Explaining Voluntary Sector Behaviour: An Empirical Test Using NSW Non-Profit Social Service Provider Data

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Explaining Voluntary Sector Behaviour: An Empirical Test Using NSW Non-Profit Social Service Provider Data

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Abstract

Non-profit organisations represent an important institutional avenue for delivering social services in contemporary Australia. Moreover, a voluminous theoretical literature exists on the voluntary sector in advanced countries. However, relatively little effort has thus far been expended on the empirical assessment of the main models of non-profit organisational behaviour. Using 2003 survey data drawn from selected NSW non-profit social service providers, this paper seeks to replicate Lester Salamon's (1992) seminal American empirical investigation of stylised versions of demand-side theories, supply-side theories, organisational theories, and Salamon's (1987) own model of voluntary sector failure. In common with Salamon's (1992) earlier findings, our results suggest that the theory of voluntary sector failure possesses the greatest explanatory power of the four main models under investigation.

Key words: non-profit organisations; social service delivery; voluntary sector models

Introduction

Throughout the advanced English-speaking world, governments are increasingly focusing on the non-profit sector to deliver social services previously the principal domain of the public sector. For example, the Bush administration has advocated a stronger role for the voluntary sector in welfare and education programs in the United States. Similarly, the Labour government in the United Kingdom has championed the development of faith-based schools to bolster the failing public education system. In an analogous fashion, in Australia the Commonwealth government has enlisted voluntary organisations, such as Anglicare, the Salvation Army, and the Society of St. Vincent de Paul, to partake in the Job Network (Webster & Harding 2001).

These policy initiatives derive partly from the recognition that existing social service delivery mechanisms do not achieve their intended aims. Conventional public agencies charged with the administration of human services often seem unable to meet their responsibilities efficaciously (see, for instance, Saunders (2004)). In many cases where social services are publicly financed but privately provided, similar
problems have been evident. Governments have thus turned to the voluntary sector in the belief that not-for-profit organisations may be able to accomplish social objectives more effectively than their public agency and private firm counterparts.

The development of the Job Network and other Australian social service delivery mechanisms that facilitate the involvement of the voluntary sector has been controversial. Various scholars have been extremely critical of attempts by the Howard government, not least the Australian Council of Social Services (ACOSS (1996; 1997)) and Considine (2001), in part because it might adversely affect the nature and role of voluntary sector organisations.

Economists and policy advisers alike have long been aware of the shortcomings of both the public and private sectors in the pursuit of social welfare objectives. A voluminous literature exists on the phenomenon of market failure and the most useful means of dealing with this pervasive problem (Bailey 1995). An analogous government failure paradigm has been developed which provides insights into the systemic shortcomings of the public sector (Mitchell & Simmons 1994). These conceptual frameworks have greatly assisted in the design and implementation of rational systems of social service delivery.

A rich theoretical body of work on non-profit organisations (NPOs) also exists that has spawned several plausible theories that shed much light on the voluntary sector (Dollery & Wallis 2003). In broad terms, we can distinguish between two genre of theories dealing with voluntary organisations. In the first place, a number of theorists have sought to develop models which can explain why the voluntary sector came into being at all; that is, why do voluntary organisations exist? This category of theorising can be further subdivided into 'demand' and 'supply' models of the voluntary sector. In essence, demand theories attempt to explain the genesis of voluntary organisations as a response to either market failure, characterised as the inability of a market or system of markets to provide goods and services in an economically optimal manner, or government failure, defined as the inability of public agencies to achieve their intended objectives. By contrast, supply models endeavor to explain voluntary organisations as the outcome of 'social entrepreneurship', 'a variety of explicit and implicit subsidies, including tax exemption from federal, state, and local taxes, special postal rates, financing via tax-exempt bonds, and favorable treatment under the unemployment tax system' (Hansmann 1987, p. 33), and other factors.

The second main theoretical approach to the voluntary sector seeks to explain the behaviour of voluntary organisations. Writers in this tradition attempt to answer questions such as: What motivates entrepreneurs and managers in voluntary organisations? What aims are pursued by these voluntary institutions? Does the behaviour of organisations in the voluntary sector differ systematically from their private sector and public sector counterparts?

In many respects the dichotomy between theories focusing on the role of the voluntary sector and theories concerned with the behaviour of organisations in this sector is somewhat artificial. As Henry Hansmann (1987, p. 28) has observed 'ultimately, of course, questions of role and questions of behaviour cannot be separated'. Nonetheless, this method of classifying theoretical contributions on the voluntary sector has become a convention in the literature.
Much information is available on the voluntary sector in Australia. For instance, Mark Lyons' (2001) *Third Sector* provides a valuable account of the Australian voluntary sector. Similarly, the Industry Commission (1995) report entitled *Charitable Organisations in Australia* contains a wealth of factual information on the Australian voluntary sector. The *Final Report of the Reference Group on Welfare Reform: Participation Support for a More Equitable Society* (the so-called 'McClure Report') also offers some interesting insights. However, despite the considerable size of the voluntary sector in Australia and its substantial social and economic contribution, there has been little empirical analysis of the voluntary sector, with some notable exceptions, including Maddison et al. (2004), Melville (1999) and Melville and Perkins (2003). Moreover, there seems to have been no substantive empirical evaluation of the major theoretical models purporting to explain the behaviour of non-profit organisations (NPOs) in Australia. This represents an unfortunate gap in the literature on the Australian voluntary sector and forms the subject of the present paper.

A pioneering empirical study of the main theoretical approaches to NPOs was undertaken by Lester Salamon (1992) using data on American NPOs involved in social service provision. This study generated useful findings on the empirical validity of a four-fold typology of stylised models of the voluntary sector. Somewhat surprisingly, no attempt has yet been made to replicate the Salamon (1992) methodology in an alternative institutional milieu, such as Australia. Accordingly, this paper seeks to establish the robustness of Salamon's (1992) empirical findings using survey data drawn from NSW voluntary organisations active in the range of non-profit human service agencies which included three sub-sectors of the non-profit sector; aged services, employment and training, and social services.

The paper itself is divided into five main parts. The first section provides a synoptic outline of the Salamon (1992) study. The major theoretical hypotheses tested by Salamon (1992) are summarised in the second part of the paper. The methodology employed in the application of the Salamon (1992) article is discussed in section three. The empirical results flowing from this exercise are examined in part four. The paper ends with some brief remarks comparing our Australian results with Salamon's (1992) American findings and drawing some general conclusions on the relevance of our study for Australian policy makers.

**Salamon's Empirical Analysis of the Theory**

The main unit of analysis used by the Salamon (1992) survey is 'client focus' that seeks to determine whom non-profit organisations attempt to serve. His empirical analysis does not incorporate all NPO's; only those that provide social services whose aim is to ameliorate problems, such as poverty, homelessness, child neglect, and physical and mental disabilities. To justify the exclusion of other NPO's that provide services, Salamon argued that the social service component of the non-profit sector 'might be expected to adhere more closely to the dictionary definition of 'charity' as 'generosity to the poor'' (Salamon 1992, p. 134). Thus, by determining whether the poor are the principal focus of activity of NPOs involved in human service delivery, Salamon contended that 'it is possible to shed interesting empirical light on the
relative explanatory power' of the main theories 'advanced to explain the existence or
behaviour of the non-profit sector' (Salamon 1992, p. 135). In addition to the standard
demand-side theories and supply-side models, he included his own theory of
voluntary sector failure as well as 'organisational theory' as an alternative form of
supply-side theory in the empirical investigation. In his paper, Salamon identified the
major hypotheses suggested by the four stylised theories and compared their
implications to the results that emerged from the empirical testing.

**Salamon's Main Theoretical Hypotheses**

**Demand-side Theories**

According to these theories, the non-profit sector supplies the unmet demand for
collective goods that are not provided by governments or markets (Weisbrod 1978).
In these circumstances, people rely on NPO's for the public services they were unable
to secure through private firms or public agencies. Furthermore, it would be
'reasonable to expect that the demands that will be met by the sector will be those of
the people with the resources to pay for them' (Salamon 1992, p. 151). The two
suppositions that can be drawn from this line of reasoning would be that where
government intervention in the form of social welfare spending is lowest, the non-
profit sector focus on the poor would be greatest. Secondly, where private charitable
giving is highest, the greater will be the level of non-profit agencies attention to the
disadvantaged (Salamon 1992, p. 151).

**Supply-side Theories**

Supply-side theories concentrate on the role of the stakeholders in NPOs and
particularly on the role of the entrepreneur. Hence, their major focus centres on the
behaviour of these key stakeholders, and why they are motivated to supply their
efforts in the creation and operation of NPOs. Salamon (1992) argued that religious
institutions have historically been the most prominent providers of charitable services.
Given the assumed connection between religion and altruistic values, it can be
deduced that 'non-profit service to the poor will be closely related to the pool of
religiously-inspired individuals who create a set of religiously orientated non-profit
organisations' (Salamon 1992, p. 152-53). The hypothesis that Salamon drew from
this argument in relation to the activities of NPO's was that the closer the affiliation
between a voluntary group and a religious organisation, the more likely that it would
concentrate on the needy.

**Organisation Theory**

Organisational theories provide an explanation for the operation of organisations; they
attribute various factors that contribute to the different operational methods employed.
These include maintenance and enhancement needs of agency staff; objectives,
preferences and management styles of staff; initial missions of agencies; the level of
bureaucratisation within the organisation; and the degree of 'professionalisation'
(Salamon 1992, p. 153). One of the central tenets of these theories holds that
organisations face a significant degree of difficulty when changing their basic
technologies and their initial missions. As a consequence, it is argued that some of
these factors will impose and explain variations in the agency focus on the poor. At least two possible concrete hypotheses emerge from this theory in relation to client focus of NPOs. Firstly, the greater the level of agency bureaucratization and professionalization, the less likely the NPO will focus on the needs of the poor. Secondly, if organisations experience difficulties changing their focus over time, then this would suggest that an initial emphasis on the disadvantaged would remain over time (Salamon 1992, p. 153-61).

Voluntary Failure Theory

The voluntary failure theoretical perspective posits that NPOs also face 'free rider' problems in generating support, particularly for the relief to the disadvantaged (Salamon 1987). This results in limited private support and the need for government to provide resources to NPOs in order for them to meet human needs. Despite the fact that 'philanthropic insufficiency' is widespread amongst agencies, the other types of failures in Salamon's typology (ie, 'philanthropic particularism', 'philanthropic paternalism', and 'philanthropic amateurism') also limit a voluntary organisation's ability to cope with human service delivery. If these NPOs are unable to raise the level of funds required, then they will not be able to meet the requisite demand. However, governments have the ability to raise the resources required and distribute them to providers. The result of these failures is that NPOs cannot always provide the services they have the initiative and capacity to offer, without the support of governments. Consequently, Salamon (1987) argued that the voluntary sector and the public sector would not work independently, but rather in concert. The resultant hypothesis would lead us to assume that NPO provision of services to the poor would be expected to increase as the level of government support increases (Salamon 1992, p. 152).

Methodology

An important aim of the empirical research presented in this paper is to investigate whether Salamon's (1987) theory of voluntary failure provides a satisfactory theoretical explanation for the voluntary sector in the State of New South Wales (NSW) of Australia in comparison to the other main theoretical perspectives. To this end, Salamon's (1992) empirical test was replicated using a small survey sample drawn from NSW NPOs.

Survey Design and Questionnaire

The data necessary to test Salamon's (1992) hypotheses is not available from published sources and it was thus necessary to solicit the requisite information directly from NPOs themselves by means of a mail questionnaire. The construction of the questionnaire for the present study was pre-determined by the kind of data required to replicate Salamon's (1992) study.

Between August and September 2003, a standard questionnaire was sent out to selected NPOs in NSW. It targeted a narrow range of non-profit human service agencies which included three sub-sectors of the voluntary sector; aged services, employment and training, and social services. In total, 75 agencies were targeted for
participation in the study, of which 41 responded. Agencies were identified for inclusion in the survey by cross-checking any web lists of non-profit and for-profit providers found on the Department of Health and Ageing's (DHA) web-site as well as NSW Council of Social Services' (NCOSS) web listing of social service providers operating in NSW against local directories. A similar procedure was carried out for the employment and training sector from a list of confirmed non-profit Jobs Australia members, an advocacy group for the industry. The web listings found on the DHA and NCOSS sites proved difficult because they did not differentiate between non-profit and for-profit organisations. As a consequence, local directories were used to identify the profit status of organisations in the sample, and then cross-checked directly via telephone. After consultation with informed parties, the survey was addressed to either the chief executive officer or general manager and sent to the head offices of agencies. The identification process of non-profit candidates in NSW highlighted that the specified sub-sectors, with the exception of employment and training, were mainly dominated by large providers operating numerous sites and involved in various areas of social welfare. In the case of employment and training, there was a mix of large and smaller agencies used in the sample.

The actual questions sought to determine the nature of the service being delivered, the age of the agency, expenditure distribution amongst client groups, religious affiliation, whether it serves urban or rural clients or a combination of both, staff and volunteer size, where sources of revenue, the level of financial assistance given to clients, and if agencies had experienced any shift in their client focus. The question of greatest significance for the empirical analysis asked respondents to indicate what percentages of their clients were poor. The definition of poverty or poor used was a relative term given the comparative wealth of Australia to most other countries. Respondents were asked to consider it to be: (1) the lack of access to a minimum acceptable standard of living (in terms of food, shelter, clothing and health) resulting primarily, but not only, from inadequate income; and (2) the lack of opportunity to participate in society (for example, through employment, education, recreation and social relationships) (Brotherhood of St Laurence 2003, p. 1). Despite subjectivity of this crude measure of poverty, it provides at least some idea of what segments of the community the NPOs have been concentrating on.

The resultant survey data gathered was then collated with the explicit intention of replicating Salamon's (1992) analysis. The tabulated results were subjected to a chi-square test of probability to determine whether the hypotheses implied by the various theories bore any statistical significance for the voluntary sector in NSW.

Information gathered by numerous research agencies was also drawn on to corroborate the levels of funding granted to voluntary organisations. This data was provided by the ABS website and the Industry Commission (now the Productivity Commission) report on charitable organisations. The information used from these sources was directly related to the 'resource insufficiency' category of Salamon's (1987) theory. The availability of this type of data is explained only by legislated accountability for public funding. The scarcity of information available on non-profit organisations and the way they are managed may reflect their lack of public accountability and the 'arms length' approach taken by government to their operations.
Empirical Results of Survey

Sources of Income and the Extent of Agency Expenditures Focussed on the Disadvantaged

The results of the survey show that the major source of income for NPOs derives from the Commonwealth and State governments. This is apparent from Table 1, which records the estimated sources of income for all the organisations surveyed. Government funding accounts for 63 percent of income and user charges 22 percent. By contrast, private donations and other sources of income represent only 7 percent of estimated income for NPOs. These results suggest that agencies are heavily reliant on government sources of income and that they work in partnership to supply social services. The data supports the historical relationship between the two sectors in Australia, and the enlistment of these organisations to achieve social objectives.

Table 1: Estimated Sources of Income of Non-profit Agencies, 2003

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government sources</td>
<td>63</td>
</tr>
<tr>
<td>User charges/fees</td>
<td>22</td>
</tr>
<tr>
<td>Private donations</td>
<td>7</td>
</tr>
<tr>
<td>Other sources</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Maroney 2003)

The client focus for each category of agencies surveyed is presented in Table 2 giving an impression of what groups are receiving assistance and who benefits from the activities of NPOs. It shows the majority of expenditures are concentrated on the disadvantaged; this is supported by the averages calculated for all agencies with 37 percent concentrating on mostly poor and 35 percent on some poor. As Table 2 shows, the agencies that focus on clients who fall in the 'few' or 'no' poor category is relatively low with 10 and 17 percent respectively.

Among some types of agencies the percentage of expenditure concentrated on mostly poor was higher than the average. This is true for aged and disability (40 percent), employment and training (59 percent), social services (65 percent) and multi-service organisations (60 percent). Interestingly, social services ranks highest in this group with 65 percent of total expenditures devoted to the poor and not so surprisingly the one NPO that provides recreational services has 60 percent of its client expenditure focused on 'no' poor. Overwhelmingly, these figures suggest that NPOs are seriously engaged in supplying services to the disadvantaged.

Table 2: Agency Field of Service and Focus of Income Expenditure

<table>
<thead>
<tr>
<th>Type of Agency</th>
<th>Mostly Poor</th>
<th>Some Poor</th>
<th>Few Poor</th>
<th>No Poor</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged and disability (18)</td>
<td>40</td>
<td>28</td>
<td>14</td>
<td>18</td>
<td>100</td>
</tr>
</tbody>
</table>
Employment and training
(11) 59 26 5 10 100
Social services(7) 65 23 2 10 100
Multi-service(3) 60 23 12 5 100
Recreation (1) 10 30 60 100
Legal rights and advocacy
(1) 100 100
All (41) 37 35 10 17 100

Source: (Maroney 2003)

Survey Evidence on the Hypotheses of the Theories of the Voluntary Sector

We have already sketched the hypotheses of the demand-side, supply-side, organisational and voluntary failure theories developed by Salamon (1992). Accordingly, we now present the results obtained from the survey in terms of these four theoretical hypotheses. Our main aim is to determine which theories bear relevance to NPOs in NSW.

Demand-side Theories

Salamon's (1992) test for demand-side theories was centred on the behaviour of NPOs in urban and rural communities, arguing that there will be a higher number of these organisations operating in rural communities. The results of the analysis carried out are represented in Table 3. Unlike Salamon's (1992) findings, agencies with urban and rural client groups are common.

In Table 3, the survey data suggests that there is no significant difference in the focus of agencies amongst the various client groups. Organisations that operate both in rural and urban areas have the greatest percentage of client focus at 53 percent on 'mostly' poor. The variance from the other categories are small. This was tested using the chi-square test of probability at the significance level 0.05. The results suggest that there is no statistically significant difference between the geographic location of agencies and the extent of their client focus. This outcome runs counter to the predictions of demand-side theories: where government intervention in the form of social welfare spending is lowest, the non-profit sector focus on the poor would be greatest.

Table 3: Client Focus of Urban and Rural Non-profit Agencies

<table>
<thead>
<tr>
<th>Client Focus</th>
<th>Percentage of Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban Agencies</td>
</tr>
<tr>
<td>Mostly poor</td>
<td>46</td>
</tr>
<tr>
<td>Some poor</td>
<td>34</td>
</tr>
<tr>
<td>Few poor</td>
<td>9</td>
</tr>
<tr>
<td>No poor</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

* Chi-square test applied at the 0.05 significance level.
Source: (Maroney 2003)
Supply-side Theories

These theories suggest that agencies with a religious affiliation should have a greater focus on the poor due to their 'charitable intent'. Table 4 reveals that agencies with a religious affiliation do concentrate more on those who are disadvantaged with 57 percent of clients being mostly poor and only 9 percent that were not poor. For NPOs without a religious affiliation main focus was on 'mostly' poor but to a lesser extent with 45 percent and a higher percentage of clients 'no' poor at 16 percent. These figures support the supply-side hypothesis' prediction. However, when this was statistically tested using the chi-square test of probability at the significance level 0.05, a statistically significant relationship between religious affiliation and client focus did not exist. Given this information, the supply-side hypothesis would be rejected.

Table 4: Religious Affiliation and Non-profit Agency Client Focus

<table>
<thead>
<tr>
<th>Client Focus</th>
<th>Percentage of Agencies by Religious Affiliation</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly poor</td>
<td>Yes: 57</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>No: 21</td>
<td>30</td>
</tr>
<tr>
<td>Some poor</td>
<td>Yes: 13</td>
<td>8</td>
</tr>
<tr>
<td>Few poor</td>
<td>Yes: 9</td>
<td>16</td>
</tr>
<tr>
<td>No poor</td>
<td>Total: 100</td>
<td>100</td>
</tr>
</tbody>
</table>

* Chi-square test applied at the 0.05 significance level.
Source: (Maroney 2003)

Organisation Theory

Organisational theory predicts that the greater the level of professionalisation and/or bureaucratisation in an agency, the lower the degree of focus on the poor. Two tables are used to assess this theory's explanatory power for the non-profit sector in NSW. Firstly, Table 5 is used to determine the degree of professionalisation in agencies by comparing the size of the agency to their client focus. The data generated reveals that agencies with greater staff numbers focus more heavily on the poor, the agency size with the greatest focus on the poor are those that employ 3 to 13 employees. The organisations with the largest number of employees concentrated 52 percent of their attention on the poor. Interestingly, the second smallest agency size has the greatest focus on the poor at 64 percent. The chi-square test was run on this data; it supported the proposition that there is a difference between the client focus of an organisation and their size.

Table 5: Agency Employment Levels and Client Focus

<table>
<thead>
<tr>
<th>Paid Staff Size (FTE)*</th>
<th>Mostly Poor</th>
<th>Some Poor</th>
<th>Few Poor</th>
<th>No Poor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 2.5</td>
<td>25</td>
<td>70</td>
<td>5</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>3 to 13</td>
<td>64</td>
<td>33</td>
<td>3</td>
<td>1</td>
<td>100</td>
</tr>
</tbody>
</table>

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Table 6 compares the agency size to the amount of expenditure that was channeled to the disadvantaged. It clearly shows that agencies with higher levels of expenditure are focusing more strongly on the poor; attention to the disadvantaged appears to increase as agency size increases. Large agencies are reportedly focusing 51 percent of their attention on the needy whilst small agencies focus only 25 percent on the poor. Furthermore, the results of the chi-square analysis reject the proposition that there is no difference between the client focus of organisations and their size, and establishes that a statistically significant relationship exists.

Organisational theory that proposes that greater professionalisation and bureaucratisation will reduce the focus on the poor is unsupported by the survey data. Clearly, larger organisation size has not inhibited their ability to respond to the needs of the disadvantaged.

Table 7 attempts to test one of the central tenets of organisational theory, that agencies tend to resist changes in their basic approach. Salamon (1992) argued that this line of reasoning led to the implication that organisations will not change their focus over time. Thus, Table 7 compares agency age and client focus, and we expect that certain periods such as before 1930 and 1971-1980 would be most likely focused on the poor. The basis of this expectation was that for the period prior to 1930 Australian governments did not provide much relief for poverty, leaving non-profit organisations to service the need. The second period chosen was 1971-1980; this was due to an observed increase in government spending on social welfare that seemed to have encouraged the formation of many NPOs.

The data reveals that in both periods there was a high level of attention on the needy. However, NPOs established in these periods had a comparatively lower focus on the poor than in other time periods. The results show the highest levels of concentration
on the poor in the periods 1981-1990 and 1991-present with 56 percent and 72 percent respectively. This may be the result of the government's attempt to abrogate itself from the provision of social services in these decades. For example, the majority of the NPOs formed in the period 1981-1990 belong to the employment and training category; they service many chronically unemployed persons, reported as 'mostly' poor.

Table 7: Agency Age and Client Focus

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly poor</td>
<td>43</td>
<td>50</td>
<td>23</td>
<td>48</td>
<td>56</td>
<td>72</td>
<td>48</td>
</tr>
<tr>
<td>Some poor</td>
<td>26</td>
<td>29</td>
<td>30</td>
<td>30</td>
<td>29</td>
<td>20</td>
<td>27</td>
</tr>
<tr>
<td>Few poor</td>
<td>7</td>
<td>13</td>
<td>23</td>
<td>3</td>
<td>10</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>No poor</td>
<td>24</td>
<td>8</td>
<td>25</td>
<td>20</td>
<td>6</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Chi-square test applied at the 0.05 significance level.
Source: (Maroney 2003)

Chi-square analysis suggests that there is a statistically significant relationship between agency age and client focus. This outcome gives no clear indication as to whether shifts in client focus have taken place over time or the reasons for this change. The information provides little empirical evidence that organisations have resisted changes in their client focus. Where the attention is most heavily concentrated, from 1981 to the present, it may be too early for changes in focus to have occurred.

**Voluntary Failure Theory**

The theory of voluntary failure predicts that a strong relationship exists between government funding and NPO attention to the disadvantaged. Table 8 shows that agencies focusing on the poor received 64 percent of their income from government sources and only 9 percent from private donations. Greater still is the 74 percent of income from government sources estimated for those that concentrate on 'some' poor. However, for agencies serving 'few' or 'no' poor, government funding was at its lowest level, 50 percent and user charges and fees at the highest level at 41 percent. The chi-square probability test corroborates the information in Table 8, finding a statistically significant relationship existing between the source of funding and client focus of agencies, thus supporting voluntary failures hypothesis that government funding will be high where agencies focus on the poor.

Table 8: Funding Sources and Poverty Focus

<table>
<thead>
<tr>
<th>Source</th>
<th>Mostly poor</th>
<th>Some poor</th>
<th>Few or no poor</th>
<th>All Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>64</td>
<td>74</td>
<td>50</td>
<td>63</td>
</tr>
<tr>
<td>Private giving</td>
<td>9</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
User charges/fees | 19 | 20 | 41 | 27 
Other | 9 | 4 | 4 | 6 
Total | 100 | 100 | 100 | 100 

Notes: Shares are based on reported aggregate income for all agencies in each category.
Agencies are classified into three categories, based on their main client concentration (chosen to be ≥ 40 percent).
Source: (Maroney 2003)

Concluding Remarks

The results of the empirical survey presented in this paper provide some interesting outcomes, similar in some respects to Salamon's (1992) findings. The data presented in Table 1 suggest that there is a heavy reliance on government funding for the income of NPOs with 63 percent estimated for all NSW agencies. There are significant differences in the sources of income for those organisations surveyed by Salamon (1992). In comparative terms, estimated government funding and fundraising at 38 percent and 31 percent respectively reveal that government finance is significantly more important as a source of income to the Australian voluntary sector. While client fees and other sources of income are broadly similar, the differences in the level of private giving in the United States are significantly larger than the 7 percent recorded for NPOs in NSW. The data on sources of income and their relationship to NPOs attention on the disadvantaged presented in Table 8 gives a clearer understanding when assessing demand-side theories hypotheses. Since this perspective leads us to expect that the most extensive NPO attention to the poor will be where government funding is the lowest (Salamon 1992), the results of Table 8 should support this proposition. Instead, it reveals that NPOs that are focusing on the categories 'mostly and some poor' receive the majority share of their income sources from government; and that private giving account for only a small percentage.

The second demand-side hypothesis tested suggests that NPOs should concentrate more heavily in regional areas where government programs are at their lowest. When analysed for the NSW voluntary sector, the geographic location of agencies among urban, rural and those who supply both areas was determined as statistically insignificant in determining client focus of NPOs. The empirical evidence shown in Table 3 lends little support to demand-side theories' explanatory power over the NSW voluntary sector. However, the proportion of agencies that focus on both areas have a higher percentage of mostly poor clients (53 percent) than the comparable proportion of agencies concentrating on either urban or rural regions. It is possible that if the survey had asked respondents for the percentage of offices operating in the particular category; the inclusion of this type of information may have altered the outcome of the chi-square test. Nevertheless, the survey data refutes both demand-side hypotheses.

The test carried out on supply-side theories suggests that an organisation's religious affiliation does not adequately explain whether it will concentrate on disadvantaged people. Thus, the connection between altruism and religious affiliation implied by some supply-side theories does not find support in the data. Given the considerable size and operations of many NPOs with a religious affiliation, the inclusion of information about how many sites are operated may have made a difference to the statistical results, lending support to these theories. Nonetheless, this outcome is
similar to Salamon (1992), with the exception that he recorded that the relationship is the converse of what supply-side theory predicted. Evidence from NSW NPOs does not support this conclusion and it appears that those agencies that have a religious affiliation are focusing on the disadvantaged.

Three implied hypotheses of organisation theory were tested using a number of variables related to the client focus of agencies; namely, agency employment levels, agency size, and agency age. The analysis revealed that a statistically significant relationship exists for the first two factors. This result suggests that both the number of paid staff employed and the expenditure levels of the agency do affect positively the client focus of an organisation on disadvantaged people. Table 5 shows that agencies with higher levels of expenditure are focusing the majority of their attention on the poor, which contradicts the organisational theory prediction. Two weaknesses are identified concerning this particular test. Firstly, of the four categories, the second smallest staff size had the highest estimated concentration at 64 percent. It is likely that this result has been affected by the data collected on the employment and training sub-sector. Many of these organisations had smaller staff sizes and a high proportion of clientele that were unemployed and therefore potentially disadvantaged. These factors are due to the use of labour not being particularly intensive, and that government contracts and tenders offered are taken up in many circumstances by medium-size operators. Secondly, the survey did not collect information on the professional qualifications of staff since this would have been a complex and possibly confusing question for respondents. Nevertheless, it has been assumed that government regulation coerces many of these NPOs to use 'professional staff'. Despite these limitations, the empirical analysis provides a reasonable indication of the explanatory applicability of organisational theories.

Table 6 shows that the size of an agency does influence the client focus. Furthermore, it was found that the relationship was statistically significant. The data from Table 6 indicates that the largest agencies have the greatest attention on the poor estimated as 51 percent of clients and that as agency size increases, attention to the poor increases. The results of these tables provide little evidence of either the professionalisation or bureaucratisation thesis and therefore the organisation theory perspective.

Finally, the voluntary sector failure theory is examined by the data in Table 8. Demand-side theories relied on data from Table 8. However the data leads us to expect the opposite of that theoretical perspective. It would be expected that the most extensive NPO attention to the poor should occur where government funding is the highest (Salamon 1992). The results of Table 8 lend support to this hypothesis, with a strong relationship existing between the levels of government funding received and agency client focus on the disadvantaged. This relationship of government funding to fill in the gaps for NPOs to provide services supports Salamon's (1987) argument that funding of these organisations prevents them from succumbing to their own inherent limitations; namely, philanthropic insufficiency.

When these theories are related to client focus of NPOs the results provide some empirical insights on these perspectives. In sum, the data collected on the NSW voluntary sector suggests that Salamon's (1987) voluntary failure theory provides the greatest explanatory power of the four models subjected to the data.
What implications can be drawn from the findings presented in this paper? In the first place, it must be stressed that from the perspective of policy formulation, care should be exercised in the interpretation of the results. There are substantial differences in both the structure of the welfare system in Australia and the United States and the nature of the funding and tax regimes in the two countries. Indeed, the broad question of the applicability of American solutions to Australian welfare delivery problems is fraught with controversy. For instance, Philip Mendes’ (2003) *Australia's Welfare Wars* provides a vivid illustration of the case against American-style welfare programs, whereas Peter Saunders' (2004) *Australia's Welfare Habit* represents a powerful call for the introduction of American ideas into Australian welfare delivery. However, both authors agree that the institutional structure of welfare programs differ substantially between the two countries and thus American programs will, in any event, require modification in the Australian milieu. Accordingly, the findings should be seen primarily as an attempt to augment the empirical literature on the validity of the various economic theories of the voluntary sector rather than the basis for Australian non-profit policy formulation.

Finally, given the extent of recent public sector reform in Australia, as well as significant changes to the delivery of welfare, it is difficult to apportion observed conduct between various important determinants of voluntary sector behaviour. For example, much more reliance is now placed on privatisation, outsourcing and competitive tendering in social service delivery. The introduction of these 'market-orientated' measures must surely have affected voluntary organisations and would thus tend to blur the impact of other influences, like voluntary failure.

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References


