, including urban center areas of Seattle, Tacoma, Olympia, and Everett, satellite cities of Bellevue and Bremerton, and the counties such as King, Snohomish, Pierce, Kitsap, Island, Thurston, Jefferson, Mason, and Skagit.

While both regions' samples were randomly selected from the 2015 National Center for Charitable Statistics (NCCS) Core File, there were slight variations in how the samples were drawn from the full population of 501(c)(3) public charities operating in each region. The Bay Area team purposefully drew three types of subsamples and combined them to construct one total sample. The subsamples included organizations that reported financial data to the Internal Revenue Service for the fiscal year 2000 and had been followed since the first wave of the Bay Area project in 2002 ("original" sample), organizations that were also alive in 2000 but had not been followed ("replenish" sample), and organizations founded after 2001 ("digital natives"). In contrast, the Puget Sound team drew a single random sample from the 2015 NCCS Core file in late 2018 and used it as a master data file.

The CLC Lab surveys for both the Bay Area and the Puget Sound Region were conducted between 2019 and 2020. These surveys asked nearly identical questions covering various aspects of organizational structure, leadership, volunteer management, performance measurement, partnership, advocacy, interactions with constituents and partners, staff training and recruitment, financial management, and more. It is worth noting that data collection in the Bay Area concluded in February 2020, while the last interview in the Puget Sound occurred in August, potentially

resulting in varying effects of the COVID-19 responses on organizational behaviors and interactions in the two regions. The surveys were primarily conducted virtually, with options for in-person or phone surveys for respondents who preferred offline modes.

In the San Francisco Bay Area, 81 percent of the original sample completed the survey, 70.5 percent of the replenish group completed it, and 65 percent of the digital natives did so. The overall response rate was 72.7 percent, resulting in 313 completed surveys. For the Puget Sound Region, the research team attempted to contact 422 organizations, and 192 organizations responded to the surveys, resulting in a 45 percent response rate. For the purposes of this paper, I focus exclusively on human service organizations, amounting to 99 in the Bay Area and 62 in the Puget Sound Region, totaling 161 organizations. The final sample includes 156 nonprofits, excluding some organizations that did not provide survey responses related to the variables used in this study.

Once the sample was finalized, I extracted information on the selected nonprofit attributes from the survey dataset. Additionally, I constructed other variables using administrative data from sources such as NCCS, Census, and ACS 5-Year Data. Detailed descriptions of these variables are provided in the following section.

3.4.2 Variables

3.4.2.1 Dependent Variables: Nonprofits' Government Contract Acquisition

The dependent variable in this study is a binary indicator that signifies whether a human service nonprofit organization has secured a government contract. Among the human service nonprofits in the sample, 47 are contract recipients, while 109 are non-recipients.

3.4.2.2 Independent Variables

The independent variables were thoughtfully selected and created to assess the hypotheses presented earlier. These variables encompass nonprofits' utilization of performance measures, competition among nonprofits, community heterogeneity, community wealth, and nonprofit engagement in advocacy. Each variable corresponds to one or multiple concepts derived from various theories and is employed to test one or multiple hypotheses.

3.4.2.2.1 Nonprofits' Use of Performance Measures

The independent variable relevant to the first hypothesis (H1) focuses on the categories and characteristics of performance measures employed by the examined nonprofits. This variable was crafted from survey responses regarding organizational performance measurement practices. Respondents were asked, "Do you use any of the following to monitor or evaluate whether your organization is making progress towards your mission?" Among the seven items indicating types of performance measures, the first item, "stories and anecdotes," represents the least quantitative, systematic, and resource-invested measure. In contrast, the seventh item, "scientific or experimental research studies (e.g., RCTs)," represents the most quantitative, systematic, and resource-invested measure.

3.4.2.2.2 Competition Among Nonprofits in the Service Sector

The second independent variable is the level of competition among human service nonprofits, measured by the size of nonprofits within the local service area. From various potential measures for nonprofit size (Pennerstorfer & Rutherford, 2019), I have employed the number of human service nonprofits per ten thousand capita in a given county, following prior studies. I log-transformed them to make the data more normally distributed (Jeong & Cui, 2020; Kim, 2015; Lecy & Van Slyke, 2013; Liu, 2017). This variable aligns with the second hypothesis (H2).

3.4.2.2.3 Community Heterogeneity

The third independent variable captures the heterogeneity of the community's population. I postulate that nonprofits' provision of services to diverse populations is another critical community-related factor explaining nonprofits' competitive advantage in the contract market. Governments seek service providers with insights into the unmet needs and demands of these diverse subpopulations. To quantify community heterogeneity, this paper employed a measure of racial diversity within communities, calculated using the Blau Index (Blau, 1977, Jeong & Cui, 2020; Fulton, 2021a; Alesina et al., 1999; Rupasingha et al., 2006). Racial diversity data are sourced from the U.S. Census Bureau (2019). The variable assesses the relative population size of seven racial and ethnic groups in a given county – Whites, Blacks, Asians, American Indians and Alaska natives, native Hawaiians, other Pacific Islanders, some other races, and two or more races. A larger number indicates greater heterogeneity, while a value of zero indicates the absence of diversity within the community. This variable will be used to test the fourth hypothesis (H4).

Racial Diversity = $1 - \sum_i (Race_i)^2$

where $Race_i$ denotes the proportion of community members identified as racial and ethnic groups above.

3.4.2.2.4 Community Wealth

The fourth independent variable is community wealth. I hypothesize that nonprofits operating in financially under-resourced local communities are more inclined to pursue government contracts due to heightened competition for limited private revenue sources in such areas. To investigate this hypothesis, I used the median income of the residents in each county over the past 12 months, obtained from ACS 2015-2019, as the measure of community wealth. This variable corresponds to the fourth hypothesis (H4).

3.4.2.2.5 Nonprofits Engagement in Political Advocacy

The final independent variable gauges the extent to which a nonprofit engages in political advocacy. The measure of political advocacy is derived from survey responses regarding the organizations' advocacy activities. Respondents were asked, "Over the past 3 years, have you done anything to encourage or discourage your staff, members, volunteers, or beneficiaries to engage in any of the following activities? Check all that apply". The activities suggested as options encompassed a range of advocacy actions, including voting in elections, running for public office, organizing a rally, participating in a rally, attending public meetings (e.g., town hall, etc.), boycotting particular

brands or products, signing petitions, contacting government representatives, and discussing the organization's cause with family or friends. The degree of advocacy engagement was quantified by counting the number of items that a nonprofit had encouraged its staff, members, volunteers, or beneficiaries to participate in among the fifteen items that encompass various political advocacy endeavors.

3.4.2.2.6 Control Variables

In addition to the independent variables that gauge and signify various aspects related to each hypothesis, I have incorporated three control variables into the analysis to enhance our understanding of public contracting among human service nonprofits. Firstly, this research accounts for the organizations' total revenues, which serves as an indicator of their administrative capacity. Secondly, the age of the organizations is considered, as it is positively linked to their perceived legitimacy and reputation. Finally, the size of government expenditure is included, as it may have a positively correlation with the extent and frequency of public contracting.

3.4.2.2.7 Nonprofit Administrative Capacity

The administrative capacity of nonprofits is directly linked to their proficiency in performance measurement. When nonprofits lack administrative capacity, they may not prioritize sophisticated business practices such as performance measurement due to a shortage of personnel and financial resources necessary for such resource-intensive tasks. As a result, a nonprofit's substantial administrative capacity may suggest that it has the potential to effectively evaluate its own

performance. Furthermore, nonprofits equipped with the administrative capacity to handle the substantial paperwork and bureaucratic demands associated with government funding are more likely to engage in contractual relationships. Government funding typically comes with regulations and oversight that entail significant administrative work. Therefore, administrative capacity can positively impact nonprofits' utilization of performance measures and their ability to navigate bureaucratic requirements. I employed the logarithmically transformed total annual revenues of nonprofits as a measure of their administrative capacity. Total annual revenues are a widely accepted indicator of organizational size and capacity in nonprofit research (Nicholson-Crotty, 2009; Guo, 2007; Chikoto & Neely, 2014).

3.4.2.2.8 Nonprofit Age

The age of nonprofits may exhibit a positive association with their ability to access and secure funding opportunities from the government. Older organizations tend to be perceived as more legitimate than their younger counterparts. According to Hager et al. (2004), “Investors and donors will be slow to invest in or contribute to the organization until it shows that it has the ability to produce quality products and services, keep customers and happy and be accountable” (p. 162). Consequently, older organizations possess a comparative advantage in the contract market as they have had more time to build their reputation among public managers and community members, enhance service quality, and demonstrate accountability to various stakeholders over the years. I measured the age of nonprofits using their year of establishment.

3.4.2.2.9 Government Spending for Service Delivery

The final set of control variables is government spending on service delivery, a variable that may be correlated with the frequency of government contracting with nonprofits. When the government is actively involved in providing a range of human services, it is more inclined to explore diverse channels for service delivery, including contracting with nonprofit service providers. Hence, the extent of government spending on services may exhibit a positive correlation with the likelihood of nonprofits securing government contracts within a given region.

Table 3-1 is the summary of what each variable indicates and the associated theories. Table 3-2 is the additional description of the measures and constructs associated with the variables.

Table 3-1 Variables, measures, concepts, theories, and data sources

Variables	Measures	Concepts	Theories
Dependent Variable (DV)	Whether a nonprofit has secured a government contract	A nonprofit's public contracting status	
Independent Variables (IV)	1. Nonprofits' use of performance measures	Service measurability	TCE
		Adoption of professional techniques	IT
	2. Competition among nonprofits in the service sector	Size of competitors	TCE
		Alternative resource sources	RDT
	3. Community heterogeneity	Nonprofits' service for unmet needs of the communities	RDT
		Service for underserved populations	IT
	4. Community wealth	Nonprofits' service for unmet needs of the communities	RDT
		Alternative resource sources	RDT
		Service for underserved populations	IT
	5. Nonprofit engagement in advocacy	Nonprofits' political power to advocate their funding streams	RDT
Control Variables (CV)	1. Nonprofit administrative capacity	A variable correlated with IV, nonprofits' use of performance measures	
	2. Nonprofit age	A variable correlated with the service quality and reputation in the communities	
	3. Government spending on service delivery	A variable correlated with the frequency of government contracting with nonprofits	

Table 3-2 Description of measures of predictors

Concepts Measured	Variable Name	Description	Mean (S.D.)	Range	Level (L1/L2)	Data Source
Public Contract	Contract	Whether a nonprofit has secured a government contract in the human service field		Binary [0, 1]	L1	CLC Survey
County FIPS code (Cluster)	FIPS	17 county-level regional boundaries in Washington state and California state		Categorical	L2	NCCS
Performance Measurement	Perf (Performance measures)	The level of quantification of performance measures used by a nonprofit	4.92 (2.09)	Ordinal [0, 7]	L1	CLC Survey
Nonprofit Advocacy	Advoc (Advocacy)	The number of a nonprofit's advocacy activities	4.36 (3.96)	Ordinal [0, 15]	L1	CLC Survey
Nonprofit Administrative Capacity	LogRev (Nonprofits' annual revenues)	Log-transformed size of annual revenues, as the measure of nonprofits' administrative capacity	13.46 (2.13)	Continuous [5.1, 19.9]	L1	NCCS Core File 2019
Nonprofit Age	LogAge (Nonprofit age)	Organization ages calculated using 2019-the ruling year	2.99 (.82)	Continuous [0, 4.53]	L1	NCCS Core File 2019
Competition among Nonprofits	NPOdens (Nonprofit density)	Log-transformed human service nonprofit density that is measured by the number of human service nonprofits in each county, divided by 10,000 people	5.36 (2.02)	Continuous [2.9, 10.8]	L2	NCCS Core File 2019
Community Heterogeneity	Hetero (Heterogeneity of the local population)	Demographic heterogeneity in each county, measured by the racial diversity of county residents	.55 (.12)	Continuous [.28, .72]	L2	ACS 5 Years
Community Wealth	LogIncome (Median income at the county level)	Log-transformed median income of each county's residents	10.68 (.15)	Continuous [10, 11]	L2	ACS 5 Years
Government Spending	LogGov (County government spending)	Log-transformed direct expenditure of each county government	21.62 (1.31)	Continuous [18, 23]	L2	Census

Note: The number of observations is 156 organizations.

3.4.3 Model Specification

This paper employs a Bernoulli multi-level model, also known as a hierarchical logit model, due to the nested data structure involving a combination of organizational-level and community-level factors. This modeling approach accounts for the potential variability in public contracting outcomes among nonprofits across different communities. To facilitate this analysis, the county-level FIPS code was utilized as a level-2 or community-level random factor or cluster for several compelling reasons.

Firstly, many human service nonprofits examined in this study operate within the geographic boundary of a county, according to the CLC survey data results. This finding suggests that the experiences and interactions of these organizations with their respective communities can significantly differ depending on the county they are located in. Secondly, county-level data enables the inclusion of a wide range of community characteristics that are often organized on a county-wide basis, such as variations in average incomes and levels of racial diversity, among other factors. Thirdly, county-level data, as advocated by scholars like Grønbjerg and Paarlberg, retains many distinctions at metropolitan-level differences, while better capturing community socioeconomic factors than metropolitan level. This approach allows for a more comprehensive representation of community socioeconomic factors compared to metropolitan-level data (Grønbjerg & Paarlberg, 2001; Kim, 2015). Given that there are 156 human service nonprofits distributed across 17 counties in the two states under consideration, 17 county-level FIPS codes are used as level-2 random factors or clusters.

The estimated method employed here is a maximum likelihood. It is important to note that since the variables used in this study operated at different scales, all continuous variables were standardized to z-scores, resulting in a mean of zero and a standard deviation of one. This

standardization makes the contributions of variables to the analysis comparable in this study. For the organization-level (level 1) predictors, cluster-mean centering was applied, while grand-mean centering was used for the county-level (level-2) predictors (Snijders & Bosker, 2012). Cluster-mean centering allows the regression coefficients associated with the organization-level (level-1) predictors to represent estimates of the within-community effects, while the regression coefficients linked to the community-level (level-2) group means indicate between-community effects. More specifically, organization-level regression coefficients quantify the predicted changes in the log odds of the likelihood of the examined binary outcome for a one-unit increase in predictors within communities. Community-level regression coefficients provide an estimate of the average predicted changes in the log odds of the likelihood of the binary outcome for a one-unit increase in the average values of predictors at the community level. The following describes the original model used in this analysis: a two-level Bernoulli with random intercepts.

$$\begin{aligned}\text{Logit(Contract)}_{ij} = {} & \gamma_{00} + \gamma_{10}*\text{ZPerf}_{ij} + \gamma_{20}*\text{ZAdvoc}_{ij} + \gamma_{30}*\text{ZLogRev}_{ij} + \gamma_{40}*\text{ZAge}_{ij} + \\ & \gamma_{01}*\text{ZPerf}_{j} + \gamma_{02}*\text{ZAdvoc}_{j} + \gamma_{03}*\text{ZLogRev}_{j} + \gamma_{04}*\text{ZAge}_{j} + \\ & \gamma_{05}*\text{ZNPOdens}_{j} + \gamma_{06}*\text{ZHetero}_{j} + \gamma_{07}*\text{ZLogIncome}_{j} + \gamma_{08}*\text{ZLogGov}_{j} + U_{0\text{j}}\end{aligned}$$

In this model, the *i*th log odds of a nonprofit's likelihood of securing a public contract within the *j*th county is equal to the sum of the conditional mean (γ_{00}), the unique effects of organizational and community characteristics of a nonprofit ($\gamma_{10} - \gamma_{08}$), and the residual error due to county ($U_{0\text{j}}$). Please note that all estimates are in log-odds units or logits. Effect sizes for fixed effects coefficients were computed as approximate Cohen's *d* values for each coefficient separately by dividing the coefficient by the product of the standard error and square root of the total sample size. Approximate R^2 values were computed as the fitted variance divided by the sum of the fitted

variance, county-level variance, and 3.29. This refers to the approximate variance of the logistic distribution. These statistics are reported in the sections below in Table 3-3.

In addition, means, standard deviations, and zero-order correlations among all variables are given in Table 3-4 in the Appendix. Most of the independent variables are correlated with the outcome measure. Additionally, several independent variables are correlated with each other, as evidenced in Table B-1 in the Appendix, indicating that they may not independently predict a nonprofit's attainment of public contracts.

3.5 Data Analyses and Results

The results from two models featuring distinct sets of predictors are presented in Table 3-3. The model fit indices indicate that the full model (Model 2 in Table 3-3) is the best-fitting model. The findings of the full model reveal that all three variables measuring nonprofit organizations' characteristics – performance measurement, advocacy engagement, and administrative capacity – have statistically significant associations with nonprofits' attainment of public contracts at the organizational level.

In all these significant relationships, the directions are positive, aligning with the respective hypotheses. Firstly, the use of more quantitative performance measures by human service nonprofits is likely to increase their chances of obtaining public contracts, supporting the first hypothesis (H1). Secondly, greater engagement in advocacy is likely to increase organizations' likelihood of securing public contracts, confirming the fifth hypothesis (H5). However, it is worth noting that the statistically significant effects of advocacy engagement vanish at the county level, indicating that there is no variation in the effects of the variable on nonprofits' contract attainment

across counties. Conversely, performance measurement and administrative capacity remain statistically significant at both the organization level (level 1) and the county level (level 2). This suggests that variations in public contracting outcome among nonprofits, linked to their use of performance measures and administrative capacity, are observed not only across organizations but also across counties. In contrast, community characteristics variables such as community heterogeneity, community wealth, competition among nonprofits within the community, and size of government spending are not statistically significant. In addition, differences in the size of government spending do not appear to explain the likelihood of government contracting with nonprofits, as there is no significant contrast between counties with substantial government spending and those with limited government spending.

Table 3-3 Bernoulli multilevel model results for public contracting with nonprofits

	1	2 (Full Model)
Organization-level Predictors		
Performance Measures	1.23(.51)*	1.15(.51)*
Nonprofit Advocacy	.65(.22)**	.64(.24)**
Controls		
Nonprofit Administrative Capacity (log)	-	.58(.26)*
Nonprofit Age	-	.32(.26)
County-level Predictors		
Performance Measures	.59(.30)+	.75(.37)*
Nonprofit Advocacy	-.09(.42)	.21(.51)
Nonprofit Competition	.03(.27)	-.02(.33)
Community heterogeneity	.14(.27)	.10(.43)
Community wealth (log)	-.19(.31)	-.47(.45)
Controls		
Nonprofit Administrative Capacity (log)	-	.98(.41)*
Nonprofit Age	-	-.26(.50)
Government Spending (log)	-	.21(.58)
Constant	-1.11(.27)***	-1.38(.31)***
ICC	0	0
Approximate R^2	.44	.52
Sample Size (organization)	156	156
Sample Size (county)	17	17

Significant at: *** p<=0.001; ** p<=0.01; * p<=0.05; +p<=.10

Note: Coefficients are standardized; models were conducted with organizations at level 1 and counties at level 2 and utilizes maximum likelihood.

Finally, the outcome of the full model (Model 2 in Table 3-3) indicates that the intraclass correlation coefficient (ICC), also known as the variance partition coefficient (VPC), is zero. The intraclass correlation coefficient (ICC) measures the proportion of variance accounted for at level 2 (Snijders & Bosker, 2012). For instance, if ICC is 0.2, 20% of the total variance in contracting outcome is attributable to differences between counties, and the remaining 80% is related to differences between nonprofits within counties. In this case, the zero ICC indicates that none of the variance in public contracting with nonprofits can be attributed to differences between counties, with the entirety (100%) residing within counties. This zero ICC result remains even when the control variables accounting for nonprofits' administrative capacity, their age, and county government spending size are not included, as presented in Model 1 in Table 3-3.[1]

Despite the zero ICC, however, the use of multilevel modeling remains the preferred analytical technique due to the nested data structure. Zero ICC does not justify a decision not to use multilevel modeling, particularly when the used data has a nested structure. Nexlek (2008) insists, "The fact that there is little or no between-group variance in a measure does not mean that the relationship between this measure and another measure is the same across all groups, something that is assumed if one conducts and analysis that ignores the grouped structure of the data. By extension, even if there is no between-group variance for all of the measures of interest, it cannot be assumed that relationships between or among these measures do not vary across groups" (p. 857).

[1] Since the ICC is a ratio of the variability between level 2 units to total variability, values for ICC can range only between zero and one. As the ICC increases, for any given sample size, the effective amount of information decreases (Snijders and Bosker, 2012).

3.6 Discussion and Conclusion

The findings of this study shed light on the factors influencing nonprofit organizations' success in securing public contracts. Specifically, the use of performance measures, engagement in advocacy efforts, and administrative capacity were found to be significant predictors of nonprofits' obtaining public contracts, supporting the relevant hypotheses. These results have implications for our understanding of the dynamics of public contracting in the nonprofit sector.

To begin with, the positive impact of employing more quantitative performance measures on nonprofits' likelihood of obtaining public contracts supports the first hypothesis (H1). This hypothesis draws on transaction cost economics (TCE) and institutional theory (IT), proposing that government entities are more inclined to contract with nonprofits that can mitigate contract risks through measurable services and exhibit socially preferred management practices such as quantifiable performance measurement.

Secondly, the positive association between nonprofit engagement in advocacy activities and an increased likelihood of securing public contracts validates the fifth hypothesis (H5). Grounded in resource dependence theory (RDT), this hypothesis links power balance and interdependence to organizations' resource acquisition behaviors. Human service nonprofits deeply engaged in advocacy can leverage resulting political assets, such as community backing and political connections, to secure public contracts and defend against potential contract losses. The statistically significant result substantiates the theoretical explanation.

Moreover, performance measurement and administrative capacity are statistically significant at both the organization level (level 1) and the county level (level 2). This result suggests that variations in public contracting outcomes among nonprofits, which are linked to their use of

performance measures and administrative capacity, are observed not only across organizations but also across counties.

Conversely, community-related characteristic variables, such as community heterogeneity, community wealth, competition among nonprofits within the community, and size of government spending, display no significant effects. The analysis result implies that, in the domain of public contracting for human services, the characteristics of nonprofit organizations may carry greater weight than the characteristics of the communities they serve when government entities select nonprofit contractors. The government may place less emphasis on community characteristics and more on nonprofits' activities and managerial capabilities when making contracting decisions.

More specifically, the presence of diverse community needs and a nonprofit's focus on serving marginalized populations – factors that typically position nonprofits as effective gap fillers in the human service sector – may not be prominent determinants of a nonprofit's success in securing a public contract in the human service field. Similarly, the financial resources available for nonprofits in their local communities and the level of competition among nonprofits in the service market may not significantly impact contracting decisions by either nonprofits or the government, or both. In addition, there is no notable contrast between counties with substantial government spending and those with limited government spending regarding the likelihood of nonprofits in those counties securing public contracts.

These findings offer valuable guidance for leaders of human service nonprofits who seek to enhance their prospects of securing public contracts. For example, nonprofit leaders can underscore their organizations' dedication to transparency and their capability to demonstrate performance measurement and impact to government officials. Additionally, they may discover

that tapping into their existing workforce and insights gained from advocacy endeavors proves effective in identifying new contracting opportunities and safeguarding existing contracts.

Nevertheless, these results also highlight concerns regarding disparities within the contract market. Specifically, the findings directly indicate that smaller nonprofits with limited administrative capacity face greater challenges in obtaining public contracts compared to their larger counterparts in the same field. Given that activities such as performance measurement and advocacy require resources like personnel and budgets, the outcome reinforces the existing disparities among nonprofit contractors in the market and underscores the growing homogeneity among these contractors.

While this analysis may not provide explicit recommendations for addressing disparities in the public funding market for nonprofits, it does pinpoint the types of nonprofits that should receive increased attention from public officials and highlights the need to reevaluate and reassess existing market standards. Public officials have traditionally prioritized market-oriented values like cost efficiency when making contracting decisions, often neglecting efforts to engage less resourceful grassroots organizations with lower managerial proficiency in public contract competitions and promote equity and diversity in the contract market.

However, this study contends that cost efficiency is not the sole benefit that governments can derive from engaging nonprofits for public service delivery. They can extend their objectives beyond immediate cost savings to provide a diverse array of services tailored to communities with varied needs and demands by leveraging the expertise of grassroots human service nonprofits deeply embedded in these communities.

To achieve this, public managers and contract officials should reconsider the existing evaluation criteria and contractor selection processes to identify community-oriented aspects that

may have been underestimated, thereby maximizing the advantages of outsourcing public services in the human service sector. They may also need to adapt or broaden their roles from merely selecting ready-made vendors and monitoring them to nurturing potential partners and fostering collaboration. Given that a "thin market" with few quality service providers often leads to elevated transaction costs in public contracting, nurturing promising contractors can assist the government in addressing contract-related challenges over the long term, despite initial high transition costs. Additionally, this shift in contracting processes offers policymakers and public officials the opportunity to identify the optimal intersection between equity and efficiency in the highly market-driven contract regime.

Despite the valuable insights and recommendations offered by this research, it is essential to acknowledge several limitations. The cross-sectional nature of the analysis prevents claims of causality between variables. Additionally, since this study does not directly compare nonprofit organizations to those in other sectors, such as for-profit organizations, the extent to which factors influencing public contracting outcomes may vary across sectors remains uncertain. Lastly, the study's focus exclusively on human service organizations in California and Washington restricts the generalizability of its findings to all types of organizations. Future research should consider national data to enable comparative analyses across sectors over time.

Chapter 4

Is Social Capital a Capital for Nonprofits?
The Effects of Social Capital on Income
from Individual Donations and Foundation Funding

Abstract

Nonprofit organizations play a vital role in fostering social capital, but it is important to recognize that social capital, in turn, acts as a fundamental resource that influences these organizations. It shapes their social connections and interactions with those who provide resources. This analysis aims to investigate how social capital at the community level creates unique environments for nonprofits, serving as a critical form of intangible social resources that forms a basis for obtaining tangible financial resources, especially through individual donations and foundation grants. I draw insights from conceptual frameworks rooted in social capital theory, social network theory, institutional theory, and resource dependence theory to understand how social capital and social networks impact an organization's revenue generation abilities and their subsequent outcomes. I also delve into the diversity of leadership within organizations, focusing on its role as a moderator or facilitator in connecting community-level social capital to the financial performance of organizations. The findings from these analyses reveal that nonprofit organizations tend to have a

lower share of charitable donations in closely-knit communities. Conversely, nonprofits situated in communities with high rates of volunteering are likely to have a larger portion of foundation funding, while a high density of nonprofits has a negative influence. Board diversity significantly moderates the impact of bridging on individual donation income and the impact of bridging or bonding on foundation grant income. This suggests that nonprofit organizations can strategically utilize internal board diversity as a means to harness the social capital embedded in the patterns of social interactions among community members.

4.1 Introduction

Nonprofit organizations have been commended for fostering social capital by enhancing opportunities of social interactions and cultivating interpersonal trust and norms among their members through their internal networks (Putnam, 1995; Moulton & Eckerd, 2012; Paxton, 2007; Stolle & Rochon, 1998; Stolle, 1998; Coleman, 1988). This concept has been a recurring theme in the literature concerning the relationship between nonprofit organizations and social capital (e.g., Anheier & Kendall, 2002). Putnam (1995) asserts that "Members of associations are much more likely than nonmembers to participate in politics, to spend time with neighbors, to express social trust, and so on" (p. 12).

However, the widely accepted positive connections between social capital and nonprofit organizations primarily focus on the instrumental values of organizations in cultivating social capital – that is, whether and how organizations contribute to social capital within a community. There is limited research that investigates the impact of social capital on the organizations themselves – specifically, whether and how social capital shapes the context and conditions that

influence the actions and outcomes of organizations. The paucity of research is particularly significant for two reasons. First, previous research has overlooked the fact that nonprofit organizations are also part of social actors participating in various forms of social relationships, which not only contribute to the generation of social capital but are also influenced by those outcomes. Second, past research has paid little attention to the potential critical roles of social capital in explaining the behaviors and performance of nonprofit organizations, particularly in terms of acquiring economic resources. Existing research on the role of social capital in economic development or economic outcomes often focuses on national or individual levels, rather than organizational performance (Putnam, 1993; Knack & Keefer, 1997; Tabellini, 2010; Montgomery, 1991; La Porta et al., 1997; Fukuyama, 1995).

Given the scarcity of such perspectives and analyses, this paper aims to address the following research question. If social capital represents resources that community members can utilize to advance their interests (Coleman, 1988), then what financial implications does community-embedded social capital have on nonprofit organizations within that community? While nonprofit organizations contribute to the cultivation of social capital, social capital should also serve as an underlying resource for these organizations, shaping their social relationships and interactions. Similar to individual actors, organizations strategically leverage available social capital to enhance their chances of survival and autonomy within their institutional and resource environments (Barman, 2002). Financial revenue structures serve as comprehensive indicators of the opportunities and constraints an organization faces, as well as their strategic decisions in the given social and economic context. This analysis seeks to explore how community-based social capital creates distinct resource environments for nonprofits, acting as a crucial form of intangible public

resources that "evokes structural constraints and opportunities as well as actions and choices on the part of the actors" (Lin, 2001, p. 3).

Among the various revenues sources that nonprofits rely on, this study specifically focuses on two significant streams – individual charitable donations and foundation grants – due to their practical implications. Individual contributions and foundation grants are major financial sources for nonprofits, following fees for services and goods from private sources and government sources. Given that educational and health care institutions extensively using fees and charges account for the largest share of nonprofit revenues (Foster & Bradach, 2005), private contributions from individual donors and foundations are the largest two funding sources in the nonprofit sector overall. In terms of the proportions of total revenues, private contributions from individuals, foundations, and businesses make up over 13.3 percent of total nonprofit revenues (McKeever, 2015). Among private donations, individual gifts accounted for 63.9% of all private giving in the United States in 2022, signifying a crucial aspect of American civic life (Giving USA 2022).

These two private sources of revenue come with distinct risks and benefits that ultimately affect the autonomy and survivability of organizations in unique ways. Foundation grants often entail complex conditions and predefined objectives, potentially diverting nonprofit recipients from their original goals. Nevertheless, major foundation grants provide sustained support over multiple years, despite the general episodic natures of foundation funding, and enhance the prestige associated with being chosen as a grantee (Froelich, 1999). On the other hand, individual donations are less stable in terms of funding and often require excessive fundraising efforts (Froelich, 1999). However, they generally come with fewer conditions apart from elite donors' large contributions (Barman, 2007; Froelich, 1999; Odendahl, 1990).

To understand how social capital influences these revenue streams acquired by nonprofits, this study adopts social capital theory and a social network approach as the primary conceptual framework. Additionally, organizational theories such as institutional theory and resource dependence theory are integrated as secondary foundations. These theories complement each other and offer insights into the mechanisms through which social capital and social networks shape organizations' actions and outcomes.

Moody and Paxton (2009) advocate for the combination of social capital and social network theories to provide a more comprehensive understanding of the mechanisms underlying outcomes. They emphasize that "Social capital and social networks, when combined, yield richer theory and better predictions," and that the full specification of theory in one field requires attention to the other's concept (p. 1496). This study leverages the social network approach to investigate how social capital influences nonprofit organizations' financial resource acquisition. This approach offers valuable insights into processes like interpersonal influence transmission, the structural effect of social relationships on actors' attitudes and behaviors, and the role of interpersonal proximity in a network in generating social capital (Marsden & Friedkin, 1993).

Lin (2001) highlights the distinct yet interrelated roles of institutions and networks in shaping interactions and transactions. Lin notes that institutions provide the organizing principles for actions and interactions, offering a map for organization and function, while networks enhance flexibility in reducing transaction costs beyond what organizations can achieve. Networks also bridge gaps in society and can potentially lead to institutional transformation (See Lin, 2001, p. 185-186). The synthesis of social networks and institutional perspectives enables a deeper understanding of the social forces that shape individual and collective identities, attitudes, and behaviors.

Resource dependence theory underscores how organizations secure resources through networks, and combining organization theory with network theory allows for an exploration of how the structure and quality of social ties define organizations' resource opportunities and access to those opportunities (Gazley et al., 2010; Uzzi, 1996). This study aims to comprehensively examine how nonprofits perform financially within a social resource environment shaped by social networks, capitalizing on the interplay between these theoretical approaches.

Empirically, the study focuses on investigating the relationship between community-level social capital and organizations' financial performance. However, the impact of the broader social structure varies based on individual organizations' internal operational contexts. Organizations possess diverse capacities to leverage their internal characteristics to navigate external influences, impacting their performance. Given the multilevel nature of variables affecting organizational behavior, this study also explores the moderating effects of organizations' internal network components on their access to social resources and performance, building on previous research (Stolle & Rochon, 1998; Fulton, 2021a, 2021b; Beckman & Haunschild, 2002).

Throughout this paper, the terms "nonprofit organizations" and "voluntary associations" are used interchangeably to refer to entities that "have been viewed as both instruments of charity, alleviating poverty and addressing social ills, and as instruments of philanthropy and innovation, providing an outlet for donor expression and creative approaches to social problems" (Moulton & Eckerd, 2012, p. 657). The formal classification system for nonprofit organizations in the United States, the Internal Revenue Service's (IRS) National Taxonomy of Exempt Entities (NTEE), defines the scope of nonprofit organizations analyzed here. However, it should be noted that this classification may not encompass all charitable, educational, or religious service providers,

including churches and synagogues that are not required to seek exempt status or informal organizations whose assets do not merit institutionalization (Hall, 2016).

The subsequent sections of this article are structured as follows. The second section delves into the conceptual framework, explaining the rationale behind focusing on three dimensions of social relations - patterns of interaction, networks cohesiveness, and civic engagement - as mechanisms for generating social capital stocks and economic resource environments for nonprofits. The third section presents the data and methods employed in the analyses. The fourth section describes the results, and the last section discusses the implications and limitations of the study.

4.2 Conceptual Frameworks: Social Relations, Social Capital, and Organizational Resource Outcomes

4.2.1 Social Relations and the Embedding of Social Capital

According to Putnam (1995), who derived his concept from Coleman, social capital refers to "features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit" (p. 67). Since Putnam's work on social capital, this concept has prominently featured in scholarly discussions and debates. Amidst the diversity of perspectives, a consensus has merged in the literature, succinctly captured by Portes (1998): "social capital stands for the ability of actors to secure benefits by virtue of membership in social networks or other social structure" (p. 6). This implies that social capital is analyzable in two components: the social relationship itself that provide individuals with access to resources embedded in relationships or networks, and the quantity and quality of the cumulative actual or potential resources encompassing economic, cultural, and institutional aspects (Portes, 1998).

Schuller, Baron, and Field (2000) share a parallel perspective in their definition. They view social capital as "broadly, social networks, the reciprocities that arise from them, and the value of these for achieving mutual goals… an idea that draws attention to the importance of social relationships and values such as trust" (p. 1). However, the literature has largely overlooked the second component of social capital – the various forms of actual or potential resources – reflected in organizational performance.

Lin (2001), in her book *Social Capital: A Theory of Social Structure and Action*, begins by posing a fundamental question and providing her response: "What is capital? I define it as investment of resources with expected returns in the marketplace… social capital is best understood by examining the mechanisms and processes by which embedded resources in social networks are captured as investment" (p. 3). Bourdieu (1986), who systematically analyzed the concept of social capital for the first time, similarly defines it with a focus on its convertibility into other forms of capital. Particularly, he underscores the functional nature of social capital, contending that it grants actors direct access to economic resources like subsidized loans, investment insights, or protected markets, as well as cultural capital through connections with experts or valued credentials attained through institutional affiliations (Bourdieu, 1986; Portes, 1998).

Building upon the lubricating role of social capital inherent in social relations, this paper dissects the social relations contributing to the formation of social capital into three primary components: patterns of social interactions (bonding and bridging), cohesiveness of social networks (supportive and clustered networks), and levels of civic engagement (rates of volunteering and density of nonprofit organizations). It is argued that these three attributes of social relationships – social interactions, network cohesiveness, and civic engagement – offer

multifaceted metrics for understanding how social capital, entrenched in these relationships, forges distinct environments for resources that shape the fundraising outcomes of nonprofit organizations.

To start, I explore how distinct interaction patterns yield varying types and amounts of resources accessible to and exploitable by nonprofit organizations. Social interactions can exhibit unique patterns, contingent upon the composition of social networks comprising individuals and groups with diverse socioeconomic attributes, lifestyles, hierarchical standings, and network placements. Researchers have particularly focused on two types of social interactions fostering social capital: bonding and bridging (Coffé & Geys, 2007a; Islam & Walkerden, 2014; Beyerlein & Hipp, 2005; Fulton, 2021a).

Bonding refers to the linkages among people with similar socioeconomic characteristics and identities. It forges strong bonds among like-minded individuals, but it can also lead to the exclusion of dissimilar counterparts. Bridging, on the other hand, signifies social ties connecting heterogeneous individuals. Bridging ties are generally more fragile and weaker than bonding, yet they are more likely to promote social inclusion (Schuller et al., 2000). Given the divergent internal attributes and external impacts of bonding and bridging, these two distinct mechanisms of social capital offer differing conduits for accessing "social resources" within the community, potentially culminating in diverse financial resource outcomes for organizations (Lin, 2001; Reagans & Zuckerman, 2001; Fulton, 2021a, 2021b).

Beyond interaction patterns, I also investigate the impact of social network cohesiveness. The cohesiveness of social networks can be indicative of the extent to which actors adhere to social norms and operate based on trust. When individuals possess strong social connections, they are more inclined to adhere to shared values, embrace common codes of conduct, and operate on a foundation of trust (Friedkin, 2004). Given the importance of norms and trust as essential social

resources in facilitating efficient economic transactions and investment, the cohesiveness of social networks may wield an influence on the financial resource outcomes of organizations.

Lastly, if interaction patterns and network cohesiveness portray the structure of networks, the level of civic engagement reflects the content of social relations where individuals acquire, practice, and nurture social trust and norms through pro-social behaviors such joining nonprofit organizations and volunteering (Putnam, 1993, 1995, 2000; Wollebaek & Selle, 2002). As such, the degree of civic engagement may mirror the reservoir that can be converted into tangible capital accessible to individual organizations within a community.

The following sections delineate how each facet of the social relations functions as unique mechanisms of social capital, thereby creating the backdrop for the strategies and outcomes of nonprofit organizations in resource acquisition.

4.2.2 Social Interaction Patterns: Bonding and Bridging

Social networks are commonly conceived as complex, interconnected webs of relationships among individuals and groups (Onyx & Bullen, 2001; Portes, 1998). And, given that social capital can be defined as "the resources embedded in social networks accessed and used by actors for actions" (Lin, 2001, p. 25), various forms of social interaction and networking directly and indirectly offer diverse resource connections for individuals within these relationships. Lin (2001) emphasizes that "interactions should be analyzed and understood not only as relationship patterns among individual actors or nodes but, much more importantly, as resource patterns linked in interaction patterns" (p. 38).

A vital distinction emerges for comprehending the connection between interaction patterns and resource configurations - bonding and bridging. Bonding refers to dense social ties that mainly

encompass people with similar socioeconomic characteristics, such as race, age, education, gender, and social class, while bridging refers to thin and weak ties across dissimilar people (Putnam & Goss, 2002; Coffé & Geys, 2007a; Woolcock & Narayan, 2000; Onyx & Bullen, 2001; Beyerlein & Hipp, 2005). Researchers argue that these two distinct interaction patterns – bonding and bridging – also suggest distinct mechanisms for creating social resources and their economic consequences (Woolcock & Narayan, 2000; Onyx & Bullen, 2001).

First, bonding fosters strong in-group trust, while bridging cultivates more tenuous out-group trust. Personal connections and networks among individuals sharing common identities can breed strong in-group bias, as positive sentiments and values like cooperation, trust, and affection develop more readily among in-group members (Marshall & Stolle, 2004). Conversely, interactions and cooperative experiences among dissimilar individuals can alleviate in-group partiality and integrate former out-group members (Marshall & Stolle, 2004; Coffé & Geys, 2007a).

The differing levels and extents of trust stemming from bonding and bridging can influence the creation and allocation of economic resources within a community. Trust is a pivotal element enabling and facilitating transactions, assuring individuals that their investments will yield returns and allowing them to undertake economic risks (Coleman, 1988). Onyx and Bullen (2001) notes that "Trust entails a willingness to take risks in a social context based on a sense of confidence that others will respond as expected and will act in mutually supportive ways, or at least than others do not intend harm" (Onyx & Bullen, 2001, p. 45). In essence, trust represents the "expectation of goodwill and benign intent" from interaction partners to fulfill their fiduciary duties and responsibilities (Yamagishi & Yamagishi, 1994, p. 131).

Given trust's facilitating role in economic transactions and behaviors, in a community where robust in-group trust coincides with weak out-group trust, community members might be reluctant

to invest their private economic resources in endeavors beyond their in-group boundaries due to their limited trust in out-group members. Berger and Luckman (1967) note "social structure is the sum total of typifications" but typifications "are removed from the "here and now" of the face-to-face situation." (Berger & Luckman, 1967, p. 33). Broadening this concept from a network perspective, the absence of direct or indirect interactions among different socioeconomic groups and exposure to others' social reality might limit opportunities for group members to question typification of other groups they once took for granted. This can facilitate the institutionalization of social construction among social actors (Wilner et al., 1955; McKay & Pitman 1993; Riordan, 1987; Bornman & Mynhardt, 1991).

For instance, the negative stereotypes about marginalized social groups like the poor, homeless, homosexuals, or welfare recipients have consistently, albeit discreetly, contributed to underinvestment in these populations both in public policy and the private sector. With limited exposure to interactions that challenge these negative stereotypes about out-group members, and without the experience of generating trust, setting expectations, and establishing norms of cooperation among out-group members, individuals might lack the assurance that their investments will be repaid personally and socially (Coleman, 1988; Yamagishi & Yamagishi, 1994). In such a community, characterized by strong in-group trust and out-group distrust, individuals might be disinclined to invest their economic resources in nonprofit organizations' missions, which frequently necessitate out-group members' cooperation and benefitting them. People are less likely to allocate their valuable economic assets in the social activities benefitting unfamiliar individuals who fail to meet their criteria for inclusion and expectations. Consequently, nonprofit organizations working for broader community welfare may find it challenging to garner individual donations within a bonding-oriented community.

However, institutional funders like foundations may prefer communities characterized by bonding among similar individuals. There are two main reasons why bonding-driven social capital can attract foundation grants. Firstly, close and strong ties among similar group members lead to more focused, coordinated, and consistent collective actions compared to broad and weak ties among dissimilar group members. This commonality and focus make it easier for nonprofits to translate their collective actions into visible achievements that catch the attention of foundation. Foundation grants often require grantees to demonstrate their ability to achieve transformative social change through visible performances and outcomes, aligning with predefined milestones, strategic action plans, or standardized performance matrices (Brest & Harvey, 2018; Quinn et al., 2014; Scott, 2009). Given these trends, nonprofits in a community with densely connected members who share common interests may have more opportunities to secure foundation grants compared to nonprofits in a community where bridging is the dominant pattern of social interaction.

Secondly, dense connections and strong trust among in-group members create a social context conducive to the growth of elite philanthropy represented by foundations. Unlike ordinary people who make modest donations to charitable causes, elite philanthropists belong to a highly stratified philanthropic field characterized by significant differences in wealth and donations, ranging from billionaires to multi-millionaires capable of making million-dollar charitable donations (Maclean et al, 2019; Monier, 2018). Beyond their financial standing, the founders, donors, and board members of foundations often possess strong academic and cultural capital, including prestigious education experiences and a genuine interest in arts and culture (Vermeulen et al., 2012; Monier, 2018). Given this shared lavish background, elites are drawn to philanthropy not only as a means of giving back to society but also as a way to sustain and enhance their credibility, prestige, and access to influential networks (Maclean et al., 2019; Monier, 2018; Ostrower, 1995). Since donors

share common backgrounds and strong ties and foundations provide an exclusive setting for elite interactions and prestigious social circles (Vermeulen et al., 2012; Ostrower, 1995; Monier, 2018),), foundations often reflect high levels of bonding social capital (Vermeulen et al., 2012). Therefore, communities that nurture such social capital may reap financial benefits from the increasing presence of elite philanthropists. In essence, bonding social capital facilitates foundation grant-making by bolstering the supply-side logics, especially the growth of elite philanthropy. In such a context, nonprofits in a community characterized by bonding-oriented social connections may actively seek foundation funding to compensate for the dearth of grassroots contributions, and some nonprofits might seize this opportunity to secure and sustain their operations.

In contrast to bonding, communities with higher levels of bridging may exhibit diminished in-group bias and heightened out-group trust. Lower in-group bias and elevated out-group trust can stimulate greater individual contributions toward services and activities that cater to the needs of out-group members. Trusting communities not only have stronger incentives to amass and allocate resources for a wide range of needs and preferences but are also likely to witness higher returns on these investments. In communities where members contribute more to public welfare, individuals' quality of life may improve due to achievements by donated organizations in civic and policy domains. These enhanced economic and social outcomes can, in turn, stimulate further philanthropic behavior from individuals who have experienced the collective efficacy of their contributions. Studies by Wang and Graddy (2008) and Cox et al. (2019) affirm the positive relationships between bridging social capital and charitable donations.

The increased bridging social capital also attracts foundation funding for nonprofits by stimulating the demand-side logics of foundations – community members' demands for collective

benefits. In societies marked by a high degree of out-group trust, citizens are more inclined toward the "common good," aiding the advancement of strangers. The abundance of social capital across diverse community members may prompt individuals to downplay short-term consumption-oriented demands, favoring investments that promise substantial future improvements for the diverse community (Boix & Posner, 1998; Coffé & Geys 2005). This heightened orientation toward collective benefits through social capital encourages foundations to play a “legitimate” role in benefiting everyone as innovative leaders for social change and structural reform. As a result, increased stocks of social capital might incentivize foundations to allocate more financial resources to support nonprofits to leverage nonprofits’ community connections and knowledge to achieve more long-term changes and complex policy objectives.

Based on the conceptual framework presented above, I propose the following hypotheses for testing in these analyses.

Hypothesis 1a. Bonding social capital is less likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 1b. Bonding social capital is more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

Hypothesis 2a. Bridging social capital is more likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 2b. Bridging social capital is more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

4.2.3 Cohesiveness of Social Networks: Clustering and Supporting

The density of networks people possess also influences the amount of social capital within a community, as social capital is a capital that inheres in social structures and relations. For instance, someone with numerous friends is likely to possess more social capital than an individual with no friends. If these friends are interconnected with each other, the social capital transmitted through these networks will be even greater compared to cases where the friends are not connected. The cohesiveness of networks within groups, which involves reciprocal connections between individuals, influences the resource environment associated with social capital. This perspective emphasizes the concept and role of social cohesion as a comprehensive framework indicating the extent to which a society maintains unity at the group level or "sticks together."

In network theory, cohesion is defined in terms of structural characteristics. Markovsky and Lawler (1994) define cohesion as the level of reachability within a collectivity. Reachability encompasses both the elements of connectedness and structure: members of a collectivity are reachable to the extent that they are linked through multiple connections without significant divisions. Thus, from a network perspective, the degree of interpersonal connections among individuals serves as a measure or foundation of social cohesion (Gross & Martin 1952, Lott & Lott 1965). Moreno and Jennings (1937) suggest the number of mutual dyadic ties within a group can serve as an indicator of social cohesion. Similarly, other researchers have treated the density of interpersonal relationships in a group as a measure or basis for cohesion (e.g., Frank, 1996; Frank & Yasumoto, 1998). Gross and Martin (1952) propose that cohesiveness is linked to the strength of relational bonds among group members. Reagans and McEvily (2003) describes cohesion as "the extent to which a relationship is surrounded by strong third-party connections" (p. 244). Drawing from this conceptual evolution, Chetty et al. (2022a, 2022b) further deconstruct

measures of cohesiveness into two dimensions: the degree of clustering in networks (which measures the frequency with which an individual's friends are friends with each other) and the support ratio (which measures the overall prevalence of pairs of friends sharing at least one common friend within a community). Their measurement effectively combines both the concepts of reachability and collectivity.

Research provides evidence that within a cohesive society, people establish social capital through two distinct mechanisms, namely "enforceable trust" and "norms of reciprocity" (Portes & Sensenbrenner, 1993; Frank & Yasumoto, 1998). According to the Frank and Yasumoto's (1998) study of French financial elite and their social ties, individuals are more inclined to develop trust through reciprocal transactions or "a norm of reciprocity" when they have a higher density of networks involving direct friendships and/or mutual friendships. A norm of reciprocity "allows actors to invest in one another with the belief that the other will feel obligated to reciprocate" (Frank & Yasumoto, 1998, p. 667). The obligation stemming from direct friendships or mutual friends bind individuals to invest social capital in each other, and this binding effect strengthens when individuals are connected through a web of friends.

Conversely, people are more likely to access resources embedded in social relationships through "enforceable trust" when they are situated within densely interconnected social ties. Enforceable trust can be defined as "individual members' disciplined compliance with group expectations" or "the social capital emerging from the monitoring capacity of [the] communities" (Portes & Sensenbrenner, 1993, p. 1325, 1332). Dense and strong networks serve as mediating social structures that enforce individuals to trust one another, to forego immediate individual gains in favor of collective resource benefits, and to establish norms of solidarity by sanctioning those who betray the collective (Coleman, 1988; Portes & Sensenbrenner, 1993; Uzzi 1996).

Because enforceable trust and norms of reciprocity are sustained and reinforced by actors hoping to create obligations in others to whom they are connected, high levels of cohesiveness empower the actors who seek to shift motivations from personal gains to the enrichment of relationships. Once these mechanisms are institutionalized, they diminish transactional uncertainties in the community, enabling investment for collective well-being and overall benefits, as individuals ascribe value to their network exchange partners and the growth of their partners' social capital. Accordingly, members of a cohesive society may exhibit more active engagement in investing resources for the group's welfare and in supporting organizations that serve such objectives. They may be more inclined to contribute financially to nonprofit organizations to reinforce trust and reciprocity mechanisms, as these organizations effectively foster cooperative attitudes and behaviors, including trust and reciprocity among society member (Stolle, 2001; Paxton, 2002, 2007). Previous research demonstrates positive associations between individuals' charitable donations and their social trust (Glanville et al., 2016; Wang & Graddy, 2008; Brown & Ferris, 2007).

However, it is worth considering the potential adverse impact of social cohesion on members' charitable actions due to the close link between group homogeneity and cohesion (Cohen 1982; Corbin, 1999). The seemingly contradictory effects of cohesion versus bonding among homogenous actors on individual donations need clarification. Although social cohesion is often more likely among members with similar characteristics, homogeneity is not an absolute prerequisite for cohesion. Moreover, the notion of a cohesive society is not solely rooted in the characteristics of individual social connections, but rather it is a collective concept. For instance, McPherson and Smith-Lovin (2002) found that homophily bias creates substructures that break down the homogeneous character of group within groups, leading the larger group less solidary

and making the group members less reachable to each other. They argue that cohesion of a larger society depends on the cohesiveness of subgroups. If subgroups – groups of similar people - reflect divisions within the larger group, social cohesion becomes untenable, as a cohesive society embraces inclusivity and care (Novy et al., 2012). Therefore, this study treats cohesion and bonding as distinct constructs, even though cohesion is probabilistically generated by the homophily principle and shared group membership.

In alignment with the relationship between social cohesion and individual donations, social cohesion may also have a beneficial effect on nonprofits' income from foundation grants. There are primarily five reasons behind the positive relationship. First, as discussed earlier, social capital serves as a facilitator in economic transactions and development. The increased wealth possessed by economic actors may make them more generous in charitable giving (Brown & Ferris, 2007). This effect of increased wealth is particularly evident in the context of foundation funding, as major foundation donors typically amass their wealth through entrepreneurial ventures, either from scratch or by expanding inherited businesses (Audretsch & Hinger, 2014; Mathias et al., 2017; Maclean et al., 2019), These individuals are the principal beneficiaries of the wealth generated within a functioning market economy.

Second, the enhanced economic capacity of the community creates more openings and pressures for creative and collaborative approaches to tackling chronic socioeconomic issues beyond fulfilling basic societal needs. This evolving social landscape and its needs might incentivize foundations to broaden their backing of nonprofit organizations addressing deep rooted domestic and international challenges. Therefore, economic prosperity empowers foundations to allocate financial resources to support nonprofits' endeavors (Maclean et al., 2019; Suárez et al., 2018).

Third, the supportive networks within a cohesive community may aid elite philanthropists in their fundraising efforts, which heavily rely on friendships and mutual acquaintances, and reciprocity, characterized by an "exchange system" where individuals support each other's causes (Ostrower, 1995; Monier, 2018). Increased donations can result in foundations engaging in more extensive grantmaking.

Fourth, considering that one of the motivations for elite philanthropy is the acquisition of cultural capital and symbolic significance (Maclean et al., 2019; Monier, 2018; Ostrower, 1995), a more cohesive, stable, and supportive society enables elite philanthropists pursue and enjoy these cultural assets through various networking events and relationships offered in a cohesive environment. This can contribute to the expansion of philanthropic foundations and the scale of their grantmaking.

Lastly, in cohesive societies where mutual trust and cooperation prevail, institutional funders like foundations allocate fewer resources to monitoring their grantees' adherence to agreed-upon agendas or due diligence. Consequently, they can allocate a higher proportion of their budget to direct funding. Graddy and Wang (2009) discovered that when residents of a community generally trust one another, charitable contributions to community foundations increase.

Based on these considerations, I suggest the following hypotheses to be tested in these analyses.

Hypothesis 3a. Higher levels of clustering in social networks are more likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 3b. Higher levels of clustering in social networks are more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

Hypothesis 4a. Higher levels of supporting in social networks are more likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 4b. Higher levels of supporting in social networks are more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

4.2.4 Degree of Civic Engagement: Voluntary associations and Volunteering

The idea of civic engagement has been recognized as a foundational factor in the development of social capital. According to Putnam (1993), there is a strong link between high levels of social capital and increased civic engagement and democratization, as evident in his study of Italy. Putnam (1993, 2000) emphasizes that norms of generalized reciprocity and networks of civic engagement foster trust and cooperation among individuals by reducing the inclination to defect, minimizing uncertainty, and providing models for future collaborative efforts.

Since Putnam's work, the notion of nonprofit organizations as unique tools for cultivating social capital has been further developed. Central to social capital theory is the idea that neighborhood resources generate anticipated benefits – whether practical or expressive – that extend beyond the time and monetary investments made by residents (Lin 2001). Nonprofits, in their conceptual form, function as a type of grassroots governance that aid in creating communal assets within a society, by nurturing trust, sociability, and cooperation among community members. Empirical scholarship provides support for a connection between nonprofit organizations and social capital.

For example, data from the 1999-2000 European Values Survey demonstrates that members of nonprofit organizations display higher levels of interpersonal trust in 28 of the 32 countries.

Additionally, individuals with multiple memberships are twice as likely to trust others compared to those without any memberships (Anheier & Kendall, 2002). Similarly, results from the World Values Survey 2000 show that U.S. respondents with three or more nonprofit memberships are more likely to trust others than non-members. Paxton (2002, 2007) also reveals that collaborative organizations, which allows individuals to join multiple groups, tend to foster generalized trust more effectively than isolated organizations. Wollebaek and Selle (2002) confirm the positive effect of multiple memberships on social capital.

Supported by a wealth of research, the concentration of nonprofit organizations has emerged as a significant measure of civic engagement. The density of nonprofits in a community signifies the extent of the social arena where people come together, engage, and collaborate. Considerable research indicates that nonprofit organizations play a role in generating social capital among their members through repeated interactions (Stolle & Rochon, 1998; Stolle, 1998; Paxton, 2002, 2007). Nonprofits establish regular and organized settings for engaging with individuals one might not encounter otherwise (Baggetta, 2009, 2016). This environment becomes the backdrop for people with differing attributes to build social connections.

Another indicator of social connections fostered through civic participation, which contribute to social capital, is volunteering. Volunteering serves as a key indicator of the social capital effects of civic engagement for several reasons. Firstly, compared to simply donating money or joining an organization, volunteering demands a more substantial form civic engagement because it requires time (Uslaner, 2001). Time is a valuable yet limited resource for everyone, as both the affluent and less privileged have the same 24 hours in a day. Volunteering in an organization, whether it is a food bank, PTA, animal rescue center, or a homeless shelter, entails investing valuable time in activities benefiting unknown others.

Similarly, volunteering promotes a more inclusive form of civic engagement than charitable giving or organizational membership. Volunteering is less discriminatory between the wealthy and the less privileged compared to charitable donations, as it involves contributing time rather than money. Social capital researchers contend that social resources like trust, cohesion, solidarity, or tolerance increase when people from different demographics interact on equal terms (Pettigrew, 1998; Baggetta, 2016; McPherson & Smith-Lovin, 2002). Volunteering allows community members to develop these resources and experience democratic values such as diversity, inclusion, or solidarity by collaborating with individuals different from themselves.

Lastly, volunteering often entails direct interactions among members of a community. Face-to-face interactions through voluntary associations are a critical element for the development of trust, according to Putnam. He asserts that participation in voluntary associations should involve face-to-face interactions as they provide a setting for establishing interpersonal trust (Putnam, 1993; Stolle, 2001). Pettigrew (1998) underscores the significance of time, close interaction, and extensive and repeated contact across various social contexts in nurturing cross-group friendships, which reduce prejudice, obscure the "we" and "they" boundary, and foster acceptance of a broad range of outgroups. Volunteering often requires physical group activities and sustained interactions among individuals, such as delivering food to low-income seniors, assisting disabled individuals, teaching immigrants, or participating in disaster relief efforts. The frequent and informal interactions among people instill mutual understanding, cooperation, solidary, public-spiritedness, and ultimately increase trust in both individuals and society. Due to these characteristics – demanding, inclusive, and physically interactive –volunteering serves as an effective measure of civic engagement's positive contribution to social capital creation.

The more opportunities individuals have to interact and collaborate, the more likely trust will develop among previously unfamiliar acquaintances. As explained earlier, heightened social trust and shared cooperative experiences create an environment where individuals are more inclined to invest in lasting communal benefits, possibly through actions like making charitable donations. Furthermore, the augmented social capital within a community reinforces the notion of "collective efficacy," where community members believe others will participate and address issues collectively (Beyerlein & Hipp, 2005). Increased collective efficacy will make community members more willing to financially support nonprofits working for common good, ultimately leading to nonprofits relying more on individual donations. Wang and Graddy (2008) provide evidence for the positive effects of civic engagement, measured by volunteering, on secular and religious giving.

Civic engagement can enhance not individual donations of ordinary people but also elite philanthropy, which serves as a foundation for foundation funding. Increased levels of civic engagement for the common good make such civic participation more noticeable, leading to more opportunities for appreciation and recognition by community members. In such a positive environment, elite philanthropists are more likely to confirm that their commitment to philanthropy is considered morally commendable and personally rewarding. The heightened cultural and symbolic capital that personal philanthropy brings to elite philanthropist benefits foundations by improving fundraising performance and providing more resources for distribution to nonprofits. Second, a larger nonprofit sector indicates more possible avenues for elite philanthropists to explore and select areas and organizations through which they can advance their interests and viewpoints on social issues (Horvath & Powell, 2016). With more opportunities to achieve diverse

personal and social objectives within the sector, foundations may it easier to attract wealthy donors, resulting in increased resources to distribute to nonprofits.

However, it is crucial to note that not all forms of civic engagement yield positive effects on social capital, despite the widely accepted connection. Recent research highlights that certain organizations may have negative impacts on social capital development (Paxton 2002, 2007; Stolle 1998; Stolle & Rochon, 1998; Coffé & Geys, 2007b, Browning, Feinberg & Dietz 2004; Beyerlein & Hipp 2005). Extreme cases such as ethnic separatist or religious fundamentalist groups can exacerbate societal divisions and impede trust-building. Even well-intentioned nonprofit organizations focused on citizen participation and local democracy might hinder social capital growth. Examining two urban neighborhoods in Baltimore, Meyer and Hyde (2004) show that a high density of neighborhood associations can lead to community-level factionalism, characterized by open commitment to insularity and engagement in turf battles with other associations over collective resources. Stolle's research on nonprofits in Germany and Sweden (1998) reveals that the trust-building effects of organizations vary based on individual and group characteristics, including demographic diversity, in-group trust, and engagement level of associations.

The conflicting evidence regarding the trust-building outcomes of nonprofit organizations challenges the assumption that associational activities inevitably lead to positive outcomes for organizations. What if community members engage in associational activities that have limited positive effects on social capital and philanthropy? If a community hosts numerous fragmented and competitive organizations that have little or potentially even have adverse impact on social capital creation, the community might not experience positive economic effects on private donations or foundation funding, even with high levels of community participation in nonprofits. Owing to the lack of comprehensive qualitative data, the empirical analyses in this study are unable

to differentiate between nonprofits that have positive versus negative effects on social capital. Therefore, it is recommended to approach the presumed positive correlation between social capital and civic engagement, as measured by the presence and activities of nonprofits, cautiously, even though I propose it for empirical investigation.

Based on the arguments presented above, I will test the following hypotheses.

Hypothesis 5a. A higher density of nonprofit organizations in a community is more likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 5b. A higher density of nonprofit organizations in a community is more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

Hypothesis 6a. A higher rate of volunteering in a community is more likely to increase the fraction of revenue that nonprofits receive from individual donations, all else being equal.

Hypothesis 6b. A higher rate of volunteering in a community is more likely to increase the fraction of revenue that nonprofits receive from foundation funding, all else being equal.

4.3 Data, Variables, and Methods

4.3.1 Data and Sample

These analyses utilize data from various sources to examine nonprofit organizations in the Puget Sound region of Washington state. The data is derived from three data sources: a dataset by Chetty et al. (2022a, 2022b) based on Facebook friendships, the Civic Life of Cities (CLC) survey data, and the National Center for Charitable Statistics (NCCS) data.

Initially, I adopted six social capital measures from Chetty et al. (2022a, 2022b), which were assessed using Facebook friendship data involving 21 billion connections. These measures encompass three dimensions of social capital within U.S. ZIP codes: (1) (1) interconnections between different socioeconomic groups, (2) cohesion in friendship networks, and (3) civic organizations and volunteerism. Chetty et al. (2022a) focused on Facebook users with the following attributes: "aged between 25 and 44 years who reside in the United States; active on the Facebook platform at least once in the previous 30 days; have at least 100 US-based Facebook friends; and have a non-missing residential ZIP code" (p. 109). They publicly released privacy-protected statistics on social capital by ZIP code and county at https://socialcapital.org, and I utilized their data to construct my six types of community-level (ZIP code-level) variables related to social capital.

Next, I employed the CLC survey data to measure and analyze organization-level characteristics. The survey was conducted across several cities in different countries as part of the comparative research project under the organizational umbrella, the Civic Life of Cities Lab (CLC Lab) at Stanford Center on Philanthropy and Civil Society (Stanford PACS). In my study, I specifically utilized survey responses from nonprofit organizations only in the Puget Sound region

of Washington state since some of the pivotal survey responses are available only in the Puget Sound region data. This survey, conducted between 2019 and 2020, covered various aspects of organizational management, such as organizational structure, leadership, volunteer management, performance measurement, partnership, advocacy, staff training and recruitment, finances, and more.

Approximately 422 nonprofit organizations were surveyed in the Puget Sound region, resulting in 192 responses and a response rate of 45 percent. Due to the incompleteness and missingness of some important survey responses, I ended up using 139 organizations as the final sample. The sampled nonprofits were randomly drawn from the 2015 NCCS Core File, which contains information on documented 501(c)3 public charities, private foundations, and other tax-exempt organizations filling a Form 990 or 990-EZ. Additionally, I acquired supplementary organization-level information, such as NTEE codes representing fields, revenue as an indicator of administrative capacity, and organizational age, from the 2019 NCCS Core File.

4.3.2 Variables

4.3.2.1 Dependent Variables: Independent Contributions and Foundation Funding

I formulated two indicators to gauge the financial resource acquisition outcomes within nonprofit organizations: individual donations and foundation funding. Each of these financial streams was derived from survey responses regarding the proportion of total revenue attributed to different funding sources across six categories:

- **Individual donations (i.e., gifts and bequests)**

- **Foundations (i.e., gifts and grants)**
- Corporate donations (i.e., gifts from businesses and corporate sponsorships)
- Government funding (i.e., grants and contracts from all levels of government)

  Program-related income (i.e., program services revenues, fees for service, membership dues, and sales)
- Other (e.g., interest on investments or endowments)

For both indicators, the values range from 0 to 1, constructed as fractions. A value of 1 signifies exclusive reliance on the specified revenue source, while a value of 0 indicates no income from that particular source.

4.3.2.2 Independent Variables: Social Relations Involving Social Capital

This study aims to surpass the limitations of previous research that predominantly relied on organization-level social capital measures. It aligns conceptual social relations dimensions with empirical measures drawn from Chetty et al.'s research (2022a, 2022b). Prior studies concerning organizational performance and social capital frequently employed organization-level measures of social relations, such as an organization's social composition (Reagans & Zuckerman, 2001; Oh et al., 2004, Beyerlein & Hipp, 2006; Coffé & Geys, 2007a; Ruef & Kwon, 2016; Smith & Hou, 2015) or interactions among members or staff (Reagans & McEvily, 2003; Reagans & Zuckerman, 2001; Han et al., 2014; Oh et al., 2004; Fulton, 2021a, 2021b). However, social capital is a collective resource, and thus “social capital should ideally be measured on a collective scale, with the community, region, or country as the unit of analysis” (Stolle & Rochon, 1998, p. 50).

Organization-level social relations and networks reflect community-level relations only to the extent that they correspond to the internal structure and dynamics of the organizations. Aligning community-level social capital constructs with community-level measures aims to more rigorously explore the community impact of social capital on organizations.

This study employs community-level social capital measures developed by Chetty et al. (2022a, 2022b) using Facebook friendship data. Their social network data substantially differs from networks that would arise from random friend selections. These networks display classic social network traits like cliquishness, skewed connection distribution, and highly connected agents (Mayer & Puller, 2007). The social capital measures encompass these constructs: (1) connectedness between various people, such as low and high socioeconomic status groups; (2) social cohesion, measured by clique extent in friendship networks; and (3) civic engagement, such as volunteering rates (Chetty et al., 2022a, 2022b). I utilized these measures to indicate the three categories of social relations where social capital is embedded respectively: patterns of social interaction (bonding and bridging), cohesiveness of social networks (clustering and supporting), degree of civic engagement (the density of nonprofit organizations and the rate of volunteering).

For social interaction patterns, bonding is measured by the degree high-income individuals connect with one another, and bridging by the degree high-income and low-income individuals connect with one another. Network cohesion involves clustering, calculated as the average rate of mutual friendships among friends, and supporting, the rate at which pairs of friends share at least one mutual friend within the same community. For civic engagement, nonprofit organizations density is based on the number of Facebook "Public Good" group pages per ZIP code population, while volunteering rates use the share of Facebook users in a ZIP code, who are members of at least one volunteering or activism group, classified by their titles.

4.3.2.3 Moderating or Control Variables: Organizational Characteristics

In the pursuit of examining the influence of community-based social capital, this study also considers the impact of internal organizational attributes. These attributes encompass the diversity of board members, engagement in political advocacy, professionalization of organizations, organizational fields, affiliations, revenue scale, and organizational age. All of them are posited to play a role in shaping the financial resource acquisition outcomes of organizations.

4.3.2.4 Moderating Variable: Diversity of Board Members

While the community-embedded social capital may impact nonprofit organizations' resource outcomes, the organization's internal networks might also moderate these effects by determining the boundaries and extent of cross-cutting connections. Relationships within an organization that represent diverse stakeholders and constituents can extend links to individuals with diverse attributes outside the organization, thereby augmenting the organization's ability to attract social capital and the subsequent economic advantages from the wider community. Within an organization, staff, leaders, or members from various demographic groups may function as social capital broker, by linking the organization’s internal structure with the external community through their own affiliations and coordinating across “structural holes”, which are gaps created in the information flow between groups (Burt, 2004). Essentially, internal networks that bridge underlying social cleavages play a moderating role in acquiring resources from the external community.

Research by Stolle and Rochon (1998) shows that diversity of memberships has a positive effect on generalized interpersonal trust. Their findings indicate that less homogeneous organizations are more likely to foster high levels of trust among members, based on three national surveys. In the study of Boston's choral societies, Baggetta (2016) demonstrates that even demographically similar members from demographically different places can serve as "representative bridging ties," enhancing tolerance and trust of social "others". These studies confirm a pivotal role of internal social structure and networks in generating social capital.

Empirical evidence also supports the influence of internal diversity on organizational resource outcomes. Beckman and Haunschild (2002) found that firms with more heterogeneous boards of directors are more successful in detecting good business opportunities through networks that span structural holes. Fulton (2021b) discovered that diverse leadership teams contribute to improved organizational performance in alliance formation, strategy development, stakeholder organization, and mobilization. Fulton (2021a) also demonstrates that the racial, gender, and religious diversity of an organization's leadership team are positively associated with its revenue. Given that grants and donations are often identified and secured by the organizations' leaders, organizations with more diverse leadership teams have access to a greater variety of funding sources and funding opportunities for which they have a competitive advantage. In summary, all these works indicate that diverse organizations will perform better in their resource acquisition from the community because they have access to a broader range of social resources via their members' networks.

In line with the brokerage role of internal managerial networks, this study employs the racial diversity of board members as a gauge of social ties diversity within organizations (Gazley et al., 2010). Recent research findings indicate that seventy percent of nonprofit boards have at least one board member who self-identifies as a person of color, suggesting the presence of variability in

racial diversity of nonprofit board members (Faulk et al., 2021). The racial composition of board members was obtained through a survey question, indicating the proportion of each racial group within the board members across five categories – Whites (non-Hispanic), Blacks (non-Hispanic), Hispanics, Asians and Pacific Islanders, other racial groups. The racial diversity was computed using the Blau Index (Blau, 1977, Jeong & Cui, 2020; Fulton, 2021a; Alesina et al., 1999; Rupasingha et al., 2006). A larger number indicates greater heterogeneity, while a value of zero indicates the absence of diversity within the board.

Board Diversity = $1 - \sum_i (Race_i)^2$

where $Race_i$ denotes the proportion of board members identified as racial and ethnic groups above.

4.3.2.5 Control Variable: Political Advocacy

Advocacy, in the context of organizations, is organizations' efforts to convince political, social, and institutional elites in their environment to endorse and support their policy stances that serve collective interests (Jenkins 1987; Mosley, 2010). Nonprofit organizations frequently engage in advocacy by "playing an important, and, at times, contentious, pluralistic role in representing potentially underrepresented populations and societal needs" (Moulton & Eckerd, 2012, p. 662). However, advocacy's significance for nonprofits extends beyond a client-oriented perspective, encompassing its relevance from a resource viewpoint. Advocacy has the potential to impact the operating environment of organizations, a realm where revenue holds a crucial role.

Advocacy can enhance the perceived legitimacy and influence of organizations within their communities, potentially attracting more charitable contributions from community members (Moulton & Eckerd, 2012). Nonprofits' involvement in advocacy can also positively affect their funding from foundations, as foundations may prefer to support grantees with strong community connections. Despite the inherent elitism among professional staff, founders, and wealthy donors, foundations strive to be seen as collaborative, participatory, and responsive partners to the public and their grassroots constituents (Prewitt, 1999). Furthermore, foundations continuously seek opportunities and avenues through which they can exert political influence in the policy arena (Bushouse & Mosley, 2018; Farley, 2018; Reckhow, 2013, 2016; Reckhow & Tompkins-Stange, 2018; Scott, 2009; Suárez et al., 2018). Given the foundations' pursuit of self-identity and political influence, funding nonprofits with strong grassroots backing and the ability to mobilize grassroots pressure on policymakers can be a strategic choice for foundations.

However, it is essential to note that foundations may avoid funding nonprofits that demonstrate a distinctively ideological approach to community action or engage in "radical" forms of advocacy, as supporting such radical advocacy could jeopardize foundations' tax-exempt status and their donor base, which typically consists of conservative wealthy elites. For instance, an empirical study by Moulton and Eckerd (2012) indicates a negative correlation between nonprofits' income from individual donations and their advocacy roles. Nevertheless, the relationship between these factors is not yet conclusively defined due to limited research.

Given the potentially significant and variable impact of advocacy on nonprofits' income from both individual donations and foundation funding, I incorporated the extent of a nonprofit's involvement in policy advocacy as a control variable in models for both revenue streams. The measure of advocacy was constructed from organizations' responses to a survey question regarding

their advocacy activities over the past three years. The activities listed as the options included organizing rallies, participating in rallies, attending public meetings (e.g., town hall, etc.), boycotting particular brands or products, signing petitions, contacting government representatives, and discussing the organization's cause with family or friends. The degree of political advocacy engagement was quantified based on the total number of activities a nonprofit reported engaging in.

4.3.2.6 Control Variable: Professionalization

Over the past few decades, the nonprofit sector has experienced remarkable growth in its size, scope, and community service outreach (Hall, 2016; McKeever, 2015; Urban Institute, 2020). This expansion has exposed nonprofit organizations to intensified competition for limited resources and enhanced legitimacy demands. Consequently, these organizations have encountered mounting institutional pressures that urge them to adapt to market competition, systematic performance evaluations, outcome assessments, and an emphasis on operational efficiency (Hwang & Powell, 2009; Eikenberry & Kluver, 2004; Lundström, 2001; Maier et al., 2016). This institutional trend is particularly evident in the nonprofit sector in the form of a phenomenon known as professionalization, which encompasses both the presence of specialized expertise within an organization and a transition from volunteer labor to paid staff (Suárez & Esparza, 2017).

Professionalization has gained prominence in discourse and adoption, primarily because of its association with nonprofits' revenue generation. The drive for revenue in nonprofits has been influenced by the prevailing market-oriented ideology that underscores the importance of efficiency, effectiveness, and accountability. Substantial empirical research has consistently shown that nonprofits seeking foundation grants are required to adopt certain evaluative

frameworks and management tools such as articulated milestones, strategic business and action plans, and quantified performance measures (Katz, 2005; Ramdas, 2011). Hence, nonprofits demonstrating human resources adopting and implementing such practices are more likely to secure and maintain foundation grants.

Although limited research exists on the connection between nonprofit professionalization and income from individual donations, management practices that prioritize efficiency, effectiveness, and accountability through professional expertise might influence individual donors' behavior. The research by Gordon and Khumawala (1999) finds that individual donors consider an organization's effectiveness when choosing a recipient for charitable giving. Conversely, other studies indicate that organizations allocating larger budgets to enhance administrative efficiency, including hiring and training professional staff, receive reduced donor support (Tinkleman & Mankaney, 2007; Greenlee & Brown, 1999; Jacobs & Marudas, 2009), as donors perceive this emphasis as diverting resources from programs and services (Weisbrod & Dominguez, 1986).

Regardless of the direction, nonprofit funding outcomes are linked to workforce management approaches characterized by the shift from volunteer labor to paid staff, focus on professional training and credentials, and the cultivation of specialized expertise. Acknowledging these effects, I incorporate professionalization as a control variable in the model. The professionalization variable was constructed by amalgamating seven survey questions from the CLC survey, utilizing exploratory factor analysis. These questions pertain to 1) whether the executive director holds a paid position, 2) whether the executive director is employed full-time, 3) whether the executive director possesses a graduate school degree, 4) the proportion of full-time staff, 5) the proportion of staff with graduate school degrees, 6) the count of professional positions within the organization

(e.g., fundraiser, accountant, lawyer, program manager, web designer, etc.), and 7) the perceived importance of volunteers' roles in the organization, assessed on a seven-point Likert scale.

4.3.2.7 Control Variable: Organizational Fields

DiMaggio and Powell (1983) define an organizational field as a collection of "those organizations that, in the aggregate constitute a recognized area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products" (p. 148). Barman (2007) notes that participants within an organizational field constitute a network of social connections governed by the allocation of resources and authority, and guided by a shared rationale, shaping a distinct realm of societal life. The theoretical framework of organizational fields provides insight into why and how organizations within a field possess historical precedence and comparative advantages in achieving particular resource outcomes compared to organizations in different fields. Examining organizational fields in analyses facilitates an understanding of how institutional dynamics, combined with social relationships, influence an organization's capacity to gather resources.

Considering the impact of organizational fields on nonprofits' revenue streams requires recognizing that each field is characterized by unique resource exchange relationships. For instance, human service organizations tend to maintain stable revenue from government grants while facing greater volatility in individual donations. Environmental nonprofits have also experienced a significant shift from the traditional membership/individual donation model to the government-backed project funding model through centralization, professionalization, specialization, driven by an increasing emphasis on scientific knowledge (Selle & Strømsnes, 1998,

2001). In contrast, arts and culture organizations typically receive a significant portion of their revenues from foundations and wealthy individuals (Maclean, 2019) due to their traditional association with elite interests (DiMaggio & Anheier, 1990; Odendahl, 1990).

These overarching processes and outcomes highlight the opportunities and constraints that organizations face in the broad field in which they operate. Therefore, I incorporate organizational fields as a control variable to account for their influence on nonprofits' revenue structures. In this study, I use three organizational fields, identified through the NTEE (National Taxonomy of Exempt Entities) codes. The NTEE codes utilized in this research cover the following categories: 1) Arts, Culture, and Humanities, 2) Environment and Animals, and 3) Human Services.

4.3.2.8 Control Variable: Organizational Affiliations

Similar to the concepts of organizational fields, organizational affiliations exert an influence on the revenue strategies and outcomes of nonprofits. Most of all, organizational affiliations provide distinct contextual settings that shape nonprofits' revenue structures. For instance, a nonprofit arm of a for-profit entity suggests that the nonprofit's revenue might primarily stem from corporate donations or the sale of goods and services. Conversely, a nonprofit arm of a public agency may derive a significant portion of its funding from government grants or contracts. On another note, a local branch affiliated with a large nonprofit organization is inclined to rely on internal revenue sources, such as financial backing from the parent organization, while an independent nonprofit is more likely to seek external funding avenues like individual contributions and institutional support. In this study, I decompose the organizational affiliations into two broader categories: 1) independent organization and 2) affiliate of a larger organization (i.e., local affiliate of a larger

nonprofit, nonprofit arm of a for-profit, nonprofit arm of a public agency, and other). Independent organizations are included in the model as the control variable for the analyses.

4.3.2.9 Control Variable: Revenue Size

Total annual revenues are a widely employed gauge of nonprofit size and capacity in research (Nicholson-Crotty, 2009; Guo, 2007; Chikoto & Neely, 2014). The administrative capacity of nonprofits is closely tied to their fundraising capability, which may involve hiring fundraising professionals and dedicating resources to fundraising endeavors. Furthermore, nonprofits with robust administrative capacity are better equipped to navigate the demands associated with foundation grants, which often entail extensive paperwork and bureaucratic procedures. As a result, organizations with solid administrative capacity are likely to experience positive impacts on both individual donation outcomes and foundation funding acquisition. The data used was extracted from the NCCS Core File 2019, and a log transformation was applied to reduce the skewness of distribution.

4.3.2.10 Control Variable: Age

The age of nonprofits may exhibit a positive correlation with the organizational ability to access and secure funding opportunities from both foundations and individuals, as older organizations are perceived as more established and credible than newer counterparts. As posited by Hager et al. (2004), investors and donors will be hesitant to invest in or contribute to an organization until it demonstrates its capacity to provide quality products and services, satisfy customers, and be

accountable. Thus, older organizations hold a comparative advantage in the funding landscape by building reputations among institutional funders and community members, enhancing service quality, and demonstrating accountability to various stakeholders over time.

Additionally, shifts in economic circumstances and policy priorities influence the niche environments that organizations can carve out for fundraising endeavors over the years. For instance, economic prosperity in the market can stimulate fundraising campaigns geared towards generous individual contributions from both ordinary people and wealthy individuals. Once established, an old organization's positioning, reputation, and network within funding markets may confer lasting advantages even amidst changing economic conditions. Age was measured using the ruling year of nonprofits, sourced from the NCCS Core File 2019, and was log-transformed to address distribution asymmetry. The descriptive statistics of all predictor variables are outlined in Table 4-1 below.

Table 4-1 Description of measures of predictors

Concepts Measured	Variable Name	Description	Mean (S.D.)	Range	Sample Size	Level (L1/L2)	Data Source
Pattern of Social Relations	Bond (Bonding)	The extent to which high-income people are friends with high-income people within a community	1.542 (.155)	Continuous [1.166, 1.77]	77	L2	Chetty et al. (2022a, 2022b)
Pattern of Social Relations	Bridge (Bridging)	The extent to which high-income people are friends with low-income people within a community	1.159 (.190)	Continuous [746, 1.54]	77	L2	Chetty et al. (2022a, 2022b)
Social Cohesion	Cluster (Clustering networks)	The average rate at which two friends of a given person are in turn friends with each other within a community	.089 (.007)	Continuous [.0763, .11]	77	L2	Chetty et al. (2022a, 2022b)
Social Cohesion	Support (Supporting networks)	The rate at which pairs of friends in a community have at least one friend in common within a community	.780 (.122)	Continuous [.501, .99]	77	L2	Chetty et al. (2022a, 2022b)
Civic Engagement	NPOdens (Density of nonprofits)	The number of Facebook pages for "Public Good" groups in a community divided by the total population in the area	.028 (.048)	Continuous [.001, .30]	77	L2	Chetty et al. (2022a, 2022b)
Civic Engagement	Volunt (Rate of volunteering)	the share of Facebook users in a community, who are members of at least one volunteering or activism group	.090 (.024)	Continuous [.044, .16]	77	L2	Chetty et al. (2022a, 2022b)
Brokerage Role of Staff/Members	DivBoard (Diversity of board members)	Demographic heterogeneity in each nonprofits' board, measured by the racial diversity of board members	.338 (.367)	Continuous [0, 1]	122	L1	CLC Survey
Nonprofits' Advocacy Engagement	Advoc (Advocacy)	The number of a nonprofit's advocacy activities	1.853 (1.733)	Continuous [0, 7]	122	L1	CLC Survey
Professionalization	Prof (Professionalization)	The degree of nonprofits' professionalization measured by seven survey questions	-.007 (.932)	Continuous [-1.217, 1.17]	122	L1	CLC Survey
Organizational Fields	OrgFields (NTEE Codes)	NTEE code of each individual organization out of seven categories	-	Binary [0, 1]	122	L1	NCCS Core File 2019
Organizational Affiliations	OrgAff (Nonprofits' Affiliations)	Type of nonprofits' affiliation out of four categories	-	Binary [0, 1]	122	L1	CLC Survey
Nonprofits' Revenue Size	LogRev (Nonprofits' annual revenues)	Log-transformed size of annual revenues, as the measure of nonprofits' administrative capacity	12.696 (1.892)	Continuous [8.249, 17.18]	122	L1	NCCS Core File 2019
Nonprofits' Age	LogAge (Nonprofit age)	Log-transformed organization age calculated using 2019-the ruling year	2.928 (.744)	Continuous [.698, 4.19]	122	L1	NCCS Core File 2019

4.3.3 Model Specification

This paper employs a multi-level linear regression, also known as a hierarchical linear regression, due to the nested nature of the data, which includes both organizational-level and community-level factors. The total number of nonprofits is 122 organizations, distributed across 77 ZIP code areas for the individual donation analyses. For the foundation funding analyses, 112 organizations in 73 ZIP code areas are considered after excluding outliers that cause the violation of the residual normality assumption in the models. A ZIP code serves as a level-2 (community-level) random factor or cluster. The choice of ZIP code-level analyses allows for a more micro-level examination of the influence of social capital embedded within social networks on nonprofit financial resource acquisition outcomes, compared to an analysis at the county level. Moreover, the sample size of 73 ZIP codes fulfills the minimum requirement of level-2 factors or clusters for robust multilevel modeling.

The organization-level predictors were cluster-mean centered at their level 1 version, and they were aggregate and grand-mean centered at their level-2 version. ZIP code-level (level-2) predictors were only grand-mean centered (Snijders & Bosker, 2012). This "compositional" modeling approach helps separate the within-community and between-community effects. Cluster-mean centering allows the regression coefficients associated with the organization-level (level-1) predictors to represent estimates of the within-community effects, while the regression coefficients linked to the community-level (level-2) group means indicate between-community effects. In other words, organization-level regression coefficients quantify the predicted unit increases in an organization's revenue outcome values for a one-unit increase in the predictors within communities. Community-level regression coefficients illustrate the predicted average unit increases in the outcome values for a one-unit increase in the predictors' average values at the

community level. Cross-level interactions assess whether the relationships between the predictors and the outcome values vary in magnitude for communities with different predictor values, referred to as contextual effects.

To ensure comparability, continuous variables were standardized as z-scores, resulting in a mean of zero and a standard deviation of one, since variables were constructed at different scales. All binary variables were effect coded for centering and ease of interpretation. For assessing model fit, approximate R^2 values were calculated following the approach proposed by Rights and Sterba (2019, 2020). This refers to the approximate variance of the distribution. These statistics are reported in Table 4-2 and 4-3.

Table 4-2 Multilevel regression results for individual donation

	Model 1-1 Individual Donation	Model 1-2 Individual Donation	Model 1-3 Individual Donation	Model 1-4 **Full Model** Individual Donation
Social Capital Predictors (ZIP code Level)				
Patterns of Social Interaction				
Bonding	-.05(.06)	-	-	-.06(.07)
Bridging	.07(.06)	-	-	.10(.06)+
Cohesiveness of Social Networks				
Clustering	-	-.05(.03)+	-	-.05(.03)*
Supporting	-	.02(.03)	-	.04(.04)
Degree of Civic Engagement				
Density of Nonprofits	-	-	-.04(.04)	-.02(.04)
Rates of Volunteering	-	-	.02(.03)	01(.03)
Organizational Characteristics				
Within-Group Effects(Organization Level)				
Diversity of Board Members	-.11(.04)*	-.10(.05)*	-.10(.05)*	-.08(.05)+
Professionalization	-.06(.07)	-.07(.07)+	-.09(.07)	-.07(.07)
Political Advocacy	.04(.06)	.03(.06)	.03(.06)	.03(.06)
Revenue Size (log)	.07(.07)	.10(.07)	.12(.07)+	.09(.07)
Age (log)	.07(.04)+	.07(.05)	.06(.05)	.06(.04)
Independent Organization	-.16(.07)*	-.17(.08)*	-.18(.08)*	-.18(.07)*
Arts, Culture, and Humanity	-.11(.07)	-.11(.07)	-.10(.07)	-.12(.07)+
Human Services	-.10(.06)+	-.10(.06)	-.09(.06)	-.08(.06)
Environment and Animals	-.08(.12)	-.06(.13)	-.07(.13)	-.04(.12)
Between-Group Effects (ZIP code Level)				
Diversity of Board Members	-.01(.03)	-.03(.03)	-.02(.03)	-.02(.03)
Professionalization	-.11(.04)*	-.10(.05)*	-.10(.05)*	-.08(.05)+
Political Advocacy	.01(.03)	-.02(.03)	-.01(.03)	-.02(.03)
Revenue Size (log)	-.02(.07)	-.05(.07)	-.03(.07)	-.05(.07)
Age (log)	-.05(.03)+	-.05(.03)	-.05(.03)	-.05(.03)
Independent Organization	.13(.05)*	.13(.05)*	.13(.05)*	.12(.05)*
Arts, Culture, and Humanity	-.03(.05)	-.03(.05)	-.04(.05)	-.03(.05)
Human Services	-.04(.05)	-.03(.05)	-.04(.06)	-.06(.05)
Environment and Animals	-.12(.05)*	-.12(.05)*	-.13(.05)*	-.13(.05)*
Contextual Effects				
Diversity of Board Members	-.03(.12)	-.04(.12)	-.03(.12)	-.02(.12)
Professionalization	-.07(.12)	-.09(.13)	-.11(.13)	-.07(.12)
Political Advocacy	.07(.11)	-.05(.12)	.06(.12)	.09(.11)
Revenue Size (log)	-.15(.12)	-.09(.12)	-.07(.13)	-.13(.12)
Age (log)	.02(.06)	.03(.06)	.02(.06)	.02(.06)
Independent Organization	-.10(.05)+	-.10(.05)+	-.11(.06)	-.12(.05)*
Arts, Culture, and Humanity	.02(.05)	.03(.05)	.03(.05)	.03(.05)
Human Services	-.01(.05)	-.00(.05)	-.00(.05)	-.01(.05)
Environment and Animals	.10(.05)+	.10(.05)+	.11(.05)*	.08(.05)
Moderating Effects				
Bonding x Board Diversity (org-level)	-.21(.11)+			-.20(.11)+
Bridging x Board Members (org-level)	.25(.09)*			.24(.10)*
Constant	.28(.17)+	.30(.17)+	.30(.17)+	.34(.17)*
ICC	.12	.054	.075	0.07
Fixed Effects R^2	.42	.392	.388	.450
Random Effects R^2	.07	.033	.046	.038
BIC	172.4	169.3	170.3	186.1

Deviance (-2LL)	9.0	15.5	16.6	3.6
Residual d*f*	88	90	90	84
Sample Size (organization)	122	122	122	122
Sample Size (ZIP code)	77	77	77	77

Significant at: *** p<=0.001; ** p<=0.01; * p<=0.05; $^{+}$p<=.10

Note: Coefficients are standardized and binary variables are effect coded.; models were conducted with organizations at level 1 and ZIP codes at level 2 and utilizes maximum likelihood estimation.

Table 4-3 Multilevel regression results for foundation funding

	Model 2-1 Foundation Funding	Model 2-2 Foundation Funding	Model 2-3 Foundation Funding	Model 2-4 **Full Model** Foundation Funding
Social Capital Predictors (ZIP code Level)				
Patterns of Social Interaction				
Bonding	.03(.03)	-	-	-.00(.03)
Bridging	-.01(.03)	-	-	.00(.03)
Cohesiveness of Social Networks				
Clustering	-	-.00(.01)	-	.01(.01)
Supporting	-	-.01(.01)	-	-.03(.02)+
Degree of Civic Engagement				
Density of Nonprofits	-	-	-.04(.02)*	-.06(.02)**
Rates of Volunteering	-	-	.03(.01)*	.03(.01)*
Organizational Characteristics				
Within-Group Effects(Organization Level)				
Diversity of Board Members	.07(.01)***	.05(.02)**	.05(.02)*	.07(.01)***
Professionalization	.00(.02)	.00(.02)	-.01(.02)	-.01(.02)
Political Advocacy	-.04(.01)**	-.05(.02)*	-.05(.02)*	-.05(.01)**
Revenue Size (log)	.00(.02)	-.00(.02)	.01(.02)	.01(.02)
Age (log)	-.02(.01)	-.03(.02)	-.03(.02)+	-.02(.01)
Independent Organization	-.01(.03)	-.02(.03)	-.04(.03)	-.02(.03)
Arts, Culture, and Humanity	-.01(.02)	-.00(.03)	-.00(.03)	-.01(.03)
Human Services	.05(.02)**	-.04(.02)*	.05(.02)*	.05(.02)**
Environment and Animals	-.03(.04)	-.04(.05)	-.03(.05)	-.04(.04)
Between-Group Effects (ZIP code Level)				
Diversity of Board Members	.01(.01)	.02(.01)	.01(.01)	.01(.01)
Professionalization	.08(.02)***	.07(.02)***	.09(.02)***	.08(.02)***
Political Advocacy	.02(.01)	.02(.01)	.01(.01)	.02(.01)
Revenue Size (log)	-.03(.03)	-.03(.03)	-.03(.03)	-.03(.03)
Age (log)	-.05(.01)***	-.06(.01)***	-.06(.01)***	-.06(.01)***
Independent Organization	.01(.02)	.01(.02)	.00(.02)	.00(.02)
Arts, Culture, and Humanity	.01(.02)	.01(.02)	.00(.02)	.01(.02)
Human Services	-.05(.02)**	-.05(.02)*	-.06(.02)**	-.06(.02)**
Environment and Animals	.05(.02)**	.04(.02)*	.03(.02)+	.04(.02)**
Contextual Effects				
Diversity of Board Members	.02(.03)	-.01(.03)	.00(.03)	.03(.03)
Professionalization	-.06(.03)*	-.06(.04)	-.07(.04)+	-.06(.03)*
Political Advocacy	.06(.02)*	-.04(.03)	.06(.03)	.06(.02)*
Revenue Size (log)	.04(.03)	.04(.04)	.06(.04)	.05(.03)
Age (log)	.00(.01)	-.00(.02)	-.01(.02)	-.00(.01)
Independent Organization	-.03(.03)	-.03(.03)	-.05(.03)+	-.03(.02)
Arts, Culture, and Humanity	-.00(.02)	-.00(.02)	.00(.02)	-.00(.02)
Human Services	.00(.02)	.01(.02)	.00(.02)	-.00(.02)
Environment and Animals	.02(.02)	.03(.02)	.03(.02)	.02(.02)

Moderating Effects				
Bonding x Board Diversity (org-level)	-.11(.02)***	-	-	-.11(.02)***
Bridging x Board Diversity (org-level)	.10(.02)***	-	-	.09(.02)***
Constant	.09(.06)	.08(.07)	.11(.07)	.10(.06)
ICC	.84	.68	.66	.81
Fixed Effects R^2	.49	.47	.50	.56
Random Effects R^2	.42	.36	.33	.36
BIC	-64	-48	-57	-56
Deviance (-2LL)	-222	-198	-206	-234
Residual d*f*	73	75	75	69
Sample Size (organization)	107	107	107	107
Sample Size (ZIP code)	73	73	73	73

Significant at: *** p<=0.001; ** p<=0.01; * p<=0.05; $^{+}$p<=.10
Note: Coefficients are standardized and binary variables are effect coded.; models were conducted with organizations at level 1 and ZIP codes at level 2 and utilizes maximum likelihood estimation.

In addition, means, standard deviations, and zero-order correlations among all variables are given in Table C-1 and D-1 in the Appendix. Most of the independent variables are correlated with the outcome measures. Many of the independent variables are also correlated with each other, as seen in Table C-1 and D-1, implying that they might not independently predict nonprofit financial revenue outcomes.

4.4 Data Analyses and Results

The results of the two multilevel linear regression models are presented in Table 4-2 and 4-3, providing detailed findings of the analyses. Model 1 focuses on individual donations as the outcome variable, while Model 2 centers on foundation funding. The analyses provide several significant findings.

Firstly, there is a negative relationship between social cohesion characterized by clustering and nonprofits' income from individual donations. This contrasts with the relevant hypothesis (H3a) that posits a positive relationship between clustering and revenues from individuation giving. According to the Full Model (see model 1-4 in the fourth column of Table 4-2), for every standard

deviation increase above the average community-level clustering, the proportion of nonprofit revenue from foundation funding is projected to decrease by 0.05 points. On the other hand, there is limited support for the second hypothesis (H2a) that social interactions between dissimilar people, called bridging, have a positive association with nonprofits' income from individual donations, as the relationship is not statistically significant at 5% significance level. However, the hypothesized bridging effect on nonprofits' donative revenues is manifested when nonprofits have a higher degree of board diversity. Board diversity is likely to strengthen the anticipated positive effect of bridging on nonprofits' donative incomes, with an effect size of 0.24 points for a one standard deviation increase at the average degree of bridging relations across communities.

Regarding the influence of other organizational characteristics on nonprofits' individual donation revenues, organizational affiliations and organizational fields are associated with the revenue outcomes. Independent organizations tend to receive a lower percentage of individual donations compared to the average within their community. However, a community with more independent organizations tends to secure a larger share of individual donations. These contrasting effects are aligned with the contextual effect of being an independent organization, seen in the fourth column of Table 4-2. The contextual effect indicates that an independent organization may experience higher fundraising performance in the community with a larger number of independent organizations than the community with fewer independent organizations. Conversely, organizations are likely to have lower shares of donation incomes on average when the environmental field is larger compared to other communities.

Furthermore, a higher density of nonprofit organizations within a community is associated with nonprofits' smaller shares of foundation grant incomes (see model 2-4 in the fourth column of Table 4-3). This contradicts the hypothesized positive relationship between nonprofit density and

foundation grants (H5b). For every standard deviation increase above the average nonprofit density, the fraction of nonprofit income from foundation sources is predicted to decrease by .06 points, holding all else constant. However, the same analysis shows that rates of volunteering within a community are positively associated with the share of nonprofits' income from foundation grants, supporting the relevant hypothesis (H6b). The fraction of nonprofit income from foundation sources is predicted to decrease by .03 points for every standard deviation increase relative to the average volunteering rates, all else being equal.

Concerning organizational characteristics, a nonprofit organization's higher degree of board member diversity predicts a higher fraction of its income from foundation grants. The share of foundation funding increases by 0.07 points for a one standard deviation increase in the organization's board diversity relative to the organization average within the same community (see the fourth column of Table 4-3). This suggests that board member diversity influences the impact of community-level social capital on variations in nonprofits' foundation funding outcomes, aligning with theoretical expectations. Moreover, board diversity moderates the effects of social patterns within communities on nonprofits' foundation grant outcomes, resulting in a smaller share of foundation funding in communities characterized by bonding social relations and a larger percentage in those with bridging social ties (see moderating effects in the first and fourth column of Table 4-3).

Nonprofits' engagement in advocacy is likely to reduce their reliance on foundation grants, while human service organizations tend to rely more heavily on foundation grants compared to the average dependence level of all organizational fields within the same community. However, a larger presence of the human service field within the community tends to reduce nonprofits' dependence on foundation grants, while a larger environmental field in the community explains a

larger share of foundation grants in nonprofits' revenue structure. Professionalization also plays a statistically significant role in creating variances in nonprofits' foundation grant outcomes across communities. A more professionalized nonprofit sector within a community corresponds to a larger share of foundation funding for nonprofits in that community compared to nonprofits in other communities.

However, an individual nonprofit is likely to have a lower share of foundation grants when it relocates to a community with highly professionalized nonprofits, assuming no change in the degree of its professionalization (see contextual effects in the first and fourth column of Table 4-3). Conversely, a nonprofit is likely to have a higher proportion of income from foundation grants if neighboring nonprofits in the community become more active in advocacy, given no change of its own advocacy engagement. Lastly, a nonprofit sector that is older than the community-level average age is expected to have a smaller fraction of foundation funding in their revenue portfolios.

4.5 Discussion and Conclusion

While researchers have made significant strides in understanding the roles of nonprofits in relation to social capital, there has been relatively limited exploration of the external impacts of social capital on nonprofit organizational performance. This research offers some initial evidence as to whether social capital within a neighborhood has a positive association with charitable giving and foundation grants received by nonprofits. In addition, my analyses attempt to elucidate the combined effects of community contexts, organizational characteristics, and leaderships diversity on nonprofit resource development. These factors have not been previously examined collectively within the same model. As such, my research extends this line of inquiry by considering a more

comprehensive array of variables influencing nonprofit revenue generation. Several key findings emerge from this study.

Firstly, the analyses reveal that nonprofits experience reduced success in securing individual donations within tightly knit communities, measured by the extent of clustering networks. This outcome contradicts the relevant hypothesis proposed in this study. A potential explanation of this finding, based on resource dependence theory, is that in cohesive societies, mediating social structures like nonprofit organizations may not be deemed critical instruments for fostering collective advantages, because the abundance of connected social ties already fulfills essential functions for individual and collective benefits. The prevalence of informal networks might render formal networks, like nonprofits, less necessary. If informal networks are more cost-effective in achieving collective goals than formal organizations, people within highly cohesive societies might be less inclined to contribute to nonprofits.

Nevertheless, this unexpected outcome needs further consideration, especially in light of the positive, albeit marginal, association between bridging and individual donations found in the same model (see Full Model 1-4). This research lends inconclusive yet potential support to the notion that high levels of social capital embedded in bridging social ties are connected to increased charitable giving from community members. Perhaps, this dichotomy reflects that extensive clustering networks inherently incorporate connections that are different from bridging, where individuals tend to interact with those similar to them. Heightened clustering may discourage reliance on interactions across different groups and hinder the pursuit of broader social goals that would benefit members outside of one's immediate group.

On the other hand, internal diversity significantly affects nonprofits' individual donation income, aligning with the expectations of this study and prior research. The anticipation was that

internal diversity would strengthen the external effects of community heterogeneity versus homogeneity-based social relations. Prior research suggests that diversity in leadership enhances organizational performance by leveraging the extensive networks of diverse board members to access a wide array of social resources, which, in turn, bolster an organization's ability to mobilize material resources. This moderating role of leadership diversity is particularly evident in the context of the impact of bridging social ties on nonprofit income from individual giving. When nonprofits have highly diverse board members, they are likely to leverage the social relations each board member possesses to increase the access to diverse types of donors. The effects of internal diversity are particularly pronounced when the community offers various access points for potential diverse donors through a broad range of networks.

Civic engagement has a positive effect on nonprofits' income from foundation funding when it is measured by rates of volunteering. Nonprofits are more likely to receive foundation grants when situated in the community with higher rates of volunteering. In community where many people actively participate in civic and charitable activities as volunteers, elite philanthropists may be more inclined to donate their wealth to charitable causes, as they perceive their charitable actions as highly valued and praised by other community members. Foundations that raise more funds from wealthy donors may subsequently award more grants to nonprofits.

However, civic engagement exhibits a negative association with foundation funding when measured by nonprofit density. While this finding contradicts my initial hypothesis, it may be explained by supply and demand dynamics. Despite indicating higher levels of civic engagement, which may underpin active elite philanthropy, the presence of numerous nonprofits suggests a competition for resources among resource-seekers in the nonprofit sector. While a larger nonprofit sector does attract foundations due to more presence that align with their objectives and

preferences, the direct competition among numerous nonprofits for foundation funding might offset these indirect advantages.

Diversity within an organization's leadership also functions as a brokerage role in the foundation funding market. Organizations with diverse board members can diversify information channels regarding foundation funding opportunities, mobilize external resources that facilitate funding procurement, and tap into innovative ideas and diverse expertise for improved organizational efficiency. Moreover, they can appeal to foundations by showcasing their ability to represent a wide range of constituents and stakeholders. This suggests that increasing internal diversity can be a solution to augment revenues from foundation grants when organizations compete for resources within their community. An organization's ability to leverage its internal networks to increase output is particularly bolstered when nonprofits are situated in the community with social ties characterized by bridging. Nonprofits in the community with bonding relations rather have poorer fundraising performances in the foundation grant procurement when their board members are more diverse than the average degree of board diversity of the community. This finding implies that nonprofits' board diversity works as a comparative advantage in environments offering social connections to access diverse information channels and stakeholders but may pose a disadvantage in environments where targeted access to homogeneous group members is more beneficial.

Lastly, management characteristics, such as professionalization, engagement in advocacy, and age, are critical factors in the context of earning income from foundation grants. For instance, individual donors may pay less attention to professionalization levels when making charitable giving. However, for foundations, high professionalization levels may indicate a sector with the capacity to efficiently fulfill its mission and tasks. Foundations may be reluctant to fund nonprofits

when they suspect nonprofits' political advocacy is too extreme or radical. Organizational fields and affiliations also play a significant role in gaining both types of incomes.

This study represents an initial step toward a comprehensively examination of the interplay between social capital and nonprofit financial performance. To further understand social capital's role in nonprofits, it is imperative to address the limitations inherent in both the data and research methods employed in in this study.

To begin, the relatively small sample of nonprofits used in this study could potentially hinder the full explanation of variations in nonprofit financial performance in terms of funding acquisition. Although the data combines organization-level survey data with community-level social media-derived big data, enabling multilevel and multidimensional analyses, future studies should aim to maintain a robust data quantity while not sacrificing data quality.

Furthermore, this study did not categorize nonprofits based on their services catering to intra-group versus inter-group benefits, as exemplified by Coffé and Geys (2007b) in their conceptualization and categorization of "bonding associations" and "bridging associations." The patterns of social interaction can influence the group members' preferences and priorities for their social investment, thereby influencing their choices of nonprofits to support. As a result, "bonding associations" might experience relative advantages stemming from the limited trust in-group members place in them, as group members might opt for nonprofits that offer more targeted benefits for themselves. Conversely, the financial success of "bridging associations" is more likely to hinge on a high level of generalized trust among people.

Despite some possible explanatory power of this categorization, it risks over-generalization. Local youth groups, for instance, are recognized for catering a narrow client base comprising youth and parents. However, they may have diverse group members based on factors like race and gender,

contingent upon organizational policies or regional characteristics. Additionally, arts organizations like choruses, which might be considered an "apolitical" inner circle for individuals sharing similar preferences, have recently been revealed to function as robust civic groups that “offer numerous opportunities for interpersonal interaction, governance experience, and institutional relationships” by narrowing the political communication gap (Baggetta, 2009, p. 175). Consequently, the multifaceted nature of organizational membership and the spectrum of services they deliver demand a more nuanced approach.

In addition, specific social capital data utilized in this study draws from Facebook friend data, and some debate might arise over the question whether and to what extent online interactions reflect real life acquaintances outside the online setting. “Facebook.com” is a social networking site that allows users to enter “friend” relationships with one another. The strength of these ties is indistinguishable, and anecdotal evidence suggests that Facebook users enter these relationships rather casually (Lewis et al., 2008). Mayer and Puller (2008) report, however, that only 0.4% of the Facebook friendships they examined appeared to reflect “merely online interactions. This finding is supported by other research indicating that Facebook is used primarily to maintain or reinforce existing offline relationships rather than to establish new connections (Ellison et al., 2007). Assuming that this holds true – meaning that Facebook friendships, at the very least, reflect real life acquaintances through which information can circulate – the Facebook friendships could reasonably be considered a kind of “weak tie” relationship (Granovetter, 1973).

Yet another challenge arises from the lack of representativeness of Facebook friend data for a broader population. Chetty et al. (2002a) collected the Facebook friend data from “users aged between 25 and 44 years who reside in the United States, were active on the Facebook platform at least once in the previous 30 days, had at least 100 US-based Facebook friends and had a ZIP code”

(p. 122). It is plausible that the network behavior varies not only with demographic traits but also with overall online activity among different demographic groups. Such issues should be carefully considered when interpreting these analyses. The future study needs to compare the current data to other network data observed in a broader population to examine whether and to what extent the range of the age groups in the data affects the results of the analyses.

Another potential concern stems from the time lag between predictor data collection and outcome variable data collection, although this study does not assert causal relations. The raw Facebook data shared by Chetty et al. (2022a, 2022b) was collected in mid-2022, while the nonprofits' revenue data were based on the end of the year 2019 financial data. The potential critique about the preceding dates of dependent variable data collection is connected to whether social capital should be considered exogenous or endogenous when explaining economic or institutional performance. Considering social capital as endogenous leads to the question of where this resource is subject to change in the short term, whereas regarding it as exogenous implies that the level of social capital remains fixed at least in the short term. Most studies tend to indicate that ''social capital reflects enduring cultural norms . . . [that] serve as the key exogenous factor in generating economic and governmental performance'' (Jackman & Miller, 1998, p. 50). Clearly, a variable cannot simultaneously be constant and subject to short term change. These two perspectives are logically incompatible (Coffé & Geys, 2005). Under the theoretical assumption that social capital remains relatively stable in the short term (while it can evolve in the mid-term), and social relations mirror the accumulated social capital over time, it is reasonable to infer that the social network data collected in 2022 contains consistent flows, amount, and patterns of social capital that have been established and ingrained in the community for an extended period.

Lastly, the findings from these analyses cannot be generalized to other populations or time points without separate empirical tests. Further empirical tests across different places (in the United States and cross nationally) and points in time are necessary before any definitive conclusions can be drawn. Nevertheless, the present study demonstrates the significance of considering social capital effects and combining community-level social capital variables with organization-level characteristics to better comprehend the reasons behind varying levels of nonprofit revenue generation. In essence, the findings strongly suggest that community-level stocks of social capital, when measured appropriately, does indeed matter.

Chapter 5

Conclusion

5.1 Key Findings of Three Studies

In this dissertation, a diverse range of factors influencing nonprofits' revenue generating abilities and outcomes are examined using multifaceted approaches. These approaches are made possible through the integration of various theoretical frameworks providing nuanced contextual insights, the utilization of composite data gathered from multiple sources, and the application of analytical techniques capable of incorporating complex constructs into the models.

Nonprofit organizations, as a hybrid institutional form situated at the intersection of the market economy and the public sphere, grapple with unique resource-related opportunities and challenges. This dissertation offers comprehensive analyses of how various institutional, community, and organizational characteristics serve as both potential obstacles and avenues for revenue attainment. While nonprofits contend with complex resource environments, nonprofits strategically behave to mitigate challenges and capitalize on opportunities arising from their specific contexts. To investigate the dynamics, each of the three chapters within this dissertation is intentionally constructed to explore different mechanisms of resource generation, offering varying perspectives on the interactions between nonprofits and their resource-related environments.

The first project in this dissertation delves into how organizational attributes shape nonprofits' capacity to diversify their revenue streams. It specifically examines the impacts of managerialism, collaboration, and community ties. The finding reveals that managerialism and collaboration are positively associated with revenue diversification, as nonprofits leverage these attributes to their advantage, appealing to resource providers. However, the study indicates that strong community ties have a weak effect on revenue diversification, suggesting that robust community connections do not lead to a diverse funding base.

Nonprofits utilize their managerial characteristics, such as professional staff, technological utilization, evaluation techniques, and inter-organizational and inter-sectoral networks, as strategic assets to safeguard against potential financial volatility caused by heavy reliance on limited revenue sources. These managerial traits garner institutional endorsement and competitive advantages in resource acquisitions, prompting nonprofits to strategically leverage those attributes to attract a variety of resource providers. Conversely, strong community ties may not suffice to attract a diverse array of donors and funders. Several possible explanations for this phenomenon are explored, including institutional funders' reluctance to support nonprofits engaged in strongly ideologically-oriented community actions or nonprofits' concerns regarding the costs associated with institutional funds (e.g., loss of autonomy, mission drift, and detachment from grassroots bases), and the financial burdens faced by under-resourced community organizations when seeking diverse revenue sources (e.g., significant administrative and fundraising costs) (Frumkin & Keating, 2011). The exact reasons behind this phenomenon warrant further analysis.

The second research project in this dissertation investigates the factors influencing nonprofit organizations' ability to secure government contracts, examining the impacts of government cost considerations, nonprofits' resource factors, and institutional pressures. This analysis is predicated

on the assumption that nonprofits are more likely to receive government contracts when their characteristics are conducive to alleviating government concerns about contract risks, fostering interdependence and power balance between government and nonprofits, and satisfying social expectations and standards.

The findings underscore that nonprofit organizations' utilization of performance measures, administrative capacity, and engagement in advocacy efforts are predictive factors for their success in securing public contracts. These nonprofits can showcase their accountability and operational efficiency to government officials by emphasizing their commitment to performance measurement, financial capacity to efficiently manage contractual obligations, and connections to the grassroots community and influential political positions. Additionally, they can leverage their existing resources and insights gained from advocacy to identify new contracting opportunities and defend existing contracts.

The final chapter of this dissertation explores the influence of social capital on nonprofit organizational performance, particularly with respect to charitable giving and foundation funding. It also examines the interconnected effects of community contexts, organizational characteristics, and leadership diversity on nonprofit resource development. The key findings indicate that social capital influences nonprofits' income from individual donations and foundation grants.

In communities with substantial social capital, especially those characterized by high rates of volunteering, nonprofits are likely to secure funding from foundations. Conversely, communities with a high density of nonprofits tend to hinder their success in obtaining foundation grants. Furthermore, tightly knit communities with extensive clustering networks tend to create less favorable conditions for nonprofits seeking individual donations. The diversity of nonprofit boards has a significant impact on their income from individual donations and foundation grants,

particularly by moderating the influence of bridging social ties on individual donation income and the effects of bridging and bonding social ties on their foundation funds. The research reveals that greater board diversity enhances the connection between external social capital and the internal operational environment, with the effect being more pronounced in communities characterized by bridging social ties and diminishing in communities with bonding social ties.

The research suggests that community members' social capital, as reflected in their volunteer activities, tend to encourage foundations to allocate their resources to nonprofits for the collective welfare, while communities with abundant and tightly connected networks may reduce individuals' motivations for charitable giving. In such resource environments, leadership diversity allows organizations to tap into diverse information channels and external resources, giving them an advantage in the competition over individual donations and foundation funds. Diverse leadership reinforces the impact of community diversity on revenue generation. Conversely, in communities where bonding social relations are prevalent, diverse leadership may be disadvantageous in securing foundation grants. Lastly, intense competition among numerous nonprofits can diminish their revenues from foundation resources, offsetting the benefits of social capital.

5.2 Broader Implications

This dissertation carries significant broader implications. Firstly, it affirms the presence of existing disparities and the potential for further inequalities among nonprofit organizations in the competition for financial resources, while also shedding light on the underlying factors driving these disparities. The findings from the first paper indicate that nonprofits displaying strong managerial practices and a penchant for collaboration are particularly appealing to resource

providers within the nonprofit sector. Given that these organizational attributes tend to be more prevalent among larger and well-endowed organizations, the preferences of resource providers for such nonprofits can exacerbate disparities and polarization within the sector. Likewise, the second study underscores the disparities in the contract market, highlighting that smaller nonprofits with limited administrative capacity face greater challenges in securing public contracts compared to larger counterparts. Furthermore, since performance measurement and advocacy activities necessitate resources like staff and budget, the influential factors consistently point to the potential and existing disparities and divisions between organizations with ample resources and those with fewer resources.

In light of these findings, this dissertation calls upon resource providers, including government agencies, individual donors, foundations, and corporates, to consider diverse perspectives when making decisions regarding funding and donations. For instance, governments should place greater values on grassroots nonprofits serving diverse communities in their evaluation criteria for awarding contracts. While some of these organizations may initially lack the administrative capacity expected by governments, nurturing such entities is crucial for long-term equity within the sector. Additionally, the knowledge and experience of underserved community members possessed by these organizations constitute valuable assets that can help governments meet the diverse demands of citizens.

Secondly, this dissertation suggests that nonprofits' outcomes in revenue generation are not solely determined by their fundraising efforts or organizational capacity but are also influenced by social resources within the community. While it remains vital for nonprofits to develop strategies for seeking resources by leveraging their internal tangible and intangible assets, it is equally critical for nonprofits to comprehend their community dynamics and harness social resources to optimize

their investments. Most importantly, as demonstrated in the last chapter, nonprofits need to actively contribute to fostering trust and bridging internal and external societal divides. This role is not only a societal obligation for nonprofits as civic entities but also a strategic move, because high levels of trust, solidarity, tolerance for difference, and inclusivity are not merely intangible resources but also represent economic assets that enhance nonprofits' prospects for survival and sustainability.

5.3 Limitations

Despite its contributions, this dissertation has several limitations. Firstly, all three chapters of this dissertation focus on nonprofits within a specific and somewhat limited geographic scope - namely, the Puget Sound region of Washington state and/or the San Francisco Bay Area of California in the United States. While conducting multiple analyses within the same geographic area offers advantage of providing nuanced insights and a deeper understanding of this region, it may constrain the generalizability of the study findings to other nonprofit populations without separate research endeavors. Future research should consider the use of other geographic data to enable broader comparisons and enhance the generalizability of the results.

Additionally, the sample used in this research exclusively comprises registered and formal nonprofits, and it does not encompass congregations, private foundations, or organizations with annual revenues under $25,000, due to its original sampling frame. The absence of data regarding informal grassroots nonprofits is a common limitation in many nonprofit studies that rely on IRS data as their foundation. To address this data limitation, future research could explore qualitative

methods and alternative data sources to gain a more comprehensive understanding of the nonprofit landscape.

From a data perspective, it is important to acknowledge that the utilization of cross-sectional data and reliance on self-reported data necessitate further empirical validation. The findings presented in this dissertation do not establish causality due to the use of cross-sectional data. Moreover, the reliance on self-reported survey data introduces the possibility of measurement errors stemming from response bias, such as social desirability and selective recall. To bolster the robustness of these findings, future research should seek to corroborate the results with data from different sources and research methodologies.

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Appendix A

Appendix A-1 (Standardized) Factor loadings for all indicators (CFA)

		Managerialism	Collaboration	Community ties
1	Number of evaluation techniques used in the organization	.627***		
2	Number of staff trainings offered by the organization	.802***		
3	Number of areas that hire external consultants	.679***		
4	Number of staff's professional expertise	.709***		
5	Number of areas that allow for staff involvement in the organization's decision-making processes	.575***		
6	Number of collaborative works with nonprofits or foundations		.928***	
7	Number of collaborative works with for-profits or governments		.658***	
8	Number of advocacy activities led by the organization			.719***
9	Number of the events held by the organization in the community			.744***
10	Number of the channels for beneficiaries' participation in the organization's decision-making processes			.491***
11	Number of areas that allow for beneficiaries' routinely involvement in the organization's decision-making processes			.331***

N = 496. Two-tailed t-test. $^{+}p< .1$. $^{*}p< .05$. $^{**}p< .01$. $^{***}p< .001$.

Appendix A-2 (Standardized) Factor loadings based on correlation matrix (EFA)

		Construct 1	Construct 2	Construct 3
1	Number of evaluation techniques used in the organization	.676		
2	Number of staff trainings offered by the organization	.712		
3	Number of areas that hire external consultants	.763		
4	Number of staff's professional expertise	.628		
5	Number of areas that allow for staff involvement in the organization's decision-making processes	.554		
6	Number of collaborative works with nonprofits or foundations		.765	
7	Number of collaborative works with for-profits or governments		.765	
8	Number of advocacy activities led by the organization			.445
9	Number of the events held by the organization in the community			.662
10	Number of the channels for beneficiaries' participation in the organization's decision-making processes			.629
11	Number of areas that allow for beneficiaries' routinely involvement in the organization's decision-making processes			.322

Appendix B

Appendix B-1 Zero-order disaggregated correlations for variables used in analysis (ch.3)

Measure	*M*	*(SD)*	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
Outcome														
1. Nonprofit's public contracting	0.30	(0.46)	--											
Level-1 Predictors (Organization-level)														
2. Performance measures	4.92	(2.09)	.32 ***	--										
3. Nonprofit advocacy	4.36	(3.96)	.35 ***	.41 ***	--									
4. Nonprofit admin capacity (log)	13.46	(2.13)	.33 ***	.12	.11	--								
5. Nonprofit Age	25.95	(16.50)	.22 **	-.02	.05	.41 ***	--							
Level-2 Predictors (County-level)														
6. Performance measures	4.92	(0.52)	.12	.25 **	.16 *	-.14 +	-.22 **	--						
7. Nonprofit advocacy	4.36	(1.08)	.04	.14	.27 ***	-.12	-.18 *	.58 ***						
8. Nonprofit competition	5.36	(2.02)	.01	.09	.17 *	-.06 *	-.21 **	.37 ***	.61 ***					
9. Community heterogeneity	0.55	(0.12)	.03	.01	.02	.03	.08	.05	.06	-.02				
10. Community wealth (log)	10.68	(0.15)	.00	.08	.11	.00	-.11	.31 ***	.41 ***	.47 ***	.59 ***			
11. Nonprofit admin capacity (log)	13.46	(0.77)	.13	-.09	-.09	.36 ***	.22 **	-.37 ***	-.33 ***	-.17 *	.08	-.01		
12. Nonprofit age	25.95	(6.47)	.02	-.14	-.12	.21 +	.39 ***	-.57 ***	-.45 ***	-.52 ***	.02 *	-.29 ***	.57 ***	
13. Government spending (log)	21.62	(1.31)	.03	.02	.02	.07	.04	.07	.09	.25 **	.82 ***	.77 ***	.19 *	.11

Note. N = 156 organizations within 17 counties; categorical variables are dummy coded for descriptive statistics and for correlations. Pearson's r reported.
*** p <= .001, ** p <= .01, * p <= .05, + p <= .10

Appendix C

Appendix C-1 Zero-order disaggregated correlations for variables used in the analysis (ch.4)

Measure	*M*	*(SD)*	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.	23.	24.	25.
Outcome																											
1. Individual Donation	0.34	(0.33)	--																								
Level-1 Predictors (Organization-level)																											
2. Diversity of Board Members	0.33	(0.37)	.00	--																							
3. Professionalization	-0.01	(0.93)	-.25 **	.10	--																						
4. Political Advocacy	1.85	(1.73)	-.05	.08	.25 **	--																					
5. Revenue Size (log)	12.70	(1.89)	-.13	-.08	.68 ***	.19 *	--																				
6. Age (log)	2.93	(0.74)	-.05	.05	.23 *	.07	.31 ***	--																			
7. Independent Organization	0.85	(0.36)	-.08	-.07	.30 **	.03	.16	.12	--																		
8. Arts, Culture, and Humanity	0.16	(0.37)	-.07	-.03	-.21 *	-.22 *	-.10	.01	.00	--																	
9. Human Services	0.34	(0.48)	-.24 **	-.03	.21 *	.21 *	.26 **	.05	.06	-.32 ***	--																
10. Environment and Animals	0.07	(0.26)	.03	-.07	-.13	.01	-.13	.04	.12	-.12	-.20 *	--															
Level-2 Predictors (ZIP code-level)																											
11. Diversity of Board Members	0.33	(0.29)	-.05	.79 ***	.08	.09	-.09	.05	-.01	.10	-.19 *	-.05	--														
12. Professionalization	-0.01	(0.76)	-.24 **	.08	.81 ***	.25 **	.51 ***	.20 *	.19 *	-.05	.11	-.15	.10	--													
13. Political Advocacy	1.85	(1.45)	-.06	.08	.25 **	.83 ***	.10	-.04	-.02	-.21 *	.11	-.02	.11	.30 **	--												
14. Revenue Size (log)	12.70	(1.41)	-.23 *	-.10	.56 ***	.12	.75 ***	.24 **	.07	.02	.23 *	-.22 *	-.12	.69 ***	.14	--											
15. Age (log)	2.93	(0.57)	-.15	.05	.21 *	-.04	.23 *	.77 ***	.10	.06	-.07	-.01	.07	.26 **	-.05	.31 ***	--										
16. Independent Organization	0.85	(0.27)	-.07	-.01	.20 *	-.02	.07	.11	.79 ***	.06	-.10	.12	-.02	.25 **	-.03	.10	.14	--									
17. Arts, Culture, and Humanity	0.16	(0.27)	-.05	.11	-.06	-.24 **	.02	.06	.06	.73 ***	-.24 **	-.17	.14	-.07	-.29 **	.02	.08	.09	--								
18. Human Services	0.34	(0.36)	-.15 *	-.20 *	.12	.12	.23 *	-.07	-.10	-.23 *	.76 ***	-.17	-.25 **	.15	.15	.31 ***	-.09	-.13	-.32 ***	--							
19. Environment and Animals	0.07	(0.22)	-.07	-.05	-.14	-.02	-.19 *	-.01	.10	-.15	-.15	.85 ***	-.06	-.18 *	-.02	-.26 **	-.01	.14	-.20 *	-.20 *	--						
20. Bonding	1.54	(0.15)	.06	.07	.00	-.07	.00	-.03	-.04	.10	.03	-.11	.09	.00	-.08	.00	-.04	-.05	.14	-.04	-.13	--					
21. Bridging	1.16	(0.19)	.10	-.06	-.05	-.08	-.03	-.05	-.03	.05	.09	-.06	-.08	-.06	-.10	-.04	-.06	-.04	.07	.12	-.07	.88 ***	--				
22. Clustering	0.09	(0.01)	-.10	-.20 *	-.06	-.18 *	-.08	-.05	.00	.05	-.03	.11	-.25 **	-.08	-.22 *	-.11	-.07	.00	.06	-.03	.13	-.04	.08	--			
23. Supporting	0.78	(0.12)	.11	-.13	-.23 *	-.06	-.15	-.12	.08	.05	.00	.17	-.17	-.28 **	-.07	-.20 *	-.16	.11	.07	.00	.20 *	-.52 ***	-.38 ***	.24 **	--		
24. Density of Nonprofits	0.03	(0.05)	-.01	-.02	.03	-.04	.05	-.13	-.08	-.06	-.05	-.04	-.03	.04	-.05	.06	-.16	-.10 *	-.09	-.06	-.05	.03	-.05	.03	-.31 ***	--	
25. Rates of Volunteering	0.09	(0.02)	.16	.12	-.15	.00	-.14	-.14	.05	.03	-.10	.11	.15	-.19 *	.00	-.19 *	.18	.06	.04	-.13	.12	.35 ***	.23 *	-.08	.10	.13	--

Note. N = 122 organizations within 77 ZIP Codes; categorical variables are dummy coded for descriptive statistics and for correlations. Pearson's r reported.
*** p <= .001, ** p <= .01, * p <= .05, + p <= .10

Appendix D

Appendix D-1 Zero-order disaggregated correlations for variables used in the analysis (ch.4)

Measure	*M*	*(SD)*	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.	23.	24.	25.
Outcome																											
1. Foundation Funding	0.09	(0.14)	--																								
Level-1 Predictors (Organization-level)																											
2. Diversity of Board Members	0.33	(0.36)	.25 **	--																							
3. Professionalization	0.02	(0.93)	.26 **	.03	--																						
4. Political Advocacy	1.94	(1.71)	.16	.10	.29 **	--																					
5. Revenue Size (log)	12.75	(1.90)	-.02	-.10	.68 ***	.18	--																				
6. Age (log)	2.91	(0.76)	.21 *	.09	.24 *	.07	.35 ***	--																			
7. Independent Organization	0.85	(0.36)	.11	-.09	.34 ***	.02	.17	.17	--																		
8. Arts, Culture, and Humanity	0.14	(0.35)	-.08	.01	-.12	-.19 *	-.01	.03	.02	--																	
9. Human Services	0.36	(0.48)	.03	-.04	.16	.23 *	.26 **	.05	.05	-.31 **	--																
10. Environment and Animals	0.08	(0.26)	.20 *	-.07	-.11	-.12	-.14	.03	.12	-.11	-.22 *	--															
Level-2 Predictors (ZIP code-level)																											
11. Diversity of Board Members	0.33	(0.30)	.16	.83 ***	.06	.10	-.09	.03	.02	.10	-.19 *	-.04	--														
12. Professionalization	0.02	(0.79)	.29 **	.05	.85 ***	.30 **	.54 ***	.21 *	.22 *	-.08	.10	-.12	.07	--													
13. Political Advocacy	1.94	(1.49)	.25 **	.10	.29 **	.87 ***	.12	-.04	-.02	-.19	.13	-.06	.11	.35 ***	--												
14. Revenue Size (log)	12.75	(1.49)	.01	-.10	.59 ***	.14	.78 ***	.27 **	.08	.01	.22 *	-.22 *	-.12	.69 ***	.16	--											
15. Age (log)	2.91	(0.61)	-.20 *	.03	.22 *	-.04	.26 **	.80 ***	.12	.05	-.06	-.01	.04	.26 **	-.05	.34 ***	--										
16. Independent Organization	0.85	(0.28)	.13	.02	.24 *	-.02	.08	.12	.79 ***	.09	-.12	.11	.02	.28 **	-.02	.11	.15	--									
17. Arts, Culture, and Humanity	0.14	(0.27)	-.05	.10	-.09	-.21 *	.01	.05	.09	.79 ***	-.26 **	-.15	.12	-.10	-.24 *	.02	.07	.11	--								
18. Human Services	0.36	(0.38)	-.10	-.21 *	.11	.14	.22 *	-.06	-.12	-.26 **	.78 ***	-.16	-.25 *	.13	.16	.28 **	-.07	-.15	-.33 ***	--							
19. Environment and Animals	0.08	(0.23)	.26 **	-.03	-.12	-.06	-.19 *	-.01	.10	-.13	-.15	.88 ***	-.04	-.14	-.07	-.25 *	-.01	.12	-.17	-.19	--						
20. Bonding	1.53	(0.16)	.11	.08	.04	-.07	.02	-.04	-.04	.09	.01	-.14	.10	.04	-.08	.03	-.05	-.04	.11	.01	-.16	--					
21. Bridging	1.14	(0.19)	.08	-.05	-.01	-.07	-.02	-.05	-.03	.02	.13	-.08	-.06	-.01	-.08	-.02	-.06	-.04	.03	.16	-.09	.87 ***	--				
22. Clustering	0.09	(0.01)	-.01	-.25 **	-.09	-.19 *	-.09	-.07	.02	.03	-.02	.14	-.30 **	-.11	-.22 *	-.11	-.09	.03	.04	-.02	.16	-.05	.10	--			
23. Supporting	0.78	(0.13)	-.08	-.14	-.27 **	-.04	-.18	-.13	.07	.06	-.03	.20 *	-.17	-.32 ***	-.04	-.22 *	-.16	.08	.08	-.03	.23 *	-.51 ***	-.37 ***	.26 **	--		
24. Density of Nonprofits	0.30	(0.05)	-.05	-.02	.03	-.05	.04	-.12	-.08	-.07	-.06	-.04	-.02	.03	-.06	.05	-.15	-.10	-.09	-.08	-.05	.05	-.05	.03	-.33 ***	--	
25. Rates of Volunteering	0.09	(0.03)	.18	.12	-.14	.02	-.13	-.17	.05	-.01	-.07	.11	.15	-.17	.03	-.17	-.21 *	.07	-.01	-.09	.12	.32 ***	.18	-.09	.13	.15	--

Note. N = 107 organizations within 73 ZIP Codes; categorical variables are dummy coded for descriptive statistics and for correlations. Pearson's r reported.

*** p <= .001, ** p <= .01, * p <= .05, + p <= .10