

To Depend on Government Funding or Not? Determinants of the Choice by Nonprofit Human Service Organizations

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Background

Increased use of nonprofits and private for profits to deliver publicly funded services have provoked concerns about effects on nonprofit sector

Goal displacement

- enact government's agenda rather than respond to local problems
- shift resources to administrative requirements related to government contracts
- Dampening effect on advocacy
- Exposure to market forces may lead to concern with bottom line

- “The Shadow State” (Wolch, 1990)
- “The Contracting Regime” (Smith & Lipsky, 1993)
- “Third party Government” (Salamon, 1987)

Yet, Government funds accounts for 60% of revenue for nonprofit social service organizations

Why does the sector rely so heavily on government funds?

Research Questions

- What organizational characteristics determine whether organizations receive government funding?
- Given that organizations make the decision to receive government funding, what are the factors that determine dependence on this funding source?

Hypotheses: determinants of the choice to acquire government funds

- 1a) Organizations that engage in advocacy are more likely to receive government funding than those that do not advocate
- 1b) Organizations that engage in advocacy are less likely to receive government funding than those that do not advocate

Hypotheses, cont...

- 2) Collaborate with other organizations is a positive predictor of receipt of government funding
- 3) Use of advanced technology is a positive predictor of receipt of government funding

Hypotheses, cont...

- 4) Density of dependence on government funding in the organization's location is a positive predictor of receipt of government funding

Hypotheses, cont...

- 5) The poverty rate in the organization's location is a positive predictor of receipt of government funding

Hypotheses: Dependence on government funding

- 1) Percent white clients is negatively related to proportion of total revenues from government sources
- 2) Expenditure per client is positively related to proportion of total revenues from government sources

Hypotheses, cont...

- 3) Professionalization of staff is positively related to proportion of total resources from government sources

Sample

- representative sample of 501(c) 3 nonprofit organizations in Los Angeles County that offer services to promote social and psychological well-being
- Sampling frame derived from five sources: the Internal Revenue Service list of registered organizations, the California Secretary of State registries, the database used by LA Infoline, the Rainbow Directory and the California Office of Statewide Health Planning and Development

Sample, cont...

- Out of sampling frame of 6,850 organizations, a random sample was stratified by organizational revenue and location in the county
- Telephone interviews, which lasted about an hour, were conducted with CEOs
- 707 interview for an overall response rate of 53%.

Dependent variables

- Dependence on government funding: proportion of total revenue from government sources (grants + reimbursements)
- Receipt of government funding: Dichotomous variable, coded 1 for any government funding and 0 for no government funding

Independent Variables, Selection Model

Advocacy

- Scored 1 for those who answer “yes” to the question, “is your organization actively involved in advocating or promoting certain policy issues, or the interests of a certain group or groups?” and 0 otherwise

Collaboration

- Derived by aggregating responses to the following four questions:
- a) how often do you collaborate with other nonprofit organizations to obtain funding?
- b) how often do you collaborate with other nonprofit organizations to develop programs or services?
- c) how often do you collaborate with other nonprofit organizations to coordinate services?
- d) how often do you collaborate with other nonprofit organizations to advocate for clients?

Use of Technology

- Derived by aggregating responses to the following questions:
- a) do you use email?
- b) do you use computers for key staff/volunteers?
- c) do you use an internal computer network?
- d) do you use cellphones/pagers?
- e) do you use electronic financial records?
- f) do you use electronic records of users?

Density of Dependence on Government Funding

- Derived using GIS
- Density of organizations in 1 mile radius, weighted by proportion of total revenue from government sources

Poverty Rate

- Based on Census 2000 data on 'people in poverty', normalized by number of people they could ascertain poverty status for
- Using the census tract as the unit for calculation

Independent Variables, Regression Model

Percent White Clients

- Response to question: What percent of clients served during most recent fiscal year were white?

Expenditure Per Client

- Constructed by dividing the reported total expenditure for the most recent year by the reported total number of clients served during that year

Professionalization of Staff

- Percent of staff that hold professional or advanced degrees
- Response to the question, “Of the individuals who were paid employees of your organization during your most recently completed fiscal year, about what percent or number were holding a college or professional degree?”

Analysis

Heckman selection model:

- Our explanation is based on the idea that organizations that receive government funding are self selected. The first step of the Heckman procedure models this process.
- Independent variables: advocacy, collaboration, use of technology, density of organizations that depend on government funds in location, and poverty level of location.
- Size (total revenue) is added as a control

Analysis, cont...

- The second step models dependence on government funding among self-selected organizations. Second stage variables are percent white clients, expenditure per client, and professionalization.
- Age of organization is added as a control

Coefficients for Step One of the Heckman model: Determinants of Receipt of Government Funding, Nonprofit Human Service Organizations in Los Angeles County, 2002 (N=658)

	b	s.e.	t	p
A: Advocacy^a	0.37	0.13	2.74	0.006
C: Collaboration^b	0.11	0.03	3.28	0.001
U: Use of technology^c	-0.01	0.05	-0.15	0.881
D: Density of dependence on government^d	0.39	0.05	7.61	<.001
P: Poverty rate in organization's location	-0.08	0.08	-0.98	0.327
S: Size^e	0.19	0.05	3.58	>0.001
Intercept	-2.27	0.89	-2.56	0.011

^a The dependent variable and AD are dichotomies, scored 1 for those in the category and 0 for those not in the category.

^b The items are scored from 0 for low collaboration to 12 for high collaboration

^c The items are scored from 0 for low use of technology to 6 for high use of technology

^d Statistics for D, P and S are based on natural logarithm transformations of the independent variables.

^e Size is based on total revenue in previous fiscal year

Coefficients for Step Two of the Heckman Model: Determinants of Dependence on Government Funding, Nonprofit Human Service Organizations in Los Angeles County, 2002 (N=658)

	b	s.e.	t	p
C: Percent White Clients	-0.29	0.07	-4.26	<.001
E: Expenditure per Client^a	4.55	1.40	3.26	0.001
P: Professionalization	-1.51	2.58	-0.59	0.558
A: Age	-7.39	3.06	-2.42	0.016
Intercept	74.49	28.64	2.60	0.01

^a Statistics for E, P and A are based on natural logarithm transformations of the independent variables