AN ANALYSIS OF WHAT MAKES A NON PROFIT ORGANISATION SUSTAINABLE: SPECIFIC REFERENCE TO REVENUE DIVERSIFICATION

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ABSTRACT

The collapse of the financial markets in 2008 resulted in massive changes in the funding landscape and funding criteria. According to Hudson (2007), today's funding sources have diversified and include programmes, related investments, venture philanthropy, community development finance institutions, loans, bonds, equity investments and a range of other financial instruments. Another trend that Foster (2009) allude to, is that, more and more donors want to partner with and invest in sustainable projects rather than simply give money to the needy.Given this background, this study seeks to explore whether funding diversification leads to financial sustainability for South African non-profit organisations. Findings based on feedback from three non-profit organisations, one international and two local, in existence for three years or more and operating on an annual budget over R3 million that took part in the survey as well an interview with a former non-profit executive with over 25 years' experience of working in this sector indicates that while the non-profits have diversified their revenue sources, the revenue diversification does not necessarily ensure financial sustainability, as striking the right balance is still a major challenge. Further analysis reveals that a number of other factors such as forming strategic alliances with key stakeholders, modernising the non-profit cause to meet the changing funder requirements, building the organisations brand and creating knowledge organisations contribute to financial sustainability of non-profit organisations. The results suggest that for financial sustainability organisations the need is to look beyond a request for donations to other income enhancing initiatives.

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The findings of this study reveal that non-profits have diversified their revenue sources, the revenue diversification does not necessarily ensure financial sustainability, as striking the right balance is still a major challenge. Further analysis reveals that a number of other factors such as forming strategic alliances with key stakeholders, modernising the non-profit cause to meet the changing funder requirements, building the organisations brand and creating knowledge organisations contribute to financial sustainability of non-profit organisations. The results suggest that for financial sustainability organisations the need is to look beyond a request for donations to other income enhancing initiatives.

Keywords: Non-profit revenue streams; Non-profit fundraising strategies; Revenue diversification; Financial sustainability

INTRODUCTION

This chapter describes the research problem and the rationale for exploring revenue diversification as a strategy for financial sustainability. In addition, an overview is provided of the benefits and limitations of the study. Non-profit organisations play a pivotal role in the world economy and social sector. In developing countries like South Africa, their efforts complement the activities of government and the private sector in addressing the social ills of unemployment, inequality, poverty, crime and HIV/AIDS.

However, successful delivery of these much needed services is linked to the availability of corresponding funds. When non-profits and funding sources are not well matched, funds do not flow to the areas where they are most needed. This often results in programmes with great potential being cut, curtailed or never being launched (Forster, 2009). Foundations and government agencies used to be major contributors in this sector. However, they are increasingly not simply looking for place to give to the needy and are now placing financial sustainability as a requirement for funding (Economic and Human Development Department: City of Cape Town, 2009). According to Foster (2009), more and more donors want to partner with and invest in sustainable projects rather than simply give money to the needy. Non-profit organisations are now realizing that it is no longer viable to rely on a single major donor for their continued existence.

The good news for non-profits is that funding sources have diversified fundamentally over the years, from the traditional individual giving, corporate sponsorships, grants and fundraising campaigns (Hudson, 2007). According Hudson (2007), today's funding sources include programmes, related investments, venture philanthropy, community development finance institutions, loans, bonds, equity investments and a range of other financial instruments Although the latter represent a small portion of the total funding, each revenue stream is a significant development.

The growing challenge that these organisations face is exploring different funding streams amid fears that the organisation's mission will shift and the organisation's legitimacy may be undermined.

Background to the Study

All non-profit organisations aspire to achieve financial sustainability. However, the challenges facing this sector are of greater magnitude than ever before.

According to Leon (2010), very few non-profits organisations can comfortably be referred to as a financially stable. This, she attributes to the fact that many organisations continue to have a donor dependent vision. That if a trust fund is obtained, for example, it is usually through an outside source. Moreover, attaining a profit margin that exceeds market conditions generally requires appealing to the organisation's non-profit status in order to obtain special concessions. While it is important to consider this capacity for access to capital or preferential terms as a competitive advantage enjoyed by a non-profit organisation, attaining financial sustainability through a single source is highly unlikely.

Problem Statement

The non-profit sector is one of growing sectors of the South African economy, still evolving and taking shape within the new democratic dispensation.

Available literature reflects an increased interest among non-profit researchers in the issue of revenue diversification as a strategy for financial sustainability (Weerawardena, McDonald & Mort, 2009). However, in South Africa there has been very limited contribution to this research stream. According to Weerawardena, McDonald & Mort (2009), the issue of revenue diversification for non-profits has been discussed in a fragmented manner and some of the contributions are of a prescriptive nature.

The discussion of revenue diversification needs further development including an understanding of the possible impact of diversified revenue sources for the non-profit organisations and the tax implications thereof. As the world economy is feeling the impact of the global financial crisis, the non-profit sector has been no exception. An article in the Sunday Times newspaper (2009) revealed that the non-profit sector, which represent 30% of social services in South Africa, would have R3 billion less to spend on crucial development issues because of the recession. A number of non-profit organisations are finding themselves in a donation-demand squeeze which sees once-off donations declining as people's ability to give declines (Zini, 2008). On the other hand, according to Zini (2008), there is an increase in the demand for charitable services as the number of people in need increases. Non-profits that rely on the interest from investments have already been adversely affected by the declining interest on investments.

The National Lotteries Board, a significant contributor in this sector, has not granted funding to about 1 000 struggling non-profit organisations this year, citing a backlog in the adjudication of requests, which has more than doubled since last year. This delay has left non-profit organisations like Childline, the South African National Council for the Blind (SANCB), the SA Federation of Mental Health Society in dire straits (NGO Pulse, 2012).

The Rape Crisis Trust Cape Town, an organisation that has helped more than 5000 women in the past two years alone, now faces the possibility of closure, due to lack of funds (Crous, 2012). Many of the centre's staff were recently retrenched.
Director Kathleen Dey cited the loss of four European based donors, leaving funding reduced by R1-million. Coupled with that, the provincial department of social development has also cut its funding by R400 000 over the last two years. According to the trust's survival plan, this paints a bleak picture of its future. Thousands of orphans in Durban will have to wait a long time to get foster parents as Big Shoes, a NGO that expedites the process, is short of funding and set to close its adoption programme (NGOPulse, 2012). According to KwaZulu-Natal regional manager, Tracey Brand, the organisation is donor-funded and contracts with previous donors had not been renewed.

While non-profit organisations continue to face increased challenges in sourcing funds, the funding community also showing a growing interest in the effectiveness and impact of the organisations that they fund. Relying on a single major source of funding is threatening the survival of many non-profit organisations doing plausible work in South African communities. Given these challenges, the question whether revenue diversification increases financial sustainability becomes especially salient (Salamon, 2002).

Aim of the Study

The aim of this research is to understand the contemporary funding trends for non-profit organisations operating in South Africa. Further the study seeks to analyze the various revenue diversification strategies relevant to the non-profits composition, mission and objectives. In addition, a determination of the constraints associated with revenue diversification for non-profit organisations operating in South Africa. Finally the study will also establish whether diversified funding streams can reduce financial instability and create greater financial sustainability when there is a decline in any one source of funding.

Research Objectives

Understand the funding trends for non-profit organisations operating in South Africa.

- Analyze the various revenue diversification strategies relevant to the non-profits composition, mission and objectives.
- Determine the constraints associated with revenue diversification for non-profit organisations operating in South Africa.
- Make appropriate recommendations to the non-profit organisations taking part in the study, which will hopefully improve their financial sustainability.

Research Questions

- How does the dynamic South African non-profit funding environment affect the non-profit fundraising patterns?
- What are the strengths and weaknesses of the funding models of non-profits?
- What strategies do non-profits have in place to increase their funding base?
- What recommendations can be made to not-for profit organizations?

Significance of the study

This research will provide a better understanding of the different revenue streams that non-profit organisations in South Africa can explore. Furthermore, it will analyse the fundraising strategies adopted by the organisation with the aim of broadening their knowledge of how these can be optimized and the tax implications thereof.

LITERATURE REVIEW

The review of the literature includes four main areas: (a) the South African non-profit funding landscape, (b) the current South African non-profit funding models, their strengths and weaknesses, (c) the tax implications of diversified revenue sources for non-profits, and (d) the case studies of non-profits taking part in the study, detailing the non-profit composition, their revenue sources and sustainability challenges they face.

Luckert (1998) defines a non-profit organisation as an organisation that is formed for the purpose of serving a public or mutual benefit other than the pursuit or accumulation of profits for owners or investors. "The non-profit sector is a collection of entities that are organisations; private as opposed to governmental; non-profit distributing; self-governing; voluntary; and of public benefit" (Solamon 2010). The non-profit sector is often referred to as the third sector, independent sector, voluntary sector, philanthropic sector, social sector, tax-exempt sector, or the charitable sector.

The not for profit sector makes a significant contribution to the GDP and the creation of employment in South Africa. A comprehensive study undertaken by Swilling & Russell (2002) revealed that the non-profit sector is a major force in the South African economy. The sector provided a total of 645 316 full-time and part-time jobs as well as full-time volunteers. This made the non-profit sector a larger employer than the mining industry at the time. Other findings significant to the economy were that women and black people played a leading role in this sector. Nearly 1.5 million volunteers contributed their time and energy at an estimated value of R5.1 billion. It is estimated that income generated through donations, grants, sales, membership dues, fees for services (contracts/tenders with government and the private sector) plus interest on investments is in excess of R16 billion per annum (NGOPedia, Nov 2009)

South African non-profit funding trends

Estimates suggest that 90% of funding for African countries has come from donors and 10% from self-generated income. The South African picture is also not clear, but there are indications that around 70% of NPO income comes from donors, 25% is self-generated and 5% is provided by government in the form of subsidies and grants (Department of Social Development, 2001).

Literature on international funding trends confirmed that the flood of international funding into South Africa changed the way non-profits sourced funding. Non-profits opted for the convenient way of sourcing project specific funding as dictated by the international funding community instead of raising funds for the entire organisation and its services. This fundraising strategy has put a number of non-profits in a difficult situation as the funding mandates changed. International donors that continue to fund South African non-profits are also setting stringent requirements in a bid to ensure that their donation is spent for its precise purpose.

This shift in international funding means that non-profit organisation have to be more innovative and competitive in their fundraising methods. While government is still a major contributor in this sector, other revenue sources relevant to the non-profit sector are discussed in the next section.

Financial sustainability

According to a study conducted by Steinman (2010) financial sustainability, would imply financial or business practices that would ensure the continued viability of a product, practice or service well into the future. Leon (2009) suggests that even if an organisation has twenty donors, it will remain extremely vulnerable if a large portion of the budget depends on only one of these. That any change in this donor’s decision can induce a major crisis. For organisational sustainability, Leon (2009) suggests that at least 60% of the organisation’s overall budget must come from five different sources.

Financial sustainability appears to pose the greatest challenge for non-profit organisations. The global financial crisis and government cutbacks have had a major impact on a number of non-profit organisations, as has tendency for funders to support short-term projects rather than long-term activities and core costs (Stowe, 2005). The Department for Social Development review (2010) has again reiterated the need for non-profit organisations to constantly explore other sources of funding for their continued existence.

Sustainability challenges

Financial sustainability, according to a study conducted by Steinman (2010), would imply financial or business practices that would ensure the continued viability of a product, practice or service well into the future.

Weerawardena, McDonald & Mort (2009), found that the sustainability of not for-profit organisations has been the implicit primary focus of the strategic management literature over the last few decades. For example, the resource based view (Barney, 1991; Wernerfelt, 1984) or resource advantage theory (Hunt, 2000), and the market orientation discourse (Kohli and Jaworski, 1990; Slater and Narver, 1995) inherently reflect the need for non-profit organisations to establish competitive advantage that would lead to superior financial performance, ensuring organisational survival and growth in the same way as their for-profit counterparts. However, very limited non-profit literature reflects a similar emphasis despite increased vulnerability and threats to organisational continuance facing this sector.

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Non-profit revenue streams

An analysis of studies conducted on the different revenue streams to help us establish how the nature of service provided by the non-profit affect the proportion of revenue from alternative revenue streams and how the nature of the service provided affects the overall level of diversification.

Government Funding

Non-profit funding from government sources has been varying overtime with changes in the political environment (Salamon, 2003). Their funding mandate has also changed in character over recent decades from relatively simple grants to more formalised service level agreements.

An article by Ritchie (2012) refers to the recent flare-up between the South African government and the non-profit sector over changes to policies governing state funding of non-profit organisations which has reignited the heated debate around how best to fund non-profit organisations in South Africa.

Although government does provide a significant amount of funding to the non-profit sector, the reliance of non-profit organisations on government as their single or major source of funding creates a level of dependency that would have an adverse effect on the organisation should such funding be curtailed.

The contractual obligations that come with government funding means that non-profits have to be more business-like in their operations and explore avenues beyond traditional non-profit activities to secure and maintain government funding.

Corporate sponsorship

Froelich (1999) found that the link between a corporation's contribution patterns and its own self-interest appears to be getting tighter. On the other hand, executive management still play a powerful role in the allocation of corporate sponsorship (Useem and Kutner, 1986), and major contributions are likely to be part of a broader marketing plan rather than disconnected acts of benevolence (Useem, 1987). Such practices, according to Froelich (1999), can result in goal displacement in recipient organisations.

A survey on the corporate sector funding patterns conducted by Trialogue (2010) revealed that corporate funding made up only 20% of the total funding for non-profits in South Africa. One third of the survey participants reported a decline in corporate contributions and only 2% suggested that it was so severe that they were about to close down. The non-profits attribute the decline to the global economic recession and shifts in corporate funding priorities.

However, 15% reported that their funding from corporates had increased and this they attributed to a conscious effort by the organisation to address the new funding requirements from corporates through submitting more focused proposals targeting identified corporate priorities. While the recession has taken its toll on local non-profit organisations, it had not necessarily led to a drop-off in companies supporting them

In fact, by some measures SA businesses are increasing the amount they give to charities. If you ask a company how much it spends on corporate social investment (CSI), one will generally see a figure that continues to grow at an accelerated rate, according to Rockey (2011).

Rockey (2011) state that companies are doing a better job of measuring what they contribute. This is in large part as a result of government's empowerment codes, which create an incentive for businesses to keep track of their charitable activity.

Literature on corporate sponsorships reveals that company contributions to non-profit activities are often part the corporate's broader marketing plan rather than disconnected acts of kindness. The South African government provides added incentives to sponsoring companies in the form of tax breaks and enterprise development points.

Philanthropy

Philanthropy is anything that represents a direct effort to help others often expended without expectations of getting something in return.

According to the Donor Development Directory (2010), philanthropists in the form of independent trusts and foundations tend to support gaps in government funding, although each has its own and independent culture and criteria. These are independent entities, which ordinarily provide assistance in the form of grants to non-profit organisations. Most of the income of trusts and foundations is derived from sources such as an endowment, a wealthy benefactor, a corporation, or from fundraising campaigns. These grants tend to be inflexible and it is often not possible to change their terms.

This kind of influence, according to Froelich (1999), can lead to goal displacement for non-profits. Ylvisaker (1987) attributes the power of foundations to the vast amounts that they give and the ability to concentrate and leverage funds via highly visible selection rituals. Foundation grants are often over R1 million and provide a multiyear support (Froelich, 1999).

Grants also tend to follow economic cycles in terms of both availability and generosity. Due to the fact that foundation initiatives are not stable over time, income volatility is associated with this source of revenue (Gronjerg, 1992, 1993). Long term initiatives and multiyear grants buffer the fluctuations; however, the large size and episodic nature of many grants (DiMaggio, 1986c) establishes volatility as a constraint associated with this form of funding.

While this may be an ideal revenue source for non-profits, caution needs to be exercised when exploring this fundraising method to avoid complacency when an organisation has confirmed funding for a certain period of time. Non-profits need approach fundraising as an integral and continuous activity for organisational sustainability.

Black Economic Empowerment Partnerships

South Africa's corporations can use their Corporate Social Investment (CSI) budgets on projects that will earn them Socio-Economic Development (SED) points to help improve their Black Economic Empowerment (BEE) compliance. Non-profits classified as legitimate recipients of SED funding are in a better position to derive maximum benefit.

According to Keeton (2010), non-profits may find support from two areas of BEE activity. First, the programmatic community-based activities that sectors like mining have to undertake is part of a new license to operate. These systematic large scale investments are linked to detailed budgets and roll-out plans. Most of the activities are pre-set and there is little scope for adjustment. Activities consist mainly of infrastructural development, support for local government and training. Keeton (2010) further argues that it is unlikely that there will be much scope for new project based initiatives to be considered for support unless they align directly within the chosen focus.

Secondly, the community trusts that certain companies have set up as a mechanism for broad-based share ownership. Some of these community trusts have preselected non-profits as their beneficiaries; others have chosen a more pragmatic approach. Some are tied to local communities associated with their businesses while others have a national focus. Governance structures also vary, most of them are new to the development space and have trust deeds drawn primarily to reflect legal and political objectives. Keeton suggests that it may take them time to develop clear funding routine and focus areas. But that this is an important sector for non-profits to research, as opportunities for new funding may arise quickly in different areas.

However, the financial crisis and global and local recession has had a major impact on the number and character of Black Economic Empowerment (BEE) deals. Many companies have cut back on dividends so straining the environment for empowerment deals since the deals were often structured so that dividends would repay initial debt. “This creates the danger that the banks that funded the deals will call up the debt, forcing the black investors out of the company.” Industrial conglomerate, Barloworld, offered 10 percent of its shares to black investors at R83.31. But since the recession, the stock price decreased by 60 percent and was valued at just R33 (Financial Mail, 3 April, 2009: 79).

While this could be a lucrative revenue source unique to the South African non-profit sector, little is understood about what constitutes a legitimate recipient of SED funding, such that non-profits are in a position to optimally manipulate this source.

Individual Giving

The South African population is estimated at 51,8 million, of whom approximately 15% are economically active, and could be termed a donor market. Here lies the largest number of potential donors for NPOs. Estimates reveal that 9 million individuals are donating R8 billion a year to NPOs. The art of cultivating giving and support from individuals is the greatest fundraising challenge (Donor Directory for Development, 2011). Individual donors can be divided into many categories.

Studies reveal great fundraising potential from private contributions. A national study conducted by the Centre for Civil Society has found that on average individual South Africans contribute R921 million ($123 million) per month (this includes cash and time) to charitable organisations or people in need of charitable support, with the poor giving more than the rich.

Sales of goods or products

Non-profit organisations are increasingly dependent on various forms of commercial activity (Weisbrod, 1998). Many NPO’s are involved in skills training and producing all kinds of products. Agricultural groups grow crops and livestock; sewing groups produce clothing and linen; groups are making bricks, wire fencing, window frames, bread and many other items. The primary aim is to help previously unskilled or unemployed people reach for self-support. But the organisation itself can benefit by marketing the products for a fee or commission, or charging for the use of equipment and facilities. They can buy raw materials in bulk and sell to the producers for a slight mark-up. This activity, not only represent a significant source of revenue for the non-profit, it is also the most rapidly growing source (Young, 1998).

Non-profits are beginning to commercialize the core programs through which they accomplish their missions (Dees, 1998). A number of non-profits are now looking for ways to make their programmes less reliant on donations and grants and more on fees and contracts. Some are accepting contracts from government agencies, for example, to run social service programs, schools, job or entrepreneurship training programs for welfare recipients. Others are performing fee-based work for corporations or charging beneficiaries directly for services that used to be at no cost to the recipients. Some non-profits are even launching business enterprises to serve the objectives of their missions. An example in this regard is Project Literacy, South Africa's only national NGO working on adult literacy, had to learn new skills and became a business NGO to survive when funding dried up. An article in the Business Day newspaper (2006) revealed that South African non-profit organisations are not known for operating as businesses, something that Project Literacy has had to do to survive.

Commercialized non-profit activities have a significant and positive impact on the non-profit's self-sufficiency; however, such activities also attract costs. Non-profits need to register as a Public Benefit Organisation (PBO), and be aware of the fact that income that is related to the organisation's core activity is exempt from income tax under certain provisions of the South African income tax act. That a PBO is liable to pay income tax at a rate of 28% on any other business income received other than the types mentioned in the provisions of the South African income tax act. SARS however allows tax relief on the PBO's first R200 000 business income or business income that is equal to 5% of the PBO's gross receipts.

While commercializing non-profit activities could influence a non-profit organisation's ability to manage the uncertainty of funding, the right mix needs to be better understood to allow one to provide a recommendation about the potential for adopting revenue diversification as a sustainability strategy.

Revenue diversification

In the non-profit sector, diversification often involves generating revenue from sources that represent both earned income and gifts, a fusion some argue undermines the legitimacy of non-profits and perhaps the ability to carry out their missions, as well as potentially weakens their justification for receiving charitable donations and or tax exemptions (Brody and Cordes, 1999; Simon, *et al*., 2007; Smith and Lipsky, 1993; Tuckman and Chang, 1992; Weisbrod, 1988a, 1998b).

Researchers concur that non-profits are particularly subject to resource dependency. As a result, reliance on any one stream of revenue greatly impacts non-profit organisational structures and financial health (Brooks, 2002; Chambre and Fatt, 2002; Hodge and Piccolo, 2005; Weisbrod, 1998). For example, a non-profit organisation that relies solely on corporate sponsorships may experience financial shortages if the economy worsens or a more visible cause attracts its donor base.

Miller (2011), on a study "The Non-profit Finance Fund" showed that revenue diversification is not always the solution to non-profit sustainability. The study revealed that organisations with two sources of revenue were more financially stable than those with either one or three.

While researchers generally agree that relying on a single major donor for non-profits is not a viable option. A number of researchers also caution against over diversification.

Studies undertaken on this topic however, suggests the absence of a well-developed discussion of revenue diversification as a strategy for financial sustainability. Very few researchers investigate the broad diversification strategies that non-profits can adopt to achieve financial sustainability in a sequential framework that can be adapted in line with the organisation's mission and objectives.

RESEARCH DESIGN

According to (Wilson 2010:104) research design is concerned with a 'plan' or 'framework' that guides the research process.

Research approach

In order to achieve the best, informed results from this research, a qualitative (Creswell, 2003), explorative, descriptive and contextual research approach was employed to explore the funding strategies of NGOs for the purpose of diversifying their funding base to become sustainable.

The exploratory study is the most useful research design for research addressing a subject area where there are high levels of uncertainty and ignorance about the subject, and when there is very little existing research on the subject matter (Hair, Celsi, Money, Samuel and Page, 2011:143).

Funding diversification strategies for NGOs is an area of research that has received very little attention. The main aim of exploratory research is to gain a nuanced understanding of the construct, its boundaries, the problems, opportunities and to identify the salient factors or variables that might be found there and be of relevance to the research. Jonker and Pennik (2010:38), argues that qualitative research is an enquiry in which the qualities, the characteristics, or the properties of a phenomenon are examined for better understanding and explanation.

Nelson (cited in Denzin & Lincoln, 2000) explains that qualitative research is an interdisciplinary, trans- disciplinary, and sometimes counterdisciplinary field. This multiparadigmatic focus is ideally suited to the multiparadigmatic nature of funding diversification

Research strategy

The unit of analysis for this research study was individual managers and employees of selected NGOs. The researcher identified manages and employees who had experience in fundraising strategy and fundraising within the NGO context. Representative samples of managers and employees within selected non-profits will be identified to participate in communicative processes through focus groups where participants will take part in structured in-depth interviews and focus group discussions.

Research method

Research setting, target population and sampling strategy

This research took place within the Southern African context and included participants from South Africa. The research focuses on selected non-profit organisations in the education and social services sector.

To achieve the desired objective, a case study of an international non-profit organisation in education and research sector working with young people in schools across South Africa will be done. The organisations' business model, revenue streams and challenges experienced and how they are addressed is outlined. A comparative analysis is then done with two other non-profits; one also in the education and research sector and another in the community development sector.

An interview with a former non-profit executive with over 25 years' experience of working in the sector will also be done.

Research participants

The target population in this research was identified as follows: firstly, managers who are directly responsible for fundraising; secondly, employees are involved in some fundraising activities. The input of the Executive Directors that develops the fundraising strategy is of particular importance. The total number of participants in this research was 30

Selection criteria for participating organisations are: (1) The study will focus on international and national non-profit organisations operating in South Africa; (2) Participating organisations would be registered as Non-profit Companies under provision of Section 21 of the Non-Profit Act of South Africa; (3) In an attempt to broaden the scope, participating organisations would be drawn from the education and research sector and the community development sector. An interview with a former non-profit executive will be conducted to get a different perspective from someone who has worked in the sector; (4) Participating organisations would have been in operation for a minimum of three years; (5) The operating income of the participating organisations would not be less than R3 million per annum; (6) The main revenue source of the participating organisations will be 75% and above of donations received.

Sampling

Purposive sampling (De Vos, Strydom, Fouché & Delport, 2005) was used in order to ensure that specific elements were included in the sample. This approach employs a considerable degree of selectivity. The researcher also used snowball sampling (De Vos *et al*., 2005), where one member of a group referred the researcher to another member/coach.

Ethical considerations

The purpose of ethics in research (Crowther and Lancaster 2012:37) is to ensure that no one is harmed or suffer adverse consequences from research activities. Special care was taken to ensure that non-disclosure agreements are upheld, confidentiality is maintained in the research process, and the results are authentic (Bryam 2012:338). In addition this study other ethical conditions were considered (De Vos, Strydom, Fouché & Delport, 2005), consent to conduct the research was requested and granted through the executive directors of the not for profit organisations approached. Informed consent letters were signed by the participants by means of a letter communicating the necessary information pertaining to the research. Confidentiality was maintained in the research process. Confidentiality was practiced in the recording and safekeeping of audiotaped interviews and transcriptions. Participation was voluntary, and ethical clearance was granted.

Data analysis

Recorded focus group interviews and individual in-depth interviews were transcribed verbatim and analysed using the descriptive analysis technique of Tesch (Creswell, 2003). The transcribed interviews were read to gain a sense of the whole. Data analysis process outlined by Maritz, Poggenpoel & Myburgh (2009) was adhered to. The overarching ideas that represent the underlying ideas were recorded down in the margins. The ideas were converted into topics or themes that reflected their meaning. Similar topics\themes were clustered together and placed in columns that were arranged into major topics, unique topics and leftovers. This list was compared to the data, and topics were abbreviated by codes and written next to the appropriate segments of the text. The most descriptive wording for the topics was chosen. The topics were defined and grouped into categories.

Further the data can be validated by editing of data, a process of examining the collected raw data to detect errors and omissions and to correct these when possible (Kothari 2012:122). Editing is done to assure that the data are accurate, consistent with other facts gathered, uniformly entered, as completed as possible and have been well arranged to facilitate coding and tabulation. (Kothari 2012:122).

Strategies employed to ensure data quality

In qualitative designs, validity and reliability are described through strategies for trustworthiness. This research operationalised the strategies of credibility, applicability, dependability and confirmability as described by Lincoln and Guba (1985). Credibility was ensured through prolonged engagement, triangulation, peer debriefing and member checking. A dense description of the background information and purposeful sampling ensured the transferability of this research. Dependability was maintained through code– recode procedures. Confirmability was established through triangulation and reflectivity.

FINDINGS

Once the common trends had been identified and aligned to the organisations operational objectives, strategic business models that could be considered for the organisation's financial sustainability are outlined in this chapter.

Emerging themes

Non-profit organisations that took part in the study provided different services for community upliftment. From the interviews it emerged that similar fundraising approaches were adopted and that their activities, though different, were at times even funded by the same donor. That they were affected in varying degrees by the same non-profit funding dynamics and at times actioned similar strategies for sustainability. A summary of the common trends are outlined in the following section.

Theme1: Traditional funding and fundraising approaches

The following common revenue streams and sourcing strategies adopted by participating organisations were identified as:

- **Individual giving,** which included employee donations through payroll giving where the employer matched whatever contribution is made by the employee. The method of funding is often initiated through recommendation by employer or employees. Such funds were also often unspecified however and organisations were required to report on how these funds were utilised. Organisations did not actively persue this form of funding.
- **Philanthropy and major donors**, where receipts for participating organisations range from R300 000 to R5 000 000 per grant agreement. While all non-profits aspired to acquire such funding, they also acknowledged that this type of fundraising was an art that required building relationships with high net worth individuals and ensuring that such relationships were maintained to the point where they naturally wanted to make a difference by the level of their donation.

- **Corporate funding** in which 60% or more of the participant's revenue comes from this stream. Further analysis of this stream revealed that, while participants had expanded their funding requests to various sectors, the positive response per participant varied by sector, where one participant received most of their funding from the banking sector, the other benefited mostly from the retail sector.
- **Government,** in which participants received up to 10% of their funding from this sector, all repeat funding. While they all concurred that there was potential for greater funding from this stream, however making strategic inroads remained a major challenge. Participants were resorting to engaging the government departments that support their cause as stakeholders with the hope of soliciting funds once relationships were established and the non-profit's programmes were known and endorsed by the targeted department

Theme 2: Expanded fundraising methods

Participants acknowledge that traditional fundraising methods were no longer sufficient to keep the non-profit afloat. The following fundraising methods have also been explored by the non-profits with varying degrees of success.

- **Expanded efforts to seek local funding**, in which participants were moving beyond their usual funding sources to access companies' enterprise development funds. They also approached conglomerates with extensive BBBEE drives. Efforts to entice the mining sector were interrupted by the recent industrial action affecting this sector.
- **Pursued new foundation or corporate support,** whereby fundraising was an on- going activity for non-profits, organisations were analysing their potential funders and setting targets on the number of organisations to make contact with every month.
- **Funder maintenance -** while exploring other funding avenues of important, participants also recognised the value of keep their current funders. To this effect, non-profits were constantly looking at ways of engaging funders in projects that they fund including site visits or acting as volunteers on projects. Non-profits acknowledged funders at any given opportunity including press releases, annual reports and financial statements. Funders also were invited to the non-profit's fundraising events such as breakfast sessions and golf days where they received acknowledgement.

Theme 3: Pursued entrepreneurial strategies

- **Charging for services,** this stream was commonly identified as one with great potential, however, not all participants actively pursued this stream. Greater accountability comes with this funding stream, and participants agreed that they needed tried and tested products to confidently sell at a fee. The tax implications associated with such revenue was not clearly understood by the participants.
- **Improved/expanded marketing** in which marketing was previously treated as an option. Budget allowing participants were realising the value of this department and have put together marketing plans and expenditure for this department which is included in the organisational budget. They have expanded their marketing activities beyond traditional newsletters, brochures and annual reports to websites where all the information about the organisation can be accessed at the touch of a button. The websites also included interactive tabs like Facebook & Twitter.
- **Cut administrative/overhead costs** in which participants concurred that fundraising for overhead costs was a major challenge as funders were only interested in funding direct programme expenditures. Non-profits are often left to find alternative ways to fund their external audits and marketing related expenditures and still break-even. Some of the participants had sought cheaper premises to rent and shared staff with other organisations in a bid to reduce overhead costs.

Theme 4: Networking & Affiliation approaches

With the funding crisis facing a number of non-profits, where in most cases organisations have to compete for the same funds, organisations realised that working in silos is not a viable option. The need for strategic alliances were highlighted as essential.

Previously, the main pressure facing networks was to be in more places and serve more people. Now, there is a different kind of pressure, namely to get better. Networks with multiple sites were increasingly expected to provide donors and supporters with a higher level of evidence that their work is effective and delivered consistently across the board. While an "outcomes" orientation is not new, its effect on the sector had been magnified in part because of the difficult economy (Tuck and Taft-Pearman, 2011).

- **Subscriptions** were identified as a means of raising revenue for the organisations that were actively engaging past beneficiaries to pay them forward in the form of sponsorships and/or volunteering their services as the organisations articles on association did not provide for the collection of subscription fees.
- **Partnerships -** with all good intensions, organisations acknowledge that they can only do so much with their available resources and have now started partnering with organisations that complement their services to increase impact for their beneficiaries.

Findings and interpretations

Non-profits often came up with new ways of raising funds but their revenue sources remained almost the same year after year. Creating a sustainable funding method while addressing a need and at no additional burden to the organisations personnel remained every non-profits aspiration.The following section is a summary of findings and interpretations on the basic methods adopted, the sustainability challenges associated with the adopted fundraising methods and how the non-profits address these challenges.

Revenue Sources

Non-profit sustainability is about managing income streams in such a way that if or when one stream comes to an end, the work can be repositioned, making it suitable for funding by another stream (Cass, 2012). Non-profits revenue sources ranged from donations and grants to service level agreements to deliver services and trading in goods and services.

The interviews revealed that preference for major grants running over a period of more than one year remained the common goal among participants. Although efforts towards accessing such grants were in place, only one of the organisations interviewed had such funding agreements in 2012. Respondents attributed this to the fact that these forms of fundraising often incurred increased staff costs due to the enormous effort that goes into putting together such proposals and ensuring compliance while remaining on course with the organisations objectives. Efforts to access similar funding from the Job's Fund, a South African government initiative to boost small business and the non-profit sector, was unsuccessful.

For all organisations interviewed, 60% or more of their funding came from corporate funding. This form of fundraising is often dependent of the size of the non-profit, a number of large corporations often choose to associate themselves with popular non-profit initiatives like co-branding between KFC and Operation Hope. Such partnerships often elicited not just sizable donations but massive exposure for the non-profit.

Participants received funding from the Department for Social Development and while this funding has been on-going for more than two years, actual revenue remained the same or reduced over the years. Efforts to access funding from other government departments like the Department of Education are quite cumbersome and did not yield positive results thus far. Non-profits in the education sector are engaging the Department for Education as a stakeholder. A relationship that is proving to be worthwhile for easy access to intended beneficiaries.

Funding from individual giving was also common amongst the interviewees, although none of the participants received more than 10% of their revenue from this stream in 2012, all participants felt that is was an avenue that needed further exploration.

Participating non-profits, except for one, have shied away from actively selling their services for profit due to uncertainties regarding tax implications of such actions.

According to Gardner and Macanda (2003), the challenge of fighting and eradicating poverty in South Africa and the rest of the continent does not lie solely with governments. It is also the responsibility of the communities, civil society and international agencies. However, according to the NGO sustainability index for Sub-Saharan Africa (2009), the lack of core funding support also limited the possibility for NGOs to actively build constituencies. This often resulted in other key non-profit management aspects like good internal governance and managerial development being neglected in the smaller organisations.

The table 5.1 below is an analysis of the findings of the funding structure of one the participating not-for profits

Table 5.1: Current and potential funders

Corporate Foundations/CSI Budgets				
Sector (Cyclical – C; Stable – S)	**Funded Previously**	**Currently Funding**	**Percentage of current Income**	**Potential**
Financial Services (c)	√	√	66%	
Information Technology (c ; s)	√	√	5%	√
Retail/Services (s)	√			√
Resources/Mining (c)	√	√	9%	√
Food and Beverages (s)	√	√	4%	√
Industrial (c)	√	√	3%	√
Pharmaceutical (c)	√			√
Manufacturing/Motor /Packaging (c)	√	√	11%	√
General SED	√			√
State Owned Entities				
Eskom	√			√
Telkom	√			√
Transnet	√			√
SA Post Office	√			√
Department of Financial Institutes				
IDC	√			√
DBSA	√			√
Khula Enterprise				√
NYDA	√			√
Government				
Job Fund				√
SETA's	√			√
Dept. for Social Development	√	√	4%	√
Dept. of Trade & Industry				√
National Skills Fund				√
Individual Giving				
Give as you earn	√	√	0.05%	√
Friends of JASA				√
Once off giving				√

While most of the organisations current funders in the corporate sector have funded them previously and prospects of future funding are quite strong, however such funding is mostly dependent on the profitability of the corporations. In reality, CSI budgets are amongst the first to be cut if the company is not doing well.

Table 5.2 below provides an analysis of the revenue streams of peer organisations**.** It is evident from this analysis that non-profits, even though operating in different sectors are adopting similar fundraising methods. Research on South African non-profit funding streams revealed the same findings

Table 5.2: Revenue streams of peer organisations

Revenue streams	Yes	No	% funds received in the last three years		
			2010	**2011**	**2012**
BEE partnerships		√			
Government	√		10%	10%	20%
Philanthropy		√	10%		
Corporate	√		70%	60%	65%
Individual giving	√		10%	20%	10%
Sale of goods/services	√			10%	5%

It is interesting to note that a major portion of the organisations revenues is from corporates. Available literature on non-profit funding trends revealed that the rise in CSI as core business for corporates in South Africa has increased the awareness within the business community on the need to be more engaged with other stakeholders in helping to address community, environmental and social problems. As a result, according to Keeton (2010), businesses are taking a more strategic approach to its relationship and investment in communities and society at large. That despite the reduction in in corporate revenue due to the economic downturn, revenue from corporates has remained relatively stable.

According to Rees (2009), funding for any non-profit should come from variety of sources and non-profits should guard against a situation where one source of their funding makes up more than about 30% of the overall revenue. Rees (2009) suggested that non-profits ensure that they have several different sources or streams of donations, as these diversified revenue streams will help the organisation cushion the loss of a grant or donor.Non-profits need to constantly survey their funding sources and be aware of where their major revenue pool lies.

Funders were also setting tighter reporting standards based on the size and complexity of the projects, which included evaluation and monitoring of project performance. Non-profits can make use of such stipulations to learn from their
successes as well as shortcomings and be able to identify opportunities for further project development and growth.

Non-profits also have the opportunity further explore in-kind donation options, they could approach larger auditing firms, marketing and information technology corporations to do probono work to be able cover some of their overhead expenditure which is often not covered by sponsorship income. They need to then work on enhancing other revenue streams and balance them all out as this would put them in a favourable position to weather economic storms.

Sustainability Challenges

As with most non-profits around the world, the global financial crisis impacted directly and indirectly on the work of South African non-profits. As funders reduced or revised their financial commitments and priorities, non-profits were confronted with the challenges of reviewing their sustainability, diversifying their funding base and assessing the overall relevance of their work. What complicated the organisations response as a sector was that these challenges had to be addressed in an environment characterized by significant poverty and social need (NGOpulse, 2009).

To assess the extent of the challenges facing South African non-profits, GreaterGood South Africa (2012) initiated a rapid assessment survey together with the Western Cape branch of the Southern Africa Institute of Fundraising (SAIF) and partners, the GivenGain Foundation highlighting the scale of the challenges facing the South African non-profit sector. Key findings from the study with the majority of the participating organisations (695) involved in community development and education, providing welfare-type services primarily to vulnerable children, youth and in communities revealed that:

- 80% have experienced significant funding cuts in the last year. Two in five have had up to 50% of their funding cut.
- Funding cuts have come from all major funding sources with the National Lotteries Board topping the list (44%), followed by corporate (39%) and individual donors (37%).
- Over 64% of respondents reported having to cut services to their beneficiaries as result of funding cuts.
- More than 43% of the organisations sampled said they had formally retrenched 7,612 permanent, contracts, part-time and volunteer staff. Organisations reported a 17% overall contraction of the workforce as a result of the cuts.
- Current financial position was slightly more encouraging: 35.9% indicated that they had enough operating cash to cover 6 months of service-related expenses and 17.8% said they

had enough for more than 6 months. However, 17.2% said they had no operating cash at all and 29% reported that they had enough to cover just one month of service-related expenses.

Similarly, non-profits participating in the study indicated that they have also suffered the same fate. Where donors that have funded over the year either reduced their funding or stopped funding completely. Change in funding mandates to more needy causes and lower profit margins were cited as contributing factors.

To address these funding shortfalls, organisations reported that they were aggressively fundraising, exploring income generation activities, cutting back, restructuring and streamlining their operations. Reliance on a single major source of funding, where such funding often comes in tranches and payments are at times delayed, resulting in late payment of salaries and other project related costs was seen as another problem crippling this sector. As this often creates high levels of uncertainty amongst employees and affects he smooth running of projects.

The changing funding landscape, where funders are looking to partner with effective organisations and invest in projects with measurable impact than simply donate to charity was also highlighted as challenge. With a number of organisations caught up in the web of doing things the same old way are finding it extremely difficult to adapt. The non-profit organisations' inability to adapt to changes in donor requirements had left a number of organisations in dire straits. The global economic down turn and loss of income by corporates due to labour disputes had resulted in unemployment and a shrink in individual giving. Non-profits need to recognise the value of establishing strategic partnerships and the leverage it provides in securing funding for long-term sustainability.

Another challenge is that funders not keen on funding overhead costs/ non-core project costs but expect non-profits to provide audited statement, annual reports and at times publicity for donor contributions. Staff turnover and the ability to attract suitable candidates due to budget constraints, was highlighted a one of the critical challenges facing non-profits.

Only one of the participating organisations had built a reasonable financial reserve over years and has invested in secure financial instruments. Although the organisation benefits from the interest on this investment, the fall in interest rates has resulted in lesser benefit for the non-profit. Many non-profits do not have asset based approaches to fundraising. It is evident that reliance on a single major source for funding places the non-profit in a vulnerable state as cancellation or reduction of such funds pose a serious threat for the organisation, while revenue diversification is what the non-profit fundraising efforts are geared towards, finding the right mix is still a problem.

RECOMMENDATIONS

Developing a funding strategy that leads to financial sustainability is central to any non-profit's ability to increase its impact. Yet understanding exactly how remains far from clear (Bridgespan, 2011). To achieve this successfully, non-profits need to do develop a culture of running business like operations, when growing alternative revenue sources they need to consider the impact of such initiatives on the organisations mission and objectives.

The intention is not to prescribe a one size approach for non-profits to pursue, but to it is hoped that the proposed framework will enable non-profit leaders to examine the potential and constraints associated with their current funding models and to clearly articulate the models that could enhance their fundraising initiatives.

Sustainable and replicable funding approaches

While some of the identified approaches maybe sector specific, non-profits can tailor most of these initiatives to meet their operational aspirations as follows:

- Research on industries' supply chains and score-cards to benefit from their Enterprise Development funds. Find a way of linking organisational relevance with rating agencies like the DTI. Approach industries with affinity to particular issues to collaborate and partner.
- Consider providing enterprise development services at a fee
- Explore opportunities for corporations to replicate their involvement in organisational funding to other regions
- Further explore individual giving and also consider once off donations. Establish an alumnus and past beneficiary's network and encourage them to pay it forward.

- Strengthen relations and form strategic partnerships with relevant stakeholders like conglomerates with broad based economic empowerment trusts, media houses, printing and publishing companies.
- Actively engage board members in fundraising initiatives and leverage on their network pools.
- Work towards accreditation of programmes to be able to apply for major and possibly long term funding from government initiative s like SETA and the Jobs Fund.
- Explore the opportunities for international/regional integrated fundraising.
- Approach identified airline companies for voyager miles and sponsored air tickets, to ease the burden of administrative/overhead expenditure
- Using a reliable, flexible solution for online donation processing. The organisational service should provide a seamless experience for current and prospective donors.
- Get the organisation signed up for online fundraising services and activate the donate button on the organisations site. Make sure the donate button is prominent on the organisations website and is included in all online outreach.
- Track donations, and evaluate what has worked and what has not when it comes to the organisation's online appeals.
- Beneficiary testimonials, quotes,stories and positive monitoring and evaluation reports should be used to leverage further funding.

FUTURE RESEARCH

This study's sample was limited to three general types of organisations in the education and research sector as well as the social sector. All participating organisations were based in Johannesburg. This study could be replicated in other African countries to compare with the study on revenue diversification for non-profit sustainability as was conducted by Carrol and Stater (2009). This study therefore suggests that future research further test the research models by investigating organisations operating in other non-profit sectors and other locations. A funder's perspective on non-profit revenue generating activities for financial sustainability would have provided a more holist picture. It would also be useful to conduct follow-up studies in the non-profit sector to track the long term trend diversification of revenue generation patterns. Future research can also explore an optimal revenue structure for non-profit organisations.

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