

ABSTRACT

NONPROFITS FOR NONPROFITS:
THREE ESSAYS ON NONPROFIT INFRASTRUCTURE ORGANIZATIONS

BY

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Nonprofit infrastructure organizations (NIOs) are critical for the sustainability of the nonprofit sector. They support the sector by providing training and consultation, facilitating network building, developing performance measures to ensure accountability, and advocating on behalf of the sector. Despite their prominence, they are among the least researched nonprofits. Most existing studies are qualitative, leaving important facts about NIOs unknown. This three-article dissertation aims to accomplish three tasks: Identify NIOs and report descriptive statistics, examine factors that influence their advocacy effectiveness, and explore ways NIOs can finance themselves more successfully.

The first part of the first study attempts to overcome the fundamental challenge of NIO research – identification. So far, there is no ready-to-use method to identify NIOs. This study proposes a novel solution to the challenge. I first use Dictionary-Based Text Analysis to assign an index to all mission statements in 2016 e-filed form 990 data, based on their likelihood of being NIOs. I then generate a sample of 909 NIOs by reading over 6,000 mission statements with high indices. The second part of the study presents descriptive findings of an original survey on

the identified NIOs, including their sizes, income portfolios, geographic focus, functions performed, advocacy involvement, etc.

The second study examines determinants of NIOs' advocacy effectiveness. While most existing studies focus on service delivery nonprofits' advocacy activities, these nonprofits increasingly rely on NIOs to defend their interests in the political arena. Informed by absorptive capacity theory, I explore how NIOs' connectedness, knowledge, and learning capacity affect their advocacy effectiveness, measured by overall effectiveness and six advocacy impacts. Drawing on the survey data and the 990 data, ordered logistic regressions suggest that different absorptive capacities matter for different advocacy impacts. This is the first study that investigates the advocacy effectiveness of NIOs – a critical but largely ignored participant of nonprofit advocacy. The findings call for more comprehensive measures of nonprofit advocacy effectiveness and have important practical implications for NIO's advocacy activities.

The third study explores ways NIOs can finance themselves more successfully. While scholars and practitioners have noticed NIOs' financing challenges, no study has yet been conducted to explore ways they can improve. Using the original survey data and form 990 data, I test whether constructing a benefits-based revenue portfolio leads to better financial health, measured by solvency, profitability, margin, and revenue concentration. I found that although there is a positive correlation between benefits activities and benefits revenues, the match between the two does not necessarily lead to improved financial health. Specifically, I found that only private match improves some aspects of NIO financial health. Group match has no impact on the financial indicators and public match harms NIO's financial sustainability. The findings imply that the nature of different revenues, such as transaction costs and volatility, may matter

more for nonprofits' financial health than the benefits match between activities and revenue streams.

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ACCEPTANCE

This dissertation was prepared under the direction of the candidate's Dissertation Committee. It has been approved and accepted by all members of that committee, and it has been accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Public Policy in the Andrew Young School of Policy Studies of Georgia State University.

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DEDICATION

To my parents

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CHAPTER ONE: INTRODUCTION

On May 13, 2016, leaders of 26 prominent nonprofit infrastructure organizations (NIOs) sent an open letter entitled “Investing in Infrastructure” to their foundation counterparts, requesting that they allocate one percent of their grantmaking budgets to NIOs (Taylor et al., 2016). This letter drew the attention of the nonprofit community to an important yet often neglected set of organizations – NIOs.

NIOs are nonprofit organizations that support other nonprofits or the nonprofit sector as a whole. They help individual nonprofits run more effectively and efficiently and create an enabling policy environment for the nonprofit sector. Specifically, they: (1) provide training, consultation, and technical assistance to nonprofits (Connor, Kadel-Taras, & Vinokur-Kaplan, 1999; Kohm, 1998; Szabat & Simmons, 1996), (2) connect nonprofits to resources and potential partners (Benjamin, 2010; Shea, 2011; Szanton, 2003), (3) monitor nonprofit activities (Abramson & McCarthy, 2012; Renz, 2009), and (4) represent the nonprofit sector in the public arena (Prentice & Brudney, 2018).

1.1. Status and Challenge of NIO Research

As NIOs play an increasingly important role in the nonprofit sector, they have gained more recognition among scholars, who have taken the first steps to explain what NIOs are, what they do, and what the challenges they face (e.g., Abramson & McCarthy, 2012; Benjamin, 2010; Brown & Kalegaonkar, 2002; Cho, 2018; Connor et al., 1999; Foundation Center, 2018; Prentice & Brudney, 2018; Renz, 2009; Smith, 1997; Szabat & Simmons, 1996; Szanton, 2003). Despite these efforts, the literature on NIOs remains limited and fragmented for several reasons.

First, and most fundamentally, NIO research suffers from the absence of a broadly

accepted definition and criteria that differentiate NIOs from non-NIOs. Authors refer to NIOs using different terms and propose their own definitions depending on their research focus (see Tables 2.1 and 2.2). For example, some authors use the term “intermediaries” to emphasize NIOs’ broker function that facilitates resource collection and redistribution between nonprofits and governments or foundations (Benjamin, 2010; Shea, 2011; Szanton, 2003). Other authors refer to NIOs as “support organizations” to underscore their management support services that seek to improve other nonprofits’ effectiveness (Connor et al., 1999).

“Infrastructure” is the most inclusive term encompassing all types of NIO activities, including management support, bridging, accountability, and advocacy. Nonetheless, discrepancies still exist among studies that agree on the term “infrastructure.” For instance, while Abramson and McCarthy (2012) classified NIOs into two types (i.e., organizations serving the nonprofit sector and organizations serving individual nonprofits), Prentice and Brudney (2018) added a third category, which they refer to as “community and civil society support organizations.” These organizations focus on building cross-sector collaborations that improve local communities. Foundation Center (2018) recognizes any organization that performs one or more infrastructure-related functions as an NIO, regardless of its organizational forms (nonprofit, for-profit, or academic institutions).

The lack of a consistent definition and criteria to distinguish NIOs can create confusion about the scope of their work and impede efforts to produce informative research about them. NIO research can benefit from a definition that promotes a shared understanding among researchers about what NIOs are and are not. A good definition not only provides demarcation criteria but also allows meaningful analysis to take place. When a sample of NIOs contains organizations of different legal forms (nonprofits, for-profits, academic institutions, and even

quasi-government agencies) and naturally different goals and funding sources, it is difficult to delineate the challenges and opportunities these organizations face.

Second, most studies on NIOs are descriptive and qualitative (e.g., Brown & Kalegaonkar, 2002; Prentice & Brudney, 2018, Renz, 2009). Despite their significant contributions, these studies have limited generalizability due to their small sample sizes. The NIO literature needs large-N studies that supplement these qualitative efforts to provide more generalizable findings. Without quantitative studies, our understanding of NIOs is incomplete and potentially inaccurate or even erroneous.

One of the biggest challenges of conducting quantitative research on NIOs is identifying these organizations and distinguishing them from other types of nonprofits. So far, no classification scheme or ready-to-use method is available to capture this type of organizations, which may explain why quantitative studies barely exist on this topic. Among the few researchers who have attempted to conduct quantitative research on NIOs, Cho (2018) used two National Taxonomy of Exempt Entities (NTEE) codes as a proxy to identify NIOs, but the NTEE approach suffers from serious misclassification problems (Fyall, Moore, & Gugerty, 2018).

1.2. Overview and Contributions of the Dissertation

This three-article dissertation attempts to accomplish the following tasks: Identify NIOs and report descriptive statistics, examine factors that influence their advocacy effectiveness, and explore ways NIOs can finance themselves more successfully.

Chapter 2 reviews relevant literature on NIOs, and proposes my own definition and classification scheme of NIOs. Using concepts from organizational ecology, I develop a

definition that distinguishes NIOs from other types of nonprofits. I organize NIO's functions into four categories (support, bridging, watchdog, and advocacy) based on the nature of the service.

Chapter 3 aims to identify NIOs through mission statements through four steps. First, I conduct an exploratory analysis to develop keywords. Second, I assign each keyword a weighting score based on its relevance and predictive power. Third, using these keywords, I assign an index for each mission statement. Finally, due to the lack of distinctive keywords used solely in NIO mission statements, I read the mission statements with high indexes (indicating high probabilities of being NIOs) to generate the final sample. In total, I read 6,596 mission statements and identified 909 NIOs after cleaning. I sent a survey to these NIOs and received 219 valid responses. The second part of Chapter 3 presents descriptive statistics using the survey data and form 990 data. I reported NIO's organizational size, revenue composition, staff size, service capacity, geographic focus, functions performed, and more.

Second, Chapter 4 investigates NIOs' advocacy effectiveness. Using the absorptive capacity theory, I hypothesize that NIOs' connectedness, knowledge, and learning capacity are positively associated with advocacy effectiveness, measured by overall advocacy effectiveness and six advocacy impacts. The findings suggest that different capacities matter for different advocacy goals.

Third, building on Young's benefits theory of nonprofit finance, Chapter 5 examines the relationship between the benefits-revenue match and NIO's financial health. I expect that NIOs have a stronger financial position when they develop an income portfolio that reflects the benefits conferred by their programs because of reduced transaction costs. However, I found that although there is a connection between benefits produced and revenues generated, a match between the two does not necessarily lead to improved financial health, likely because some

funding sources, such as government grants, incur high extra costs that neutralize the financial benefits of the benefits-based revenue portfolio.

The last chapter summarizes the studies' findings and contributions and discusses future research avenues.

CHAPTER TWO: LITERATURE REVIEW

2.1. NIO's History, Importance, and Definition

NIOs have existed in the United States since the late 19th century (Abramson & McCarthy, 2012). Early NIOs aimed to maximize philanthropic outcomes and hold the sector accountable by identifying overlapping or wasteful services, uncovering fraudulent activities, and coordinating service provision (Abramson & McCarthy, 2012; Warner, 1894). Prominent examples of these NIOs include the National Charities Information Bureau (founded in 1918 and now part of the BBB Wise Giving Alliance), the American Association of Fund-Raising Counsel (1935), and the Council on Foundations (1949).

Starting in the 1970s, NIOs enjoyed three decades of rapid growth due to the professionalization of the nonprofit sector and its need for representation in the policy arena (Abramson & McCarthy, 2012). Many NIOs emerged as the need for management support surged, including the Nonprofit Management Association (founded in 1975) and Support Centers of America (established in 1971; the two merged to become the Alliance for Nonprofit Management in 1997). These NIOs help nonprofits develop performance measures, benchmarks, standards, and codes of conduct (e.g., National Committee for Responsive Philanthropy); build capacities in a variety of management areas, including fundraising, financial management, marketing, and communications (e.g., the Philanthropic Initiative and Technology Association of Grantmakers); and train, recruit, and deploy nonprofit staff (e.g., BoardSource and Nonprofit Technology Network) (Abramson & McCarthy, 2012; Renz, 2009).

Another rationale for creating NIOs was to contribute to defending the common interest of the nonprofit community in the political arena. In the 1970s and 1980s, many national and regional NIOs, such as Independent Sector, emerged to unify and safeguard the sector against

policy threats (Independent Sector, 2002). Immediately after its establishment in 1980, Independent Sector organized a series of political campaigns to (1) support income tax deductions for charitable donations by non-itemizers (1984); (2) oppose the Internal Revenue Service's effort to revoke tax-exempt status for nonprofits involved in political activities (1986-1990); and (3) block Office of Management and Budget's attempt to determine nonprofits' eligibility for federal funding based on their political involvement (1983-1986) (Independent Sector, 2002).

2.1.1. Definition

Despite their long history and growing importance, NIOs are among the least researched and understood nonprofits (Smith, 1997). The absence of a broadly accepted definition and consensus on what qualifies as an NIO contributes to this lack of understanding. Authors refer to NIOs using different terms (e.g., intermediary, support organization, and infrastructure) and propose their own definitions depending on their research focus (see Tables 2.1 and 2.2).

Studies that used the term “intermediaries” generally focus on the “go-between” function of NIOs (Benjamin, 2010; Cho, 2018; Shea, 2011; Szanton, 2003). Benjamin (2010) defined intermediaries as “organizations whose primary purpose is to act as a go-between and whose survival rests on demonstrating value to both parties in an exchange” (p.597). They facilitate resource collection and distribution between nonprofits and governments or foundations (Benjamin, 2010; Shea, 2011; Szanton, 2003). Any additional functions intermediaries perform are secondary and serve to support their intermediary function. For instance, intermediaries' capacity-building services aim to ensure that grantees achieve pre-defined objectives set by funders (Benjamin, 2010; Szanton, 2003).

Other authors refer to NIOs as “support organizations” to underscore their management support services, which seek to improve other nonprofits’ effectiveness (Connor et al., 1999). Smith (1997) defined support organizations as existing to “improve the effectiveness of other nonprofit organizations and the people who manage and govern them” (p.90). Their core programs include training, consulting, and information support.

“Infrastructure” is the most inclusive term encompassing all types of NIO activities, including management support, bridging, accountability, and advocacy. Nonetheless, discrepancies still exist among studies that agree on the term “infrastructure.” For instance, following Abramson and McCarthy (2012), Prentice and Brudney (2018) not only consider sector-support organizations (e.g., advocacy NIOs) and individual-support organizations (e.g., management support NIOs) as NIOs, but also include community support organizations. While community support organizations may indirectly help nonprofit organizations, their purpose is to “improve the local community” (Prentice & Brudney, 2018, p.44), which differs from the mission of NIOs. The Foundation Center (2018) took the stance that as long as an organization performs one or more infrastructure-related functions, it qualifies as an infrastructure, regardless of its organizational form (nonprofit, for-profit, or academic institutions).

Due to the absence of a widely accepted definition of NIOs, I propose my own definition, borrowing concepts from organizational ecology. Theories of organizational ecology hold that differentiating organizations should rely on organizational likeness, such as the funding sources and strategies they use to survive and compete (McKelvey, 1982; Scott, 1992). Although different scholars might hold different opinions on the meaning of “likeness,” they generally reach consensus on two dimensions. First, organizations of the same type should undertake a similar primary task that “directly relates to the output of an organization's primary product or

Table 2.1. Summary of NIO Studies

Term	Study	Method	Definition	Functions
Infrastructure	Abramson & McCarthy, 2012	Theoretical	Infrastructure organizations are those that support other organizations by improving their effectiveness and representing them in the policymaking process (p.397)	Advocacy and public education, Research, Education, Management training and support, Professional development, Provision of information resources, and Financial intermediaries
	Foundation Center, 2018	Descriptive analyses of 511 infrastructures	Philanthropy-focused Infrastructure is civil society organizations that provide services primarily in support of the work of foundations and other philanthropic entities (p.35)	The three types of infrastructure organizations perform similar functions, including capacity building, consulting, training, technical assistance, data collection, research, information dissemination, advocacy, etc. The difference is their service recipients
			Nonprofit-focused Infrastructure is civil society organizations that provide services primarily in support of the work of other civil society organizations (especially implementing organizations) or civil society in general (p.35)	
			Multi-sector Infrastructure is organizations whose remit is broader than civil society, but that also provide services in support of the work of implementing (“nonprofit”) and philanthropic organizations (p.35)	
	Prentice & Brudney, 2018	Reviews of 24 nonprofit academic centers’ websites and interviews with nine stakeholders	Sector support organizations address the macro-environment in which nonprofits operate and seek to strengthen the sector (p.43)	Advocacy, Public education, Member support, and Nonprofit sector research (p.44)
Management support organizations are local nonprofits with regional service areas spanning multiple jurisdictions that provide support to other nonprofits (p.43)			Trainings, Consultation services, Management guidance, Information dissemination, Knowledge development and sharing, and Nonprofit management research (p.44)	
Renz, 2009	Theoretical	Community and civil society support organizations are nonprofits that seek to form networks to connect actors and facilitate communication (p.44)	Connecting, Convening, and Bridging (p.44)	
		Infrastructure is the underlying framework or foundation that supports the activities of a system or community (p.29)	Accountability and self-regulation Advocacy, policy, and governmental relations Financial intermediaries Funding organizations Donor and resource advisers Networks and associations Workforce development and deployment Education and leadership development Capacity development and technical assistance Research and knowledge management Communication and information dissemination	

Table 2.1. Summary of NIO Studies (continued)

Intermediaries	Benjamin, 2010	Case studies of three funding intermediaries	Organizational intermediary are those organizations whose primary purpose is to act as a go-between and whose survival rests on demonstrating value to both parties in an exchange (p.597)	Gathering information, evaluating grantees, and searching for and cultivating relationships with donors and potential donors; Capacity building for grantees, coordinating work among local nonprofits; and monitoring grantees, troubleshooting with grantees, reporting to donors on how funds were used (p.603)
	Cho, 2018	Quantitative analysis of the NCCS Core Files	Intermediary organizations are in-between organizations that act as agents or brokers in many aspects of organizational processes between two or more parties (p.1)	Capacity builders, coordinators of policy implementing networks, and political network mobilizers (p. 5)
	Shea, 2011	Interviews with 36 intermediaries and service recipients, supplemented with organizational records, and participant observation	Intermediaries are institutions that help federal agencies reach faith-based and secular community-based organizations (FBCOs) so that those organizations can, in turn, serve and strengthen communities in need (p.57)	Intermediary agent: bringing previously inaccessible funding into the community, dispersing it to FBCOs, and providing technical assistance and capacity-building services. Network coordinator: facilitating communications and collaborations among network members and across networks; serving as a conduit through which network members can discuss and define community needs, identifying resources, and set a common agenda; collecting and disseminating promising practices for the field; and serving as a catalyst to consolidate a collective voice for the field around policy issues (p.60).
	Szanton, 2003	Interviews with 70 funders, intermediaries, and grantees	An intermediary is any organization that is employed by one or more foundations and that meets any of three tests: Funds a grantee or grantees directly; or performs a function so important to the funder that, absent an intermediary, the funder would have had to perform it itself; or relates to a grantee, grantees, or a field of interest in any other way that makes it a potentially significant adviser as to further grantmaking (p.11)	Reganters, Capacity-builders, Evaluators, Intelligence gatherers, and Grantmaking advisors
Support organizations	Brown & Kalegaonkar, 2002	Theoretical	Support organizations have the primary task of providing services and resources that help their civil society constituents accomplish their missions (p.239)	Strengthening human and organization capacities, Mobilizing material resources, Providing information and intellectual resources, Building alliances for mutual support, and Bridging to other sectors
	Smith, 1997	Theoretical	Management support organizations is devoted to improving the effectiveness of other nonprofit organizations and the people who manage and govern them (p.90)	Training, Consulting, and Information programs
	Connor, Kadel-Taras, & Vinokur-Kaplan, 1999	Case study of one management support organization	Management support organizations are local nonprofits that provide support to other nonprofits (p.128)	Training, Consulting, and Information services
Nonprofit Incubators	Kohm, 1998	Case studies of two nonprofit incubators	Nonprofit incubators provide management support to the organizations in the incubator (p.40)	Administrative support, services, equipment, and facilities at a lower cost than an organization could find on its own (p.40)

service” (McKelvey, 1982, p.174). These products or services are vital to a population’s survival. Second, organizations of the same type face a similar set of enabling and constraining factors, such as organizational structure and capacity, beliefs, and relationships to a specific population (Friedland & Alford, 1991; March & Olsen, 1989). In practice, the shared likeness often means that population members are likely to depend on similar resources for support and be subject to the same external influences and challenges (Hannan & Freeman, 1989; Scott, 1992).

Guided by these principles, I define NIOs as nonprofits that (1) advance their missions through strengthening the nonprofit sector or one or more subsectors or empowering individual nonprofits and their staff, and (2) rely on performing these functions to survive. This definition informs the boundary of NIOs and provides stronger analytical power that distinguishes NIOs from other organizations that perform similar functions. For example, many existing studies (e.g., Foundation Center, 2018; Prentice & Brudney, 2018; Renz, 2009) include university-based nonprofit research centers as part of the NIO population. From a functional perspective, academic centers would qualify as NIOs because they carry out various NIO-related functions, including training, knowledge dissemination, and consulting services. However, their survival does not rest on demonstrating effectiveness in supporting other nonprofits and their primary resources usually do not come from carrying out these tasks.

2.2. NIO Functions

2.2.1. Discussion of the Existing NIO Classification Scheme

This section reviews the existing means to classify NIO functions and proposes my classification scheme. Abramson and McCarthy (2012) classified NIOs into two broad categories: *Organizations serving the nonprofit sector as a whole* and *organizations serving*

individual nonprofits and their staffs. Sector-support NIOs work toward the goal of strengthening the nonprofit sector through influencing policy priorities and attitudes, as well as research and public education. Individual-support NIOs aim to improve individual nonprofit service capacity through professional development, information dissemination, and fund distribution.

The Foundation Center (2018) differentiated between three types of NIOs, based on service recipients. *Philanthropy-focused* NIOs provide services to foundations and other philanthropic institutions. *Nonprofit-focused* NIOs serve individual nonprofits or the sector as a whole. *Multi-sector* NIOs' clients include not only social sector organizations but also businesses and governments.

Renz (2009) provided the most detailed description of NIO's functions but did not propose a classification scheme. In the study, he differentiated between eleven NIO functions:

- *Accountability and self-regulation* organizations focus on the performance of nonprofits and holding them accountable. They develop performance measures, benchmarks, standards, and codes of conduct applicable to each organization.
- *Policy, advocacy, and governmental relations* organizations represent the nonprofit in the policy arena. They may also take part in and monitor government policy implementation.
- *Financial intermediaries* collect and redistribute financial resources. They facilitate the process by allocating the gathered funds through grants, loans, or other financing arrangements.
- *Funding organizations* provide financial resources directly to nonprofits.
- *Donor and resource advisors* provide donors and funding organizations with information and advice that would allow them to carry out their missions more effectively.

- *Networks and associations* address collective issues by connecting organizations.
- *Workforce development and deployment* organizations train, recruit and deploy employees and volunteers to work for nonprofits. They provide training and development activities to individuals at different stages of their careers (pre-career, early-career, or mid-career).
- *Education and leadership development* organizations focus on preparing nonprofit staff (executive, board, and volunteers) to assume senior positions and leadership roles.
- *Capacity development and technical assistance* organizations focus on building capacities of individual nonprofits in a variety of management areas, including fundraising, financial management, marketing, communications, and more.
- *Research and knowledge management* organizations engage in nonprofit-related research and disseminate their findings to inform the practice of the sector.
- *Communication and information dissemination* organizations create opportunities for peer learning. They organize conferences and webinars and invite nonprofit staff to share state-of-the-art management practices and introduce new ideas.

2.2.2. *Proposing a New Classification Scheme*

Building on Abramson and McCarthy (2012) and Renz's (2009) work, I organize NIO's functions into four categories (support, bridging, watchdog, and advocacy), based on the nature of the service. My classification scheme captures more nuances between services than Abramson and McCarthy's (2012). For instance, I distinguish between the support and bridging functions, both of which are aimed at assisting individual nonprofits. At the same time, it combines functions of similar nature, such as workforce development and deployment, education and leadership development, and capacity development and technical assistance.

Support Function. The NIO support function involves training, consultation, and technical assistance. Typical training and consultation services include strategic planning, financial management, accounting, marketing, legal, fundraising, and program design. According to Szabat and Simmons (1996), 74.1% of NIOs hold regular professional development workshops and seminars, and an overwhelming majority (91.4%) provide tailored training services to accommodate the diverse missions and services of other nonprofits. Their service recipients include boards of directors, staff members, and volunteers. Some NIOs, such as the Alliance for Nonprofit Management, provide training to all of the aforementioned groups. Other NIOs, such as Nonprofit Risk Management Center and BoardSource, focus almost exclusively on training nonprofit executives and board members. In addition, the rapid technological advancement since the 1980s created a need for technical support. NIOs such as CompuMentor Project (TechSoup) and Nonprofit Technology Network (NTEN) enable other nonprofits to take better advantage of computer-based technology, such as website design, social media strategies, data management, digital marketing, and many more.

Another group of NIOs performs the support function by advising donors rather than nonprofit staff (Renz, 2009). They provide donors with information and advice and help them achieve their vision for philanthropy. A typical example is Rockefeller Philanthropy Advisors.

Bridging Function. The bridging function entails two forms of brokering: financial intermediary and network building. Organizations that collect and redistribute financial resources serve the function of financial intermediary. They facilitate the collection and distribution through allocating funds in the form of grants, loans, or other financing arrangements (Abramson & McCarthy, 2012; Renz, 2009). For instance, the Nonprofit Finance Fund provides nonprofits

with (1) acquisition and construction loans to build or modernize facilities, (2) equipment loans to purchase office equipment, (3) working capital to alleviate temporary cash shortage, and (4) bridge loans to kickstart projects while securing long-term funding (Nonprofit Finance Fund, n.d.).

Another form of bridging is network building, which addresses collective issues or advances common interests by connecting people or organizations (Renz, 2009). The Young Nonprofit Professionals Network is an NIO that serves as a network builder that connects and empowers emerging nonprofit leaders.

Watchdog Function. Being a watchdog involves two primary tasks: Accountability building and information dissemination. NIOs that engage in accountability building develop performance measures, benchmarks, standards, and codes of conduct applicable to different organizations (Renz, 2009). National Committee for Responsive Philanthropy is an NIO that ensures that philanthropy serves the public good, instead of private interests. To realize its vision, the organization promotes transparency and accountability in the practice of philanthropy, as well as enhances philanthropy's responsiveness to the needs of marginalized populations (National Committee for Responsive Philanthropy, n.d.).

Another group of watchdogs works on disseminating information to inform donors' decision-making and enhance the transparency of the nonprofit sector (Abramson & McCarthy, 2012). GuideStar, now part of Candid, represents this type of NIO. With over 1.8 million IRS-registered nonprofits in its database, GuideStar works on closing donors' information asymmetry by displaying nonprofits' profiles and benchmarking nonprofits' performance and transparency (GuideStar, n.d.). The watchdog function maintains and strengthens public confidence in

philanthropy and the nonprofit sector.

Advocacy Function. The advocacy function involves three main activities: (1) advocating on behalf of a subsector or the whole nonprofit community, (2) educating donors and the public about the importance of philanthropy and the nonprofit sector, and (3) conducting research to support and facilitate advocacy and public education. For example, the Independent Sector represents large nonprofits and foundations in the political sphere (Abramson & McCarthy, 2012). The National Council of Nonprofits and its state associations not only engage in political advocacy but also educate the public about the value of the nonprofit sector, such as its contribution to economic development, life quality, and cultural diversity. These NIOs also collect data, conduct research, and publish reports to support their advocacy function.

Figure 2.1 presents the benefits of and interactions among the four functions. The support, bridging, and watchdog functions work primarily on strengthening individual nonprofit's management and governance, and the advocacy function seeks to create a more favorable policy environment for the sector. These functions are mutually reinforcing (Deychakiwsky, 2017). Strengthening nonprofit's service capacity increases public trust and confidence in the sector, which leads to a better policy environment. A favorable policy environment grants more flexibility for nonprofits to experiment with innovative solutions of social problems, which further expands nonprofits' capacity to achieve their missions (Deychakiwsky, 2017).

2.3. Characteristics of NIOs

Few studies reported the characteristics and funding structures of NIOs. Szabat and

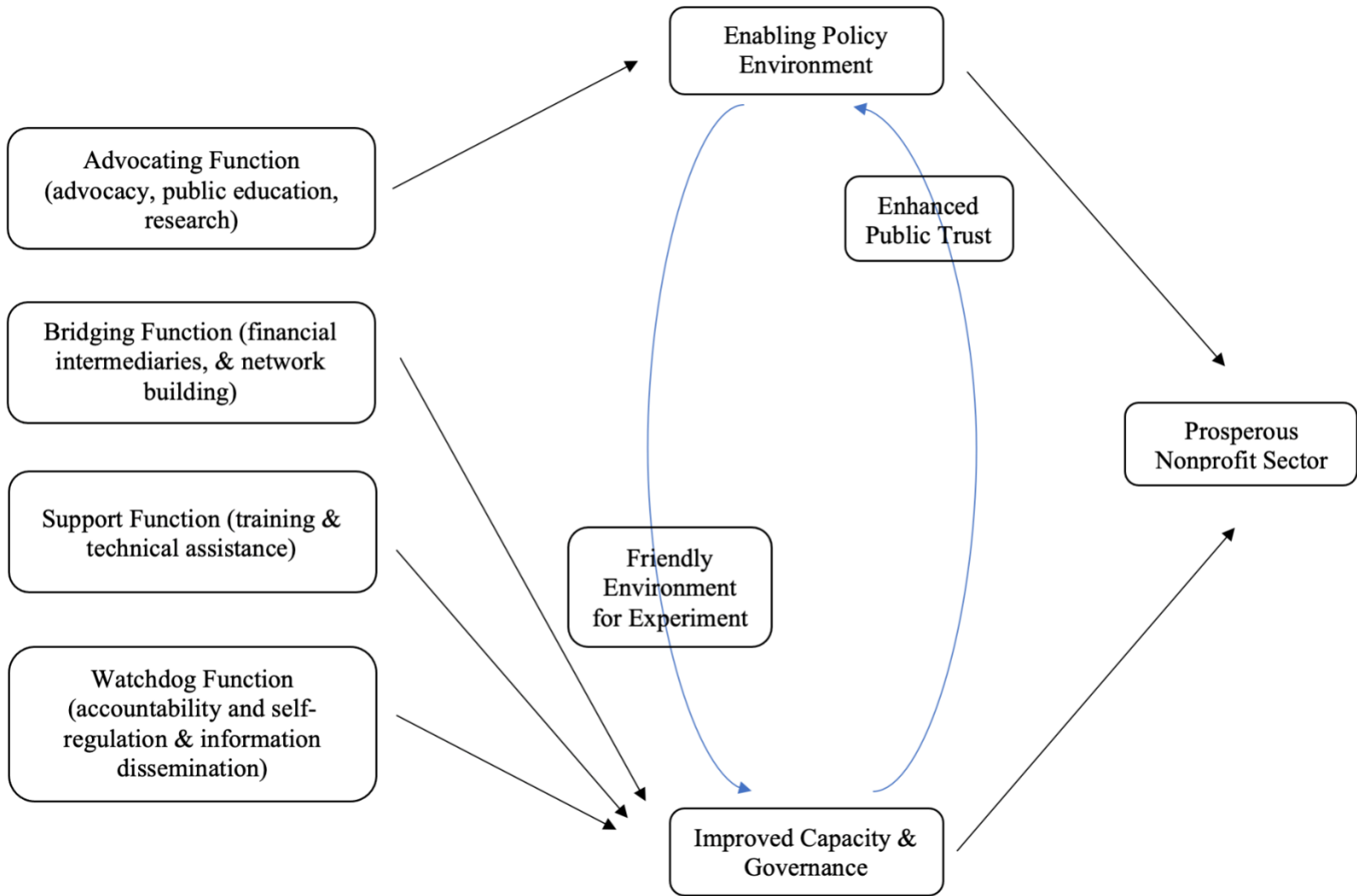
Simmons (1996) surveyed 63 management support organizations and found that they were: regionally focused; had a budget of around \$546,000 (inflation adjusted); and 4.5 full-time equivalent (FTE) employees; provided a wide variety of management assistance, including training, information and referral, and consulting; served mostly small-to-medium-sized nonprofits (55% of clients had an annual budget under \$500,000); charged service fees; and relied substantially on volunteers for service delivery.

The Worldwide Initiatives for Grantmaking Support (WINGS) is a network of 93 philanthropy infrastructure organizations. In 2017, it surveyed all its members in 39 countries and received 63 valid responses. The results show that 54% of these NIOs are membership associations, and 32% are professional support organizations. The median budget is \$800,000, and the median number of paid staff is 8 (20 for U.S.-based respondents). The top five activities they engage in are: Knowledge management/research/information services/publications, conferences & seminars, peer learning, training/capacity building, and advocacy.

More than two-thirds of NIOs reported at least moderate engagement in advocacy, and 35% are extremely involved in advocacy. 73% engaged in knowledge production and dissemination, 68% attempted to influence public policy, 63% worked on raising public awareness, 52% attempted to change regulation and law, and 48% were involved in constituency building (WINGS, 2017). WINGS (2017) also found that 89% of NIOs received donations and grants, 70% generated commercial revenue, 60% relied on membership dues, and 48% had investment income. Almost all of them received foundation grants (61 of 62), 32 were supported by corporate grants, and 16 received government grants.

Finally, Clough and Brown (2009) studied twelve large national or state NIOs and revealed that earned income represents 50-to-80% of their total income. One exception is the

Figure 2.1. NIO Functions and Impact



Nonprofit Finance Fund, which generates 60% of its revenue from foundation grants and only 30% from earned income. Among NIOs that rely heavily on earned income, the source also varies. Some NIOs, such as BoardSource, derive most of their earned income from consulting services and publication sales; others, including Council on Foundations, rely on membership dues. Among the twelve NIOs, only two reported funding from the government, and none received individual or corporate giving. Compared to WINGS's findings, NIOs in Clough and Brown's study reported more concentrated revenue structures. The two studies used different definitions of NIOs and drew their samples from different geographical areas, which may contribute to the finding discrepancies.

2.4. NIO Funding Challenges

Nonprofit practitioners have noticed the challenges facing NIOs and brought special attention to the declining financial support of these organizations. WINGS (2017) reported that 72% of their NIO members perceive financial sustainability as an organizational challenge in achieving their goals. Nonprofit scholars have expressed the same concern about insufficient NIO funding, especially when compared with business and government infrastructures (Abramson and McCarthy, 2012; Clough & Brown, 2009; Foundation Center, 2018).

The causes of NIO funding challenges are threefold. First, since the Great Recession, foundation giving has flattened or even declined. Private foundations contributed at least \$2 billion to NIOs between 2004 and 2015, but they gave NIOs only 0.6% of their grant dollars in 2015, down from 0.9% in 2004 (Foundation Center, 2018). Funders also became increasingly reluctant to provide multiyear grants and general operating support, exacerbating NIOs' financial instability (Brown et al., 2009). Foundations' grantmaking has also been highly skewed towards

large national NIOs. The top 7% of grant recipients (35 of 511) received 48% of the total funding appropriated for NIOs (Foundation Center, 2018).

Second, scholars expressed concerns about NIOs' ability to obtain enough funding to fill the gap left by foundations. Several studies indicated that the government rarely supports NIOs (Abramson & McCarthy, 2012; Clough & Brown, 2009). However, another study showed that intermediaries that facilitated government funding distribution received government support (Shea, 2011). These anomalies seem to imply that the availability of government funding is contingent upon the services delivered.

Finally, these challenges are exacerbated by the difficulty of demonstrating the value and impact of NIO services (Abramson and McCarthy, 2012). NIOs do not produce products, and the effectiveness of their services (e.g., capacity building) is hard to measure. Prior research found that donors' primary incentive to support NIOs is their perceived importance in supporting philanthropy and the nonprofit sector (WINGS, 2017).

CHAPTER THREE: IDENTIFYING NIOS AND DESCRIPTIVE STATISTICS

This chapter has three sections. The first reviews the creation and limitations of the NTEE system, establishes the rationale for using mission statements as classification data, and explains how I identified NIOs through mission statements. The second introduces the survey development and implementation process. The final section presents descriptive findings, including NIO size, revenue composition, scope of services, geographic focus, type and number of customers they serve, membership status, and pricing strategy.

3.1. NIO Identification

One fundamental challenge of NIO research is the lack of a ready-to-use method to identify NIOs. Although the NTEE system has two support-related codes (“S50 Nonprofit Management” and the common code “02 Management and Technical Assistance”), which Cho (2018) used to obtain a sample of NIOs, this is a limited solution for two reasons. First, the two codes only concern the support function and completely ignore the other three functions (i.e., advocating, bridging, and watchdog functions), and therefore, substantially underestimate the actual number of NIOs. Second and more importantly, previous studies (e.g., Fyall et al., 2018) have also questioned the reliability of the NTEE system, showing that it misclassifies a substantial portion of nonprofits. For instance, the New Jersey Theatre Alliance provides training and technical support to performing arts organizations. Although it should be identified a management support organization, it is actually classified as A26 - Arts & Humanities Councils & Agencies, according to the Form 990. Therefore, I developed my own method to identify NIOs. The rest of this section discusses in detail the creation and limitations of the NTEE system and describes how I used the dictionary-based approach to identify NIOs.

3.1.1. The Creation and Limitations of the NTEE System

The National Center for Charitable Statistics (NCCS) at the Urban Institute developed the NTEE system in the 1980s to classify nonprofit organizations based on their primary activities (Jones, 2019). The code categorizes nonprofits into 26 major groups and about 450 categories (Lampkin, Romeo, & Finnin, 2001). The first alphabetical letter denotes major groups. The second (decile codes) and third (centile codes¹) numerical codes subdivide organizations into activity areas and types of organizations, respectively (Jones, 2019). For instance, for code A51, “A” represents the arts, culture, and humanities subsector, “5” denotes museums and museum activities, and “1” indicates an art museum. There are also seven “common codes” used in replacement of the two numerical codes to denote activities common to all major groups. For instance, both A02 and B02 are nonprofits that engage in management and technical assistance. The only difference is that they support different subsectors: The former serves arts, culture, and humanities organizations, and the latter supports educational institutions.

The NCCS and the Internal Revenue Service (IRS) collaborated to assign NTEE codes to nonprofit organizations. Prior to 1995, the NCCS was the coding agency. It relied primarily on the program descriptions found in Parts 3 and 8 of Form 990 (“Return of Organization Exempt From Income Tax”) to classify nonprofits (National Center for Charitable Statistics, 2006). When program descriptions were unavailable, the NCCS used information from Form 1023 (“Application for Recognition of Exemption”) or conducted additional research to determine the code (NCCS, 2006). Since 1995, the IRS has been “issuing new exempt organizations an NTEE code as part of the determination process” using the information in Form 1023 (Internal Revenue Service, 2013, p. 1).

¹ Letters are used occasionally when there are more than 10 categories.

Nonprofit scholars have heavily relied on the NTEE classification system and used it to extract organizations of interest (e.g., Altamimi & Liu, 2019; Altamimi & Liu, 2021; Johansen & LeRoux, 2013; Kirk & Nolan, 2010) or to control for the differences between nonprofit subsectors (e.g., Sloan, 2009). This practice builds on the premise that nonprofits with the same NTEE code have similar purposes and goals, serve similar clients, and face similar opportunities and constraints.

However, multiple studies have tested the reliability of the NTEE system in different subsectors and using different methods and found serious misclassification problems. Turner, Nygren, and Bowen (1993) examined the NTEE system in higher education. They compared 3,932 NTEE-denoted higher education institutions (B40-B59) with the *Higher Education Directory* and found that about 60% of the institutions classified by the NTEE system were not in the Directory and around 10% of the institutions in the Directory were classified as non-educational nonprofits. Fyall et al. (2018) also found a substantial discrepancy between housing nonprofits identified by mission statement text analysis and NTEE-L (“Housing and Shelter”) organizations classified by the NTEE system in Washington State. Among the 662 housing nonprofits they identified by mission statements, only 52% have an NTEE-L code.

Ma (2021) summarized three sources of misclassification in the NTEE system. First, a single NTEE code cannot properly categorize a nonprofit organization with multiple purposes and diverse programs (Turner et al., 1993). For instance, the Art Institute of Chicago is an art museum (A51 Art Museums), which also operates a private university – the School of the Art Institute of Chicago – with over 3,000 undergraduate and graduate students as of Fall 2020 (School of the Art Institute of Chicago, n.d.). Second, because the IRS does not provide a mechanism through which nonprofits can request an NTEE code reassignment (Internal Revenue

Service, 2013), the system does not capture organizations that have drifted away from their original missions. Finally, the lack of necessary resources to hire experts exacerbated the misclassification problem.

3.1.2. Using Mission Statements as Classification Data

A mission statement is “a written declaration that communicates the purpose of an organization” (Alegre, Berbegal-Mirabent, Guerrero, & Mas-Machura, 2018, p. 456). Mission statements serve a more important role in the nonprofit sector than in the for-profit sector. In the absence of a profit motive, a mission statement informs the boundary of an organization, provides a basis for decision making, motivates stakeholders, and establishes criteria for success (Kirk & Nolan, 2010; Oster, 1995). The importance of mission statements is also evidenced by their required display on Form 990 (Internal Revenue Service, 2008) and frequent mention on nonprofits’ websites, annual reports, and marketing and fundraising materials (Hankinson, 2002; Kang & Norton, 2004).

Mission statements are appropriate for classifying nonprofits because they convey an organization’s *raison d’être* (reason for being). According to IRS’s governance guidelines for 501(c)(3) organizations, “a clearly articulated mission statement ... serves to explain and popularize the charity’s purpose and guide its work. It also addresses why the charity exists, what it hopes to accomplish, and what activities it will undertake, where, and for whom” (Internal Revenue Service, 2008). A recent study found that researchers can identify a significantly higher number of nonprofits of interest using mission statements than the NTEE approach (Fyall et al., 2018). The authors of the study further noted that text analysis can be particularly beneficial to researchers who study “ambiguous interest areas,” including NIOs, as it

has the potential to reach higher accuracy levels than the NTEE system (Fyall et al., 2018, p.692). Using nonprofits' text descriptions in Form 990 (mission statements and program descriptions), Ma (2021) classified nonprofits into 25 major groups and achieved 88% overall accuracy, which demonstrates the potential of using mission statements to classify nonprofits.

3.1.3. Data and Methods

Data. I use the 2016 e-filed Form 990 compiled by open990.org to identify NIOs. This data set contains machine-readable mission statements. Although e-filing did not become mandatory for all nonprofits until after the enactment of the Taxpayer First Act in 2020, the 2016 e-filed 990 data set contains about 80% of the nonprofits in the 2016 NCCS Core File.² After cleaning, the e-filed data set contains 237,654 observations.

Dictionary-Based Text Analysis. I utilize Dictionary-Based Text Analysis to identify NIOs. Litofcenko, Karner, and Maier (2020) found that the quality of keywords is the foundation for successful classification. Therefore, the first step of this study is to conduct an exploratory analysis to develop a quality “dictionary” (Raschka, 2014). I used the mission statements of 280 NIOs identified by the 2018 Foundation Center report. The original report compiles 511 NIOs that received “infrastructure-related” grants from foundations between 2004 and 2015. I dropped 231 organizations from the original list that are foreign based or do not meet my definition of NIOs (e.g., Harvard University). Using the Python Natural Language ToolKit, I tokenized (broken text into words and phrases) and lemmatized (reduced the inflectional forms of each word into a common base) these missions and removed stop words and numbers. Stop words are

² I calculated this percentage based on the result of the “merge” command in STATA. The e-filed 990 data set contains 168,010 of 210,766 organizations in the Core File.

commonly used words that convey little substantive information, such as a, of, and or (Hapke, Howard, & Lane, 2019). Stop words and numbers contain little useful information and can induce noise. After standardization, I identified the 100 most frequently used words in the 280 mission statements (see Appendix A). I removed three words (“around,” “throughout,” and “Washington”) from the final list because they are prepositions or location.

Then, I generated a weighting score for each of the 97 keywords based on its relevance and predictive power. I measured relevance by the number of times a term appears in the 280 mission statements in the exploratory analysis. The more a term appears, the stronger its relevance. I measured predictive power by the number of times a term appears in all 237,654 mission statements. The more it appears, the weaker the predictive power, because the predictive power comes from the uniqueness of the keywords. The method described above is inspired by the Term Frequency–Inverse Document Frequency (TF-IDF) method, a commonly used statistical measure in information retrieval literature (Zhai & Massung, 2016). In the original TF-IDF formula (see below), a term’s relevance is determined by the number of occurrences of term t in document i . Considering that mission statements are usually short and unlikely to contain the same term multiple times, I define relevance as the number of occurrences of term t in the 280 mission statements. The more a term is used in these mission statements, the stronger a term’s relevance to NIOs. The rest of the formula is kept the same.

Original TF-IDF

$$\text{Weight}(t_i) = \text{tf}(t_i) * \log [N / \text{df}(t)]$$

Where: t_i = term t in document i ;

$\text{tf}(t_i)$ = number of occurrences of term t in document i ;

$\text{df}(t)$ = number of documents containing term t ;

N = total number of documents.

Modified TF-IDF

$$\text{Weight } (t_i) = \text{tf } (t_i) * \log [N / \text{df } (t)]$$

Where: t_i = term t in document i ;

$\text{tf}(t_i)$ = number of occurrences of term t in 280 mission statements;

$\text{df}(t)$ = number of documents containing term t ;

N = total number of documents.

Next, I assigned an index to all 237,654 mission statements in the data set, depending on how many of the 97 keywords appeared in them and the weighting score of the corresponding keywords. The more keywords appear in a mission statement and the higher the weighting score of these keywords, the higher a mission statement's index. This step allows me to rank order all mission statements based on their likelihood of being NIOs (i.e., the higher the index, the higher the likelihood of being NIOs). Due to the lack of distinctive keywords used solely in NIO's mission statement, the final step is to read mission statements with high indexes to generate the final list of NIOs.

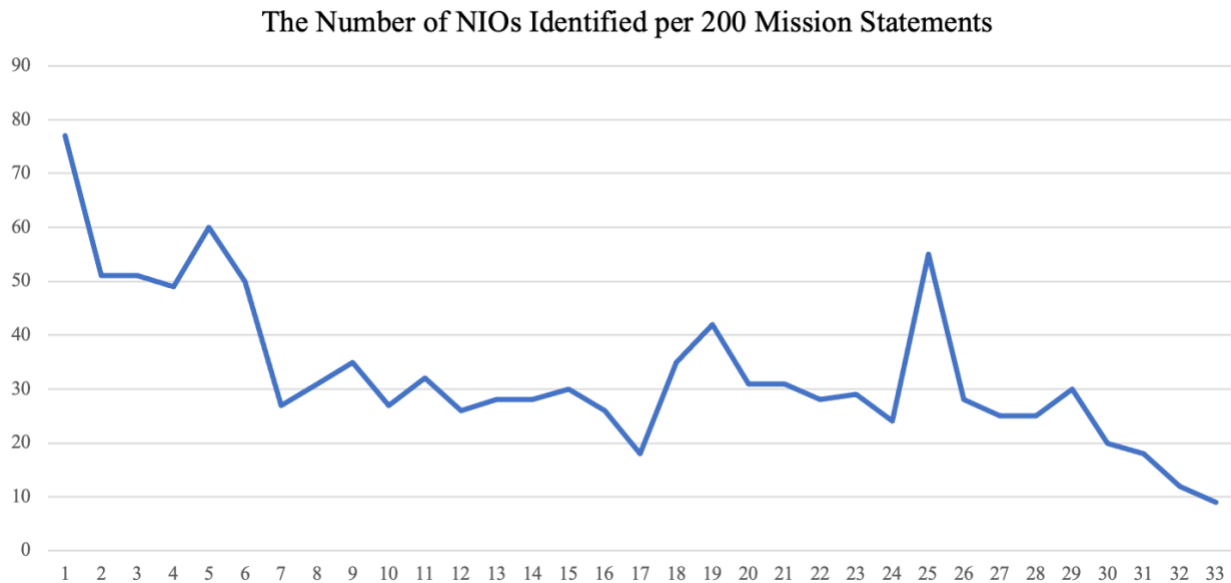
In total, I read 6,596 mission statements with the highest indexes and identified 1,291 NIOs, yielding an overall identification rate of 19.6%. During the process, I look for mission statements that state that the organization supports other nonprofits or the sector, such as promoting voluntarism or advocacy.³ For instance, Star of Hope Ministries is considered an NIO because its mission states that it aims to “strengthen and increase the capacity of the local church.” This example also demonstrates the advantage of the text analysis approach over the

³ For instance, the Junior League of Indianapolis is an organization of women committed to *promoting voluntarism* (italic added), developing the potential of women, and improving the community through the effective action and leadership of trained volunteers.

NTEE approach in identifying NIOs. The NTEE approach would not recognize the Star of Hope Ministries as an NIO because it is categorized as U31- Astronomy.

I also documented the NIO identification pattern (see Figure 3.1). Figure 3.1 shows the number of NIOs identified per 200 mission statements examined. Every number on the x-axis represents 200 mission statements read. For the first 1,200 mission statements, I identified over 50 NIOs per 200 mission statements read, representing an identification rate of at least 25%. After that, the number of identified NIOs plummeted to about 30 per 200 mission statements, with a few exceptions. By the time I reached 6,000 mission statements, I found fewer than 20 or even 10 NIOs per 200 mission statements. Given the low and declining identification rate, I decided to stop reading.

Figure 3.1. NIO Identification Pattern



3.2. Survey Instrument

To gain in-depth understanding of NIOs, I developed and implemented a national survey of NIOs using the identified sample. The survey mainly contains close-ended questions about the character of NIOs, including revenue composition, functions performed, and interactions with various stakeholders. Other questions concern NIO executives' perceived organizational and advocacy effectiveness. The survey took about 15 minutes for a typical respondent to complete.

3.2.1. *Sample Cleaning and Contact Information Collection*

I collected NIOs' contact information on their websites. During the task, I also reviewed their mission statements and programming. As a result, I eliminated 141 of the 1,291 identified NIOs. I removed some organizations because they updated their mission statements, or their websites show no nonprofit support.⁴ I also removed some organizations because they seem to be solely internationally focused, which is beyond the scope of the dissertation. An additional 105 identified NIOs were excluded because they are single support organizations. As the name entails, they only serve a single institution and are not independent of their parent organizations, therefore, should not be a part of the study.

Among the remaining 1,045 NIOs (1,291 - 141 - 105), 56 organizations had no websites, 8 were closed, and 147 failed to identify any form of contact. To maximize survey response rate, I tried to identify two contacts per NIO. The first and preferred contact person is the executive director. The second contact person is one of the middle managers in charge of programs,

⁴ For instance, I originally included Heritage Centers Foundation because its mission statement reads, we “support children and adults with disabilities, along with their families and *various agencies working to support them...*” (italic added). However, based on the information on the website, it does not offer any program that supports other agencies. Meanwhile, the mission statement on its website now reads, “we support children and adults with disabilities and their families in achieving their desired quality of life by creating opportunities through comprehensive quality services.” I, therefore, eliminated Heritage Centers Foundation from the sample.

membership, or public policy. Given the focus of the survey, they are more likely than other middle managers to provide accurate answers to the survey questions.

For the remaining 834 NIOs (1,045 - 56 - 147 - 8), I identified 641 executive directors' email addresses and 523 middle managers' email addresses (job titles include community impact director, program director, membership director, chief operating officer, and public policy director). For NIOs that do not list employees' contact information on their websites, I tried to identify generic form of contact (e.g., info@). I collected 193 generic email addresses.

I also identified 75 NIOs while browsing the identified NIOs' websites (similar to snowball sampling). Since the study is not based on a probability sampling, including these organizations in the final sample should not pose a serious threat to the findings. For these NIOs, I identified 70 executive directors' email addresses, 30 middle managers' email addresses, and 5 generic email addresses.

In total, I found contact information for 909 NIOs (834 + 75). I collected 711 executive directors' email addresses (641+70), 553 middle managers' email addresses (523+30), and 198 (193+5) generic email addresses.

3.2.2. Survey Development and Implementation

The survey development and revisions followed best practices to improve response accuracy and minimize measurement error. First, I guaranteed strict confidentiality of survey respondents' organization names and titles and would only report study findings in aggregate form. Second, I used clear, concise, and accurate language to devise the questions and provided examples to help understand concepts to minimize misunderstanding. Third, I used both positive and negative wordings and different Likert scales to help prevent stylistic responses. Fourth, in

the survey instructions, I provided multiple contact methods and encouraged respondents to reach out in case of unclear questions. Fifth, I pretested the survey with a small group of subject and methodology experts. Their feedback about question clarity, understandability, and relevance helped me develop the survey to its final form.

Using Qualtrics, an online survey tool, I sent the survey to 1,462 leaders and middle managers who work in 909 U.S.-based NIOs. I sent the pre-survey notification on Monday, March 28, 2022. The message invited respondents to participate, provided information about the survey and the purpose of the study, and emphasized the confidentiality of the collected data. Two days later (Wednesday, March 30, 2022), I sent the initial survey invitation. I then sent two reminders to people who had not responded to the survey (first reminder on Wednesday, April 6, 2022, and second reminder on Tuesday, April 19, 2022). I closed the survey on Wednesday, April 27, 2022, four weeks from the initial survey invitation was sent. I received 229 valid survey responses (after eliminating 50 empty returns) from 219 unique NIOs. The organizational response rate is 24.1% (219/909).

3.3. Descriptive Statistics

Using data from the survey and Form 990, this section describes what NIOs look like in terms of organizational characteristics, such as size, revenue composition, the scope of their services, geographic focus, type and number of customers they serve, membership status, and pricing strategy.

3.3.1. Representativeness Check

Before reporting the results, I checked the representativeness of the survey by comparing

the 219 NIOs that responded to the survey to the 1,120 (1,045+75) NIOs identified through mission statements. The median assets, revenue, and expenses for the 1,120 NIOs are \$1.41 million, \$1.02 million, and \$ 0.91 million, respectively. Similarly, the median assets, revenue, and expenses for the 219 NIOs are \$1.49 million, \$1.06 million, and \$ 1.04 million, respectively.⁵ The comparable numbers indicate that the NIOs that responded to the survey have similar characteristics to those identified through mission statements. Geographically, the 219 NIOs are located in 46 states. The only states not represented in the data are Hawaii, Mississippi, Missouri, and New Hampshire.

3.3.2. NIO Characteristics

Tables 3.1 to 3.7 report the key financial and organizational characteristics. As Table 3.1 presents, a typical NIO in the sample has been in operation for 31 years, owned about \$18 million in assets, had \$2.2 million in liabilities, generated \$5.6 million in income, and incurred \$4.3 million in expenses in 2018. Organizations in this study are substantially larger than nonprofits in Szabat and Simmons's (1996) research and comparable in size to organizations in WINGS's (2017) recent survey. This is perhaps because Szabat and Simmons (1996) surveyed only management support organizations and both this study and WINGS's (2017) survey contained more types of NIOs, including funding organizations.

On average, NIOs in the sample generate 30% of their total revenue from individual donations, 12% from government grants, 17% from foundation grants, 13% from corporate contributions, 10% from membership dues, 15% from earned sources (e.g., services provided to

⁵ I also compared the values at the 1st and 3rd quartiles. They are also comparable.

members or clients and commercial sales), and another 5% from other sources, such as investment income.⁶ Compared to the Clough and Brown (2009) study of twelve large national NIOs that typically rely on earned income, organizations in my survey depend heavily on donations and grants.

39% of the NIO in the sample have a dues-paying membership, which is lower than what WINGS (2017) found. Finally, over 80% of them provide free or discounted services to nonprofits that cannot afford the services, which concurs with Szabat and Simmons's (1996) findings.

Almost all NIOs are run by full-time employees (30 hours/week or more), and the typical full-time staff size is between one and four (Table 3.2), which is similar to the 4.5 FTEs reported by Szabat and Simmons (1996). Over 70% of them also have at least one part-time staff (less than 30 hours/week). NIO's volunteer engagement ranges widely, with about a quarter having zero volunteers and another quarter maintaining over 100 volunteers.

Table 3.3 reports NIOs' service capacity by service recipients. The first column shows the number of nonprofit organizations NIOs support per year, and the second column reports the number of nonprofit staff NIOs support per year. The results indicate that over 90% of NIOs serve nonprofit organizations. About half of them (46%) support less than 50 nonprofits per year. About 15% of them serve 50-100 nonprofits per year and the remaining 30% support more than 100 nonprofits per year. In terms of nonprofit staff, 32% of NIOs do not serve nonprofit staff and a similar proportion of them support over 100 nonprofit employees annually. The remaining 36% help less than 100 nonprofit employees per year.

⁶ A closer examination of the data reveals that most of the variables are highly skewed to the right side of the distribution (positive skewness), indicating that a few organizations in the sample drive up the means. For instance, although NIOs generate 12% from government grants, on average, at least half of the NIOs in the sample do not receive funds from governments of any level, as indicated by the median.

NIO's geographic focus is reported in Table 3.4. Most NIOs (81%) aim to help the nonprofit community within state lines, marking a departure from previous research that focuses predominately on national NIOs.

Table 3.5 shows the functions NIOs perform and how frequently they engage in these activities. Among the eleven functions, NIOs most frequently perform (1) building issue-focused collaboration among like-minded nonprofits, followed by (2) collect and redistribute financial resources, (3) providing information and advice to help donors and funding agencies make better giving decisions, and (4) providing financial resources. These frequently performed functions overlap a great deal with WINGS's members' top engaged activities, including research, conferences, peer learning, and training. NIOs in the sample are less likely to recruit, train, and deploy employees and volunteers to work for nonprofits, with almost half (47%) saying they "never" provide the service.

Table 3.6 reports more detailed information about NIOs' member composition. Among the 81 NIOs with dues-paying membership, 75% have nonprofit members, 49% have individual members, 40% have business members, and 21% have government members. About 14% of them also report other types of members, such as funding entities, schools, and universities.

According to Table 3.7, most NIOs make an effort to understand the needs of their constituencies as they use multiple methods to determine the service demand. Specifically, 83% of them identify the needs of their constituencies through their daily interaction with members or clients. 82% use client surveys, 61% conduct research on customer needs, and 59% organize focus groups. 56% of them attend professional conferences to help determine the needs of their customers. 52% use clients' feedback and complaints to identify their needs. Additional techniques employed by NIOs include funder's feedback, board advisory committees,

Table 3.1. NIO’s Key Organizational and Financial Characteristics

Variable	Obs	Data Source	Mean	Min	Pctl(25)	Median	Pctl(75)	Max	Std. Dev.
Total assets (000)	219	Form 990	18,100	-12	369	1486	7,067	933,000	71,800
Total liabilities (000)	219	Form 990	2,244	0	26	162	1,030	96,900	8,559
Total revenue (000)	219	Form 990	5,565	0	474	1057	3,869	172,000	16,900
Total expenses (000)	219	Form 990	4,263	0	446	1042	2,875	144,000	14,100
Age	219	Form 990	31	0	16	26	45	89	20
Donation (%)	218	Survey	30	0	5	20	50	100	31
Government revenue (%)	215	Survey	12	0	0	0	10	90	22
Foundation revenue (%)	215	Survey	17	0	5	10	25	95	20
Corporate revenue (%)	217	Survey	13	0	0	5	20	70	16
Membership revenue (%)	217	Survey	10	0	0	0	10	100	20
Earned revenue (%)	215	Survey	15	0	0	0	20	100	24
Other revenue (%)	215	Survey	5	0	0	0	0	100	17
Membership status (%)	208	Survey	39	0	0	0	100	100	49
Training discount (%)	151	Survey	83	0	100	100	100	100	37

Table 3.2. NIO Staff Size

How many paid staff members did your organization have before the COVID-19 pandemic in February 2020?		
	Full-time staff	Part-time staff
0	3.7%	28.6%
1-4	45.6	64.3
5-9	27.0	3.1
10-19	14.4	2.0
20-49	5.1	1.5
50+	4.2	0.5
Total	215	196

How many volunteer on average per year did your organization have before the COVID-19 pandemic in February 2020?	
	Volunteer
Less than 5	26.6%
5-9	4.1
10-19	13.3
20-49	19.3
50-100	13.8
100+	22.9
Total	218

community surveys, independent consultants, third-party reports, and program participant evaluations.

Table 3.3. NIO’s Support Capacity

About how many nonprofit organizations/nonprofit staff did your organization support per year before the COVID-19 pandemic in February 2020?

	Support nonprofit		Support nonprofit staff
Do not support	9.4%	Do not support	31.5%
Less than 5	3.5	Less than 10	15.0
5-9	7.4	10-19	6.0
10-19	11.3	20-49	6.5
20-49	24.1	50-100	8.5
50-100	14.8	100+	32.5
100+	29.6		
Total	203		200

Table 3.4. NIO’s Geographic Focus

What is the geographic focus of your organization?

International	4.4%
Nationwide	9.8
Multiple states	4.4
Single state	18.6
Multiple counties/cities	34.8
Single county/city	27.9
Total	204

Table 3.5. NIO’s Functions

How often did your organization perform the following functions before the COVID-19 pandemic in February 2020?						
	Collect & redistribute financial resources	Represent members or clients before government	Provide information & advice to help donors	Build issue-focused collaboration	Provide management assistance	Organize conferences & webinars
Never	19.4%	33.3%	10.1%	5.5%	10.2%	11.5%
Rarely	9.7	17.1	13.4	7.3	16.2	14.2
Occasionally	10.2	24.1	19.4	25.7	25.0	25.2
Frequently	13.9	11.1	28.6	30.3	20.8	24.8
Always	46.8	14.4	28.6	31.2	27.8	24.3
Total	216	216	217	218	216	218
	Provide financial resources	Recruit & train employees & volunteers to work for nonprofits	Train nonprofit staff	Collect data, conduct research or disseminate research findings	Develop performance measures, & benchmarks	
Never	20.8%	46.8%	12.9%	7.8%	13.8%	
Rarely	10.7	20.2	12.0	16.1	20.3	
Occasionally	11.6	10.1	24.9	30.0	28.6	
Frequently	10.7	10.1	24.9	25.4	24.4	
Always	46.3	12.8	25.4	20.7	12.9	
Total	216	218	217	217	217	

Table 3.6. NIO’s Membership Composition

If your organization has a dues-paying membership, is that membership comprised of any of the following? (multi-select)					
Variable	Obs	Mean	Std. Dev.	Min	Max
Individual	81	49	50	0	100
Nonprofit	81	75	43	0	100
Government agency	81	21	41	0	100
Corporations or business trade associations	81	40	49	0	100
Other	81	14	34	0	100

Table 3.7. NIO’s Techniques to Identify Customer Needs

What techniques does your organization use to identify the needs of your constituencies (e.g., members and clients)? (multi-select)					
Variable	Obs	Mean	Std. Dev.	Min	Max
Member/client surveys	202	82	39	0	100
Member/client complaints	202	52	50	0	100
Focus groups	202	59	49	0	100
Research	202	61	49	0	100
Staff perceptions	202	83	38	0	100
Professional conferences	202	56	50	0	100
Foundation feedback	202	42	49	0	100
Other	202	16	37	0	100

CHAPTER FOUR: NIO ADVOCACY EFFECTIVENESS

4.1. Introduction

This study investigates NIOs' advocacy effectiveness. Much of the scholarship on nonprofit political advocacy focuses on advocacy conducted by direct service nonprofits (Child & Gronbjerg, 2007; Lu, 2018), overlooking NIOs' principal role in carrying out this essential activity. As nonprofit advocacy and lobbying activities have become increasingly "specialized and institutionalized" (Salamon, Geller, & Lorentz, 2008, p.16), understanding NIOs' advocacy effectiveness has important implications for the sector's long-term sustainability.

I examine determinants of NIO advocacy effectiveness through the lens of absorptive capacity theory. The theory highlights the value of new external information in a constantly changing environment and the importance of an organization's capability to acquire, assimilate, transform, and exploit information toward accomplishing organizational mission (Cohen & Levinthal, 1990; Zahra & George, 2002). Research finds that both private and nonprofit organizations can enhance their tangible and intangible outcomes, such as organizational learning and innovative outputs, by strengthening their absorptive capacity (e.g., Lane, Salk, & Lyles, 2001; Shier, Handy, & Jennings, 2019; Tsai, 2001).

Guided by the theory, I hypothesize that NIOs' connectedness, knowledge, and learning capacity are positively associated with advocacy effectiveness. I measure advocacy effectiveness in seven ways: overall effectiveness and effectiveness in (1) increasing visibility for an issue, (2) increasing knowledge for an issue, increasing general support for an issue, increasing legislative support for an issue, strengthening alliances for an issue, and ensuring proper implementation of adopted policy (Urban Institute, n.d.). Using an original online survey of 909 U.S.-based NIOs, this study confirms that different forms of absorptive capacity influences different aspects of

advocacy effectiveness. NIOs' connectedness improves the overall advocacy effectiveness and all the six advocacy impacts, except for general and legislative support. NIOs' advocacy knowledge enhances overall advocacy effectiveness and helps strengthen general and legislative support for an issue. Having a learning mechanism improves all the advocacy impacts but legislative support.

4.2. Literature Review

4.2.1. *Advocate through NIO*

Nonprofit organizations in the U.S. have a long history of advocacy. As Bass (2009) points out, nonprofits have taken part in almost all major public policy debates and changes, from public health to civil rights. These efforts have directed governments' attention to neglected chronic societal problems and demanded policy solutions that have saved hundreds of thousands of lives. Despite its prominence, many nonprofits have limited their involvement in advocacy in recent decades, for a variety of reasons, such as lack of knowledge and expertise, resource constraints, and fear of jeopardizing their tax-exempt status (Hasenfeld & Garrow, 2012; Lu, 2015, 2018). Instead, nonprofits have increasingly relied on NIOs to defend and advance their interests in the political arena. A nationwide survey of 311 nonprofits (the Survey) shows that 89% belong to an intermediary organization and most of these intermediaries advocate (Salamon, et al., 2008). Similarly, DeVita, Nikolova, & Roeger (2014) find that only 8% of nonprofits located in the D.C. metropolitan area conduct advocacy and lobbying on their own, almost half (48%) use a mixed strategy (i.e., direct participation and indirect participation through coalitions), and 44% conduct advocacy exclusively through coalitions.

Several factors increased nonprofits' reliance on NIOs for advocacy. First, when NIOs

represent and express the shared concerns of their members, the united voice carries more weight and policymakers and government officials may feel more obligated to respond. As V. O. Key Jr. (1961, p. 503) famously wrote, “Numbers alone may carry weight; the more completely an organization encompasses its potential membership, the greater is its moral authority when it claims to speak for an interest in society.” Similarly, as the Survey indicates, almost all respondents (92%) mention that one of the major reasons to participate in an intermediary is to reach “greater impact with greater numbers” (Salamon, et al., 2008, p.15).

Second, advocacy carried out by NIOs is often more cost-effective, more professional, and can prevent nonprofits from controversy in case of sensitive policy matters. It is cost-effective because nonprofits with shared concerns and common interests can pool resources toward the same policy objectives, minimizing waste. With greater resource abundance, NIOs can hire dedicated staff for advocacy, which most direct service nonprofits cannot afford (Guo & Acar, 2005; Mosley, 2010; Pekkanen & Smith, 2014b). As the Survey reports, the vast majority of respondents cite the lack of resources as a major motivation to join an intermediary (Salamon, et al., 2008). For smaller nonprofits, joining an NIO also means increased legitimacy and visibility, as well as improved accessibility to policymakers (Hojnacki, 1997). Moreover, this arrangement allows nonprofits to contribute to sensitive policy issues and minimize the risk of controversy. Instead of participating on their own, NIOs would approach government officials and testify at public legislative hearings on behalf of the member organizations (Salamon, et al., 2008).

Third, in addition to advocating on behalf of other nonprofits, NIOs also spur their members to advocate. As documented by the Survey, 80% of the respondents say that they took action on a policy issue on an NIO’s request (Salamon, et al., 2008). The increased networking

opportunity provided by NIO membership also encourages nonprofits to advocate (Mosley, 2010). Finally, NIOs improve the sector's capacity to advocate in the long run. NIOs help members gain necessary knowledge about policy debates, allowing organizations to quickly follow up with the key issues that concern the future of the sector with minimum efforts (Mosley, 2014). The Survey finds that most nonprofits that belong to an intermediary say that intermediaries provide them with background information and educational materials, as well as training (Salamon, et al., 2008).

Compared to NIOs' considerable role in nonprofit advocacy, our understanding of it is extremely limited. I found no research on NIO advocacy involvement, let alone probing the various organizational and environmental factors affecting their engagement. Some evidence implies that NIOs are extensively involved in advocacy and lobbying. For example, the Survey reports that almost 90% of surveyed nonprofits that belong to an intermediary say that the intermediaries participate in advocacy (Salamon, et al., 2008). Similarly, Abramson and McCarthy (2012) review the most prominent NIO advocates at the national, regional, and local levels, including Independent Sector, the Council on Foundations, and state council of nonprofits and show that these organizations all contribute to defending the interest of the sector in their own ways. For example, Independent Sector focuses on advocating on behalf of large nonprofits and foundations; the National Council of Nonprofits seeks to raise awareness of the role of nonprofits and philanthropy in society; and OMB Watch focuses primarily on regulatory and budgetary policies (Abramson & McCarthy, 2012).

4.2.2. Challenges of Advocacy Effectiveness Research

Examining the effectiveness of policy advocacy has been a challenge for researchers

(Almog-Bar & Schmid, 2014; McNutt, 2010). Although effectiveness is commonly defined as “the ability of an organization to achieve its mission” (Altamimi & Jimenez, 2021, p.310), it is difficult to apply the concept to advocacy for two primary reasons. First, the causal mechanism between advocacy efforts and policy outcomes is often vague (McNutt, 2010; Pekkanen & Smith, 2014a). There are always numerous policy players involved in a single policy issue simultaneously, which makes it challenging to pinpoint each player’s contribution to an outcome. As a result, objective measures of impact, such as the number of laws passed, may not capture a policy player’s actual contribution. Second, advocacy involves multiple tactics and goals. Guo and Saxton (2010) differentiate between eleven advocacy tactics, and each has distinctive objectives: Some focus on raising awareness while others aim to enrich the understanding of an issue or to directly change policy. Depending on each organization’s tactics, the perceived success may be different (Casey, 2011). An organization rarely engage in all types of tactics. Instead, they tend to focus on those that they are skilled at (Bass & Mason, 2010). Consequently, a nonprofit that focuses primarily on public education might perceive its advocacy efforts as highly effective even when a law favoring the issue was blocked. Therefore, a single measure of overall advocacy effectiveness is problematic due to the multidimensional nature of this concept and the fact that each nonprofit might take on different sets of advocacy tactics and pursue different policy outcomes.

4.2.3. Status of Nonprofit Advocacy Effectiveness Research

Two strands of academic literature address nonprofit advocacy effectiveness. The first identifies best practices. These studies rely on field expertise, case studies, or theoretical arguments to inform the discussions. For instance, Crutchfield and McLeod Grant (2008) studied

twelve effective nonprofit organizations and concluded that service delivery and policy advocacy are mutually reinforcing. They particularly highlight the role of information and networks in conducting high-impact advocacy. They find that first-hand information derived from service delivery allows organizations to advocate for more realistic and effective policy solutions. Similarly, networks and connections developed in the process of operating programs help mobilize more resources and support for policy advocacy. Additionally, Independent Sector (2012) offers a list of best practices in advocacy, which is distilled from interviews with six professional lobbyists and seven case studies. The five successful advocacy practices mainly concern technical aspects, including identifying specific but long-term policy objectives, building expertise and relationships around targeted policy areas, understanding policy environment and the players including the opponents, taking advantage of coalitions, and ensuring strong and high-integrity leadership.

Bass, Abramson, and Dewey (2014) provide ten pieces of advice on how to achieve high-impact advocacy. They encourage nonprofit advocates to participate in the full cycle of policy change, focusing not only on passing new laws but also implementing them properly in order to ensure the full realization of intended goals. Drawing from political science and social work literature, Hoefler (2001) summarized four generalizations regarding effective advocacy, which echo the above-mentioned best practices. He highlights that advocates need to be proactive in the policy process, knowledgeable about the issue, maintain good working relationship with decision makers, and build coalitions with policy actors who share similar policy positions. Although these studies are useful in informing practice, their generalizability is questioned due to the methodological limitations.

The other emerging strand uses larger sample sizes to investigate factors contributing to successful advocacy. Using a survey of 127 Washington D.C.-based advocacy groups, Hoefler (2001) uncovers statistically significant differences in the use of advocacy tactics between organizations that consider themselves effective and those that consider themselves less effective. Johansen and LeRoux (2013) utilize a random sample of 314 nonprofits located in 16 states and find that networking with policymakers at various levels is positively and significantly associated with advocacy effectiveness and that environmental turbulence undermines advocacy effectiveness. Relying on survey responses from 392 Seattle-based nonprofits, Buffardi, Pekkanen, and Smith (2017) attempt to probe whether and to what extent organizational characteristics and advocacy strategies affect advocacy effectiveness, measured by three specifications of success in changing a policy: Proactive (enacting a new policy), reactive (stopping or modifying a policy), and overall. They generally conclude that different tactics are more suitable for different policy goals. For instance, they find that forming alliances and providing expertise are effective at enacting a new policy but not at stopping or modifying an existing one. Finally, survey results from 348 Florida-based human service nonprofits show that organizational size and successful collaboration with other organizations facilitate advocacy success (Ruggiano, Taliaferro, Dillon, Granger, & Scher, 2014). The study also finds that three out of five measures of interaction with policymakers are positively and significantly associated with advocacy success.

Effectiveness measures used in these studies do not fully capture the richness of the concept. They either rely on one single survey item to evaluate overall advocacy effectiveness (e.g., Hoefler, 2001) or focus only on one outcome in the policy process (e.g., Buffardi, et al., 2017), overlooking that advocacy effectiveness is a multidimensional concept that involves

different phases and requires multiple criteria to evaluate (Laney, 2003; The Urban Institute, n.d.). For instance, Hofer's (2001, p.7) survey ask the respondents: "Thinking about all of the times your organization tries to achieve its policy goals through all methods, what percentage of the time do you think it is successful?" This broad question invites different interpretations of effectiveness and thus reduces the reliability and comparability of the measure. Buffardi et al. (2017) rely on "policy change," one of the many advocacy outcomes, to measure the overall effectiveness of advocacy efforts. However, policy change, especially major change, happens relatively infrequently and not all nonprofit advocates are involved directly and extensively in changing policies. Consequently, relying solely on this question to measure advocacy effectiveness may underreport the impact of many nonprofits' efforts.

Both Johansen and LeRoux (2013) and Ruggiano et al. (2014) measure effectiveness in two dimensions using a composite measure. Johansen and LeRoux (2013) focus on raising public awareness and influencing local government's priorities. Ruggiano et al. (2014) examine funding availability and change in policy environment. Although these measures are more reliable than the first two studies, they fail to justify why they chose their two particular dimensions. In other words, they do not explain their choice of measures and why other potential outcomes of advocacy are left out. An implicit assumption of a composite measure is that "the constituent parts together give a fair summary of the whole" (Barclay, Dixon-woods, & Lyratzopoulos, 2018, p.338). The composite measures in their studies, however, are hardly a sufficient summary of all advocacy outcomes.

4.3. Theoretical Framework and Hypotheses

Absorptive capacity refers to “the ability to identify, assimilate, and exploit knowledge from the environment” (Cohen & Levinthal, 1989, p. 589, 1990). It highlights the value of new, external information in a constantly changing environment and the importance of an organization’s capability to acquire and process it toward accomplishing organizational mission (Cohen & Levinthal, 1990; Zahra & George, 2002). The assumption is that the higher the absorptive capacity, the more likely it is that an organization will actively and proactively search for and exploit new information (Volberda, Foss, & Lyles, 2010). Consequently, research connects higher levels of absorptive capacity to enhanced intangible and tangible outcomes. For intangible outcomes, scholars find that absorptive capacity facilitates both intraorganizational knowledge transfer (Gupta & Govindarajan, 2000; Szulanski, 1996) and interorganizational learning (Lane & Lubatkin, 1998; Lane et al., 2001; Lyles & Salk, 1996). Absorptive capacity is also seen as an explanation of improved tangible outcomes, including innovative output (Shier et al., 2019), performance (Lane et al., 2001; Tsai, 2001), and competitive advantage (Cohen & Levinthal, 1989, 1990).

An organization’s absorptive capacity depends on its exposure to information, its current knowledge base, and its learning mechanisms (Cohen & Levinthal, 1990; Lane et al., 2001; Zahra & George, 2002). An organization’s exposure and access to diverse external knowledge facilitate information acquisition (Tsai, 2001; Van Wijk, Van den Bosch, & Volberda, 2001; Volberda et al., 2010). Typical channels for information acquisition include interorganizational networks (Vermeulen & Barkema, 2001) and interaction with customers and industry experts (Jansen, Van Den Bosch, & Volberda, 2005). Broad social interactions not only make knowledge transfer easier, but also enhance organization’s ability to recognize and assimilate useful

information (Reagans & McEvily, 2003). Therefore, an organization's connectedness to its surrounding environment is the fundamental premise for the acquisition and assimilation of information.

In the context of NIO advocacy, external information might be the constantly changing policy issues that affect the whole sector or member nonprofits. As Donaldson (2008) notes, "Good advocacy is grounded in agency service and constituent experiences" (p.31) because constituents often have more information about the problem. Hence, NIOs must connect with their environment to acquire up-to-date information, as it is the basis for evaluating the impact of any change and formulating policy options. Therefore, NIOs' connectedness to their environment, such as organizations working on the same issue, member organizations, and nonprofit experts, is the premise for effective advocacy. Hence,

H1: An organization's connectedness increases its advocacy effectiveness.

An organization's existing knowledge base affects absorptive capacity. Prior knowledge is the foundation of new knowledge (Volberda, et al., 2010). When new information is too distant from an organization's current stock of knowledge, the organization has difficulty recognizing the value. Current knowledge base also contributes to the transformation and exploitation of new information because the degree of complementarity between prior and new knowledge determines the extent to which an organization can successfully internalize and incorporate new knowledge into its daily operations and reap the benefits (Cohen & Levinthal, 1990; Zahra & George, 2002). Without certain degrees of knowledge relatedness, organizations may not be able to understand the new information, let alone harness it. For instance, if no one in

an NIO has expertise in maintaining a social media platform, the organization will probably not recognize their value and potential. Even if they do, they may face challenges integrating their current practices and the new tool to further organizations' advocacy goals. Therefore,

H2: An organization's knowledge base increases its advocacy effectiveness.

Finally, an organization's learning mechanisms, including investment in research and training, are critical for the development of absorptive capacity (Cohen & Levinthal, 1990; Kostopoulos, Papalexandris, Papachroni, & Ioannou, 2011; Lane et al., 2001; Tsai, 2001). As documented by Cohen and Levinthal (1989), investment in research carries on a dual role of generating and exploiting new knowledge. Investment in research broadens an organization's knowledge base and deepens understanding of new knowledge, both of which strengthen an organization's capability to recognize and take advantage of new knowledge (Cohen & Levinthal, 1989). Training, on the other hand, helps with knowledge dissemination in an organization, provides connections between existing and new knowledge, and reduces ambiguity in newly acquired knowledge, especially tacit knowledge (Lane et al., 2001; Simonin, 1999).

Advocacy organizations can achieve a competitive advantage over their counterparts if they are equipped with superior capability to produce rigorous and unique research (Berry & Arons, 2003; Hansen, 1991). The 2010 Urban Institute report on government-nonprofit contracting is a recent example of using new research findings to influence public policy. With the detailed and quantified information on the scope and magnitude of the problem, the report catalyzed advocacy efforts to change the current government-nonprofit contracting practices (Independent Sector, 2012). Therefore,

H3: Learning mechanisms increases its advocacy effectiveness.

4.4. Variables

4.4.1. Dependent Variable

The key dependent variable is advocacy effectiveness. This is a challenging concept to study because is a multidimensional construct that cannot be easily assessed using objective measures. self-report, perceptual indicators that consider the full range of advocacy outcomes seem to be the most appropriate approach. Perceptual measures have been widely used in effectiveness studies because they allow researchers to capture the opinions of the employees who arguably understand their organizations the best (Pandey, Coursey, & Moynihan 2007; Walker & Boyne, 2006).

I rely on seven survey questions to measure advocacy effectiveness, adopted from the Urban Institute (n.d.). The first question captures NIO's overall advocacy effectiveness. Respondents are asked to "indicate your level of agreement or disagreement with the following statement," ranging from strongly disagree to strongly agree:

1. Our constituents and members are satisfied with our advocacy efforts.

I also ask six additional questions to capture the effectiveness of different advocacy tactics. Specifically, I ask respondents to indicate "how effective is your organization's advocacy in:

2. Increasing visibility for an issue
3. Strengthening alliances for an issue
4. Increasing knowledge for an issue

5. Increasing general support for an issue
6. Increasing legislative support for an issue
7. Ensuring proper implementation of adopted policy”

4.4.2. *Independent Variables*

To measure an NIO’s connectedness to its surrounding environment, I ask respondents to indicate their frequency of interactions with important policy participants to acquire new information, ranging from never to always. These participants include:

1. Organizations working on the same issue,
2. Members and constituents that are affected by the issue, and
3. Field experts.

An organization’s knowledge is largely determined by its employees’ level of knowledge in the field in which the organization operates. Therefore, I measure NIOs’ knowledge in advocacy by asking the respondents to assess their advocacy staff’s knowledge and experience about conducting advocacy. The measure is a dummy that equals to 1 if an NIO has a full-time, dedicated staff (team) for advocacy. Having professional advocacy staff is an indication of possessing knowledge about advocacy. Also, because a large part of advocacy is about cultivating relationships (Bass et al., 2014), having dedicated staff can ensure the process is not interrupted, thereby enhancing effectiveness.

Finally, I evaluate an organization’s learning capacity by asking respondents to indicate their frequency of publishing research/reports regarding the issues they advocate for, ranging from never to always.

4.4.3. Control Variables

I include measures that assess NIO's organizational political interaction and stability in the model. Political interaction can enhance advocacy effectiveness because interaction with political officials enhances NIO advocates' understanding of the policy issues and help them "identify where legislators' positions are fixed and where they might be swayed" (Johansen & LeRoux, 2013, p.358). Political interaction is measured by the frequency of interaction with government agencies at city, county, state, and federal levels, city council members, county commissioners, state legislators or their staff, and members of congress or their staff (Johansen & LeRoux, 2013).

I also control for an NIO's advocacy involvement, measured by advocacy scope. I differentiate between nine types of advocacy strategies: research, media advocacy, direct lobbying, grassroots lobbying, judicial advocacy, public education, coalition building, administrative lobbying, and expert testimony, following Guo and Saxton (2010). Advocacy involvement is measured by the raw count of advocacy strategies employed by each organization. The higher the count, the broader the scope.

Finally, I control for organizational stability as it promotes organizational effectiveness (O'Toole & Meier, 2003). I operationalize stability using three measures: Organization size (log transformation of total assets), age (years of operation), and revenue diversification. I expect larger and more established NIOs are more stable, and therefore, more likely to be effective in advocacy. The model also includes revenue diversification because Carroll and Stater (2009) found that diversified revenue streams help reduce revenue volatility and promote stability.

4.5. Findings

4.5.1. Descriptive Findings

As shown in Table 4.1, NIOs' degree of advocacy involvement varies widely by the type of activity. About half of them report being "frequently" or "always" involved in coalition building (50%) and public education (46%). Only about 20% indicate high levels of involvement ("frequently" and up) in administrative lobbying (23%), media advocacy (18%), direct lobbying (16%), and grassroots lobbying (16%). Around two-thirds say that they "rarely" or "never" engage in research (68%), and over 80% indicate the same for expert testimony. Finally, barely any NIOs conduct judicial advocacy (88%) in the sample.

As Table 4.2 reports, a large portion of NIOs rate positively about their advocacy effectiveness. In terms of overall advocacy effectiveness, no organization thinks that their members or clients are "very dissatisfied" with their advocacy efforts. Instead, over 60% of them say they are "satisfied" (33%) or "very satisfied" (30%). Among the six advocacy impacts, 83% of NIOs rate at least "moderately effective" about their efforts to increase knowledge for an issue, followed by increasing visibility for an issue (77%), strengthening alliances for an issue (75%), and increasing general support for an issue (72%). Although no one selected the "N/A" option, many respondents skipped the questions about advocacy impacts, perhaps because some do not apply to them.

Table 4.3 presents NIO's interaction with the environment. Almost half NIOs mention that they "frequently" or "always" interact with other nonprofit organizations and government officials. A sizable proportion of them are well connected with their members and field experts, with 42% and 40% saying that they at least "frequently" interact with these groups, respectively.

They are less likely to communicate with legislators, as only 25% report frequent interaction with them.

Table 4.4 present summary statistics, including variable definitions, data sources, means, standard deviations, minimums, and maximums. Table 4.5 provides the correlations between variables. Without introducing controls, most independent variables are positively and significantly correlated with the measures of advocacy effectiveness, with one exception of knowledge on alliance building. The table also confirms that collinearity is not a concern for the empirical models.

4.5.2. Regression Results

The first group of independent variables relates to nonprofits' connectedness measured by nonprofits' interaction with organizations working on the same issue, members or clients affected by the issue, and field experts. The second variable measures NIO's advocacy knowledge using a dummy variable indicating whether nonprofits have a dedicated staff for advocacy. The third variable measures NIO's learning mechanism by asking respondents how often their organizations publish advocacy-related research.

Because the dependent variables are ordinal measures, I use ordered logistic regression to estimate the models. Table 4.3 presents the results for overall effectiveness, visibility building, and knowledge building models. Table 4.4 shows the findings for general support, legislative support, alliance building, and policy implementation models. While I do not find complete support for the three hypotheses across seven models, the study offers nuanced findings.

These findings show that interaction with other organizations working on the same issue is associated with improved overall advocacy effectiveness (model 1), visibility (model 2),

knowledge (model 3), and alliance building (model 6). Similarly, communicating with members or clients who are affected by the issue is positively related to NIOs' effectiveness in building knowledge for an issue (model 3) and strengthening alliances for an issue (model 6). More frequent interaction with field experts is positively associated with visibility (model 2) and proper implementation of adopted policy (model 7).

Possessing advocacy knowledge, as proxied by having dedicated advocacy staff, is associated with enhanced overall advocacy effectiveness (model 1) and general support (model 4) and legislative support (model 5) for an issue. An organization's learning mechanism seems to matter the most as it is positively related to five out of seven advocacy effectiveness measures, namely, visibility building (model 2), knowledge building (model 3), general support (model 4), legislative support (model 6), and policy implementation (model 7).

4.6. Discussion and Conclusion

Absorptive capacity refers to "the ability to identify, assimilate, and exploit knowledge from the environment" (Cohen & Levinthal, 1989, p. 589). Previous research shows that it improves different organizational outcomes, such as performance (Lane et al., 2001), innovation (Shier et al., 2019), competitive advantage, and organizational learning. This study examines the effects of absorptive capacity on NIO advocacy effectiveness.

4.6.1. Connectedness

An organization's ability to acquire information is the premise for effective advocacy. In a constantly changing policy environment, NIOs need to ground their advocacy strategy on accurate and up-to-date information to ensure the proposed solution remains relevant and

Table 4.1. NIO’s Advocacy Involvement

We consider the following as advocacy activities. How often did your organization engage in these activities before the COVID-19 pandemic in February 2020?

	Media advocacy	Administrative lobbying	Direct lobbying	Coalition building	Public education
Never	24.2%	21.3%	31.3%	7.6%	10.9%
Rarely	23.2	20.4	26.1	15.7	12.8
Occasionally	35.1	35.1	26.5	26.2	30.3
Frequently	12.8	16.6	10.9	33.8	28.4
Always	4.7	6.6	5.2	16.7	17.5
Total	211	211	211	210	211

	Research	Expert testimony	Judicial advocacy	Grassroots lobbying
Never	41.2%	55.2%	87.7%	43.1%
Rarely	27.0	25.2	9.0	20.4
Occasionally	21.3	9.5	1.9	20.4
Frequently	5.7	5.7	1.4	11.4
Always	4.7	4.3	0.0	4.7
Total	211	210	211	211

Table 4.2. NIO’s Advocacy Effectiveness

How would you estimate your members’ or clients’ level of satisfaction with your organization’s advocacy work?		In your opinion, how effective is your organization's advocacy in:			
	Overall effectiveness		Visibility building	Knowledge building	General support
Very dissatisfied	0.0%	Not effective	4.3%	2.7%	4.3%
Dissatisfied	1.4	Slightly effective	18.3	14.4	23.7
Neither satisfied nor dissatisfied	35.2	Moderately effective	43.0	44.2	44.1
Satisfied	32.9	Very effective	27.4	29.3	23.7
Very satisfied	30.5	Extremely effective	7.0	9.6	4.3
		N/A	0.0	0.0	0.0
Total	210	Total	186	188	186
			Legislative support	Alliance building	Policy implementation
		Not effective	15.5%	6.3%	17.2%
		Slightly effective	38.7	18.3	31.7
		Moderately effective	27.7	35.4	25.5
		Very effective	14.2	28.6	20.0
		Extremely effective	3.9	11.4	5.5
		N/A	0.0	0.0	0.0
		Total	155	175	145

Table 4.3. NIO’s Interaction with the Environment

How often did your organization interact with the following to advance understanding of the issues you advocated for before the COVID-19 pandemic in February 2020?			
	Nonprofit Interaction	Member Interaction	Expert Interaction
Never	13.5%	16.2%	16.5%
Rarely	8.7	17.2	18.0
Occasionally	28.5	24.5	25.7
Frequently	34.8	29.4	32.5
Always	14.5	12.8	7.3
Total	207	204	206

How often did your organization interact with the following before the COVID-19 pandemic in February 2020?		
	Government Interaction	Legislator Interaction
Never	7.4%	12.0%
Rarely	13.9	29.0
Occasionally	29.2	34.1
Frequently	35.7	16.1
Always	13.9	8.8
Total	216	217

Table 4.4. Summary of All Variables

Variable	Data Source	Description					
			Obs	Mean	SD	Min	Max
DEPENDENT VARIABLES							
Overall Advocacy Effectiveness	Survey	How would you estimate your members'/clients' level of satisfaction with your organization's advocacy work?	201	3.91	0.85	2 (Dissatisfied)	5 (Very satisfied)
Specific Advocacy Effectiveness	Survey	In your opinion, how effective is your organization's advocacy in:					
Visibility building		increasing visibility for an issue	179	3.15	0.92	1 (Very ineffective)	5 (Very effective)
Knowledge building		increasing knowledge for an issue	181	3.29	0.92	1	5
General support		increasing general support for an issue	178	2.99	0.90	1	5
Legislative support		increasing legislative support for an issue	149	2.53	1.04	1	5
Alliance building		strengthening alliances for an issue	167	3.21	1.07	1	5
Policy implementation		ensuring proper implementation of adopted policy	139	2.65	1.15	1	5
INDEPENDENT VARIABLES							
Connectedness	Survey	How often does your organization interact with the following to advance understanding of the issues you advocate for:					
Other organizations		organizations working on the same issue	198	3.29	1.22	1 (Never)	5 (Always)
Members or clients		members or clients affected by the issue	195	3.08	1.28	1	5
Field experts		field experts	197	2.96	1.20	1	5
Knowledge		Does your organization have one or more dedicated staff for government relations, public policy, or advocacy?	202	0.20	0.40	0 (No)	1 (Yes)
Learning Mechanisms		How often does your organization engage in publishing research to inform policymaking?	202	2.05	1.13	1 (Never)	5 (Always)
CONTROL VARIABLES							
Political Interaction	Survey	How often does your organization interact with:					
Legislators		legislators or their staff (any level)	208	2.79	1.10	1 (Never)	5 (Always)
Government officials		government officials (any level)	207	3.34	1.12	1	5
Advocacy Involvement	Survey	Raw count of advocacy strategies employed by NIOs	210	5.57	2.69	0	9
Organizational Stability	990						
Size		Logged total assets	210	18,800,000 ¹	73,300,000 ¹	-11588 ¹	933,000,000 ¹
Age		2018 - rule year	210	31.68	19.93	1	89
Revenue diversification		The extent to which NIO's revenue portfolio is diversified between earned revenue, contribution, and investment income	210	0.68	0.25	0.00 (perfect ² diversification)	1 (perfect concentration)

¹ In this table, assets are reported in unlogged numbers for ease of interpretation. In subsequent tables, these values are in logarithmic form.

² 0.00 is a rounding error.

Table 4.5. Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
1 Overall effectiveness	1																		
2 Visibility	0.477 ***	1																	
3 Knowledge building	0.506 ***	0.846 ***	1																
4 General support	0.458 ***	0.739 ***	0.736 ***	1															
5 Legislative support	0.459 ***	0.561 ***	0.578 ***	0.535 ***	1														
6 Alliance building	0.445 ***	0.670 ***	0.767 ***	0.641 ***	0.471 ***	1													
7 Policy implementation	0.410 ***	0.492 ***	0.496 ***	0.476 ***	0.450 ***	0.537 ***	1												
8 Interact orgs	0.499 ***	0.613 ***	0.652 ***	0.497 ***	0.518 ***	0.601 ***	0.460 ***	1											
9 Interact members	0.356 ***	0.500 ***	0.616 ***	0.415 ***	0.451 ***	0.562 ***	0.397 ***	0.691 ***	1										
10 Interact experts	0.418 ***	0.549 ***	0.585 ***	0.452 ***	0.430 ***	0.573 ***	0.493 ***	0.765 ***	0.775 ***	1									
11 Knowledge	0.405 ***	0.300 **	0.347 ***	0.356 ***	0.545 ***	0.179	0.310 ***	0.395 ***	0.366 ***	0.316 ***	1								
12 Learning Mechanisms	0.302 ***	0.366 ***	0.396 ***	0.394 ***	0.231 *	0.366 ***	0.352 ***	0.325 ***	0.300 **	0.322 ***	0.217 *	1							
13 Interact legislators	0.399 ***	0.362 ***	0.369 ***	0.425 ***	0.581 ***	0.341 ***	0.423 ***	0.491 ***	0.376 ***	0.392 ***	0.488 ***	0.323 ***	1						
14 Interact govt officials	0.261 **	0.333 ***	0.416 ***	0.347 ***	0.428 ***	0.408 ***	0.445 ***	0.495 ***	0.395 ***	0.418 ***	0.332 ***	0.304 ***	0.660 ***	1					
15 Advocacy involvement	0.250 **	0.380 ***	0.379 ***	0.380 ***	0.389 ***	0.367 ***	0.342 ***	0.484 ***	0.458 ***	0.450 ***	0.262 **	0.457 ***	0.465 ***	0.476 ***	1				
16 Size	-0.037	0.057	0.035	-0.013	0.047	-0.007	-0.028	0.063	0.015	0.042	-0.063	0.068	-0.014	0.024	0.048	1			
17 Age	-0.154	0.020	0.020	-0.016	0.029	-0.016	-0.047	0.029	-0.012	0.048	0.120	0.016	0.106	0.100	-0.023	0.393 ***	1		
18 Revenue diversification	0.037	0.171	0.198 *	0.026	0.069	0.175	0.027	0.138	0.061	0.071	0.008	0.163	0.113	0.158	0.151	-0.082	0.112	1	

appropriate (Crutchfield & McLeod Grant, 2008). Moreover, lawmakers value information generated from the field because they want the proposed policy intervention to be informed by real-world practices (Independent Sector, 2012).

This study finds that more frequent interaction with various policy participants is positively associated with overall advocacy effectiveness and five of the six advocacy impact areas. First, communicating with peer organizations enhances NIOs' overall advocacy capacity through information sharing, organizational learning, and support network (LeRoux & Goerdel, 2009; Li, Lo, & Tang, 2017). As critical intermediate steps to successful advocacy, building visibility and knowledge as well as forming an alliance for an issue can benefit substantially from peer communication. Raising awareness of an issue helps advocates reach their end goals of spurring cultural change and policy interventions (Independent Sector, 2012). However, many organizations face the challenge of broadly disseminating messages (Independent Sector, 2012). One possible solution is to unite the voices of like-minded organizations, which attracts more attention and carries more weight. For instance, the open letter signed and sent by over 20 national NIO leaders in 2016 attracted considerable media attention and sparked a continuous public discussion about the struggle and importance of NIOs. Communicating with peer organizations also advances both technical and substantive knowledge about advocacy. Through formal and informal channels of communication, nonprofits learn from each other about the most effective advocacy tactics, how to navigate resource-constrained environments, and manage competing advocacy demands from constituencies (Li et al., 2017). In the same vein, more frequent communication with peer organizations helps build and strengthen alliances by establishing trust, commitment, and protocol for conflict resolution (Agranoff, 2003; Bingham & O'Leary, 2007).

Table 4.6. Results of Ordered Logit Regressions (1)

Variables	Overall Effectiveness		Visibility		Knowledge	
	Coefficient	Z-Score	Coefficient	Z-Score	Coefficient	Z-Score
Nonprofit Interaction	0.41 **	1.96	0.37 *	1.68	0.39 *	1.73
Member Interaction	0.06	0.33	0.04	0.21	0.45 **	2.24
Expert Interaction	0.12	0.55	0.48 **	2.02	0.29	1.22
Knowledge	0.86 **	2.10	0.49	1.21	0.43	1.05
Learning	0.26	1.56	0.28 *	1.69	0.39 **	2.35
Legislator Interaction	0.63 ***	3.04	0.30	1.41	0.16	0.73
Government Interactor	-0.36 *	-1.86	-0.02	-0.09	0.31	1.54
Advocacy Involvement	-0.06	-0.63	-0.11	-1.17	-0.21 **	-2.17
Revenue Concentration	-0.49	-0.78	0.38	0.58	0.74	1.19
Size (assets)	-0.05	-0.45	0.14	1.17	0.05	0.43
Budget (expenses)	0.10	0.60	-0.06	-0.36	0.02	0.12
Age	-0.02 **	-2.28	-0.01	-0.90	0.00	-0.45
Pseudo R ²	0.15		0.12		0.17	
Observations	191		171		172	

*** p<0.01, ** p<0.05, * p<0.1

Table 4.7. Results of Ordered Logit Regressions (2)

Variables	General Support		Legislative Support		Alliance		Implementation	
	Coefficient	Z-Score	Coefficient	Z-Score	Coefficient	Z-Score	Coefficient	Z-Score
Nonprofit Interaction	0.25	1.15	0.29	1.11	0.49 **	2.15	0.30	1.06
Member Interaction	0.03	0.14	0.32	1.37	0.38 *	1.80	0.01	0.03
Expert Interaction	0.43 *	1.79	-0.04	-0.14	0.40	1.59	0.62 **	2.09
Knowledge	0.81 **	1.98	1.58 ***	3.48	-0.61	-1.49	0.38	0.87
Learning	0.36 **	2.19	-0.15	-0.85	0.32 *	1.93	0.36 **	2.01
Legislator Interaction	0.47 **	2.13	0.88 ***	3.62	0.18	0.82	0.12	0.48
Government Interaction	-0.10	-0.50	0.04	0.15	0.37 *	1.70	0.43 *	1.73
Advocacy Involvement	-0.04	-0.44	0.10	0.89	-0.23 **	-2.20	-0.19	-1.60
Revenue Concentration	-0.11	-0.18	-0.13	-0.19	0.33	0.52	-0.10	-0.13
Size (assets)	0.22 *	1.81	0.01	0.05	0.01	0.08	0.12	0.90
Budget (expenses)	-0.29 *	-1.72	0.24	1.17	-0.05	-0.28	-0.19	-1.02
Age	-0.01	-1.30	-0.01	-1.51	-0.01	-0.95	-0.01	-1.26
R ²	0.14		0.22		0.15		0.13	
Observations	170		142		159		131	

*** p<0.01, ** p<0.05, * p<0.1

Second, the findings show that interaction with members or clients is positively associated with knowledge and alliance building. As Donaldson (2008) notes, involving constituents is critical for effective advocacy because the knowledge collected from constituent experiences helps NIOs develop a keener understanding of the issue and generate more appropriate policy recommendations. At the same time, alliances formed with constituent participation are likely to be stronger and more stable over time by having stakeholder support and buy-in.

Third, NIOs' interaction with field experts relates to enhanced the visibility of an issue and the proper implementation of adopted policies. External experts can enhance the visibility of a policy issue in two ways. First, they can draft data-driven and visually appealing policy recommendations, which may attract more attention from the public. Second, the experts are often well-connected with established scholars, thought leaders, and public officials, which helps NIOs disseminate their messages more broadly and attract more attention (Independent Sector, 2012). Consulting with external experts also facilitates policy implementation because they have substantive knowledge about the adopted policy and how government works.

4.6.2. Knowledge

The results support previous findings that emphasize the importance of professional advocacy staff. Advocacy professionals enhance NIOs' advocacy effectiveness by increasing general support and legislative support for an issue. First, without a dedicated staff handling advocacy work, these activities are often carried out in an unsystematic and ad hoc fashion (Donaldson, 2008), limiting advocacy effectiveness. Alternatively, advocacy staff often spend considerable time assessing the policy environment and studying important players (Independent

Sector, 2012). They can select the most strategic and favorable timing to take action (Bass et al., 2014; Oliver, 1983), which maximizes general and legislative support. Their understanding of public officials' ideology, preferences, and constituent allows them to select the most suitable strategy to gain legislative support and spur action for an issue (Independent Sector, 2012).

Second, a large part of advocacy work involves cultivating relationships with policymakers and other stakeholders, which can take years to see results (Bass et al., 2014; Donaldson, 2008). Without a full-time position dedicated to the task, the relationship-building process is unlikely to continue uninterrupted. Moreover, tailored communication has proven vital in influencing the opinions of elected officials and other stakeholders (Independent Sector, 2012). A trained advocate who can select words and frame messages differently to target specific audiences is more likely to conduct effective advocacy.

4.6.3. *Research Capacity*

An NIO's research capacity contributes to the organization's competitive advantage and relationship with government (Berry & Arons, 2003). Previous research demonstrates that organizations investing considerable resources in hiring researchers and policy experts to work on policy issues become players in the policymaking process (Berry, 2010). Their influence and status are therefore substantially higher than their counterparts. Similarly, Berry and Arons (2003) find that over 50% of the nonprofits with the highest research capacity in their sample report that they are frequently consulted by government, while only about 10% of nonprofits with the lowest research capacity say the same.

4.6.4. Limitations and Contributions

This study has several limitations. First, this study relies on perceptual data and may be susceptible to common source bias. Second, the results are based on cross-sectional data, and therefore, causation cannot be established.

Notwithstanding these limitations, this study advances our understanding of an important yet overlooked participant of nonprofit advocacy – NIOs. NIOs' success in defending and promoting the interests of the nonprofit community contributes to the long-term prosperity of the sector. The study findings have important implications for guiding advocacy practices. The data set comes from an original online survey of 909 NIOs. To the knowledge of the author, this is the first large-N study on NIOs' advocacy activities. It also extends the emerging literature on nonprofit advocacy effectiveness by using more comprehensive measures of advocacy effectiveness that consider outcomes of advocacy at various stages.

CHAPTER FIVE: NIO FINANCIAL SUSTAINABILITY

5.1. Introduction

The benefits theory of nonprofit finance highlights the logical connection between nonprofits' revenue composition and the type of services and benefits they produce (Young, 2007). It argues that programs of different nature should pursue different financial sources. Programs that benefit individual beneficiaries (private benefits) are most appropriately funded by private sources, such as fees-for-service. Programs that serve a narrowly defined subgroup of the society (group benefits) should be supported by philanthropic giving from individuals who care about that group. Programs that benefit the general public (public benefits) should be funded by the government.

NIOs often provide a range of services that confer different benefits. For instance, the Minnesota Council of Nonprofits offers training and engages in advocacy, conferring private and group benefits, respectively. Therefore, it should charge fees for the former and rely on donors and members contribution for the latter. NIOs may benefit financially from employing the benefits-based principles. In this chapter, I use the theory to examine (1) whether providing more benefits-based services leads to the increase in the corresponding revenue, and (2) whether NIOs are more financially sustainable when they develop a revenue portfolio that reflects the nature of their services. Using an original online survey of 909 U.S.-based NIOs, this study finds compelling evidence that more benefits activity leads to more benefits revenue. However, I find mixed support that NIOs with a benefits-based revenue portfolio are financially stronger than comparable peers.

5.2. Literature Review

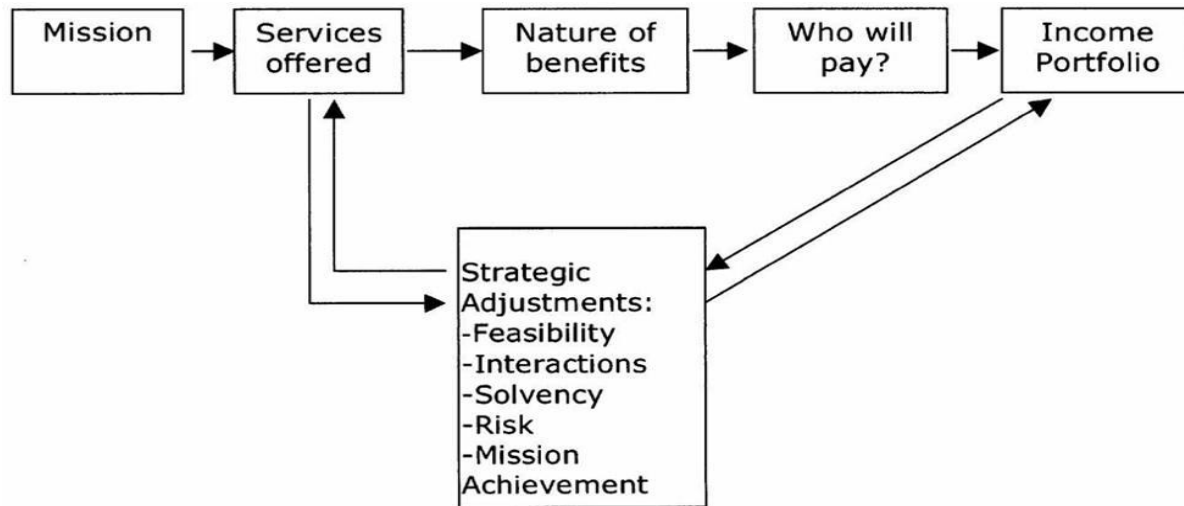
5.2.1. *Benefits Theory: Working Principles*

Young's benefits theory provides practical guidance on how nonprofits can finance themselves more successfully by linking their revenues to their unique missions and the benefits their goods and services generate (Young, 2017). Every nonprofit has a mission that benefits its constituents. In return, those beneficiaries and stakeholders should recognize, value, and support this mission (Young, 2017). In the most direct form, a client purchases goods and services from a nonprofit (e.g., tickets for admission to museums, plays, and dance performances). However, such exchange can also occur in a less market-based way, such as environmentalists donating to environmental nonprofits to build a more sustainable world. Although the donors do not receive *quid pro quo* benefits, this is still an exchange because protecting the environment aligns with the donors' interest.

Benefits theory offers four working principles to help nonprofits develop their funding structure (Figure 5.1). First, nonprofits' revenue structure should reflect the nature of benefits produced (Young, 2007). This principle reminds nonprofit leaders that the goods and services they produce have value, and they should capitalize on the benefits of their services for survival and growth. The principle also underscores the importance of promoting their benefits as a critical element for resource development (Young, 2007). To receive financial support, nonprofit organizations need to provide the justifications necessary to persuade stakeholders, including service recipients, donors who care about the service beneficiaries, governments and foundations who benefit indirectly from the programs' positive externalities, and corporate partners who enjoy the positive publicity by associating themselves with the organization.

Second, “[e]ach source of income has its place—different types of income are

Figure 5.1. The Framework of Benefits Theory (Young, 2007, p.350)



appropriate to support different missions and services” (Young, 2007, p.347). This principle emphasizes the diversity of nonprofit organizations in terms of missions and the types of benefits they generate. Different revenues, such as government funding, charitable gifts, and fees, are suitable for different missions and services. As a result, nonprofit leaders should identify the most appropriate revenue sources that correspond with the organization’s mission and benefits. For instance, if a nonprofit tries to make its programs broadly accessible to the whole community, it should seek government support. If a nonprofit helps underrepresented minorities or certain ethnic groups, donations from individuals and organizations that share the same concern may be more appropriate.

Third, “[a] nonprofit organization’s income portfolio should reflect the mix of benefits its services confer on its potentially diverse set of income providers” (Young, 2007, p.348). This principle emphasizes that nonprofit programs produce different direct and indirect benefits. To fully capitalize on those benefits, nonprofit leaders should carefully analyze the full range of their program beneficiaries. The end goal is to develop income portfolios that mirror the mix of

benefits of the organizations' goods and services.

Fourth, “[n]onprofit income portfolios should also reflect basic organizational challenges such as financial solvency, interactions among income sources, the challenges (feasibility) of accessing and administering particular sources of income, risk management, and long-term mission achievement” (Young, 2007, p.348). This principle recognizes the challenges to fully support a mission through benefits-based income sources. NIO services, such as research and advocacy, are subject to the free-rider problem, where organizations enjoy the benefits of NIO services (e.g., a positive policy environment) without paying their fair share. Nonprofits should recognize the economic feasibility, sustainability, and risk factors associated with the benefits-based financing strategy and exercise caution when applying it.

5.2.2. *Benefits Theory: Types of Benefits*

Young (2007, 2017) categorizes the benefits conferred by nonprofits' goods and services into four types: private, group, public, and trade benefits. Private and trade benefits accrue to specific beneficiaries, which are akin to market transactions. By contrast, group and public benefits accrue to certain groups or the whole society and cannot be found in market-like transactions (Young, 2007).

Private Benefits. *Private Benefits* “are benefits that accrue specifically to individual consumers or clients, which they recognize and are willing to pay for” (Young, 2007, p.352). Private benefits-oriented programs provide benefits directly to individual parties, such as nonprofit leaders receiving resource development training. Benefits theory argues that fees-for-services, workshop and lecture fees, commercial sales, and other types of earned income are the most

appropriate source to finance such programs. Young (2017) argues that, unlike for-profit businesses, nonprofits often consider both positive externalities of programs and customers' ability to pay when pricing their services. Therefore, it is not uncommon for nonprofits to lower their service price, sometimes even below the breakeven point, to maximize societal benefits. For instance, Szabat and Simmons (1996) found that 55% of surveyed NIOs charge symbolic fees for consulting services, reflecting Young's argument.

Group Benefits. *Group Benefits* "are benefits that accrue to an identifiable subgroup of society and are valued by donors interested in helping that group." (Young, 2007, p.352). NIOs advocating and lobbying on behalf of the sector is an example of such programs. The benefits of advocacy (e.g., an improved policy environment) accrue to every nonprofit and cannot be pinpointed on specific organizations. Thus, the theory suggests that the most appropriate funding sources for these programs are philanthropic contributions and membership dues. I consider membership dues a form of donation because group benefits are, in the economic sense, non-excludable (the provider cannot easily exclude a non-payer's consumption of the good or service). In other words, nonprofits do not have to pay to enjoy group benefits. Therefore, membership dues are another form of donation.

The fundamental challenge is to find ways to incentivize donors to contribute, given the non-excludable nature of the benefits. Pure altruistic pro-social motivation can promote the supply of valued goods without expecting reciprocation (Kolm & Ythier, 2006). However, in most cases, pure altruism does not completely offset the loss from the free-rider problem. The existence of the problem prevents the efficient provision of group benefits-oriented services, as they will almost certainly be underfunded. To mitigate the free-rider problem, Mancur Olson

(1965) provides some promising remedies. He proposes three strategies that can boost contribution: coercion, social pressure, and selective incentives. Government often uses coercion to compel contribution (e.g., taxes) when collective goods are underfunded through voluntary means.

Nonprofits are more likely to use the two non-coercive strategies, social pressure and social incentives, to raise money. Olson (1965) argues that in the absence of economic incentives, other social incentives might motivate people or institutions to contribute to a collective good, such as “a desire to win prestige, respect, friendship, and other social and psychological objectives” (p.60). He also notes that social pressure tends to be more effective in smaller groups whose members have personal connections with each other. Under such pressures, the social loss incurred by those who are unwilling to contribute will be higher than economic gains (Olson, 1965). Finally, Olson coined the concept of selective incentives to refer to a private or noncollective good given to group members to incentivize them to bear a share of the cost of a collective good (Olson, 1965). In the nonprofit sector, selective incentives can take various forms, including membership renewal gifts, special receptions arranged exclusively for loyal members, and member recognition.

Public Benefits. *Public Benefits* “accrue to a sufficiently large segment of the general public such that government financing is politically supported” (Young, 2007, p.352). Public benefits are non-excludable but can benefit a larger population. The government is usually willing to support programs that benefit the public as a whole. For instance, The National Endowment for the Arts supports arts projects that promote public engagement and community building.

When NIOs perform “watchdog” functions, such as collecting data, conducting research,

and developing codes of conduct, they are more likely to attract government support because, as nonprofits are increasingly involved in public service delivery, governments have increasing incentive to hold the sector accountable (Government Accountability Office, 2009).

Trade Benefits. *Trade Benefits* “accrue to institutions or groups that supply resources to nonprofits; these benefits correspond with the specific missions or interests of those suppliers.” (Young, 2007, p.352). Trade benefits arise from collaborations and partnerships that bring benefits to both parties. For instance, when the American Heart Association gives permission to a for-profit corporation to use the heart-healthy seal on the company’s product, both parties benefit from the partnership. The for-profit company enjoys the marketing benefits of the seal, and the Association gains more resources that can be used to promote its missions.

Other Considerations. An organization or a program can offer multiple benefits (e.g., a financial intermediary confers private benefits to grant recipients and generates public benefits by facilitating government funding distribution). Therefore, nonprofit leaders must carefully identify the full range of program beneficiaries and develop resource development strategies accordingly.

Meanwhile, nonprofits must take into account the various costs associated with pursuing a particular revenue source, such as staff time and the cost to develop staff expertise. Young (2007, 2017) argues that pursuing a benefits-based revenue portfolio would yield higher returns, as nonprofits are soliciting funds from individuals and institutions that have a stake in the organization.

5.2. Empirical Studies and Hypotheses

While empirical evidence is sparse, existing studies have generally supported the principles of benefits theory. Wilsker and Young (2010) find that the mix of programs nonprofits offer affect their revenue sources. For instance, spending more on activities that confer private benefits, such as summer day camps, leads to higher reliance on earned income; while spending more on activities that confer public benefits, such as social services, leads to higher reliance on government grants and organizational donations. Similarly, Fischer, Wilsker, and Young (2011) conclude that the type of benefits generated corresponds with an organization's revenue portfolio. Kim, Pandey, and Pandey (2018) report that many nonprofits in the arts and culture sector are already adopting the core idea of benefits theory.

Unlike most earlier studies that find the association between the nature of benefits conferred and the type of revenues generated, Liu and Kim (2022) made the first attempt to understand whether having a benefits-based income mix makes a nonprofit organization financially stronger. They report a U-shaped relationship between the percent of benefits-based revenues and financial health indicators. In other words, a nonprofit's financial health only improves when the proportion of benefits-based revenues increases beyond a certain point.

Given the discussion, I hypothesize that:

H₁: NIOs that engage in more benefits activities will generate more benefits revenues.

H1-1: NIOs that engage in more private activities will generate more private revenues.

H1-2: NIOs that engage in more group activities will generate more group revenues.

H1-3: NIOs that engage in more public activities will generate more public revenues.

H2: NIOs that match their revenue sources with the benefits they confer will have stronger financial health than otherwise comparable organizations.

5.3. Variables

5.3.1. Dependent Variables

The first set of dependent variables is NIO's proportion of benefits-based revenues out of total revenue, namely, percent of private, group, and public revenues. Private revenue includes income from sales of goods or services, such as publications. Group revenue comprises individual donations, foundation grants, corporate contributions, and membership dues. Public revenue is income from government grants. The data comes from the NIO survey.

The second set of dependent variables is financial sustainability indicators. I measure four aspects of nonprofits' financial performance that are critical to nonprofit financial management: solvency, profitability, margin, and revenue diversification. Solvency and profitability ratios reflect the long-term sustainability of nonprofit organizations. *Solvency* evaluates a nonprofit's ability to stay in business, that is, to meet its financial obligations. Organizations with high solvency ratios can convert assets and borrow when revenue declines. It is the total net assets divided by total revenue. *Profitability* is the ratio of total net income to total assets. A positive ratio indicates the long-term sustainability of a nonprofit, in terms of its ability to maintain current services and to grow in the future (Weikart, Chen, & Sermier, 2012).

Margin is a short-term measure that is defined as the total net income divided by total revenue. The larger the margin, the more resources a nonprofit can draw on in times of crisis

(Tuckman & Chang, 1991). Finally, *revenue diversification* evaluates an organization's financial stability. A diversified revenue portfolio leads to reduced volatility (Carroll & Stater, 2009). It is measured through Hirschman-Herfindahl Index (HHI), ranging from 0 to 1, where 0 indicates perfect diversification and 1 denotes perfect concentration.

5.3.2. *Independent Variable*

The first set of independent variables is an ordinal measure that evaluates NIO's engagement in benefits-based activities, namely, private, group, and public activities. *Private activities* include (1) providing management assistance, organization development, and other consulting, (2) providing support services and training nonprofit staff, (3) providing information and advice to help donors and funding agencies (e.g., foundations) make better giving decisions, and (4) recruiting, training, and deploying employees and volunteers to work for nonprofits. *Group activities* include (1) collecting and redistributing financial resources, (2) representing members or clients before government, (3) building issue-focused collaboration among like-minded nonprofits, (4) organizing conferences and webinars to facilitate communication, and (5) providing financial resources. *Public activities* comprise (1) collecting data, conducting research or disseminating findings to inform practice and (2) developing performance measures, benchmarks, and codes of conduct. All the sub-activities are measured on a 5-item Likert scale, from 0 (never) to 4 (always). As a result, private activities range from 0 to 16, group activities range from 0 to 20, and public activities range from 0 to 8. Larger values indicate higher involvement.

The second set of independent variables is *benefits match index (private, group, and public benefits match indices)*, which measure the match between an NIO's functions and the

types of revenue sources it draws from. I generate the *index* in four steps. First, I convert the percentage measure that I use to measure NIO's revenue composition to a 5-item Likert scale: 0% corresponds to no reliance (coded 0); 1-10% is low reliance (coded 1); 11-20% translates to moderate reliance (coded 2); 21-50% is high reliance (coded 3); and over 50% indicates heavy reliance (coded 4). Second, I add up activities based on their benefits nature (as described in the previous paragraph) and take the means to generate *the benefits involvement index*. For instance, because there are four private activities, the *private benefits involvement index* ranges from 0 to 16. To standardize the index, I divide them by the number of activities to ensure that all three indices have a range between 0 and 4. For instance, I divide the *private benefits involvement index* by four to convert the range from 0-16 to 0-4. I round the numbers that cannot be divided into integers. Third, I calculate the absolute differences between the extent to which NIOs engage in benefits activities and the extent to which they rely on corresponding benefits revenues to generate the *benefits mismatch index*. For instance, if an NIO never performed private functions (0), but relied heavily on private revenues (4), the *private mismatch index* is 4 ($|0-4|$), which indicates the highest level of mismatch. Finally, I subtract four from all three *benefits mismatch indices* and take the absolute value of the results to generate *private, group, and public benefits match indices*, ranging from 0 to 4. Zero indicates a complete mismatch and four means a perfect match.

5.3.3. Control Variables

The models control various organizational characteristics, including organization size, annual budget, age, workforce size, organization type, and location. I include organization size (log transformation of total assets), annual budget (log transformation of total expenses), age

(years of operation), and workforce size in the model to account for service capacity and reputation. I control for organization type and location to account for organization- and location-specific characteristics (Altamimi & Liu, 2020; Altamimi & Liu, 2021; Liu & Altamimi, 2022). In the financial sustainability models, I also control for NIO's revenue structure (donative/commercial) as donative sources are more volatile than commercial sources, which may affect NIO's financial health.

5.4. Findings

5.4.1. Descriptive Findings

Table 5.1 presents summary statistics, including variable definitions, data sources, means, standard deviations, minimums, and maximums. NIOs rely predominately on group revenue for survival, generating on average 68% from the source. They also earn about 15% and 12% from private and public sources, respectively. These NIOs are generally solvent, indicating their ability to fulfill long-term debt obligations. The small but positive profitability ratio suggests the long-term sustainability of these organizations. The margin ratio shows that NIOs, on average, generate 7¢ profit for every \$1 of revenue earned. The 0.51 HHI index indicates that NIOs' revenue portfolio is relatively diversified.

Overall, NIOs are moderately (between occasionally (coded 2) and frequently (coded 3)) involved in the eleven activities, with two exceptions. Among the four private-benefits activities, the only activity that NIOs rarely (coded 1) perform is recruiting and training employees and volunteers to work for nonprofits. Similarly, NIOs are moderately engaged in all five group-benefits activities, except for representing members or clients before government. Finally, they are at least occasionally involved in the two public-benefits activities. I sum up these activities

based on their benefits nature to create the private, group, and public activity engagement indices. On average, private, group, and public activity engagement indices are 8.5 out of 16, 11.8 out of 20, and 4.4 out of 8, respectively.

The private, group, and public benefits match indices in Table 5.1 report the match between NIO's activities and their revenue composition. The lower the index, the more the revenues generated align with the benefits produced. The match between public benefits and public revenue is the most aligned as indicated by the relatively low index value of 2.2. The least alignment is found between group benefits and group revenue, as demonstrated by the 2.7 group match index.

Table 5.2 provides the correlations between variables. The table confirms that collinearity is not a concern for the empirical models. Without introducing controls, more benefits activities lead to more benefits revenues, except for private activity. But there is barely any support that better benefits match is positively related to NIO's fiscal health.

5.4.2. Regression Results

I conduct two sets of regression analyses. The first examines the relationship between benefits activity engagement and benefits-based revenues and the second explores the effect of benefits match on NIO's financial health.

I first test the relationship between benefits activity engagement and benefits-based revenues. As shown in Table 5.3, all three models show that more benefits activities are associated with more corresponding type of benefits revenues, as indicated by the positive and significant coefficients, providing support for H1. Specifically, all else equal, as private, group,

and public activity engagements increase by one level, private, group, and public revenues grow by 1.0, 1.1, and 2.0 percentage points, respectively.

Table 5.4 presents the results for the impact of benefits match on NIOs' financial health. Columns one to four report how the three benefits matches influence solvency, profitability, margin, and revenue concentration, respectively. The results are mixed. First of all, private match is associated with higher solvency and a more diversified revenue portfolio, which supports hypothesis two. For instance, as private match increases by one level, NIOs' solvency ratio grows by 0.5 and HHI drops by 0.03. Second, I found no relationship between group match and all four financial health indicators, which suggests that the match or mismatch between group benefits and group revenue does not impact NIOs' long- or short-term financial health. Third, as public match increases by one level, NIOs' profitability and margin decrease by 0.04 and 0.05, respectively, which is contrary to my expectation, implying that benefits principles may not be suitable for public activities.

5.5. Discussion and Conclusion

How to finance nonprofit organizations has become a significant question in nonprofit scholarship and practice. This chapter empirically tests whether the benefits theory of nonprofit finance can help NIOs achieve better financial health. Benefits theory argues that nonprofits should develop their revenue portfolios reflecting their unique mix of activities because soliciting support from direct and indirect beneficiaries reduces transaction costs and increases the chance of being funded (Young, 2007, 2017). I found that more benefits activities are associated with higher benefits revenue. However, whether constructing a benefits-based revenue portfolio improves NIO's financial sustainability depends on the nature of the revenue sources.

Table 5.1. Summary of All Variables

Variable	Data Source	Description					
			Obs	Mean	SD	Min	Max
DEPENDENT VARIABLES							
Benefits-based Revenues	Survey	About what percentage of your organization's annual income came from the following sources?					
Percent of Private Revenue		(1) Income from services provided to members or clients and (2) commercial sales	207	15.10	24.45	0.00	100.00
Percent of Group Revenue		(1) Individual donations, (2) foundation grants, (3) corporate contributions, and (4) membership dues	207	68.07	31.02	0.00	100.00
Percent of Public Revenue		Government grants	207	11.98	22.44	0.00	90.00
Financial Indicators							
Solvency	990	Total net assets divided by total revenue	205	2.53	3.74	-0.34	22.52
Profitability	990	Net income divided by total assets	205	0.01	0.34	-2.91	0.82
Margin	990	Net income divided by total revenue	205	0.07	0.38	-2.98	0.93
Revenue Concentration	Survey	The extent to which NIO's revenue portfolio is diversified among seven sources of income	205	0.51	0.20	0.10	1.00
INDEPENDENT VARIABLES							
Private Benefits Activity Engagement Index	Survey	Sum of the following four private activities	207	8.52	3.60	0	16
Provide management assistance		NIOs' engagement in the activities, from 0 (never) to 4 (always)	205	2.42	1.31	0	4
Train nonprofit staff			206	2.37	1.34	0	4
Provide information & advice to help donors			206	2.55	1.30	0	4
Recruit & train employees & volunteers to work for nonprofits			207	1.22	1.45	0	4
Group Benefits Activity Engagement Index		Sum of the following five group activities	207	11.75	3.93	0	20
Collect & redistribute financial resources		NIOs' engagement in the activities, from 0 (never) to 4 (always)	205	2.59	1.61	0	4
Represent members or clients before government			205	1.58	1.42	0	4
Build issue-focused collaboration			207	2.77	1.13	0	4
Organize conferences & webinars			207	2.37	1.31	0	4
Provide financial resources			205	2.51	1.63	0	4
Public Benefits Activity Engagement Index		Sum of the following two group activities	207	4.42	2.23	0	8
Collect data, conduct research or disseminate research findings		NIOs' engagement in the activities, from 0 (never) to 4 (always)	206	2.39	1.21	0	4
Develop performance measures, & benchmarks			207	2.04	1.23	0	4
Benefits Match Index	Survey	abs[abs[(benefits involvement indices / number of activities) - benefits revenue indices]-4]					
Private Match Index			205	2.34	1.01	0	4
Group Match Index			205	2.66	0.87	0	4
Public Match Index			205	2.22	1.15	0	4
CONTROL VARIABLES							
Size	990	Logged total assets	207	18,400,000.00 ¹	73,300,000.00 ¹	1.00 ¹	933,000,000.00
Budget	990	Logged total expenses	207	3,793,973.00 ¹	10,600,000.00 ¹	0.00 ¹	112,000,000.00
Age	990	2018 - rule year	207	31.50	20.04	0	89
Donative	990	Coded 1 if a nonprofit generates at least 50% of its revenue from donative sources	205	0.71	0.45	0	1
Type	990	12 major NTEE categories	207	6.63	3.00	1	10
Location	990	States where NIOs are located	207	23	13	1	46

¹ In this table, assets and expenses are reported in unlogged numbers for ease of interpretation. In subsequent tables, these values are in logarithmic form.

Table 5.2. Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1 Private revenue	1																			
2 Group revenue	-0.591 ***	1																		
3 Public revenue	-0.143 *	-0.527 ***	1																	
4 Solvency	-0.004	-0.091	-0.171 *	1																
5 Profitability	0.111	0.000	-0.129	0.047	1															
6 Margin	0.096	0.033	-0.109	-0.079	0.491 ***	1														
7 Revenue Concentration	0.073	-0.063	0.044	0.125	0.032	0.133	1													
8 Private activity	0.023	0.068	-0.006	-0.159 *	0.070	0.051	-0.163 *	1												
9 Group activity	-0.333 ***	0.207 **	0.098	0.016	-0.002	-0.013	-0.075	0.297 ***	1											
10 Public activity	-0.152 *	0.025	0.210 **	-0.205 **	-0.048	-0.061	-0.172 *	0.422 ***	0.457 ***	1										
11 Private match	0.215 **	-0.217 **	0.028	0.108	0.006	-0.121	-0.151 *	-0.414 ***	-0.386 ***	-0.268 ***	1									
12 Group match	0.024	-0.316 ***	0.320 ***	0.019	0.000	0.032	0.022	0.169 *	0.622 ***	0.332 ***	-0.267 ***	1								
13 Public match	-0.023	-0.218 **	0.306 ***	0.098	-0.093	-0.117	0.025	-0.319 ***	-0.274 ***	-0.560 ***	0.191 **	-0.104	1							
14 Total assets	-0.045	0.044	-0.172 *	0.427 ***	0.253 ***	0.328 ***	0.181 **	-0.081	0.293 ***	-0.015	-0.084	0.195 **	-0.110	1						
15 Total expenses	-0.065	0.017	0.023	-0.052	0.084	0.139 *	0.041	0.022	0.292 ***	0.163 *	-0.037	0.211 **	-0.143 *	0.774 ***	1					
16 Age	-0.205 **	0.110	0.050	0.139 *	0.046	-0.030	-0.103	-0.158 *	0.220 **	0.052	-0.006	0.112	-0.021	0.314 ***	0.331 ***	1				
17 Staff size	-0.025	0.003	0.030	-0.074	0.071	-0.099	-0.149 *	0.204 **	0.287 ***	0.309 ***	-0.029	0.131	-0.143 *	0.489 ***	0.727 ***	0.278 ***	1			
18 Donative	-0.415 ***	0.305 ***	0.108	-0.277 ***	-0.052	0.097	-0.041	0.099	0.372 ***	0.156 *	-0.212 **	0.159 *	-0.054	0.047	0.101	-0.012	-0.025	1		
19 Type	-0.257 ***	0.355 ***	-0.284 ***	0.221 **	0.126	0.189 **	-0.005	0.128	0.278 ***	0.061	-0.324 ***	0.058	-0.061	0.375 ***	0.168 *	0.185 **	0.138 *	0.339 ***	1	
20 Location	-0.044	0.135	-0.076	0.027	0.106	0.022	-0.044	-0.044	0.053	0.001	0.043	-0.022	-0.035	0.001	-0.086	0.174 **	-0.010	0.068	0.050	1

The findings contribute to the nonprofit finance literature in several ways. First, this study joins several other studies to confirm the normative nonprofit financing approach that highlights the connection between the nature of nonprofits' programs and revenue streams. For private services that benefit individual organizations, such as training, the most appropriate revenue source is fee-for-service. When the program beneficiary is the whole nonprofit sector or a subsector, soliciting funds from donors who care about the sector is the most efficient strategy. Governments are generally interested in funding NIOs' programs that improve the nonprofit sector's transparency and accountability, because nonprofits are increasingly involved in public service delivery, and therefore, the sector's accountability matters not only to donors but also to the general public.

Second, the financial benefits of employing the benefits theory require more nuanced discussion. The study only finds that alignment between NIOs' private activities and private revenues is positively associated with solvency ratios and diversifies revenue streams. This seems to indicate that whether the financial benefits of the benefits theory can be realized depends on the nature of the revenues.

Private revenue (i.e., earned revenue) is the most stable source of income with no strings attached. Compared to donations and grants, earned revenue tends to be the most consistent cash flow that NIOs can rely on (Lyons, Townsend, Sullivan, & Drago, 2010). Moreover, organizations can spend or invest the profits in a way that benefits the organization the most, without considering donors' preference or grant conditions. Most importantly, with the introduction of earned income activities, nonprofits develop and strengthen their management capacity, which improves the efficiency of the organization and leads to more sustainable

Table 5.3. Effects of Benefits Activities on Benefits Revenues

Variables	Private Revenue		Group Revenue		Public Revenue	
	Coefficient	T-Value	Coefficient	T-Value	Coefficient	T-Value
Private Activity	1.04 **	2.03	0.32	0.47	-0.75	-1.55
Group Activity	-2.30 ***	-4.51	1.13 *	1.68	1.14 **	2.35
Public Activity	-0.24	-0.27	-1.98 *	-1.72	1.97 **	2.37
Size (assets)	1.76	1.08	-2.90	-1.35	-2.81 *	-1.81
Budget (expenses)	-1.97	-0.99	2.21	0.85	3.63 *	1.93
Age	-0.07	-0.70	-0.05	-0.38	0.10	1.01
Staff Size	1.66	0.86	-0.60	-0.24	-1.32	-0.72
Constant	50.43 ***	2.83	53.43 **	2.28	-6.76	0.08
R ²	0.27		0.22		0.22	
Observations	207		207		207	

Note. Subsector and location controlled in each regression.

*** p<0.01, ** p<0.05, * p<0.1

Table 5.4. Effects of Benefits Match on NIO's Financial Health

Variables	Solvency		Profitability		Margin		Revenue Concentration	
	Coefficient	T-Value	Coefficient	T-Value	Coefficient	T-Value	Coefficient	T-Value
Private Match	0.46 **	2.59	0.01	0.55	-0.03	-1.14	-0.03 **	-2.41
Group Match	0.25	1.25	-0.01	-0.43	-0.02	-0.67	0.00	-0.12
Public Match	0.23	1.54	-0.04 *	-1.79	-0.05 **	-1.98	0.02	1.54
Donative	-1.87 ***	-4.72	-0.03	-0.53	0.05	0.76	-0.03	-0.84
Size (assets)	1.72 ***	10.23	0.11 ***	4.48	0.09 ***	3.50	0.01	0.61
Budget (expenses)	-2.48 ***	-9.76	-0.09 **	-2.41	0.02	0.56	0.01	0.74
Age	0.03 ***	3.01	0.00	-1.35	0.00	-0.86	0.00	-0.16
Staff Size	0.45 **	2.03	0.00	0.09	-0.13 ***	-3.82	-0.05 ***	-2.64
Constant	9.21 ***	3.78	-0.16	-0.45	-1.15 ***	-3.05	0.30	1.56
R ²	0.68		0.17		0.22		0.27	
Observations	205		205		205		205	

Note. Subsector and location controlled in each regression.

*** p<0.01, ** p<0.05, * p<0.1

financial outcomes (Lyons, et al., 2010; Rich, 2014). At the same time, earned income promotes revenue diversification perhaps because self-sustainable organizations are viewed positively in the funder market. For instance, foundations increasingly demand that applicants demonstrate their ability to sustain themselves after the initial grants are exhausted (Foundation Center, 2018; Young, 2007).

Group match is not associated with financial health, perhaps because group revenues (i.e., donations and foundation grants) tend to be volatile across time and often have strings attached to the giving, which can interrupt NIO's daily operations and prevent the realization of any potential financial benefits. As Brown et al. (2009) report, NIO funders have become increasingly reluctant to give multiyear grants or general operating support, which increases the transaction costs associated with group revenues and cancels out any potential financial benefits.

Finally, public match is negatively related to NIOs' short- and long-term financial health. Though this finding is contrary to my hypothesis, it is hardly surprising as the U.S. Government Accountability Office (2010) reports that different government grants often come with diverse reporting requirements. Many nonprofits, particularly smaller ones, find it financially burdensome to comply with the red tape. Moreover, many government grants are delayed in payments and tend to underfund overhead-related costs, which also lead to worsened financial health (Pettijohn, Boris, De Vita, & Fyffe, 2013).

This study has some limitations. First, the results are based on cross-sectional data, and therefore, causation cannot be established. Future research should take advantage of panel data to examine the relationship between benefits match and nonprofits' financial health. Relatedly, due to the limitation of the Form 990 data, I can only examine certain aspects of financial health.

Future research can explore how benefits match influence other aspects of nonprofits' financial sustainability, especially in terms of short-term measures, such as liquidity.

CHAPTER SIX: CONCLUSION

This chapter summarizes the findings and contributions of each study in this dissertation and suggests future research directions on NIOs.

6.1. Findings and Contributions

6.1.1. *NIO Identification and Descriptive Statistics*

In chapter 2, I utilized Dictionary-Based Text Analysis to identify NIOs through mission statements. I first conducted an exploratory study of 280 NIO mission statements to develop a dictionary that contains 97 NIO-relevant keywords. I then assigned each keyword a weighting score based on its relevancy and predictive power. Next, I gave an index to all 237,654 mission statements in the 2016 e-filed form 990 data set, depending on the number of keywords they contain and the weighting score of the corresponding keywords. Due to the lack of distinctive keywords in NIO's mission statement, the final step was to read mission statements with high index values to generate the final list of NIOs. In total, I read 6,596 mission statements with the highest indexes and identified 1,291 NIOs, representing an identification rate of 19.6%. The final sample size is 909 after cleaning.

I sent a survey to these NIOs and received 219 valid responses, yielding an organizational response rate of 24.1%. Using the survey data and form 990 data, I reported NIO's organizational size, revenue composition, staff size, service capacity, geographic focus, functions performed, membership status, and ways they identify customer needs. These organizations are located in 46 states, have been in operation for 31 years, and their median assets, revenue, and expenses were \$1.49 million, \$1.06 million, and \$ 1.04 million, respectively in 2018. Their main source of income is individual donations, followed by foundation grants, earned income, and

corporate contributions. Their most frequently performed functions include (1) building issue-focused collaborations, (2) collecting data, conducting research, or disseminating findings to inform practice, and (3) providing information and advice to help donors and funding agencies make better giving decisions.

This chapter contributes to the nonprofit literature in two major ways. First, the study used text analysis on nonprofits' mission statements to overcome the fundamental challenge of identifying NIOs. The relatively high identification rate suggests that mission statements can be used to categorize nonprofits. The method is particularly useful when scholars wish to study nonprofits that do not have a dedicated NTEE code. It can also be used to categorize foreign nonprofits that do not have an NTEE-equivalent system.

Second, this is one of the first quantitative studies on NIOs, which supplements the previous qualitative efforts to present a more generalizable and comprehensive picture of NIOs. Compared to the two existing NIO surveys (i.e., Szabat & Simmons, 1996; WINGS, 2017), my survey is more likely to be representative of NIOs in the U.S. for two reasons. First, the sample size of my survey is substantially larger than the two earlier studies. Both Szabat and Simmons's and WINGS's findings are based on 63 respondents, which is less than a third of my sample size. Moreover, Szabat and Simmons's study focuses only on one type of NIO (i.e., management support organizations), and only a small portion of WINGS's respondents are U.S.-based NIOs (16 out of 63). Second and more importantly, respondents of both surveys belong to certain associations (Szabat and Simmons's survey was sent to members of the Nonprofit Management Association, and WING's survey targeted their own members). Surveying organizations of the same association can be problematic as members usually share common characteristics, which can systematically bias the findings.

6.1.2. *NIO Advocacy Effectiveness*

This chapter examines the effectiveness of NIOs that advocate on behalf of service delivery nonprofits. Using absorptive capacity theory, I examine determinants of NIO advocacy effectiveness. I am interested in how NIOs' connectedness, knowledge, and learning capacity affect their advocacy effectiveness, measured by overall advocacy effectiveness and six advocacy impacts. I found that NIO's connectedness improves most aspects of advocacy effectiveness. Their advocacy knowledge enhances overall advocacy effectiveness and helps strengthen general and legislative support for an issue. Having a learning mechanism improves all the advocacy impacts but legislative support.

This study contributes to the nonprofit literature and practice in three ways. First, it examines an important yet ignored participant of nonprofit advocacy – NIOs. While most existing studies focus on advocacy activities carried out by service delivery nonprofits, more and more evidence suggests that these nonprofits limit their direct involvement in advocacy due to resource constraints and the lack of expertise, among other reasons. Instead, they increasingly rely on NIOs to defend their interests in the political arena. This study is the first to fill the gap.

Second, this study constructed more comprehensive measures of advocacy effectiveness that consider outcomes of different advocacy activities. Adapted from the Urban Institute (n.d.), this study measures advocacy by overall effectiveness and six advocacy impacts (i.e., visibility, alliance, knowledge, general support, legislative support, and implementation of policy). These measures are superior because advocacy involves varying goals and different tactics.

Organizations are likely to engage in a mix of advocacy activities, and the effectiveness of these activities is likely to vary. In the absence of a comprehensive measure that captures different advocacy activity impacts, it is impossible to get an accurate assessment of an organization's

organization's advocacy effectiveness.

Third, the study suggests that different capacities matter for different advocacy goals, which helps nonprofit managers make informed decisions about how to invest their precious resources and time to achieve the predefined advocacy goals. If organizations wish to advance the knowledge of an issue, they should interact more often with nonprofits working on the same issue and their members and clients, as well as publishing research on the topic. Alternatively, if organizations aim to increase legislative support for an issue, they should consider hiring a dedicated advocacy staff as a large part of the work is cultivating relationships and building trust.

6.1.3. NIO Financial Sustainability

This chapter focuses on NIO's financial sustainability. Using benefits theory, I found that more benefits activities lead to more benefits revenues. At the same time, the study found that whether organizations with a benefits-based revenue portfolio are more financially sustainable depends on the nature of the revenue source. For instance, a match between public activities and public revenue leads to worsened, instead of improved, financial health, perhaps because government funding's demanding reporting requirements overshadow its benefits. On the other hand, an alignment between private activities and private revenues enhances an NIO's financial sustainability.

This study offers two contributions to the nonprofit financial management literature. First, it provides new empirical support to the normative benefits theory of nonprofit finance, which essentially argues that nonprofits should translate the benefits produced into resource support (Young, 2017). Previous studies that tested the theory used objective measures to determine the types and amount of benefits nonprofits produce. For instance, Fischer et al.

(2011) used NTEE codes to categorize nonprofits into different benefits types, and Wilsker and Young (2010) used spending as the proxy for the amount of benefits produced. Instead of using objective measures, I asked the survey respondents to indicate their frequency of engaging in benefits-based activities, which is a perceptual measure. This is the first study that used survey data to confirm the connection between benefits produced and their revenue composition, which strengthens the theoretical foundation of benefits theory.

Second, the study findings also suggest that constructing a benefits-based revenue portfolio does not necessarily lead to improved financial health. The plausible explanation highlights the nature of different revenue sources. Theoretically speaking, generating revenue sources from benefits activities should enhance a nonprofit's financial health because pursuing support from beneficiaries reduces transaction costs and increases the chance of funding (Young, 2007, 2017). In reality, however, the realization of the benefits is not guaranteed due to the different characteristics of the revenues, including volatility and allocation restrictions. When revenue is volatile (e.g., donations) or incurs high transaction costs (e.g., government grants), the financial benefits of a benefits-based revenue portfolio may not be fruitful. This finding is also consistent with Young's (2007) warning. He wrote that when constructing income portfolios, nonprofits should consider the feasibility of accessing and managing particular revenues as well as the risks associated with them.

6.2. Future Research

I propose several directions for future research on NIOs. First, while this dissertation studies only infrastructure organizations that are IRS-registered nonprofits, there are for-profit consulting firms that focus exclusively or partially on helping nonprofits. For instance,

McKinsey supported over 3,900 nonprofit organizations through *pro bono* services, grants, and donations in 2021 (McKinsey, 2021). Future research should examine the scale of support from these for-profit firms, compare service similarities between nonprofit and for-profit infrastructure organizations, and investigate whether nonprofits seeking support have a preference between the two types of infrastructure organizations.

Second, scholars may consider using more advanced machine learning techniques, such as supervised learning, to identify NIOs. Although I identified over 1,000 NIOs, I only read about 6,000 mission statements due to limited capacity. Future research should take advantage of automated machine learning techniques to categorize all mission statements available in the e-filed 990 data set. I also encourage scholars to join the recent efforts to explore the potential of using text data in nonprofit research. This study and some other research (e.g., Fyall et al., 2019; Ma, 2021) have shown that text-based approach has significant potential in classifying nonprofits. Future research should explore more ways to take advantage of text data to answer previously unanswerable questions.

Third, given the heterogeneity of NIO's missions, future studies should consider focusing on one type of NIOs. Due to the limited space in the survey, I asked general questions that apply to all types of NIOs. Although this is beneficial in terms of mapping out the landscape of the NIO subsector, it prevents me from asking mission- and program-specific questions. Scholars should develop surveys that allow NIOs to report mission-specific challenges and effectiveness.

APPENDIX A. LIST OF 100 MOST FREQUENTLY USED WORDS

nonprofit	145	community	130	strengthen	69	provide	67	service	54	sector	52	support	49	social	48	promote	41	resource	38
build	36	capacity	35	leadership	32	philanthropic	32	help	31	people	31	advance	31	improve	31	give	30	effective	29
impact	28	opportunity	27	public	27	network	27	change	27	foundation	26	charitable	26	serve	25	life	25	individual	25
work	25	good	24	research	23	donor	22	increase	21	leader	21	create	20	connect	20	world	20	make	20
association	20	need	20	grantmakers	20	member	19	quality	19	education	18	new	18	achieve	18	program	18	effectiveness	17
voice	17	technology	16	state	16	business	16	center	16	foster	15	engage	15	partner	14	lead	14	advocacy	14
educational	14	funders	14	economic	14	professional	14	health	13	advocate	13	empower	13	information	13	development	13	strategy	13
action	12	strong	12	society	12	expand	12	national	12	purpose	12	develop	12	collaboration	12	solution	12	use	11
global	11	charity	11	issue	11	throughout	11	dedicate	11	region	11	enhance	11	partnership	11	training	11	knowledge	11
management	11	strategic	10	building	10	alliance	10	around	10	membership	10	black	10	practice	10	together	10	washington	10

Note: Numbers are frequencies. Words in gray are excluded.

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