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Bowing Out: A data-base analysis of the voluntary deregistration of Canadian charities

A statistical report on the analysis of voluntary deregistration of Canadian charities 2002 – 2008

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Table of Contents

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Key Informants

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Research Summary

The purpose of this research was to undertake an initial exploration of the boundaries and characteristics of voluntary deregistered charities in Canada. Virtually nothing was previously known about the location, nature, scope and characteristics of voluntary deregistered charities and it is hoped that this research will inform the Canada Revenue Agency and others with an interest in minimizing the rate of voluntary deregistration.

A review of the literature (see Appendix A) associated with nonprofit organizations reveals that nonprofit failure has focused on an analysis of institutional legitimacy, the liability of newness, and resource dependency, including financial vulnerability. These factors have been explored within organizations with respect to their organizational maturity, size, management practices, reputation, revenue concentration, and equity balance. External influences or a population ecology approach identified variables such as population density, access to resources, economic conditions, legal constraints, and political turmoil.

This literature review and key informant interviews helped to identify the focus for the descriptive and analytical characteristics. The descriptive characteristics include: frequency by year (2002 – 2008), age, type (welfare, faith, education, community benefit), location (geographically and by province), size (i.e. total revenue). The financial analytical variables chosen include revenue mix by source – donations/ government/ earned,

As a result the following analytical variables were applied to the database of deregistered charities: Age, type, size and resource dependency.

We now know that:

- 4,412 Canadian charities deregistered between 2002 and 2008
- The incidence of deregistration in proportion of all charities is very small with a mean of 0.88% and a range of 0.71% (2006) to 1.03% (2007).
- Deregistered charities are disbursed across Canada in proportion to registered charities, both by province and by urban/rural location.
- The mean age of a deregistered charity is 18.4 years, challenging the idea of *liability of newness*. 23% of all deregistered charities are more than 40 years old and 12% are less than 5 years old.
- Faith charities, with a mean age of 25.3 years, are the oldest charities, on average, that deregister.
- Deregistered charities mirror registered charities by type, thus faith-based charities account for the highest number of both registered and deregistered charities. Health charities account for the lowest number of registered and deregistered charities.
- There was an increase in the number of deregistrations of welfare, education, faith and community benefit charities in 2006-2007.
- With some exceptions, notably faith charities, there appears to be a liability of size with most deregistered charities having total revenues of less than five thousand dollars.

- On average, 34.6 percent of charities report zero revenue in the year of deregistration. It is likely that many charities have zero revenues for at least one year prior to deregistration as well. Certainly our aggregate analysis shows that this is the case.
- The deregistration of a charity is not spontaneous event and there is a reported decline in revenues and assets over a two year period. The years in which this occurs are worthy of further exploration to determine if environmental factors may be a contributing factor.
- Total and fixed assets also tended to decline as deregistration becomes imminent, reflecting a liquidation of assets and an increase in revenue as a proportion of total assets.

In general terms, the following conclusions can be reached:

- Canadian charities are healthy a mean of .88% deregistration can be compared to a failure rate of for-profit corporations which ranges from 1.0-1.4+%.
- Canadian charities appear to initially fit the environment under which they initially operate, supported by the credibility and legitimacy associated with having charitable tax status.
- Charities appear to experience a *liability of adolescence* or a *liability of obsolescence*. This will have implications for providing charities with the capacity to adjust to changing environmental conditions once they have been established.
- Location of failure relative to registered charities is not a risk factor, whether by province or by urban/ rural location.
- Type of charity is a valuable unit of analysis for charities to determine their particular risk related to deregistration, rather than charities as a whole.
- Small charities, as measured by total revenue appear to be more vulnerable to deregistration, regardless of type, although size may be a consequence of preparing for deregistration or a causal factor.

This research was the first systematic analysis of deregistered charities in Canada. As a result the results are revealing and yet preliminary. Many more questions emerged in the course of conducting this largely descriptive analysis of deregistered charities. For example, the analysis of both registered and deregistered charities over the same period would provide the basis for a risk assessment analysis of age, type, size and financial vulnerability. In this regard, there is a significant investigation of resource dependency which is worthy of further exploration.

Research Project Overview

Bowing Out: A data-base analysis of voluntary deregistered Canadian charities

Introduction

The purpose of this research was to undertake an initial exploration of the boundaries and characteristics of voluntary deregistered charities in Canada. Virtually nothing was previously known about the location, nature, scope and characteristics of voluntary deregistered charities and it is hoped that this research will inform the Canada Revenue Agency and others with an interest in minimizing the rate of voluntary deregistration.

The research set about to examine one key question:

> What organizational factors influence the rate of deregistration in Canada?

In order to answer this question key informant interviews and a literature review was conducted to determine the characteristics of deregistered charities which have already been recognized by researchers and practitioners. Some of these characteristics, while interesting, were beyond the scope of this research and would involve in-depth interviews with individual charities to explore specific contextual issues. Next, key informant interviews were conducted with leading researchers and practitioners in different parts of Canada to gain further insights and observations. The combination of the variables identified through this process provided the basis on which this initial research was conducted. It became clear as the research progressed that sophisticated comparative analysis between registered and deregistered charities to determine the hazard rates (e.g. the risk of failure) or financial vulnerability was beyond the scope and resources for this particular research, but could certainly be investigated at a later date.

A literature review was conducted to assess the extent to that the issue of a 'failure to thrive" has been noted in reports and published research reports. The literature review included published articles indentified through academic databases. While searches were conducted, we found no evidence of 'grey' matter such as government reports on this topic.

In addition, queries were made to other relevant charity regulators (e.g. England, New Zealand, Northern Ireland, Wales, Australia, and USA) to determine if this phenomenon is experienced elsewhere and if so, if there was information regarding its nature and prevalence. Again, we either failed to receive a response or there was no information which was available. This reflects the dominant focus on existing charities with little attention to those that voluntarily deregister.

The literature review, together with key informant interviews, assisted in determining which variables would be most appropriate to use when analyzing the database. When these variables were identified, they may also help to inform any subsequent deregistration prevention strategies.

The data which was analyzed was the complete data set for all deregistered charities between 2002 and 2008 together with financial reports for the three years prior to their deregistration, date of incorporation. The complete data set of registered charities for this same period was also obtained to incorporate comparative statistics where practical. To avoid a distortion of the data due to the deregistrations of large institutions such as a hospitals, MUSH (Municipalities, Universities/colleges, Schools, and Hospital authorities), and foreign charities were removed from the sample.

Geographical landscape analysis

The purpose of this analysis was to confirm the 'geographical landscape" of deregistered charities. Where they were, how old they were; whether the deregistration characteristics of one type of charity (e.g. faith) was different than the characteristics of another type (e.g. community benefit); if age was a factor in deregistration and if size mattered. The following calculations were made to identify the geographical landscape of deregistered charities between 2002 and 2008:

- Total number of deregistered charities by year (Figure 1)
- Total number of deregistered charities as a percent of total number of registered charities (Figure 2)
- Total number of deregistered charities by province (Figure 3 and Map 1-9)
- Percentage of registered and deregistered charities by location (urban-rural) (Figure 4)
- Total number of deregistered charities by age (Figure 5)

Deregistered charities by type (i.e. Welfare, Health, Education, Faith, Community Benefit)

- Total number of deregistered charities by type (total) Figure 6)
- Total number of deregistered charities by type and year (Figure 7)
- Percentage of registered and deregistered charities by type (2005, 2008)(Figure 8-9)
- Total number of deregistered charities by type and age (Figure 10-14)
- Total number of deregistered charities by size (i.e. total revenue) (Figure 15)
- Total number of deregistered charities by size and type (2008, 2005, 2002) (Figure 16- 18)

Subsequent to this analysis the focus shifted to creating a profile of a number of financial variables and their relationship to the two years prior to deregistration. These included:

Prior period effect

- Number of deregistrations in two years prior to deregistration (Table 1)
- Active and inactive charities (inactive = number that reported zero revenue in the prior years) (Table 2)
- Mean change of revenue in the two prior years (Table 3-4)

The purpose of analyzing prior period effect was that key informants indicated in their experience that some charities would suspend operations for some time, sometimes years before officially deregistering. We wanted to find out if this was indeed the case and if so, if the timing of the deregistrations could be explained.

Prior period effect and sources of revenue (i.e. donations, government, earned) by selected provinces

- Deregistration and sources of revenue as a percent of total revenue (2002, 2008)(donations, government, earned) (Table 5-11; Figure 19-25)

- Deregistration and

The literature on resource dependency indicates that organizations that depend on one source of funding are more vulnerable to failure than those that have a diverse funding base. This is because there is a tendency for this type of organization to organize themselves around the dominant funder and it becomes vulnerable to significant and/or sudden shifts in either the priorities of the funder (e.g. government) or changes in the community in which they operate.

- Prior period effect and total and fixed assets
  - Average total assets (2002, 2008) (Table 12-13; Figure 24-25)
  - Average total fixed assets (2002, 2008) (Table 14-15; Figure 26-27)
  - Fixed assets as a percent of total assets (2002, 2008) (Table 16-17; Figure 28-29)

This was calculated to identify if there was a decline in fixed assets or whether revenue declined but assets remained constant. This then led to a calculation of the relationship between total revenue and total assets.

Revenue and total assets

The mean, number and standard deviation for revenue divided by total assets (2002 and 2008) was calculated for charities by province, type and size (Figure 30). The calculations by type of charity are presented. This calculates the relationship between total revenues and total assets or how many times more (or less) were total revenues than the value of total assets.

Findings

Geographical landscape analysis

- Number of deregistrations
- Location of deregistered charities
- Type of deregistered charities
- Size and type of deregistered charities

Prior period effect

- Number of active and inactive charities
- Change in prior revenue by type
- Change in total revenue
- Change in revenue by source

Total and fixed assets

- Average fixed assets
- Average total assets
- Fixed assets as a percentage of total assets
- Revenue as a percent of total assets by type

Geographical landscape analysis

Number of deregistrations by year 2002 - 2008

Figure 1: Number of deregistrations (total): 2002- 2008

The above table lays out the general number of Voluntary Deregistration Registered Charities across the years 2002 to 2008 and the trend line. The mean is 734. This frequency of deregistration represents approximately 1% (0.71% – 1.03%) of the total number of Registered Charities (RCs) in Canada (79,787 - 2005) (Spyker & Seel, 2008). Figure 2 (below) provides a per capital profile of charity deregistration. The mean is 0.88 so 2007 is a year that warrants particular attention.

Figure 2: Deregistrations as a percent of total number of registered charities

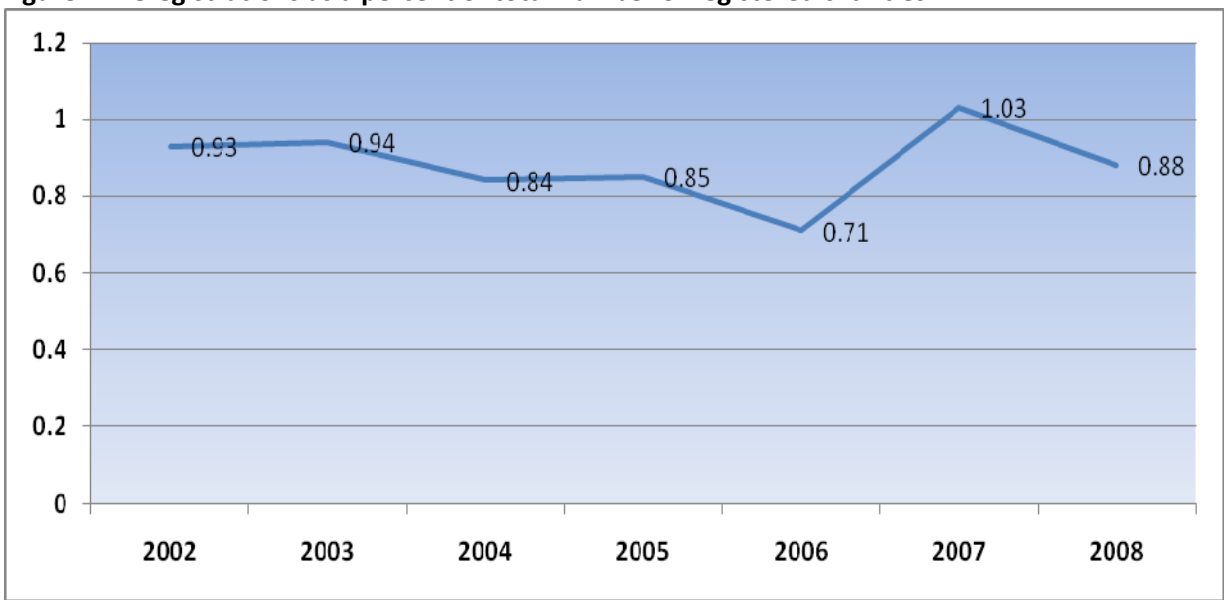
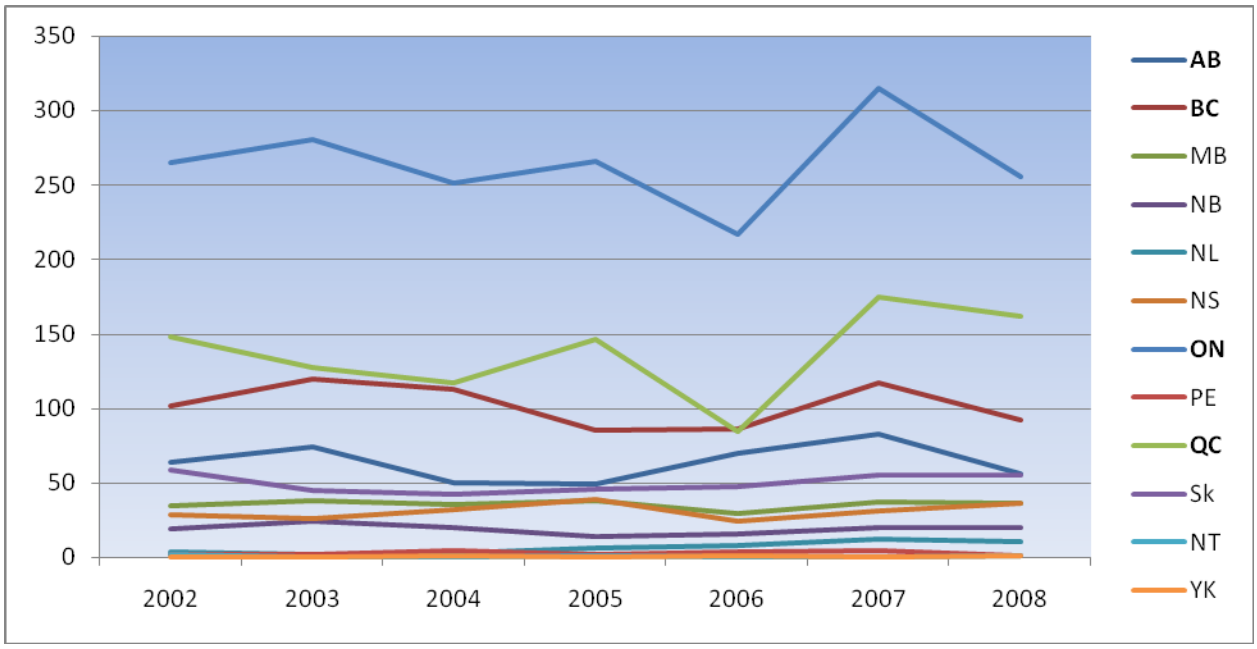


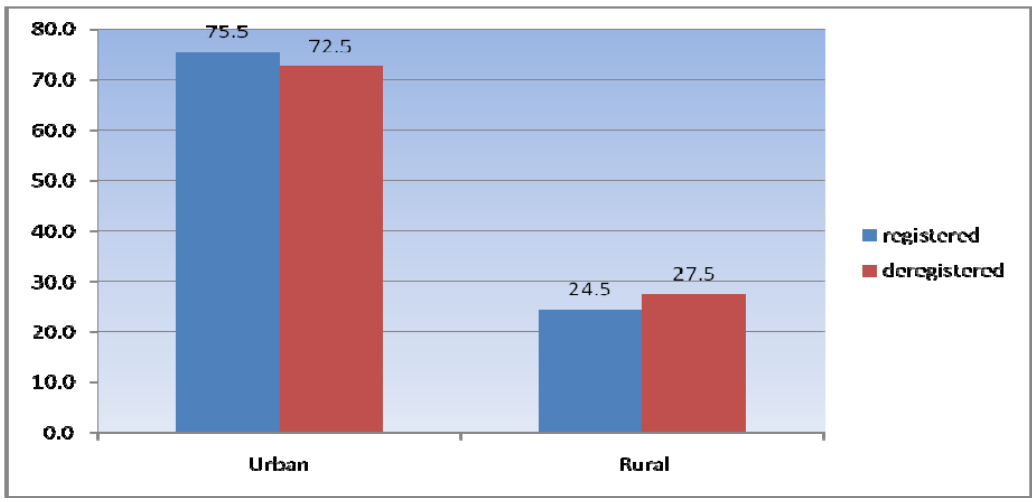
Figure 3: Number of deregistrations by province: 2002- 2008



The four provinces with the highest number of deregistrations (Ontario, Quebec, British Columbia, and Alberta) are also the provinces with the highest number of registered charities. Figure 3 also graphically reflects a consistent the dip in the number of deregistrations in 2006 and a peak in 2007.

Figure 4 shows the close relationship between the number of registered and deregistered charities in an urban and rural context. This demonstrates, as will the visual maps that location does not appear to be a significant disadvantage. This is reinforces by the observation that charities will emerge in response to the environment in which they operate and will adapt or not accordingly.

Figure 4: Comparative percentage of registered and deregistered charities Urban/ Rural (2008)

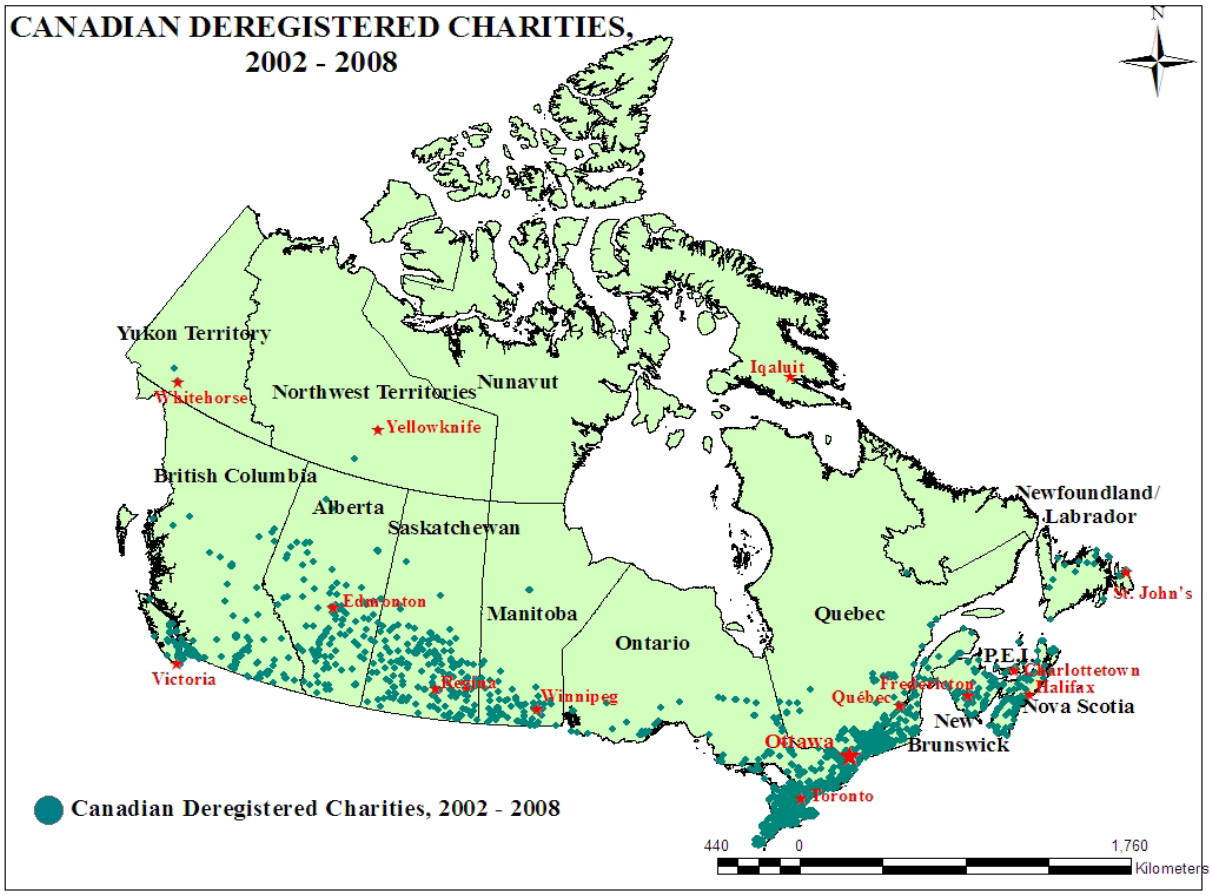


Map of deregistered charities.

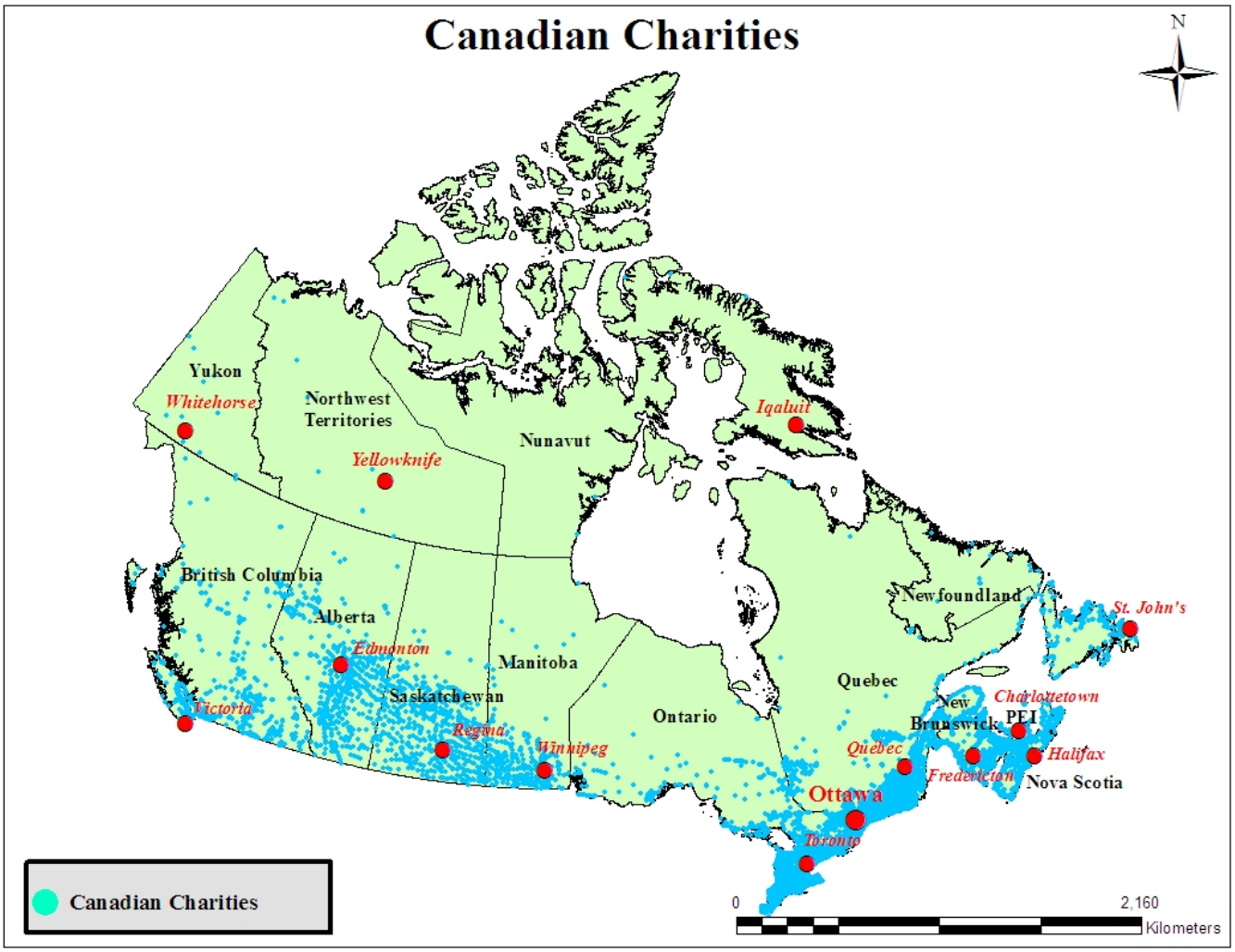
The following maps profile the geographic distribution of deregistered charities in Canada. The first profiles the total number of deregistered charities (2002-2008), followed by a map of the total number of registered charities (2006). Notice the similarities in the distribution. These two maps are followed by individual maps for each year 2008 through 2002.

A GIS map of all de-registered charities by year was created to provide a visual context for de-registered charities. The pattern of de-registered charities is similar to that of registered charities. By all appearances the patterns of deregistered charities follows that of registered charities, highlighting what is known as the "triangle" (Edmonton-Lethbridge – Winnipeg) and the "strip" (Niagara to Quebec).

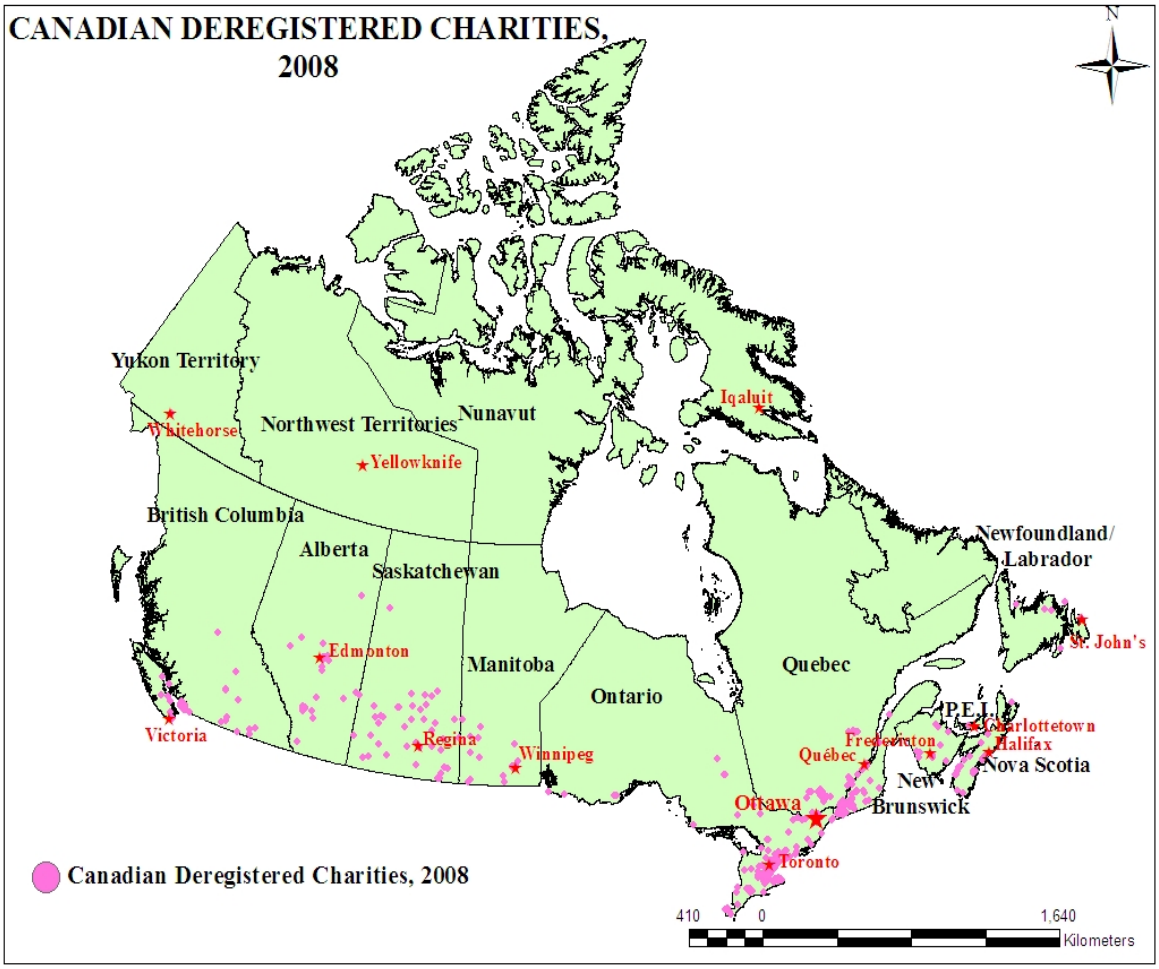
Map 1: Canadian charities (deregistered) 2002-2008



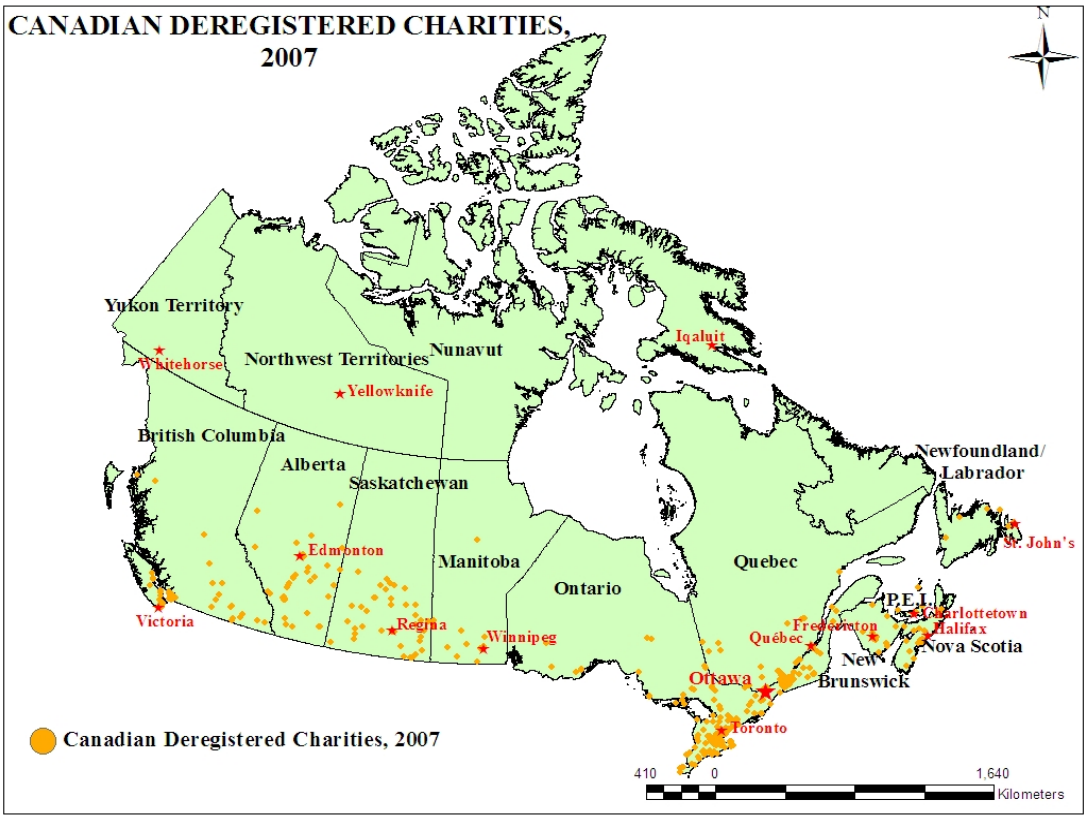
Map 2: Canadian charities (registered) 2006



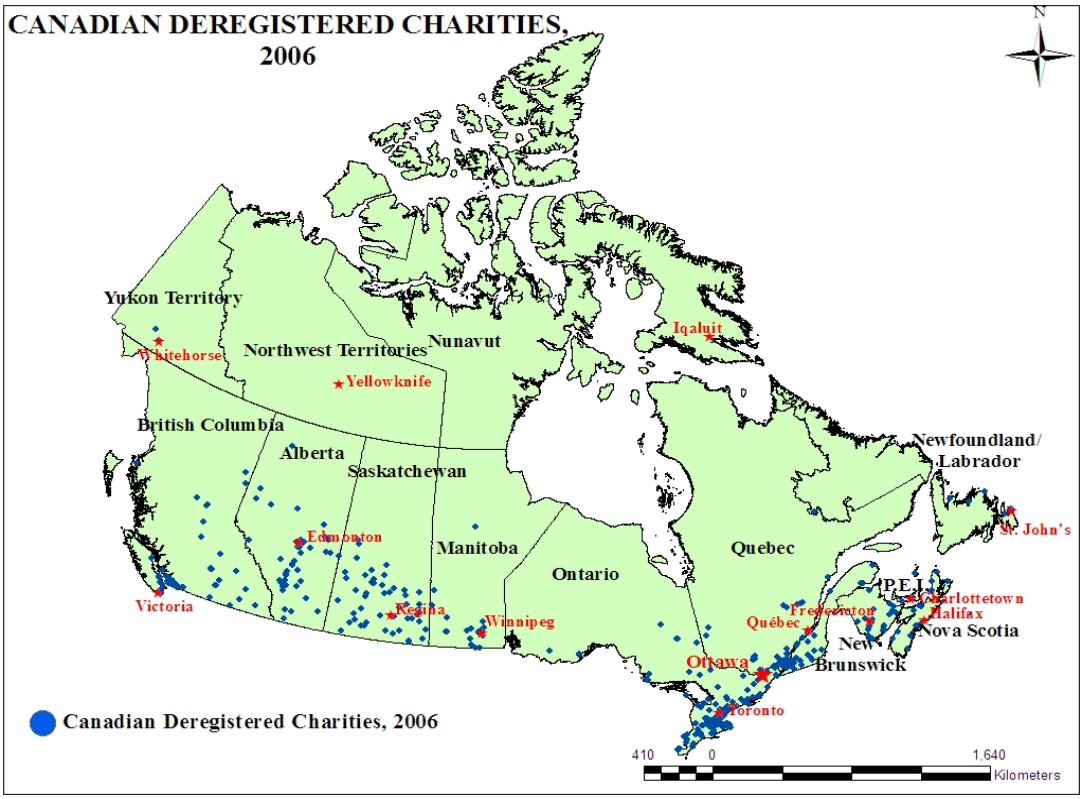
Map 3: Canadian charities (deregistered) 2008



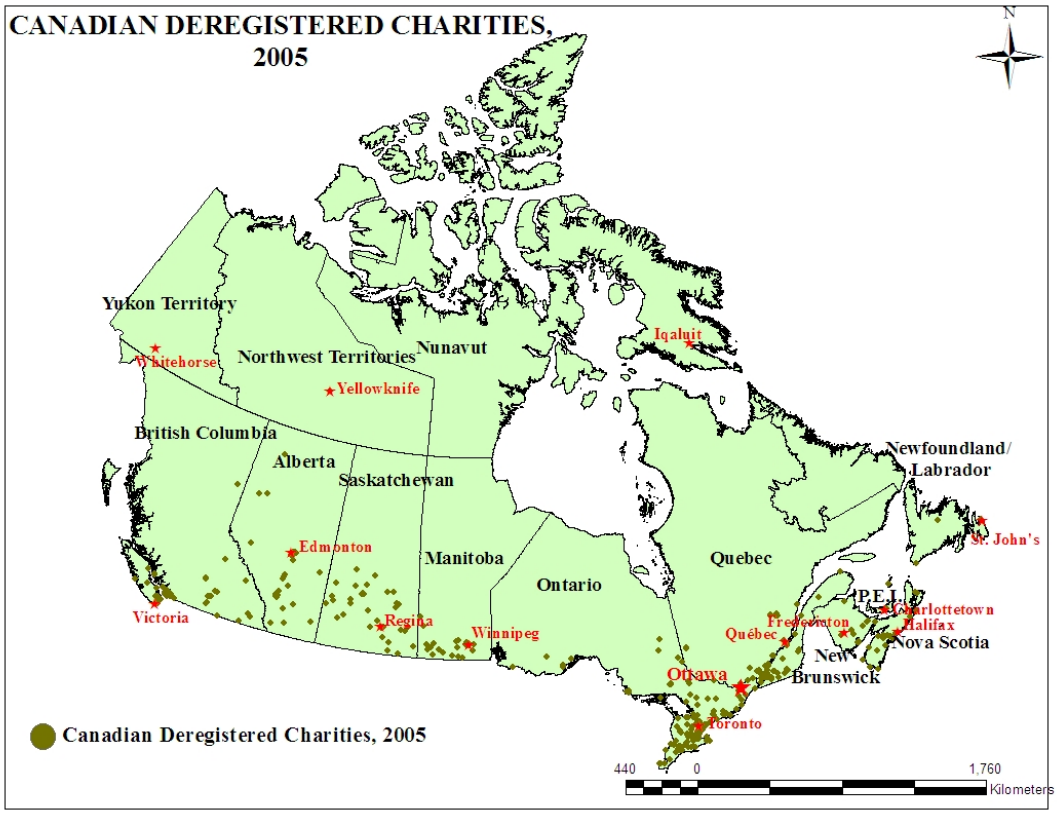
Map 4: Canadian charities (deregistered) 2007



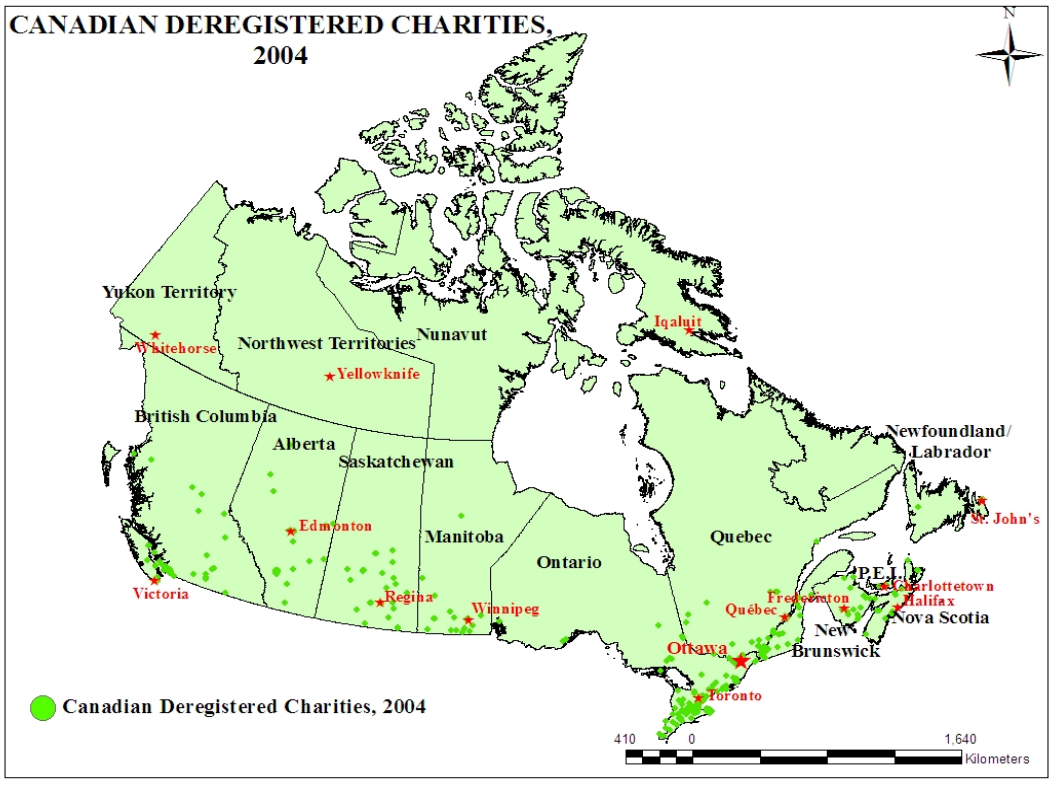
Map 5: Canadian charities (deregistered) 2006



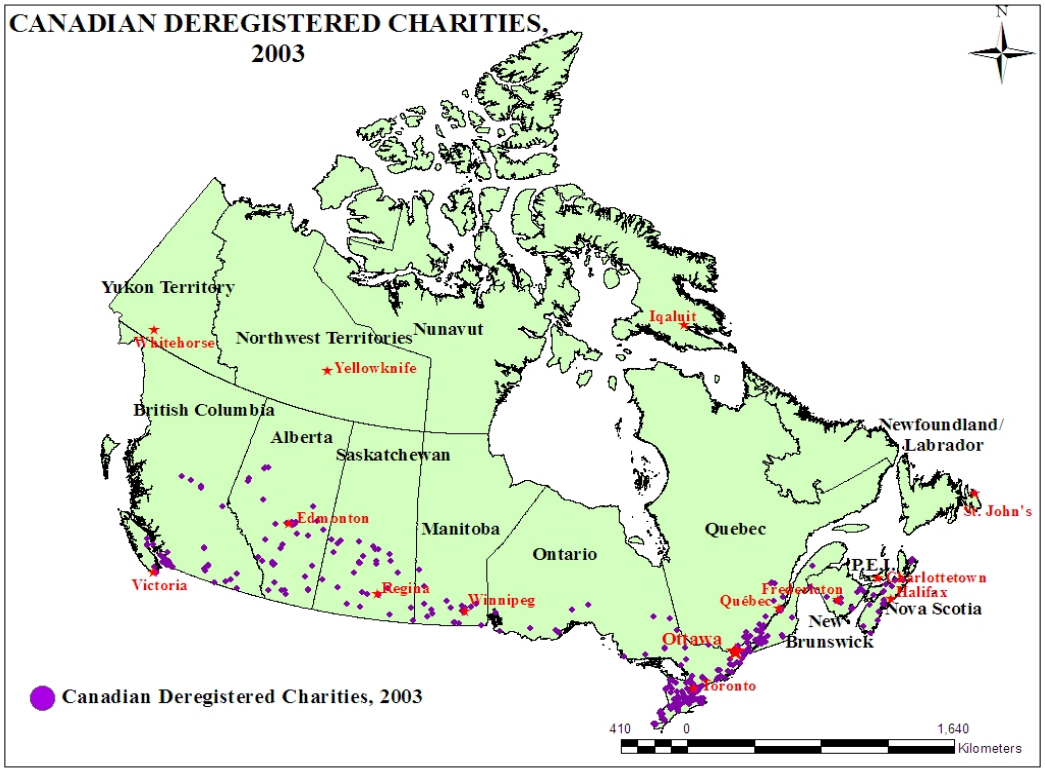
Map 6: Canadian charities (deregistered) 2005



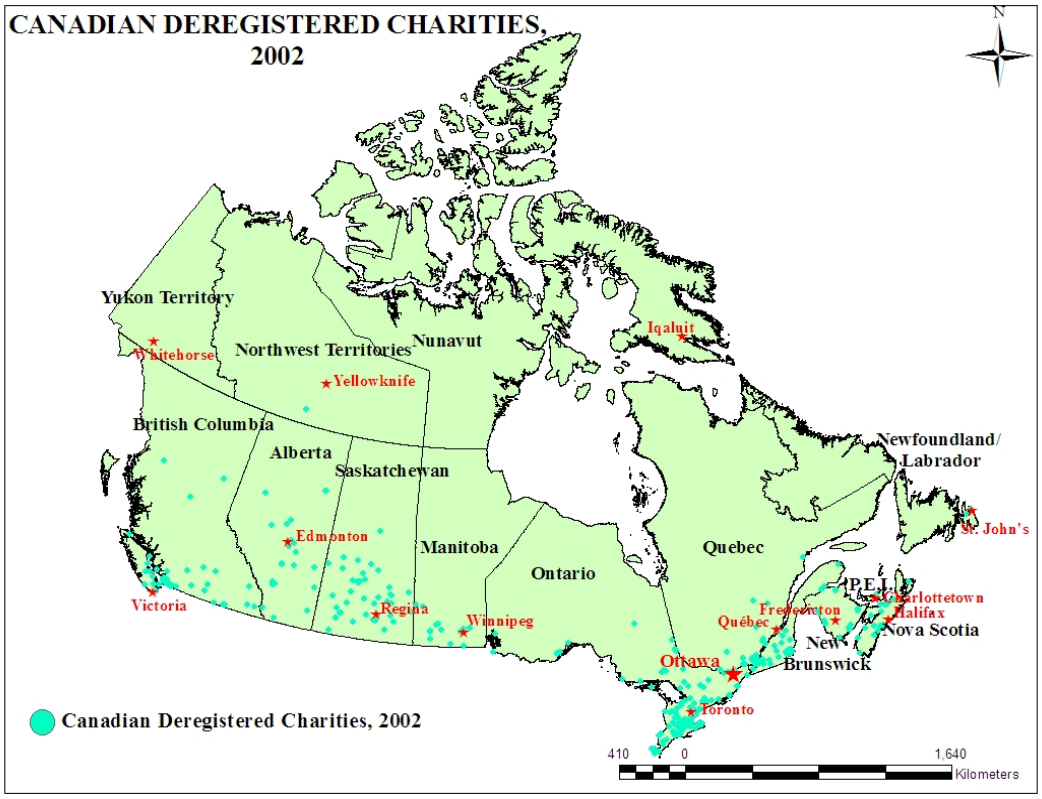
Map 7: Canadian charities (deregistered) 2004



Map 8: Canadian charities (deregistered) 2003



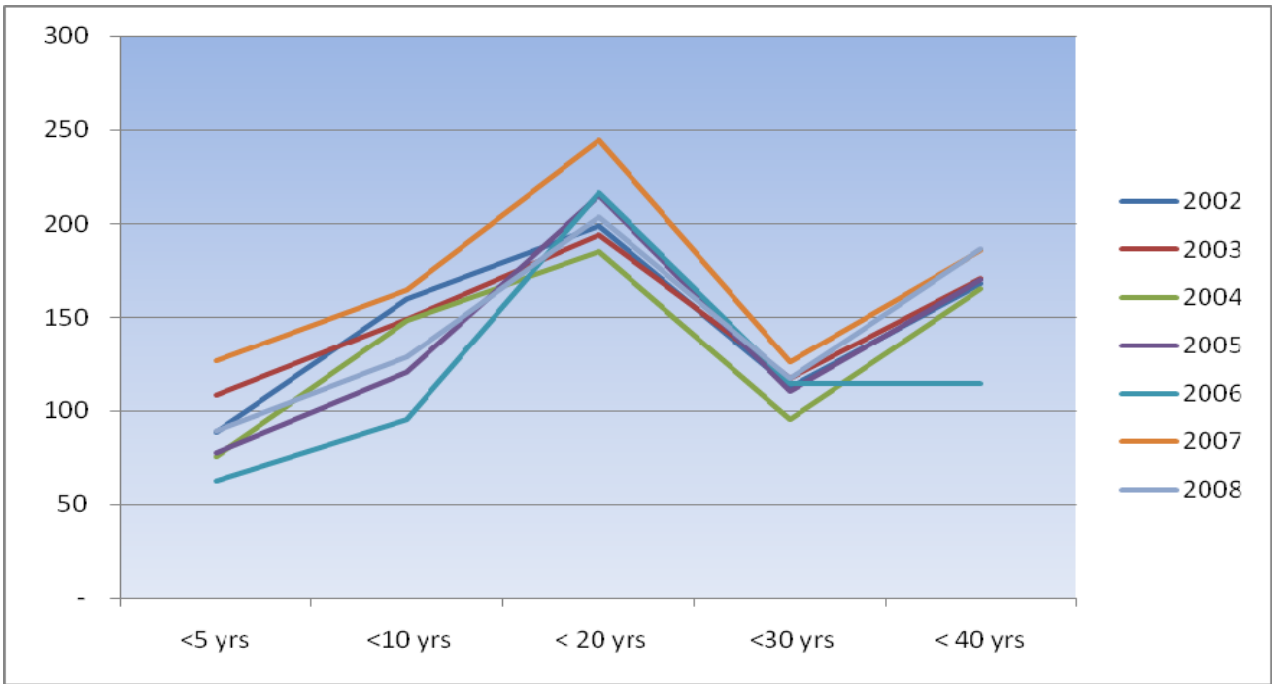
Map 9: Canadian charities (deregistered) 2002



Age of Voluntary Deregistered Charities

Across the years examined (2002 to 2008) the mean age of voluntary deregistered charities was 18.4 years. For example in 2002, 87% of the voluntary deregistered charities were older than 5 ears (88% - 2008). This result draws our attention to the observation that the age of voluntary deregistered charities is older than expected. In fact, less than 2% of voluntary deregistered charities are under two years in operations. This directly contrasts with the substantial body of research to date which indicates that nonprofit and for-profit organizations are subject to the "liability of newness" with respect to failure (Freeman, Carroll, & Hannan, 1983a). It is possible that the barrier to entry for registered charities, namely the registration process; combined with the legitimacy and status associated with charitable registration, provides a significant boost which overcomes the *liability of newness* other studies have reported.

Figure 5: Number of deregistrations by age: 2002 - 2008

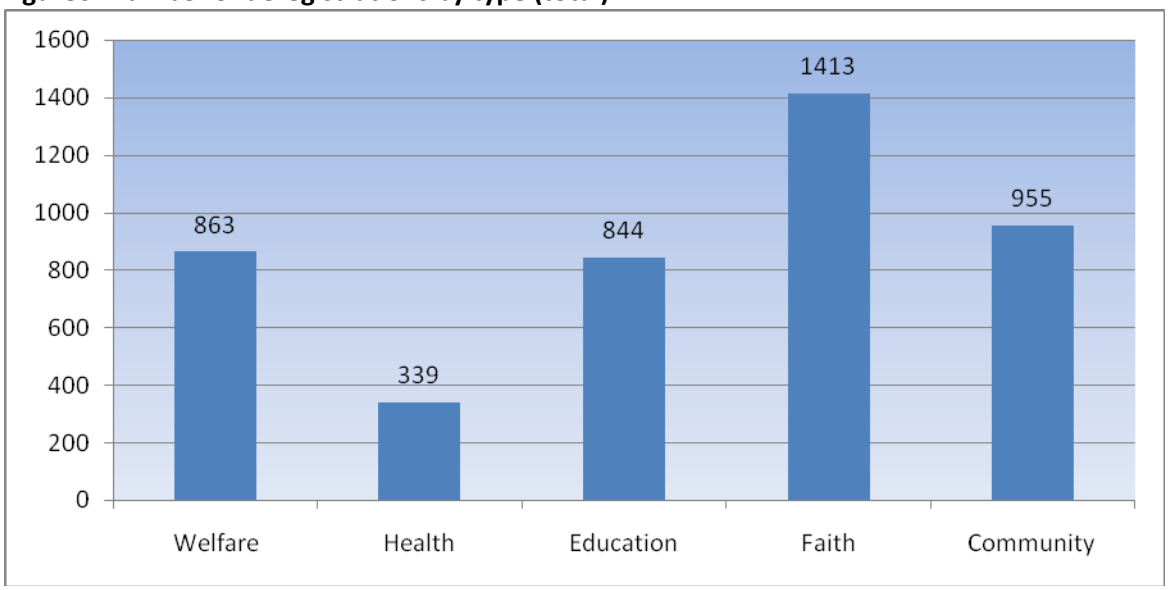


Deregistration by type

Distribution of Voluntary Deregistered Charities

Faith charities accounted for the highest number of deregistrations by type (32%). Health charities accounted for the lowest number (8%). Combined with the analysis of type and age, the incidence of the closure of faith charities likely reflects declining congregations and increased urbanization across Canada. The low incidence of deregistration of health charities likely reflects the dominance of both government funding in the health field and the preference of donors to give to health related charities. On the other hand, health charities may also be experiencing a 'crowding out' effect due to the proliferation of health charities.

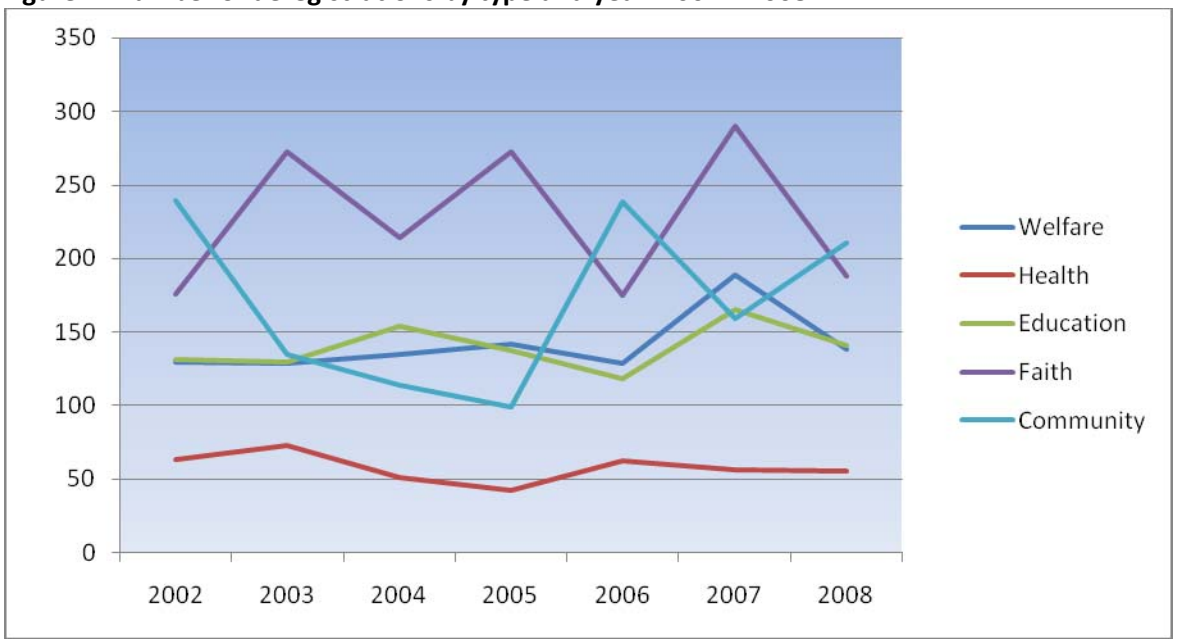
Figure6: Number of deregistrations by type (total)



For the seven years examined, the number of Faith Based voluntary deregistered charities as a percentage of the total number of deregistrations (24% - 2002 and 26% - 2008) is half of the number of Faith Based registered charities as a percentage of the total RC population (43% - 2005) (Spyker & Seel, 2008). This suggests that the distribution of voluntary deregistered charities is not the same across the total population. In at least two categories, Faith Based and at least one other category the distribution differs from the total population. A valid comparison with charities which have not deregistered will be attempted within available research time and resources.

Figure 7 presents a more subtle profile of charity deregistration by type and year. 2006 saw a dramatic increase in the number of deregistrations of community benefit organizations while 2007 saw an increase in the deregistrations of welfare, education and faith charities. Budget cuts at the federal level and the cancellation of the Canadian Volunteerism Initiative which occurred in 2006 may account for part of this increase in voluntary deregistration, but further analysis would be required to be able to make an accurate assessment.

Figure 7: Number of deregistrations by type and year: 2002 – 2008



Figures 8 and 9 confirm the relative proportion of deregistered to registered charities by type. From this observation one can conclude that while deregisteration does vary across types of charities, deregisteration is consistent within each charity type.

Figure 8: Percentage comparison of registered and deregistered charities by type (2005)

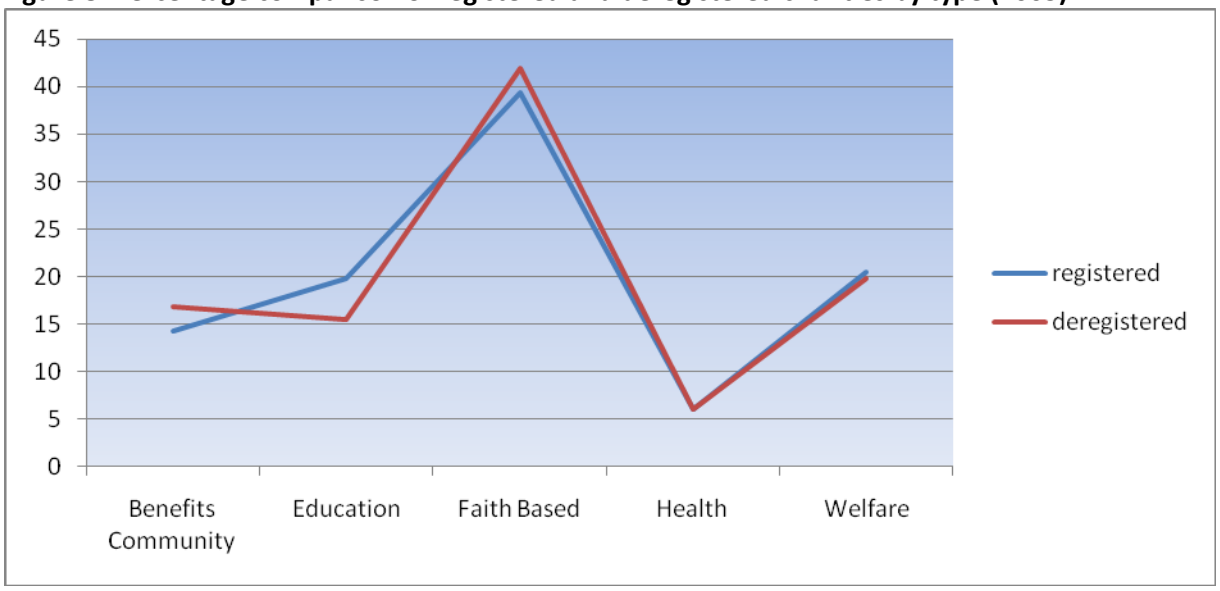
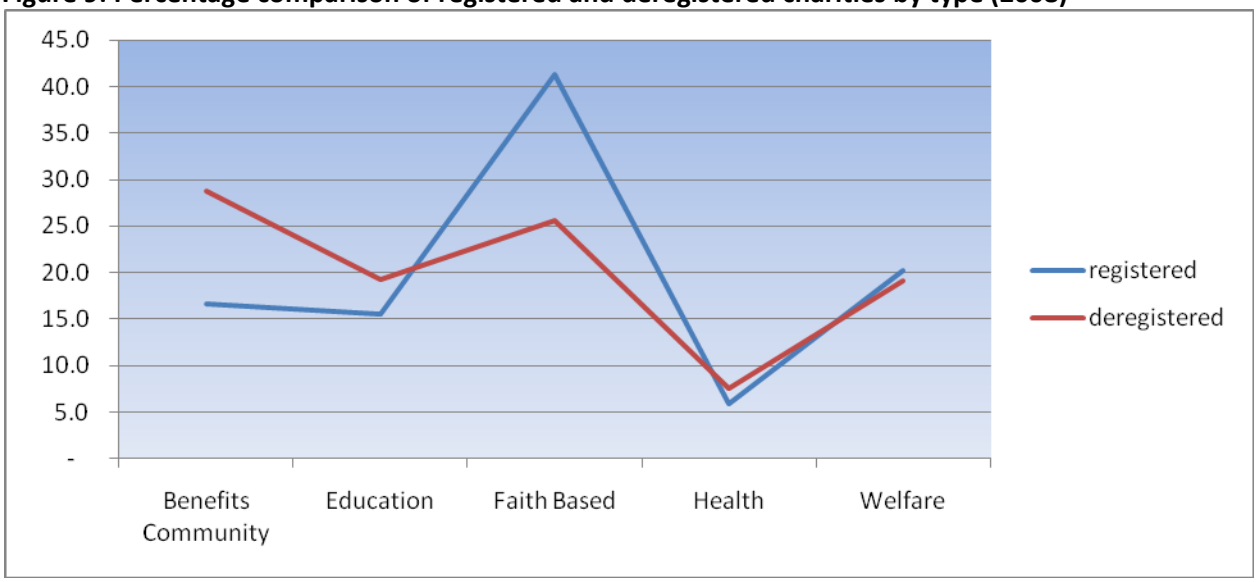


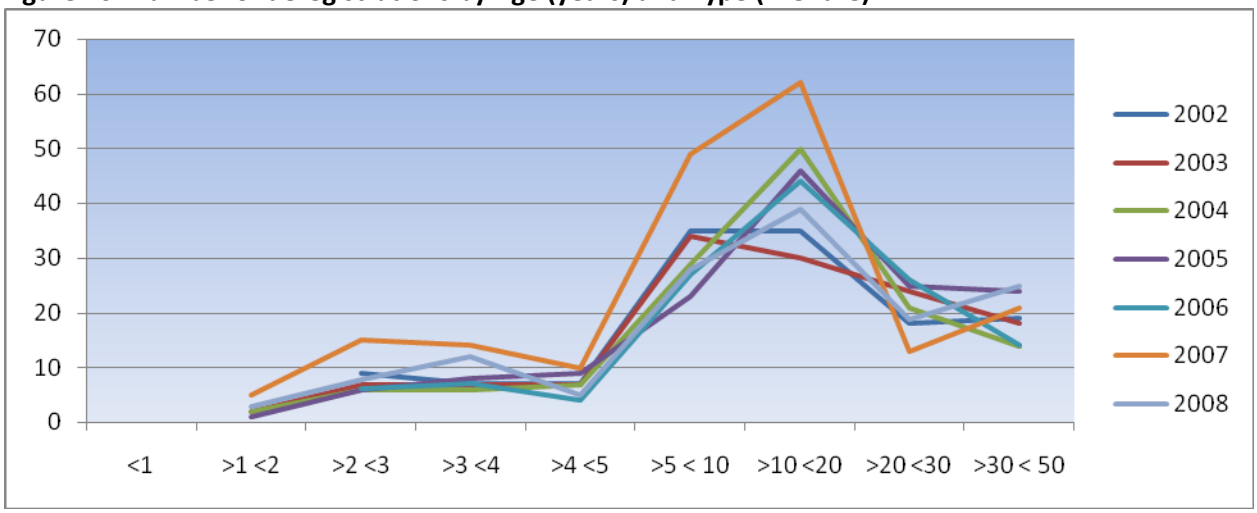
Figure 9: Percentage comparison of registered and deregistered charities by type (2008)



Figures 10 through 14 profile deregistration by age and type over the period 2002-2008. There is a consistent pattern of deregistration at a similar age across each charity type.

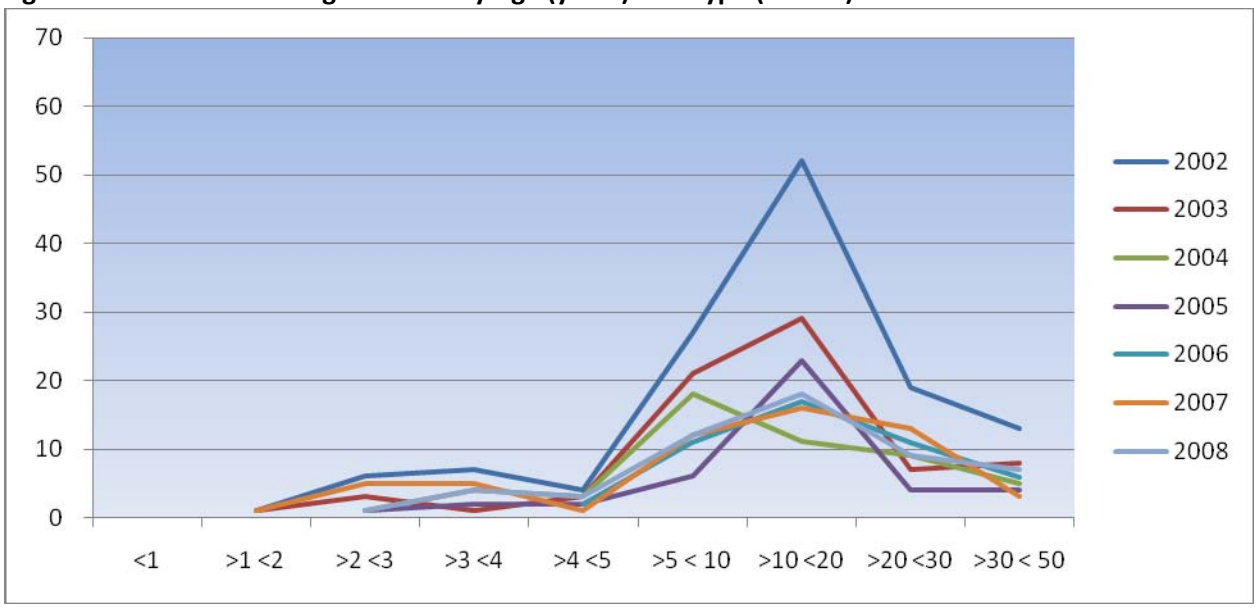
With the exception of faith charities, the average charity exists for more than 16 years before deregistering. According to the literature, this may reflect *a liability of adolescence* or a *liability of obsolescence*, but not a *liability of newness*. If adolescence is a factor, it could be a reflection of a departing founder, a significant turnover in the board or staff, or some external environmental event that the charity was unable to adjust to. "Survival of the Fitting" is a term which has been used to describe the need for charities and other nonprofits to adjust to their environment. The clear difference in the age of faith charities is evident in Figure 10 (mean = 25.30 years).

Figure 10: Number of deregistrations by Age (years) and Type (Welfare)



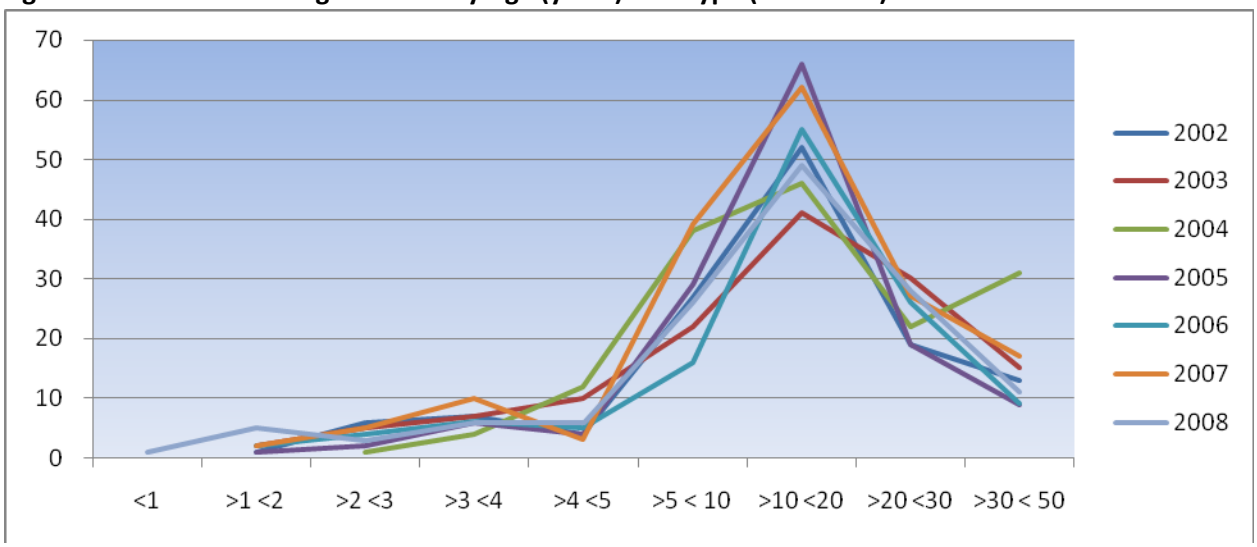
Mean = 16.5 years

Figure 11: Number of deregistrations by Age (years) and Type (Health)



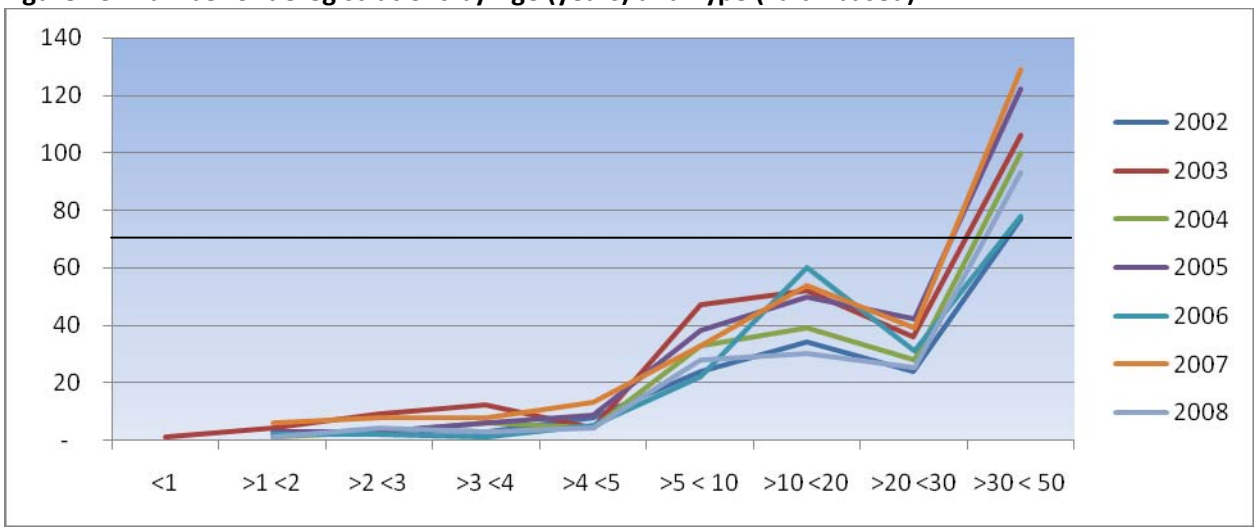
Mean = 15.74 years

Figure12: Number of deregistrations by Age (years) and Type (Education)



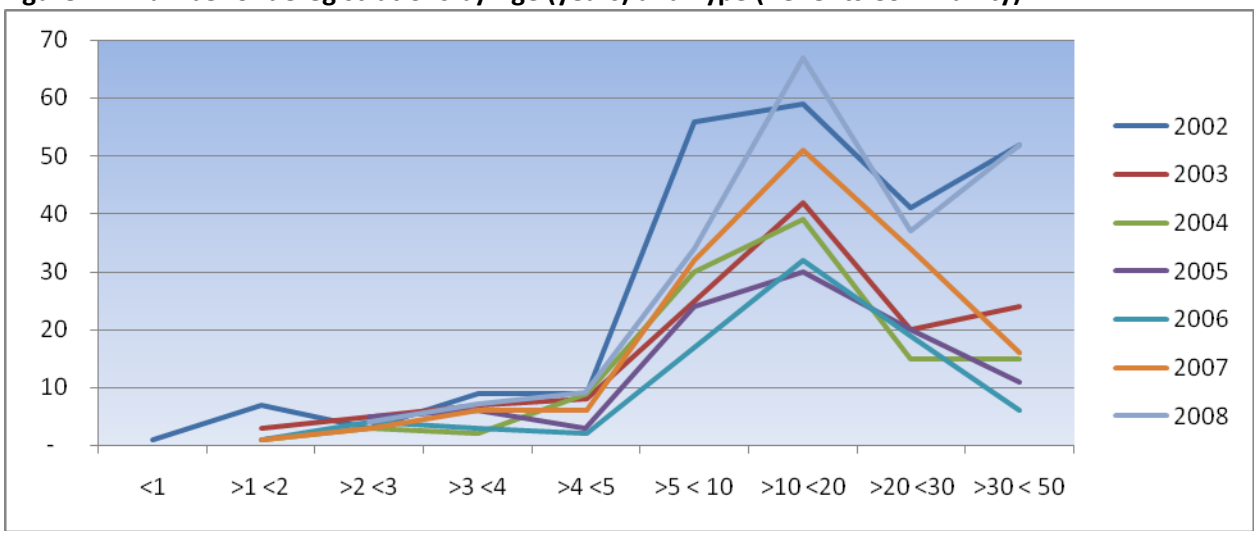
Mean = 16.39 years

Figure 13: Number of deregistrations by Age (years) and Type (Faith-based)



Mean = 25.30 years

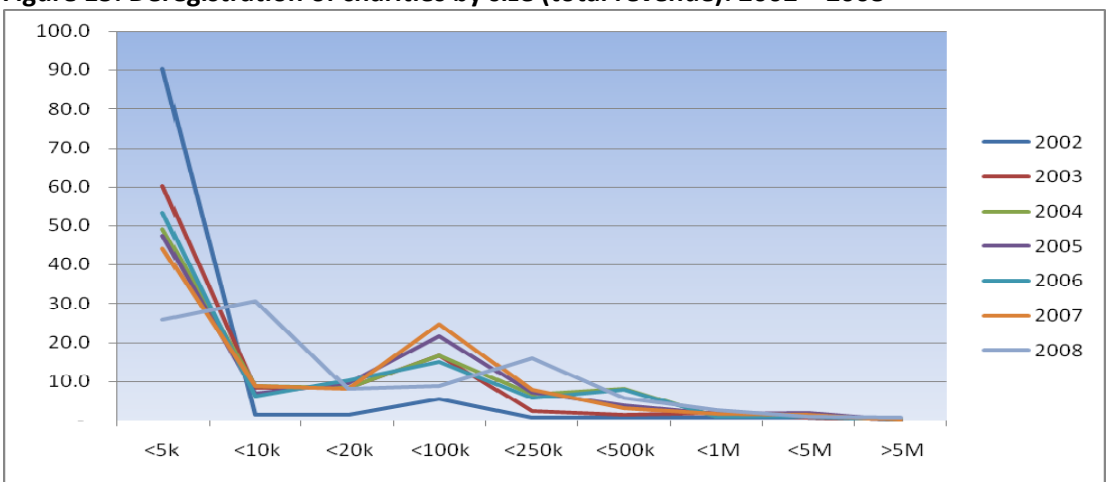
Figure 14: Number of deregistrations by Age (years) and Type (Benefits Community)



Mean = 18.07 years

Deregistration by size

Figure 15: Deregistration of charities by size (total revenue): 2002 – 2008



There appears to be a risk of deregistration associated with size as reflected in total revenue, rather than age. Further analysis will be conducted to analyze the three years of revenue prior to the date of de-registration to determine if there is a latency period or a precipitous decline in revenues preceding deregistration. The notable exception is the deregistrations of MUSH[1] organizations which frequently had revenues in excess of $5 million. These were eliminated for analysis purposes.

When size of deregistered charities is broken down by year, a different pattern emerges. In 2002 the 727 deregistered charities are skewed toward those with zero revenue. In 2005 and 2008, the 692 and 726 deregistered charities respectively are disbursed across a much wider range of size by total revenue. While there is a tendency for organizations with revenues of less than $5,000 to deregister, this is not necessarily consistent. The exception appears to be faith charities and this may be due to the fact that there are reasons beyond their financial circumstance that are forcing their closure.

What we wanted to find out then was whether a latency effect existed. That is, did charities report zero revenue for the years preceding its deregistration? We cannot answer this question without matching individual organizations. Resources were not available to answer this question directly, but a count of total deregistered charities with zero revenue for the two years prior to deregistration was conducted. The results are in the next section.

[1] Municipalities, Universities/colleges, Schools, and Hospital authorities

Figure 16: Deregistered charities by size and type (2008)

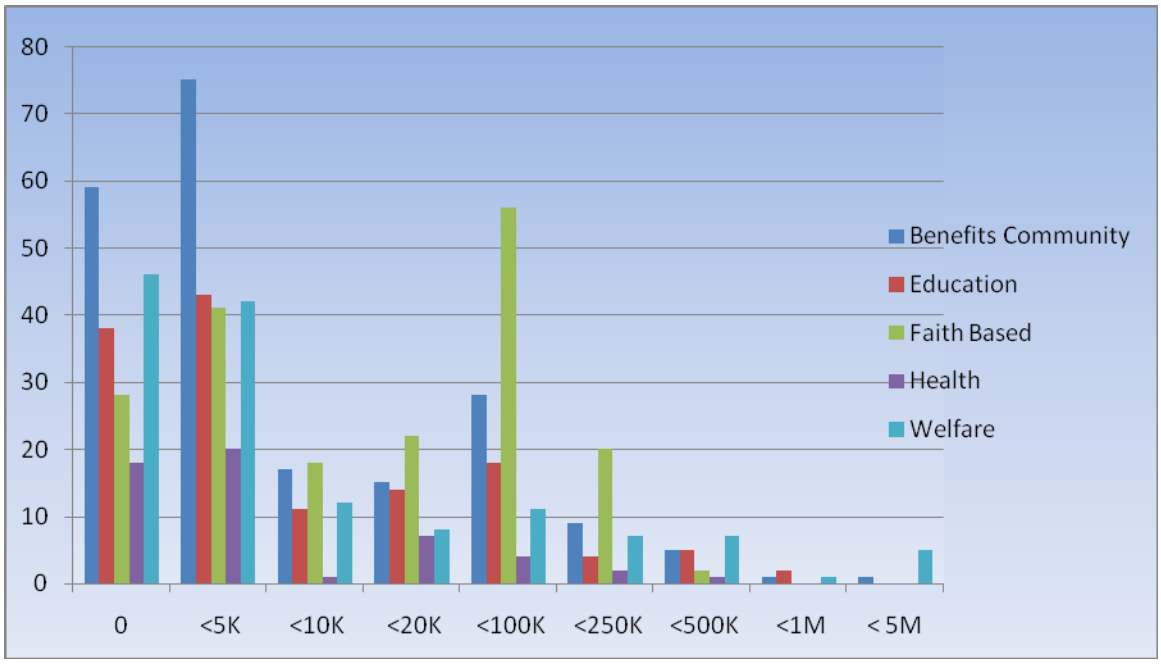


Figure 17: Deregistered charities by size and type (2005)

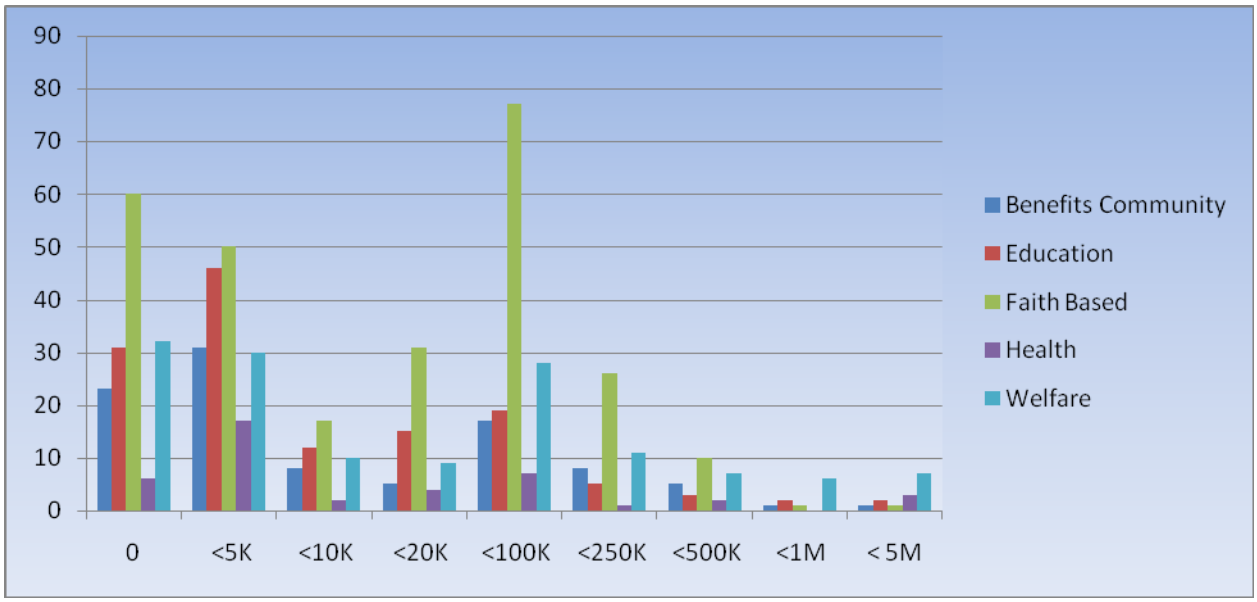
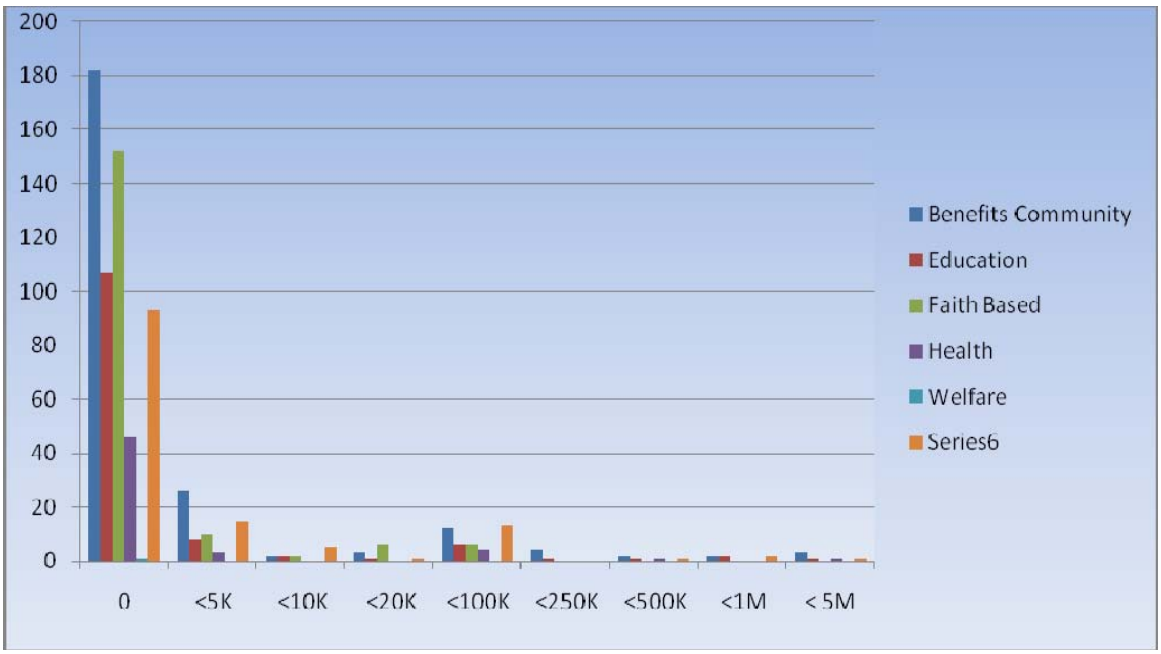


Figure 18: Deregistered charities by size and type (2002)



Prior period effect

Prior Period Effect: An analysis of the financial profile of registered charities in the two years leading to their voluntary deregistration.

For the purpose of this analysis two years are presented, 2002 and 2008. Calculations were made for all years, but no significant difference was detected. The provinces profiled are Alberta, Ontario, Quebec and Saskatchewan which correspond to the largest and most representative provinces for this particular analysis. The sample includes all organizations excluding MUSH (revenue greater than $5M and Foreign based).

This component of the study examined the total revenue of Voluntary Deregistered Charities in the year of deregistration and the two years prior to deregistration. Of note is the observation that in some instances the registered charity reported no financial information for the fiscal period ending (FPE) in the year of deregistration. For example of the 728[2] registered charities deregistering in 2002, 79 reported a FPE 2002 and 649 reported a FPE 2001. Together these combined to represent the financial information for the year of deregistration and the first year prior to deregistration would thus be 2001 or 2000 respectively. The numbers of voluntary deregistered charities reporting information for each period in year of deregistration and the two years prior are as follows:

[2] This study examined those RCS voluntarily deregistering, excluding foreign based and municipal governments, universities, school boards and hospitals (MUSH -identified as total revenue greater than $ 5,000,000).

Table 1: Number of reporting fiscal periods 2002/ 2008

Year of Deregistration 2002
Number of Reporting Fiscal Periods

Yr of Deregistration	**728**
1st Yr Prior	**630**
2nd Yr Prior	**429**

Year of Deregistration 2008
Number of Reporting Fiscal Periods

Yr of Deregistration	**726**
1st Yr Prior	**675**
2nd Yr Prior	**462**

Table 2: Prior Years - Active and inactive (zero revenue) charities

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Count	729	739	667	692	585	849	728
Zero	582	276	206	155	175	134	189
Zero %	80%	37%	31%	22%	30%	16%	26%
Active	147	463	461	537	410	715	539
Active Average	$ 191,706	$ 86,172	$ 94,983	$127,274	$ 69,216	$ 96,184	$ 70,433
Zero 1 year prior	159	571	531	383	457	724	85
Zero 2 years prior	96	598	176	292	133	373	47

Table 2 (above) reveals that on average 34.6 percent of charities report zero revenue in the year of voluntary deregistration. Furthermore a negative or zero revenue has been reported in the two years prior to voluntary deregistration. Again, these are not matched by charity, although with additional data, this calculation could be made. With the exception of 2002, for which no explanation is readily available, a significant majority of charities were active and reported revenues in the year they voluntarily deregistered. Otherwise there is no pattern which emerges concerning the relationship between prior period effect and voluntary deregistration. While further analysis could reveal that little or no activity took place in the years leading to voluntary deregistration, the opposite is even more likely.

An additional calculation was to determine the mean change of total revenue across the two years prior to deregistration (see table 3-4) for 2002 and 2008. These tables reflect the results shown in figures 16-18.

In 2002, the largest change between one year prior to deregistration and the year of deregistration were health and education charities, which was dramatic. Between two years and one year prior to deregistration, all charities except education charities experienced a decline. In 2008 the same pattern emerges which leads one to posit that education and health charities experience significant loss of revenue, possibly due to a loss of government funding.

Table 3: Mean, number and standard Deviation for prior change in revenue between year 1 and year of deregistration and year 2 and year 1 prior to deregistration (2002)

Classification		Revenue change Year 1 less year 0	Revenue change year 2 less year 1
Benefits Community	Mean	9231.22	-1700.71
	N	139	139
	Std. Deviation	63034.862	19743.605
Education	Mean	-11966.74	89.16
	N	129	129
	Std. Deviation	136523.761	140640.326
Faith Based	Mean	1228.82	-1714.46
	N	271	271
	Std. Deviation	18642.532	19786.641
Health	Mean	-62313.24	-1223.09
	N	58	58
	Std. Deviation	555753.528	22901.066
Welfare	Mean	1683.60	-1483.54
	N	131	131
	Std. Deviation	76299.023	14593.244
Total	Mean	-4562.05	-1311.54
	N	728	728
	Std. Deviation	172492.907	61494.515

Note: Revenue change Year 1 less year 0 = year of deregistration less first year prior to deregistration
Revenue change Year 2 less year 1 = first year prior to deregistration less second year prior to deregistration

Table 4: Mean, number and standard Deviation for prior change in revenue (2008)

Classification		Revenue change Year 1 less year 0	Revenue change year 2 less year 1
Benefits Community	Mean	9231.22	-1700.71
	N	139	139
	Std. Deviation	63034.862	19743.605
Education	Mean	-11966.74	89.16
	N	129	129
	Std. Deviation	136523.761	140640.326
Faith Based	Mean	1228.82	-1714.46
	N	271	271
	Std. Deviation	18642.532	19786.641
Health	Mean	-62313.24	-1223.09
	N	58	58
	Std. Deviation	555753.528	22901.066
Welfare	Mean	1683.60	-1483.54
	N	131	131
	Std. Deviation	76299.023	14593.244
Total	Mean	-4562.05	-1311.54
	N	728	728
	Std. Deviation	172492.907	61494.515

The diversity of revenue mix during periods prior to deregistration was examined. This was calculated by determining the percentage of revenue by type as a percentage of total revenue. The three revenue types include Donations (Gifts), Government (Municipal, Provincial and Federal sources) and Earned (Operations, Sales and Investment). The revenue mix (as a percentage of total revenue) was calculated over a three year period (year of deregistration and two years prior to deregistration) for the total population of de-registered charities (2002 – 2008) and by province. Following this analysis, a determination of the mean change in total revenue between the year of deregistration and the first year prior to deregistration as well as mean change between the first and second years prior to deregistration to determine the extent to which total revenues declined over these periods.

Prior Period Percentage of Total Revenue (2002, 2008)

While generally total revenues for all deregistered charities decline prior to deregistration, (Table 5, 6; Figures 19-20), there are anomalies which will require further investigation. A more accurate analysis by type of charity may reveal trends which account for this observation.

Table 5 Total Revenue - mean (2008)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	53775	57594	67791	58514	11488
1st Yr Prior	79317	84035	103014	90701	14233
2nd Yr Prior	95667	48569	150865	98410	17044

Figure 19: Revenue Source – Total revenue – mean percentage of total revenue (2008)

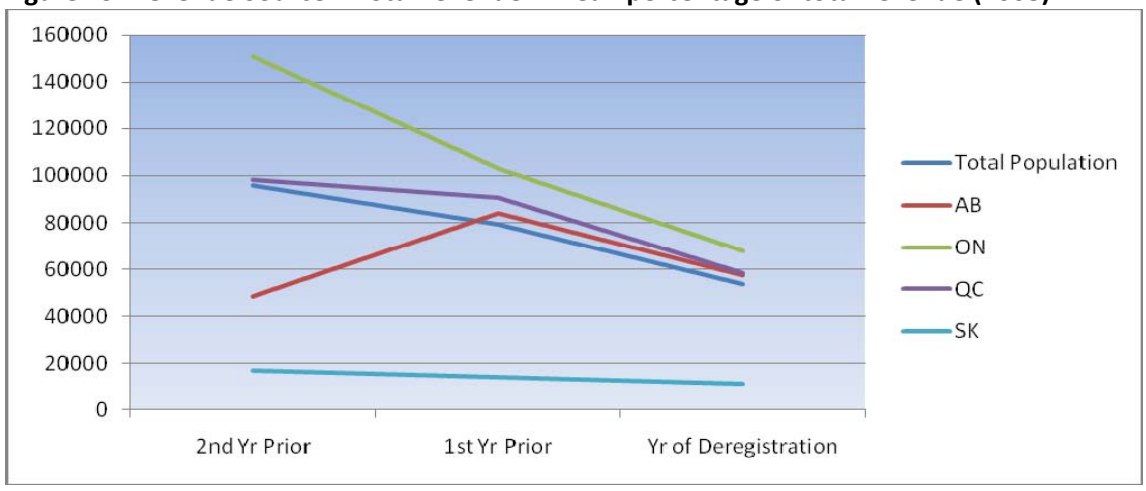
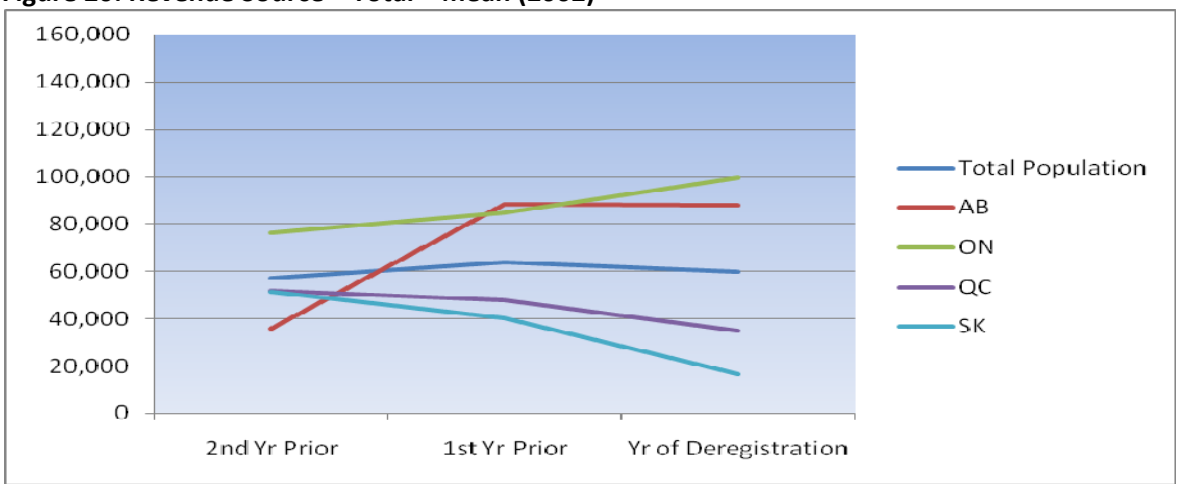


Table 6: Total Revenue - mean (2002)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	$ 59,963	$ 88,241	$ 99,466	$ 35,097	$ 16,693
1st Yr Prior	64,035	88,481	84,695	47,813	40,235
2nd Yr Prior	57,1343	36,043	76,505	51,792	51,206

[3] Total revenue for period was lower when compared to total revenue for subsequent period.

Figure 20: Revenue Source – Total – mean (2002)



Prior Period Percentage of Total Revenue by revenue source (donations/ government/ earned) (2002)

Table 7 and Figure 21 show the declining revenue from donations as charities edge toward deregistration. This needs to be interpreted with caution as donations may vary in the proportion of total revenue for any given charity. However, donations in this profile do account for a significant proportion of total revenue.

Table 7: Revenue Source – Donations (Gifts) percentage of total revenue

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	52.4	50.5	51.8	53.8	50.1
1st Yr Prior	61.1	65.7	64.0	60.1	63.7
2nd Yr Prior	63.6	70.1	62.6	68.0	61.1

Figure 21: Revenue Source – Donations (Gifts) percentage of total revenue (2002)

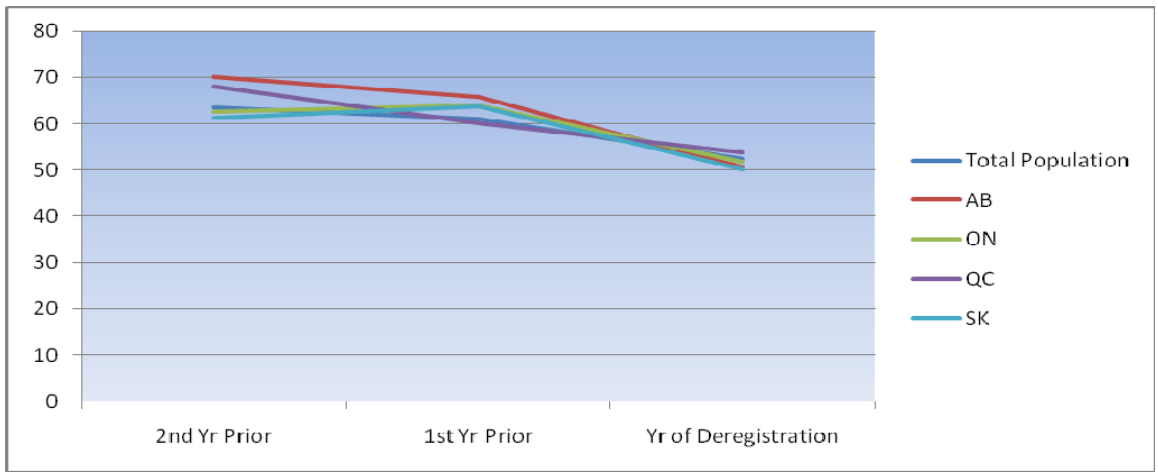
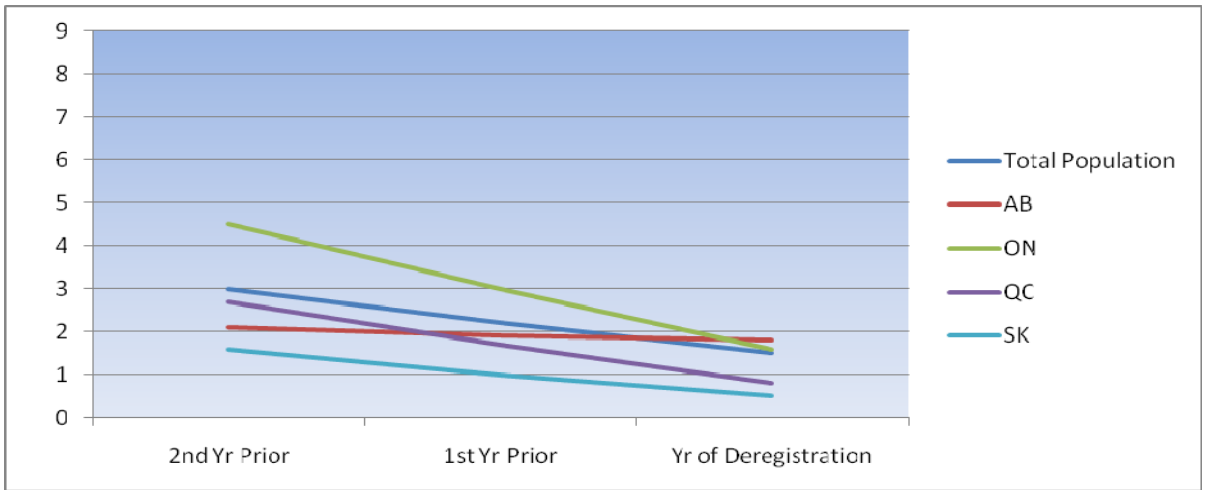


Table 8 and Figure 22 show the declining revenue from government. While the percentage of total revenue is lower than either donations (figure 19) or earned income (figure 21) the percentage drop in the two years prior to deregistration is steeper. Again, this needs to be interpreted with caution as government revenue may vary in the proportion of total revenue for any given charity.

Table 8: Revenue Source – Government percentage of total revenue (2002)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	1.5	1.8	1.6	0.8	0.5
1st Yr Prior	2.2	1.9	3.0	1.7	1.0
2nd Yr Prior	3.0	2.1	4.5	2.7	1.6

Figure 22: Revenue Source – Government percentage of total revenue (2002)

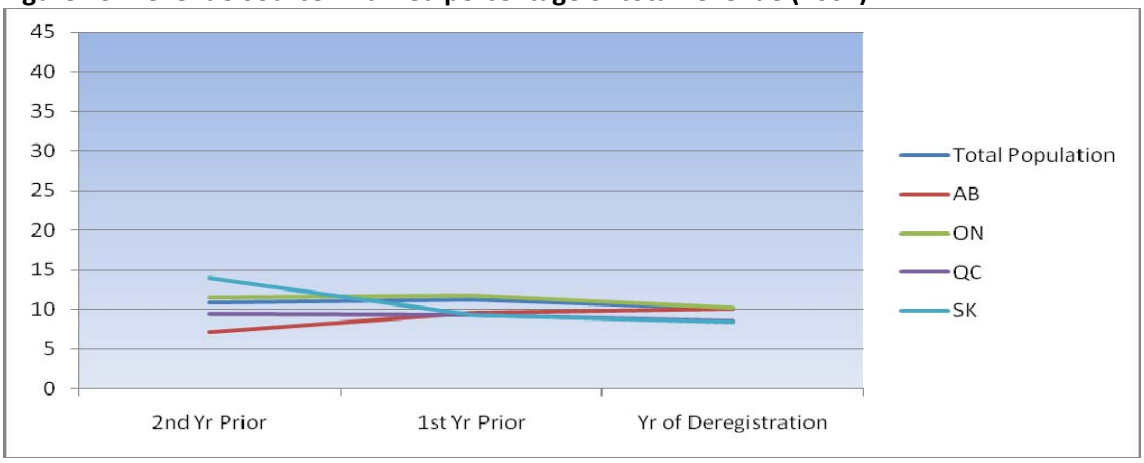


With the exception of Alberta, earned revenus declins in the years preceding deregisteration. According to the National Surevey of Nonprofit and Voluntary Organizations conducted in 2003, Alberta has the highest perentage of earned revenues by nonprofits and this may be a factor. Again while the general trend is downward, this is not necessarily consistent across years. Further analysis by type of charity may reveal a clearer picture.

Table 9: Revenue Source – Earned percentage of total revenue (2002)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	10.1	10.1	10.2	8.5	8.4
1st Yr Prior	11.3	9.6	11.8	9.3	9.3
2nd Yr Prior	10.9	7.1	11.5	9.4	14.0

Figure 23: Revenue Source – Earned percentage of total revenue (2002)



Percentage of Total Revenue by revenue source (donations/ government/ earned) – 2008

The trends revealed in the 202 analysis are consistent with the 2008 analysis, namely that the most dramatic change in prior year revenue is from government sources while other sources of revenue (earned and donations) experienced a less dramatic change. This may be accounted for by both the size of government funding and the impact of its removal; and the dependence organizations could develop on government funding at the expense of developing alternative revenue streams.

As in 2002, donations account for a high percentage of total revenue with charities that deregistered in 2008. The low rate of revenue by donations in Quebec is consistent with previous surveys.

Table 10: Revenue Source – Donations (Gifts) percentage of total revenue (2008)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	34.9	37.9	38.3	30.6	34.7
1st Yr Prior	44.9	48.5	47.3	39.7	53.7
2nd Yr Prior	46.9	46.9	50.2	37.5	56.3

Figure 24: Revenue Source – Donations (Gifts) percentage of total revenue (2008)

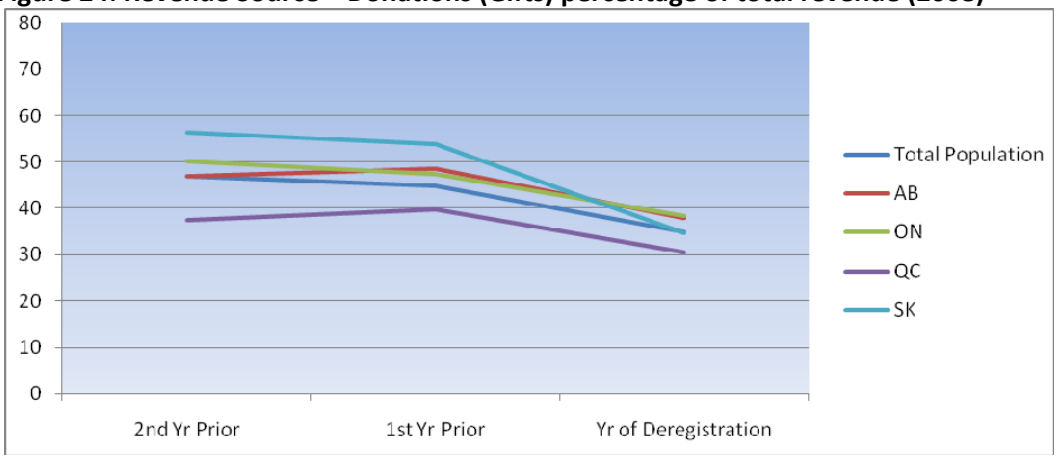


Table 11: Revenue Source – Government percentage of total revenue (2008)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	4.9	2.5	5.7	7.1	1.9
1st Yr Prior	7.2	4.9	7.4	7.6	4.4
2nd Yr Prior	7.5	5.2	8.1	6.6	4.8

Figure 25: Revenue Source – Government percentage of total revenue (2008)

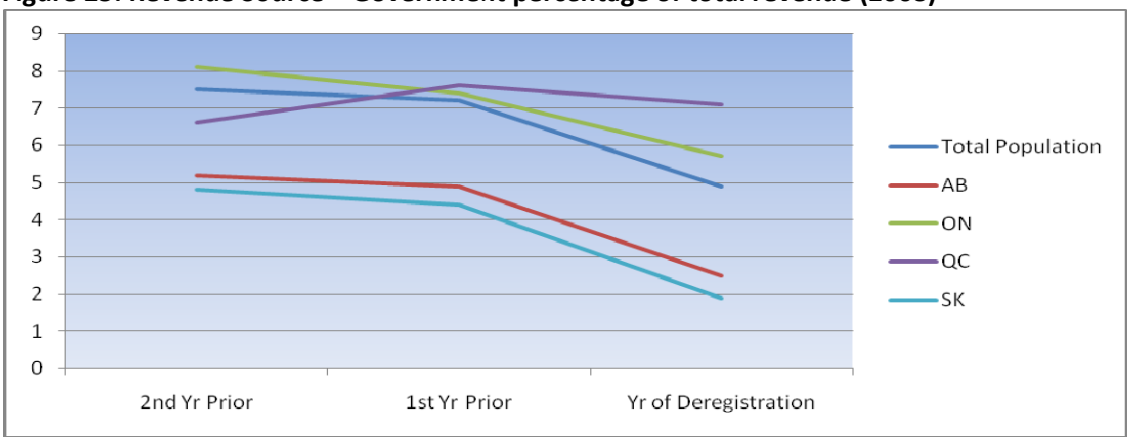
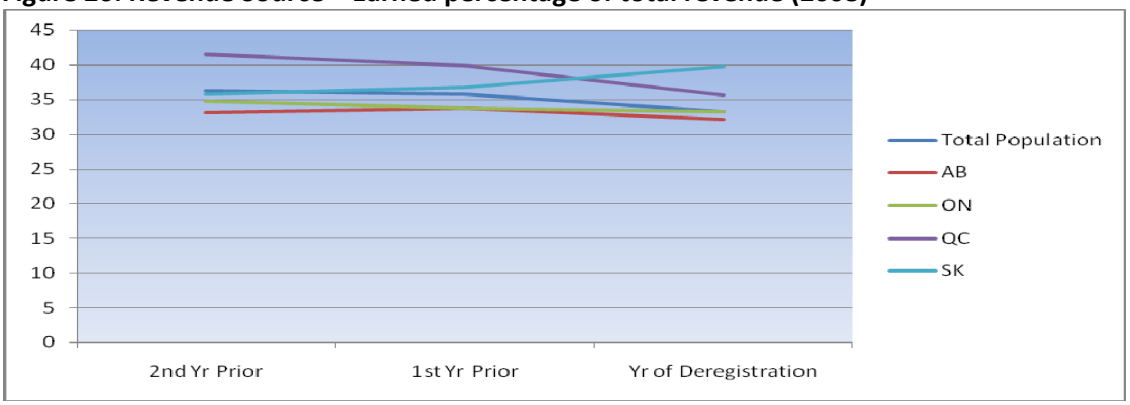


Table 12: Revenue Source – Earned percentage of total revenue (2008)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	33.3	32.1	33.2	35.6	39.8
1st Yr Prior	35.8	33.8	33.8	39.9	36.8
2nd Yr Prior	36.3	33.1	34.8	41.5	35.8

Figure 26: Revenue Source – Earned percentage of total revenue (2008)



Total and fixed assets

Total and fixed (capital) assets were examined. This analysis will be used to determine the relationship between revenue and fixed assets. Total assets include cash and other liquid assets, whereas fixed or capital assets include buildings or land. Where there are significant fixed assets, particularly in Alberta and Quebec, there is also a significant decline. This may reflect a loss or liquidation of fixed assets prior to deregistration.

Table 13: Deregistration Year 2002 Average Fixed Assets - (dollars)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	$ 36,912	$ 86,187	$ 28,424	$ 71,629	$ 5,361
1st Yr Prior	69,469	101,222	16,178	214,627	7,553
2nd Yr Prior	108,342	429,016	21,086	246,560	18,495

Figure 27: Average Fixed Assets - (dollars) - 2002

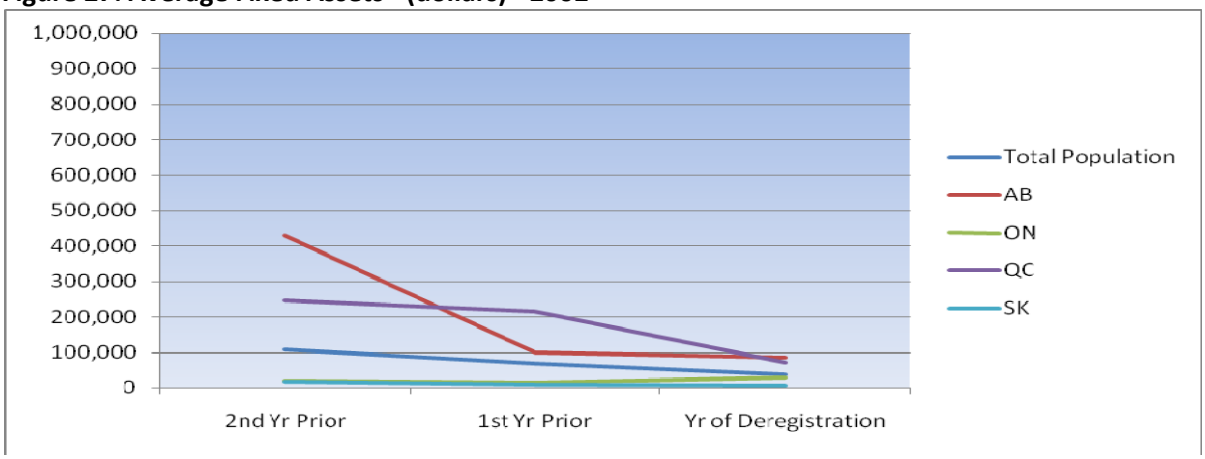
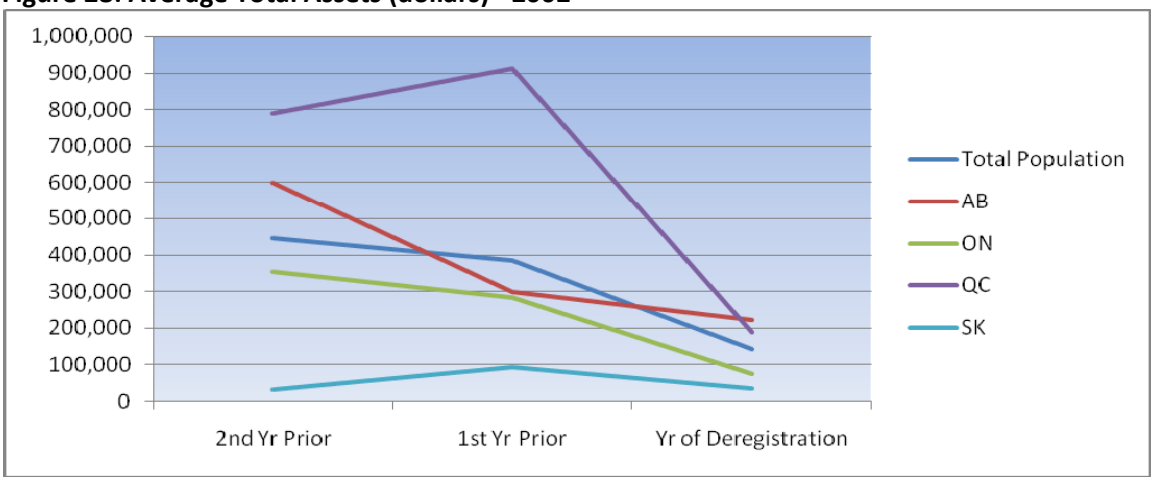


Table 14 and Figure 28 - the average total assets (current and long-term) reveal a significant decline in total assets which again may reflect a liquidation of assets prior to deregistration. What is revealing her is that the decline occurred fairly dramatically over the two years prior to deregistration. This confirms that this time scale is an appropriate analysis frame and may reveal other factors when an analysis by type of charity is conducted.

Table 14: Deregistration 2002 Average Total Assets (dollars)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	$ 142,342	$ 222,209	$ 76,554	$ 188,574	$ 35,861
1st Yr Prior	383,932	299,359	282,814	912,194	92,943
2nd Yr Prior	445,268	597,705	352,943	788,568	33,550

Figure 28: Average Total Assets (dollars) - 2002



The same analysis for 2008 reveals a different pattern than was identified for 2002. In this case fixed assets appear to account for a greater proportion of the decline in total assets, and the decline is more dramatic in that the decline occurred over the year prior to deregistration and not over a two year period. In fact, there is an increase in fixed assets two years prior to deregistration and only in Ontario was the decline consistent over the two years prior. On the other hand, there was an increase in total assets for charities in Saskatchewan. Events which occurred in 2006 – 2007 are certainly worth further investigation.

Table 15: Deregistration year 2008 Average Fixed Assets – (dollars)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	$ 69,140	$ 15,278	$ 43,188	$ 147,766	$ 6,602
1st Yr Prior	121,125	37,738	53,597	200,398	16,810
2nd Yr Prior	82,141	24,039	66,796	193,270	2,184

Figure 29: Average Fixed Assets - (dollars) – 2008

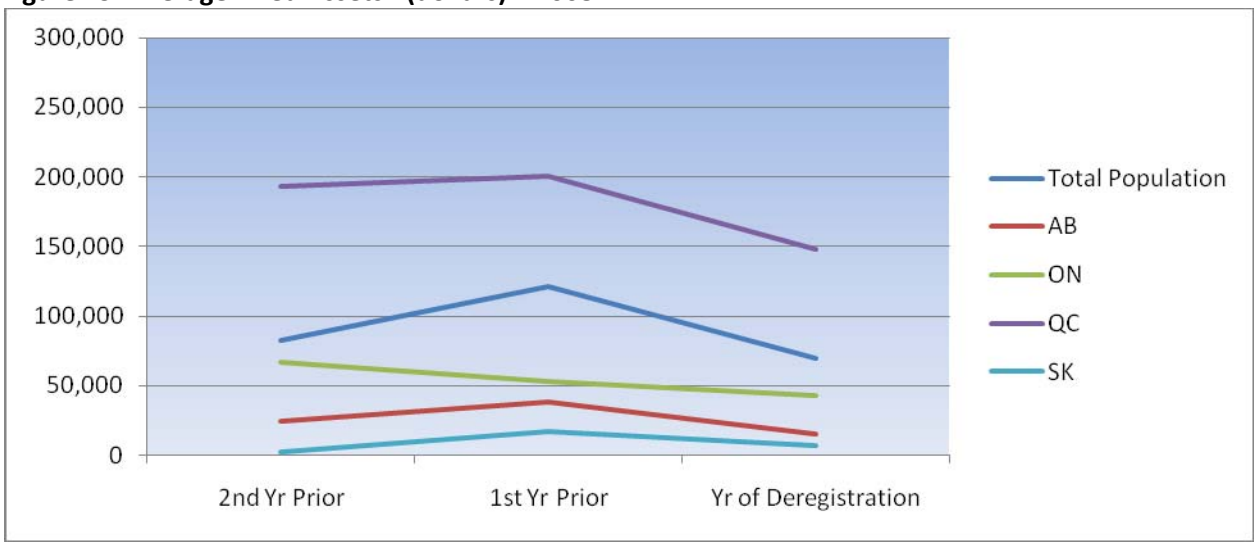
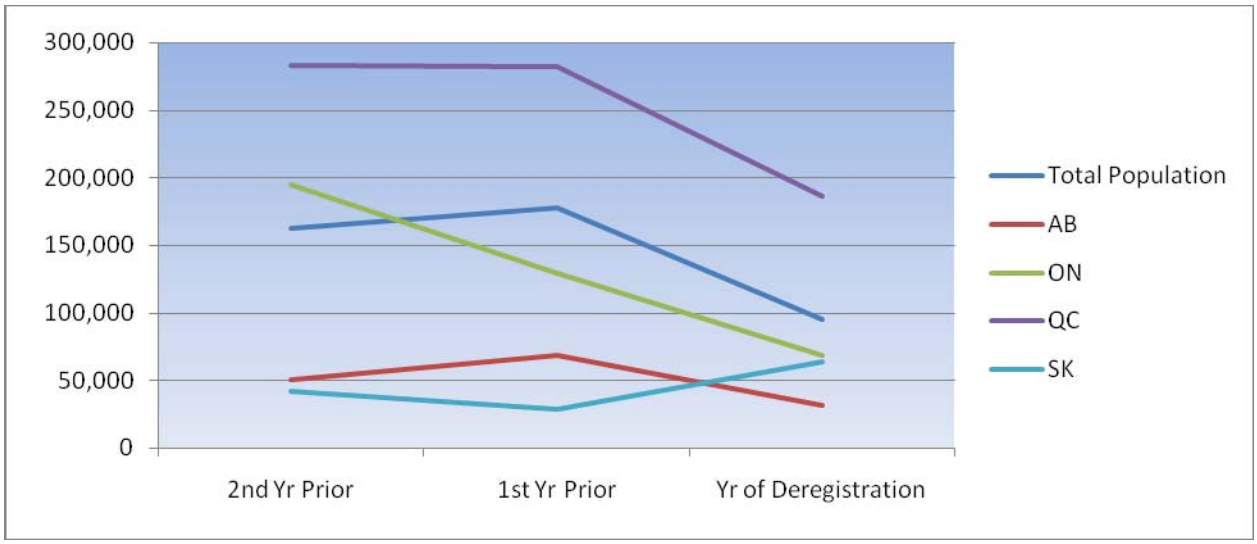


Table 16: Deregistration Year 2008 Average Total Assets – (dollars)

Reporting Period	Total Population	AB	ON	QC	SK
Yr of Deregistration	$ 95,509	$ 30,998	$ 68,173	$ 186,172	$ 63,803
1st Yr Prior	177,712	68,160	129,331	282,399	29,031
2nd Yr Prior	162,810	50,246	194,749	283,080	41,979

Figure 30: Average Total Assets - (dollars) - 2008



Fixed assets as a percent of total assets

As charities regress toward deregistration it could be expected that fixed assets would be reflected as a greater percentage of total assets, particularly as cash and other liquid assets decline and fixed assets remain constant. While a break-down by charity type could reveal more here, this trend is generally the case, the charts reveal exceptions which require further investigation.

This analysis is consistent with the expectation that fixed assets in 2002 deregistrations were a significant percentage of total assets and current assets declined. Yet in 2008, this percentage of fixed assets had already significantly declined in the two years prior to deregistration (2006-2007). This would be consistent with a latency effect where fixed assets were liquidated and steps were being taken to close down the charity.

Table 17: Fixed assets as a percent of total assets (2002)

Reporting Period	Total Population	AB	ON	QC
2nd Yr Prior	24%	72%	6%	31%
1st Yr Prior	18%	34%	6%	24%
Yr of Deregistration	26%	39%	37%	38%

Figure 31: Fixed assets as a percent of total assets (2002)

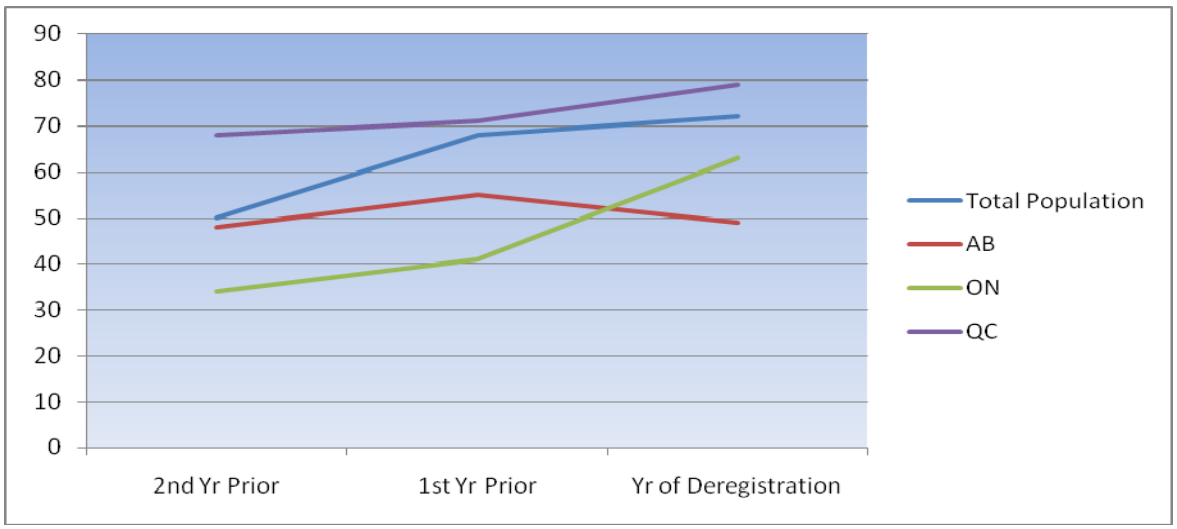
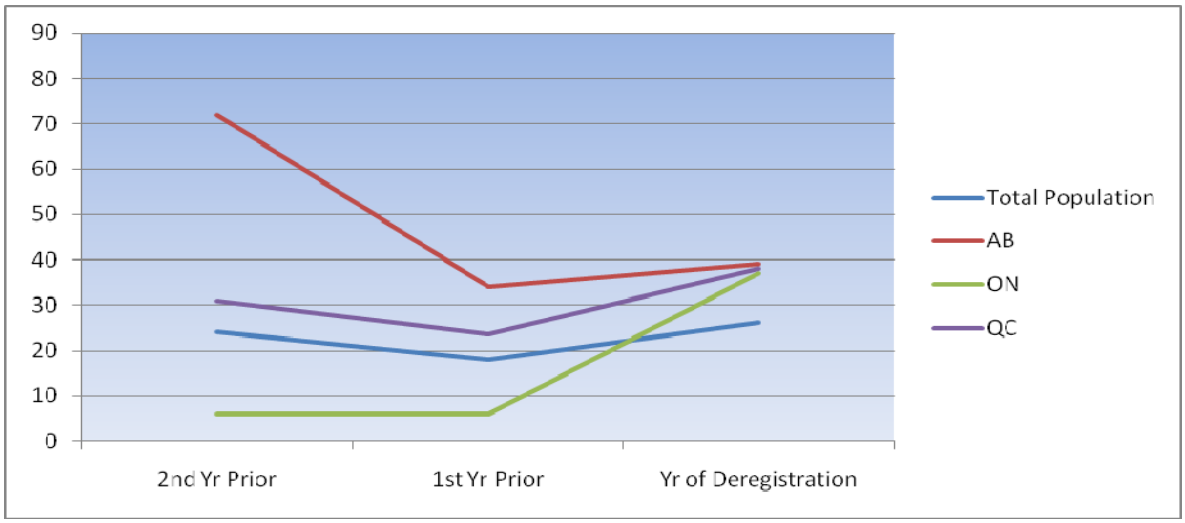


Table 18: Fixed assets as a percent of total assets (2008)

Reporting Period	Total Population	AB	ON	QC
2nd Yr Prior	50	48	34	68
1st Yr Prior	68	55	41	71
Yr of Deregistration	72	49	63	79

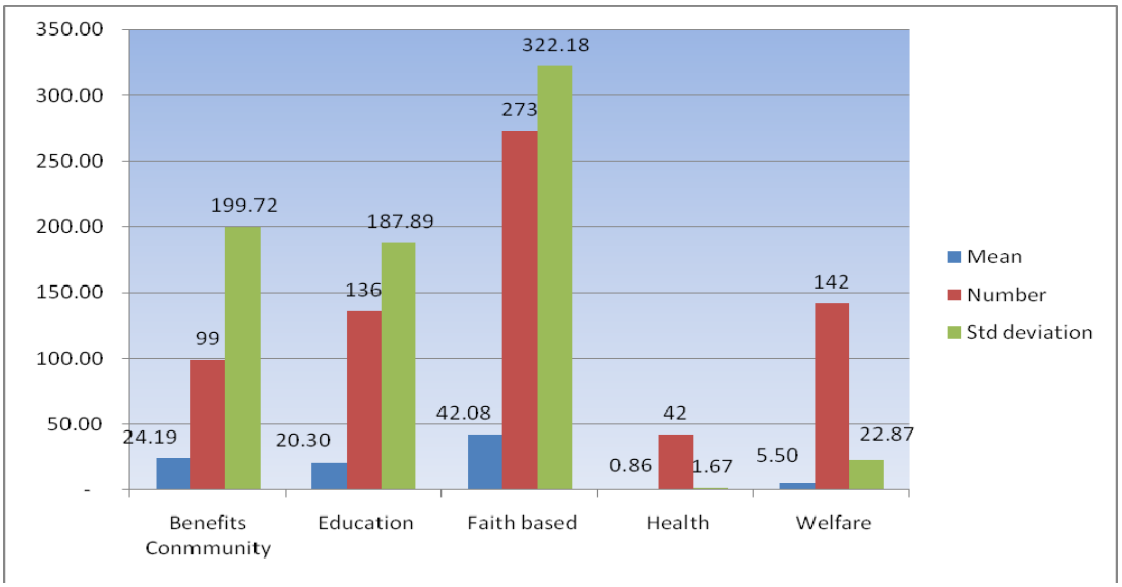
Figure 32: Fixed assets as a percent of total assets (2008)



Revenue divided by total assets

Revenue divided by total assets - indicator of the availability of revenues in relation to total assets. For example, in the chart below, in 2005, 273 faith based deregistered charities collectively had revenue which was 42.08 times the value of their total assets. This is consistent with the profile shown in Figures 16-18. On the other hand, health charities had revenues which were 0.86 times the value of their total assets.

Figure 33: Mean, Number, and Standard Deviation for Revenue Divided by Total Assets



Influence of age, size and type

Further examination of the total population (all deregistered charities across all year (2002 – 2008) was conducted to determine significance of change in means of key factors over prior periods. Variables which were examined included age, size, and type of deregistered charity. The means were then compared means for each period to determine if significant changes over reporting periods prior to deregistration. No items were determined to be significant[4].

Total revenue

Total Revenue (means) was determined for Voluntary deregistered charities for the years 2002, 2005 and 2008. The means for the total population In all cases with the exception of Alberta and 2002 2nd year prior to deregistration decreased the over the three year period. As such it appears that as registered charities approach the year of voluntary deregistration, their total revenue decreases. There are numerous potential reasons for this occurrence. Voluntary deregistered charities may reduce their funding activities either on purposes or as result of numerous internal and external factors

Prior period effect

Four variables were examined in the exploration of prior-period effect, namely the influence of: 1) total revenue; 2) age; 3) size, and 4) type. Total Revenue was examined for voluntary deregistered charities over a three year period (the year of deregistration plus two prior years). We then determined the mean total revenue in the three years for the total population and by province and proceeded to analyze the significance of change in total revenue in the two years prior to deregistration[4].

The total population of deregistered charities was analyzed to determine significance of change in means of key factors over prior periods. Variables which were examined included age, size, and type. We then compared the means for each period to determine if significant changes over reporting periods prior to deregistration. No items were determined to be significant[4].

Revenue mix

We then examined the diversity of revenue mix during periods prior to deregistration. This was determined by the percentage of revenue by type as a percentage of total revenue. The three revenue types include Donations (Gifts), Government (Municipal, Provincial and Federal sources) and Earned (Operations, Sales and Investment). The revenue mix percentage was examined over three year period, year of deregistration and two years prior to deregistration for the total population and by province. We then compared the mean revenue mix percentage for each period to determine if significant changes over reporting periods during period of deregistration and two years prior to deregistration occurred.

In almost all instances the percentages of revenue mix for all three revenue sources and for each year prior to deregistration indicated that the percentage decreases as the registered charities approaches deregistration.

[4] Data reported by province includes Alberta, Ontario, Quebec and Saskatchewan as the largest and representative provinces for this analysis.

While the three revenue sources represent 100% of the potential revenue for each individual registered charity the means do not sum to 100% due to the aggregation of individual registered charities.

Total and fixed assets

Total and fixed (capital) assets are profiled for further anticipated analysis. Both decline over the two years prior to deregistration. When fixed assets are profiled as a percentage of total assets there is a general but inconsistent increase prior to deregistration.

Further research

While to date this study has made some potentially valuable observations with respect to the descriptive profile of Voluntary deregistered charities, there are some excellent opportunities to now begin to develop a potential predictive model surrounding these charities. Using a logistic multi variant regression model it may be possible to develop a stronger understanding of these organizations.

If the data set was extended to include all RCs for the periods 2002 to 2008 a potentially clearer understanding of the relationships between age, revenue, revenue diversity (mix), category, province and size and voluntary deregistration may be developed.

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Appendix A: Literature review

Profile of reviewed articles

A total of 28 peer-reviewed articles were identified as having direct relevance to the subject of the failure or voluntary de-registration of nonprofits or charities. Of these, 12 or 43% of the total were concerned with the liability of newness; 9 or 32% were concerned with resource dependency/financial vulnerability; and 7 or 25% were associated with liability of size. The authors addressed a variety of nonprofit organizations and charities, primarily based in the USA, on the basis of type (e.g. nonprofit, charity) or category (e.g. Voluntary social service organizations).

There is no consensus on why nonprofits fail. Competing theories of organizational behavior offer a complex variety of reasons for this phenomenon. At least a dozen legitimate factors have been identified in empirical studies on organizational demise (see Table 1). The burden of evidence supports "liability of newness", which explores numerous factors associated with age as an important factor in why a population of organizations close.

Three theoretical models emerged as explanatory models of organizational mortality: *Neo-institutionalism*, P*opulation ecology, and resource dependency (*which include *financial vulnerability*).

Neo-institutionalism underlines the significance of cultured, legal and normative environments of organizations (Fernandez, 2008). Organizational survival is directly related to their 'fit' with external conditions. This theory suggests that the level of compliance of organizations to a variety of rules determines its legitimacy (e.g. capability to deliver needed services in a timely fashion). This line of reasoning argues that organizations survive if they persuade relevant external actors that they are legitimate (Galaskiewicz & Bielefield, 2003). Neo-institutionalism predicts that nonprofits that maximize relations with influential actors are externally perceived as legitimate and thus increase their chance of survival. This theory would give an initial advantage and level of legitimacy to organizations that attain registered charitable status.

Population ecology is a body of literature that examines the demographic and ecological processes of organizations. This has lead to a group of theories that share the notion that organizational survival depends on the dynamics produced in respect to population niches rather than on individual organizational strategies or practices. Density dependence has motivated the most ecological research (Fernandez, 2008, p. 116). Density dependence addresses legitimization and competition within various niches. In this context, the environment picks winners and losers based on the capacity to deliver needed services. Organizations find themselves competing against one another for a limited numbers of customers, funders, donors, and/or volunteers.

Population ecology studies have confirmed the *liability of newness*. The liability of newness assumes new organizations are more likely to fail than older organizations. New organizations generally face greater difficulties in obtaining funding and developing strong relationships with external actors. Organizations that learn to adapt to changes in their environment will survive while others without this capacity may face *the liability of adolescence* (e.g. failure to make the transition from their initial founding to new environmental conditions). Organizations that are older and large in size may also find it harder to adapt to sudden environmental changes and succumb to *liability of obsolescence*.

Resource dependency is a common condition for many nonprofit organizations. It is crucial for organizations to maintain an incoming flow of resources. For-profit corporations rely on both input resources (investment) and output resources (sales). Non-profit organizations tend to rely on input resources as they often don't charge for

their services or do not charge the full cost of production. Thus there is an incentive to maintain a positive relationship with a dominant funder. The tension between a reliance on resources and maintaining as much organizational autonomy as possible lies at the heart of resource dependency (Pfeffer & Salancik, 2003).

As a result organizations in the nonprofit (service) sector typically work towards a interdependent relationship with the state as a primary funding (Salamon, 1987). Tuckman and Chang (1991) argue that a nonprofit with the flexibility to adjust to resources as income shifts will have a positive equity balance, diverse revenue sources, surplus administrative allocations, and positive operating margins. If nonprofits are weak in these financial variables, they are more vulnerable to income shocks. Organizations that obtain their inputs from a limited range of resources are thus more likely to fail. Reliance on one stream of funding may have a negative impact on organizational structures and long-term financial stability (Brooks, 2002; Chambré & Fatt, 2002; Hodge & Piccolo, 2005; Weisbrod, 1988).

These three theories suggest that nonprofit organizations are more likely to stabilize and establish legitimacy as time moves on. For the purpose of this report, the literature on organizational failure was divided into contextual, structural, and organizational factors. *Contextual* factors are phenomenon external and outside the control of organizations. This can result from population dynamics, legal constraints, or political instability. *Structural* factors describe the structure of organizations in terms of age, size, and type. *Organizational* factors include financial instability, governance and organizational inertia. This literature review found that financially stable organizations are likely to be larger and to have the staff, skills and legitimacy necessary to establish and maintain a healthy nonprofit organization (Hagar & Pollak, 2004).

Liability of Newness

The early years of nonprofit organizations are marked by a time of vulnerability. The initial policies developed during an organization's formative years reflect its initial capacity to adapt to or create a 'fit' with its environment. As time passes structures stabilize and ties within their environment become flexible. This causes death rates to fall for organizations with both common and innovative forms (Freeman, Carroll, & Hannan, 1983b). Freeman et al. examined three dissimilar organizational populations to reveal that there is indeed a liability of newness. The strength of age dependence differs over different kinds of organizational death (dissolution and absorption by merger).

The profile of reviewed articles (Table 1) is not meant to be exhaustive, but provides an overview of a topic that is fraught with ambiguity (Hagar, Galaskiewicz, & Larson, 2004). The liability of newness has dominated research on organizational failure. The liability of newness argument links problems faced by new organizations. Stinchcombe identified four underlying reasons for why new organizations are more susceptible to closure:

- Difficulties that new organizations experience (barriers to entry) in reproducing roles;
- High cost of organizational structuring;
- Problem establishing external legitimacy (being perceived as reliable and accountable);
- Uncertainty associated with establishing connections to those who will use the organization's services.

Ecological studies have found that young organizations suffer a liability of newness (G. R. Carroll & Delacroix, 1982; Freeman, et al., 1983b; Hagar, et al., 2004). Due to the pervasiveness of this finding, a general rule has developed that a "higher proportion of new organizations fail than old" (Stinchcombe, 1965, p. 148). Theorists understand that age itself is not the cause of organizational demise, but rather, the liability of newness fosters a variety of conditions that typically accompany youth. From the literature presented in Table 1, the liability of newness and financial vulnerability are identified as the two most common factors associated with organizational failure.

Population ecology theory argues that older organizations typically have high levels of structural inertia, which makes it difficult for them to adapt to sudden changes in their environment (Hannan & Freeman, 1984). In studying change in organizational populations, Hannan and Freeman argue that structural inertia is a consequence of selection processes (by users). Selection processes favor organizations with high reliability, performance, and accountability. Competitive environments require organizational structures to be reliable, accountable, relatively stable, and highly reproducible. Highly reproducible structures generate strong inertial pressures, "making organizations with high structural inertia more favored by selection processes" (Singh, Tucker, & House, 1986. p. 172). As organizations age, they are more likely to reproduce this inertial structure. As organizations need more time to develop internal routines and structures older organizations are favored in a selection process where there is a choice of providers.

New organizations are less likely to develop strong relationships with other organizations and are less likely to be seen as legitimate by external actors. This suggests that the liability of newness may arise from external processes. Singh et al. examined a population of social service charities to determine where the liability of newness arises primarily from external or internal forces. They found "the acquisition of external legitimacy corresponds to a significant reduction in the hazard of death" (Singh, et al., 1986, p.189). Organizations that lacked external legitimacy were consistently more vulnerable; a factor which would favour registered charities. Internal changes did not increase the death rate, and evidence seemed to support the position that the liability of newness reflects lower levels of legitimacy in new organizations. Singh et al. found that the liability of newness does exist in organizational populations, "but is not constant or uniform across all organizations", and that "it is variable and is contingent on factors such as external legitimacy" (191).

Hagar et al (2004) tested a population of public charities in Minneapolis-St.Paul and discovered that age was a dominate factor in organizational demise. One purpose of the study was to explore the external and internal factors that correlated with the liability of newness and the death of 35 organizations. Using interviews and data-base analysis, Hagar et al were able to see which other factors were cited by respondents that correlated with the liability of newness in explaining organizational closure. Respondents that claimed that organizational closure was the result of being too young were also more likely to claim a serious problem with being disconnected from their community or isolated from other nonprofit organizations. Hagar et al claim that this finding supports Stinchcombe's earlier argument that new organizations do not have the necessary linkages to their external environment to survive.

Research has begun to address the interaction between organization age and start-up conditions. Two explanatory mechanisms – resource scarcity (e.g. scarce resources for the number of existing organizations) and tight niche packing (e.g. numerous existing organizations that provide similar services) – have been shown to affect the initial mortality rate of organizations. Swaminathan (1996) argues that resource scarcity results in an initial liability only while tight niche packing results in a permanent liability for organizations. Resource scarcity hampers the initial development and can affect the underlying reasons for why new organizations are more susceptible to failure. Tight niche packing can create a detrimental level of competition between organizations within a population. Swaminathan argues competitive positions are more difficult to damage than organizational capabilities. Therefore studying resource scarcity at an organizational founding can provide valuable insight into the liability of newness theory.

Resource dependency

In terms of revenue, nonprofit organizations rely on fundraising for charitable donations, grants, contracts for services, and sales of goods and services. Nonprofit organizations compete for scarce capital resources including loans, donations or government contracts. In this manner, nonprofits are similar to for-profit organizations and lack the coercive taxing power of government. Financial vulnerability is a relatively new area of study. In 1991, Tuckman and Chang pioneered a model that tried to predict which organizations were vulnerable to financial

problems. They defined a nonprofit organization as financially vulnerable if "it is likely to cut service offerings immediately when a financial shock occurs" (Tuckman & Chang, 1991, p. 445). Tuckman and Chang obtained a random sample of 4,730 nonprofit organizations' 1983 Form 990 tax returns from the US Internal Revenue Service and applied the four accounting ratios. Tuckman and Chang thus identified four accounting ratios that could be used to determined vulnerability:

- few revenue sources
- insufficient net assets
- low administrative costs
- low income from operations

Thirty-one percent of the literature cited financial distress or vulnerability as the dominate factor in organizational instability. A large portion of this research has been geared towards identifying financial vulnerability indicators (Tuckman & Chang, 1991). Some organizations are viewed as highly effective while others are barely able to survive (Hagar, Pollak, & Rooney, 2001). Researchers have identified a variety of factors that contribute to nonprofit failure. Nearly all of these factors are connected with either financial health or difficulty competing for scarce resources including: 1) decreases in community support and charitable donations (Hagar, Galaskiewicz, Bielefeld, & Pins, 1996); 2) capital availability and inability to diversify revenue leading to instability (D. A. Carroll & Stater, 2008); and 3) fiscal stress due to an overly narrow focus (Chambré & Fatt, 2002).

Tuckman and Chang (1991)argue that their methodology could identify organizations that are more likely to feel financial stress. When a nonprofit feels an equity pinch, it is less likely to borrow funds. During a period of financial distress, a nonprofit organization with an inadequate equity balance finds it difficult to replace lost revenues. Nonprofit organizations are more vulnerable to financial stress if its revenue sources are limited. A financial shock is more likely to affect one stream of revenue than it is to affect all streams at once. Another option for nonprofits is to cut administrative costs during a financial shock. Organizations with high administrative costs "are assumed to have the greatest opportunity to cut back on these costs without reducing programs" (p. 453). With low administrative costs already in place, financial stress will have a negative impact on the nonprofit's services provided. Low or negative operating margins result from lower net surpluses from which a nonprofit can draw on if revenue starts to decline.

Greenlee and Trussel (2000) were the first to use Tuckman and Chang's conceptual framework to predict whether nonprofit financial vulnerability could be predicted. Using data available from a large database provided by the National Center for Charitable Statistics and a methodology developed by Altman from 1968, they examined the time period from 1992-1995 for almost 7,000 nonprofits. The examination found a significant relationship between financial vulnerability and the Tuckman-Chang's variables.

Following this initial attempt to apply Tuckman and Chang's model to predict financial distress, Trussel (2002) and Trussel and Greenlee (2004) expanded the study. Trussel (2002) used a broader data set (than Tuckman and Chang) including smaller organizations and fewer data fields. Trussel and Greenlee controlled for different types of nonprofits, and developed a way to rate the financial vulnerability of nonprofits. Both studies were able to predict financial distress, although Trussel's 2002 study was able to obtain more detailed result than possible in previous studies due to his expanded data set.

Note that these studies were used to predict financial vulnerability and not to predict organizational failure. Hager et al (2001) examined the ability of the Tuckman and Chang model to predict the actual demise of arts organizations. Hagar found that the Tuckman-Chang ratio measures were useful in predicting the closure of an overall population of nonprofit organizations, but he found that the predictive ability varied within each sector. Consistent with this trend, Matthiesen (2009) examined a sub-sector of nonprofit human service organizations and

found only one measure of financial availability to be significantly associated with nonprofit failure (equity balance).

Carroll and Stater (2008) used a panel of financial information and nonprofit data spanning thirteen years to empirically investigate whether revenue diversification leads to a reduction in volatility. They found that active diversification of revenue structures, lead to an average reduction in volatility. They also found evidence to suggest that loss of legitimacy tied to generating revenue does not translate into less stability. Carrol and Stater concluded that nonprofit organizations that are able to diversify revenue streams are less vulnerable to closure.

For the purpose of this study, financial vulnerability has been categorized as a governance/operational factor. Financial distress can originate from any number of external factors such as population dynamics and legal restraints; a decrease in consumer demand resulting in a decrease in community support and charitable donations (Hagar, et al., 1996); and political instability and withdrawal of government funding (Swaminathan, 1996). Nonprofit organizations have the dual task of operating under mission-related goals while trying to maintain a healthy financially stable body that ensures organizational survival. Nonprofits play an important role in the development of social policy, and often put society goals ahead of financial ones. This pushes nonprofit organizations to the brink of financial insufficiency, and allows external factors to have a greater affect on organizational survival.

Density Dynamics

Organizational ecology stressed the importance of density dynamics as a driver for survival. Organizations facing an environment that has diminished capacity to support it either scale down operations or find another ecological niche (Cyert, 1978). The density effect is seen in the oversupply of nonprofit organizations competing against one another for scarce resources. Organizations operating in less dense constituencies have the problem of low levels of legitimacy afforded to the niche (Hannan & Carroll, 1992). Tucker et al. studied the birth rates of a single population of urban organizations. They found that birth frequencies of organizations increase under resource rich conditions but decreased under conditions of resource scarcity (Tucker, Meinhard, House, & Singh, 1985). This suggests survivability of an organization rests largely in its ability to successfully compete with organizations within its niche (Hagar, et al., 2004).

Liability of Size

Smaller organizations often have greater difficulty raising capital. Tax structures favor large capital gains and provide incentive for small organizations to sell out to large organizations (Singh & Lumsden, 1990). As Table 1 shows, the liability of size and the liability of newness often appear together in the literature (Fernandez, 2008). Freeman et al (1983b) were the first to empirically separate the liability of newness from the liability of size. They found that small organizations have lower survival chances than large ones. Small organizations face higher production costs, less diversification, and are often unable to provide the necessary wages and benefits to attract employees. Harrison and Laincz (2008) found that new nonprofits begin small in relative size, but survivors grow faster with age. They found closed organizations to be relatively small, and that hazard rates of exit are negatively related to size (Harrison & Laincz, 2008. p. 33). Hager and colleagues (2004) also found that size in addition to reliance on volunteers and donated income all reduce the hazard of closure.

Summary

There are some general themes associated with nonprofit failure, those that evolve around population ecology and the *liability of newness* or *financial vulnerability*. The literature is dominated by US data from relatively defined geographical areas (e.g. within one city) or population (e.g. arts, AIDS organizations). Most financial vulnerability research, for example, Keating et al (2005), Harrison and Laincz (2008) and Lecy (2010) analyzed

direct IRS data or a derivative of IRS data held by the National centre for Charitable Statistics (NCCS). There are no known studies of this nature in Canada which have taken advantage of CRA data. This literature review helped to define the variables to be examined, notably: age; size; classification or type; resource concentration and diversification; asset to revenue ratios (equity balance); and total and fixed assets. It also highlighted the complexity associated with the "bowing out" of nonprofit organizations and the challenge to separate environmental conditions and operational practices. It is clear that there are both internal and external contextual variables which influence the capacity of an organization to launch and either survive or fail as their external environment changes.

Literature classification of factors for nonprofit failure

Author(s) and Year	Contextual Variables - External Factors	Structural Variables - Demographic Factors	Governance/Operational Factors
Baum, J. A. C., Oliver, C. (1991)			Institutional Linkages: Lack of institutional attachment means increased instability; less social support; less legitimacy; and have less access to resources.
Carroll, D.A., Stater, K.J. (2008)	Legal Restraints: ability to generate revenue.		Lack of revenue diversification; Rely mostly on endownments, over time are more vulnerable.
Chambre, S. M., and Fatt, N. (2002)	Over populated niche; Organizations that relied on more on donations failed as compared to government financed organizations.	Liability of newness; Liability of adolescense	Main reason for closure: inability to raise adequate resources; Overly narrow focus (specialization); Lack of skilled Staff, well-connected boards, and traditional contacts.
Domingue, R. (1996)	Legal Restraints : Tax Regimes;		
Fernandez, J. J. (2007)		Liability of newness; Liability of size	Mission complete; Lack of divserisified funding; Ineffective mobilization of resources.
Fichman, M. and Levinthal, D. A. (1991)		No Liability of newness, but rather a liability of adolescence. Evidence shows a honeymoon period exists, afterwhich hazard rates increase for an initial period, and then drop off.	
Freeman, J., Carrol, G. R., Hannan, M. T. (1983)		Liability of Newness; Liability of Size (Differs across different organizations)	
Greenlee, J., Trussel, J. M. (2000)			Financial vulnerability
Hagar, M. A. / Pollak, T., Rooney, P. (2000)		Liability of newness; Liability of size; Typology	
Hagar. M. A. (2001)			Financial vulnerability: ratios (low equity balance, high revenue concentrations, low administrative costs, and low operating margins)
Hagar. M. A., Galaskiewicz, J., Larson, J. (2004)		Liability of newness; Liability of size	Level of government funding is directly proportional to mortality rates. Embeddedness in community (Elite use of organization); Financial stability (endowments)
Hagar. M.A., Pollak, T. H. (2004)		Liability of newness;Liability of size: more likely to develop asset reserves	Endowment-buidling: Investment capital and asset reserves; Organizational Factors: Board size should be proportional to asset reserves; Influential directors
Hager, M. A., Galaskiewicz, J., Bilefeld, W., Pins, J. (1996)	Consumer demand: decrease in community support and endowments	Liability of newness; Liability of size	Personnel loss and turnover, goals change (mission complete); Financial difficulties
Hannan, M. T. (1998)		Structural Inertia: Capabilities; Liability of newness	

Harrison, T. and Laincz, C. (2008)		Liability of Newness; Liability of size	
Kahraman. D., Seel, K. (2009)	Political Turmoil: demand for services and programs increase when people are unemployed;		Financial Vulnerability: fewer endowments, cuts to government spending;
Keating, E. K., Fischer, M., Gordon, T. P., Greenlee, J. (2005)			Financial vulnerability: expanded on previous research by introducing two new variables (reliance on commercial revenues and endowment sufficiency).
Lecy, J. (2010)	Sector Competition: In a period of rapid expansion, creates a more competitive environmennt;	Liability of newness; Liability of size: Larger organizations experience low rates of failure and steady rates of resource expansion.	
Matthiesen, J. A. (2009)			Financial Vulnerability: Equity balance; Timing, predictability and continuing of funding; Less control over fees for service; Revenue concentration
Pfeffer J., and Salancik, G.R. (2003)			Resource dependency theory - survival depends on meeting the demands of groups that control critical resources and strategies emerge to manage this external dependency (e.g. resource diversification)
Potter, J. D., and Crawford, E. S. (2008)	Rural/Urban diversification: Nonprofits are moving to more dense populations with higher per capita income.		
Singh, J. V., Lumsden, C. J. (1990)	Population Dynamics (Density): Scarcity of Resources;	Liability of Newness: Less accountability (Legitimacy); Liability of Size	Organizational Change and Inertia: Rigidity or flexibility;
Singh. J. V., Tucker, D. J., House, R. J. (1986)		Liability of newness as a variable of organizational demise. Lack of external legitimacy is the actual factor.	External legitimacy: Organizations need to structure and organize to better fit into environment.
Swaminathan, A. (2010)	Political Turmoil: Organization mortality increases in periods of politicl turmoil; Adverse founding conditions	Liability of newness: Resource scarcity, under developed organizational structure	
Trussel, J. M. (2002)			Financial vulnerability
Tucker, D.J., Meinhard, A. G, House, R.J. (1985)	Population Dynamics (Density): Supply of relevant and usable resources; Resource rich environment; Legal contraints: Significantly decrease birth frequencies		Specialization/Generalization: Depending on type of corporation
Tuckman, H. P. , and Chang, C. F. (1991)			Financial vulnerability: Inadequate equity balances, revenue
12 Articles found evidence for liability of newness.	9 Articles found evidence for financial vulnerability.	7 Articles found evidence for liability of size.	28 Total Articles


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