

## Organizational and Fundraising Practice in Matured NPOs in Puerto Rico

### Abstract

Despite funding challenges, many nonprofit organizations (NPOs) in Puerto Rico have survived years of difficulties, maintaining operations for more than 25 years of service. What are their organizational and fundraising strategies? How do organizations adapt to changes? With these questions leading the research, this paper examines 15 NPOs in Puerto Rico ranging from 27 to 103 years of service. A representative from each organization took part in a face-to-face interview, which examined historical data regarding their fundraising strategies, sources, and challenges, organizational strategies, and internal and external limitations in the acquisition of funds. The finding of the interviews shows how the fundraising strategies have changed in these organizations throughout the years, in response to internal and external challenges, the evolution of the nonprofit sector, and many others. Despite years of work, 73% of the NPOs interviewed considered they have funds dependency and are constantly developing strategies to reduce it.

Keywords: Nonprofit organizations, fundraising, mature organizations, funds dependency

## **Introduction**

Fundraising is a means to fulfill a nonprofit organization (NPO) mission (Greenfield, 1999) and the key to the fundraising process lies in building quality relationships with prospective donors (Edward, 1997; Waters, 2009). The fundraising process can raise awareness of the particular NPO's cause, the benefits it provides via its program activities, and can generate more and larger donations (Marudas and Jacobs, 2011). "Having diverse funding streams is essential to the health of a nonprofit organization (Thompson, 2011)". Diversification is essential in an era where competition for charitable grants is increasing, loyalty donors are gone, and overall philanthropy percentage has remained the same (Nichols, 2003; Yan and Denison, 2009).

A study conducted by John Hopkins University Center for Civil Society Studies revealed that funding, particularly charitable fundraising, was the most significant challenge for NPOs (Salamon and Geller, 2007). Fundraising is vital and has become a challenge in times of fiscal crisis and news of fraud in many important organizations (Neely, 2011; O'Connell and Bligh, 2009; Rhode and Packel, 2009).

Despite funding challenges, many NPOs in Puerto Rico have survived years of difficulties, maintaining operations for more than 25 years. What are their organizational and fundraising strategies? How do organizations adapt to changes? This study examines these questions with data obtained in 2006 from 15 NPOs in Puerto Rico that had 27 to 103 years of service. One person representing each organization took part in a face-to-face interview, which examined historical data regarding their fundraising strategies, sources, and challenges, organizational strategies, and internal and external limitations in the acquisition of funds. This methodological

approach of face-to-face interviews, although used by researchers, is novel for this topic in Puerto Rico.

### **Fundraising Strategies**

Individual and corporate private contributions, as well as government and foundation grants are the principal income source of NPOs (Froelich, 1999). Latest Giving USA report (2011) shows an increment of 2.7% of giving by individuals, an increment of 10.6% of corporate giving, a reduction of 0.02% of foundation giving, and an overall increment of 3.8% over a one-year period.

The funding strategies of the nonprofit sector have changed for many reasons. First, they have been looking for individual donations (unrestricted funds) to cover operational expenses, because many of their grants are to cover direct service programs (Rathgeb, 2003). Second, “the increasing costs and constraints associated with funding from external funders” is also forcing changes in the nonprofit sector (Scott, 2004). The many activities involved in obtaining funds have also resulted in NPOs hiring knowledgeable professional support to develop, acquire, and maintain donors’ relations. Finally, the reduction of government grants leads NPOs to diversify their sources of revenue by implementing new strategies (Valor, 2003).

### **Reduction of Government Grants**

Several studies confirm that, among the available financial sources for the nonprofit sector, government funding is the recurrent source of income of NPOs (Coble, 1999; Gronbjerg & Paarlberg, 2001; Juillet, et al., 2001; Nichols, 2003; Rathgeb, 1999; Yan and Denison, 2009). In Europe, Israel, Latin America, United States, and other developed countries, NPOs are partially supported by the government. According to Salamon, et al., (2003), the average

revenue of the nonprofit sector in 22 European countries comes from fees and charges (49%), the government sector (40%) and individuals, corporations, and foundations (11%). Countries such as Mexico, Argentina, and Slovakia depend primarily on fees and charges (85%, 74%, and 55% respectively). However, between 59% and 77% of the NPOs' income in Germany, United Kingdom, Belgium, Ireland, France, Austria, and the Netherlands is from the government sector (Salamon, et al., 2003).

Organizations highly dependent on government funds may be affected by the reduction of these funds. Polonsky (2003) stated that the reduction of government funding appears to be a global trend. In 1995, the Canadian government reduced its contribution to the nonprofit sector by \$1.9 billion (Foster and Meinhard, 2002). A study conducted in eight organizations in Canada revealed that financial difficulties created by government cuts provoked changes in the culture of funding and operations (Juillet, et al., 2001). One of the major changes implemented was a reduction in the size and operational responsibilities of the board of directors (Juillet, et al., 2001). This study also revealed a reduction in the cost of governance and operating expenses related to board of directors, committee meetings, and travel expenses. This reduction limited, among other areas, the capacity of NPOs to respond to an increasing demand for their services, making evident that government cutbacks force organizations to change certain areas.

Likewise, according to Juillet, et al. (2001), "dependence on external funding could force them [NPOs] to adapt to the changing funding environment in ways that can change the very nature of their organization" (p.26). Consequently, some organizations have to modify their

mission statement or indulge in commercial activities for additional funding resources when government funds are reduced.

Anheier, et al., (1997, p. 195) suggests “resource dependencies existed in the domains of the private sector, revenue sources, donations, or fees, and other private sector payments.” The study performed by Anheier, et al. (1997), which analyzes the responses of 553 organizations in Germany, concludes their dependency comes from a variety of sources: public sector, private corporations, revenue sources, donations, and fees.

### **Funding Alternatives and Changes**

One funding trend seen in recent years to raise money and diversify the funding portfolios of NPOs is the identification of an entrepreneur to invest in the organization. Wagner (2002) identifies the entrepreneur as a new donor who invests in an organization to generate high social rates of return. In addition to the funds the entrepreneur commits to, they also participate in the organization’s decision-making process and provide technological or research resources. However, Wagner (2002) indicates it is very important to identify entrepreneurs whose interests are in line with the organization’s mission and vision and whose contribution is to maximize NPOs returns and not their personal reputation.

Another strategy to cover operational expenses and reduce financial needs is engaging in special marketing or sale campaigns in partnership with private corporations (Lowell, et al., 2001). Organizations would prepare a complete proposal with clear campaign objectives, the social changes that their programs could produce, and the administrative needs to achieve the objectives of the organization (Lowell, et al., 2001). United Way’s campaign, in which employees give through payroll deduction, is an example of a special marketing partnership

with private corporations. According to Heinzl (2004), about one-third of all employees in the United States participate in payroll giving.

An alternative to obtain more funds is the integration of a fundraising expert into the organization. Canadian organizations hired fundraising experts to develop new fundraising strategies and to diversify the means of generating revenue (Juillet, et al., 2001). These changes resulted in protecting their stability after government cutbacks. Organizations are also trying to increase their funds by attempting to convert Web site visitors into potential donors (Heinzl, 2004).

The survival of organizations depends on many factors, including their capacity to adapt to changes, which for NPOs include their capacity to change their fundraising strategy. Organizational change theory sees change management as an ongoing aspect of a leader's job, inclusive of continuously adapting to changes in a competitive environment (Sausser and Sausser, 2002; Golensky and DeRuiter, 2002). Theories concerning organizational change also suggest that pressures and weaknesses inside an organization as well as pressures from the outside are the principal factors forcing this change process. External factors, such as radical changes in funding and its political environment, government term of office, and conditions in out-sourcing service delivery in particular, impact the nonprofit sector (McClusky, 2002). According to Young (2000), having a clear concept of identity in an organization "enable[s one] to examine how the organization struggles to reinvent to survive in a changing environment" (p. 142).

### **Puerto Rico Funding Scenario**

The sources of income of NPOs in Puerto Rico have evolved during the last few decades. Between 1970 and 1982, corporations were the major providers, contributing an average of

43% of total NPOs funding, followed by 35% from individuals, 19% from the government, and 3% from foundations (Hennig, 1983). Between 1983 and 1990, the government increased their contributions from 16% to 27% (Hennig, 1983). This increment remained constant, placing the government as the major contributor to the nonprofit sector (Coble, 1999; Rivera, 1999; Estudios Tecnicos (1996); Estudios Tecnicos, 2002; Third Sector Special Commission of the Commonwealth of Puerto Rico (TSSC), (2004). Although government funds have contributed to the development of hundreds of NPOs, Estudios Tecnicos (1996) and the TSSC study (2004) confirmed a high level of government dependency by NPOs. Laborde (2002) goes further, stating that the basic problem of NPOs is their financial dependence on government funds from both federal and local sources. Laborde (2002) suggested that the historical dependency of NPOs on government funds makes it difficult for them to search for other sources of income, which are critical to their economic self-sufficiency.

Interestingly, the latest Estudios Tecnicos study (2007) about the nonprofit sector in Puerto Rico revealed that 49.7% of NPOs income comes from service fees and 27.2% from grants. Hennig's study (1991) about the nonprofit sector in Puerto Rico, conducted more than 20 years ago, did not refer to service fees as a source of income. This change shows a trend of organizations becoming self-sufficient in generating their income to address external funding challenges.

Some of the challenges of NPOs in Puerto Rico are managing government bureaucracy and its frequent delays in funds disbursements, lack of funds, and dependency of government funds. According to the TSSC (2004) report, some government disbursements have been delayed up to six months, as their payments are often made first in some areas by sacrificing

payment in others. NPOs have frequently experienced the impact of these delayed disbursements. The results are dismissals or resignations of employees, the limitation of services provided by NPOs, and the acquisition of credit lines in banks with high interest rates. Those organizations than cannot adjust to the expressed funding challenges, have to close their operations due to the lack of funds and ignorance of the required infrastructure needed to keep operating (Diaz, 2000).

## **Research Method**

### Sample and Data Collection Process

The data of this qualitative research was obtained through face-to-face interviews with employees of 15 NPOs in Puerto Rico. The sample of the study was limited to 15 organizations, because of the effort of only one person conducting the face-to-face interviews. The selected organizations complied with four characteristics: have a minimum of 25 years of incorporation; are located within the San Juan area of Puerto Rico; are classified as a service organization rendering social services, coalitions, recreational and cultural activities, associations, and libraries, among others; and have a person knowledgeable about the organization's past and present funding sources and service programs. The first criteria, 25 years of experience, allowed the inclusion of organizations with enough years of operation. The location was restricted to the municipalities closer to the researcher's residence. The third criteria, type of service rendered, included the core of the nonprofit sector in Puerto Rico, revealed in Estudios Tecnicos studies conducted in 1996, 2002, and 2007. The organizations excluded were those principally supported by their members and direct clients, such as universities, hospitals, and

churches. The last criteria intended to recruit organizations able to provide significant data to answer the research questions.

The organizations complying with the requirements were identified using different inventory lists of NPOs in Puerto Rico, such as the ones generated by the Treasury Department of Puerto Rico and Estudios Tecnicos. Almost 100 eligible organizations received an invitation letter and a "Participation Response Form" to fill out and establish the name of the designated person for the interview. Organizations were contacted during a two weeks period following the invitation to identify the organizations interested in the study, until the target of 15 was reached. The appointment was scheduled once the "Participation Response Form" was received. The interviews were conducted during a three months period and each lasted approximately one hour.

#### Content of the Interview

Using an interview guide of 25 questions, the interview examined historical data regarding funding sources, internal and external limitations in the acquisition of funds, fundraising strategies, and level of services. Interview questions guided the conversation, but other questions were added during the dialogue. Unstructured interviews generate the richest data, but an interview guide was important to keep in mind the main issues needing to explore during the interview (Daymon and Holloway, 2002). The questions were divided in three areas. The first area included structured questions to compile basic organizational information such as the year of incorporation, budget, the types of services rendered, and the number of employees. The second area included two open-ended questions requesting the mission of the organization and the population receiving its benefits. Although the answers for these

questions could be obtained from NPOs brochure or their website, they were included to capture firsthand information and to fill-in the blanks where those sources did not provide it. The last area had two closed-ended questions and seven open-ended questions, which were developed to understand the evolution of their fundraising strategies.

**Findings**

Organizations Profile

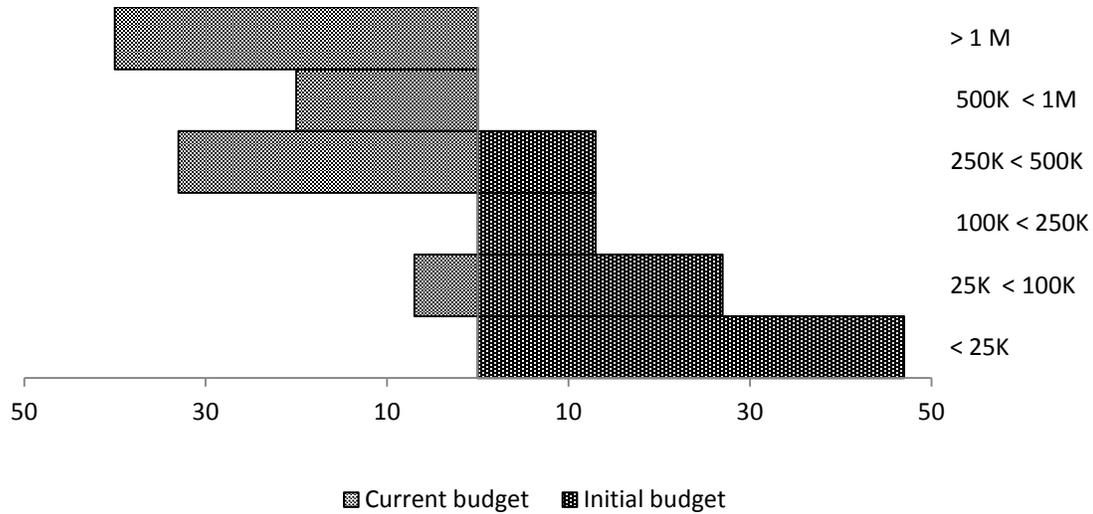
The fifteen NPOs that participated in this study were incorporated between 1903 and 1979. Table I shows the minimum and maximum years of the organizations, with a mean of 57.7 years and a standard deviation of 28.9. From these, seven organizations (47%) had between 27 and 50 years of incorporation and eight (53%), more than 50 years. The mean of number of employees was 36.9, having a minimum of four and a maximum of 120.

**Table I** Descriptive statistics of the organizations (n = 15)

	<i>Minimum</i>	<i>Maximum</i>	<i>Median</i>	<i>Mean</i>	<i>Standard Deviation</i>
Organization years	27	103	48	57.7	28.9
Number of employees	4	120	24	36.9	36.6

Most of the organizations provide social services (53%), followed by education (20%), culture and recreation (20%), and housing (7%). In terms of the population served, six provide services to children (40%), five, to all the population (33%), three, to special needs persons (20%), and one to the elderly (7%). The budgets of the organizations increased through the years, having more NPOs with less than \$25,000 in the initial dates to, currently, the majority of NPOs having more than a million dollar in their budgets (Fig. 1). In fact, at this time, no NPOs have a budget of less than \$25,000, and 93% of them manage more than \$250,000.

**Fig. 1** Initial and current budget of NPOs<sup>a</sup>



*a Statistically different p < 0.0001*

### Fundraising Strategies

To understand the organizational strategies related to their fundraising efforts we asked NPOs if they have a fundraising professional and an endowment fund. Three out of 15 NPOs (20%) have a fundraising professional as part of their staff or by contract. Eight out of 15 (53%) had an affirmative response of having endowments or reserve funds. Table II shows how many months the reserve funds will last to cover operating expenses, fluctuating from less than a month up to 12 months.

**Table II** Number of months covered by the reserved funds (n = 8)

<i>Number of months</i>	<i>Frequency</i>	<i>Percent</i>
12 months	1	12.5%
3-4 months	3	37.5%
1-2 months	3	37.5%
less than a month	1	12.5%
		<i>100%</i>

The information regarding funding strategies was collected by asking several questions. The first one was about the principal funding sources at the time of the organization's incorporating date and at the time of the interview. NPOs ranked several alternatives, and the first three were tabulated. It is important to establish that not all the organizations indicated having three different funding sources, but they all had at least one or two. The primary funding source identified by each participant has been tabulated on Table III.

**Table III** Primary funding sources of NPOs

<i>Primary sources of income at incorporation date</i>	<i>Frequency</i>	<i>Percent</i>	<i>Current primary sources of income</i>	<i>Frequency</i>	<i>Percent</i>
Individuals	4	31%	Government (Federal)	6	40%
Government (Federal)	4	31%	Fundraising	3	20%
Government (State)	2	15%	Service charge	2	13%
Service charge	2	15%	Foundations	2	13%
Corporations	1	8%	Government (State)	1	7%
			Corporations	1	7%
	<i>n=13<sup>a</sup></i>	100%		<i>n=15</i>	100%

*a Two organizations did not provide this information*

As shown in Table III, the primary funding sources for NPOs in their early days were individuals and the federal government. Currently, federal government leads, followed by fundraising. It is difficult to determine if in the early days the income from individuals were the result of fundraising efforts. If so, maybe what was considered individuals as a funding source now could be part of fundraising.

If we divide these NPOs in two groups by their years of incorporation, less than 50 years and 51 years or more, the primary funding sources at the date of incorporation for the group with less than 50 years was federal funds with a frequency of three, followed by state funds with a frequency of two. The primary sources of the group with 51 years or more were individuals with a frequency of three, followed by service charge with two. The current primary

funding source of NPOs with less than 50 years is still federal funds with a frequency of four and for NPOs with 51 years or more the result was tied between fundraising, federal funds, and service charge, all with a frequency of two. Only one of the 15 NPOs has not received government funds of any kind through its operational years. One additional finding was that seven NPOs maintained the same principal funding source through the years (four federal government, two service charges, and one corporate fund).

The data in Table IV captures all funding sources identified by the interviewees, not just the primary source. It shows the number of funding sources has increased from 24 in the past to 40 in current years. In addition, it shows the mix of funding sources has evolved over time. State government was the top funding source for NPOs in their early days, followed by individuals and foundations. Currently, foundations are leading the funding sources, followed by state and federal government. If we considered all government sources (state, federal, and local), government is the strongest source of income for NPOs in the past and current periods.

**Table IV** Combination of funding sources of NPOs<sup>a</sup>

<i>All sources of income at incorporation date</i>	<i>Frequency</i>	<i>Percent</i>	<i>Current all sources of income</i>	<i>Frequency</i>	<i>Percent</i>
Government (State)	6	46.2	Foundations	10	66.7
Individuals	5	38.5	Government (State)	9	60.0
Foundations	5	38.5	Government (Federal)	7	46.7
Government (Federal)	4	30.8	Fundraising	6	40.0
Service charge	3	23.1	Service charge	4	26.7
Corporations	1	7.7	Government (Local)	2	13.3
			Individuals	1	6.7
			Corporations	1	6.7
<i>n=13</i>			<i>n=15</i>		

*a Due to the multiplicity of income sources, the total of this table exceeds 100%*

Although no NPOs stated fundraising as one of their source of income when they were incorporated, six out of 15 did mention fundraising activities. Table V details the type of their fundraising activities, with galas leading the list

**Table V** Fundraising activities at early date of incorporation (n = 6)<sup>a</sup>

<i>Type of fundraising activities</i>	<i>Frequency</i>	<i>Percent</i>
Galas	3	50.0
TV and radio presentations	2	33.3
Christmas festival	1	16.7
Garage sale	1	16.7
Concerts	1	16.7
Raffle	1	16.7
Special campaigns	1	16.7
Bake sale	1	16.7

*a Due to the multiplicity of fundraising activities, the total of this table exceeds 100%*

As in the previous finding, six out of 15 NPOs acknowledged fundraising as one of their principal sources of income, but 14 of them (93%) detailed their fundraising events. The types of fundraising activities currently performed by NPOs are shown in Table VI. Galas still lead the list of eleven types of fundraising events, increasing its frequency from three to seven.

**Table VI** Current fundraising activities (n = 14)<sup>a</sup>

<i>Type of fundraising activities</i>	<i>Frequency</i>	<i>Percent</i>
Galas	7	50.0
Sales of products	5	35.7
Golf tournaments	4	28.5
Specialty festivals	4	28.5
Raffle	3	21.4
Friends committee	3	21.4
Conferences	1	7.1
Money boxes	1	7.1
Corporate campaigns	1	7.1
5 Kilometer Races	1	7.1
Food sale	1	7.1

*a Due to the multiplicity of fundraising activities, the total of this table exceeds 100%*

## Before and After: Challenges and Changes

Throughout the years, organizations have confronted internal and external challenges and have made changes to adapt to them. To understand the magnitude of challenges and changes in the fundraising context, we asked the organizations if their current funding resources or strategies differ from the ones in place when the organization started. Eight (53%) said yes, six (40%) no, and one (7%) did not know. The eight NPOs with an affirmative response indicated that their strategies changed due to the increased of funds opportunities, the involvement of the government and the Board of Directors, the formality of current fundraising processes, and the need to approach a different population. These organizations considered that in their early days, the activities were simpler; they asked for donations going house to house with good results, and the funds were for immediate expenses.

In general, NPOs moved from simple fundraising efforts, with limited funding resources, and less participation of the government and the Board of Directors, to formal and task oriented fundraising processes. Some of the strategies implemented by the organizations were to modify the concept and mission of their programs to be able to apply for funds, develop complex activities to increase revenues, and develop activities for special projects, such as new programs and facilities improvements.

Participants were asked for the internal and external limitations in the fundraising process for both periods, when the organization started and currently. Ten organizations did not provide internal limitations for their incorporation period and two for the current period. The major current internal limitation was lack of staff, followed by limited number of volunteers, and lack of involvement of the Board of Directors. Lack of staff was also the

primary internal limitation for the time when the organization started, and the only common limitation in both periods, demonstrating an unchangeable challenge through the years (Table VII).

**Table VII** NPOs internal limitations to obtain funds (n = 15)

<i>Internal limitations at incorporation date</i>	<i>Frequency</i>	<i>Current internal limitations</i>	<i>Frequency</i>
Lack of knowledgeable staff	3	Lack of knowledgeable staff	5
Unsafe budget	1	Lack of involvement of Board of Directors	3
Not marketing funds	1	Limited number of volunteers	2
		Lack of funds	1
		Technology	1
		Lack of creativity	1
		Downsizing due to reduction of funds	1

The greatest external limitation when the organizations started was lack of external funds. Eight organizations did not provide external limitations for their incorporation period and two for the current period. Currently, the increase of fundraising activities and competition for funds among NPOs leads the external limitations, followed by reduction of funds, late funds disbursements, limited unrestricted funds, and bureaucracy and paperwork (Table VIII).

**Table VIII** NPOs external limitations to obtain funds (n = 15)<sup>a</sup>

<i>External limitations at incorporation date</i>	<i>Frequency</i>	<i>Current external limitations</i>	<i>Frequency</i>
Lack of external funds	3	Increase of fundraising activities	4
Lack of interest in their services	1	Competition for funds among NPOs	4
The economy of the island	1	Reduction of funds	2
Lack of knowledge of the organizations	1	Late funds disbursements	2
Not approved proposals	1	Limited unrestricted funds	2
		Bureaucracy and extensive paperwork for applications	2
		Costs increased	1
		The economy of the island	1
		Lack of knowledge of the organizations	1

The third element assessed regarding challenges and changes was the identification, if any, of funds dependency. Eleven out of the 15 organizations interviewed (73%) affirmed having funds dependency. Five organizations felt dependent on state and federal government funds, three on fundraising, one on foundations, and one on all funds. The strategies that these organizations implemented are fundraising (3), writing proposals (3), charging for services (2), raising the image of the corporation (1), self-management (1), seeking volunteers (1), seeking a person dedicated to institutional development (1), and developing small businesses (1).

### **Analysis and Conclusions**

Through this study, matured organizations with 27 to 103 years of experience shared their organizational and fundraising strategies and their approach dealing with challenges and implementing changes. The finding shows that organizations have always relied in government funds, although they started their operations mostly with the financial support of individuals. Despite the progressive reduction of government grants explained in literature (Valor, 2003; Reed, Bridgeland, McNaught, and Dunkelman, 2009; Vaughan, 2010), government still is the primary funding source for these organizations. Although NPOs have added other sources of income, their stability remains vulnerable to potential and ongoing reduction of government funds. This situation puts many organizations in a risky position as 45% of the eleven organizations in this study that affirmed having funds dependency, point out the government as their dependency source.

NPOs on this study changed their funding sources and organizational strategies through the years, in part, because of the changes in the funding environment. For example, one organization made an extreme decision of modifying the essence of programs in the

organization partly because of changes in the funding environment, “leading NPOs away from their mission” (Juillet, et al, 2001). This behavior was not the norm in this study, but rather confirmed the reality of this statement. In addition, the growth of NPOs in Puerto Rico increased the competition for funds and the type of fundraising activities. Galas have been the leading fundraising event, but throughout the years, NPOs incorporated other modalities, such as sale of products, golf tournaments, and specialty festivals. Foundations’ funds have also become an important source of income for organizations and the competition to obtain those increased. This situation is not unique in Puerto Rico. Australia also experienced competition for “funding, donations, volunteers, as well as their reputation” which resulted in them making some changes in their fundraising approach (Lazarevski, Irvine, and Dolnicar, 2008, p.214).

One question, still unanswered, is the extent of fundraising activities and strategies developed in the past, as there is a risk when the historical data is not documented and is obtained from people’s memory. As an example, many organizations did not select fundraising as part of their sources of income, but detailed such type of activities. Some assumptions could be made from this inconsistency. Maybe these organizations believe that this income is not sufficient to be considered a regular source of income, that they are not confident of their past activities, or that they do not include these activities as part of their budget. The doubt is still there, but knowing the meaning of fundraising, it is clear that it has been an effort done for many decades in the nonprofit sector. In addition, one particularity not generated on this study is the adoption of new fundraising strategies, such as the Internet, partnerships, mergers, and entrepreneurial models to maximize and diversify the funding sources.

The limitations of one person conducting this study and keeping the sample to 15 NPOs, could restrict obtaining richer information. Expanding the sample and the geographic area in Puerto Rico could validate or weaken the results presented in this study. As well, findings could be richer if the same study is conducted within organizations with less than 25 years, and compare with the findings of mature NPOs.

As seen on this study, the organization's survival requires many elements, such as the commitment of the people working in the organization and the involvement of the Board of Directors. Finally, the combination of internal and external elements makes fundraising a challenging process that needs organizations to be constantly adapting to changes in order to succeed.

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