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RESEARCH PAPER

Organizational Capacity, Resource Environment, and Revenue Diversification Among Chinese Nonprofit Organizations

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Abstract Although the outcomes of nonprofit revenue diversification have been widely studied, its antecedents remain underexplored. This study applies resource dependence theory to examine the factors shaping nonprofits' revenue diversification strategies, drawing from a nationwide survey of Chinese social service nonprofits. The findings indicate that, on average, Chinese nonprofits tend to have less diversified revenue portfolios, though significant variation exists across organizations. The analysis reveals that nonprofits with a well-established professional workforce and those operating in resource-rich environments are more likely to concentrate their revenue sources. In contrast, nonprofits with stronger government ties are more likely to have diversified revenue structures. These findings offer new insights into the literature and carry practical implications for nonprofit management.

Keywords Revenue diversification · Organizational capacity · Resource environment · Chinese nonprofits

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Introduction

In nonprofit organizations, the composition of revenue portfolios plays a pivotal role in shaping organizational resilience and sustainability (Young, 2017). Understanding the dynamics of revenue sources is essential for nonprofits' strategic decision-making and long-term viability. Some nonprofits opt for single-source income, such as earned income or government funding, while others diversify their funding from various sources like donations, grants, fees, and investments. Indeed, revenue diversification stands as a strategic choice often embraced by nonprofit leaders to promote organizational sustainability (Froelich, 1999).

Within the scholarly literature, an extensive body of empirical research investigates the multifaceted implications of revenue diversification. On one hand, certain studies advocate its benefits, asserting that revenue diversification can mitigate financial vulnerability and volatility, bolster financial independence, and foster stronger community ties (Bielefeld, 1992; Chang & Tuckman, 1994; Lu et al., 2020). On the other hand, an opposing perspective argues that the embrace of revenue diversification can yield adverse outcomes, due to the complexities of managing diverse income streams (Chikoto & Neely, 2014; de los Mozos et al., 2016; Guan et al., 2021). Thus, scholars advocate a preference for concentrating on a narrower array of income sources (Foster & Fine, 2007; Frumkin & Keating, 2011).

Despite an extensive body of research on revenue diversification, our understanding remains incomplete for two main reasons. First, most studies have focused on the outcomes rather than the antecedents of revenue diversification. Although many nonprofits draw from multiple funding sources, they do so in varied ways. This raises a critical question: Which organizational capabilities or

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external environmental factors correlate with these differences in funding strategies? Without clearer insights into these underlying drivers, we cannot fully comprehend how revenue diversification operates, leaving nonprofit leaders with limited guidance on structuring their revenue portfolios. Although a small but growing body of literature has begun to explore these antecedents (e.g., Lu & Shon, 2024; Shea & Wang, 2016; von Schnurbein & Fritz, 2017), the findings remain inconclusive.

Second, even within this limited research on antecedents, the focus has largely remained on Western democratic contexts, offering scarce attention to non-Western settings—particularly those characterized by non-Western regimes, where interactions among the state, market, and nonprofit sector are distinct (Salamon et al., 2017). In China, for example, nonprofits have experienced significant growth but continue to face persistent challenges in resource acquisition due to a restrictive political environment (Hildebrandt, 2011; Spires, 2011; Zhang & Baum, 2004). These conditions may compel organizations to adopt more strategic approaches to revenue diversification. Nevertheless, the scarcity of empirical evidence limits our understanding of how Chinese nonprofits navigate this environment. Taken together, these two gaps underscore the need for our study.

This study examines the factors associated with nonprofit revenue diversification within the context of China.[1] Using data from a nationwide survey conducted in 2020, it analyzes a sample of 335 Chinese social service nonprofits (private non-enterprise organizations). Grounded in resource dependence theory, the study conceptualizes revenue diversification as an organizational strategy influenced by both a nonprofit's organizational capacity and its resource environment. The results show that nonprofits with a well-established professional workforce and those in resource-rich environments tend to concentrate their revenue sources. In contrast, nonprofits with stronger government connections exhibit more diversified revenue structures.

Although our cross-sectional data limits our ability to draw causal conclusions, the findings contribute to the literature in two key ways. Theoretically, we expand the understanding of revenue diversification by examining explanatory variables that have been previously overlooked. This analysis not only advances our comprehension of the antecedents to revenue diversification but also enhances our insights into the strategies involved. Furthermore, our research makes a substantial theoretical contribution by applying resource dependence theory (RDT) to the Chinese nonprofit sector, demonstrating how RDT can be adapted to fit the unique context of China, thus enriching the theory's applicability and relativity. Empirically, the study broadens the literature by providing evidence from a non-Western context. In China, nonprofits face unique challenges and opportunities due to the country's political, economic, and social characteristics. Our findings shed light on how Chinese nonprofits navigate these circumstances and make strategic decisions regarding revenue diversification. The findings, therefore, are poised to offer practical implications for nonprofit management in China and theoretical insights that can enrich the study of nonprofit financial strategies within non-Western regimes.

Literature Review

Revenue diversification is a widespread financial approach embraced by many nonprofits (Froelich, 1999). Over the past thirty years, the predominant focus of research within this realm has centered on analyzing the impacts of revenue diversification, both financially and non-financially (Lu et al., 2019). Yet, a significant question frequently neglected within the current literature pertains to the factors that underlie nonprofits' choices in determining whether to diversify and to what extent. As articulated by Chang and Tuckman (1994, p. 273), "what determine their ability to diversify?" or in the words of Shea and Wang (2016, p. 249), "what information should managers use to inform those decisions?".

To our knowledge, Chang and Tuckman (1994) conducted the first empirical study on this question, analyzing U.S. nonprofits' 1986 tax return data. They proposed activity type, primary revenue source, and fundraising expense as diversification drivers. However, this research area remained largely stagnant until recent years. Fischer et al. (2011) argued that a nonprofit diversifies its revenue structure when its service beneficiaries are neither exclusively private nor public but mixed. Shea and Wang (2016) found state funding negatively affects revenue diversification for U.S. housing nonprofits, while von Schnurbein and Fritz (2017) suggested Swiss fundraising charities' diversification levels are influenced by factors such as geographic activity range, funding source consistency, and board diversity.

Overall, relatively few studies have examined this question, and those that have are primarily concentrated in Western contexts (see Table 1). The existing literature remains largely exploratory, probing various factors without reaching definitive conclusions. Compared to the extensive body of research on the outcomes of revenue diversification, our understanding of its antecedents remains comparatively limited. To the best of our knowledge, Zhu et al. (2018) conducted the first and only study examining the factors influencing revenue diversification

[1] This study examines the nonprofit sector in mainland China.

Table 1 Existing studies on antecedents of nonprofit revenue diversification

Study	Country	Nonprofit type	Sample size (Year)	Measure of revenue diversification	Main findings
Chang and Tuckman (1994)	United States	Charitable nonprofits	113,525 (1986)	HHI based on 9 revenue sources (e.g., government grants, donations, program service revenue, membership dues)	Revenue diversification is related to type of activity (n), commercial income as primary revenue source (−), fundraising expense (+), financial strength (+)
Fischer et al. (2011)	United States	Charitable nonprofits	45,143 (2003)	HHI based on 7 revenue sources (e.g., contributions, program service revenue, investment income, rental income)	Revenue diversification is influenced by nature of service (n), organizational age (n), organizational size (−), assets (+), liabilities (+)
Foster and Meinhard (2005)	Canada	Women's and nongendered nonprofits	645 (1999)	The number of funding sources (ranging from 1 to 9)	Revenue diversification is affected by funding competition (+), interorganizational collaboration (+), pessimistic outlook about the future (−), organizational size (+), business orientation (+)
Lu and Shon (2024)	United States	Arts and cultural nonprofits	54,877 (2005–2017)	HHI based on 5 revenue sources (government grants, charitable donations, earned income, investment income, others)	Revenue diversification is influenced by resource competition (+), resource munificence (−), board size (+), organizational size (−), organization age (+), marketing spending (+), fundraising efficiency (−), liberal ideology (+)
Shea and Wang (2016)	United States	Housing nonprofits	990 (2008–2010)	HHI based on 16 revenue sources (e.g., federated campaign revenue, membership dues, government grant, program service revenue, interest income)	Revenue diversification is driven by state funding (−), organizational age (+), organizational assets (+), organizational expenses (n), and liabilities (n)
von Schnurbein and Fritz (2017)	Switzerland	Fundraising charities	191 (2005–2012)	HHI based on 4 revenue sources (government grants, donations, program service revenue, and investment income)	Revenue diversification is influenced by geographical range of activity (−), consistency in primary revenue source (−), organizational size (+), board size (+) and board diversity (+)
Wicker and Breuer (2014)	Germany	Nonprofit sports clubs	45,074 (2005, 2009, 2011)	HHI based on 25 revenue sources (e.g., donations, membership fees, admission fees, sport events, government subsidies)	Revenue diversification is affected by organizational mission (n), total revenue (−), number of members (n), and service area (n)
Zhu et al. (2018)	China	Grassroots nonprofits	429 (2011)	HHI based on 3 revenue sources (donations, program service revenue, and government grants/subsidies)	Revenue diversification is affected by information disclosure (+), board involvement in resource acquisition (+), organizational density (−), organizational age (n), local economic development (+), registration with government (+)

HHI = Herfindahl–Hirschman Index, + = a positive relationship, −= a negative relationship, n = a nonlinear relationship

among Chinese grassroots nonprofits. Using survey data from 2011, their research analyzed the relationships between organizational legitimacy, board involvement, and resource competitiveness with revenue diversification. Building on this foundational work, our research continues to investigate the factors associated with revenue

diversification in social service nonprofits (private non-enterprise organizations), using more recent data and incorporating additional variables to broaden the analysis.

Theoretical Framework and Hypotheses

This research is grounded in resource dependence theory (RDT) to examine the factors associated with revenue diversification among nonprofits. RDT focuses on how organizations strategically acquire and manage essential resources while navigating environmental uncertainty and dependence (Pfeffer & Salancik, 1978). It posits that organizations, including nonprofits, are deeply interconnected with their external environments, where interactions with other entities are crucial for securing necessary resources. However, these inter-organizational resource exchanges can lead to power imbalance and dependencies that significantly affects an organization's internal dynamics (Emerson, 1962). Importantly, the uncertainty of the environment and the availability of resources profoundly influence organizational operations and behaviors. Malatesta and Smith (2014) emphasized the need for nonprofits to manage these environmental dependencies to mitigate uncertainty and secure core resources.

Within the framework of RDT, revenue diversification emerges as a strategic approach for nonprofits to manage resource dependence and maintain organizational autonomy. As Pfeffer and Salancik (1978, p. 131) noted, "diversification represents an explicit attempt to avoid … the control by others who control critical resource exchange." This suggests that diversification is a deliberate strategy to reduce external control over essential resource exchanges, thereby enhancing organizational self-sufficiency. Consequently, the extent of a nonprofit's revenue diversification is influenced by its capacity to navigate uncertainty and the availability of resources in its operating environment. Informed by RDT, this study aims to explore how organizational capacity and the resource environment correlate with the revenue diversification strategies employed by Chinese nonprofits.

Organizational capacity refers to an organization's ability to acquire the essential resources necessary for fulfilling its mission (Eisinger, 2002). When a nonprofit effectively secures crucial resources for its development—such as financial, human, and technological assets—it enhances its autonomy and reduces its reliance on the external environment. According to RDT, nonprofits with greater organizational capacity are better equipped to manage the vulnerabilities associated with resource dependence, leading to a diminished incentive for revenue diversification. In this study, we focus on two key indicators of organizational capacity: government connection and professionalization.

Government Connection

Establishing connections with government entities provides organizations with a multitude of advantages, including enhanced stability, predictability, and improved access to essential resources that may be lacking internally. According to Baum and Oliver (1991), organizations that cultivate strong ties with the government enjoy significant survival benefits, such as streamlined access to vital resources and increased organizational stability. This connection is particularly crucial in non-Western contexts like China, where the government wields considerable control over both resources and societal dynamics (Dong & Lu, 2020; Ho, 2007). The Chinese nonprofit sector operates within a framework heavily influenced by the party-state, which is shaped by its policies and mechanisms (Liu & Van de Walle, 2020; Spires, 2011; Teets, 2014).

In such an environment, affiliations with the party-state system serve as a vital conduit for accessing political support and essential resources, significantly enhancing an organization's overall capacity to operate effectively. Research indicates that nonprofits with government affiliations are likely to experience greater revenue growth and improved service delivery outcomes (Ni & Zhan, 2017; Yu et al., 2021). In accordance with RDT, nonprofits with government connections often benefit from enhanced operational stability and demonstrate a greater capacity to navigate external uncertainties. Consequently, these organizations may be more inclined to rely on government resources, exhibiting less motivation to actively pursue alternative revenue streams. For instance, Hsu and Jiang (2015) found that Chinese nonprofits led by founders with prior experience in the party-state system are more likely to depend on government funding as their primary source of revenue. Similarly, Wang (2022) highlighted that Chinese foundations with robust governmental ties tend to secure a greater number of government grants. Thus, we posit that:

Hypothesis 1 There is an association between greater government connections and lower levels of revenue diversification in nonprofits.

Professionalization

In recent decades, the nonprofit sector has increasingly shifted toward professionalization, although some organizations still rely heavily on volunteers (Dill, 2014; Salamon, 2012). This transition is marked by the growing employment of paid staff with specialized expertise gained through formal training and a preference for integrating

this knowledge into leadership and operations (Hwang & Powell, 2009; Salamon, 2012). Professionalization enhances organizational capacity by leveraging specialized expertise and employing efficient management practices. The presence of full-time staff signals a commitment to effectiveness, enabling nonprofits to address challenges and allocate resources wisely. Additionally, professionalization fosters internal improvements, transparent governance, and stronger stakeholder relationships. Research shows that professionalized nonprofits tend to demonstrate better planning, enhanced collaboration, increased revenue generation, and greater transparency (Hwang & Powell, 2009; Kim & Peng, 2018; Sanzo-Pérez et al., 2017; Suárez, 2011).

While professionalization brings many benefits to nonprofit organizations, its relationship with revenue diversification remains ambiguous. Drawing from RDT, it can be argued that professionalization significantly enhances organizational capacity by providing nonprofits with the necessary skills, expertise, and resources to navigate external uncertainties and reduce their dependence on external sources of funding. This increased capacity allows organizations to operate more efficiently and effectively, potentially leading them to feel more secure in their existing funding sources. Consequently, this sense of stability may diminish the incentive for nonprofits to actively pursue revenue diversification as a strategy for mitigating risks associated with external reliance. Instead, professionalized organizations might prioritize optimizing and strengthening their current revenue streams rather than exploring new avenues for income generation. Therefore, we propose that:

Hypothesis 2 There is an association between higher levels of professionalization and lower levels of revenue diversification in nonprofits.

Resource Availability

In addition to organizational capacity, the manner in which nonprofits employ revenue diversification as a strategy to address external resource dependence is also contingent upon the specific resource environment within which these nonprofits operate. An organization's resource environment exerts a significant influence over its strategic pursuits, operational capabilities, and ultimate performance (Castrogiovanni, 1991; Koberg, 1987; Prentice, 2016). In a resource-rich environment, characterized abundance of essential resources such as financial capital, human resources, technological infrastructure, and collaborative partners, organizations are better positioned for growth and innovation. Conversely, contending with a resource-constrained environment, organizations are compelled to adopt prudent resource allocation strategies, prioritize efficiency, and be ready to adapt. Therefore, it is crucial for organizations to have a nuanced understanding of their resource environment in formulating their strategies. By figuring out these details, organizations can choose the best paths to handle challenges and make the most of opportunities, leading to long-term success and a meaningful impact.

According to RDT, organizations depend on external environment for resources to sustain and grow. However, the degree to which an organization's external environment provides these resources can vary. Therefore, how nonprofits cope with external dependence also rests upon the extent of resource availability in organizations' resource environment (Pfeffer & Salancik, 1978). When resources are abundant, external dependence is less problematic, as organizations may find it easier to tap into alternative resources, mitigating potential risks associated with the dependence. As a result, nonprofits operating in such favorable resource-rich conditions may exhibit a lower level of concern regarding perceived dependence risks. If so, their incentive to seek additional resource to diversify revenue portfolios and safeguard organizational autonomy might weaken. Accordingly, we hypothesize that:

Hypothesis 3 There is an association between higher levels of resource availability and lower levels of revenue diversification in nonprofits.

Empirical Setting and Methods

We tested the above hypotheses within the empirical context of the Chinese nonprofit sector. The evolution of the nonprofit sector in China has been marked by a complex interplay of political, economic, and social forces (Teets, 2014). As China transitioned from a planned to a market-based economy during the 1980s, nonprofit organizations gained prominence as valuable contributors to social affairs. Concurrently, the role of the non-Western party-state underwent transformation, evolving into a more "service-oriented" government. This shift involved the decentralization of certain powers to local authorities and facilitated multi-stakeholder involvement in public service delivery and policy formulation. These transformative changes provided a conducive environment for the emergence and growth of nonprofits that found opportunities to address pressing social and community needs (Ho, 2007; Howell, 2015; Zhan & Tang, 2013).

In recent years, the Chinese nonprofit sector has undergone remarkable expansion, witnessing a substantial surge in the number of active organizations. As of 2021, there were over 900 thousand registered nonprofit entities actively engaged in a diverse range of social and

community affairs (Ministry of Civil Affairs of China, 2022). This burgeoning landscape is further exemplified by the proliferation of nonprofits across a wide range of service areas, which have emerged as significant agents, effectively addressing local demands and contributing to the overall vibrancy of the sector (Hu & Zhu, 2021; Tang & Wang, 2022). The ongoing expansion of nonprofits underscores the sector's significance in the Chinese governance system, reflecting its evolving role as a key contributor to societal well-being.

However, despite the significant growth experienced, the Chinese nonprofit sector remains embedded within a non-Western framework, where the party-state significantly influences its development (Liu & Van de Walle, 2020; Zhang & Guo, 2021). In this context, nonprofits grapple with a constrained political landscape characterized by legal and administrative regulations imposed by the party-state, influencing various facets of their operations, including legal registration, tax-exempt status acquisition, and fundraising endeavors (Hildebrandt, 2011; Kang & Han, 2008; Spires, 2011). Confronted with these uncertainties, the task of acquiring adequate resources for sustaining operations has consistently emerged as a formidable challenge for Chinese nonprofits (Zhang & Baum, 2004). In this complex context, we seek to uncover the underlying dynamics of revenue diversification among Chinese nonprofits.

Data Collection

Unlike in many other countries, there are no national databases of Chinese nonprofits available for research purposes. To overcome this obstacle, we turned to the NGO Directory (http://www.chinadevelopmentbrief.cn/directory), an extensive compendium created and continuously updated by China Development Brief (CDB). This repository, originating in the year 2005, provides an expansive collection comprising nearly 7,000 active Chinese nonprofits across various service areas. It is necessary to note that inclusion within this directory is entirely voluntary, with nonprofits either opting to formally register with CDB or receiving invitations to join from the organization itself. Thus, the Directory capture a cohort of Chinese nonprofits that consistently sustain their operations over time. Notably, the Directory has been embraced by prior Chinese nonprofit research (e.g., Dong & Lu, 2021; Zhan & Tang, 2016), a testament to its established credibility and reliability.

In June 2020, we delved into an extensive list of 7077 organizations from the Directory. To ensure the integrity of our analysis, we refined this initial pool by excluding several categories of organizations: (1) those that appeared as duplicates within the Directory, (2) entities situated outside mainland China, (3) organizations functioning as for-profit organizations, and (4) those whose primary purpose diverged from service provision, such as associations and foundations. As a result of these filtering measures, our final sampling frame was composed of 2,003 organizations. From this refined cohort, a selected random sample of 700 organizations was drawn.[2]

Prior to our large-scale survey, a preliminary pilot study was conducted with three Beijing-based nonprofits in July 2020. This phase helped refine the questionnaire and optimize survey logistics. Subsequently, the revised questionnaire was programmed into an online survey platform. Initial survey invitations were sent via email and social media to executive directors or their equivalents of the chosen sample organizations in August 2020. The survey included a diverse array of questions pertaining to the organizational attributes and operations of these nonprofits during the year of 2019. A comprehensive engagement strategy was implemented, including multiple communication channels (e.g., landline and mobile phones, email) and three rounds of reminders over six weeks, resulting in 336 valid responses by mid-September 2020, with a 48% response rate.

Variable Measurement

The dependent variable, *revenue diversification*, is the extent to which a nonprofit diversifies its revenue stream. As in earlier research (e.g., Carroll & Stater, 2009; Greenlee & Trussel, 2000; Yan et al., 2009), we gauged revenue diversification using the Hirschman-Herfindahl index (HHI). The HHI's strength lies in its comprehensive assessment, accounting not only for the number of revenue sources, but also their distribution within a nonprofit's income structure (Chang & Tuckman, 1991). Recent studies emphasize that the evaluation of revenue diversification can be influenced by the number of funding sources considered in the HHI (Chikoto et al., 2016). Considering the existing body of work and our dataset, this study considers five revenue sources to gauge revenue diversification: government funding, charitable donations, earned income, investment income, and other sources. The HHI is calculated as:

[2] As a practical consideration, we surveyed a random sample of 700 nonprofits from a total sampling frame of 2003, representing approximately one-third of the total. Given the tendency of Chinese nonprofits to be less forthcoming with internal information, we supplemented our initial online survey distribution with personalized follow-ups via phone, email, and social media (WeChat). This approach allowed us to encourage participation, verify responses, and address any missing or inaccurate data, making 700 nonprofits the most manageable sample size given the logistical demands.

$$\text{HHI} = \frac{1 - \sum_{i=1}^{5} R_i^2}{0.8}$$

where *Ri* represents the proportion of each of the five revenue sources in relation to total revenue. The HHI value falls within the 0 to 1 range, whereby higher values indicate greater degrees of revenue diversification (Yan et al., 2009).

On the independent variable side, *government connection* evaluates the intensity of a nonprofit's linkages with the party-state system. In line with prior research (e.g., Dong & Lu, 2021; Haveman et al., 2017), this variable was gauged by calculating the proportion of governing board members with past or present experience within the party-state apparatus. *Professionalization* measures the extent to which a nonprofit relies on professional (paid) staff, which mirrors its managerial orientation (Suárez, 2011). This measure is derived by dividing the number of paid full-time staff by the number of volunteers, a common practice used in prior research (e.g., LeRoux & Goerdel, 2009; Sanzo-Pérez et al., 2017).[3] A greater value indicates a higher level of professionalization. *Resource availability* reflects the availability of crucial resources that nonprofits require within their environment. To ascertain a nonprofit's geographical location, we requested nonprofits to report information on the prefectural city where their operations were based, and subsequently extracted the per capita gross domestic product (GDP) from the provincial Statistical Yearbook of that prefectural city. Similar measures of a nonprofit's resource environment can be found in the literature (e.g., Bielefeld et al., 1997; Kim & Kim, 2015).

We also controlled for two basic organizational characteristics: size and age. *Organizational size* was measured by total assets (in log form), and *organizational age* was calculated based on the founding year.[4] Following Frumkin and Keating (2011) and Shea and Wang (2016), we controlled for *fundraising expenses*, calculated as the proportion of fundraising expenditures relative to total expenditures. This is based on the premise that organizations allocating more resources to fundraising activities are likely to tap into more diverse revenue streams. Given the boundary-spanning role of nonprofit boards in resource acquisition, we also controlled for board size, following previous studies (Hodge & Piccolo, 2005; von Schnurbein & Fritz, 2017). *Board size* was measured by the number of board members in a nonprofit. Informed by benefits theory (Aschari-Lincoln & Jäger, 2016; Young, 2017), we also controlled for a nonprofit's *primary service area* using dummy variables.[5]

Results

Table 2 presents the descriptive statistics for the variables under examination, with noteworthy attention given to the descriptive statistics of the dependent variable, *revenue diversification*. Among the organizations in our sample, the average HHI for revenue diversification is 0.296. This finding invites comparison with similar studies conducted in other countries. For instance, von Schnurbein and Fritz (2017) reported an average HHI of 0.555 for Swiss fundraising charities, while Wicker and Breuer (2014) found that nonprofit sports clubs in Germany maintain an average HHI of 0.46. Additionally, Calabrese (2013) and Park et al. (2022) similarly estimated an average HHI of 0.34 for U.S. nonprofits. Although these values are not directly comparable due to differences in the number of revenue sources included in each study's HHI calculation, they suggest that Chinese nonprofits may have less diversified and more concentrated revenue portfolios compared to their counterparts in these other countries.

Moreover, there is considerable variation in the degree of revenue diversification across the nonprofits within our sample. Numerically, the HHI values in our dataset span from 0 (perfect revenue concentration) to 0.963 (nearly perfect revenue diversification), with a standard deviation of 0.292, which is almost the same as the mean value. Detailed insights into the revenue diversification levels across different service areas are presented in Table 3, underscoring significant divergence among these areas. For example, environmental protection nonprofits exhibit the least diversified revenue portfolios, with an average HHI of 0.07, while women and children nonprofits show the highest revenue diversification, with an average HHI of 0.71. Between these two extremes, nonprofits in areas such as community services and legal aid exhibit a moderate level of revenue diversification, as indicated by their average HHIs of 0.41 and 0.42, respectively.

Given the considerable variation in revenue diversification levels among Chinese nonprofits, we delved into identifying the factors influencing this variation. As mentioned earlier, our dependent variable, revenue

[3] A part-time employee is considered equivalent to half (0.5) of a full-time employee.

[4] One respondent reported zero total assets in 2019, leading to a final sample of 335 organizations.

[5] Due to the lack of a standardized categorization system for nonprofit service areas in China, we requested each survey respondent to identify their most important service area. Using this data, we categorized all nonprofits into 12 service areas, including arts and culture, community services, education, elderly and disabled support, environmental protection, legal aid, healthcare, poverty alleviation, rural development, scientific research, women and children services, and others.

Table 2 Descriptive statistics (N = 335)

Variable	Mean	SD	Min	Max
Revenue diversification	0.296	0.292	0	0.963
Government connection	0.039	0.121	0	1
Professionalization	3.571	36.805	0	666
Resource availability (log)	11.475	0.546	9.429	12.595
Organizational size (log)	3.698	0.097	0	7.792
Organizational age	7.591	4.410	1	29
Fundraising expense	0.027	0.079	0	0.850
Board size	5.749	3.295	0	33
Primary service area (%)				
Arts and culture	0.90			
Community services	27.76			
Education	6.27			
Elderly and disabled support	12.84			
Environmental protection	8.06			
Healthcare	1.79			
Legal aid	1.49			
Poverty alleviation	3.88			
Rural development	3.88			
Scientific research	0.60			
Women and children services	14.93			
Others	17.61			

The numbers for primary service areas refer to the percentages service areas represented in our final sample

Table 3 Revenue diversification (HHI) by service area

Service area	Mean	SD	Min	Max
Arts and culture	0.31	0.33	0	0.83
Community services	0.41	0.31	0	0.91
Education	0.25	0.28	0	0.85
Elderly and disabled support	0.24	0.39	0	0.69
Environmental protection	0.07	0.06	0	0.15
Healthcare	0.28	0.28	0	0.85
Legal aid	0.42	0.33	0	0.96
Poverty alleviation	0.19	0.26	0	0.63
Rural development	0.32	0.30	0	0.93
Scientific research	0.24	0.28	0	0.96
Women and children services	0.71	0.14	0.61	0.81
Others	0.30	0.28	0	0.91
Total	0.30	0.29	0	0.96

diversification measured by HHI, exists within the fractional range of 0 to 1. To effectively address this bounded dependent variable, we employed fractional regression for our analysis. Fractional regression takes into account the distributional attributes of fractional data, offering more robust insights into variable relationships compared to standard linear regression (Papke & Wooldridge, 2008). The outcomes of our regression analysis are presented in Table 4.

Initially, we explored government connections and professionalization in relation to organizational capacity, hypothesizing that nonprofits with greater capacity would be better equipped to manage external uncertainty and resource dependence, thus having less incentive to diversify their revenue to mitigate these risks. Our findings present a mixed picture. Specifically, organizations that rely more heavily on paid full-time staff are associated with more concentrated revenue portfolios ($p < 0.01$), which is consistent with our hypothesis. However, nonprofits with stronger government connections are actually associated with more diversified revenue portfolios ($p < 0.05$), which contradicts our hypothesis.

Next, we delved into the influence of the resource environment, positing that nonprofits operating within resource-rich contexts might access alternative resources, reducing concerns about resource dependence. Consequently, these organizations might exhibit reduced motivation to diversify revenue portfolios to stabilize their resource bases. Our findings support the hypothesis: nonprofits situated in resourceful environments are associated with more concentrated revenue portfolios ($p < 0.05$).

Finally, the findings related to the control variables merit attention. Basic organizational characteristics, such as size and age, do not appear to have a statistically significant association with the extent to which nonprofits diversify their revenue portfolios ($p > 0.1$). Consistent with previous research (Frumkin & Keating, 2011; Shea & Wang, 2016), our findings indicate that nonprofits allocating more funds toward fundraising tend to leverage more diverse funding sources, although this relationship shows statistical significance only at the 10% level ($p < 0.1$) in our data. Additionally, our results show that nonprofits with larger boards are associated with more diversified revenue portfolios ($p < 0.001$). This finding aligns with von Schnurbein and Fritz (2017), suggesting that larger boards enable enhanced engagement with a broader spectrum of constituents and funders.

Discussion and Conclusion

This research on the antecedents of nonprofit revenue diversification within the context of China holds significance for a more comprehensive understanding of revenue diversification as a financial strategy. Theoretically, while the impact of revenue diversification on nonprofit performance has received significant attention, its antecedents

Table 4 Fractional regression results

Predictor	Revenue diversification
Government connection	1.682*
	(0.848)
Professionalization	− 0.002**
	(0.001)
Resource availability (log)	− 0.153*
	(0.078)
Organization size (log)	− 0.032
	(0.030)
Organization age	0.001
	(0.012)
Fundraising expense	2.028†
	(1.063)
Board size	0.036***
	(0.013)
Primary service area (*Arts and culture* = 0)	
Community services	0.577†
	(0.320)
Education	− 0.210
	(0.367)
Elderly and disabled support	− 0.241
	(0.668)
Environmental protection	− 0.847**
	(0.357)
Healthcare	0.155
	(0.324)
Legal aid	0.243
	(0.433)
Poverty alleviation	− 0.052
	(0.525)
Rural development	0.136
	(0.344)
Scientific research	0.292
	(0.321)
Women and children services	1.208***
	(0.320)
Others	0.222
	(0.319)
Constant	0.737
	(1.021)
Wald Chi-square	95.07***
N	335

Fractional probit regression used. Coefficients reported, with robust standard errors in parentheses. ***$p < 0.001$; **$p < 0.01$; *$p < 0.05$; †$p < 0.1$

remain relatively understudied, with existing findings often inconclusive. This study seeks to address this gap by examining several organizational and environmental factors—particularly those that have been relatively overlooked—shaping nonprofits' decisions regarding revenue diversification. Our study therefore contributes to a more nuanced understanding of how organizational capacity and resource environments correlate with revenue diversification strategies. Empirically, by including evidence from a non-Western context, this study offers a unique perspective, enhancing understanding of this phenomenon and addressing the gap in knowledge about the relatively unexplored Chinese nonprofit sector. These insights not only offer practical guidance for nonprofit managers in China to make informed decisions in a complex institutional environment but also contribute to the global understanding of nonprofit organizations. By presenting a detailed analysis of the Chinese case, we hope to inspire further comparative research across different countries and cultures, facilitating the exchange of knowledge and best practices in the nonprofit sector.

More specifically, the findings regarding the antecedents of revenue diversification carry both theoretical and practical implications. First, the study finds that nonprofits with stronger government connections tend to exhibit more diversified revenue portfolios. In a non-Western context where the government exerts control over nearly all aspects of social life, the ability to build and maintain ties with government authorities represents a crucial aspect of organizational capacity. Understanding how these government connections affect nonprofits' revenue portfolios is therefore essential. Drawing from RDT, we initially hypothesized that nonprofits with stronger government ties, backed by greater political support and organizational capacity, would be more resilient to external risks. This resilience would reduce their need to diversify revenue sources, as they would be better positioned to manage resource flows and mitigate dependence on any one source. However, our findings challenge this assumption, revealing that nonprofits with stronger government connections are, in fact, associated with more diversified revenue portfolios.

One possible explanation is that government connections serve as signals of legitimacy and credibility (Payne, 2001), enabling nonprofits to leverage additional resources from other sources (Lu, 2016). This "crowding-in" effect may be especially powerful in non-Western contexts. For example, Yu et al. (2021) found that government funding can help nonprofits attract private donations. Our findings suggest that this crowding-in effect plays a more significant role than previously considered, driving the relationship between government connections and revenue diversification. This not only deepens our understanding of the financial decisions nonprofits face but also highlights the unique influence of government connections in non-Western settings (Ni & Zhan, 2017; Wang, 2022). Moreover, this dynamic may extend to other contexts where

governments exert a strong influence over the nonprofit sector. As a result, nonprofit leaders should carefully consider their relationships with government entities when designing their revenue portfolios, particularly in environments where government support is a major factor.

Second, professionalization, widely recognized as a key indicator of organizational capacity, plays a vital role in enhancing nonprofit performance through various means. However, its specific relationship with revenue diversification has remained somewhat ambiguous. Our study offers evidence suggesting that nonprofits with a higher proportion of professional staff are less likely to diversify their revenue streams. Professional staff contribute to organizational capacity by engaging in strategic planning, program evaluation, and financial management, leveraging their advanced education and expertise to optimize resource acquisition and allocation. These capabilities enable nonprofits to cultivate long-term relationships with resource providers and mitigate dependence on external resources, thus reducing the need for revenue diversification. This finding not only enriches the theoretical understanding of the role of professionalization in shaping revenue strategies but also underscores the practical importance of building a skilled professional workforce to sustain nonprofit operations. Moreover, this pattern appears generalizable to other nonprofit sectors and contexts, suggesting that the role of professionalization may have broad implications for nonprofits elsewhere.

Third, this study reveals that nonprofits operating in resource-rich environments tend to maintain more focused revenue portfolios. This finding enhances our understanding of how resource availability influences nonprofits' strategic decisions, highlighting the dynamic relationship between the resource environment and revenue diversification. Practically, it suggests that nonprofits should consider tailoring their revenue strategies to align with their resource contexts. Organizations in resource-rich settings may achieve greater success by concentrating their efforts on existing revenue sources, leveraging the abundance of available resources. Such an approach could result in more efficient financial management and increased financial growth (Chikoto & Neely, 2014; Frumkin & Keating, 2011). Furthermore, this finding may be generalizable to other contexts where resource availability similarly affects strategic decision-making, indicating a broader relevance for nonprofits navigating diverse operating environments.

Several limitations in our analysis deserve emphasis. First, this study is cross-sectional in nature, which introduces limitations common to such analyses. While it provides valuable initial insights into the associations between key variables, the cross-sectional design restricts our ability to draw conclusions about causality. As such, our findings should be interpreted as correlational rather than indicative of causal relationships. These preliminary findings can serve as a foundation for future longitudinal research, which could offer a more comprehensive understanding of the dynamics over time. Second, the variables included in our analysis do not constitute an exhaustive set; there are other variables that warrant exploration in future research. For example, contingency theory argues that the strategies employed by nonprofits may be contingent upon both external and internal factors, which implies that future research could investigate the moderating effects underlying the drivers of revenue diversification. Third, the lack of comprehensive, publicly accessible lists of Chinese nonprofits makes it difficult to assemble a sample that fully represents the diversity of the Chinese nonprofit sector. As a result, large-scale quantitative studies on Chinese nonprofits are relatively rare. Despite our efforts to overcome these limitations, the generalizability of our findings to the entire sector cannot be guaranteed. Therefore, additional empirical studies are needed to triangulate and validate these results.

Overall, despite these limitations, this study conducts an empirical analysis of the scope and antecedents of nonprofit revenue diversification within the Chinese context. By extending the literature on nonprofit revenue diversification with insights from a non-Western environment, this research offers fresh perspectives that enhance the existing body of knowledge. We recognize that further research across different nonprofit sectors and diverse countries is necessary to validate the broader applicability of our findings. Nonetheless, we believe our study provides a meaningful contribution by illuminating how context-specific factors correlate with revenue diversification and serves as a starting point for future cross-national comparisons.

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Declarations

Conflict of interest The authors report there are no competing interests to declare.

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