Revenue embeddedness and donations: A framework for exploring the crowding in/crowding out effects of earned revenue

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Abstract

Nonprofit organizations increasingly rely on earned revenue to sustain their mission-driven activities. Studies examining the effects of earned revenue on other income streams tend to study earned revenue in the aggregate. Using panel data from 12,374 organizations from 2010-2015, this analysis uses a framework of earned revenue embeddedness to link earned revenue activities to mission and analyze the effects of earned revenue activities on donations. Earned revenue activities that use the same organizational technology to offer products or services to core audiences appear to crowd out individual donations. Earned revenue activities that offer new products or services to core audiences are positively related to individual donations. These findings have theoretical and practical application related to nonprofit pursuit of earned revenue.

Keywords

Earned revenue, crowd out, donations, nonprofit, revenue embeddedness

Introduction

Earned revenue makes up a substantial portion of income to nonprofit organizations. However, 501c(3) nonprofit organizations are in part defined by their unique position as charitable organizations. Many nonprofits rely on these donations to fund, at least in part, their operations. They may pursue earned revenue to diversify their financial portfolios, or to account for lost revenue from other sources. The effect of this pursuit on earned revenue is unclear. Does earned revenue crowd in or crowd out donations? If earned revenue complements donations, the organization may increase operational sustainability and be better positioned to serve its clients through mission-focused programs and services. However, if earned revenue becomes a substitute for donations, organizations pursuing earned revenue may be doing themselves a disservice.

Some studies have suggested donations are vulnerable to other income streams. As nonprofit organizations bring in income from non-donation-related sources, donations decrease (Kingma, 1995; McKay, Moro, Teasdale, & Clifford, 2015). Other studies find donations are positively associated with other income streams, increasing as organizations bring in non-donor-based dollars (Posnett & Sandler, 1989; Wicker, Breuer, & Hennigs, 2012).

One factor contributing to mixed results: earned revenue tends to be studied as an aggregate measure of program or commercial revenues. However, not all earned revenue may affect donations in the same way. Some market-based earned revenue activities are fully embedded within an organization's core mission-driven activities (an art museum charging for admission), while others may be external to core mission activities (an art museum running a café open to the public). Still others may be related in some way, but not fully connected to the mission. Initially

introduced by Levine Daniel and Kim (2018), a framework of embeddedness can be used to categorize earned revenue activities and explore the nature of the relationship between earned revenue and donations.

The following section presents theory related to nonprofit earned revenue, explains the earned revenue embeddedness framework, and hypothesizes the expected relationship between individual donations and the different categories of earned revenue. The dataset, operationalization of variables, and models are presented in the methodology section, followed by initial findings. The discussion and conclusion sections contextualize these findings, begin to generalize them for organizations outside of the arts and culture sector, and present implications for both research and practice.

Theory

Nonprofit organizations are in part defined by their unique position as charitable organizations, capable of receiving tax-deductible charitable contributions and serving as a repositories of public trust through the contribution of donor dollars (Bekkers, 2003; James, 2003). Nonprofits who qualify for this status serve exempt purposes set forth in IRS guidelines ("IRS Exemption Requirements Section 501(c)(3) Organizations | Internal Revenue Service," 2017).

However, all organizations need resources, and nonprofits usually cannot rely solely on private donations to fund their operations. Nonprofits can pursue earned revenue to provide an independent stream of resources to the organization, thereby reducing dependence on other sources of income, such as private donations (Froelich, 1999). The relationship between earned

revenue and the overall revenue portfolio of a nonprofit organization has been the subject of a body of literature. Additionally, the impact of earned revenue has been examined in terms of organizations' financial portfolios and organizational stability. Despite this work, the relationship between earned revenue and individual donations remains unclear.

The extent to which increases in earned revenue crowds in or crowds out donations is uncertain. Kingma (1995) observed crowding-out in his study of 511 Red Cross chapters, in which an increase of $1 of earned revenue was associated with a decrease in donations of $3.59. McKay, Moro, Teasdale, and Clifford (2015) find a similar relationship in their analysis using annual returns to the Charity Commission for England and Wales. Other scholars have found the opposite to be true, however. Posnett and Sandler (1989) found no evidence that any alternative sources of revenue crowded out donations.

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Earned Revenue Embeddedness

A framework of revenue embeddedness offers a way to disaggregate and categorize earned revenue by looking at the connection between the mission and revenue activities. Alter (2004) offers guidance for this examination in her typology of social enterprises, in which she uses mission orientation, business/program integration, target markets, and operational models to

examine how organizations combine social values and business practices. Specifically, this embeddedness framework builds from Alter's typology to consider the extent to which different sources of earned revenue are embedded with the mission of the organization on two dimensions: 1) the organizational technology each uses to produce outputs; and 2) the markets each target. A match between mission and revenue activity on both dimensions embeds revenue within the mission-driven program or service (an orchestra selling tickets to a symphony performance). Absence of a match on both dimensions is revenue external to the organization's program or service (an orchestra offering valet parking). Revenue matching on one dimension is integrated with the mission-driven program or service (an orchestra playing the score live while screening a Harry Potter movie).

Organizational technology refers to organizational, human, and technology resources/systems used to produce products or render services (Damanpour & Evan, 1984), transforming inputs into outputs (Scott, 1975). According to Kimberly and Evanisko (1981), this technology is directly related to the basic work activity of an organization. Using the same organizational technology to produce core and earned revenue activities reflects integration and coordination (Gonzalez, L.I.A. Santos Vijande, M.L. Casielles, 2001).

Target markets refer to the audience(s) to whom the activity in question targets or seeks to benefit. Organizations in the for-profit sector selling a good or service for revenue need to attract paying customers. Typically, the recipients of mission-driven services are considered clients. These clients tend to come to the nonprofit, and the organization responds to the needs of these clients (Alter, 2004). Complicating the identification of a nonprofit's target market is the fact that for these organizations, the market for clients and the market for resources are often separate (Padanyi & Gainer, 2004). Resources can come from clients who pay fees for service, in

which case, target markets overlap because the customer of the earned revenue service is also the mission-driven service's client. In this sense, nonprofits that have a dual market orientation meet the needs of both clients and customers. However, resources can also come from private donors, corporate sponsors, and government contributors. As Padanyi and Gainer (2004) demonstrate in their study of 158 nonprofits, this creates multiple constituencies requiring different organizational marketing strategies and techniques.

Another way to think about embeddedness on the target market dimension is to consider the excludability of the earned revenue activity to the target population. Excludability is the extent to which consumption of the earned revenue-generating good or service is contingent on the consumption of the mission service (Weimer & Vining, 2005). If a customer has to partake of the mission-driven service in order to also consume the earned revenue good or service, the earned revenue activity can be considered fully embedded on the target market dimension. For example, an improv theater company selling tickets to its shows is pursuing embedded earned revenue. The revenue activity is, essentially, the mission-driven service. A customer cannot consume the revenue activity without also partaking of the mission-driven service. By engaging in this type of activity, the theater can capitalize on existing resources and relationships, minimizing reliance on external resources, and sustain its core mission activities by doing its core mission activities. Market activities that share no commonalities in organizational resources or target markets with mission activities are loosely coupled, or external, such as a theater with parking amenities whose usage are not contingent on attending the show.

An improv theater offering using its inputs (actors, set designers, facilities) to offer corporate teambuilding workshops as an attempt to broaden its audience would be offering an activity integrated on the organizational technology dimension. An improv theater offering

materials to its target audience that complement its shows (e.g.: podcast subscriptions or a quarterly humor magazine) is engaging in earned revenue activities integrated on the market dimension. Figure 1 demonstrates the dimensions of earned revenue embeddedness.

[Figure 1 about here]

Arts and culture organizations provide an interesting context for initial exploration of the revenue-donations relationship due to the dependence of this subsector on earned revenue, the variations in adoption of earned revenue activities, and the overlap between patrons (a common term for clients in this sector), customers, and donors. First, earned revenue accounts for over 70% of all income in the nonprofit sector, but different types of organizations show varying levels of reliance on this income stream. Organizations that offer benefits that are private in nature tend to rely more on earned revenue (Wilsker & Young, 2010). As Fischer, Wilsker, and Young (2011), demonstrate, arts and culture organizations offer this type of benefit and this subsector tends to be the most reliant both on earned revenue and donations.

Another consideration is the built-in opportunities organizations may have to monetize their activities. Arts and culture organizations serve many missions, such as free or reduced access to art, art education, and cultural preservation. An organization focused on cultural preservation, for example, has an opportunity to charge for admission while still staying true to its mission. The presence of different missions within this subsector should mean there will be variation in the earned revenue activities an organization chooses to adopt.

Lastly, in the arts and culture subsector, donor, patron, and customer circles tend to overlap in what Teasdale, Kerlin, Young, and In Soh (2013, p. 69) consider to be a "natural alliance." Typically, the patron the organization seeks as a paying customer is also targeted to be a donor. People who set strategies, such as members of the board of directors, also consume the service. This contrasts with a human services agency like a food pantry, where the board members who set strategy are not necessarily clients, and clients are not necessarily (if ever) paying clients. Taken together, the arts and culture sub-sector's reliance on earned revenue and donations, the opportunities for earned revenue activities, and the overlap in markets for service delivery offer an ideal ground in which to explore the impact of earned revenue on donations.

When it comes to introducing revenue-generating goods or services, Preston (1988) theorizes that nonprofit organizations have a bias toward producing goods that have a high social benefit, which could be considered a reflection of embeddedness. If core services, representing public benefits, are being paid for by other income sources (including, for example, admissions or other fees for services), donors may not see the need to donate additional funds. For example, an improve troupe selling tickets is engaged in an embedded activity. Seeing the organization fund itself with this type of revenue, a paying customer may not be incentivized to donate additional funds. Therefore, embedded revenue and donations are hypothesized to be negatively related.

H1: An increase in embedded revenue will be associated with a decrease in donations.

In contrast to embedded earned revenue, external earned revenue activities use different organizational technologies and target different markets than the mission-related services. External earned revenue comprises activities that are not central to the organization's mission,

often designed solely to generate revenue – for example, an art museum with a café open to the public. A customer may be attracted to a museum's coffee shop or café, and as a result be introduced to the organization's core mission (through, for example, promotional materials in the shop). By introducing the mission to an audience that is not already paying for core mission-related activities, this external activity may in fact supplement charitable mission by bringing new donors to the table. Therefore, external revenue and donations are hypothesized to be positively related.

H2: An increase in external revenue will be associated with an increase in donations.

The partial but not complete overlap of revenue and core mission activities may lead to tension between revenue and charitable mission goals (Eikenberry & Kluver, 2004; Levine Daniel & Galasso, 2018) and turn off potential donors, leading to a crowd-out of donations. An activity integrated on the organizational technology dimension may be reflective of the organization's core mission and act like embedded revenue in that the new customers may perceive themselves as already supporting the organization.

H3: An increase in integrated-organizational technology revenue will be associated with a decrease in individual donations.

However, an argument could be made for a positive relationship if the activity is integrated on the organizational market dimension; i.e.: the organization is offering something new or different to core clients/service recipients, so the earned revenue's customer does not perceive herself to be paying for the service already.

H4: An increase in integrated-market revenue will be associated with an increase in individual donations.

Methodology

The data for this analysis comes from DataArts (formerly known as the Cultural Data Project). From 2001-2018, 18,054 unique nonprofit arts and culture organizations across the United States and Canada completed at least one annual profile, creating a total of 84,359 profiles. Each profile contains financial, operational, and program data from a single fiscal year, as well as a board-approved audit or year-end financial statement. The information collected follows nonprofit accounting standards and Generally Accepted Accounting Principles (GAAP).

Organizations in the United States account for the vast majority of unique organizations (18,035) and profiles (84,261), so this analysis focuses on US nonprofits. In addition, DataArts identifies the following states with heavy participation, primarily due to partnerships with local grant makers: Arizona, California, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, and Vermont. This analysis focuses on organizations in these states from between 2010-2015[i]. Table 1 displays the profile counts by state and year. Table 2 reflects the number of organizational profiles by state in 2015 as well as some demographic information about the arts and culture industry in these states (where available). The total industry count comes from the Americans for the Arts Creative Industries Report (2017) and includes all nonprofit *and* for-profit arts-centric organizations (according to Standard Industrial Classification Codes) that have active registration w/ Dun & Bradstreet. Estimated nonprofit industry spend and FTE support come from the Arts &

Economic Prosperity Report 5 (Cohen, 2017). The Local Arts Index (Kushner & Cohen, 2018) includes a count of arts organizations (per capita, at county levels).

[Table 1 about here]

[Table 2 about here]

Dependent Variable: Individual Donations

The DataArts data includes 41 total time-varying income variables: 27 earned revenue streams and 14 non-earned revenue streams. The dependent variable is individual donations. Donations from other sources are controlled for and discussed below. The individual donations income stream has a mean of $244 in 2015, measured in 1000s [ii], increasing almost $60,000 from 2010-2015. This growth of 28% is the largest increase of all revenue streams. See Table 3 for year-by-year details and Table 4 for summary statistics for the panel set.

[Table 3 about here]

[Table 4 about here]

Independent Variables: Various Measures of Earned Revenue

Total Earned Revenue measures the income from all 27 earned revenue activities. The 2015 mean for total earned revenue (measured in 000s) is $634. From 2010-2015, the mean increased almost 16%, demonstrating an uptick in earned revenue activities across the arts and culture organizations in this sample.

The purpose of this study is to evaluate the relationship between the embeddedness of earned revenue and individual donations. Following the literature reviewed previously, two dimensions – target market and organizational technology – determine an earned revenue activity's embeddedness. A specific earned revenue activity can either be fully embedded, integrated on one dimension, or external to the organization's core charitable mission. A fully embedded earned revenue activity must target the same audience and use the same organizational inputs as the mission-driven activity. An integrated earned revenue activity either targets the same market or uses the same organizational inputs as the core activity - but not both. An external earned revenue activity neither targets the same market nor uses the same organizational inputs to deliver service-related outputs. A full list of earned revenue streams and decision rules for classification can be found in Table 5.

[Table 5 about here]

Embedded earned revenue comprises the sum of income from admissions, memberships, performance subscriptions (full and partial), ticket sales (group and individual), and tuition. These 7 income activities are embedded because they target the same markets as the core activities (or they are the core activities of an organization – i.e.: a theater troupe selling tickets) and use the same knowledge and processes to turn organizational inputs into outputs/services. The 2015 mean for this revenue stream is $370. This mean is the highest of the three earned revenue embeddedness categories and has been increasing over time.

Total integrated revenue includes income from application fees, broadcast subscriptions, gallery sales, gift shop sales, publications sales, publication subscriptions, revenue from contracts, fiscal sponsorship fees, rentals (space and other), royalties, touring fees, and touring exhibits. These activities are integrated because they either target the same markets or use the same organizational technology as the mission-based activities, but are not embedded on both dimensions. Organizations report a 2015 mean of $101 for *total integrated revenue*, increasing over time.

Total integrated revenue breaks down into its component parts: *integrated-market revenue* and *integrated-org technology revenue*. *Integrated-market revenue* reflects application fees, broadcast subscriptions, gallery sales, gift shop sales, publications sales, and publication subscriptions. These earned revenue activities target the market(s) for core services, but do not use the same organizational technologies in their production. The 2015 mean for integrated-market is $54.73. This mean increased every year except 2013.

Integrated-org technology revenue includes earned revenue from contracts, fiscal sponsorship fees, rentals (space and other), royalties, touring fees, and touring exhibits. These activities are integrated because they reflect the use of the same organizational technology as the core activities (or are the core activities, monetized), but do not target the same markets. The 2015 mean for integrated-org technology revenue is $37.33, a slight decrease from 2014 but the revenue stream with the largest proportional increase (22%) since 2010.

External revenue includes income from activities that are not related to core services, i.e., they do not target the same markets and do not use the same organizational technologies as mission-related programs/services. In this case, the variable sums revenue from advertising, concessions, loan interest, parking, sponsorship, other earned revenue and other program revenue

(earned revenue not otherwise included in previously mentioned categories). In this sample, the 2015 mean for *external revenue* is $118.76, and this type of revenue also increased over time.

To summarize the independent variables, total earned revenue represents the sum of all earned revenue activity. This variable then gets broken down according to level of earned revenue embeddedness: embedded, integrated, and external revenue. Lastly, integrated revenue is separated along dimensions of embeddedness into integrated-market revenue and integrated-org technology revenue.

Control Variables: Non-Individual Donated Income, Government Support, Investment Income, Revenue Diversification, & Size

Controlling for other variables that vary by organization over time, including the revenue streams that are not donated by individuals or earned revenue, the revenue diversification of each organization's financial portfolio and other time-varying organizational characteristics, helps isolate the effects of earned revenue on donations. The different sources of non-earned revenue are collapsed into two categories: government income and investment income (Young, Wilsker, & Grinsfelder, 2010). *Non-individual contributed income* includes contributions from corporations, foundations, parent organizations, and other (unidentified) organizations as well as in-kind contributions. As shown in Table 3, the 2015 mean is $424.42 (measured in 000s) and increased over time.

Government income includes support from city, county, state, federal, and tribal entities. The 2015 mean for government income is $228, and decreased by 13% over time.

Investment income aggregates revenue from realized gains and losses, unrealized gains/losses, interest, and dividends. The 2015 mean for this type of income is $57.366, and income from this stream dropped significantly over time (56%).

Revenue diversification can serve as a measure for organizational stability and increased control over income deployment (Bathurst, Williams, & Rodda, 2007; Carroll & Stater, 2009; Froelich, 1999). Two types of controls are operationalized to account for the composition of earned revenue within an organization's revenue portfolio: 1) a count of earned revenue streams and 2) dummy variables for each of the earned revenue embeddedness categories.

Larger organizations may have more capacity to diversify and allocate resources to earned revenue activities. To control for this, size is accounted for using staff size (captured as full-time equivalents, or FTEs). Organizations show an FTE mean of approximately 7 employees across all years in this sample.

Model

A fixed effects model estimates the relationship between earned revenue and donations for the 12,374 organizations in the final sample[iii], as specified below:

$$\text{INDIVIDUAL DONATIONS}_{it} = (\text{alpha}+u_i) + \beta_1\text{EARNED REVENUE} + \beta\text{NON-INDIVIDUAL DONATIONS} + \beta_3\text{GOVERNMENT INCOME} + \beta_4\text{INVESTMENT INCOME} + \beta_5\text{SIZE} + \varepsilon_{it}$$

where the dependent variable INDIVIDUAL DONATIONS represents the total amount of donations an organization receives, i = each organization in the sample, and t represents the respective year for the observation between 2010-2015.

A stepwise regression adds additional independent variables in each of the following iterations:

1) Baseline: EARNED REVENUE is included as total earned revenue, in order to establish a baseline relationship.
2) Basic Embeddedness:
    a. EARNED REVENUE is separated into embedded, integrated-total, and external revenue variables.
    b. EARNED REVENUE is separated into embedded, integrated-market, integrated-org tech, and external revenue variables.
3) Revenue Controls:
    a. Model 2a plus count of revenue streams and dummy variables for each earned revenue embeddedness category.
    b. Model 2b plus count of revenue streams and dummy variables for each earned revenue embeddedness category.
4) Non-linear Models, to test if parabolic relationships:
    a. Model 2a plus embedded^2, integrated-total ^{2}, and external revenue^2 variables.
    b. Model 2b plus into embedded^2, integrated-market^2, integrated-org tech^2, and external revenue^2 variables.

The use of fixed effects regression on this panel set holds constant the organizational characteristics that do not very over time but might otherwise lead to observed outcomes. In addition, all variables related to revenue and organization size have been winsorized in order to stabilize the data and limit the value of outliers at the 1% and 99% levels (Yaffee, 2002).

Results

As Table 6 demonstrates, the baseline analysis demonstrates no significant relationship between earned revenue and individual donations. However, once earned revenue is separated into component parts, a picture of mixed relationships emerges. *Embedded earned revenue* is significantly and negatively related to individual donations in all of the linear models (2a, 2b, 3a, and 3b). For every $1000 in *embedded earned revenue*, individual donations decrease in amounts ranging from $284-310. These findings support H1, which theorized a negative association between embedded revenue and donations.

Integrated-total earned revenue is positively related to individual donations. A $1000 of *integrated-total* revenue is associated with an increase in individual donations of approximately $71 or $72 (Models 2a and 3a). Separating integrated revenue into integrated-market and integrated-org tech earned revenue streams provides additional insight into the relationship between integrated revenue and individual donations. *Integrated-market* earned revenue appears to drive the direction and significance of earned revenue. A $1000 increase in this type of earned revenue is associated with an increase of $76-78 in individual donations, supporting H4. Though the coefficient of *integrated-org tech* revenue is negative, this relationship is not statistically significant, failing to prove H3. In addition, *external* earned revenue shows no significance, failing to support H2.

[Table 6 about here]

Models 1, 2a, 2b, 3a, and 3b assume linear relationships between individual donations and various types of earned revenue. Models 4a and 4b incorporate squared terms for the

dependent variable and independent earned revenue variables of interest. In these models, *embedded* earned revenue on its own has a positive coefficient, but loses its significance. However, *embedded*^{2} revenue is negatively associated with individual donations. Though the coefficient is close to zero, the statistical significance illustrates that, over time, embedded revenue becomes associated with individual donations at an increasingly negative rate.

Integrated earned revenue – in its total and component parts – continue to present a muddled picture of relationships with individual donations. Per model 4a, *integrated-total* earned revenue is negatively associated with individual donations; however, *integrated-total*^{2} earned revenue is negatively related to individual donations. Though the coefficient is close to 0, the statistical significance of the quadratic term indicates that *integrated-total* demonstrates an increasingly negative correlation with individual donations over time.

However, further examination of *integrated-market*^{2} earned revenue and *integrated-org tech*^{2} earned revenue complicates the findings of model 4a. As model 4b demonstrates, *integrated-market* earned revenue is positively and significantly related to individual donations, and this relationship appears to be linear. None of the linear or quadratic *integrated-tech* and *external* earned revenue variables are statically significant in model 4a or model 4b.

Many, if not all, of the variables in these model demonstrate time-invariant heterogeneity. Individually, they may not vary greatly over time, i.e.: an organization's financial portfolio may be relatively consistent. However, these variables vary between organizations. This is reflected in the r-squared values. The r-squared-*within* each model hovers around 1%. However, the r-squared-*between* values of all models with *integrated-total* is 19-20%. While the r-squared-*between* drops to 17% for models with component *integrated-market* and *integrated-tech*

variables, these models provide insight into how integrated revenue can affect donations, not just that it does so.

Discussion

No consensus exists regarding the interaction between earned revenue and donated income, but the nature of earned revenue might matter when it comes to effects on an organization's donated income. Feiler, Wicker, and Breuer (2015) noted a negative relationship between commercial orientation and donations. This holds true if the earned revenue activity is embedded, e.g.: a monetization of the core programs and services supported by (or perceived to be supported by) donations. This relationship could be a reflection of what Fischer, Wilsker, and Young (2011) discovered regarding the connection between nonprofits providing services that are private in nature relying less on contributions than nonprofits that provide services that are public in nature. This interaction could also be reflective of a perception the donor has of already paying for the organization's mission – i.e.: if a donor purchasing a ticket for an improve troupe's show may already think s/he is paying for the mission and, therefore, be less inclined to donate in addition to paying for goods or services.

However, an organization offering something new to the target markets for its programs and services (an activity integrated on the target market dimension), may see increase positive relationship with individual donations. The museum patron who pays an admission fee may be disinclined to also donate to the organization. The museum patron who visits a museum with free admission, but who pays for a subscription to the museum's literary magazine, may be willing to make a donation because she may not perceive the subscription fee to be tied directly to core services, lessening her perception that she is already supporting the organization as a donor.

Previous research (e.g.: Eikenberry & Kluver, 2004) shows that tension can exist between revenue and charitable mission goals. Integrated revenue captures some of this tension. In the case of arts and culture organizations, clients (patrons), customers, and donors are often the same people, and these distinctions may not matter. One opportunity for future research includes a more robust definition of target market where these circles do not overlap.

These distinct circles often exist in health and human services organizations. For example, an organization focusing on adult literacy runs a standalone bookstore. Intuitively, connections exist between a literacy program and a bookstore, which should mean this is integrated earned revenue of some sort. However, the while the donors who support the literacy programs may be some of the store's customers, they may not be the core clients learning how to read. In this case, the earned revenue activity's target market is not necessarily the organization's core clients (i.e.: the literacy program is not exclusive), and running the bookstore requires different organizational technology. Applying the target market and organizational technology dimensions as currently defined means revenue from the bookstore would be classified as external earned revenue. In these cases, should a shared target market reflect overlap between donor and the customer, since this reflects a shared money source? These types of programs may also help connect donors to the programs they support, broadening the definition of target market. Or should a shared target market reflect overlap between the clients (presumably the focus of the mission-focused programs/services) and customers? While the definition of target market may shift depending on organization (or sector) type, this framework provides a starting point to assess the relationship between earned revenue and individual donations.

Lastly, neither the count of revenue streams nor any of the set of revenue dummy variables (one for each level of revenue embeddedness) are statistically significant. This suggests

the very act of diversification in and of itself does not crowd out individual donations, and may explain why total earned revenue, at the baseline measure, is not significant. This finding also supports the central premise of this argument: the very nature of the revenue activity matters, and earned revenue embeddedness offers into how/why.

Limitations

One limitation of this study is the assumption that that earned revenue is the independent variable affecting the dependent variable of donated income. However, the relationship might work in the opposite direction, i.e.: donated income affects earned revenue. As Fischer, Wilsker, and Young (2011) point out, income sources may be determined by the nature of goods and services produced, so the relationships between earned revenue and donated income are in line with what previous studies have found.

In addition, the specification of the variables is also a limitation. While the theory may be relatively precise, the application of the embeddedness dimensions is less than perfect in practice and requires subjective classification. Even though this study controls for subsector by only looking at arts and culture, these organizations are not homogenous in mission. Some focus on theatre performances, others on cultural preservation, still others on research and education, and so on. This variety is an advantage when it comes to the mix of revenue activities any given organization has. For the purpose of this study, all earned revenue types were classified as a whole as embedded, integrated (-market or –tech), or external. It may be that a particular source of earned income is embedded for one organization, and integrated or external for a different organization. For example, one museum's café may be public-facing and accessible without paying admission fees, while another museum's café may be housed within the organization for

the convenience of patrons already exploring exhibits. However, since previous studies have shown arts and culture organizations to rely more on earned income than other subsectors, as well as potentially positive crowding-in effects of earned income, the embeddedness framework does offer a starting point to evaluate these interactions, even if the exact categorization of each activity becomes specific to that organization. Levine Daniel and Galasso (2018) explore this in more detail.

CONCLUSION

How does earned revenue effect individual donations? Earned revenue activities from 12,374 arts and culture nonprofits in 16 states during 2010-2015 were categorized according to embeddedness within core mission activities to explore this relationship.

Previous literature showed mixed findings regarding the effects of earned revenue and donations. These findings may also be due to how earned revenue tends to be studied, as De Wit and Bekkers' (2017) note in their meta-analysis of crowding out (including research methods employed to study this phenomenon). Similarly, this study attempts to address shortcomings of prior studies that treat earned revenue as an aggregate measure. Application of this earned revenue embeddedness frameworks demonstrates that monetized core services may become a substitute for donations, but new offerings to target markets complement donations.

In addition to introducing a framework through which to analyze earned revenue and donations, this study also has practical implications. Organizations looking to pursue new sources of earned revenue can use this framework to help in their decision-making process by considering how the activity will complement core mission-related activities. The nature of the

earned revenue activity matters. Offering new goods/services to existing or new target markets may be able to attract new donor resources without straining existing resources.

[i] While the first profiles date from 2001, participation stabilized in the late 2000s. In addition, changes in survey and profile formatting and processes went into effect during 2016, significantly altering the data collected as well as the participation demographics.

[ii] All revenue measures (excluding dummy and squared terms) are measured in 000s.

[iii] Approximately 10% of the observations (3,998) had zero donations throughout this timeframe. Models omitting these observations yielded similar results. All significant variables remained significant with no change in significance or direction, and with minimal variation in coefficient magnitude. No new relationships emerged.

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Figure 1: The Earned Revenue Embeddedness Matrix

Different **TARGET MARKET** Same	INTEGRATED-TECH Revenue	EXTERNAL Revenue
	EMBEDDED Revenue	INTEGRATED-MARKET Revenue
	Same **ORGANIZATIONAL TECHNOLOGY**	Different

Table 1: Count of Organizational Profiles in States with Heavy DataArts Participation, 2010-2015

	2010	2011	2012	2013	2014	2015	All
AZ	245	283	277	270	272	277	**1,624**
CA	1,651	1,601	1,585	1,628	1,706	1,796	**9,967**
IL	935	954	939	930	840	712	**5,310**
MA	501	521	499	505	499	543	**3,068**
MD	407	382	403	421	425	431	**2,469**
ME	2	2	2	2	7	41	**56**
MI	420	480	464	459	454	433	**2,710**
MN	77	260	343	394	391	384	**1,849**
NJ	3	4	3	5	13	108	**136**
NY	2,072	2,014	1,955	1,797	1,415	1,363	**10,616**
OH	396	398	416	429	434	430	**2,503**
OR	3	4	3	4	4	136	**154**
PA	938	927	918	925	915	871	**5,494**
RI	86	102	87	79	68	69	**491**
TX	8	51	85	202	234	370	**950**
VT	60	75	62	52	38	38	**325**
Total	**7,804**	**8,058**	**8,041**	**8,102**	**7,715**	**8,002**	**47,722**

Table 2: Nonprofits in DataArts Sample as Compared to Total Creative Industries, Nonprofit Arts Industry Spending, FTEs Supported, and Per Capita by County

	DataArts	Creative Industries*	Arts & Economic Prosperity 5**			Local Arts Index, 2009-2015 (ICPSR 38984)***
	Profiles, 2015	**Total Orgs**	**Estimated Total Spending by Arts and Culture Nonprofit Industry, 2015**	**FTEs Supported, 2015**	**Local Study Regions**	**County Range of Total Nonprofit Arts Organizations per 100,000 Population, 2012**
AZ	277	14,522	$22.9M-401M	758-12,815	West Valley Region, Cities of Mesa, Flagstaff, Phoenix	0 (Greenlee); Smallest : 1.55 (Pinal); Largest: 22.82 (Coconino)
CA	1796	103,191	$4.6 M-1.4B	149-39,699	City/County: San Francisco; Counties: Riverside, Sacramento, San Luis Obispo, Santa Barbara, Santa Clara, Sonoma; Cities: Benicia, Laguna Beach, Riverside, San Diego, San José, Thousand Oaks, Walnut Creek; Cultural District: Balboa Park	0 (Alpine); Smallest: 3.58 (Glenn); Largest: 65.04 (Sierra)
IL	712	22,482	$4.0B	111,068	State	0 (17 counties); Smallest: 2.53(Franklin); Largest: 33.23 (Carroll)
MA	543	16,157	$2.3B	73,288	State	Smallest: 14.16 (Bristol); Largest: 146.47 (Nantucket)
MD	431	13,185	$900M	25,248	State	Smallest: 6.64 (Charles); Largest: 64.64 (Kent)
ME	41	2,582	$150M	4,190	State	Smallest: 12.08 (Androscoggin); Largest: 82.47 (Hancock)
MI	433	17,394	$100M	2,574	Multi-County Region: Greater Ann Arbor Area	0 (10 counties); Smallest: 3.31 (Monroe); Largest: 90.46 (Keweenaw)
MN	384	13,039	$1.2B	33,381	State	0 (7 counties); Smallest: 3.14 (Wright); Largest: 134.9 (Cook)
NJ	108	19,264	$519M	14,342	State	Smallest: 5.87 (Gloucester); Largest: 28 (Cape May)
NY	1363	50,337	$172M-352M	5,179-10,160	Multi-County Region: Western New York; County: Westchester County	Smallest: 4.9 (Bronx); Largest: 125.34 (Hamilton)

	DataArts	Creative Industries*	Arts & Economic Prosperity 5**			Local Arts Index, 2009-2015 (ICPSR 38984)***
	Profiles, 2015	**Total Orgs**	**Estimated Total Spending by Arts and Culture Nonprofit Industry, 2015**	**FTEs Supported, 2015**	**Local Study Regions**	**County Range of Total Nonprofit Arts Organizations per 100,000 Population, 2012**
OH	430	19,049	$213M-412	8,829-14,980	Multi-County Region: Dayton Region; County: Greater Columbus Area	0 (3 counties); Smallest: 2.86 (Morrow); Largest: 27.99 (Crawford)
OR	136	11,606	$687M	22,299	State	0 (Gilliam); Smallest: 4.06 (Columbia); Largest: 87.81 (Wallowa)
PA	871	23,420	$3.4B	100,114	State	Smallest: 6.41 (Mifflin); Largest: 51.03 (Potter)
RI	69	2,305	$205M	5,115	City: Providence	Smallest: 9.7 (Kent); Largest: 48.66 (Newport)
TX	370	53,136	$1.2M-1.5B	33-52,848	Multi-County Regions: Dallas-Fortworth-Arlington MSA; Greater Houston Region; County: Harris County; Cities: Dallas, El Paso, Forth Worth, Irving, Lewisville, Richardson, San Antonio, Sugar Land, Waco; Cultural Districts: Dallas Arts, East End, Forth Worth, Houston Museum District Association, Midtown	0 (66 counties); Smallest: 1.95 (Cherokee); Largest: 136.99 (McMullen)
VT	38	2,021	$122M	4,268	State	0 (Essex); Smallest: 10.36 (Franklin); Largest: 99.91 (Windham)

*Americans for the Arts Creative Industries Report (2017), includes for and non-profit organizations as of April 2017

** Americans for the Arts Arts & Economic Prosperity V (2017)

***Kushner, R. and Cohen, R. (2018). Local Arts Index

Table 3: Means of Revenue Streams, by Year

Means of Revenue Streams	2010	2011	2012	2013	2014	2015	Change, 2010-2015	% Change, 2010-2015
Individual Donations	215.283	232.638	235.269	249.696	264.711	274.854	59.571	28%
Total Earned Revenue	546.953	570.238	577.219	596.6307	615.592	634.279	87.326	16%
Embedded Revenue	327.445	342.498	352.861	353.366	360.615	369.567	42.122	13%
Integrated-Total Revenue	88.545	91.367	96.372	96.813	100.584	101.071	12.526	14%
Integrated-Market Revenue	49.163	50.129	51.803	50.896	53.108	54.73	5.567	11%
Integrated- Tech Revenue	30.542	32.417	35.473	36.704	37.753	37.328	6.786	22%
External Revenue	100.272	103.74	98.699	105.904	110.326	118.764	18.492	18%
Non-Individual Contributed Income	368.92	387.345	397.832	399.954	438.257	424.424	55.504	15%
Government Support	261.945	236.821	213.853	209.418	227.19	228.04	-33.905	-13%
Investment Income	129.197	127.57	67.648	150.029	149.974	57.336	-71.861	-56%

Table 4: Summary Statistics for Revenue Variables in Panel

	Mean	S.D.	Min	Max	Individual Donations	Total Earned Revenue	Embedded Revenue	Integrated-Total Revenue	Integrated-Market Revenue	Integrated-Tech Revenue	Integrated-Tech Revenue	Count of Revenue Streams	Non-Individual Contributed Income	Government Support	Investment Income	Size (FTEs)
Individual Donations	245.412	936.248	0	7413.557	1											
Total Earned Revenue	590.171	2032.581	0	15567.219	0.676	1										
Embedded Revenue	351.102	1335.568	0	10723.463	0.631	0.923	1									
Integrated-Total Revenue	95.793	326.241	0	2386.222	0.572	0.724	0.589	1								
Integrated-Market Revenue	51.637	190.402	0	1455.833	0.499	0.596	0.493	0.837	1	0.373	1.373					
Integrated-Org Tech Revenue	35.04	139.144	0	1068.335	0.479	0.6	0.495	0.768		1	2					
External Revenue	106.277	423.497	0	3389.969	0.535	0.783	0.606	0.542	0.453	0.461	1.461					
Count of Revenue Streams	4.037	2.506	0	27	0.263	0.313	0.307	0.288	0.243	0.278	1.278	1				
Non-Individual Contributed Income	402.695	1155.714	0	8397	0.675	0.631	0.572	0.567	0.488	0.47	1.47	0.239	1			
Government Support	229.372	825.527	0	6469.986	0.438	0.454	0.384	0.45	0.383	0.356	1.356	0.154	0.469	1		
Investment Income	113.374	611.701	-43.853	5153.098	0.597	0.573	0.519	0.498	0.444	0.4	1.4	0.229	0.55	0.365	1	
Size (FTEs)	7.724	23.528	0	171	0.736	0.811	0.738	0.669	0.589	0.535	1.535	0.284	0.733	0.589	0.641	1

Table 5: Decision Rules for Categorizing Earned Revenue Variables

Revenue Stream	Key Indicators	Org Tech	Target Market	Type
Admissions	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Membership (Individual)	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Performance Subscriptions (Full)	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Performance Subscriptions (Partial)	based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Ticket Sales (Group)	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Ticket Sales (Indivdiual)	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Tuition	Based on in-person consumption of program/service	same	clients/patrons as customers, exclusive	Embedded
Advertising	sale of ad space	not necessarily tied to service activity	clients/patrons as beneficiaries, nonexclusive - do not have to consume service	External
Concessions	concession commissions as a result of food sales (if run by outside vendor) or different org technologies	different	different - nonexclusive - can eat in café without going in to exhibits	External
Loan Interest	Interest earned on loans made to other entities	not necessarily tied to service activity	nonexclusive	External
Other Earned Revenue	open ended	assumed different - not captured in other variables	assumed different - not captured in other variables	External
Other Program Revenue	open ended	assumed different - not captured in other variables	assumed different - not captured in other variables	External
Parking	fees generated by lot or garage owned/leased by organization	different	clients/patrons as beneficiaries, nonexclusive	External
Sponsorship	corporate support for your organization's mission, programs, or events in exchange for recognition through name or logo display on printed materials, a benefits package, or other promotion.	not necessarily tied to service activity	clients/patrons as beneficiaries, nonexclusive - do not have to consume service	External
Application Fees	revenue from application fees for contests, a table at a curated event, or audition fees for the organization.	reflects interest in program/service but not necessarily consumption of program/service	clients/patrons as beneficiaries, nonexclusive - do not have to consume service	Integrated (Market)

Revenue Stream	Key Indicators	Org Tech	Target Market	Type
Broadcast Subscriptions	revenue from advance payments for a series of broadcast or digital media, such as telecasts, webcasts, podcasts, and similar programs.	different	clients/patrons as may be customers, not necessarily exclusive	Integrated (Market)
Gallery Sales	sales in gallery/sale of self-produced publications	same if art for sale is the same as displayed in gallery, but self-produced publications may be adjacent to core activity	clients/patrons may be customers, but not necessarily - not exclusive	Integrated (Market)
Gift Shop	all merchandise sales - includes food sales of org runs own food/catering services	different	clients/patrons may or may not be customers; can walk in to gift shop without entering museum, not necessarily selling goods related to exhibits	Integrated (Market)
Publication Sales	Revenue from the sale of self-produced materials, such as studies, articles, and books.	different	clients/patrons as may be customers, not necessarily exclusive	Integrated (Market)
Publication Subscriptions	revenue from advance payments for a series of print media, whether delivered in physical or digital form.	different	clients/patrons as may be customers, not necessarily exclusive	Integrated (Market)
Revenue from Contracts	fees or commissions from services performed under contract.	unclear of same - may be offsite or involve travel/touring	clients/patrons as may be customers, not necessarily exclusive	Integrated (Market)
Fiscal Sponsorship Fees	fees for providing financial management, grant processing, and other administrative services as a fiscal sponsor.	existing org processes and technology	other organizations as clients/patrons, unrelated to program/service	Integrated (Tech)
Rentals (Other)	renting out non-space equipment, etc. for on-site events	existing org assets/technology	nonexclusive	Integrated (Tech)
Rentals (Space)	renting out space for on-site events	existing org assets/technology	nonexclusive	Integrated (Tech)
Royalties	revenue from the use of organization's intellectual property, such as printed materials, photographic materials, artistic works, broadcasts, webcasts, recordings, and choreography.	same/already existing	clients/patrons as may be customers, not necessarily exclusive	Integrated (Tech)
Touring Exhibits	performances away from home/usual venue	same	different	Integrated (Tech)
Touring Fees (Events)	performances away from home/usual venue	same	different	Integrated (Tech)

Table 6: Effects of Earned Revenue Embeddedness on Individual Donations

Effects of Earned Revenue on Individual Donations (000s)	Baseline	Basic Embeddedness		w/ Revenue Controls		Non-Linear Models	
	1	2a	2b	3a	3b	4a	4b
Total Earned Revenue	-0.00374						
	(0.00439)						
Embedded Revenue		-0.0309***	-0.0284***	-0.0310***	-0.0284***	0.00184	0.00166
		(0.00826)	(0.00829)	(0.00830)	(0.00832)	(0.0197)	(0.0197)
Integrated-Total Revenue		0.0726***		0.0713***		-0.0935**	
		(0.0197)		(0.0198)		(0.0457)	
Integrated-Market Revenue			0.0782***		0.0760**		0.177**
			(0.0302)		(0.0304)		(0.0697)
Integrated-Org Tech Revenue			-0.0268		-0.0326		-0.127
			(0.0394)		(0.0399)		(0.0970)
External Revenue		0.0142	0.0103	0.0128	0.00895	0.0229	0.0326
		(0.0110)	(0.0110)	(0.0110)	(0.0110)	(0.0294)	(0.0295)
(Non-Individual) Contributed Income	0.0413***	0.0420***	0.0423***	0.0420***	0.0423***	0.0420***	0.0420***
	(0.00440)	(0.00440)	(0.00440)	(0.00440)	(0.00440)	(0.00441)	(0.00441)
Government Support	0.0732***	0.0742***	0.0744***	0.0743***	0.0744***	0.0748***	0.0742***
	(0.00590)	(0.00590)	(0.00591)	(0.00590)	(0.00591)	(0.00590)	(0.00591)
Investment Income	-0.0548***	-0.0560***	-0.0559***	-0.0559***	-0.0559***	-0.0557***	-0.0560***
	(0.00537)	(0.00539)	(0.00539)	(0.00539)	(0.00539)	(0.00539)	(0.00540)
Size (FTEs)	0.685**	0.660**	0.698**	0.660**	0.698**	0.630**	0.669**
	(0.295)	(0.296)	(0.296)	(0.296)	(0.296)	(0.297)	(0.297)
Count of Revenue Streams				2.108	1.597		
				(2.468)	(2.688)		
Embedded Revenue-Dummy				-10.61	-10.28		
				(10.65)	(10.72)		
Integrated-Total Revenue-Dummy				-2.799			
				(7.835)			
Integrated-Market Revenue-Dummy					0.705		
					(7.406)		
Integrated-Org Tech Revenue-Dummy					4.840		
					(8.616)		
External Revenue-Dummy				3.852	4.642		

Effects of Earned Revenue on Individual Donations (000s)	Baseline	Basic Embeddedness		w/ Revenue Controls		Non-Linear Models	
	1	2a	2b	3a	3b	4a	4b
				(7.014)	(7.128)		
Embedded Revenue^2						-3.38e-06*	-3.06e-06*
						(1.83e-06)	(1.83e-06)
Integrated-Total Revenue^2						7.80e-05***	
						(1.97e-05)	
Integrated-Market Revenue^2							-8.14e-05
							(5.07e-05)
Integrated-Tech Revenue^2							0.000104
							(9.53e-05)
External Revenue^2						-2.50e-06	-7.20e-06
						(8.91e-06)	(8.92e-06)
Constant	215.1***	215.1***	218.0***	214.5***	214.8***	216.6***	212.2***
	(4.174)	(4.694)	(4.743)	(11.05)	(10.91)	(5.521)	(5.597)
Observations	47,517	47,517	47,517	47,517	47,517	47,517	47,517
R-squared (within)	0.010	0.011	0.010	0.011	0.010	0.011	0.011
R-squared (between)	0.270	0.197	0.165	0.199	0.168	0.191	0.176
R-squared (overall)	0.270	0.198	0.166	0.200	0.169	0.191	0.174
Rho (fraction of variance due to u_i)	0.828	0.830	0.832	0.830	0.832	0.830	0.831
Number of Organizations	12,374	12,374	12,374	12,374	12,374	12,374	12,374

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1